Consolidated annual accounts and Independent auditor's report

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

Consolidated annual financial statements for the year ended 31 December 2021

Translation of the Consolidated Annual Financial Statements originally issued in Spanish and prepared in accordance with EU-IFRS, as adopted by the European Union. In the event of any discrepancy, the Spanish-language version will prevail.

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Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2021 and 2020

Thousand euro

Assets	Note	2021	2020 (*)
Cash, cash balances at central banks and other demand deposits (**)	**7**	**49,213,196**	**35,184,902**
Financial assets held for trading		**1,971,629**	**2,678,836**
Derivatives	10	1,378,998	2,364,595
Equity instruments	9	2,258	1,115
Debt securities	8	590,373	313,126
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		*106,791*	*15,792*
Non-trading financial assets mandatorily at fair value through profit or loss		**79,559**	**114,198**
Equity instruments	9	14,582	12,516
Debt securities	8	64,977	101,682
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		—	—
Financial assets designated at fair value through profit or loss		**—**	**—**
Debt securities		—	—
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		—	—
Financial assets at fair value through other comprehensive income		**6,869,637**	**6,676,801**
Equity instruments	9	184,546	169,983
Debt securities	8	6,685,091	6,506,818
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		*1,530,351*	*1,091,719*
Financial assets at amortised cost		**178,869,317**	**174,488,258**
Debt securities	8	15,190,212	18,091,189
Loans and advances	11	163,679,105	156,397,069
Central banks		170,881	134,505
Credit institutions		6,141,939	7,079,088
Customers		157,366,285	149,183,476
Memorandum item: loaned or pledged as security with sale or pledging rights		*3,554,788*	*4,950,813*
Derivatives – Hedge accounting	**12**	**525,382**	**549,550**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**(3,963)**	**458,849**
Investments in joint ventures and associates	**14**	**638,782**	**779,859**
Joint ventures		—	—
Associates		638,782	779,859
Assets under insurance or reinsurance contracts		**—**	**—**
Tangible assets	**15**	**2,776,758**	**3,200,379**
Property, plant and equipment		2,397,490	2,852,287
For own use		2,394,698	2,579,002
Leased out under operating leases		2,792	273,285
Investment properties		379,268	348,092
Of which: leased out under operating leases		*379,268*	*348,092*
Memorandum item: acquired through finance leases		*1,017,016*	*1,007,727*
Intangible assets	**16**	**2,581,421**	**2,596,083**
Goodwill		1,026,457	1,026,105
Other intangible assets		1,554,964	1,569,978
Tax assets		**7,027,123**	**7,151,681**
Current tax assets		319,596	506,943
Deferred tax assets	39	6,707,527	6,644,738
Other assets	**17**	**619,715**	**908,356**
Insurance contracts linked to pensions		116,453	133,757
Inventories		142,713	194,264
Rest of other assets		360,549	580,335
Non-current assets and disposal groups classified as held for sale	**13**	**778,035**	**975,540**
TOTAL ASSETS		**251,946,591**	**235,763,292**

(*) Shown for comparative purposes only.

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

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated balance sheet as at 31 December 2021.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2021 and 2020

Thousand euro

Liabilities	Note	2021	2020 (*)
Financial liabilities held for trading		**1,379,898**	**2,653,849**
Derivatives	10	1,323,236	2,437,919
Short positions		56,662	215,930
Deposits		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Debt securities issued		—	—
Other financial liabilities		—	—
Financial liabilities designated at fair value through profit or loss		**—**	**—**
Deposits		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Debt securities issued		—	—
Other financial liabilities		—	—
Memorandum item: subordinated liabilities		—	—
Financial liabilities at amortised cost		**235,179,222**	**217,390,766**
Deposits		209,306,598	193,234,442
Central banks	18	38,250,031	31,881,351
Credit institutions	18	8,817,114	10,083,381
Customers	19	162,239,453	151,269,710
Debt securities issued	20	21,050,955	20,413,398
Other financial liabilities	21	4,821,669	3,742,926
Memorandum item: subordinated liabilities		*4,243,712*	*2,923,190*
Derivatives – Hedge accounting	**12**	**512,442**	**782,657**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**19,472**	**371,642**
Liabilities under insurance or reinsurance contracts		**—**	**—**
Provisions	**22**	**886,138**	**983,512**
Pensions and other post employment defined benefit obligations		86,020	99,690
Other long term employee benefits		650	3,971
Pending legal issues and tax litigation		76,848	114,097
Commitments and guarantees given		190,591	195,879
Other provisions		532,029	569,875
Tax liabilities		**204,924**	**206,206**
Current tax liabilities		81,159	39,689
Deferred tax liabilities	39	123,765	166,517
Share capital repayable on demand		**—**	**—**
Other liabilities		**768,214**	**883,022**
Liabilities included in disposal groups classified as held for sale		**—**	**—**
TOTAL LIABILITIES		**238,950,310**	**223,271,654**

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated balance sheet as at 31 December 2021.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2021 and 2020

Thousand euro

Equity	Note	2021	2020 (*)
Shareholders' equity	**23**	**13,356,905**	**12,943,594**
Capital		703,371	703,371
Paid up capital		703,371	703,371
Unpaid capital which has been called up		—	—
Memorandum item: capital not called up		—	—
Share premium		7,899,227	7,899,227
Equity instruments issued other than capital		—	—
Equity component of compound financial instruments		—	—
Other equity instruments issued		—	—
Other equity		19,108	20,273
Retained earnings		5,441,185	5,444,622
Revaluation reserves		—	—
Other reserves		(1,201,701)	(1,088,384)
Reserves or accumulated losses of investments in joint ventures and associates		235,453	264,484
Other		(1,437,154)	(1,352,868)
(-) Treasury shares		(34,523)	(37,517)
Profit or loss attributable to owners of the parent		530,238	2,002
(-) Interim dividends		—	—
Accumulated other comprehensive income	**24**	**(385,604)**	**(523,590)**
Items that will not be reclassified to profit or loss		(41,758)	(64,419)
Actuarial gains or (-) losses on defined benefit pension plans		917	(693)
Non-current assets and disposal groups classified as held for sale		—	—
Share of other recognised income and expense of investments in joint ventures and associates		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income		(42,675)	(63,726)
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		—	—
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		—	—
Items that may be reclassified to profit or loss		(343,846)	(459,171)
Hedge of net investments in foreign operations [effective portion]		157,741	211,841
Foreign currency translation		(481,266)	(737,073)
Hedging derivatives. Cash flow hedges reserve [effective portion]		(30,163)	39,798
Fair value changes of debt instruments measured at fair value through other comprehensive income		(11,724)	(871)
Hedging instruments [not designated elements]		—	—
Non-current assets and disposal groups classified as held for sale		—	—
Share of other recognised income and expense of investments in joint ventures and associates		21,566	27,134
Non-controlling interests	**25**	**24,980**	**71,634**
Accumulated other comprehensive income		—	541
Other items		24,980	71,093
TOTAL EQUITY		**12,996,281**	**12,491,638**
TOTAL EQUITY AND TOTAL LIABILITIES		**251,946,591**	**235,763,292**
Memorandum item: off-balance sheet exposures			
Loan commitments given	**26**	**28,403,146**	**29,295,155**
Financial guarantees provided	**26**	**2,034,143**	**2,035,638**
Other commitments provided	**26**	**7,384,863**	**7,594,720**

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated balance sheet as at 31 December 2021.

Consolidated income statements of Banco Sabadell Group

For the years ended 31 December 2021 and 2020

Thousand euro

	Note	2021	2020 (*)
Interest income	28	4,147,549	4,323,802
Financial assets at fair value through other comprehensive income		49,034	63,095
Financial assets at amortised cost		3,734,977	3,924,913
Other interest income		363,538	335,794
(Interest expenses)	28	(722,093)	(924,686)
(Expenses on share capital repayable on demand)		—	—
Net interest income		**3,425,456**	**3,399,116**
Dividend income		1,262	1,018
Profit or loss of entities accounted for using the equity method	14	100,280	35,926
Fee and commission income	29	1,661,610	1,538,377
(Fee and commission expenses)	29	(194,069)	(188,049)
Gains or (-) losses on financial assets and liabilities, net	30	157,045	1,226,417
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		340,985	782,143
Financial assets at amortised cost		323,840	728,200
Other financial assets and liabilities		17,145	53,943
Gains or (-) losses on financial assets and liabilities held for trading, net		(183,555)	444,354
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		(183,555)	444,354
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		4,466	(9,544)
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		4,466	(9,544)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		—	—
Gains or (-) losses from hedge accounting, net		(4,851)	9,464
Exchange differences [gain or (-) loss], net		187,174	(426,777)
Other operating income	31	154,732	225,220
(Other operating expenses)	32	(467,362)	(509,093)
Income from assets under insurance or reinsurance contracts		—	—
(Expenses on liabilities under insurance or reinsurance contracts)		—	—
Gross income		**5,026,128**	**5,302,155**

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated profit and loss account for 2021.

Consolidated income statements of Banco Sabadell Group

For the years ended 31 December 2021 and 2020

Thousand euro

	Note	2021	2020 (*)
(Administrative expenses)		(2,780,890)	(2,938,134)
(Staff expenses)	33	(1,776,797)	(1,884,576)
(Other administrative expenses)	33	(1,004,093)	(1,053,558)
(Depreciation and amortisation)	15, 16	(526,514)	(523,247)
(Provisions or (-) reversal of provisions)	22	(87,566)	(275,408)
Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	34	(959,507)	(1,745,014)
(Financial assets at fair value through other comprehensive income)		697	288
(Financial assets at amortised cost)		(960,204)	(1,745,302)
Profit/(loss) on operating activities		**671,651**	**(179,648)**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		(9,428)	(495)
(Impairment or (-) reversal of impairment on non-financial assets)	35	(105,967)	(40,401)
(Tangible assets)		(65,483)	7,692
(Intangible assets)		(1,570)	(2,025)
(Other)		(38,914)	(46,068)
Gains or (-) losses on derecognition of non-financial assets, net	36	71,121	(2,867)
Negative goodwill recognised in profit or loss		—	—
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	37	(7,388)	102,582
Profit or (-) loss before tax from continuing operations		**619,989**	**(120,829)**
(Tax expense or (-) income related to profit or loss from continuing operations)	39	(81,282)	123,839
Profit or (-) loss after tax from continuing operations		**538,707**	**3,010**
Profit or (-) loss after tax from discontinued operations		—	—
Profit or loss for the year		**538,707**	**3,010**
Attributable to minority interest [non-controlling interests]	25	8,469	1,008
Attributable to owners of the parent		530,238	2,002
Earnings (or loss) per share (euros)	**3**	**0.08**	**(0.01)**
Basic (in euro)		0.08	(0.01)
Diluted (in euro)		0.08	(0.01)

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated profit and loss account for 2021.

Consolidated statements of recognised income and expenses of Banco Sabadell Group

For the years ended 31 December 2021 and 2020

Thousand euro

	Note	2021	2020
Profit or loss for the year		**538,707**	**3,0**
Other comprehensive income	**24**	**137,445**	**(256,5**
Items that will not be reclassified to profit or loss		22,661	(19,7
Actuarial gains or (-) losses on defined benefit pension plans		2,299	2,3
Non-current assets and disposal groups held for sale		—	
Share of other recognised income and expense of investments in joint ventures and associates		—	
Fair value changes of equity instruments measured at fair value through other comprehensive income		18,312	(17,9
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net		—	
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		—	
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		—	
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		—	
Income tax relating to items that will not be reclassified		2,050	(4,1
Items that may be reclassified to profit or loss		114,784	(236,8
Hedge of net investments in foreign operations [effective portion]		(54,100)	97,6
Valuation gains or (-) losses taken to equity		(54,100)	97,6
Transferred to profit or loss		—	
Other reclassifications		—	
Foreign currency translation		255,804	(291,9
Translation gains or (-) losses taken to equity		255,804	(291,9
Transferred to profit or loss		—	
Other reclassifications		—	
Cash flow hedges (effective portion)		(103,229)	(67,6
Valuation gains or (-) losses taken to equity		(244,346)	69,6
Transferred to profit or loss		141,119	(137,9
Transferred to initial carrying amount of hedged items		(2)	7
Other reclassifications		—	
Hedging instruments [not designated elements]		—	
Valuation gains or (-) losses taken to equity		—	
Transferred to profit or loss		—	
Other reclassifications		—	
Debt instruments at fair value through other comprehensive income		(14,112)	1,3
Valuation gains or (-) losses taken to equity		1,300	170,3
Transferred to profit or loss		(15,412)	(168,9
Other reclassifications		—	
Non-current assets and disposal groups held for sale		—	
Valuation gains or (-) losses taken to equity		—	
Transferred to profit or loss		—	
Other reclassifications		—	
Share of other recognised income and expense of investments in joint ventures and associates		(5,567)	5,9
Income tax relating to items that may be reclassified to profit or (-) loss		35,988	17,7
Total comprehensive income for the year		**676,152**	**(253,5**
Attributable to minority interest [non-controlling interests]		7,928	1,3
Attributable to owners of the parent		668,224	(254,8

(*) Shown for comparative purposes only.

Explanatory notes 1 to 43 and the accompanying Schedules I to VII form an integral part of the consolidated statement of recognised income and expenses for 2021.

Consolidated statements of total changes in equity of Banco Sabadell Group

For the years ended 31 December 2021 and 2020

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Closing balance 31/12/2020	**703,371**	**7,899,227**	**—**	**20,273**	**5,444,622**	**—**	**(1,088,384)**	**(37,517)**	**2,002**	**—**	**(523,590)**	**541**	**71,093**	**12,491,638**
Effects of corrections of errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Opening balance 01/01/2021	**703,371**	**7,899,227**	**—**	**20,273**	**5,444,622**	**—**	**(1,088,384)**	**(37,517)**	**2,002**	**—**	**(523,590)**	**541**	**71,093**	**12,491,638**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**530,238**	**—**	**137,986**	**(541)**	**8,469**	**676,152**
Other changes in equity	**—**	**—**	**—**	**(1,165)**	**(3,437)**	**—**	**(113,317)**	**2,994**	**(2,002)**	**—**	**—**	**—**	**(54,582)**	**(171,509)**
Issuance of ordinary shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of preference shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Exercise or expiration of other equity instruments issued	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of debt to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dividends (or shareholder remuneration)	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	—	—	—	(64,378)	—	—	—	—	—	(64,378)
Sale or cancellation of treasury shares	—	—	—	—	—	—	936	67,372	—	—	—	—	—	68,308
Reclassification of financial instruments from equity to liability	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reclassification of financial instruments from liability to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers among components of equity	—	—	—	—	2,002	—	—	—	(2,002)	—	—	—	—	—
Equity increase or (-) decrease resulting from business combinations	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share based payments	—	—	—	540	—	—	—	—	—	—	—	—	—	540
Other increase or (-) decrease in equity	—	—	—	(1,705)	(5,439)	—	(114,253)	—	—	—	—	—	(54,582)	(175,979)
Closing balance 31/12/2021	**703,371**	**7,899,227**	**—**	**19,108**	**5,441,185**	**—**	**(1,201,701)**	**(34,523)**	**530,238**	**—**	**(385,604)**	**—**	**24,980**	**12,996,281**

Explanatory notes 1 to 43 and the accompanying Schedules I to VII form an integral part of the consolidated statement of total changes in equity for 2021.

Consolidated statements of total changes in equity of Banco Sabadell Group

For the years ended 31 December 2021 and 2020

Thousand euro

Sources of changes in equity	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Closing balance 31/12/2019	**703,371**	**7,899,227**	**—**	**39,742**	**4,858,681**	**—**	**(977,687)**	**(8,533)**	**767,822**	**(110,817)**	**(266,746)**	**242**	**69,104**	**12,974,406**
Effects of corrections of errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Opening balance 01/01/2020	**703,371**	**7,899,227**	**—**	**39,742**	**4,858,681**	**—**	**(977,687)**	**(8,533)**	**767,822**	**(110,817)**	**(266,746)**	**242**	**69,104**	**12,974,406**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,002**	**—**	**(256,844)**	**299**	**1,008**	**(253,535)**
Other changes in equity	**—**	**—**	**—**	**(19,469)**	**585,941**	**—**	**(110,697)**	**(28,984)**	**(767,822)**	**110,817**	**—**	**—**	**981**	**(229,233)**
Issuance of ordinary shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of preference shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Exercise or expiration of other equity instruments issued	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of debt to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dividends (or shareholder remuneration)	—	—	—	—	(112,539)	—	—	—	—	—	—	—	—	(112,539)
Purchase of treasury shares	—	—	—	—	—	—	—	(145,769)	—	—	—	—	—	(145,769)
Sale or cancellation of treasury shares	—	—	—	—	—	—	591	116,785	—	—	—	—	—	117,376
Reclassification of financial instruments from equity to liability	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reclassification of financial instruments from liability to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers among components of equity	—	—	—	—	657,005	—	—	—	(767,822)	110,817	—	—	—	—
Equity increase or (-) decrease resulting from business combinations	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share based payments	—	—	—	1,004	—	—	—	—	—	—	—	—	—	1,004
Other increase or (-) decrease in equity	—	—	—	(20,473)	41,475	—	(111,288)	—	—	—	—	—	981	(89,305)
Closing balance 31/12/2020	**703,371**	**7,899,227**	**—**	**20,273**	**5,444,622**	**—**	**(1,088,384)**	**(37,517)**	**2,002**	**—**	**(523,590)**	**541**	**71,093**	**12,491,638**

Shown for comparative purposes only.

Explanatory notes 1 to 43 and the accompanying Schedules I to VII form an integral part of the consolidated statement of total changes in equity for 2021.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2021 and 2020

Thousand euro

	Note	2021	2020 (*)
Cash flows from operating activities		**12,338,823**	**20,421,390**
Profit or loss for the year		538,707	3,010
Adjustments to obtain cash flows from operating activities		1,700,666	2,373,743
Depreciation and amortisation		526,514	523,247
Other adjustments		1,174,152	1,850,496
Net increase/decrease in operating assets		(3,826,355)	5,570,590
Financial assets held for trading		707,207	(237,970)
Non-trading financial assets mandatorily at fair value through profit or loss		34,638	56,859
Financial assets designated at fair value through profit or loss		—	—
Financial assets at fair value through other comprehensive income		(181,941)	1,105,368
Financial assets at amortised cost		(5,416,431)	4,301,447
Other operating assets		1,030,172	344,886
Net increase/decrease in operating liabilities		13,851,502	12,509,147
Financial liabilities held for trading		(1,273,950)	(60,517)
Financial liabilities designated at fair value through profit or loss		—	—
Financial liabilities at amortised cost		16,348,950	11,903,622
Other operating liabilities		(1,223,498)	666,042
Income tax receipts or payments		74,303	(35,100)
Cash flows from investing activities		**419,591**	**237,644**
Payments		(505,679)	(706,336)
Tangible assets	15	(225,626)	(394,647)
Intangible assets	16	(276,141)	(288,371)
Investments in joint ventures and associates	14	(3,912)	(23,318)
Subsidiaries and other business units		—	—
Non-current assets and liabilities classified as held for sale		—	—
Other payments related to investing activities		—	—
Collections		925,270	943,980
Tangible assets	15, 36	444,505	189,957
Intangible assets		—	—
Investments in joint ventures and associates	14	63,086	70,106
Subsidiaries and other business units		—	—
Non-current assets and liabilities classified as held for sale		417,679	683,917
Other collections related to investing activities		—	—

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated cash flow statement for 2021.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2021 and 2020

Thousand euro

	Note	2021	2020 (*)
Cash flows from financing activities		**1,095,286**	**(460,482)**
Payments		(723,022)	(877,858)
Dividends		—	(112,539)
Subordinated liabilities	Schedule V	(443,497)	(424,600)
Amortisation of own equity instruments		—	—
Acquisition of own equity instruments		(64,378)	(145,769)
Other payments related to financing activities		(215,147)	(194,950)
Collections		1,818,308	417,376
Subordinated liabilities	Schedule V	1,750,000	300,000
Issuance of own equity instruments		—	—
Disposal of own equity instruments		68,308	117,376
Other collections related to financing activities		—	—
Effect of exchange rate fluctuations		**174,594**	**(182,852)**
Net increase (decrease) in cash and cash equivalents		**14,028,294**	**20,015,700**
Cash and cash equivalents at the beginning of the year	**7**	**35,184,902**	**15,169,202**
Cash and cash equivalents at the end of the year	**7**	**49,213,196**	**35,184,902**

Memorandum item			
CASH FLOWS CORRESPONDING TO:			
Interest received		4,144,382	4,426,825
Interest paid		1,209,006	(980,300)
Dividends received		1,262	1,018
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Cash	7	704,105	749,608
Cash equivalents in central banks	7	47,741,021	33,842,492
Other demand deposits	7	768,070	592,802
Other financial assets		—	—
Less: bank overdrafts repayable on demand		—	—
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**49,213,196**	**35,184,902**
Of which: held by Group entities but which cannot be drawn by the Group		—	—

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying schedules I to VII form an integral part of the consolidated cash flow statement for 2021.

Note 1 – Activity, accounting policies and practices

1.1 Activity

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

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

1.2 Basis of presentation, changes in accounting regulations, and impacts arising from COVID-19

The Group's consolidated annual financial statements for 2021 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU-IFRS) applicable at the end of 2021, taking into account Bank of Spain Circular 4/2017 of 27 November as well as other provisions of the financial reporting regulations applicable to the Group and considering the formatting and mark-up requirements established in Commission Delegated Regulation EU 2019/815, in order to fairly present the Group's equity and consolidated financial situation as at 31 December 2021 and the results of its operations, recognised income and expenses, changes in equity and cash flows (all consolidated) in 2021.

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

The information included in these consolidated annual financial statements is the responsibility of the directors of the Group's parent company. The Group's consolidated annual financial statements for 2021 have been signed off by the directors of Banco Sabadell at a meeting of the Board of Directors on 17 February 2022 and will be submitted to shareholders at the Annual General Meeting for approval. It is expected that the shareholders will approve the accounts without significant changes.

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

Standards and interpretations issued by the International Accounting Standards Board (IASB) entering into force in 2021

In 2021, the standards indicated hereafter, which have entered into force and been adopted by the European Union, have been applied by the Group for the first time:

Standards	Titles
Amendments to IFRS 4	Temporary exemption from applying IFRS 9
Amendments to IFRS 16	COVID-19-related rent concessions beyond 30 June 2021

2021 has also seen the entry into force of the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 in relation to the "Interest Rate Benchmark Reform (Phases 1 and 2)", which were applied early by the Group in 2020.

Amendments to IFRS 4 "Extension of the temporary exemption from applying IFRS 9"

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

Amendments to IFRS 16 "COVID-19-related rent concessions beyond 30 June 2021"

These amendments introduce an extension, until 30 June 2022, of the practical expedient to simplify how lessees should account for any rent concessions received as a result of COVID-19, such as rent waivers or reductions, allowing these concessions to be accounted for in the same way as they would if they were not lease modifications.

Standards and interpretations issued by the IASB not yet in force

As at 31 December 2021, the most significant standards and interpretations that have been published by the IASB but which have not been applied when preparing these consolidated annual financial statements, either because their effective date is subsequent to the date thereof or because they have not yet been endorsed by the European Union, are as follows:

Standards and Interpretations	Title	Mandatory for years beginning:
Approved for application in the EU		
Amendments to IAS 16, IAS 37 and IFRS 3 and annual improvements to IFRS 2018-20	Narrow-scope amendments	1/1/2022
IFRS 17	Insurance contracts	1/1/2023
Not approved for application in the EU		
Amendments to IAS 1	Presentation of financial statements: classification of liabilities as current or non-current	1/1/2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	1/1/2023
Amendments to IAS 8	Definition of accounting estimates	1/1/2023
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	1/1/2023
Amendments to IFRS 17	Initial application of IFRS 17 and IFRS 9: Comparative Information	1/1/2023

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

Approved for implementation in the EU

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

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

IFRS 17 "Insurance contracts"

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

In accordance with this standard, insurance contracts combine features of both financial instruments and service contracts. In addition, many insurance contracts generate cash flows with substantial variability over a long period. In order to provide useful information about these features, IFRS 17:

- combines the current measurement of future cash flows with the revenue recognised throughout the period during which the services established in the contracts are provided.
- presents results for services provided separately from the financial expenses and income relating to these contracts.
- requires entities to decide whether to recognise the entirety of their financial income and expenses relating to insurance contracts in profit and loss, or whether to recognise part of these results in equity.

Furthermore, in 2020 some amendments to IFRS 17 were incorporated, designed to reduce implementation costs by simplifying some requirements of this Standard, make financial performance easier to explain and ease transition by deferring the effective date of the Standard to 1 January 2023 and by reducing the requirements to apply the Standard for the first time.

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

Not approved for implementation in the EU

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

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

Amendments to IAS 1 and IFRS Practice Statement 2 "Disclosure of accounting policies"

These amendments aim to help institutions to improve accounting policy disclosures so that they provide more useful information in their annual financial statements.

On one hand, the amendments to IAS 1 require institutions to disclose their material accounting policy information rather than their significant accounting policies, clarifying that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. On the other hand, the amendments to Practice Statement 2, on making materiality judgements, provide guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments to IAS 1 will be applied prospectively, with early application permitted.

Amendments to IAS 8 "Definition of accounting estimates"

These amendments define "accounting estimates" as monetary amounts in financial statements that are subject to measurement uncertainty; they also provide guidance on how to distinguish between changes in accounting estimates and changes in accounting policies. That distinction is important because changes in accounting estimates are applied prospectively, whereas changes in accounting policies are generally applied retrospectively. In particular, the amendments clarify that a change in accounting estimates that results from new information or new developments is not the correction of a prior period error. The early application of these amendments is permitted.

Amendments to IAS 12 "Deferred tax related to assets and liabilities arising from a single transaction"

These amendments introduce an exception to the initial recognition exemption provided in IAS 12 for situations in which a single transaction gives rise to equal deductible and taxable temporary differences. These amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. The early application of these amendments is permitted.

Amendment to IFRS 17 "Initial application of IFRS 17 and IFRS 9 – Comparative Information"

This narrow-scope amendment aims to provide insurance undertakings with an option relating to the presentation of comparative information about financial assets in order to avoid accounting mismatches between financial assets and insurance contract liabilities in the aforesaid comparative information upon initial application of IFRS 9 and IFRS 17.

In the event this option is used, the application of this amendment will be simultaneous with the application of IFRS 17.

Impacts arising from COVID-19

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

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

Spain

Statutory and sector moratoria

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

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

ICO COVID-19 guarantee line

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

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

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

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

Code of Good Practice

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

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

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

United Kingdom

Payment holidays

As a result of the second wave of COVID-19, on 17 November 2020 the Financial Conduct Authority (FCA) once again updated its guidance concerning mortgages and consumer loans, which it had previously updated in June 2020, allowing customers who had already received a three-month payment holiday to apply for an additional payment holiday of up to three months and those who had not already requested a payment holiday to sign up for two consecutive payment holidays for a total maximum six-month duration. The deadline for payment holiday applications was extended to 31 March 2021 and the ban on lender repossessions of mortgaged goods, vehicles and properties was extended to 31 January 2021. On 27 January 2021, the FCA announced a further extension of the ban on lender repossessions of mortgaged properties to 31 March 2021.

Government guarantees channelled through the banking industry

In March 2021, the launch of the Recovery Loan Scheme was announced at the Budget 2021. This new scheme allows businesses of any size, including those that have already benefited from BBLs, CLBILs and CBILs, to apply for loans of between 25,000 and 10 million pounds sterling, with the government guaranteeing 80% of the amount, until the end of the year. Similarly, at the Autumn Budget 2021, presented in October, it was announced that the Recovery Loan Scheme would be extended to 30 June 2022, explaining that the following changes will come into effect from 1 January 2022:

- The scheme will only be open to small and medium-sized enterprises.
- The maximum amount of finance available will be 2 million pounds per business.
- The guarantee coverage that the UK Government will provide to lenders will be reduced to 70%.

Acquisition of housing

The aforesaid Budget 2021 introduces the following measures to drive house purchases:

- Stamp duty: the tax applied to the first 500,000 pounds of the purchase price of a property will remain at 0% until the end of June 2021 (the stamp duty holiday was previously due to end in March). Between June and October, the 0% stamp duty will only apply to the first 250,000 pounds of the purchase price of a property and from November onwards it will return to normal.
- Mortgage guarantee scheme: this scheme will allow mortgage loans with a LTV of between 91% and 95% to be granted between April 2021 and December 2022. This scheme will apply to the purchase of primary residences of up to 600,000 pounds and will not be restricted to first-time buyers.

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

Details of the impact, if any, of COVID-19 on the main risks to which the Group is exposed are provided in Note 4 to these consolidated annual financial statements.

Judgements and estimates

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

The main judgements and estimates relate to the following:

- The determination of the business models under which financial assets are managed (see Notes 1.3.3, 8 and 11).
- The accounting classification of financial assets according to their credit risk (see Notes 1.3.4, 8 and 11).
- Impairment losses on certain financial assets (see Notes 1.3.4, 8 and 11).

- The assumptions used in actuarial calculations of liabilities and post-employment obligations (see Notes 1.3.17 and 22).
- The measurement of consolidated goodwill (see Notes 1.3.12 and 16).
- The useful life and impairment losses of tangible assets and other intangible assets (see Notes 1.3.10, 1.3.11, 1.3.12, 15 and 16).
- The provisions and consideration of contingent liabilities (see Notes 1.3.16 and 22).
- The fair value of certain unquoted financial assets (see Note 6).
- The fair value of real estate assets held on the balance sheet (see Notes 1.3.9, 1.3.10, 1.3.13 and 6).
- The recoverability of non-monetisable deferred tax assets and tax credits (see Note 39).
- The duration of lease contracts and the discount rate used in the measurement of the lease liability (see Notes 1.3.11 and 15).

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

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

1.3 Accounting principles and policies and measurement criteria

The accounting principles and policies, as well as the most significant measurement criteria applied in preparing these consolidated annual financial statements, are described below. There are no cases in which accounting principles or measurement criteria have not been applied because of a significant effect on the Group's consolidated annual financial statements for 2021.

1.3.1 Consolidation principles

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

Subsidiaries

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

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

- Power: an investor has power over an investee when that investor holds rights which provide them with the ability to lead significant activities, i.e. those that significantly affect the investee's returns.
- Returns: an investor is exposed, or is entitled, to variable returns due to their involvement in the investee when the returns obtained from such involvement may vary depending on the investee's economic performance. The investor's returns may be only positive, only negative, or both positive and negative.
- Relationship between power and returns: an investor controls an investee if the investor not only has power over the investee and is exposed, or is entitled, to variable returns due to their involvement with the investee, but also has the ability to use that power to influence the returns obtained due to their involvement with the investee.

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

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

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

Joint ventures

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

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

The Group has not held investments in joint ventures in 2021 and 2020.

Associates

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

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

The above notwithstanding, when the Group's investment in an associate is held directly by, or is held indirectly through, a venture capital organisation or similar entity, it may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9. This election is made separately for each associate on the date of its initial recognition. Similarly, when the Group has an interest in an associate that is an investment entity, it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate to its subsidiaries. This election is made separately for each investment entity associate at the later of the date on which (a) the associate is initially recognised, (b) the associate becomes an investment entity, and (c) the associate first becomes the parent of a group of entities.

Structured entities

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

Where the Group holds an interest in an entity, or where it incorporates an entity, in order to transfer risks or for any other purposes, or to allow customers access to certain investments, it determines whether there is control over the entity based on that provided in regulations, as described above, in order to consequently determine whether it should be subject to consolidation. Specifically, the following factors, among others, are considered:

- Analysis of the influence of the Group over the significant activities of the entity that could have an influence on the amount of its returns.
- Implicit or explicit commitments of the Group to provide financial support to the entity.
- Identification of the entity's manager and analysis of the remuneration scheme.
- Existence of removal rights (possibility of dismissing managers).
- Significant exposure of the Group to the variable returns on the entity's assets.

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

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

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

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

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

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

1.3.2 Business combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Business model

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

The business models used by the Group are indicated here below:

- Business model whose objective is to hold financial assets in order to collect contractual cash flows: under this model, financial assets are managed in order to collect their particular contractual cash flows, rather than to obtain an overall return by both holding and selling assets. The above notwithstanding, assets can be disposed of prior to maturity in certain circumstances. Sales that may be consistent with a business model whose objective is to hold assets in order to collect contractual cash flows include sales that are infrequent or insignificant in value, sales of assets close to maturity, sales triggered by an increase in credit risk and sales carried out to manage credit concentration risk.
- Business model whose objective is to sell financial assets.
- Business model that combines the two objectives above (hold financial assets in order to collect contractual cash flows and sell financial assets): this business model typically involves greater frequency and value of sales because such sales are integral to achieving the business model's objective.

Contractual cash flow characteristics of the financial assets

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

- Those whose contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.
- All other financial assets.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Portfolios of financial instruments classified for the purpose of their measurement

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

Financial assets at amortised cost

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

– They are managed with a business model whose objective is to hold financial assets in order to collect contractual cash flows, and

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

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

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

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

Financial assets at fair value through other comprehensive income

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

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

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

These financial assets primarily correspond to debt securities.

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

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

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

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

- Losses due to impairment of debt instruments, or gains due to their subsequent recovery, are recognised in the consolidated income statement.

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

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

<u>Financial assets at fair value through profit or loss</u>

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

This portfolio is in turn subdivided into:

- *Financial assets held for trading*

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

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

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

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

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

<u>Financial liabilities held for trading</u>

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

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

Financial liabilities at amortised cost

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

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

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

Hybrid financial instruments

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

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

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

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

The fair value of the Group's financial instruments as at 31 December 2021 and 2020 is indicated in Note 6.

1.3.4 Impairment of financial assets

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

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

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

- In the case of investments in joint ventures and associates, a situation in which their carrying amount cannot be recovered.

1.3.4.1 Debt instruments and off-balance sheet exposures

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

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

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

To determine impairment losses, the Group monitors borrowers individually, at least those who are significant borrowers, and collectively, for groups of financial assets with similar credit risk characteristics that reflect borrowers’ ability to satisfy their outstanding payments.

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

<u>1.3.4.1.1 Accounting classification on the basis of credit risk attributable to insolvency</u>

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

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

Definition of classification categories

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

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

- Stage 2: standard exposures under special monitoring, i.e. transactions which, although they do not meet the criteria to be classified individually as stage 3 or write-offs, show significant increases in credit risk (SICR) since initial recognition. In this regard, the Group does not make use of the low credit risk exemption envisaged in IFRS 9 for its portfolio of loans and advances. According to this exemption, if an entity considers that a financial instrument has low credit risk at the reporting date, it can assume that there has not been any significant increase in credit risk since initial recognition. This category includes, among other transactions, those in which there are amounts more than 30 days past due, with the exception of non-recourse factoring, for which a threshold of more than 60 days is applied (32 million euros as at 31 December 2021), as well as refinanced and restructured transactions not classified as stage 3 until they are classified into a lower risk category once they meet the established requirements for modifying their classification.

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

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

- For reasons other than borrower arrears: transactions which do not meet the conditions for classification as write-offs or stage 3 as a result of borrower arrears, but for which there are reasonable doubts as to the likelihood of obtaining the estimated cash flows of the transaction, as well off-balance sheet exposures not classified as stage 3 as a result of borrower arrears whose payment by the Group is likely but whose recovery is doubtful. This category includes transactions that were classified as stage 3 as a result of borrower arrears, which will be reclassified as standard exposures under special monitoring (stage 2) once they have completed a probation period classified as stage 3 for reasons other than borrower arrears.

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

– Write-off:

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

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

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

Purchased or originated credit-impaired transactions

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

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

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

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

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

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

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

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

Transaction classification criteria

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

- Automatic criteria;

- Specific criteria for refinancing; and

- Criteria based on indicators (triggers).

The automatic factors and specific classification criteria for refinancing make up what the Institution refers to as the classification and cure algorithm and are applied to the entire portfolio.

Furthermore, to enable an early identification of any significant increase in credit risk or vulnerabilities, or any transaction impairment, the Group establishes different triggers for significant and non-significant borrowers. In particular, non-significant borrowers who, once the automatic classification algorithm has been applied, do not meet any of the conditions for reclassification as stages 2 or 3 are assessed by means of a process the objective of which is to identify any significant increase in credit risk since the transaction was first approved and which could result in losses greater than those incurred on other similar transactions classified as stage 1. For significant borrowers, on the other hand, there is an automated system of triggers in place that generates a series of alerts, which serve to indicate, during a borrower's assessment, that a decision needs to be made with regard to their classification.

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

Individual assessment

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

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

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

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

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

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

– A significant increase in credit risk or an impairment event, considering variables that are indicative of a deteriorating or poor economic and financial situation as well as variables that could potentially give rise to impairment or which allow impairment to be anticipated. Examples of stage 2 and stage 3 triggers:

  Stage 2 triggers:

  - Adverse changes in the financial situation, such as a significant increase in debt levels, or sharp drops in turnover.
  - Adverse changes in the economy or market indicators, such as a significant fall in share prices or a reduction in the price of debt issues.
  - Significant actual or expected downgrade of the internal credit rating assigned to the transaction or borrower, or a reduction in the behavioural score assigned during the internal credit risk monitoring process.
  - Significant increase in credit risk of other transactions of the same borrower, or in entities associated with the borrower's risk group.

  Stage 3 triggers:

  - Evidence of impairment of other transactions of the same borrower, or in entities associated with the borrower's risk group.
  - Negative EBITDA, significant decrease in EBITDA, in turnover, or in general, in the borrower's recurrent cash flows.
  - Increase in the borrower's leverage ratios.
  - Negative equity or equity reduction as a result of the borrower suffering equity losses of 50% or more in the past year.
  - Existence of an internal or external credit rating showing that the borrower is in arrears.
  - Existence of a borrower's past-due commitments of significant value with public bodies.
  - For transactions secured with collateral, significant decline in the value of the collateral received.
  - Existence of debt remissions or debt reductions approved for the same borrower or for entities associated with the latter's risk group in the last 2 years.

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

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

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

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

Collective assessment

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

For transactions of borrowers that are assessed collectively, the Group uses a statistical model that allows it to determine the Probability of Default (PD) term structure and, therefore, the residual lifetime PD of a contract (or the PD from a given moment in time up to the maturity of the transaction), based on different characteristics:

- Systemic: macroeconomic characteristics shared by all exposures.
- Cross-cutting: aspects that remain stable over time and which are shared by a group of transactions, such as the shared effect of lending policies in effect at the time the transaction was approved, or the transaction's approval channel.
- Idiosyncratic: aspects specific to each transaction or borrower.

With this specification, the Group is able to measure the residual lifetime PD of a transaction under the conditions that existed at the time the transaction was approved (or originated), or under the conditions existing at the time the provision is calculated. Therefore, the current residual lifetime PD may fluctuate in relation to the PD at the time the transaction was approved, due to changes in the economic environment or in the idiosyncratic characteristics of the transaction or of the borrower.

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

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

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

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

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

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

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

In the case of TSB, the multiplier of lifetime PD upon approval relative to current lifetime PD is also used, complemented with an absolute increase in PD calculated specifically for each portfolio. Both of these thresholds must be reached in order for an exposure to be reclassified as stage 2. In 2021 and 2020, the threshold for the multiplier of current PD relative to PD upon approval applied to all portfolios has been set at 2, while absolute thresholds have ranged from 10 to 770 basis points in both years.

Refinancing and restructuring transactions

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

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

– Restructured transaction: restructuring involves modifying the financial terms of a transaction for economic or legal reasons related to a borrower's current or foreseeable financial difficulties in order to make it easier for them to pay their debt (principal and interest) when they are unable, or will predictably soon be unable, to honour their payment obligations in good time and in the manner agreed, even when that modification is already provided for in the contract. In any case, transactions whose terms are modified to extend the term to maturity, to modify the repayment schedule in order to the reduce repayment instalment amounts in the short term or to reduce their payment frequency, or to establish or extend the grace period for the repayment of principal, interest, or both, are all considered restructured transactions, unless it can be proven that the terms are being modified for reasons other than borrowers' financial difficulties and that the modified terms are equivalent to the terms that would be applied by other institutions in the market for similar risks.

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

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

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

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

– The borrower has paid the instalments of principal and interest accumulated since the date of the refinancing or restructuring or, if later, since the date of reclassification to the stage 3 category.

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

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

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

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

– The borrower has no other transactions with amounts more than 90 days past due on the date on which the refinancing, refinanced or restructured transaction is reclassified as stage 2.

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

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

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

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

Transactions classified as stages 2 or 3 whose borrowers have opted for a statutory or sector moratorium or who have received state-guaranteed finance as part of a government support scheme designed to address the impact of COVID-19 have not been reclassified to a lower credit risk category until the grace period and the probation period have both come to an end, at which time they are classified according to the Institution's general classification rules.

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

These criteria have been applied, especially, in Banco Sabadell and TSB, as these institutions account for the majority of the Group's lending volumes.

With regard to the portfolio of Banco Sabadell, S.A., the new classification criteria applied for reclassifications to stage 2 are described hereafter:

– Transactions to which a legislative moratorium has been applied in Spain have been classified as stage 2 where they had amounts more than 10 days past due or where their borrowers were unemployed and/or furloughed, or where they were assessed as being higher risk by internal customer monitoring tools.

– Company contracts identified as being blocked from the point of view of credit risk management.

– All transactions whose borrowers already showed signs of financial difficulties, even when they were granted during the pandemic to help deal with the situation generated by the crisis, are tagged as refinancing.

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

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

In TSB, on the other hand, an enhanced methodology has been developed that ranks transactions/borrowers according to UTP criteria. Those with the worst rankings according to this methodology are classified as stage 2. Furthermore, in the case of transactions for which moratoria or payment holidays have been applied, those with amounts more than 60 days past due are classified as stage 3.

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

Any amounts suspended due to statutory and sector moratoria are not considered receivable and can therefore not be deemed past due. Thus, any payments suspended while the moratoria are in effect are not considered for the purpose of the classification of transactions as stage 3. Furthermore, the transactions to which the statutory or sector moratoria have been applied are not identified as restructuring or refinancing unless they have been tagged as such or if signs that they would be difficult to recover had already emerged prior to the outbreak of the pandemic.

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

Modifications of financial assets

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

<u>1.3.4.1.2 Credit loss allowances</u>

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

– EAD (Exposure at Default): the Institution defines exposure at default as the value to which it expects to be exposed when a loan defaults.

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

– PD (Probability of Default): estimation of the probability that a borrower will default within a given period of time.

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

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

  The tools used to assess debtors' probability of default are behavioural credit scores that monitor credit risk in the case of individuals, and early warning indicators and credit ratings in the case of companies:

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

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

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

scoring systems, which are in turn based on a quantitative model of historical statistical data, identifying the relevant predictive factors. In regions where credit scoring takes place, credit scores are divided into two types:

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

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

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

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

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

– Multiple scenarios: in order to estimate expected losses, the Group applies different scenarios to identify the effect of the non-linearity of losses. To this end, the provisions required are estimated in the different scenarios for which a probability of occurrence has been defined. Specifically, the Group has considered three macroeconomic scenarios: one baseline scenario, the most likely of all (60%), and two alternative scenarios: alternative scenario 1, a more optimistic scenario that considers a swift, worldwide eradication of the pandemic and productivity gains (15%), and alternative scenario 2, a more adverse scenario that envisages further outbreaks of COVID-19 (25%). To carry out the forecasts of these scenarios, 5-year time horizons are used. The main variables considered are changes in GDP, the unemployment rate and house prices. In 2020, the Group considered three macroeconomic scenarios, with the same weights and macroeconomic variables as in 2021.

Baseline scenario

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

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

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

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

- The main central banks make progress with their exit strategies. The rate hike cycle is slower than on previous occasions, slightly higher rates of inflation are tolerated, and aspects such as the recovery of full employment and financial stability are prioritised.
- With regard to the Spanish economy, its good performance largely rests on domestic demand. The labour market performs well, with falling unemployment rates, while the real estate sector benefits from benign financing conditions.
- In relation to financial markets, long-term government bond yields plunge substantially below fundamentals due to central bank interventions. Sovereign debt risk premiums in the European periphery remain at contained levels.
- The US dollar, in its currency pair with the euro, faces depreciation pressure as global economic recovery takes hold and against a backdrop of high deficits (both public and external) in the United States.
- As regards Brexit, the scenario envisages a situation in which the United Kingdom and the European Union continue to implement pragmatic solutions to the agreements.

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

- The pandemic is left behind relatively quickly thanks to the efficacy of vaccines and their distribution across the globe.
- Economies have greater potential to grow despite adverse demographic dynamics. Global economic growth is robust and synchronised, thanks to productivity gains stemming from a more digitised and sustainable economy.
- These productivity gains allow increased growth to become compatible with the absence of inflationary pressure. Inflation remains close to the levels targeted in the monetary policy of the respective central banks.
- Stimulus measures introduced to overcome the crisis are withdrawn gradually, albeit at a faster pace than in the baseline scenario, in both the monetary and fiscal domains.
- Global financing conditions remain lax, with no significant episodes of risk aversion.
- The macroeconomic and financial environment allows risk premiums on both peripheral debt and corporate bonds to remain contained.
- In Spain, the economy particularly benefits from the full resumption of activity, given the importance of the sectors most affected by COVID. The funds from Next Generation EU are seamlessly absorbed and used efficiently.

Alternative scenario 2: Further outbreaks of the pandemic in 2022

- New outbreaks of the pandemic take place, linked to the emergence of more vaccine-resistant mutations of the virus. This requires restrictions to be reintroduced, affecting both the movement of people and certain close contact activities.
- Economic recovery comes to a halt and some sectors, such as tourism and catering, are once again particularly hard hit. The difficulty in eradicating the pandemic fuels the uncertainty and cautionary attitude of economic players, which further weighs down consumption and investment. The environment of economic contraction spreads across the globe.
- Weakened domestic demand brings inflation back down to low levels, requiring the accommodative response of economic policy to be maintained and intensified. The environment of zero or negative interest rates endures.
- In financial markets, the backdrop of uncertainty and economic downturn that exists in 2022 generates a complicated market environment, with tightening financial conditions and dwindling risk asset prices.
- Government bond yields fall below historic lows and risk premiums on peripheral government bonds increase. This increase is exacerbated by further deterioration of fiscal metrics but is mitigated by the actions taken by the ECB.

- In Spain, the economic importance of the sectors most vulnerable to outbreaks heightens the impact on activity. Solvency problems in companies cause structural damage to part of the economy's productive fabric, despite the stimulus of Next Generation EU.

As at 31 December 2021, the main forecast variables considered for Spain and the United Kingdom are those shown below:

%

	31/12/2021									
	Spain					United Kingdom				
	2022	**2023**	**2024**	**2025**	**2026**	**2022**	**2023**	**2024**	**2025**	**2026**
GDP growth										
Baseline scenario	6.3	3.3	2.7	2.2	2.0	5.3	1.5	1.4	1.4	1.4
Alternative scenario 1	7.8	4.5	3.6	2.7	2.4	6.7	2.8	1.6	1.6	1.6
Alternative scenario 2	3.4	1.9	1.8	1.5	1.4	1.7	2.4	1.2	1.2	1.2
Unemployment rate										
Baseline scenario	14.1	12.9	12.0	11.6	11.4	5.4	4.4	4.0	4.0	4.0
Alternative scenario 1	12.5	10.6	9.5	8.7	8.0	4.3	3.5	3.5	3.5	3.5
Alternative scenario 2	16.9	16.5	15.5	14.6	14.0	6.7	6.1	5.0	4.5	4.5
House price growth (*)										
Baseline scenario	3.8	3.8	3.5	3.2	3.2	-1.0	1.6	2.5	2.5	2.5
Alternative scenario 1	5.7	4.8	4.0	3.8	3.6	3.5	4.3	3.3	2.5	2.5
Alternative scenario 2	-0.5	0.6	1.8	2.0	2.4	-7.3	-7.2	9.6	7.4	4.2

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

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

%

	31/12/2020									
	Spain					United Kingdom				
	2021	**2022**	**2023**	**2024**	**2025**	**2021**	**2022**	**2023**	**2024**	**2025**
GDP growth										
Baseline scenario	7.2	4.5	2.0	1.5	1.4	6.1	5.8	1.5	1.4	1.4
Alternative scenario 1	10.6	5.6	2.5	1.9	1.6	9.3	6.7	1.7	1.6	1.6
Alternative scenario 2	3.0	1.7	2.0	1.8	1.6	3.5	4.9	1.3	1.4	1.4
Unemployment rate										
Baseline scenario	17.5	15.5	14.6	13.6	12.9	6.9	5.8	4.6	4.3	4.1
Alternative scenario 1	15.7	13.0	12.5	11.8	11.1	5.1	3.7	3.3	3.3	3.3
Alternative scenario 2	21.4	20.0	18.7	18.0	16.8	8.0	7.0	5.8	5.2	5.0
House price growth (*)										
Baseline scenario	0.0	4.5	3.5	3.5	3.0	-4.8	0.1	6.2	5.0	4.4
Alternative scenario 1	6.0	5.3	4.0	3.5	3.5	-2.6	2.2	4.6	5.0	4.4
Alternative scenario 2	-3.5	0.0	2.0	3.0	3.0	-5.3	-5.2	6.2	5.0	4.4

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

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

In the Bank, macroeconomic scenarios have been incorporated into the impairment calculation model.

For its part, the subsidiary TSB applies a series of adjustments to the results of its credit risk models, called Post Model Adjustments (PMAs), in order to address situations in which the results of the models are not sufficiently sensitive to the current economic conditions. In 2021, the most significant PMA considered in TSB amounted to 40 million euros, and it was recognised in 2020 in order to capture any impairment losses resulting from changes in customer behaviour which might not have been considered when the credit risk models were developed, such as the granting of payment holidays or changes in consumer spending habits in the COVID-19 environment compared to before the pandemic.

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

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

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

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

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

12-month expected credit losses are defined as:

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

Where:

EA_{D12M} is the exposure at default at 12 months, PD_{12M} is the probability of a default occurring within 12 months and LGD_{12M} is the expected loss given default.

Lifetime expected credit losses are defined as:

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

Where:

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

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

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

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

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

Individual allowance estimates

The Group monitors credit risk on an individual basis for all risks deemed to be significant. To estimate the individual allowance for credit risk, an individual estimate is made for all individually significant borrowers classified as stage 3 and for certain borrowers classified as stage 2. Individual estimates are also made for transactions identified as having negligible risk classified as stage 3.

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

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

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

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

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

Collective allowance estimates

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

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

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

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

Segmentation of models

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

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

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

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

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

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

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

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

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

Risk drivers

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

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

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

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

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

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

Summary of criteria for classification and allowances

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

Observed credit impairment since initial recognition

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

Guarantees

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

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

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

- Real estate guarantees applied as first mortgage liens:
    - Completed buildings and completed component parts:
        - Housing units.
        - Offices, commercial premises and multi-purpose industrial buildings.
        - Other buildings, such as non-multi-purpose industrial buildings and hotels.
    - Urban land and regulated building land.
    - Other real estate.
- Collateral in the form of pledged financial instruments:
    - Cash deposits.
    - Equity instruments in listed entities and debt securities issued by creditworthy issuers.

- Other collateral:
    - Personal property received as collateral.
    - Subsequent mortgages on properties.
- Personal guarantees such that direct and joint liability to the customer falls to the new guarantors, who are persons or entities whose solvency is sufficiently verified to ensure the full redemption of the transaction under the terms set forth.

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

Real estate guarantees for loan transactions are valued on the date the transactions are granted, while real estate assets are valued on the date on which they are recognised, whether as a result of a purchase, foreclosure or a payment in kind, and also whenever there is a significant reduction in value. In addition, minimum updating criteria are applied, which ensure that updates take place at least once a year in the case of impaired assets (assets classified as stages 2 or 3 and real estate assets foreclosed or received in lieu of debt), or at least once every three years for large debts classified as stage 1 with no signs of latent credit risk. Similarly, statistical methodologies may be used to update appraisals but only for properties that have a certain level of homogeneity among them, in other words, those with low exposure and low risk whose characteristics are likely to be shared by other properties and which are located in an active market with frequent transactions, although a full appraisal is carried out in accordance with the aforesaid ECO Order (an “ECO appraisal”) at least once every three years.

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

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

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

Overall comparison between financial asset and real estate asset impairment allowances

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

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

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

1.3.4.2 Investments in joint ventures and associates

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

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

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

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

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

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

1.3.5 Hedging transactions

The Group has elected to continue applying IAS 39 for its hedge accounting until the IFRS 9 macro hedge accounting project has been finalised, as permitted by IFRS 9.

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

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

- The financial derivative must hedge against the exposure to changes in the value of assets and liabilities caused by interest rate and/or exchange rate fluctuations (fair value hedge), the exposure to variability in estimated cash flows that is attributable to a particular risk of financial assets and financial liabilities, firm commitments or highly probable forecast transactions (cash flow hedge), or the exposure associated with net investments in foreign operations (hedge of net investments in foreign operations).
- The financial derivative must effectively eliminate some portion of the risk that is inherent in the hedged item or position throughout the entire expected life of the hedge. This effectiveness should be measured both prospectively and retrospectively. To this end, the Group analyses whether, at the time of its inception, a hedge is expected to operate with a high level of effectiveness in business-as-usual conditions. It also runs effectiveness tests throughout the life of the hedge, in order to verify that the results of these tests show an effectiveness that falls within a range of between 80% and 125%.

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

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

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

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

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

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

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

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

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

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

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

1.3.6 Financial guarantees

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

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

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

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

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

1.3.7 Transfers and derecognition of financial instruments from the balance sheet

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

Note 4 provides details of asset transfers in effect at the end of 2021 and 2020, indicating those that did not involve the derecognition of the asset from the consolidated balance sheet.

1.3.8 Offsetting of financial instruments

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

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

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

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

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

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

Non-current assets and disposal groups classified as held for sale are measured, both on the acquisition date and thereafter, at the lower of their carrying amount and their fair value less estimated selling costs. The carrying amount at the acquisition date of non-current assets and disposal groups classified as held for sale deriving from foreclosure or recovery is defined as the outstanding balance of the loans or credit that gave rise to these purchases (less any associated provisions). Tangible and intangible assets that would otherwise be subject to depreciation or amortisation are not depreciated or amortised while they remain classified as "Non-current assets and disposal groups classified as held for sale".

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

The appraisal value of real estate assets recognised in this heading is obtained following policies and criteria analogous to those described in the section entitled "Guarantees" in Note 1.3.4. The main appraisal firms and agencies used to obtain market values are listed in Note 6.

Gains and losses arising from the disposal of assets and liabilities classified non-current assets or liabilities held for sale, as well as impairment losses and their reversal, where applicable, are recognised under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" in the consolidated income statement. The remaining income and expenses relating to these assets and liabilities are disclosed according to their nature.

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

1.3.10 Tangible assets

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

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

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

The annual depreciation charge on tangible assets is recognised in the consolidated income statement and generally calculated based on the remaining years of the estimated useful life of the different groups of components:

	Useful life (years)
Land and buildings	38 to 75
Fixtures and fittings	5 to 20
Furniture and office equipment	3 to 10
Vehicles	3 to 6
Cash dispensers, computers and computer equipment	4

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

At each year-end closing, the Group analyses whether there are any internal or external signs that a tangible asset might be impaired. If there is evidence of impairment, the Group assesses whether this impairment actually exists by comparing the asset's net carrying amount against its recoverable amount (the higher of its fair value, less selling costs, and its value in use). When the asset's carrying amount is higher than its recoverable amount, the Group reduces the carrying amount of the corresponding component to its recoverable amount and adjusts future depreciation charges in proportion to the adjusted carrying amount and new remaining useful life, in the event this needs to be re-estimated. Where there are signs that the value of a component has been recovered, the Group records the reversal of the impairment loss recognised in previous years and adjusts future depreciation charges accordingly. The reversal of an impairment loss on an asset component shall in no circumstances result in its carrying amount being increased to a value higher than the value that the asset component would have had if no impairment losses had been recognised in previous years.

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

For investment properties, the Group uses valuations carried out by third parties entered in the Bank of Spain Special Register of Appraisal Firms, in accordance with criteria set forth in Order ECO/805/2003.

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

1.3.11 Leases

The Group evaluates the existence of a lease contract at its inception or when its terms are changed. A contract is deemed to be a lease contract when the asset is identified in that contract and the party receiving the asset has the right to control its use.

Leases in which the Group acts as lessee

The Group recognises, for leases in which it acts as lessee, which mostly correspond to lease contracts for real estate and office spaces linked to its operating activity, a right-of-use asset of the leased asset and a liability for payments outstanding at the date on which the leased asset was made available to the Group for use.

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

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

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

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

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

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

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

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

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

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

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

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

<u>Sale and leaseback</u>

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

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

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

Leases in which the Group acts as lessor

<u>Finance leases</u>

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

Operating leases

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

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

1.3.12 Intangible assets

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

Intangible assets are initially recognised at their acquisition or production cost and are subsequently measured at cost less, where applicable, the accumulated amortisation and any impairment loss that may have been sustained.

Goodwill

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

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

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

- Key business assumptions: these assumptions are used as a basis for the cash flow projections used as part of the valuation. For businesses engaging in financial activities, projections are made for variables such as: changes in lending volumes, default rates, customer deposits, interest rates under a forecast macroeconomic scenario, and capital requirements.
- Estimates of macroeconomic variables and other financial parameters.
- Projection period: this is usually five years, after which a recurring level is attained in terms of both income and profitability. These projections take into account the existing economic situation at the time of the valuation.
- Discount rate: the present value of future dividends, from which a value in use is obtained, is calculated using the Institution’s cost of capital (Ke), from the standpoint of a market participant, as a discount rate. To determine the cost of capital, the CAPM (Capital Asset Pricing Model) is used in accordance with the formula: “$Ke = Rf + \beta (Pm) + \alpha$”, where: Ke = Required return or cost of capital, Rf = Risk-free rate, β = Company’s systemic risk coefficient, Pm = Market premium and α = Non-systemic risk premium.
- Growth rate used to extrapolate cash flow projections beyond the period covered by the most recent forecasts: this is based on long-term estimates for the main macroeconomic figures and key business variables, and bearing in mind the existing financial market circumstances and outlooks at all times.

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

Other intangible assets

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

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

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

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

1.3.13 Inventories

Inventories are non-financial assets that are held by the Group for their use or sale in the ordinary course of its business, or which are in the process of production, construction or development for such sale or use, or which are to be consumed in the production process or in the rendering of services.

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

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

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

For inventories comprising land and buildings, the net realisable value is calculated based on the appraisal carried out by an independent expert, entered in the Bank of Spain Special Register of Appraisal Firms and performed in accordance with the criteria established in Order ECO/805/2003 on rules for the appraisal of real estate and particular rights for specific financial purposes, which is then adjusted in line with the internal methodology developed by the Group, taking into account its experience in selling assets that are similar in terms of prices, the period during which each asset remains on the consolidated balance sheet and other explanatory factors. Nevertheless, as with real estate guarantees, statistical methodologies may be used to update appraisals for properties with a fair value or no more than 300,000 euros and which have a certain level of homogeneity among them, in other words, those with low exposure and low risk whose characteristics are likely to be shared by other properties and which are located in an active market with frequent transactions, although a full appraisal is carried out in accordance with the aforesaid ECO Order (an “ECO appraisal”) at least once every three years.

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

1.3.14 Own equity instruments

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

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

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

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

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

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

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

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

1.3.15 Remuneration in equity instruments

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

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

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

1.3.16 Provisions, contingent assets and contingent liabilities

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

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

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

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

1.3.17 Provisions for pensions

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

Defined contribution plans

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

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

Defined benefit plans

Defined benefit plans cover all existing commitments arising from the application of the Collective Bargaining Agreement for Banks (*Convenio Colectivo de Banca*).

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

Pension plan

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

– Additional commitments due to early retirement, as set out in the Collective Bargaining Agreement for Banks.

– Disability or incapacity arising in certain circumstances.

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

The Banco Sabadell employee pension plan is regarded to all intents and purposes as a plan asset for the obligations insured by entities outside of the Group. Obligations of the pension plan insured by the Group's associate entities are not considered plan assets.

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

Insurance contracts

Insurance contracts generally cover certain commitments arising from the Collective Bargaining Agreement for Banks, including:

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

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

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

- Commitments towards employees on extended leave of absence not covered with benefits accrued in the Banco Sabadell employee pension plan.
- Commitments towards early retirees. These may be partly financed with benefits accrued in the Banco Sabadell employee pension plan.

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

Voluntary social welfare agency (*Entidad de Previsión Social Voluntaria*, or E.P.S.V.)

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

Internal funds

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

Accounting record of defined benefit obligations

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

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

- They are owned, not by the Group, but by a legally separate third party not qualifying as a related party.
- They are available only to pay or fund employee benefits and are not available to creditors of the Group, even in the event of insolvency.
- They cannot be returned to the Group unless the assets remaining in the plan are sufficient to settle all obligations, of the plan or of the Institution, relating to employee benefits, or unless assets are to be returned to the Bank to reimburse it for employee benefits previously paid.
- They are not non-transferable financial instruments issued by the Group.

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

Pension commitments are recognised in the following way:

- In the consolidated income statement, net interest on the defined benefit liability (asset) net of pension commitments as well as the cost of the services, which includes (i) the cost of services in the current period, (ii) the cost of past services arising from changes made to existing commitments or from the introduction of new benefits, and (iii) any gain or loss arising from a settlement of the plan.
- Under the heading “Accumulated other comprehensive income – Items that will not be reclassified to profit or loss - Actuarial gains or (-) losses on defined benefit pension plans” in the consolidated statement of equity, the remeasurement of the net defined benefit liability (asset) for pension commitments, which includes (i) actuarial gains and losses generated in the year arising from differences between the previous actuarial assumptions and the real situation and from changes in the actuarial assumptions made, (ii) the return on plan assets, and (iii) any change in the effect of the asset ceiling, excluding, for the last two items, the amounts included in net interest on the defined benefit liability (asset).

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

Actuarial assumptions

The most relevant financial/actuarial assumptions used in the valuation of pension commitments as at 31 December 2021 and 2020 are as follows:

	2021	2020
Tables	PER2020_Col_1er.orden	PER2020_Col_1er.orden
Discount rate, pension scheme	1.00% per annum	0.50% per annum
Discount rate, internal fund	1.00% per annum	0.50% per annum
Discount rate, related insurance	1.00% per annum	0.50% per annum
Discount rate, non-related insurance	1.00% per annum	0.50% per annum
Inflation	2.00% per annum	1.50% per annum
Rate of increase in salaries	3.00% per annum	2.50% per annum
Retirement due to disability	SS90-Absolute	SS90-Absolute
Staff turnover	None assumed	None assumed
Early retirement	Allowed for	Allowed for
Normal retirement age	65 or 67 years	65 or 67 years

In 2021 and 2020, the technical interest rate on all commitments has been determined by reference to the return on AA-rated corporate bonds (iBoxx € Corporates AA 10+), with an average duration of 13.70 and 12.60 years, respectively.

The early retirement age considered is the earliest retirement date after which pension entitlements cannot be revoked by the employer for 100% of the employees.

The return on long-term assets corresponding to plan assets and insurance policies linked to pensions has been determined by applying the same technical interest rate used in actuarial assumptions (1.00% and 0.50% in 2021 and 2020, respectively).

1.3.18 Foreign currency transactions and exchange differences

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

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

– Monetary assets and liabilities are translated at the closing rate, defined as the average spot exchange rate as at the reporting date.

– Non-monetary items measured at historical cost are translated at the exchange rate ruling on the acquisition date.

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

– Income and expenses are translated at the exchange rate ruling at the transaction date.

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

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

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

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

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

1.3.19 Recognition of income and expenses

Interest income and expenses and other similar items

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

Commissions, fees and similar items

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

- Those linked to financial assets and financial liabilities measured at fair value through profit or loss are recognised at the time of disbursement.
- Those related to transactions carried out or services rendered over a given period of time are recognised throughout that period.
- Those related to a transaction or service that is carried out or rendered in a single act are recognised when the originating act takes place.

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

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

Non-financial income and expenses

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

Deferred payments and collections

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

Levies

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

Deposit guarantee schemes

The Bank is a member of the Deposit Guarantee Fund. In 2021, the Management Committee of the Deposit Guarantee Fund of Credit Institutions, in accordance with that established in Royal Decree Law 16/2011 and Royal Decree 2606/1996, set the contribution for all entities covered by the Fund's deposit guarantee at 0.17% of the value of deposits guaranteed as at 31 December 2020. Each entity's contribution is calculated based on the value of the deposits guaranteed and its risk profile, taking into account indicators such as capital adequacy, asset quality and liquidity, which have been defined in Bank of Spain Circular 5/2016 of 27 May. Furthermore, the contribution to the securities guarantee offered by the Fund has been set at 0.2% of 5% of the value of the securities guaranteed as at 31 December 2021 (see Note 32).

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

– TSB Bank plc makes contributions to the Financial Services Compensation Scheme.

– Banco Sabadell, S.A. Institución de Banca Múltiple makes contributions to the deposit guarantee scheme established by the Instituto para la Protección del Ahorro Bancario.

Single Resolution Fund

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

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

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

1.3.20 Corporation tax

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

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

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

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

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

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

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

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

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

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

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

- Forecasts of results of each entity or fiscal group, based on the financial budgets approved by the Group's directors for a five-year period, subsequently applying constant growth rates similar to the mean long-term growth rates of the sector in which the various companies of the Group operate;
- Estimate of the reversal of timing differences on the basis of their nature; and
- The period or limit set forth by prevailing legislation in each country for the reversal of the different tax assets.

1.3.21 TLTRO III programme

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

The Group has considered that the use of a more favourable interest rate, i.e. the deposit facility rate (-0.50%), rather than the interest rate on the main refinancing operations (0%), subject to compliance with the lending performance thresholds established by the European Central Bank for the period from 1 March 2020 to 31 March 2021 (the 'special reference period') and for the period from 1 October 2020 to 31 December 2021 (the 'additional special reference period'), does not place the conditions of these operations significantly below market interest rates; therefore, this refinancing has been recognised as a financial liability measured at amortised cost pursuant to IFRS 9.

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

The further interest rate reduction of 50 basis points for the period from 24 June 2020 to 23 June 2021 (the 'special interest rate period') and for the period from 24 June 2021 to 23 June 2022 (the 'additional special interest rate period') is not subject to compliance with any specific net lending target, having estimated that this reduction could result in the cost of this refinancing having better conditions than those in the market. Accordingly, this reduction has been considered a discount associated with the COVID-19 pandemic, aimed at reducing the Group's borrowing costs during the special interest rate periods, and it has been recognised under net interest margin in the consolidated income statement in a systematic way throughout the aforesaid periods (see Note 4.4.3.1).

1.3.22 Consolidated statement of recognised income and expenses

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

As such, this statement shows:

- Consolidated profit or loss for the year
- Changes in "Accumulated other comprehensive income" in consolidated equity, which includes:
    - Gross recognised income and expenses, distinguishing between those that will not be reclassified in the income statement and those which may be reclassified in the income statement.
    - Corporation tax due on recognised income and expenses, with the exception of adjustments arising from equity interests held in associates or joint ventures accounted for using the equity method, which are shown net.
    - Total consolidated recognised income and expenses, calculated as the sum of the two previous sections, showing separately the amount attributed to the controlling entity and the amount corresponding to minority interests (non-controlling interests).

1.3.23 Consolidated statement of total changes in equity

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

- Adjustments due to accounting changes and corrections of errors: includes the changes in consolidated equity that arise as a result of the retroactive restatement of financial statement balances, distinguishing between those that arise from changes in accounting criteria and those that correspond to the correction of errors.
- Total recognised income and expenses: includes, in aggregate form, the total of items recognised in the aforesaid consolidated statement of recognised income and expenses.
- Other changes in consolidated equity: includes the remaining items recognised in consolidated equity, such as capital increases or decreases, distribution of dividends, transactions with own equity instruments, payments with own equity instruments, transfers between equity items and any other increase or decrease of consolidated equity.

1.3.24 Consolidated cash flow statement

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

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

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

- Operating activities: typical day-to-day activities of the Group and other activities that cannot be classified as investing or financing activities.
- Investing activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents or in operating activities.
- Financing activities: activities that result in changes in the size and composition of consolidated equity and of liabilities that do not form part of operating activities.

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

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

1.4 Comparability

The information presented in these consolidated annual financial statements corresponding to 2020 is provided solely and exclusively for purposes of comparison with the information for the year ended 31 December 2021 and therefore does not constitute the Group's consolidated annual financial statements for 2020.

Note 2 – Banco Sabadell Group

Subsidiaries and associates as at 31 December 2021 and 2020 are listed in Schedule I, along with their registered offices, primary activities, the Bank's percentage shareholding in each, key financial data and the consolidation method used (full consolidation or equity method) in each case.

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

The following section provides a description of the business combinations, acquisitions and sales or liquidations which are most representative of investments in the capital of other entities (subsidiaries and/or investments in associates) performed by the Group during 2021 and 2020. Moreover, Schedule I includes details of changes in the scope of consolidation in each financial year and the results obtained by the Group on the disposal of its subsidiaries and associates.

Changes in the scope of consolidation in 2021

Additions to the scope of consolidation:

There were no significant additions to the scope of consolidation in 2021.

Exclusions from the scope of consolidation:

- On 29 April 2021, Banco Sabadell and the ALD Automotive Group entered into a long-term strategic partnership to offer vehicle leasing products, which will allow Banco Sabadell to improve its customer value proposition for mobility solutions, with a larger and more innovative range of vehicle leasing products. This transaction was closed on 30 November 2021 after obtaining the necessary authorisations.

  The agreement includes the sale of 100% of the share capital of Bansabadell Renting, S.L.U. for 59 million euros, adjusted by the change in the company's equity between the reference date used for ALD Automotive Group's offer (i.e., 30 September 2020) and the closing date of the transaction. The transaction contributed 10 basis points to the Group's fully-loaded Common Equity Tier 1 (CET1) ratio. The Group obtained a profit of 41,907 thousand euros on this transaction, which has been recognised under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" of the consolidated income statement (see Note 37).

- On 5 October 2021, Banco Sabadell transferred to Mora Banc Grup, S.A. its entire stake in BancSabadell d'Andorra, S.A., which represents 50.97% of its share capital (and 51.61% including the proportional part of treasury stock) for 68 million euros. The transaction contributed 7 basis points to the Group's fully-loaded Common Equity Tier 1 (CET1) ratio. The Group obtained a profit of 11,725 thousand euros on this transaction, which has been recognised under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" of the consolidated income statement (see Note 37).

With the exception of the transactions described above, there have been no significant changes in the scope of consolidation in 2021.

Changes in the scope of consolidation in 2020

Additions to the scope of consolidation:

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

Exclusions from the scope of consolidation:

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

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

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

  This transaction will generate a profit of 349 million euros after tax for the Group from the closing date of the transaction. Of this amount, 293 million euros has been recognised under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" of the income statement for the year 2020 (see Note 37). The remaining amount is subject to certain guarantees and is recognised over the length of the distribution agreement, which expires in June 2030.

- On 5 February 2019, the Bank began a competitive bidding process to sell 100% of the share capital of Solvia Desarrollos Inmobiliarios, S.L.U. (SDIn), together with a pool of plots and real estate developments managed by this company and owned by Banco Sabadell. SDIn is the result of the spin-off and transfer en bloc of part of the equity of Solvia Servicios Inmobiliarios, S.L.U., a company engaging in the provision of real estate development services.

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

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

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

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

Other significant transactions in 2021

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

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

The transaction will generate a net profit of 75 million euros, of which 59 million euros has been recognised in the 2021 consolidated income statement (mainly, an income of 84 million euros under the heading “Gains or (-) losses on derecognition of non-financial assets, net” and an expense of 25 million euros under the heading “Tax expense or (-) income related to profit or loss from continuing operations”). The remaining 16 million euros will be accrued in the consolidated income statement over a period of 10 years from the date the transaction is closed (see Note 36).

Other significant transactions in 2020

No other significant transaction has been carried out during 2020 that has not been described in these consolidated annual financial statements.

Other material disclosures

Asset Protection Scheme

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

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

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

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

Note 3 – Shareholder remuneration and earnings per share

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

Thousand euro

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

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

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

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

Earnings per share

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

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

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

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

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

Note 4 – Risk management

4.1 Introduction

Throughout 2021, Banco Sabadell Group has continued to strengthen its risk management and control framework by incorporating improvements in accordance with supervisory expectations and market trends.

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

In its management of risks, the Group considers the macroeconomic environment. The most significant aspects of 2021 are set out below:

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

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

Brexit

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

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

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

4.2 Key milestones during the year

4.2.1 The Group's risk profile during the year

The following milestones have been achieved in relation to the Group's risk profile during 2021:

I. Non-performing assets:

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

II. Lending performance

- Performing loans continue to increase year-on-year in all regions, with annual growth figures of 2.3% in Spain, 19.1% in TSB and 5.6% in Mexico.
- In Spain, the year-on-year growth has been mainly underpinned by business loans granted to companies, SMEs and the self-employed and the increase in mortgages to individuals. In addition, we see momentum in the project finance portfolio, in which sustainable projects are gaining traction.
- In TSB, there has been steady growth in all loan categories, especially mortgages. The growth of mortgages benefited from a more active mortgage market and TSB's operational resilience to absorb this increase in demand. There was an upturn in consumer lending and unsecured lending volumes after lockdown restrictions were eased.

III. Concentration

- From a sectoral point of view, the loan portfolio is diversified and has limited exposure to the sectors most sensitive to COVID-19 and shows a downward trend.
- Similarly, in terms of individual concentration, the downward trend in risk metrics relating to concentration of large exposures continues, both due to lower exposure (numerator) and to an increase in capital (denominator). The credit rating of top borrowers has been impacted, although not significantly, due to a deterioration in the balance sheets as a result of the health crisis.
- Geographically, the portfolio is positioned in the most dynamic regions, in Spain and worldwide. International lending continues to account for around a third of the loan book.

IV. Strong capital position:

– The CET1 ratio improved to 12.22% in fully-loaded terms as at 2021 year-end (compared to 12.02% as at 2020 year-end). Generalised fulfilment of regulatory capital requirements.

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

V. Sound liquidity position:

– The LCR stood at 221% (compared to 198% as at 2020 year-end) and the loan-to-deposit ratio was 96%.

– The MREL requirement is still being met.

4.2.2 Strengthened credit risk management and control environment

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

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

Performance of the main solutions offered in Spain

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

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

Performance of the main solutions offered in the United Kingdom

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

As regards individuals, the amount of loans granted a payment holiday is a total of 4,442 million pounds, all of which matured during 2021.

4.3 General principles of risk management

Global Risk Framework

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

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

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

– Facilitate the decision-making process.

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

– Understand the risk environment in which it operates.

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

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

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

4.3.1 Global Risk Framework Policy

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

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

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

Global Risk Framework Principles

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

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

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

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

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

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

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

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

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

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

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

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

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

– Alignment with the interests of stakeholders.

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

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

4.3.2 Risk Appetite Framework (RAF)

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

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

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

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

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

4.3.3 Risk Appetite Statement (RAS)

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

Qualitative aspects of the RAS

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

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

Quantitative aspects of the RAS

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

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

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

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

4.3.4 Specific policies for the different material risks

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

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

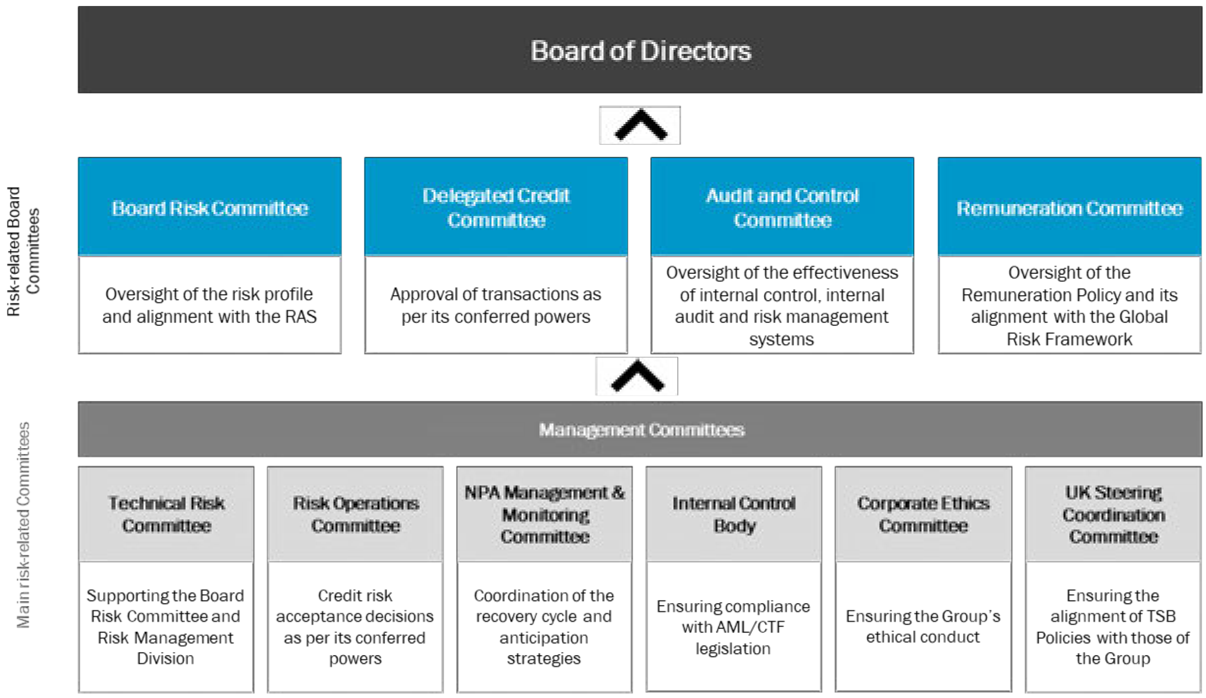
4.3.5 Overall organisation of the risk function

Governance structure

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

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

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



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

- The participation and involvement of the Group's governing bodies and Senior Management in decisions regarding risks, and also in their supervision and control.
- The alignment of objectives at all levels, monitoring their achievement and implementing corrective measures where necessary.
- The existence of an adequate management and control environment for all risks.

Organisation

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

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

- First line of defence: responsible for maintaining adequate and effective internal control and implementing corrective actions to rectify deficiencies in its processes and controls. The responsibilities attributed to this line under the Global Risk Framework are:
  - Maintaining effective internal controls and performing risk assessment and control procedures on a daily basis;
  - Identifying, quantifying, controlling and mitigating risks, following internal policies and procedures and ensuring that activities are consistent with the Bank's goals and objectives;
  - Implementing adequate management and oversight processes to ensure compliance with regulations, focusing mainly on control errors, inadequate processes and unforeseen events.
- Second line of defence: in general, the second line of defence ensures that the first line of defence is well designed and performs its assigned duties. It also puts forward suggestions for its continuous improvement. The core responsibilities attributed to this line are:
  - Proposing the Global Risk Framework, for risk management and control.
  - Guiding and ensuring the implementation of risk policies, defining responsibilities and objectives for their effective implementation.
  - Overseeing the implementation of risk management processes and controls.
  - Participating in decision-making processes, providing an overview in terms of risk.
  - Ensuring and monitoring compliance with the established risk appetite.
  - Verifying compliance with the regulations applicable to the Group in the course of its business activities.
  - Analysing and comparing existing and potential incidents by reviewing available information.
  - Ensuring that the models work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.
  - Promoting and pursuing the highest possible levels of compliance with existing legislation and professional ethics within the Group.
  - Endeavouring to uphold processes for the operational continuity of ordinary business activities and the security of the information on which such activities are based.
- Third line of defence: helps the Group to achieve its objectives by providing a systematic, disciplined approach to assess the adequacy and effectiveness of the organisation's governance processes and its risk management and internal control activities.

4.4 Management and monitoring of the main material risks

In relation to the first-tier risks identified in the Banco Sabadell Group risk taxonomy, the most salient aspects of their management and the actions taken in this regard in 2021 are set out below:

4.4.1 Strategic risk

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

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

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

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

It is also worth highlighting the launch of a new efficiency programme (in addition to that implemented in 1Q21) in Spain (to be implemented in 1Q22), which includes initiatives designed to increase the digitalisation of customer services as well as projects for organisational restructuring and streamlining. Meanwhile, TSB, after the restructuring programmes implemented, reached the breakeven point in the first quarter of 2021.

Strategic risk includes the management and control of four risks:

- Solvency risk: this is the risk of not having sufficient capital, in terms of either quality or quantity, to achieve strategic and business objectives, withstand operational losses or meet regulatory requirements and/or the expectations of the market in which it operates.

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

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

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

4.4.1.1 Solvency risk

Banco Sabadell's ratios are above the minimum capital requirements established by the European Central Bank. Therefore, the Group is not subject to any caps on the distribution of dividends, variable remuneration or coupon payments made to holders of AT1 capital instruments.

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

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

4.4.1.2 Business risk

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

The actions taken throughout the year have laid the foundations for greater future profitability built on the growth of core revenue, mainly by driving digitisation and divesting non-strategic businesses. Additionally, as part of its strategy, a series of efficiency initiatives have been launched in Spain, which will help reduce recurrent costs and which include further digitisation of customer services and process re-engineering.

4.4.1.3 Reputational risk

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

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

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

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

4.4.1.4 Environmental and climate risk

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

Banco Sabadell's commitment to sustainability has been incorporated into all areas of its strategy and business model, internal governance, risk management and assessment arrangements, steering its activity and processes in order to make a firm contribution to sustainability and the fight against climate change. The aim is to support the Group's customers in the transition towards a sustainable future, either by providing them with the appropriate and necessary funding for this or by offering them those savings and investment products which help to achieve GHG emissions neutral operations.

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

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

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

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

Banco Sabadell Sustainable Finance Plan

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

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

Climate risk management

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

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

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

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

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

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

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

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

Additionally, it is worth mentioning that Banco Sabadell has issued 500 million euros worth of green bonds in the capital market in the third bond issue of this kind (the first issue was placed in 2020).

4.4.2. Credit risk

Credit risk refers to the risk of incurring losses as a result of borrowers' failure to fulfil their payment obligations or through losses in value due simply to the deterioration of borrower quality.

4.4.2.1 Credit risk management framework

Acceptance and monitoring

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

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

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

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

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

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

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

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

Management of non-performing exposures

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

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

- Forbearance conditions based on a realistic repayment schedule that is in line with the borrower's current and expected payment capacity, preventing future difficulties.

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

- A maximum length is applied to grace periods.

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

Internal risk models

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

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

- Effective management of changes to internal models.

- Ongoing monitoring of internal models.

- Regular reporting, both internal and external.

- Management tools for internal models.

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

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

For further quantitative information, see Schedule VI "Other risk information: Refinancing and restructuring operations" to these consolidated annual financial statements.

Real estate credit risk management

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

The main measure taken in relation to this portfolio is the continuous monitoring of risks and the reappraisal of borrowers' financial viability in light of the new economic circumstances. If the results of the reappraisal are satisfactory, the existing arrangements continue on the basis agreed, with new commitments being required where appropriate given the new circumstances.

The Bank has established three strategic lines of approach:

– New lending: real estate development business

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

  To this end, the Bank has:

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

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

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

– Management of non-performing real estate exposures

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

  - The customer.

  - The guarantees.

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

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

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

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

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

– Management of foreclosed assets

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

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

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

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

For further quantitative information, see Schedule VI "Other risk information: Exposure to construction and real estate development sector" to these consolidated annual financial statements.

4.4.2.2. Risk management models

Credit ratings

Credit risks incurred with corporates, real estate developers, specialised lending projects, financial institutions and countries are rated using a rating system based on predictive factors and an internal estimate of their probability of default (see section "Impairment of financial assets" in Note 1).

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

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

%

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

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

%

2020 Breakdown of Sabadell corporates portfolio by rating										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.39%	6.00%	19.46%	24.55%	29.33%	11.42%	6.35%	1.83%	0.52%	0.15%	**100%**

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

Credit scores

In general, credit risks undertaken with individuals are rated using credit scoring systems, which are in turn based on a quantitative model of historical statistical data, identifying the relevant predictive factors (see section "Impairment of financial assets" in Note 1).

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

%

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

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

%

Distribution, by credit score, of Banco Sabadell's portfolio of individuals 2020										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.36%	4.65%	20.57%	35.02%	20.80%	12.54%	3.89%	1.13%	0.31%	0.73%	**100%**

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

Warning tools

In general, the Group has a system of warning tools in place, which include both individual warnings and advanced early warning models for both the Companies segment and the Individuals segment. These warning tools are based on performance factors obtained from available sources of information (credit ratings or credit scores, customer files, balance sheets, CIRBE (Bank of Spain Central Credit Register), information relating to the industry or past banking activity, etc.). They measure the risk presented by the customer on a short-term basis (predicted propensity to default), obtaining a high level of predictability to detect potential defaulters. The resulting rating or score, which is obtained automatically, is used as a basic input in monitoring the risk of companies and individuals (see section "Impairment of financial assets" in Note 1).

This warnings system enables:

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

4.4.2.3. Credit risk exposure

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

Additionally, this situation has caused impairment allowances to be significantly higher in 2021 and especially in 2020.

The tables below show the breakdown, by headings of the consolidated balance sheet, of the Group's maximum gross credit risk exposure as at 31 December 2021 and 2020, without deducting collateral or credit enhancements obtained in order to ensure the fulfilment of payment obligations, broken down by portfolios and in accordance with the nature of the financial instruments:

Thousand euro

Maximum credit risk exposure	Note	2021	2020
Financial assets held for trading		**592,631**	**314,241**
Equity instruments	9	2,258	1,115
Debt securities	8	590,373	313,126
Non-trading financial assets mandatorily at fair value through profit or loss		**79,559**	**114,198**
Equity instruments	9	14,582	12,516
Debt securities	8	64,977	101,682
Financial assets at fair value through other comprehensive income		**6,999,326**	**6,825,501**
Equity instruments	9	314,235	318,563
Debt securities	8	6,685,091	6,506,938
Financial assets at amortised cost		**182,173,414**	**177,571,171**
Debt securities	8	15,190,212	18,091,366
Loans and advances	11	166,983,202	159,479,805
Derivatives	**10, 12**	**1,904,380**	**2,914,145**
Total credit risk due to financial assets		**191,749,310**	**187,739,256**
Loan commitments provided	26	28,403,146	29,295,155
Financial guarantees provided	26	2,034,143	2,035,638
Other commitments provided	26	7,384,863	7,594,720
Total off-balance sheet exposures		**37,822,152**	**38,925,513**
Total maximum credit risk exposure		**229,571,462**	**226,664,769**

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

4.4.2.4. Credit risk mitigation

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

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

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

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

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

The Group has not received any significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantees, except for those intrinsic in treasury activities, which are mostly repos with maturities of no more than six months, therefore their fair value does not differ substantially from their carrying amount (see Note 6). The fair value of the assets sold in connection with repos is included under the heading "Financial liabilities held for trading" as part of the short positions of securities.

Assets assigned under the same transactions amounted to 694,554 thousand euros (491,891 thousand euros as at 31 December 2020) and are included by type under the repos heading in Notes 18 and 19.

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

The values of the guarantees received to ensure collection, broken down into collateral and other guarantees, as at 31 December 2021 and 2020 are as follows:

Thousand euro

	2021	**2020**
Value of collateral	97,877,766	91,329,442
Of which: securing Stage 2 loans	*6,740,264*	*6,552,027*
Of which: securing Stage 3 loans	*2,291,061*	*2,054,278*
Value of other guarantees	17,315,699	16,514,989
Of which: securing Stage 2 loans	*2,886,141*	2,045,347
Of which: securing Stage 3 loans	*604,726*	*416,685*
Total value of guarantees received	**115,193,465**	**107,844,431**

The main risk concentration in relation to all of these types of collateral and credit enhancements corresponds to the use of mortgage guarantees as a credit risk mitigation technique in exposures of loans intended for the financing or construction of housing or other types of real estate. On a like-for-like basis, as at 31 December 2021, exposures secured with mortgages represent 58.6% of total gross performing loans to customers (56.9% as at 31 December 2020).

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

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

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

Both transactions are given preferential treatment for capital consumption purposes, in accordance with Article 270 of Regulation (EU) 2017/2401 (see Note 5).

In the case of market transactions, counterparty credit risk is managed as explained in section 4.4.2.7 of these consolidated annual financial statements.

4.4.2.5. Credit quality of financial assets

As stated earlier, in general terms, the Group uses internal models to rate most borrowers (or transactions) through which credit risk is incurred. These models have been designed considering the best practices proposed by the New Basel Capital Accord (NBCA). However, not all portfolios in which credit risk is incurred have internal models, partly due to the fact that these models can only be reasonably designed if a minimum level of experience with cases of non-payment is available.

The exposure percentage calculated by the Institution using internal models, for solvency purposes, is 82%. This percentage has been calculated following the specifications of the ECB guide to internal models (Article 26 a) published in October 2019.

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

Million euro

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

Million euro

Breakdown of exposure by rating	Loans assigned rating/score 2020				
	Stage 1	**Stage 2**	**Stage 3**	***Of which: purchased credit-impaired***	**Total**
AAA/AA	15,044	280	—	—	15,324
A	5,310	28	—	—	5,338
BBB	66,998	157	—	*1*	67,155
BB	28,988	1,115	—	*1*	30,103
B	45,181	3,932	—	*89*	49,113
Other	2,821	5,707	5,294	*83*	13,822
No rating/score assigned	3,206	62	26	—	3,294
Total gross amount	**167,548**	**11,281**	**5,320**	**174**	**184,149**
Impairment allowances	**(448)**	**(465)**	**(2,170)**	***(3)***	**(3,083)**
Total net amount	**167,100**	**10,816**	**3,150**	***171***	**181,066**

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

Million euro

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

Million euro

Breakdown of exposure by rating	Loans assigned rating/score 2020				
	Stage 1	**Stage 2**	**Stage 3**	***Of which: purchased credit-impaired***	**Total**
AAA/AA	944	36	—	—	981
A	823	—	—	—	823
BBB	7,288	18	—	—	7,306
BB	9,188	83	—	—	9,270
B	17,309	688	—	*12*	17,997
Other	235	553	587	*1*	1,375
No rating/score assigned	352	821	—	—	1,174
Total gross amount	**36,139**	**2,200**	**587**	***14***	**38,926**
Impairment allowances	**(57)**	**(15)**	**(102)**	**—**	**(174)**
Total net amount	**36,082**	**2,185**	**485**	**14**	**38,752**

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

For borrowers included within business in Spain whose coverage has been assessed using internal models as at 31 December 2021 and 2020, the following table shows the breakdown by segment of the average EAD-weighted PD and LGD parameters, differentiating between on-balance sheet and off-balance sheet exposures, and the stage in which the transactions are classified according to their credit risk.

%

	31/12/2021 Average ECL parameters for on-balance sheet exposures							
	Stage 1		**Stage 2**		**Stage 3**		**Total portfolio**	
	PD	**LGD**	**PD**	**LGD**	**PD**	**LGD**	**PD**	**LGD**
Loans and advances	1.00%	20.10%	17.90%	21.20%	100.00%	42.40%	6.70%	21.20%
Other financial corporations	1.00%	22.10%	18.80%	20.60%	100.00%	60.20%	2.30%	22.20%
Non-financial corporations	1.70%	29.40%	13.20%	24.30%	100.00%	47.10%	6.90%	29.40%
Households	0.50%	13.20%	28.10%	14.30%	100.00%	39.40%	6.70%	14.50%

%

	31/12/2021							
	Average ECL parameters for off-balance sheet exposures							
	Stage 1		Stage 2		Stage 3		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Loans and advances	1.30%	32.00%	9.90 %	29.30%	100.00%	27.80%	2.20%	31.90%
Other financial corporations	1.50%	31.80%	13.20 %	32.00%	100.00%	19.50%	1.60%	31.80%
Non-financial corporations	1.50%	30.40%	8.60 %	29.90%	100.00%	28.20%	2.40%	30.30%
Households	0.80%	36.70%	24.40 %	21.50%	100.00%	31.00%	1.20%	36.50%

%

	31/12/2020							
	Average ECL parameters for on-balance sheet exposures							
	Stage 1		Stage 2		Stage 3		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Loans and advances	1.50%	18.20%	21.80%	18.90%	100.00%	39.80%	7.00%	19.10%
Other financial corporations	2.00%	22.60%	35.80%	30.20%	100.00%	18.60%	3.20%	22.60%
Non-financial corporations	2.10%	26.60%	22.60%	23.70%	100.00%	47.60%	7.70%	27.20%
Households	1.10%	11.60%	21.00%	14.10%	100.00%	34.30%	6.60%	12.80%

%

	31/12/2020							
	Average ECL parameters for off-balance sheet exposures							
	Stage 1		Stage 2		Stage 3		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Loans and advances	1.80%	31.30%	21.20 %	23.30%	100.00%	34.20%	2.80%	31.10%
Other financial corporations	1.80%	30.10%	21.90 %	31.40%	0.00%	0.00%	1.80%	30.10%
Non-financial corporations	2.20%	29.60%	23.30 %	26.60%	100.00%	34.20%	3.50%	29.50%
Households	1.00%	35.50%	13.40 %	10.90%	100.00%	22.00%	1.30%	35.00%

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

Details of the PD and LGD parameters for exposures in the business of the subsidiary TSB as at 31 December 2021 and 2020 are shown below.

%

	31/12/2021							
	Average ECL parameters for on-balance sheet exposures							
	Stage 1		*Stage 2*		*Stage 3*		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Secured loans	0.23%	2.80%	4.61%	4.48%	100.00%	1.89%	1.24%	2.28%
Credit cards	1.00%	84.90%	9.25%	83.70%	100.00%	67.76%	3.80%	84.44%
Current accounts	0.82%	69.65%	7.71%	70.40%	100.00%	68.56%	3.52%	69.68%
Loans	2.21%	81.35%	8.28%	82.70%	100.00%	80.75%	4.58%	81.52%

%

	31/12/2020							
	Average ECL parameters for off-balance sheet exposures							
	Stage 1		*Stage 2*		*Stage 3*		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Secured loans	0.20%	4.10%	3.80%	2.70%	100.00%	1.90%	1.10%	2.40%
Credit cards	1.70%	84.70%	14.10%	83.10%	100.00%	69.40%	4.90%	84.20%
Current accounts	1.10%	70.00%	11.00%	70.60%	100.00%	71.00%	4.10%	70.10%
Loans	4.60%	81.10%	12.70%	82.10%	100.00%	78.80%	8.00%	81.40%

In the case of the UK, the parameters in general show a slight improvement compared to 2020, in line with the economic recovery in 2021 compared to 2020, where negative impacts on PD and LGD materialised as a result of the economic situation.

During 2021, Stage 3 assets have increased by 395 million euros, thus raising the Group's NPL ratio as shown in the table below:

%

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

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

The NPL ratio, broken down by lending segment as at 31 December 2021 and 2020, is set out below:

%

	Proforma 2021 (*)	2021	Proforma 2020 (*)	2020
Real estate development and construction	9.86	9.79	8.14	8.10
Non-real estate construction	11.97	11.95	13.28	13.26
Corporates	2.35	2.35	2.20	2.20
SMEs and self-employed	6.43	6.40	6.75	6.72
Individuals with 1st mortgage guarantee	3.60	2.50	3.27	2.36
BS Group NPL ratio	**4.44**	**3.65**	**4.28**	**3.60**

(*) Corresponds to the NPL ratio excluding TSB.

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

4.4.2.6. Concentration risk

Concentration risk refers to the level of exposure to a series of economic groups which could, given their materiality, give rise to significant credit losses in the event of an adverse economic situation.

Exposures can be concentrated within a single customer or economic group, or within a given sector or region.

Concentration risk can be caused by two risk subtypes:

- Individual concentration risk: this refers to the possibility of incurring significant credit losses as a result of maintaining large exposures with specific customers, either with a single customer or with an economic group.

- Sector concentration risk: imperfect diversification of systematic components of risk within the portfolio, which can be sector-based factors, geographical factors, etc.

Banco Sabadell has a series of specific tools and policies in place to ensure its concentration risk is managed efficiently:

- Quantitative metrics from the Risk Appetite Statement and their subsequent monitoring, including both first-tier (Board) metrics and second-tier (Executive) metrics.

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

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

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

<u>Consistency with the Global Risk Framework</u>

The Group ensures that its concentration risk exposures are consistent with its concentration risk tolerance defined in the RAS. Overall concentration risk limits and adequate internal controls are in place to ensure that concentration risk exposures do not go beyond the risk appetite levels established by the Group.

<u>Establishment of limits and metrics for concentration risk control</u>

Given the nature of the Group’s activity and its business model, concentration risk is primarily linked to credit risk, and various metrics along with their associated limits are in place.

Credit risk exposure limits are set based on the Institution’s past loss experience, seeking to ensure that exposures are in line with the Group’s level of capitalisation as well as the expected level of profitability under different scenarios.

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

<u>Risk control monitoring and regular reporting</u>

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

<u>Action plans and mitigation techniques</u>

When dealing with exceptions to internally established limits, the criteria based on which such exceptions can be approved must be included.

The Group will take any measures required to match the concentration risk to the levels approved in the RAS by the Board of Directors.

Exposure to customers or significant risks

As at 31 December 2021 and 2020, there were no borrowers with an approved lending transaction that individually exceeded 10% of the Group's own funds.

Country risk: geographical exposure to credit risk

Country risk is defined as the risk associated with a country's debts, taken as a whole, due to factors inherent to the sovereignty and the economic situation of a country, i.e. for circumstances other than regular credit risk. It manifests itself in the eventual inability of obligors to honour their foreign currency payment obligations undertaken with external creditors due to, among other reasons, the country preventing access to that foreign currency, the inability to transfer it, or the non-enforceability of legal actions against borrowers for reasons of sovereignty, war, expropriation or nationalisation.

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

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

The main component of the procedure for the acceptance of country risk and financial institution risk is the structure of limits for different metrics. This structure is used to monitor the various risks and it is also used by Senior Management and the delegated bodies to establish the Group's risk appetite.

Different indicators and tools are used to manage country risk: credit ratings, credit default swaps, macroeconomic indicators, etc.

Schedule VI includes quantitative data relating to the breakdown of the concentration of risks by activity and on a global scale.

Exposure to sovereign risk and exposure to the construction and real estate development sector

Schedule VI includes quantitative data relating to sovereign risk exposures and exposures to the construction and real estate development sector.

4.4.2.7. Counterparty credit risk

This heading considers credit risk associated with activities in financial markets involving specific transactions that have an associated counterparty credit risk. Counterparty credit risk is a type of credit risk that refers to the risk of a counterparty defaulting before definitively settling cash flows of either a transaction with derivatives or a transaction with a repurchase commitment, with deferred settlements or collateral financing.

The amount exposed to a potential default by the counterparty does not correspond to the notional value of the contract, instead, it is uncertain and depends on market price fluctuations until the maturity or settlement of the financial contracts.

Exposure to counterparty credit risk is mainly concentrated in customers, financial institutions and central counterparty clearing houses.

The following two tables show the breakdown of exposures by credit rating and by the regions in which the Group operates:

%

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

%															
2020															
AAA	AA+	AA	AA-	A+	A	A-	BBB+	BBB	BBB-	BB+	BB	BB-	B+	Other	**TOTAL**
0.0%	0.3%	10.1%	28.8%	21.9%	13.1%	5.0%	3.4%	5.1%	3.2%	1.5%	1.9%	2.1%	0.4%	3.2%	**100.0%**

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

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

In 2016, under the European Market Infrastructure Regulation (EMIR) (Regulation 648/2012), the obligation to settle and clear certain over-the-counter derivatives through central counterparty clearing houses (CCPs) began to apply to the Group. For this reason, the derivatives arranged by the Group and subject to the foregoing are channelled via these agents. At the same time, the Group has improved the standardisation of OTC derivatives with a view to fostering the use of CCPs. The exposure to risk with CCPs largely depends on the value of the deposited guarantees.

With regard to derivative transactions in organised markets (OMs), based on management criteria, it is considered that there is no exposure, given that there is no risk as the OMs act as counterparties in the transactions and a daily settlement and guarantee mechanism is in place to ensure the transparency and continuity of the activity. In OMs the exposure is equivalent to the deposited guarantees.

The breakdown of transactions involving derivatives in financial markets, according to whether the counterparty is another financial institution, clearing house or organised market, is shown below:

Million euro	**2021**	**2020**
Transactions with organised markets	2,000	4,992
OTC transactions	149,280	157,596
Settled through clearing houses	96,403	92,775
Total	**151,280**	**162,588**

There are currently no transactions that meet the accounting criteria for offsetting transactions involving financial assets and financial liabilities on the balance sheet. The netting of derivative and repo transactions is only material when calculating the amount pending collateralisation, and it is not material in terms of their presentation on the balance sheet.

The following table shows the aggregate amount reflected on the balance sheet for the financial instruments subject to a master netting and collateral agreement for 2021 and 2020:

Thousand euro	**2021**				
	Financial assets subject to collateral agreements				
	Amount recognised on balance sheet	**Amount offset (for collateral calculations only)**	**Guarantee received**		**Net value**
			Cash	**Securities**	
Financial assets	**(a)**	**(b)**	**(c)**	**(d)**	**(a)-(b)-(c)-(d)**
Derivatives	1,603,160	1,338,552	278,944	—	(14,336)
Repos	4,935,785	—	22,350	4,927,409	(13,974)
Total	**6,538,945**	**1,338,552**	**301,294**	**4,927,409**	**(28,310)**

Thousand euro

	2021				
	Financial liabilities subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee given		Net value
			Cash	Securities	
Financial liabilities	**(a)**	**(b)**	**(c)**	**(d)**	**(a)-(b)-(c)-(d)**
Derivatives	1,744,351	1,338,552	596,202	159,273	(349,676)
Repos	5,454,650	—	37,643	5,680,214	(263,207)
Total	**7,199,001**	**1,338,552**	**633,845**	**5,839,487**	**(612,883)**

Thousand euro

	2020				
	Financial assets subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee received		Net value
			Cash	Securities	
Financial assets	**(a)**	**(b)**	**(c)**	**(d)**	**(a)-(b)-(c)-(d)**
Derivatives	2,258,947	2,024,304	298,048	—	(63,405)
Repos	5,485,382	—	13,901	5,844,055	(372,574)
Total	**7,744,329**	**2,024,304**	**311,949**	**5,844,055**	**(435,979)**

Thousand euro

	2020				
	Financial liabilities subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee given		Net value
			Cash	Securities	
Financial liabilities	**(a)**	**(b)**	**(c)**	**(d)**	**(a)-(b)-(c)-(d)**
Derivatives	3,140,883	2,024,304	1,283,589	12,244	(179,254)
Repos	6,785,687	—	33,087	6,782,288	(29,688)
Total	**9,926,570**	**2,024,304**	**1,316,676**	**6,794,532**	**(208,942)**

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

Thousand euro

	2021	**2020**
Derivative financial assets settled through a clearing house	1,148,242	1,363,111
Derivative financial liabilities settled through a clearing house	949,365	1,727,778

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

The approach for quantifying counterparty credit risk exposure takes into account current and future exposure. Current exposure represents the cost of substituting a transaction at market value in the event of a default by a counterparty. To calculate it, the current or Mark to Market (MtM) value of the transaction is required. The future exposure represents the risk that a transaction could potentially represent over a certain period of time, given the characteristics of the transaction and the market variables on which it depends. In the case of transactions carried out under a collateral agreement, the future exposure represents the possible fluctuation of the MtM between the time of default and the substitution of such transactions in the market. If the transaction is not carried out under a collateral agreement, it represents the possible changes in MtM throughout the life of the transaction.

Each day at close of business, all of the exposures are recalculated in accordance with the transaction inflows and outflows, changes in market variables and risk mitigation mechanisms established by the Group. Exposures are thus subjected to daily monitoring and controlled in accordance with the limits approved by the Board of Directors. This information is included in risk reports for disclosure to the departments and units responsible for their management and monitoring.

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

– Netting agreements for derivatives (ISDA and CMOF).

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

– Initial margin collateral agreements for derivatives (CTA and SA).

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

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

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

In order to operate in derivatives or repos with financial institutions, the Group has established the requirement of having variation margin collateral agreements. Furthermore, for derivative transactions with these institutions, the Group is required to exchange variation margin collateral with financial counterparties pursuant to Delegated Regulation (EU) 2251/2016. The Group's standard variation margin collateral agreement, which complies with the aforementioned regulation, is bilateral (i.e. both parties are obliged to deposit collateral) and includes a daily exchange of guarantees in the form of cash and in euros.

Initial margin collateral agreements include the provision of guarantees which mitigate the potential future exposure with a counterparty in respect of the transactions subject to such agreements.

The Group has initial margin collateral agreements in place for derivative transactions with financial institutions pursuant to Delegated Regulation (EU) 2251/2016.

4.4.2.8 Assets pledged in financing operations

As at 31 December 2021 and 2020, there were certain financial assets pledged in financing operations, i.e. offered as collateral or guarantees for certain liabilities. These assets correspond mainly to loans linked to the issuance of mortgage covered bonds, public sector covered bonds and long-term asset-backed securities (see Note 20, Schedule III for transactions linked to the Spanish Mortgage Market and Schedule IV for details of issues). The remaining pledged assets are debt securities which are submitted in transactions involving assets sold under repurchase agreements, pledged collateral (loans or debt instruments) to access certain financing operations with central banks and all types of collateral provided to secure derivatives transactions.

Information on home equity loans granted in Spain, included in "*Loans and advances – Customers*" and linked to the issuance of mortgage covered bonds pursuant to the Spanish Mortgage Market Law, is included in Schedule III on "Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register", a special accounting record of the issuing entity Banco Sabadell, as required by Bank of Spain Circular 5/2011, applying Royal Decree 716/2009 of 24 April (implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market).

The Group has used part of its portfolio of loans and similar credit in fixed-income securities by transferring assets to various securitisation funds created for this purpose. Under current regulations, securitisations in which there is no substantial risk transfer cannot be derecognised from the balance sheet.

The balance of the financial assets securitised under these programmes by the Group, as well as other financial assets transferred, depending on whether they have been derecognised or retained in full on the consolidated balance sheet, is as follows:

Thousand euro

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

The assets and liabilities associated with securitisation funds of assets originated after 1 January 2004, and for which inherent risks and rewards of ownership have not been transferred to third parties, have been retained in the consolidated balance sheet. As at 31 December 2021 and 2020, there was no significant financial aid from the Group for unconsolidated securitisations.

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

4.4.3. Financial risks

Financial risk is defined as the possibility of obtaining inadequate returns or having insufficient levels of liquidity that prevent an institution from meeting future requirements and expectations.

4.4.3.1 Liquidity risk

Liquidity risk refers to the possibility of losses being incurred as a result of the Institution being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or unable to access the markets to refinance debts at a reasonable cost. This risk may be associated with factors of a systemic nature or specific to the Institution itself.

In this regard, the Group aims to maintain a liquid asset base and a funding structure that, in line with its strategic objectives and based on its Risk Appetite Statement, allows it to honour its payment commitments normally and at a reasonable cost, both under business-as-usual conditions and in a stress situation caused by systemic and/or idiosyncratic factors.

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

Liquidity management

Banco Sabadell's liquidity management seeks to ensure funding for its business activity at an appropriate cost and term while minimising liquidity risk. The Institution's funding policy focuses on maintaining a balanced funding structure, based mainly on customer deposits, and it is supplemented with access to wholesale markets that allows the Group to maintain a comfortable liquidity position at all times.

The Group follows a structure based on Liquidity Management Units ("UGLs", for their acronym in Spanish) to manage its liquidity. Each UGL is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, working together with the Group's corporate functions. At present, these UGLs are Banco Sabadell (includes Banco de Sabadell, S.A., which incorporates activity in foreign branches, as well as the business in Mexico of Banco de Sabadell, S.A., I.B.M. (IBM) and Sabcapital S.A. de C.V., SOFOM, E.R. (SOFOM) and the individual management of their own risk) and TSB.

In order to achieve these objectives, the Group's current liquidity risk management strategy is based on the following principles and pillars, in line with the UGLs' retail business model and the defined strategic objectives:

– Risk governance and the involvement of the Board of Directors and Senior Management in the management and control of liquidity risk. The Board of Directors has the highest level of responsibility for the oversight of liquidity risk.

– Integration of the risk culture, based on prudent liquidity risk management and clear and consistent definitions of their terminologies, as well as its alignment with the Group's business strategy through the established risk appetite.

– Clear separation of responsibilities and duties between the organisation's various units and bodies, with a clear identification of the three lines of defence, providing independence in the assessment of positions and in risk assessment and control.

– Implementation of best practices in liquidity risk management and control, ensuring not only compliance with regulatory requirements but also, under a criterion of prudence, the availability of sufficient liquid assets to overcome possible stress events.

– Decentralised liquidity management system for the more significant units but with a centralised risk oversight and management system.

– Sound identification, measurement, management, control and reporting processes for the different liquidity sub-risks to which the Group is exposed.

– Existence of a funds transfer pricing system to transfer the cost of funding.

– Balanced funding structure largely based on customer deposits.

– Ample base of unencumbered liquid assets that can be accessed immediately to generate liquidity and which comprise the Group's first line of liquidity.

– Diversification of sources of funding, with controlled use of short-term wholesale funding without having to depend on individual fund suppliers.

– Self-funding by the main banking subsidiaries outside of Spain.

– Monitoring of the balance sheet volume being used as collateral in funding transactions.

– Maintenance of a second line of liquidity that includes the capacity to issue covered bonds.

– Holistic view of risk, through first- and second-tier risk taxonomies, and complying with regulatory requirements, recommendations and guidelines.

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

– Availability of a Liquidity Contingency Plan.

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

Tools/Metrics for monitoring and controlling liquidity risk management

Banco Sabadell Group has a system of metrics and thresholds which are provided in the RAS and which define the appetite for liquidity risk that has been previously approved by the Board of Directors. The system enables liquidity risk to be assessed and monitored, ensuring the achievement of strategic objectives, adherence to the risk profile, as well as compliance with regulations and supervisory guidelines. Within the Group-level monitoring of liquidity metrics, there are metrics that have been established at the Group level and which are calculated on a consolidated basis, metrics established at the Group level and rolled out to each Group UGL, as well as metrics established at the UGL level to reflect specific local characteristics.

Both the metrics defined in the Banco Sabadell Group RAS and those defined in the local RAS of subsidiaries are subject to governance arrangements relating to the approval, monitoring and reporting of threshold breaches, as well as remediation plans established in the RAF on the basis of the hierarchical level of each metric (these are classified into three levels).

It should be mentioned that the Group has designed and implemented a system of early warning indicators (EWIs) at the UGL level, which includes market and liquidity indicators adapted to the funding structure and business model of each UGL. The deployment of these indicators at the UGL level complements the RAS metrics and allows tensions in the local liquidity position and funding structure to be detected early, thereby facilitating the implementation of corrective measures and actions and reducing the risk of contagion between the different management units.

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

The metrics reporting and control framework involves, among other aspects:

- Monitoring the RAS metrics and their thresholds on a consolidated basis, as well as those established for each UGL, in line with the established monitoring frequency.
- Reporting the relevant set of metrics to the governing body, committees and management bodies, depending on the tiers into which those metrics have been classified.
- In the event a threshold breach is detected, activating the communication protocols and necessary plans for its resolution.

Within the Group's overall budgeting process, Banco Sabadell plans its liquidity and funding requirements over different time horizons, which it aligns with the Group's strategic objectives and risk appetite. Each UGL has a 1-year and 5-year funding plan in which they set out their potential funding needs as well as their management strategy, and they regularly analyse compliance with that plan, any deviations from the projected budget and the adequacy of the plan in terms of the market environment.

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

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

Lastly, Banco Sabadell has a Liquidity Contingency Plan (LCP) in place, which sets forth the strategy for ensuring that the Institution has sufficient management capabilities and measures in place to minimise the negative impacts of a crisis situation on its liquidity position and to allow it to return to a business-as-usual situation. The LCP also aims to facilitate operational continuity in the management of liquidity, particularly in the event a crisis is caused by a subpar performance of one or more financial market infrastructures. The LCP can be invoked in response to different crisis situations affecting either the markets or the Institution itself. The key components of the LCP include, among others: the definition of the strategy for its implementation, measures available to generate liquidity in business-as-usual situations or in a crisis situation linked to the activation of the LCP and a communication plan (both internal and external) for the LCP.

Residual maturity periods

The table below shows the breakdown by contractual maturity, excluding, in some cases, value adjustments and impairment losses, of certain pools of items on the consolidated balance sheet as at 31 December 2021 and 2020, under business-as-usual market conditions:

Thousand euro

				2021						
Time to maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	820,709	50,506,624	601,264	639,359	617,358	—	—	—	—	**53,185,314**
Loans and advances	651,830	5,149,891	3,852,171	17,337,155	17,144,784	13,383,708	11,641,365	9,542,810	77,726,412	**156,430,126**
Debt securities	—	247,958	169,504	675,099	1,910,984	1,764,053	1,541,855	972,214	13,261,447	**20,543,114**
Other assets	—	—	—	—	—	—	—	—	—	**—**
Total assets	**1,472,539**	**55,904,473**	**4,622,939**	**18,651,613**	**19,673,126**	**15,147,761**	**13,183,220**	**10,515,024**	**90,987,859**	**230,158,554**
Money Market	—	5,556,755	48,136	608,723	27,651,130	5,089,523	6,619,156	65,728	159,630	**45,798,781**
Of which: Repos	—	*4,415,675*	—	*482,405*	*560,425*	—	—	—	—	***5,458,505***
Customer deposits	143,660,961	4,814,054	2,078,848	4,755,779	2,055,104	1,313,814	104,546	877,871	130,057	**159,791,034**
Issues of marketable securities (*)	—	110,331	1,312,490	3,282,225	2,943,224	5,185,577	2,779,331	2,496,107	4,147,520	**22,256,805**
Of which: Secured senior debt	—	*11,375*	*347,591*	*1,539,210*	*1,454,224*	*2,803,577*	*957,631*	*429,107*	*2,882,494*	***10,425,209***
Of which: Unsecured senior debt	—	*44,146*	*604,415*	*582,215*	*989,000*	*2,382,000*	*1,521,700*	*567,000*	*500,000*	***7,190,476***
Of which: Subordinated liabilities	—	—	—	*1,150,000*	*500,000*	—	*300,000*	*1,500,000*	*765,025*	***4,215,025***
Other liabilities	—	33,965	127,482	224,510	227,802	195,440	161,018	141,184	744,053	**1,855,454**
Total liabilities	**143,660,961**	**10,515,105**	**3,566,956**	**8,871,237**	**32,877,260**	**11,784,354**	**9,664,051**	**3,580,890**	**5,181,260**	**229,702,074**
Of which:										
Secured liabilities	—	*4,427,050*	*347,591*	*1,426,576*	*2,014,649*	*1,911,017*	*7,503,066*	*429,107*	*2,287,455*	***20,346,511***
Unsecured liabilities	*143,660,961*	*6,088,055*	*3,219,365*	*7,444,661*	*30,862,611*	*9,873,337*	*2,160,985*	*3,151,783*	*2,893,805*	***209,355,563***
Trading and Hedging Derivatives										
Receivable	—	3,673,541	3,724,587	8,481,451	11,361,142	14,097,461	3,675,670	5,579,757	29,751,995	**80,345,604**
Payable	—	3,431,728	3,822,997	8,321,320	9,868,689	13,981,588	3,653,398	5,151,087	32,153,776	**80,384,583**
Net	**—**	**241,813**	**(98,410)**	**160,131**	**1,492,453**	**115,873**	**22,272**	**428,670**	**(2,401,781)**	**(38,979)**
Contingent risks										
Financial guarantees	1,022	43,498	72,482	326,089	134,790	79,928	45,349	34,759	1,296,226	**2,034,143**

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

Thousand euro

					2020					
Time to maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	656,091	35,610,081	2,167,396	648,771	311,993	—	—	—	—	**39,394,332**
Loans and advances	611,640	2,791,832	5,053,402	15,332,898	13,986,456	16,244,015	12,454,253	9,270,716	71,050,798	**146,796,010**
Debt securities	—	131,986	279,697	606,337	808,598	2,095,323	1,832,083	1,583,921	15,188,692	**22,526,637**
Other assets	—	11	128	160	459	576	6,100	—	—	**7,434**
Total assets	**1,267,731**	**38,533,910**	**7,500,624**	**16,588,166**	**15,107,505**	**18,339,914**	**14,292,437**	**10,854,637**	**86,239,490**	**208,724,413**
Money Market	230.94238	6,172,131	2,922,359	2,096,940	1,222,132	27,067,223	73,483	62,980	142,840	**39,760,319**
Of which: Repos	—	*4,722,060*	*1,374,497*	*510,558*	*195,900*	—	—	—	—	***6,803,015***
Customer deposits	126,725,560	5,362,495	2,510,793	9,460,571	2,512,954	684,537	614,051	342,246	50,139	**148,263,346**
Issues of marketable securities (*)	—	24,867	822,536	2,411,476	4,129,336	2,988,603	5,154,980	2,761,172	3,771,297	**22,064,267**
Of which: Secured senior debt	—	*13,368*	*436,261*	*1,629,262*	*1,797,121*	*1,499,603*	*2,772,314*	*939,472*	*2,756,272*	***11,843,673***
Of which: Unsecured senior debt	—	*8,149*	*22,508*	*346,775*	*1,182,215*	*989,000*	*2,382,667*	*1,521,700*	*500,000*	***6,953,014***
Of which: Subordinated liabilities	—	—	—	*428,239*	*1,150,000*	*500,000*	—	*300,000*	*515,025*	***2,893,264***
Other liabilities	—	36,707	128,683	305,799	288,769	232,672	199,362	163,350	941,911	**2,297,253**
Total liabilities	**126,725,791**	**11,596,199**	**6,384,371**	**14,274,787**	**8,153,191**	**30,973,036**	**6,041,877**	**3,329,748**	**4,906,185**	**212,385,185**
Of which:										
Secured liabilities	—	*4,735,428*	*2,811,837*	*3,602,508*	*2,382,330*	*1,499,603*	*1,938,081*	*939,472*	*2,756,272*	***20,665,531***
Unsecured liabilities	*126,725,791*	*6,860,771*	*3,572,534*	*10,672,279*	*5,770,861*	*29,473,433*	*4,103,796*	*2,390,276*	*2,149,913*	***191,719,654***
Trading and Hedging Derivatives										
Receivable	—	23,059,291	21,820,479	14,480,698	10,964,620	12,171,348	16,417,300	5,825,214	34,534,819	**139,273,769**
Payable	—	16,281,187	19,588,410	18,236,030	15,186,698	11,639,502	16,059,618	6,194,162	36,316,279	**139,501,886**
Net	**—**	**6,778,104**	**2,232,070**	**(3,755,332)**	**(4,222,078)**	**531,846**	**357,683**	**(368,949)**	**(1,781,459)**	**(228,117)**
Contingent risks										
Financial guarantees	14,076	43,202	71,718	323,101	134,456	80,794	45,525	34,534	1,288,231	2,035,637

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

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

With regard to the information included in this table, it is worth highlighting that the table shows the residual term to maturity of the asset and liability positions on the balance sheet, broken down into different time brackets.

The information provided is static and does not reflect foreseeable funding requirements.

It should also be noted that cash flow breakdowns in the parent company have not been deducted.

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

– For any transaction that includes flows corresponding to repayments (regular or irregular), each capital flow is shown in the time bracket in which the payment/collection is expected to take place (in accordance with the contractual repayment schedule).

– Demand liabilities are included in the "on demand" tranche, without taking into account their type (stable vs. unstable).

– There are also contingent commitments which could lead to changes in liquidity requirements. These are fundamentally credit facilities with amounts undrawn by the borrowers as at the balance sheet date. The Board of Directors also establishes limits in this regard for control purposes.

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

– Financing in capital markets via instruments which include clauses that could lead to accelerated repayment (puttables or instruments with clauses linked to a credit rating downgrade) is reduced in line with the Group's financial liabilities. It is for this reason that the estimated impact on the parent company would not be significant.

– As at 31 December 2021 and 2020, the Group had no instruments in addition to those regulated by master agreements associated with the arrangement of derivatives and repos/reverse repos.

– The Group does not have any instruments which allow the Institution to decide whether to settle its financial liabilities using cash (or another financial asset) or through the submission of its own shares as at 31 December 2021 and 2020.

Funding strategy and evolution of liquidity in 2021

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

On-balance sheet customer funds

As at 31 December 2021 and 2020, on-balance sheet customer funds broken down by maturity were as follows:

Million euro / %

	Note	2021	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**162,020**	**3.5 %**	**1.4 %**	**1.5 %**	**2.7 %**	**90.9 %**
Deposits with agreed maturity		13,623	36.7 %	13.8 %	17.1 %	32.4 %	— %
Sight accounts	19	147,268	— %	— %	— %	— %	100.0 %
Retail issues		1,129	62.9 %	33.9 %	3.2 %	— %	— %

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

Million euro / %

	Note	2020	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**150,778**	**4.1 %**	**2.4 %**	**3.8 %**	**3.2 %**	**86.5 %**
Deposits with agreed maturity		19,359	31.7 %	17.2 %	29.7 %	21.4 %	— %
Sight accounts	19	130,294	— %	— %	— %	— %	100.0 %
Retail issues		1,125	5.5 %	28.4 %	4.9 %	61.2 %	— %

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

The downward trend of interest rates in financial markets has resulted in a change in the composition of on-balance sheet customer funds, as term deposits flowed through to demand deposits.

Off-balance sheet customer funds managed by the Group and those sold but not under management are shown in Note 27 to these consolidated annual financial statements.

The Group's deposits are sold through the following business units/companies of the Group (Banking Business Spain, TSB and Mexico). Details of the volumes of these business units are included in the "Businesses" section of the consolidated Directors' Report.

In 2021, the positive trend in terms of the generation of a customer funding gap observed in recent years has continued, which has allowed the Group to continue reducing its Loan-to-Deposit (LtD) ratio (from 97.6% as at 2020 year-end to 96.3% as at 2021 year-end).

Capital markets

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

Million euro

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

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

Million euro

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

(*) Secured issues.

(**) Unsecured issues.

Million euro

	2021	2022	2023	2024	2025	2026	>2026	Balance outstanding
Covered bonds (*)	1,808	1,696	1,388	2,684	836	390	2,060	10,862
Senior Debt (**)	294	25	1,473	729	1,600	—	500	4,621
Senior non-preferred debt (**)	—	—	—	951	500	—	—	1,451
Subordinated debt and preference shares (**)	—	—	—	—	—	923	1,965	2,888
Other medium/long term financial instruments (**)	10	—	—	3	—	—	—	13
Total	**2,112**	**1,721**	**2,861**	**4,367**	**2,936**	**1,313**	**4,525**	**19,835**

(*) Secured issues.

(**) Unsecured issues.

The Group is an active participant in capital markets and has a number of funding programmes in operation, with a view to diversifying its different funding sources.

In terms of short-term funding, as at year-end the Bank had one corporate commercial paper programme in operation, which governs issues of commercial paper and is aimed at institutional and retail investors. The Banco Sabadell 2021 Commercial Paper Programme was registered with the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR) and had an issuance limit of 7 billion euros, which can be extended to 9 billion euros. As at 31 December 2021, the outstanding balance of the programme was 426 million euros (net of commercial paper subscribed by Group companies), compared with 374 million euros as at 31 December 2020.

Regarding medium- and long-term funding, the Institution has the following programmes in operation:

- Programme for the issuance of non-equity securities ("Fixed Income Programme") registered with the CNMV on 2 November 2021, with an issuance limit of 10 billion euros: this programme regulates the issuance of ordinary, non-convertible, non-preferred, subordinated or structured bonds and debentures, in addition to mortgage covered bonds, public sector covered bonds and mortgage bonds issued under Spanish law through the CNMV and aimed at institutional and retail investors, both domestic and foreign. The limit available for new issues under the Banco Sabadell programme for the issuance of non-equity securities for 2021, as at 31 December 2021, was 9,933 million euros (as at 31 December 2020, the limit available under the Fixed Income Programme for 2020 was of 8.5 billion euros).

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

Million euro

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

- Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 31 May 2021, and renewed on 3 August and 3 November 2021. This programme allows senior debt (preferred and non-preferred) and subordinated bonds to be issued in various currencies, with a maximum limit of 15 billion euros.

  Banco Sabadell's issuance volume under the EMTN Programme in 2021 amounted to a total of 1 billion euros. On 15 January, it issued Tier 2 subordinated debt for 500 million euros, with a 10.25-year maturity and an early cancellation option in favour of Banco Sabadell after the fifth year. Furthermore, on 16 June 2021, it carried out an inaugural green bond issuance of senior non-preferred debt in the amount of 500 million euros with a 7-year maturity and an early cancellation option in favour of Banco Sabadell in the sixth year. Throughout the year, Banco Sabadell has issued the following:

Million euro

	ISIN Code	Type of investor	Issue Date	Amount	Term
Subordinated Bonds 1/2021	XS2286011528	Institutional	15/1/2021	500	10.25
Senior Non Preferred 1/2021 issue	XS2353366268	Institutional	16/6/2021	500	7

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

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

The aforesaid subordinated securities and undated securities are perpetual, although they may be converted into newly issued Banco Sabadell ordinary shares, if either Banco Sabadell or its consolidable group has a Common Equity Tier 1 (CET1) ratio lower than 5.125%, calculated in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council, of 26 June, on prudential requirements for credit institutions and investment firms.

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

In relation to asset securitisation:

- Since 1993, the Group has been very active in this market and has taken part in various securitisation programmes, sometimes acting together with other institutions, granting mortgage loans, loans to small and medium-sized enterprises and consumer loans.
- There are currently 17 outstanding asset securitisation transactions fully recognised on the balance sheet. Although part of the bonds issued were retained by the Institution as liquid assets eligible as collateral in exchange for access to the European Central Bank's funding operations, the rest of the bonds were placed in capital markets. As at the end of 2021, the nominal value of asset-backed securities placed in the market was 738.4 million euros.
- During 2021, Banco de Sabadell carried out an early call of the fund TDA 14 mixto, FTA in January, on the date of the clean-up call. It also carried out an early call of the fund IM Sabadell PYME 10, FT in February, whose bonds were fully retained by Banco de Sabadell.

Coinciding with the repayment of TLTRO II, on 24 June 2020 Banco Sabadell requested a withdrawal of 27 billion euros from TLTRO III (see Note 1.3.21). In addition, on 24 March 2021, Banco Sabadell requested a withdrawal of 5 billion euros from TLTRO III. Considering this, as at 31 December 2021, the total balance drawn down by Banco Sabadell stood at 32 billion euros, corresponding to TLTRO III. The Group has recognised 313,056 thousand euros in interest income on TLTRO III during 2021 (143,250 thousand euros during 2020).

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

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

Liquid assets

In addition to these sources of funding, the Group maintains a liquidity buffer in the form of liquid assets to meet potential liquidity needs.

Million euro

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

(*) Excess reserves at Central Banks.

(**) Market value, and after applying the Liquidity Coverage Ratio (LCR) haircut. Includes Fixed Income qualifying as a high quality liquid asset according to LCR (HQLA) and other marketable assets from different Group entities.

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

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

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

It should be noted that the Group follows a decentralised liquidity management model. This model tends to limit the transfer of liquidity between the various subsidiaries involved in liquidity management, thereby limiting intra-group exposures beyond any restrictions imposed by local regulators on each subsidiary. Thus, the subsidiaries involved in liquidity management determine their liquidity position by considering only those assets in their possession that meet the eligibility, availability and liquidity criteria set forth both internally and in regulations in order to comply with regulatory minima.

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

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

There are no significant amounts of cash or cash equivalents that are unavailable for use by the Group.

Compliance with regulatory ratios

As part of its liquidity management, Banco Sabadell Group monitors the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) and reports the necessary information to the regulator on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of liquidity risk control arrangements in UGLs.

In terms of the LCR, since 1 January 2018, the regulatory required minimum LCR has been 100%, a level which is amply surpassed by all of the Group's UGLs. At the Group level, throughout the year, the LCR has consistently been well above 100%. As at 31 December 2021, the LCR stood at 221% in the Group, 254% in Banco Sabadell Spain and 194% in the TSB UGL (as at 31 December 2020, 198% in the Group, 221% in Banco Sabadell Spain and 201% in the TSB UGL).

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

4.4.3.2. Market risk

Market risk is defined as the risk of losses in the market value of financial instrument positions due to variations in risk factors affecting their quoted price or market performance, their volatility, or the correlation between them.

Positions that generate market risk are usually held in connection with trading activity, which consists of hedging transactions arranged by the Bank to provide services to its customers as well as discretionary proprietary positions.

Market risk can also arise from the mere maintenance of overall (also known as structural) balance sheet positions that in net terms are left open. This risk is described in the sections on structural risks.

The items of the consolidated balance sheet as at 31 December 2021 and 2020 are shown below, making a distinction between positions included in trading activity and other positions. In the case of items not included in trading activity, their main risk factor is indicated:

Thousand euro

31/12/2021				
	On-balance sheet balance	Trading activity	Other	Main risk factor for balance sheet under "Other"
Assets subject to market risk	**251,946,591**	**1,791,687**	**250,154,904**	
Cash, cash balances at central banks and other demand deposits	49,213,196	—	49,213,196	Interest rate
Financial assets held for trading	1,971,629	1,754,670	216,959	Interest rate; credit spread
Non-trading financial assets mandatorily at fair value through profit or loss	79,559	11,942	67,617	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	6,869,637	25,075	6,844,562	Interest rate; credit spread
Financial assets at amortised cost	178,869,317	—	178,869,317	Interest rate
Derivatives – Hedge accounting	525,382	—	525,382	Interest rate
Investments in joint ventures and associates	638,782	—	638,782	Equities
Other assets	13,779,089	—	13,779,089	—
Liabilities subject to market risk	**238,950,310**	**1,180,734**	**237,769,576**	
Financial liabilities held for trading	1,379,898	1,180,734	199,164	Interest rate
Derivatives – Hedge accounting	512,442	—	512,442	Interest rate
Financial liabilities at amortised cost	235,179,222	—	235,179,222	Interest rate
Other liabilities	1,878,748	—	1,878,748	—
Equity	**12,996,281**		**12,996,281**	

Thousand euro

31/12/2020				
	On-balance sheet balance	Trading activity	Other	Main risk factor for balance sheet under "Other"
Assets subject to market risk	**235,763,292**	**2,495,230**	**233,268,061**	
Cash, cash balances at central banks and other demand deposits	35,184,902	—	35,184,902	Interest rate
Financial assets held for trading	2,678,836	2,412,144	266,692	Interest rate; credit spread
Non-trading financial assets mandatorily at fair value through profit or loss	114,198	10,566	103,631	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	6,676,801	72,520	6,604,281	Interest rate; credit spread
Financial assets at amortised cost	174,488,258	—	174,488,258	Interest rate
Derivatives – Hedge accounting	549,550	—	549,550	Interest rate
Investments in joint ventures and associates	779,859	—	779,859	Equities
Other assets	15,290,888	—	15,290,888	—
Liabilities subject to market risk	**223,271,654**	**2,308,943**	**220,962,711**	
Financial liabilities held for trading	2,653,849	2,308,943	344,905	Interest rate
Derivatives – Hedge accounting	782,657	—	782,657	Interest rate
Financial liabilities at amortised cost	217,390,766	—	217,390,766	Interest rate
Other liabilities	2,444,382	—	2,444,382	—
Equity	**12,491,638**	**—**	**12,491,638**	

The market risk acceptance, management and oversight system is based on managing positions expressly assigned to different trading desks and establishing limits for each one, in such a way that the trading desks have the obligation to always manage their positions within the limits established by the Board of Directors and the Technical Risk Committee. Market risk limits are aligned with the Group’s risk appetite framework and objectives.

Trading activity

The main market risk factors considered by the Group in its trading activity are:

- Interest rate risk: risk associated with the possibility of interest rate fluctuations adversely affecting the value of a financial instrument. This is reflected, for example, in transactions involving interbank deposits, fixed income and interest rate derivatives.

- Credit spread risk: this risk arises from fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.

- Foreign exchange risk: risk associated with the fluctuation of exchange rates with respect to the functional currency. In the case of Banco Sabadell, the functional currency is the euro. This risk occurs mainly in currency exchange transactions and currency derivatives.

- Equity price risk: risk arising from fluctuations in the value of capital instruments (shares and quoted indices). This risk is reflected in the market prices of the securities and their derivatives.

Changes in commodities prices have not had an impact in the year, as the Group has residual (both direct and underlying) exposures.

Market risk in trading activities is measured using the VaR and stressed VaR methodologies. This allows risks to be standardised across different types of financial market transactions.

VaR provides an estimate of the maximum potential loss associated with a position due to adverse, but normal, movements of one or more of the identified parameters generating market risk. This estimate is expressed in monetary terms and refers to a specific date, a particular level of confidence and a specific time horizon. A 99% confidence interval is used. Due to the low complexity of the instruments and the high level of liquidity of the positions, a time horizon of 1 day is used.

The methodology used to calculate VaR is historical simulation. The advantages of this methodology are that it is based on a full revaluation of transactions under recent historical scenarios, and that no assumptions need to be made as regards the distribution of market prices. The main limitation to this methodology is its reliance on historical data, given that, if a possible event has not materialised within the range of historical data used, it will not be reflected in the VaR information.

The reliability of the VaR methodology used can be checked using backtesting techniques, which serve to verify that the VaR estimates fall within the confidence level considered. Backtesting consists of comparing daily VaR against daily results. If losses exceed the VaR level, an exception occurs. In 2021, no exceptions occurred in the backtesting exercise, whereas in 2020 three exceptions occurred due to the impact of COVID-19 on sovereign bond spreads in the European periphery.

Stressed VaR is calculated in the same way as VaR but with a historical insight into variations of the risk factors in stressed market conditions. This stress situation is determined on the basis of currently outstanding transactions, and it can vary if the portfolios' risk profile changes. The methodology used for this risk metric is historical simulation.

The monitoring of market risk is supplemented with additional measurements such as risk sensitivities, which refer to a change in the value of a position or portfolio in response to a change in a specific risk factor, and also with the calculation of management results, which are used to monitor stop-loss limits.

Furthermore, specific simulation exercises are carried out applying extreme market scenarios (stress testing), which analyse the impacts of different historical and theoretical scenarios on the portfolios.

Market risk is monitored on a daily basis and reports are made to supervisory bodies on the existing risk levels and on the compliance with the limits set forth by the Technical Risk Committee for each trading desk (limits based on nominal, VaR and sensitivity, as applicable). This makes it possible to keep track of changes in exposure levels and measure the contribution of market risk factors.

The market risk incurred on trading activity in terms of 1-day VaR with a 99% confidence interval for 2021 and 2020 was as follows:

Million euro

	2021			2020		
	Average	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Interest rate risk	0.88	1.86	0.55	1.42	2.71	0.60
Currency risk-trading	1.61	3.13	0.03	0.46	3.22	0.01
Equities	0.16	1.89	0.04	0.19	0.23	0.08
Credit spread	0.25	0.62	0.07	1.10	2.14	0.20
Aggregate VaR	**2.89**	**5.39**	**1.15**	**3.17**	**5.05**	**1.26**

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

Structural interest rate risk

Structural interest rate risk is inherent in banking activity and is defined as the current or future risk to both the income statement (income and expenses) and the economic value of equity (present value of assets, liabilities and off-balance sheet positions) arising from adverse interest rate fluctuations affecting interest rate-sensitive instruments in non-trading activities (also known as Interest Rate Risk in the Banking Book, or IRRBB).

- The Group identifies five interest rate sub-risks: Repricing risk: it is the risk arising from mismatches at the time the repricing of interest rate-sensitive instruments occurs, including those changes in the time structure of interest rates that occur consistently along the yield curve (parallel changes).
- Curve risk is the risk arising from mismatches at the time the repricing of interest rate-sensitive instruments occurs, including those changes in the time structure of interest rates that occur differently depending on the maturity (non-parallel changes).
- Basis risk includes the risk arising from the impact of relative changes in interest rates on instruments with similar maturities but whose repricing is determined using different interest rate indices.
- Automatic optionality risk comprises the risk arising from automatic options (e.g., floors and lending caps), both embedded and explicit, in which the UGB or its customer can alter the level and timing of their cash flows and in which the holder will almost certainly exercise the option when it is in their financial interest to do so.
- Behavioural optionality risk arises from the flexibility embedded within the terms of certain financial contracts, which allow variations in interest rates to cause a change in customer behaviour.

The Group’s management of this risk pursues two fundamental objectives:

- To stabilise and protect the net interest margin, preventing interest rate movements from causing excessive variations in the budgeted margin.
- To minimise the volatility of the economic value of equity, this perspective being complementary to that of the margin.

Interest rate risk is managed through a Group-wide approach on the basis of the RAS, approved by the Board of Directors. A decentralised model is followed based on Balance Sheet Management Units (UGBs, for their acronym in Spanish). In coordination with the Group’s corporate functions, each UGB has the autonomy and capacity to carry out risk management and control duties.

The Group's current interest rate risk management strategy is based on the following principles in particular, in line with the business model and the defined strategic objectives:

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

- At the corporate level, a series of limits are established for overseeing and monitoring IRRBB exposure levels, which are aligned with internal risk tolerance policies. However, each UGB has the autonomy and structure required to properly manage and control IRRBB and CSRBB. Specifically, each UGB has sufficient autonomy to choose the management target that it will pursue, although all UGBs should follow the principles and critical parameters set by the Group, adapting them to the specific characteristics of the region in which they operate.

- The existence of a transfer pricing system.

- The set of systems, processes, metrics, limits, reporting arrangements and governance arrangements included within the IRRBB strategy must comply with regulatory requirements at all times.

As defined in the IRRBB management and control policy, the first line of defence is undertaken by the various Balance Sheet Management Units (UGBs), which report to the various local Asset and Liability Committees. Their main role is to manage interest rate risk, ensuring it is assessed on a recurrent basis through management and regulatory metrics, taking into account the modelling of the various balance sheet totals and the level of risk taken.

The metrics developed to control and monitor the Group's structural interest rate risk are aligned with the market's best practices and are implemented consistently across all UGBs and by each of the local asset and liability committees. The diversification effect between currencies and UGBs is taken into account when presenting overall figures.

The metrics that the Group calculates on a monthly basis are as follows:

- Interest rate gap: static metric showing the breakdown of maturities and repricing of sensitive balance sheet items. This metric compares the values of assets that are due to be revised or that mature in a given period and the liabilities that mature or reprice in that same period.

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

- Economic value of equity sensitivity: static metric that measures the impact of interest rate fluctuations. It is obtained by comparing the economic value of the balance sheet in the baseline scenario against the one obtained in a scenario of instant disruption, always considering the result obtained in the least favourable scenario. This is done by calculating the present value of interest rate-sensitive items as an update in the risk-free yield curve, on the reference date, of future payments of principal and interest without taking into account profit margins, in line with the Group's IRRBB management strategy. This metric supplements the net interest margin sensitivity.

In the quantitative interest rate risk estimations made by each UGB, a series of interest rate scenarios are designed which allow the different sources of risk mentioned above to be identified. These scenarios include, for each significant currency, parallel movements and non-parallel movements in the interest rate curve. Based on these, sensitivity is calculated as the difference resulting from:

- Baseline scenario: market interest rate movements based on implied interest rates.

- Stressed scenario: a shift in interest rates in relation to the baseline scenario, with the extent of this shift varying depending on the scenario to be calculated. A minimum post-disruption interest rate is applied, starting at -100 bp for current maturities and increasing by 5 bp intervals, eventually reaching 0% after 20 years or more.

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

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

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

Thousand euro

2021									
Time to maturity	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	51,444,557	642,925	536,886	560,946	—	—	—	—	53,185,314
Loans and advances	21,535,549	17,995,202	44,644,079	21,591,930	13,065,877	10,720,014	8,498,091	18,379,384	156,430,126
Debt securities	857,839	486,726	237,455	1,824,255	1,546,186	1,494,251	972,214	13,124,187	20,543,113
Other assets	—	—	—	—	—	—	—	—	—
Total assets	**73,837,945**	**19,124,853**	**45,418,420**	**23,977,131**	**14,612,063**	**12,214,265**	**9,470,305**	**31,503,571**	**230,158,553**
Money Market	44,399,516	68,987	726,837	562,504	11,387	10,632	9,396	9,521	45,798,780
Customer deposits	120,591,033	3,273,525	9,927,201	6,240,826	5,196,402	4,045,350	4,747,226	5,769,470	159,791,033
Issues of marketable securities	3,268,999	2,336,211	2,137,459	2,539,000	3,510,000	2,658,110	2,457,000	3,350,025	22,256,804
Of which: Subordinated liabilities	—	—	*1,150,000*	*500,000*	—	*300,000*	*1,500,000*	*765,025*	*4,215,025*
Other liabilities	67,713	182,548	343,475	180,694	157,013	129,087	114,763	680,161	1,855,454
Total liabilities	**168,327,261**	**5,861,271**	**13,134,972**	**9,523,024**	**8,874,802**	**6,843,179**	**7,328,385**	**9,809,177**	**229,702,071**
Hedging Derivatives	**21,026,307**	**(3,048,310)**	**(1,768,615)**	**(9,450,677)**	**(1,689,870)**	**655,000**	**1,488,242**	**(7,212,077)**	**—**
Interest rate gap	**(73,463,008)**	**10,215,271**	**30,514,834**	**5,003,429**	**4,047,390**	**6,026,086**	**3,630,161**	**14,482,316**	**456,479**

Thousand euro

2020									
Time to maturity	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	36,288,646	2,262,392	647,395	195,900	—	—	—	—	39,394,333
Loans and advances	21,548,366	19,361,922	41,528,676	17,350,167	14,266,266	9,924,226	7,287,614	15,528,774	146,796,010
Debt securities	703,271	846,318	517,188	412,999	1,914,820	1,599,902	1,467,462	15,064,677	22,526,637
Other assets	8	247	3,310	2,969	891	9	—	—	7,434
Total assets	**58,540,290**	**22,470,879**	**42,696,570**	**17,962,035**	**16,181,976**	**11,524,137**	**8,755,075**	**30,593,450**	**208,724,413**
Money Market	34,558,562	4,227,133	753,612	197,063	2,094	7,071	11,606	3,178	39,760,319
Customer deposits	107,918,360	3,617,491	13,193,029	5,607,265	3,719,182	3,600,881	3,378,151	7,228,987	148,263,346
Issues of marketable securities	1,226,472	3,548,787	2,090,214	3,026,659	2,539,000	3,510,000	2,658,110	3,465,025	22,064,268
Of which: Subordinated liabilities	—	—	*428,239*	*1,150,000*	*500,000*	—	*300,000*	*515,025*	*2,893,265*
Other liabilities	85,539	202,717	468,804	221,647	183,456	159,018	129,675	846,396	2,297,254
Total liabilities	**143,788,934**	**11,596,129**	**16,505,659**	**9,052,635**	**6,443,732**	**7,276,969**	**6,177,543**	**11,543,587**	**212,385,187**
Hedging Derivatives	**8,066,166**	**(1,588,206)**	**(400,383)**	**(3,255,101)**	**(185,892)**	**1,684,739**	**(38,988)**	**(4,282,334)**	**—**
Interest rate gap	**(85,248,644)**	**10,874,750**	**26,190,910**	**8,909,401**	**9,738,244**	**4,247,168**	**2,577,533**	**19,049,864**	**(3,660,774)**

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

	Instant and parallel interest rate increase	
	100 pb	200 pb
Interest rate sensitivity	**Impact on net interest margin**	**Impact on economic value of equity**
EUR	2.5%	(1.2)%
GBP	2.2%	0.7%
USD	0.4%	(0.1)%
MXN	0.2%	(0.1)%

In addition to the impact on the net interest margin within the time horizon of one year shown in the previous table, the Group calculates the impact on the margin over a time horizon of two and three years, the result of which is considerably more positive for all of the currencies. In particular, the net interest margin's sensitivity for the second year is calculated considering the Group's main currencies, with a high "pass through", i.e. most of the percentage increase of benchmark interest rates is transferred to customers' term deposits and interest-bearing demand deposits. The results obtained are shown in the following table:

	Instant and parallel increase of 100 bps	
Impact on net interest margin 2nd year	**High "Pass Through"**	**Medium "Pass Through"**
Total	8.1%	11.6%
Of which EUR	*3.5%*	*5.3%*
Of which GBP	*3.8%*	*5.3%*

The metrics are calculated taking into account the assumptions regarding the performance of items with no contractual maturity and those whose expected maturity is different from the maturity established in the contracts, in order to obtain a view that is more realistic and, therefore, more effective for management purposes. The most significant of these include:

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

– Modelling of demand deposits and other liabilities with no contractual maturity: a model has been defined using historical monthly data to reproduce customer behaviour, establishing stability parameters, the percentage of interest rate movements that is passed through to the interest paid on the deposit and the delay with which this occurs, depending on the type of product and the type of customer.

– Modelling of non-performing loans: a model has been defined that allows the expected payment flows associated with non-performing loans (net of provisions, i.e. those expected to be recovered) to be included in pools of interest rate-sensitive balance sheet items. To this end, both existing balances and expected recovery periods have been incorporated.

The process to approve and update IRRBB models is part of the corporate governance arrangements for models, whereby these models are reviewed and validated by a Division that is always separate from the division that created them. This process is included in the corresponding model risk policy and establishes both the duties of the different areas involved in the models and the internal validation framework to be followed.

As for the measurement systems and tools used, all sensitive transactions are identified and recorded taking into account their interest rate characteristics, the sources of information being the official ones of the Institution. These transactions are aggregated according to predefined criteria, so that calculations can be made faster without undermining the quality or reliability of the data. The entire data process is subject to the requirements of information governance and data quality, to ensure compliance with the best practices in this area. Additionally, a regular process is carried out to reconcile the information uploaded onto the measurement tool against accounting information. The calculation tool includes sensitive transactions and its parameters are also configured to reflect the result of the behavioural models described above, the volumes and prices of the new business, defined according to the Business Plan, and the interest rate curves on which the aforesaid scenarios are built.

Based on the balance sheet position and the market situation and outlooks, risk mitigation techniques are proposed and agreed upon to adjust this position to match the one desired by the Group. Interest rate instruments additional to the natural hedges of balance sheet items are used as mitigation techniques, such as fixed-income bond portfolios or hedging derivatives that enable metrics to be placed at levels appropriate to the Institution's risk appetite. In addition, proposals can be put forward to redefine the interest rate characteristics of commercial products or the creation of new products.

Derivatives, mainly interest rate swaps (IRS), which qualify as hedges for accounting purposes, are arranged in financial markets to be used as risk hedging instruments. Two separate types of macro-hedges are used:

– Cash flow macro-hedges of interest rate risk, the purpose of which is to reduce the volatility of the net interest margin due to changes in interest rates over a one-year time horizon.

– Fair value macro-hedges of interest rate risk, the purpose of which is to maintain the economic value of the hedged items, consisting of fixed-rate assets and liabilities.

For each type of macro-hedge, there is a framework document that includes the hedging strategy, defining it in terms of management and accounting and establishing its governance.

In Banco Sabadell, as part of the continuous improvement process, structural interest rate risk management and monitoring activities are implemented and regularly updated, aligning the Institution with best market practices and current regulations.

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

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

On the other hand, the Group pays close attention to possible changes in customer behaviour deriving from a potential interest rate hike or changes in other economic variables (unemployment rates, GDP, etc.), in order to keep the behavioural assumptions used to measure and manage IRRBB in line with expectations. This concerns customer behaviour related to non-maturing items (changes in the stability of demand deposits) and items with an expected maturity that may be different to the contractually established maturity (due to early repayment of loans, early termination of term deposits or recovery time and balance of non-performing exposures).

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

4.4.3.3. Structural foreign exchange risk

Structural foreign exchange risk occurs when changes in market exchange rates between different currencies generate losses on permanent investments in foreign branches and subsidiaries with functional currencies other than the euro.

The purpose of managing structural foreign exchange risk is to minimise the impact on the value of the Institution's portfolio/equity in the event of any adverse movements in currency markets. The foregoing takes into account the potential impacts on the capital (CET1) ratio and on the net interest margin, subject to the risk appetite defined in the RAS. Furthermore, the levels set for the established risk metrics must be complied with at all times.

Foreign exchange risk is monitored regularly and reports are sent to supervisory bodies on existing risk levels and on compliance with the limits set forth by the Board of Directors. The main monitoring metric is currency exposure, which measures the maximum potential loss that the open structural position could cause over a 1-month time horizon, with a 99% confidence level and in stressed market conditions.

Compliance with, and the effectiveness of, the Group's objectives and policies are monitored and reported on a monthly basis to the Board Risk Committee.

The Bank's Financial Division, through the ALCO, designs and executes strategies to hedge structural FX positions in order to achieve its objectives in relation to the management of structural foreign exchange risk.

The most significant permanent investments are denominated in US dollars, pounds sterling and Mexican pesos.

As regards permanent investments in US dollars, the overall position in this currency has gone from 1,108 million US dollars as at 31 December 2020 to 1,170 million US dollars as at 31 December 2021. In relation to this position, as at 31 December 2021, a buffer of 24% of total investment is maintained.

In terms of permanent investments in Mexican pesos, the capital buffer has gone from 9,003 million Mexican pesos as at 31 December 2020 (of a total exposure of 14,651 million Mexican pesos) to 10,003 million Mexican pesos as at 31 December 2021 (of a total exposure of 14,572 million Mexican pesos), representing 69% of total investment.

As regards permanent investments in pounds sterling, the capital buffer has remained stable at 213 million pounds sterling during 2021 (total exposure has gone from 1,760 million pounds sterling as at 31 December 2020 to 1,890 million pounds sterling as at 31 December 2021), representing 11% of the total investment made (excluding intangibles).

Currency hedges are continuously monitored in light of market movements.

The exchange value in euros of assets and liabilities in foreign currencies maintained by the Group as at 31 December 2021 and 2020, classified in accordance with their nature, is as follows:

Thousand euro

	2021			
	USD	**GBP**	**Other currencies**	**Total**
Assets denominated in foreign currency:	**10,063,410**	**57,229,033**	**3,577,568**	**70,870,011**
Cash, cash balances at central banks and other demand deposits	464,724	5,825,313	863,459	7,153,496
Debt securities	1,158,570	3,862,850	478,752	5,500,172
Loans and advances	8,255,149	46,259,554	1,987,782	56,502,485
Central banks and Credit institutions	49,286	258,741	39,984	348,011
Customers	8,205,863	46,000,813	1,947,798	56,154,474
Other assets	184,967	1,281,316	247,575	1,713,858
Liabilities denominated in foreign currency:	**7,606,360**	**53,111,696**	**2,476,766**	**63,194,822**
Deposits	7,405,911	49,911,932	2,410,628	59,728,471
Central banks and Credit institutions	1,559,034	6,757,419	292,431	8,608,884
Customers	5,846,877	43,154,513	2,118,197	51,119,587
Other liabilities	200,449	3,199,764	66,138	3,466,351

Thousand euro

	2020			
	USD	**GBP**	**Other currencies**	**Total**
Assets denominated in foreign currency:	**9,509,570**	**48,726,489**	**3,074,872**	**61,310,931**
Cash, cash balances at central banks and other demand deposits	313,503	5,652,619	546,958	6,513,080
Debt securities	1,062,537	2,939,234	220,186	4,221,957
Loans and advances	7,849,982	38,765,206	2,087,589	48,702,777
Central banks and Credit institutions	110,579	209,854	136,045	456,478
Customers	7,739,403	38,555,352	1,951,544	48,246,299
Other assets	283,548	1,369,430	220,139	1,873,117
Liabilities denominated in foreign currency:	**7,316,619**	**45,321,362**	**2,302,968**	**54,940,949**
Deposits	6,986,825	42,119,071	2,225,313	51,331,209
Central banks and Credit institutions	2,362,537	3,458,680	361,626	6,182,843
Customers	4,624,288	38,660,391	1,863,687	45,148,366
Other liabilities	329,794	3,202,291	77,655	3,609,740

The net position of foreign currency assets and liabilities includes the structural position of the Institution, valued at the closing exchange rate of 31 December 2021, which amounted to 3,026 million euros, including 1,996 million euros corresponding to permanent equity holdings in pounds sterling, 785 million euros corresponding to permanent equity holdings in US dollars and 197 million euros to permanent equity holdings in Mexican pesos. Net assets and liabilities valued at historical exchange rates are hedged with forwards and options denominated in foreign currencies in line with the Group's Risk Management Policy.

As at 31 December 2021, the sensitivity of the equity exposure to a 1.3% exchange rate depreciation against the euro of the main currencies to which the Bank is exposed would amount to 39 million euros, of which 66% correspond to the pound sterling, 26% to the US dollar and 7% to the Mexican peso. This potential depreciation is in line with the historical quarterly volatility of recent years.

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

4.4.4. Operational risk

Operational risk is defined as the risk of incurring losses due to inadequacies or failures of processes, staff or internal systems or due to external events. This definition includes but is not limited to legal risk, model risk and information and communication technology (ICT) risk and excludes strategic risk and reputational risk.

The management of operational risk is decentralised and devolved to process managers throughout the organisation. The processes that they manage are indicated in the corporate process flowchart, which facilitates the integration of data according to the organisational structure. The Group has a central unit that specialises in the management of operational risk, whose main duties are to coordinate, oversee and promote the identification, assessment and management of risks by the process managers, based on the management model adopted by Banco Sabadell Group.

Senior Management and the Board of Directors are directly involved and effectively take part in managing this risk by approving the management framework and its implementation as proposed by the Board Risk Committee. The latter is formed of Senior Management members from various functional areas within the Institution. The management of this risk also requires regular audits to be carried out of the application of the management framework and the reliability of the information provided, as well as internal validation tests of the operational risk model. Operational risk is managed with two lines of approach:

The first line of approach is based on the analysis of processes, the identification of risks associated with those processes that may result in losses, and a qualitative assessment of the risks and the associated controls. The foregoing are carried out jointly between process managers and the central operational risk unit. This provides an assessment of the future exposure to risk in terms of expected and unexpected losses and also allows trends to be foreseen and the corresponding mitigating actions to be adequately planned.

This is complemented by the identification, monitoring and active management of the risk through the use of key risk indicators. These allow warnings to be established, which alert the Bank to any increase in this exposure, and also enable the Bank to identify the causes of that increase and measure the effectiveness of the implemented controls and improvements.

At the same time, the Bank checks that specific business continuity plans have been defined and implemented for processes identified as being highly critical in the event of any service disruption. In terms of the identified risks, a qualitative estimate is made of the reputational impact that they could cause if they were to materialise.

The second line of approach is based on experience. It consists of recording all losses incurred by the Institution in a database, which provides information about the operational risks encountered by each business line as well as their causes, so as to be able to take action to minimise these risks and detect potential weaknesses in processes that require action plans to be drawn up aimed at mitigating the risks associated therewith. Recoveries are also recorded, which make it possible to reduce the extent of the loss either as a result of direct management or by having an insurance policy that covers all or part of the resulting impacts.

Additionally, this information allows the consistency between estimated losses and actual losses to be determined, in terms of both frequency and severity, iteratively improving the estimates of exposure levels.

Within operational risk, the following risks are also managed and controlled:

- Conduct risk: defined as the possibility, now or in the future, of incurring losses as a result of the inadequate provision of financial services, including cases of wilful misconduct or negligence. It is comprehensively managed using the elements defined in the methodological framework for operational risk and through the governance arrangements and lines of defence defined therein.

- Technology risk: technology risk (or ICT (information and communication technology) risk) is defined as the current or future risk of incurring losses due to inadequacies or failures of technical infrastructures' hardware and software, which could compromise the availability, integrity, accessibility and security of these infrastructures and data, or make it impossible for IT platforms to be changed at a reasonable cost and within a reasonable time frame to respond to changes in the needs of either the environment or the business.

  It also includes security risks resulting from inadequacies or failures of internal processes or external events, including cyberattacks or inadequate physical security in data centres.

- Outsourcing risk: the possibility of incurring losses as a result of suppliers failing to provide subcontracted services or discontinuing their provision, weaknesses in their systems' security, disloyal employees or a breach of applicable regulations. It also includes other related risks such as concentration risk, country risk, legal risk and compliance risk.

- Model risk: the possibility of incurring losses due to decisions made using inadequate models.

- Tax risk: the probability of failing to achieve the objectives set out in Banco Sabadell's tax strategy from a dual perspective due to either internal or external factors:

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

    - On the other hand, the probability of paying taxes not actually due under tax obligations, thus negatively affecting shareholders and other stakeholders.

- Compliance risk: the risk of incurring legal or administrative sanctions, significant financial losses or a loss or damage to the Institution's reputation as a result of an infringement of laws, regulations, internal procedures or codes of conduct applicable to the Group's activity.

Reputational risk, understood as the possibility of incurring losses as a result of negative publicity related to the Institution's practices and business, is also managed and controlled according to the methodological framework for operational risk, as this is a potentially significant source of reputational risk. This risk also considers the loss of trust in the Institution, which could affect its solvency.

Senior Management and, in particular, the Board Risk Committee, have closely monitored the Group's risk profile through specific reports containing information and indicators associated with the main operational risks (including those associated with technology, human error, conduct, processes, security and fraud) and reputational impacts that could potentially affect the Group's different stakeholders (employees and partners, customers, suppliers, supervisors). No significant impacts have been detected.

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

4.4.4.1 Technology risk

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

It should be mentioned that this risk is not only applicable to the Group's own systems, but it is also applicable to suppliers, given the widespread use of third parties for support in technological and business processes, and this therefore represents a significant risk when it comes to managing outsourcing.

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

- IT security (cybersecurity): risk of unauthorised access to IT systems and the information (data and metadata) they contain (including cyberattacks).

- IT availability (technological resilience): risk that customer and employee services are affected by system failures.

- IT change: risk arising from errors in the change and development processes of information systems.

- Data integrity: risk that data stored and processed by IT systems are incomplete, inaccurate or inconsistent.

- IT outsourcing: risk that the outsourcing to a third party or to another Group entity (intra-group outsourcing) of IT systems, their management or IT-related services has a negative impact on the Institution's performance (including impact on customers, reputational, regulatory and financial impacts).
- IT governance: risk arising from inadequate or insufficient management and use of technology, as well as a poor alignment of these technologies and their intended uses with the business strategy.
- Technological transformation: risk associated with inappropriate adoption or inefficient use of technology within the organisation for the development of new value propositions.
- IT skills: risk arising from the insufficiency of adequate IT profiles (internal and/or external collaborators) to ensure effective and efficient coverage of technological activities, processes and services.

4.4.4.2 Tax risk

Banco Sabadell Group's tax risk policies aim to set out principles and guidelines in order to ensure that any tax risks that may affect the Group's tax strategy and fiscal objectives are systematically identified, assessed and managed so as to comply with the new requirements of the Spanish Capital Companies Act and of Banco Sabadell Group stakeholders.

In terms of tax risk, Banco Sabadell Group aims to fulfil its tax obligations at all times, adhering to the existing legal framework in matters relating to taxation.

Banco Sabadell Group's tax strategy reflects its commitment to fostering responsible taxation, promoting preventive measures and developing key transparency schemes in order to gain the confidence and trust of its various stakeholders.

The tax strategy is governed by the principles of efficiency, prudence, transparency and mitigation of tax risk, and it is generally aligned with the business strategy of Banco Sabadell Group.

The Board of Directors of Banco Sabadell, under the mandate set out in the Spanish Capital Companies Act for the improvement of corporate governance, is responsible, and cannot delegate such responsibility, for the following:

- Setting the Institution's tax strategy.
- Approving investments and operations of all types which are considered to be strategic or to have a particular tax risk due to their high monetary value or particular characteristics, except when such approval corresponds to the Annual General Meeting.
- Approving the creation and acquisition of shareholdings in special purpose entities or entities domiciled in countries or territories classified as tax havens.
- Approving any transaction which, due to its complexity, might undermine the transparency of the Institution and its Group.

As such, the duties of the Board of Directors of Banco Sabadell include the obligation to approve the Corporate Tax Policy and ensure compliance therewith by implementing an appropriate control and oversight system, which is enshrined in the general risk management and control framework of the Group.

4.4.4.3 Compliance risk

As regards compliance risk, one of the essential aspects of the Group's policy, and the foundation of its organisational culture, is strict compliance with all legal provisions, meaning that the achievement of business objectives must be compatible, at all times, with adherence to the law and the established legal system.

To this end, the Group has a Compliance Division whose mission is to seek the highest levels of compliance with existing legislation and ensure that professional ethics are present in all areas of the Group's activity.

This Division assesses and manages compliance risk in order to minimise the possibility of failing to comply with such legislation, and to ensure that any instances of non-compliance are identified, reported and diligently resolved. It does this by:

- Monitoring and overseeing the adaptation to new regulations through proactive management to ensure regular and systematic monitoring of legal updates.

- Identifying and periodically assessing compliance risks in the different areas of activity and contributing to their management in an efficient manner. To this end, establishing, applying and maintaining appropriate procedures to prevent, detect, correct and minimise any compliance risk.
- Establishing, in accordance with the above, an up-to-date oversight and control programme, with the appropriate tools and methodologies for control.
- Supervising the risk management activities carried out by the first line of defence to ensure that they are aligned with the established policies and procedures.
- Keeping, for at least the period of time established by the legislation in force at any given time, the documentary justification of the controls carried out by the Compliance Division, as well as any other policies and procedures implemented for the best possible fulfilment of regulatory obligations.
- Submitting to the administrative and management bodies the regular or ad-hoc reports on compliance that are legally required at any given time.
- Reporting to the administrative and management bodies on any information relevant to compliance arising from all areas and activities of each Group entity.
- Assisting the Board of Directors and Senior Management in compliance matters.
- Acting as a spokesperson before the relevant regulatory bodies, overseeing the responses to requirements and inspections by official or supervisory bodies, as well as compliance with their recommendations, in relation to anti-money laundering and counter-terrorist financing (SEPBLAC, Bank of Spain, etc.), and in relation to securities markets (CNMV), insurance distribution (DGS) and data protection (AEPD).
- Assigning functional responsibilities for compliance where necessary.
- Intervening in the process for establishing remuneration policies and practices.
- With regard to Anti-Money Laundering, Counter-Terrorist Financing (AML/CTF) and International Sanctions, implementing, managing and updating policies and procedures; carrying out the classification of the AML/CTF risk of customers, both at the time of onboarding and throughout the business relationship; applying due diligence measures in accordance with the risk level assigned to customers, paying particular attention to those classified as high risk to whom enhanced measures will be applied for onboarding purposes so that they can be accepted beforehand and updated as required; managing tracking alerts and detecting matches against lists of designated persons and transactions of countries subject to international sanctions; performing special analyses of suspicious activities and reporting them as necessary; preparing training plans; approving new products, services, channels and business areas and preparing a periodic risk assessment of internal control procedures in the area of AML/CTF and international sanctions, providing support to the Internal Control Body (ICB) responsible for compliance in these matters.
- Promoting a culture of compliance and appropriate conduct in each of the Group entities, adopting measures that will enable employees to obtain the training and experience they need to carry out their duties properly.
- Collaborating in the development of training programmes in order to advise and make employees aware of the importance of complying with the established internal procedures.
- Disseminating, reviewing or proposing corrective measures and/or responses to incidents detected in matters of conduct or to queries submitted to the Corporate Ethics Committee (CEC), whose mission is to promote the Group’s ethical conduct to ensure compliance with the action principles set forth in Banco Sabadell Group’s Code of Conduct, Banco Sabadell Group’s Internal Code of Conduct relating to the securities market, Banco Sabadell Group’s General Policy on Conflicts of Interest and Banco Sabadell Group’s Corporate Crime Prevention Policy.

Note 5 – Minimum own funds and capital management

Minimum own funds requirements

The Group calculates minimum capital requirements based on Directive 2013/36/EU (known as CRD-V since its most recent update) and Regulation (EU) 575/2013 (CRR), amended by Regulation (EU) 2019/876 (hereinafter, CRR-II).

Regulation CRR-II and Directive CRD-V entered into force on 27 June 2019 and have been implemented in successive stages since that date, although most of the provisions are applicable as from 28 June 2021.

The Spanish government has transposed Directive CRD-V into national law through Royal Decree Law 7/2021, of 27 April, Royal Decree Law 970/2021, of 8 November, and Circular 5/2021, of 22 December.

The health crisis caused by COVID-19 has resulted in competent institutions in Europe temporarily lowering liquidity, capital and operational requirements applicable to banks, to ensure that they can continue carrying out their role of providing funding to the real economy.

In particular, the European Commission, the European Central Bank and the EBA have provided clarity regarding the application of the flexibility already embedded in Regulation (EU) 575/2013 by issuing interpretations and guidance on the application of the prudential framework in the context of COVID-19.

This guidance includes the European Central Bank (ECB) announcement, released on 18 June 2021, that euro area credit institutions that it directly supervises may continue to exclude certain central bank exposures from the leverage ratio, given the exceptional macroeconomic circumstances due to the coronavirus (COVID-19) pandemic. As a result, the leverage ratio relief originally authorised in September 2020, which was due to end on 27 June 2021, will be extended until 31 March 2022.

In accordance with the aforesaid regulatory framework, credit institutions must comply with a total capital ratio of 8% at all times. However, regulators may exercise their authority and require institutions to maintain additional capital.

In this regard, on 23 November 2020, Banco Sabadell received the decision of the European Central Bank concerning the minimum prudential requirements applicable to the Bank for 2021 as a result of the Supervisory Review and Evaluation Process (SREP). On a consolidated basis, Banco Sabadell was required to keep a phase-in Common Equity Tier 1 (CET1) ratio of at least 8.52% and a phase-in Total Capital ratio of at least 13%. These ratios include the minimum required by Pillar 1 (8% of which 4.50% corresponds to CET1), the Pillar 2R requirement (2.25% of which 1.27% must be covered with CET1), the capital conservation buffer (2.50%), and the requirement applicable due to the Bank's status as an 'other systemically important institution' (0.25%). Following this decision, the capital requirements remained unchanged with respect to 2020.

On 2 February 2022, Banco Sabadell received a letter setting out the decision of the European Central Bank concerning the minimum prudential requirements applicable in 2022 as a result of the Supervisory Review and Evaluation Process (SREP), in which it was informed that the Total Capital requirement would be reduced by 10 basis points relative to that of 2021. At a consolidated level, Banco Sabadell is required to keep a phase-in Common Equity Tier 1 (CET1) ratio of at least 8.46% and a phase-in Total Capital ratio of at least 12.9%. These ratios include the minimum required by Pillar 1 (8% of which 4.5% corresponds to CET1), the Pillar 2R requirement (2.15% of which 1.21% must be covered with CET1), the capital conservation buffer (2.50%) and the requirement applicable due to the Bank's status as an 'other systemically important institution' (0.25%).

Additionally (and this is also included in SREP requirements), the requirement resulting from the calculation of the specific counter-cyclical capital buffer, as at 31 December 2021, stands at 0% as a consequence of the measures taken to deal with the COVID-19 crisis, which have led different countries to lower their capital requirements, including this buffer's requirement. More specifically, on 11 March 2020, the Bank of England's Financial Policy Committee (FPC) announced that the counter-cyclical buffer rate (which had been 1% and had been due to reach 2% by December 2020) was being reduced to 0% with immediate effect. The FPC has maintained this 0% rate until 13 December 2021, whereupon the counter-cyclical buffer rate was increased to 1%. This increase will be implemented within 12 months of its announcement, that is, by December 2022.

As at 31 December 2021, the Group's CET1 capital ratio stood at 12.50% (12.57% as at 31 December 2020); therefore, the capital requirements indicated in the preceding points are being comfortably met.

The following table sets out the minimum prudential requirements applicable to Banco Sabadell following the Supervisory Review and Evaluation Process (SREP) for the years 2020-2022:

	2022	2021	2020
Pillar 1 CET1	4.50%	4.50%	4.50%
Pillar 2 Requirement	1.21%	1.27%	2.25%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic buffer	0.25%	0.25%	0.25%
Contracyclical buffer	0.00%	0.00%	0.00%
Common Equity Tier 1 ratio (CET 1)	**8.46%**	**8.52%**	**9.50%**
Dates of communication of the SREP outcome	2/2/2022	23/11/2020	4/12/2019

On a standalone basis, the requisite Common Equity Tier 1 (CET1) ratio resulting from the 2022 SREP is 8.21% and the required Total Capital ratio is 12.65%. This requirement includes the minimum required by Pillar 1 (8% of which 4.50% corresponds to CET1), the Pillar 2R requirement (2.15% of which 1.21% must be covered with CET1), the capital conservation buffer (2.50%) and the requirement arising from the calculation of the counter-cyclical capital buffer which, as at December 2020, was 0%. As indicated for the requirements on a consolidated basis, the Pillar 2R requirement has been reduced by 10 basis points in the period, decreasing from 2.25% to 2.15%.

As at 31 December 2021, Banco Sabadell's CET1 capital ratio stood at 13.70%, and its phase-in Total Capital ratio stood at 19.08%; consequently, with regard to standalone capital requirements, it also comfortably exceeds the SREP requirements.

Requirements related to the restructuring and resolution of credit institutions

On 15 May 2014, Directive 2014/59/EU was published in the Official Journal of the European Union, which establishes a framework for the restructuring and resolution of credit institutions and investment firms, known by its acronym BRRD (Bank Recovery and Resolution Directive).

Through the publication of the Royal Decree 1012/2015, of 6 November 2015, implementing Law 11/2015, of 18 June 2015, on the recovery and resolution of credit institutions and investment firms, the BRRD was transposed into Spanish law.

The BRRD arises from the need to establish a framework that provides authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the Institution's critical financial and economic functions, to avoid a significant adverse effect on financial stability, and to adequately protect public funds by minimising reliance on extraordinary public financial support. Likewise, covered depositors enjoy special treatment.

The framework proposed by the BRRD is based on the principle that traditional insolvency proceedings are not, in many cases, the best option to achieve the aforementioned objectives. Therefore, the BRRD introduces the resolution procedure, whereby competent resolution authorities obtain administrative powers to manage a failing institution.

The preamble of Law 11/2015 defines a resolution process as a unique administrative process to address the failure of credit institutions and investment firms, when an insolvency proceeding is not appropriate for reasons of public interest and financial stability. In order to achieve the aforementioned objectives, the BRRD envisages a series of instruments available to the competent resolution authority, including a bail-in tool. The BRRD introduces for this purpose a minimum requirement for own funds and eligible liabilities (MREL) that institutions must comply with at all times in order to ensure their loss-absorbing capacity is sufficient to guarantee the effective implementation of the resolution tools and that, in the current regulatory environment, would be expressed as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the Institution.

Similarly, in 2015 the FSB defined the TLAC (Total Loss-Absorbing Capacity) requirement, which has been designed to ensure that institutions have sufficient capacity to absorb losses and execute a bail-in in the event of resolution. It should be noted that this requirement only applies to global systemically important banks (G-SIBs); therefore, it does not apply to Banco Sabadell Group.

In June 2019, after more than two and a half years of negotiations, a reform of the bank resolution framework was agreed with the approval of the new resolution directive, BRRD II (Directive 2019/879), which implements the international TLAC standard in the EU. BRRD II was transposed into Spanish law by Royal Decree Law 7/2021, of 27 April 2021.

Responsibility for determining MREL falls to the Single Resolution Board (SRB), pursuant to that set forth in Regulation (EU) 806/2014, also revised in 2019 and replaced by Regulation (EU) 2019/877. Thus, the SRB, after consulting with the competent authorities, including the ECB, shall establish MREL for each bank, taking into account aspects such as the size, funding model, risk profile and potential contagion effect for the financial system.

In May 2020, the SRB published the MREL Policy under the Banking Package, which integrates the regulatory changes of the aforesaid resolution framework reform. The new SRB decisions will be based on balance sheet data as at December 2021 (except for capital buffers, which will be taken into account as at June 2020) and will set two binding MREL targets: the final MREL target, which will be binding on 1 January 2024, and an interim target to be met by 1 January 2022. The latter corresponds to an intermediate level that allows for a linear build-up by institutions of their MREL capacity. Therefore, its calibration depends on the Institution's MREL capacity at the time of calibration and its final target. In addition, in the intermediate level calibration, the SRB may make an adjustment due to the impact of the COVID-19 crisis on banks' balance sheets as long as this has been material.

Banco Sabadell has received a communication from the Bank of Spain regarding the decision made by the Single Resolution Board (SRB) concerning the minimum requirement for own funds and eligible liabilities (MREL) and the subordination requirement applicable on a consolidated basis.

Sabadell needs to meet the following requirements from 1 January 2024:

- The minimum requirement for own funds and eligible liabilities (MREL) is 21.75% of the total risk exposure amount (TREA) and 6.22% of the leverage ratio exposure (LRE).
- The subordination requirement is 14.45% of TREA and 6.22% of LRE.

The decision sets out the following interim requirements that must be met from 1 January 2022:

- The MREL requirement is 21.05% of TREA and 6.22% of LRE.
- The subordination requirement is 14.45% of TREA and 6.06% of LRE.

The own funds used by the Bank to meet the combined buffer requirement (CBR), comprising the capital conservation buffer, the systemic risk buffer and the counter-cyclical buffer, will not be eligible to meet its MREL and subordination requirements expressed in terms of the TREA.

Banco Sabadell is already compliant with the requirements that need to be met from 1 January 2024 onwards, which are consistent with the Bank's expectations and in line with its funding plans. In 2021, the Bank issued 2.25 billion euros of MREL-eligible issues, 500 million euros of senior non-preferred debt, 500 million euros of Tier 2 and 1,250 million euros corresponding to two AT1 issuances.

	MREL Requirement		**Subordination Requirement**	
	% TREA	**% LRE**	**% TREA**	**% LRE**
Requirement 1 January 2022	21.05%	6.22%	14.45%	6.06%
Requirement 1 January 2024	21.75%	6.22%	14.45%	6.22%
MREL 31 December 2021 (*)	23.41%	10.02%	17.76%	7.85%

(*) The % TREA does not include capital used to meet the CBR (2.75% TREA).

Capital management

The management of capital resources is the result of the ongoing capital planning process. This process considers the evolution of the economic, regulatory and sectoral environment. It takes into account the expected capital consumption of different activities, under the various envisaged scenarios, and the market conditions that could determine the effectiveness of the different actions being considered for implementation. The process is enshrined within the Group's strategic objectives and aims to achieve an attractive return for shareholders, whilst also ensuring that its level of own funds is appropriate in terms of the inherent risks of banking activity.

As regards capital management, as a general policy, the Group aims to adjust its overall available capital to the incurred risks.

The Group follows the guidelines set out in CRD-V and associated regulations, as well as their successive updates, in order to establish own funds requirements that are inherent in the risks actually incurred by the Group, based on independently validated internal risk measurement models. To this end, the Group has been authorised by the supervisor to use the majority of its internal models to calculate regulatory capital requirements.

The Group carries out frequent backtesting exercises on its IRB models, at least once a year. These backtesting exercises are independently reviewed by the Internal Validation unit and reported for monitoring purposes to the established internal governing bodies, such as the Technical Risk Committee and the Board Risk Committee (delegated Board committee). Additionally, the backtesting results that affect the risk parameters and the main conclusions drawn from these results, taking into account the criteria established by the EBA in its Disclosure Guidelines, are included in the annual Pillar III Disclosures report.

The Group has a model in place that comprehensively measures its risks using an internal measurement of allocated capital, and this model is based on the risk measurements provided by the new methodologies.

As part of the Group's Global Risk Framework (detailed in Note 4), the Group has defined a risk taxonomy that encompasses the relevant risks to which it is exposed. First-tier risks are credit risk, strategic risk, financial risk and operational risk. From each of these first-tier risks stem second-tier risks (or even lower-tier risks depending on the nature of the risk). All risks are assessed internally in the self-assessment exercise, thereby determining whether they represent a high, medium or low risk. Once assessed, for those relevant risks representing a significant risk, the Group has a complex system for measuring capital using internal models, through which it measures capital in stress situations. In this way, internal methods ensure that capital needs are consistent with the risk inventory.

Each year, the Group carries out an internal capital adequacy assessment process. This process, as mentioned in the previous paragraph, starts from a broad spectrum of previously identified risks and a qualitative internal assessment of policies, procedures and systems for accepting, measuring and controlling each type of risk, as well as the corresponding mitigation techniques.

The next stage involves a comprehensive quantitative assessment of the necessary capital based on internal parameters and using the Group's own models (such as borrower credit rating and scoring systems) and other internal estimates appropriate to each type of risk. The assessments of each type of risk are then integrated and a figure is calculated to be used as an indicator in terms of allocated capital. In addition, the Group's business and financial plans and stress testing exercises are taken into account to determine whether certain business developments or extreme scenarios could endanger its solvency when compared to its available own funds.

Assessing risks in terms of the capital that needs to be allocated enables the risk to be linked to the profitability obtained at both the transaction and customer level, all the way up to the business unit level. The Group has implemented a risk adjusted return on capital (RaRoC) system which provides this assessment, enabling uniform comparisons to be made and included in the transaction pricing process.

The level and quality of capital are first-tier metrics of the Group's Risk Appetite Statement and their management and control are governed by the Group's Risk Appetite Framework (RAF).

For more information on capital management, see the Pillar III Disclosures report, published annually, which is available on the Group's website (www.grupobancosabadell.com), in the section on Information for shareholders and investors / Financial information.

Eligible capital and capital ratios

As at 31 December 2021, the Group's eligible capital amounted to 14,501 million euros (12,729 million euros as at 31 December 2020), representing a surplus of 8,049 million euros (6,421 million euros as at 31 December 2020), as shown below:

Thousand euro

	2021	2020	Year-on-year change (%)
Capital	703,371	703,371	—
Reserves	12,519,248	12,277,739	1.97
Convertible bonds	—	—	—
Minority interests	—	9,270	(100.00)
Deductions	(3,143,086)	(3,079,274)	2.07
CET1 capital	**10,079,533**	**9,911,106**	**1.70**
CET1 (%)	12.50	12.57	(0.56)
Preference shares, convertible bonds and deductions	2,400,000	1,153,539	108.00
Additional Tier 1 capital	**2,400,000**	**1,153,539**	**108.00**
AT1 (%)	2.98	1.46	103.69
Tier 1 capital	**12,479,533**	**11,064,645**	**12.79**
Tier 1 (%)	15.47	14.03	10.26
Tier 2 capital	**2,021,270**	**1,664,708**	**21.42**
Tier 2 (%)	2.51	2.11	18.96
Capital base	**14,500,802**	**12,729,353**	**13.92**
Minimum capital requirement	6,451,647	6,308,656	2.27
Capital surplus	**8,049,155**	**6,420,697**	**25.36**
Total capital ratio (%)	**17.98**	**16.14**	**11.40**
Risk weighted assets (RWAs)	**80,645,593**	**78,858,201**	**2.27**

Common Equity Tier 1 (CET1) capital accounts for 69.51% of eligible capital. Deductions are mainly comprised of intangible assets, goodwill and deferred tax assets. They also include valuation adjustments.

It is also necessary to add the impact of applying Regulation 2020/873 from June onwards in the context of COVID-19. This regulation extends the transitional arrangements designed to mitigate the impact of IFRS 9 for two years, allowing institutions to fully add back to their Common Equity Tier 1 capital any increase in new expected credit loss provisions that they recognise in 2020 and 2021 for their financial assets that are not credit-impaired.

Tier 1 comprises, in addition to CET1 funds, items that largely make up Additional Tier 1 capital (16.55% of own funds), which are capital items comprised of securities and convertible instruments.

Tier 2 capital provides 13.94% of the total capital ratio and is made up largely of subordinated debt.

In 2021, the calculation of own funds took into consideration: the issuance of 500 million euros of Subordinated Debentures I/2021 in January, the issuance of Preferred Securities I/2021 in March for 500 million euros, and the redemption of the TSB issuance of subordinated debentures in May for 443 million euros by exercising an early redemption option. Lastly, the issuance of AT1 2/2021 for 750 million euros took place in November.

In terms of risk-weighted assets, a synthetic securitisation was carried out in the period (see Note 4.4.2.4). It is also worth noting the entry into force of the rest of the CRR2 regulation of 28 June 2021, where the main changes concern the new framework for calculating exposure under the standardised approach for derivative exposures (SA-CCR) and the changes to the weighting applicable to exposures consisting of units in collective investment undertakings.

In fully-loaded terms, as at 31 December 2021, the Common Equity Tier 1 (CET1) ratio stood at 12.22% and the total capital ratio stood at 17.70%, both well above the regulatory minima.

The following table shows movements in the various regulatory capital components during 2021 and 2020:

Thousand euro	
CET1 balance as at 31 December 2019	**10,104,845**
Profit or (-) loss attributable to the Group, net of dividends	(542,464)
Reserves	455,773
Minority interests	(8,892)
Valuation adjustments	(222,082)
Deductions and transition effects	123,927
CET1 balance as at 31 December 2020	**9,911,107**
Profit or (-) loss attributable to the Group, net of dividends	359,427
Reserves	(117,919)
Minority interests	(9,270)
Valuation adjustments	216,115
Deductions and transition effects	(279,927)
CET1 balance as at 31 December 2021	**10,079,533**

Thousand euro	
Additional Tier 1 balance as at 31 December 2019	**1,153,033**
Eligible instruments	—
Minority interests	(142)
Deductions and transition effects	648
Additional Tier 1 balance as at 31 December 2020	**1,153,539**
Eligible instruments	1,250,000
Minority interests	(3,539)
Deductions and transition effects	—
Additional Tier 1 balance as at 31 December 2021	**2,400,000**

Thousand euro	
Tier 2 balance as at 31 December 2019	**1,492,357**
Eligible instruments	171,370
Credit risk adjustments	232,096
Minority interests	275
Deductions and transition effects	(231,390)
Tier 2 balance as at 31 December 2020	**1,664,708**
Eligible instruments	89,030
Credit risk adjustments	26,773
Minority interests	(4,719)
Deductions and transition effects	245,478
Tier 2 balance as at 31 December 2021	**2,021,270**

The table below shows the reconciliation of equity and regulatory capital as at 31 December 2021 and 2020:

Thousand euro

	2021	2020
Shareholders' equity	13,356,905	12,943,594
Accumulated other comprehensive income	(385,604)	(523,590)
Minority interests	24,980	71,634
Total equity	**12,996,281**	**12,491,638**
Goodwill and intangibles	(3,111,702)	(3,004,978)
Other adjustments	194,953	424,447
Regulatory accounting adjustments	**(2,916,749)**	**(2,580,531)**
Common Equity Tier 1 capital	**10,079,532**	**9,911,107**
Additional Tier 1 capital	**2,400,000**	**1,153,539**
Tier 2 capital	**2,021,270**	**1,664,708**
Total regulatory capital	**14,500,802**	**12,729,354**

As at 31 December 2021 and 2020, there is no significant difference between the accounting scope of consolidation and the regulatory scope of consolidation.

Risk-weighted assets (RWAs) for the period stand at 80,646 million euros as at 31 December 2021, which represents a variation of 2.27% relative to the previous period, mainly explained by the variation of credit risk RWAs.

The following table shows the reasons for the variation in RWAs due to credit risk occurring during 2021 and 2020:

Thousand euro

	RWA	Capital requirements (*)
Balance as at 31 December 2019	**69,871,601**	**5,589,728**
Change in business volume	(1,450,026)	(116,002)
Asset quality	(1,018,504)	(81,480)
Changes in models	1,392,282	111,383
Methodology, parameters and policies	(2,800)	(224)
Acquisitions and disposals	(844,399)	(67,552)
Exchange rate	(1,251,907)	(100,153)
Other	—	—
Balance as at 31 December 2020	**66,696,247**	**5,335,700**
Change in business volume	869,920	69,594
Asset quality	(764,498)	(61,160)
Changes in models	55,000	4,400
Methodology, parameters and policies	(510,161)	(40,813)
Acquisitions and disposals	(11,021)	(882)
Exchange rate	1,129,734	90,379
Other (**)	2,077,912	166,233
Balance as at 31 December 2021	**69,543,133**	**5,563,451**

Excludes credit valuation adjustment (CVA) requirements and contributions to the default guarantee fund of CCPs. Also excludes "Other risk exposure amounts" and RWAs corresponding to securitisations.

(*) Calculated as 8% of RWAs.

(**) The increase in the "Other" category is due to the assignment, at a granular level, of a series of add-ons at TSB, which as at December 2020 were reported as "Other risk exposure amounts".

The breakdown of risk-weighted assets by type of risk, as at 31 December 2021 and 2020, is shown below:

%	2021	2020
Credit risk (*)	89.15 %	88.89 %
Operational risk	10.28 %	10.43 %
Market risk	0.57 %	0.68 %
Total	**100 %**	**100 %**

(*) Includes counterparty credit risk and other risk exposure amounts.

The table below shows risk-weighted assets for the most significant risk in terms of volume (credit risk), broken down by region, as at 31 December 2021 and 2020:

%	2021	2020
Spain	65.13 %	68.03 %
United Kingdom	18.47 %	14.75 %
Rest of European Union	9.98 %	5.04 %
Americas	5.30 %	10.94 %
Rest of the world	1.12 %	1.24 %
Total	**100 %**	**100 %**

Includes counterparty credit risk.

The leverage ratio aims to reinforce capital requirements by providing a supplementary measure that is not linked to the level of risk. Article 92 of the CRR-II regulation establishes that a minimum leverage ratio of 3% is required as from June 2021; this percentage is comfortably exceeded by the Group as at 31 December 2021.

The leverage ratio as at 31 December 2021 and 2020 is shown below:

Thousand euro	2021	2020
Tier 1 capital	12,479,533	11,064,646
Exposure	211,616,215	210,713,611
Leverage ratio	**5.90 %**	**5.25 %**

In 2018, following the entry into force of IFRS 9, the Group opted to apply the transitional arrangements established in Regulation (EU) 2017/2395.

In 2021 the leverage ratio increased by 65 bps relative to the ratio as at 31 December 2020, mainly due to the increased Tier 1 capital following the AT1 issuances carried out in the period and, additionally, due to the increase of Common Equity Tier 1 (CET1) capital.

The following table shows the impact that the application of the transitional arrangements in force in 2021 has had on the various capital ratios (in phase-in terms) compared to the impact if the IFRS 9 rules had been applied in full (in fully-loaded terms):

Thousand euro

	2021
Available capital	
Common Equity Tier 1 (CET1) capital	10,079,533
Common Equity Tier 1 (CET1) capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	9,859,600
Tier 1 (T1) capital	12,479,533
Tier 1 (T1) capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	12,259,600
Total capital	14,500,802
Total capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	14,280,869
Risk weighted assets	
Total risk weighted assets	80,645,593
Total risk weighted assets if the IFRS 9 or analogous ECL transitional arrangements had not been applied	80,689,118
Capital ratios	
Common Equity Tier 1 (CET1) capital (expressed as percentage of risk exposure amount)	12.50 %
Common Equity Tier 1 (CET1) capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	12.22 %
Tier 1 (T1) capital (expressed as percentage of risk exposure amount)	15.47 %
Tier 1 (T1) capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	15.19 %
Total capital (expressed as percentage of risk exposure amount)	17.98 %
Total capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	17.70 %
Leverage ratio	
Total exposure measure corresponding to leverage ratio	211,616,215
Leverage ratio	5.90 %
Leverage ratio if the IFRS 9 or analogous ECL transitional arrangements had not been applied	5.80 %

The main impact arising from the application of these transitional arrangements has been the inclusion of 220 million euros in CET1, which partly mitigates the decrease in equity resulting from the entry into force of IFRS 9, due to the increase in accounting provisions. The impact generated a reduction in risk-weighted assets of 44 million euros.

For more information on capital ratios and the leverage ratio, their composition, details of parameters and their management, see the Pillar III Disclosures report, which is published annually and is available on the Group's website (www.grupobancosabadell.com), in the section "Information for shareholders and investors / Financial information".

Note 6 – Fair value of assets and liabilities

Financial assets and financial liabilities

The fair value of a financial asset or financial liability at a given date is understood as the amount at which it could be sold or transferred, respectively, as at that date, between two independent and knowledgeable parties acting freely and prudently, under market conditions. The most objective and commonly used reference for the fair value of a financial asset or financial liability is the price that would be paid in an organised, transparent and deep market ("quoted price" or "market price").

When there is no market price for a particular financial asset or financial liability, the fair value is estimated from the values established for similar instruments in recent transactions or, alternatively, by using mathematical valuation models that have been suitably tested by the international financial community. When using these models, the particular characteristics of the financial asset or financial liability to be valued are taken into account, particularly the different types of risks that may be associated therewith. The above notwithstanding, the limitations inherent in the valuation models that have been developed and possible inaccuracies in the assumptions and parameters required by these models may result in the estimated fair value of a financial asset or financial liability not exactly matching the price at which the asset or liability could be delivered or settled on the valuation date.

The fair value of financial derivatives quoted on an active market is the daily quoted price.

In the case of instruments for which quoted prices cannot be determined, prices are estimated using internal models developed by the Bank, most of which take data based on observable market parameters as significant inputs. In the remaining cases, the models make use of other inputs which rely on internal assumptions based on generally accepted practices within the financial community.

For financial instruments, the fair values disclosed in the financial statements are classified according to the following fair value levels:

- Level 1: Fair values are obtained from the (unadjusted) prices quoted on active markets for that instrument.
- Level 2: Fair values are obtained from the prices being quoted on active markets for similar instruments, the prices of recent transactions, expected payment flows or other valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3: Fair values are obtained through valuation techniques in which some significant inputs are not based on observable market data.

Set out below are the main valuation methods, assumptions and inputs used when estimating the fair value of financial instruments classified in Levels 2 and 3, according to the type of financial instrument concerned:

Level 2 financial instruments	Valuation techniques	Main assumptions	Main inputs used
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account: - An estimate of pre-payment rates - Issuers' credit risk	- Issuers' credit spreads - Observable market interest rates
Equity instruments	Sector multiples (P/BV)	Based on the NACE code that best represents the company's primary activity, the price-to-book value (P/BV) ratio obtained from peers is applied	- NACE codes - Share price listings in organised markets
Simple derivatives (a)	Net present value method	Implicit curves calculated based on quoted market prices.	- Observable yield curve - FX swaps curve and spot curve
Rest of derivatives (a)	For equity derivatives, currencies and commodities: - Black-Scholes model (analytic/semi-analytic formulae)	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term	- Forward structure of the underlying asset, given by market data (dividends, swap points, etc.). - Volatility surfaces of options - For forex derivatives: Probability of default for the calculation of CVA and DVA (b)
	For equity derivatives, currencies and commodities: - Monte Carlo simulations - SABR	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term - SABR: stochastic volatility model.	
	For interest rate derivatives: - Standard Model - Shifted Libor Market Model	These models assume that: - The standard and shifted models allow negative interest rates - Forward rates in the term structure of the interest rate curve are fully correlated	- Term structure of interest. - Volatility surfaces of Libor rate options (caps) and swap rate options (swaptions) - Probability of default to calculate CVA and DVA (b)
	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates	- Price listings of Credit Default Swaps (CDS) - Historic volatility of credit spreads

Level 3 financial instruments	Valuation techniques	Main assumptions	Main non-observable inputs
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account in each case: - An estimate of pre-payment rates - Issuers' credit risk - Other estimates for variables that affect future cash flows: claims, losses, amortisations	- Estimated credit spreads of the issuer or a similar issuer - Rates of claims, losses and/or amortisations
Equity instruments	Discounted cash flow method	Calculation of the present value of future cash flows discounted at market interest rates adjusted for risk (CAPM method), taking into account: - An estimate of the company's projected cash flows - Risk in the company's sector - Macroeconomic inputs	Entity's business plans - Risk premiums of the company's sector - Adjustment for systemic risk (Beta Parameter)
Derivatives (a)	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates	For credit derivatives: - Estimated credit spreads of the issuer or a similar issuer - Historic volatility of credit spreads

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

(b) To calculate CVA and DVA, levels of severity fixed at 60% have been used, which corresponds to the market standard for senior debt. Average future, positive and negative exposures have been estimated using market models, Libor for interest rates and the Black-Scholes model for currencies, using market inputs. The probability of default of customers with no quoted debt instruments or CDS have been obtained using the IRB model and for Banco Sabadell those obtained from the CDS stock prices have been assigned.

Determination of the fair value of financial instruments

A comparison between the value at which the Group's financial assets and liabilities are recognised on the accompanying consolidated balance sheets and their corresponding fair values is shown below:

Thousand euro

	Note	2021		2020	
		Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Cash, cash balances at central banks and other demand deposits	7	49,213,196	49,213,196	35,184,902	35,184,902
Financial assets held for trading	8,9,10	1,971,629	1,971,629	2,678,836	2,678,836
Non-trading financial assets mandatorily at fair value through profit or loss	8	79,559	79,559	114,198	114,198
Financial assets designated at fair value through profit or loss		—	—	—	—
Financial assets at fair value through other comprehensive income	9	6,869,637	6,869,637	6,676,801	6,676,801
Financial assets at amortised cost	8	178,869,317	184,223,595	174,488,258	181,743,524
Derivatives – Hedge accounting	12	525,382	525,382	549,550	549,550
Fair value changes of the hedged items in portfolio hedge of interest rate risk		(3,963)	(3,963)	458,849	458,849
Total assets		**237,524,757**	**242,879,035**	**220,151,394**	**227,406,660**

Thousand euro

	Note	2021 Carrying amount	2021 Fair value	2020 Carrying amount	2020 Fair value
Liabilities:					
Financial liabilities held for trading	10	1,379,898	1,379,898	2,653,849	2,653,849
Financial liabilities designated at fair value through profit or loss		—	—	—	—
Financial liabilities at amortised cost	18, 19, 20, 21	235,179,222	234,493,250	217,390,766	218,442,668
Derivatives – Hedge accounting	12	512,442	512,442	782,657	782,657
Fair value changes of the hedged items in portfolio hedge of interest rate risk		19,472	19,472	371,642	371,642
Total liabilities		**237,091,034**	**236,405,062**	**221,198,914**	**222,250,816**

In relation to financial instruments whose carrying amount differs from their fair value, the latter has been calculated as follows:

– The fair value of the heading "Cash, cash balances at central banks and other demand deposits" has been likened to its carrying amount, as these are mainly short-term balances.

– The fair value of the headings "Financial assets at amortised cost" and "Financial liabilities at amortised cost" has been estimated using the discounted cash flow method, applying market interest rates at the end of each year, with the exception of debt securities, for which it has been estimated using year-end market prices. The majority of the valuations of "Financial assets at amortised cost" are considered as Level 3. On the other hand, the majority of the valuations of "Financial liabilities at amortised cost" are considered as Level 2.

– Under the heading "Fair value changes of the hedged items in portfolio hedge of interest rate risk" of the accompanying consolidated balance sheets, adjustments (positive or negative) are recorded at the fair value of the financial assets or financial liabilities included in the amortised cost portfolio, which correspond exclusively to hedged interest rate risk. The fair value is calculated using internal models and observable market data variables.

The following tables show the main financial instruments recognised at fair value in the accompanying consolidated balance sheets, broken down according to the valuation method used to estimate their fair value:

Thousand euro

	Note	2021 Level 1	2021 Level 2	2021 Level 3	2021 Total
Assets:					
Financial assets held for trading		592,631	1,378,998	—	1,971,629
Derivatives	10	—	1,378,998	—	1,378,998
Equity instruments	9	2,258	—	—	2,258
Debt securities	8	590,373	—	—	590,373
Loans and advances – Customers		—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss		18,361	1,541	59,657	79,559
Equity instruments		14,544	38	—	14,582
Debt securities	8	3,817	1,503	59,657	64,977
Loans and advances		—	—	—	—
Financial assets designated at fair value through profit or loss		—	—	—	—
Debt securities		—	—	—	—
Loans and advances – Credit institutions		—	—	—	—
Financial assets at fair value through other comprehensive income		6,594,926	133,287	141,424	6,869,637
Equity instruments	9	2,402	106,378	75,766	184,546
Debt securities	8	6,592,524	26,909	65,658	6,685,091
Loans and advances		—	—	—	—
Derivatives – Hedge accounting	12	—	525,382	—	525,382
Total assets		**7,205,918**	**2,039,208**	**201,081**	**9,446,207**

Thousand euro

	Note	2021 Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		56,662	1,323,236	—	1,379,898
Derivatives	10	—	1,323,236	—	1,323,236
Short positions		56,662	—	—	56,662
Deposits with credit institutions		—	—	—	—
Financial liabilities designated at fair value through profit or loss		—	—	—	—
Derivatives – Hedge accounting	12	—	512,442	—	512,442
Total liabilities		**56,662**	**1,835,678**	**—**	**1,892,340**

Thousand euro

	Note	2020 Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		275,021	2,398,827	4,988	2,678,836
Derivatives	10	—	2,364,595	—	2,364,595
Equity instruments	9	290	825	—	1,115
Debt securities	8	274,731	33,407	4,988	313,126
Loans and advances – Customers		—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss		22,048	36,025	56,125	114,198
Equity instruments	9	12,481	35	—	12,516
Debt securities		9,567	35,990	56,125	101,682
Loans and advances		—	—	—	—
Financial assets designated at fair value through profit or loss		—	—	—	—
Debt securities		—	—	—	—
Loans and advances – Credit institutions		—	—	—	—
Financial assets at fair value through other comprehensive income		6,407,496	169,812	99,493	6,676,801
Equity instruments	9	5,914	80,715	83,354	169,983
Debt securities	8	6,401,582	89,097	16,139	6,506,818
Loans and advances		—	—	—	—
Derivatives – Hedge accounting	12	—	549,550	—	549,550
Total assets		**6,704,565**	**3,154,214**	**160,606**	**10,019,385**

Thousand euro

	Note	2020 Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		215,930	2,437,919	—	2,653,849
Derivatives	10	—	2,437,919	—	2,437,919
Short positions		215,930	—	—	215,930
Deposits with credit institutions		—	—	—	—
Financial liabilities designated at fair value through profit or loss		—	—	—	—
Derivatives – Hedge accounting	12	—	782,657	—	782,657
Total liabilities		**215,930**	**3,220,576**	**—**	**3,436,506**

Derivatives with no credit support annexes (CSAs) include the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) in their fair value, respectively. The fair value of these derivatives represents 4.74% of the total, and their adjustment for credit and debit risks represents 5.73% of their fair value as at 31 December 2021 (4.97% and 3.79%, respectively, as at 31 December 2020).

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

Thousand euro

	Assets	Liabilities
Balance as at 31 December 2019	**216,667**	**—**
Valuation adjustments recognised in profit and loss (*)	(8,512)	—
Valuation adjustments not recognised in profit and loss	622	—
Purchases, sales and write-offs	(47,788)	—
Net additions/removals in Level 3	3,610	—
Exchange differences and other	(3,993)	—
Balance as at 31 December 2020	**160,606**	**—**
Valuation adjustments recognised in profit and loss (*)	4,231	—
Valuation adjustments not recognised in profit and loss	5,015	—
Purchases, sales and write-offs	(30,874)	—
Net additions/removals in Level 3	58,927	—
Exchange differences and other	3,176	—
Balance as at 31 December 2021	**201,081**	**—**

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

Net Level 3 inflows primarily correspond to debt instruments previously classified as Level 1 whose fair value is now calculated using valuation techniques in which the main significant inputs are based on unobservable data.

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

Thousand euro

	2021					
From:	Level 1		Level 2		Level 3	
To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:						
Financial assets held for trading	—	—	—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—	—	—	—	—
Financial assets designated at fair value through profit or loss	—	—	—	—	—	—
Financial assets at fair value through other comprehensive income	—	58,890	—	37	—	—
Derivatives	—	—	—	—	—	—
Liabilities:						
Financial liabilities held for trading	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	—	—	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Total	**—**	**58,890**	**—**	**37**	**—**	**—**

Thousand euro

		2020					
	From:	Level 1		Level 2		Level 3	
	To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:							
Financial assets held for trading		6,197	4,988	—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss		26,240	—	—	—	—	—
Financial assets designated at fair value through profit or loss		—	—	—	—	—	—
Financial assets at fair value through other comprehensive income		—	834	—	—	420	1,792
Derivatives		—	—	—	—	—	—
Liabilities:							
Financial liabilities held for trading		—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss		—	—	—	—	—	—
Derivatives – Hedge accounting		—	—	—	—	—	—
Total		**32,437**	**5,822**	**—**	**—**	**420**	**1,792**

Transfers from Level 1 to Level 3 in 2021 are due to the fact that the markets in which these instruments (mainly asset-backed securities) are traded are no longer considered as active markets; therefore, their value is now calculated using valuation techniques in which one of the main significant inputs (early redemption rate) is based on unobservable market data.

As at 31 December 2021 and 2020, the effect of replacing the main assumptions used in the valuation of Level 3 financial instruments with other reasonably possible assumptions, taking the highest value (most favourable assumption) or lowest value (least favourable assumption) of the range that is considered likely, is not significant.

At year-end in both years, there were no derivatives using equity instruments as underlying assets or material interests in discretionary gains in any companies.

Loans and financial liabilities at fair value through profit or loss

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

Financial instruments at cost

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

Non-financial assets

Real estate assets

As at 31 December 2021 and 2020, the net carrying values of real estate assets do not differ significantly from the fair values of these assets (see Notes 13, 15 and 17).

The selection criteria for valuation suppliers and the update of appraisals are defined in the section on “Guarantees”, in Note 1.3.4. to these consolidated annual financial statements.

Valuation techniques are generally used by all appraisal companies based on the type of each real estate asset.

As per regulatory requirements, in the valuation techniques used, appraisal companies maximise the use of observable market data and other factors which would be taken into account by market operators when setting prices, endeavouring to keep the use of subjective considerations and unobservable or non-verifiable data to a minimum.

The main valuation methods used fall into the following measurement levels:

Level 2

- Comparison method: applicable to all kinds of properties provided that there is a representative market of comparable properties and that sufficient data is available relating to transactions that reflect the current market situation.

- Rental update method: applicable when the valued property generates or may generate rental income and there is a representative market of comparable data.

- Statistical model: this model adjusts the value of the assets based on the date of acquisition and their location, updating the value in accordance with price trends in the area concerned as from the date of purchase. To this end, it includes statistical information on price trends in all provinces, as provided by external appraisal companies, as well as demographic data from the Spanish Office for National Statistics (INE) to calculate sensitivity at a municipality level. The value obtained is in turn adjusted based on the construction status (finished product, development in progress, plots or land under management) and use (residential, industrial, etc.) of the asset.

Level 3

- Cost method: applicable to determine the value of buildings being planned, under construction or undergoing renovations.

- Residual method: in the present macroeconomic climate, the dynamic calculation procedure is being used preferentially in new land valuations to the detriment of the static procedure, which is reserved for specific cases in which the envisaged time frames for project completion are in line with the relevant regulations.

Depending on the type of asset, the methods used in the valuation of the Group's portfolio are the following:

- Completed works: valued in comparable terms, based on updates to income or the statistical model (Level 2).

- Works in progress: valued using the cost method as a sum of the land value and the value of the work carried out (Level 3).

- Land: valued using the residual method (Level 3).

Determination of the fair value of real estate assets

The following tables show the main real estate assets broken down using the valuation method used in their fair value estimate as at 31 December 2021 and 2020:

Thousand euro

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Housing	—	809,601	—	809,601
Offices, retail establishments and other real estate	—	1,014,204	—	1,014,204
Land and building plots	—	—	30,440	30,440
Work in progress	—	—	3,966	3,966
Total assets	**—**	**1,823,805**	**34,406**	**1,858,211**

Thousand euro

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Housing	—	904,750	—	904,750
Offices, retail establishments and other real estate	—	1,101,166	—	1,101,166
Land and building plots	—	—	32,316	32,316
Work in progress	—	—	7,026	7,026
Total assets	**—**	**2,005,916**	**39,342**	**2,045,258**

Significant unobservable variables used in valuations classed as Level 3 have been developed, not by the Group, but by the independent third party companies that performed the appraisals. Given the widespread use of the appraisals, the valuation techniques of which are clearly set out in the regulation governing the valuation of properties, the unobservable variables used reflect the assumptions frequently used by all appraisal companies. In terms of proportional weight, unobservable variables represent almost all of the value of these appraisals.

The main unobservable variables used in the valuation of assets in accordance with the dynamic residual method are the future selling price, the estimated construction costs, the costs of development, the time required for land planning and development and the discount rate. The main unobservable variables used in accordance with the static residual method are construction costs, the costs of development and the profit for the developer.

The number of plots in the Group's possession is very fragmented, and they are very varied, both in terms of location and in terms of the stage of development of the urban infrastructure and the possibility of future development. For this reason, no quantitative information can be provided regarding the unobservable variables affecting the fair value of these types of assets.

Movements in the balances of real estate assets classified as Level 3 in 2021 and 2020 are shown below:

Thousand euro

	For house purchase	Offices, retail establishments and other real estate	Land, building plots and work in progress
Balance as at 31 December 2019	**—**	**—**	**791,034**
Purchases	—	—	20,044
Sales	—	—	(756,772)
Impairments recognised on income statement (*)	—	—	(14,737)
Net additions/removals in Level 3	—	—	(227)
Balance as at 31 December 2020	**—**	**—**	**39,342**
Purchases	—	—	11,360
Sales	—	—	(8,704)
Impairments recognised on income statement (*)	—	—	(6,502)
Net additions/removals in Level 3	—	—	(1,090)
Balance as at 31 December 2021	**—**	**—**	**34,406**

(*) Relates to assets kept on the balance sheet as at 31 December 2021 and 2020.

During 2021 and 2020, certain real estate assets have been transferred between the different valuation levels, due to the transformation of assets that were in the process of construction into finished products.

The following table shows a comparison between the value at which the Group's real estate assets were recognised under the headings "Non-current assets and disposal groups classified as held for sale", "Investment properties" and "Inventories" and their appraisal value, as at the end of 2021 and 2020:

Thousand euro

		2021				**2020**			
	Note	**Carrying amount (*)**	**Impairment**	**Net carrying amount**	**Valuation amount**	**Carrying amount (*)**	**Impairment**	**Net carrying amount**	**Valuation amount**
Investment properties	15	450,644	(71,376)	379,268	468,641	390,757	(42,665)	348,092	379,225
Inventories	17	248,345	(105,632)	142,713	213,470	313,094	(118,830)	194,264	291,990
Non-current assets held for sale		788,711	(208,322)	580,389	913,787	946,814	(282,756)	664,058	1,091,219
Total		**1,487,700**	**(385,330)**	**1,102,370**	**1,595,898**	**1,650,665**	**(444,251)**	**1,206,414**	**1,762,434**

(*) Cost less accumulated depreciation.

The fair values of real estate assets valued by appraisal companies and included in the headings “Non-current assets and disposal groups classified as held for sale”, “Investment properties” and “Inventories” in 2021 are as follows:

Thousand euro

Appraisal firm	Non-current assets held for sale	Investment properties	Inventories
Afes Técnicas de Tasación, S.A.	—	949	—
Alia Tasaciones, S.A.	64,804	26,728	22,805
CBRE Valuation Advisory SA	74,503	1,541	7,647
Cushman & Wakefield	—	15,968	—
Eurovaloraciones, S.A.	7,801	13,182	1,506
Gestión de Valoraciones y Tasaciones, S.A.	16,029	22,623	9,403
Gloval Valuation, S.A.U.	232,420	77,813	29,581
Ibertasa, S.A.	397	—	—
Instituto de Valoraciones, S.A.	429	—	—
Krata, S.A.	167	1,803	—
Sociedad de Tasación, S.A.	55,902	83,350	12,462
Tabimed Gestión de Proyectos, S.L.	312	—	—
Tecnitasa Técnicos en Tasación, S.A	16,622	7,501	8,426
Tinsa Tasaciones Inmobiliarias, S.A.	61,806	62,015	34,826
Valoraciones Mediterráneo, S.A.	43,852	65,090	14,719
Other	5,345	705	1,338
Total	**580,389**	**379,268**	**142,713**

The fair value of property, plant and equipment for own use does not differ significantly from its net carrying amount.

Note 7 – Cash, cash balances at central banks and other demand deposits

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

Thousand euro

	2021	2020
By nature:		
Cash	704,105	749,608
Cash balances at central banks	47,741,021	33,842,492
Other demand deposits	768,070	592,802
Total	**49,213,196**	**35,184,902**
By currency:		
In euro	42,059,700	28,671,822
In foreign currency	7,153,496	6,513,080
Total	**49,213,196**	**35,184,902**

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

The increase during 2021 of the “Cash, Cash balances at central banks and other demand deposits” heading is mainly due to the Bank’s participation in the TLTRO III liquidity auctions (see Notes 1.3.21 and 4.4.3.1).

Note 8 – Debt securities

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

Thousand euro

	2021	2020
By heading:		
Financial assets held for trading	590,373	313,126
Non-trading financial assets mandatorily at fair value through profit or loss	64,977	101,682
Financial assets designated at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	6,685,091	6,506,818
Financial assets at amortised cost	15,190,212	18,091,189
Total	**22,530,653**	**25,012,815**
By nature:		
Central banks	—	—
General governments	21,361,299	22,132,663
Credit institutions	689,449	1,435,817
Other sectors	393,424	1,106,251
Stage 3 assets	73	73
Impairment allowances	—	(297)
Other valuation adjustments (interest, fees and commissions, other)	86,408	338,308
Total	**22,530,653**	**25,012,815**
By currency:		
In euro	17,030,481	20,790,858
In foreign currency	5,500,172	4,221,957
Total	**22,530,653**	**25,012,815**

In May 2021, the Group decided to sell debt instruments which had a carrying amount of 3,735 million euros and which were recognised on the consolidated balance sheet under the heading “Financial assets at amortised cost”, by arranging forward sale contracts that were settled in the third quarter of 2021. These sales were carried out as part of a series of actions undertaken to improve the Group’s future profitability while preserving its solvency, including the restructuring announced in Spain in the third quarter of 2021 (see Note 33). The Group considered that these sales, while not speculative in nature, do not fit into any of the categories that the regulations consider consistent with the business model under which these assets are managed (hold to collect contractual cash flows). For this reason, the Bank decided to refrain from classifying debt securities it acquires under the heading “Financial assets at amortised cost” on the consolidated balance sheet, until the conditions allowing debt instruments to be classified under this heading again are met.

In March 2020, the Group sold Italian sovereign debt instruments which had a carrying amount of 2,835 million euros and which were recognised under the heading “Financial assets at amortised cost” of the consolidated balance sheet. These sales were executed with the aim of managing the increased credit risk associated with Italian debt instruments issued as a result of the impact of COVID-19 on the Italian economy. Consequently, following the sales, the carrying amount of Italian sovereign debt instruments recorded at amortised cost was reduced to 2,792 million euros as at 31 December 2020. The Group considered that these sales were consistent with the business model under which these assets were managed (held to collect contractual cash flows).

In the last quarter of 2020, the Group sold Spanish and Portuguese sovereign debt instruments which had a carrying amount of 4,032 million euros and which were recognised under the heading “Financial assets at amortised cost” of the consolidated balance sheet. These sales were carried out in order to preserve the Group’s solvency as part of a series of actions taken to improve future profitability and the quality of its balance sheet (such as the disposal of certain portfolios of impaired financial assets or the agreement on retirement, early retirement and voluntary redundancy mentioned in Note 33), in response to the economic crisis triggered by COVID-19. The Group considered that these sales were consistent with the business model under which these assets were managed (held to collect contractual cash flows) as they were sales made due to exceptional circumstances beyond the control of the Group, that did not modify the criteria under which debt instruments classified in the amortised cost portfolio which had not been disposed of were managed.

The results obtained from these disposals were recognised under the heading "Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net – Financial assets at amortised cost" of the consolidated income statement (see Note 30).

Additionally, during 2020, based on the latest strategic plan presented by the Spanish company for the management of assets proceeding from the restructuring of the banking system (SAREB, for its acronym in Spanish), the carrying amount of subordinated debt held by the Group in this company was written down by 27 million euros, which was charged to the heading "Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net – Other gains or (-) losses" of the consolidated income statement, reducing the carrying amount to zero (see Note 30).

The breakdown of the debt securities classified based on their credit risk and the movement of impairment allowances associated with these instruments are included, together with those of other financial assets, in Note 11.

Details of debt instruments included under the "Financial assets at fair value through other comprehensive income" heading, as at 31 December 2021 and 2020, are shown below:

Thousand euro

	2021	**2020**
Amortised cost	6,699,715	6,513,033
Fair value (*)	6,685,091	6,506,818
Accumulated losses recognised in equity	(88,999)	(87,420)
Accumulated capital gains recognised in equity	75,525	82,997
Value adjustments made for credit risk	(1,150)	(1,792)

(*) Includes net impairment in the profit and loss account for the years 2021 and 2020 in the amount of 697 and 288 thousand euro, of which (677) and (1,475) thousand euro were provisioned in the year, and reversal of impairment in the amount of 1,374 and 1,763 thousand euro in 2021 and 2020, respectively (see note 34).

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

Thousand euro

	2021	**2020**
Amortised cost	6,466,128	5,718,479
Fair value	6,446,213	5,702,819
Accumulated losses recognised in equity	(88,156)	(84,255)
Accumulated capital gains recognised in equity	68,347	68,704
Value adjustments made for credit risk	(106)	(109)

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

Thousand euro

	2021	**2020**
Central banks	—	—
General governments	14,457,615	16,750,347
Credit institutions	647,363	815,989
Other sectors	85,234	525,039
Impairment allowances	—	(186)
Total	**15,190,212**	**18,091,189**

Note 9 – Equity instruments

Equity instruments reported in the consolidated balance sheets as at 31 December 2021 and 2020 are broken down as follows:

Thousand euro

	2021	2020
By heading:		
Financial assets held for trading	2,258	1,115
Non-trading financial assets mandatorily at fair value through profit or loss	14,582	12,516
Financial assets at fair value through other comprehensive income	184,546	169,983
Total	**201,386**	**183,614**
By nature:		
Resident sector	165,405	146,872
Credit institutions	6,659	5,081
Other	158,746	141,791
Non-resident sector	18,548	16,569
Credit institutions	—	—
Other	18,548	16,569
Participations in investment vehicles	17,433	20,173
Total	**201,386**	**183,614**
By currency:		
In euro	199,778	181,786
In foreign currency	1,608	1,828
Total	**201,386**	**183,614**

As at 31 December 2021 and 2020, there were no investments in listed equity instruments for which their quoted market price has not been considered as a reference of their fair value.

In addition, as of the aforesaid dates, there were no Group investments in equity instruments included in the portfolio of "Financial assets at fair value through other comprehensive income" considered to be individually significant.

Details of equity instruments included under the "Financial assets at fair value through other comprehensive income" heading are as follows:

Thousand euro

	2021	2020
Cost of acquisition	257,714	264,897
Fair value	184,546	169,983
Accumulated capital losses recognised in equity at reporting date	(149,044)	(154,041)
Accumulated capital gains recognised in equity at reporting date	75,876	59,127
Transfers of gains or losses within equity during the period	(868)	4,846
Recognised dividends from investments held at the end of the year	1,239	994
Recognised dividends from investments derecognised during the year	—	5

Note 10 – Derivatives held for trading

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

Thousand euro

	2021		2020	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Securities risk	29,019	29,019	148,471	149,448
Interest rate risk	981,743	919,688	1,467,154	1,534,857
Currency risk	218,470	224,868	501,476	506,315
Other types of risk	149,766	149,661	247,494	247,299
Total	**1,378,998**	**1,323,236**	**2,364,595**	**2,437,919**
By currency:				
In euro	1,061,444	1,027,833	1,919,173	1,895,436
In foreign currency	317,554	295,403	445,422	542,483
Total	**1,378,998**	**1,323,236**	**2,364,595**	**2,437,919**

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

Thousand euro

	2021	**2020**
Assets		
Swaps, CCIRS, Call Money Swap	1,104,366	1,685,131
Currency options	37,819	80,147
Interest rate options	27,143	29,015
Index and securities options	29,019	148,436
Currency forwards	180,651	421,329
Fixed income forwards	—	537
Equity forward	—	—
Interest rate forwards	—	—
Total derivatives on asset side held for trading	**1,378,998**	**2,364,595**
Liabilities		
Swaps, CCIRS, Call Money Swap	1,050,442	1,755,200
Currency options	42,520	78,468
Interest rate options	11,644	20,915
Index and securities options	36,282	155,489
Currency forwards	182,348	427,847
Fixed income forwards	—	—
Equity forward	—	—
Interest rate forwards	—	—
Total derivatives on liability side held for trading	**1,323,236**	**2,437,919**

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

Note 11 – Loans and advances

Central banks and Credit institutions

The breakdown of the headings “Loans and advances – Central banks” and “Loans and advances – Credit institutions”, of the consolidated balance sheets as at 31 December 2021 and 2020, is as follows:

Thousand euro

	2021	2020
By heading:		
Financial assets held for trading	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—
Financial assets designated at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	—	—
Financial assets at amortised cost	6,312,820	7,213,593
Total	**6,312,820**	**7,213,593**
By nature:		
Deposits with agreed maturity	1,165,623	1,629,195
Repos	4,938,372	5,424,127
Hybrid financial assets	—	—
Other	206,013	159,126
Stage 3 assets	1	5
Impairment allowances	(2,063)	(1,424)
Other valuation adjustments (interest, fees and commissions, other)	4,874	2,564
Total	**6,312,820**	**7,213,593**
By currency:		
In euro	5,964,809	6,757,115
In foreign currency	348,011	456,478
Total	**6,312,820**	**7,213,593**

Customers

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

Thousand euro

	2021	2020
By heading:		
Financial assets held for trading	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—
Financial assets designated at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	—	—
Financial assets at amortised cost	157,366,285	149,183,476
Total	**157,366,285**	**149,183,476**
By nature:		
Overdrafts, etc.	2,875,764	4,833,182
Commercial loans	6,049,554	4,991,095
Finance leases	2,106,263	2,230,500
Secured loans	94,313,424	87,270,583
Repos	—	63,494
Other term loans	49,567,028	47,552,905
Stage 3 assets	5,698,077	5,319,869
Impairment allowances	(3,302,033)	(3,081,312)
Other valuation adjustments (interest, fees and commissions, other)	58,208	3,160
Total	**157,366,285**	**149,183,476**
By sector:		
General governments	9,401,011	10,087,458
Other sectors	145,511,022	136,854,301
Stage 3 assets	5,698,077	5,319,869
Impairment allowances	(3,302,033)	(3,081,312)
Other valuation adjustments (interest, fees and commissions, other)	58,208	3,160
Total	**157,366,285**	**149,183,476**
By currency:		
In euro	101,211,811	100,937,177
In foreign currency	56,154,474	48,246,299
Total	**157,366,285**	**149,183,476**
By geography:		
Spain	98,017,676	96,288,761
United Kingdom	47,126,912	39,786,928
Rest of European Union	4,534,782	5,339,314
Americas	9,284,318	8,747,660
Rest of the world	1,704,629	2,102,125
Impairment allowances	(3,302,032)	(3,081,312)
Total	**157,366,285**	**149,183,476**

The “Loans and advances” heading on the consolidated balance sheets includes certain assets pledged in funding operations, i.e. assets pledged as collateral or guarantees with respect to certain liabilities. For further information, see the “Credit risk” section of Note 4.

Finance leases

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

Thousand euro

	2021	2020
Finance leases		
Total gross investment	2,318,186	2,407,292
Impairment allowances	(97,017)	(64,347)
Interest income	49,667	61,899

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

Thousand euro

	2021	2020
Undiscounted lease receipts	2,141,325	2,243,258
Unguaranteed residual value	176,861	164,034
Gross investment in the lease	**2,318,186**	**2,407,292**
Unearned financial income	(152,922)	(175,576)
Net investment in the lease	**2,165,264**	**2,231,716**

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

Thousand euro

	2021	2020
Up to 1 year	583,536	569,446
1-2 years	439,266	495,782
2-3 years	340,963	326,196
3-4 years	233,268	239,803
4-5 years	154,164	170,120
More than 5 years	390,128	441,911
Total	**2,141,325**	**2,243,258**

Past-due financial assets

The balance of “Loans and advances – Customers” past-due and pending collection not classified as stage 3 as at 31 December 2021 amounted to 128,382 thousand euros (77,350 thousand euros as at 31 December 2020). Of this total, over 90% of the balance as at 31 December 2021 (80% of the balance as at 31 December 2020) was no more than one month past due.

Financial assets classified on the basis of their credit risk

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

Thousand euro

Stage 1	**31/12/2021**	**31/12/2020**
Debt securities	22,444,172	24,670,232
Loans and advances	148,895,098	142,878,089
Customers	142,607,101	135,666,359
Central banks and Credit institutions	6,287,997	7,211,729
Total stage 1	**171,339,270**	**167,548,321**
By sector:		
General governments	30,758,253	32,193,319
Central banks and Credit institutions	6,977,447	8,647,547
Other private sectors	133,603,570	126,707,455
Total stage 1	**171,339,270**	**167,548,321**
Stage 2		
Debt securities	—	4,500
Loans and advances	12,326,943	11,276,120
Customers	12,304,932	11,275,402
Central banks and Credit institutions	22,011	718
Total stage 2	**12,326,943**	**11,280,620**
By sector:		
General governments	4,057	26,803
Central banks and Credit institutions	22,010	718
Other private sectors	12,300,876	11,253,099
Total stage 2	**12,326,943**	**11,280,620**
Stage 3		
Debt securities	73	73
Loans and advances	5,698,078	5,319,874
Customers	5,698,077	5,319,869
Central banks and Credit institutions	1	5
Total stage 3	**5,698,151**	**5,319,947**
By sector:		
General governments	9,632	10,231
Central banks and Credit institutions	1	5
Other private sectors	5,688,518	5,309,711
Total stage 3	**5,698,151**	**5,319,947**
Total stages	**189,364,364**	**184,148,889**

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

Thousand euro

	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
Balance as at 31 December 2019	**178,381,423**	**7,931,152**	**5,922,969**	***265,533***	**192,235,544**
Transfers between impairment stages	(6,106,818)	4,558,050	1,548,769	—	—
Stage 1	5,612,870	(5,541,131)	(71,739)	—	—
Stage 2	(11,253,952)	11,578,522	(324,570)	—	—
Stage 3	(465,736)	(1,479,341)	1,945,077	—	—
Increases	50,140,360	841,787	458,809	*7,023*	51,440,955
Decreases	(52,346,170)	(1,820,692)	(2,005,296)	*(88,401)*	(56,172,159)
Transfers to write-offs	—	—	(568,816)	—	(568,816)
Adjustments for exchange differences	(2,520,473)	(229,675)	(36,488)	*(9,950)*	(2,786,637)
Balance as at 31 December 2020	**167,548,321**	**11,280,620**	**5,319,947**	***174,204***	**184,148,888**
Transfers between impairment stages	(3,796,767)	2,205,398	1,591,369	—	—
Stage 1	5,440,672	(5,345,852)	(94,820)	—	—
Stage 2	(8,899,067)	9,238,131	(339,064)	—	—
Stage 3	(338,372)	(1,686,881)	2,025,253	—	—
Increases	54,828,535	917,933	508,382	*4,800*	56,254,850
Decreases	(49,465,456)	(2,370,468)	(1,283,738)	*(29,655)*	(53,119,662)
Transfers to write-offs	(683)	(1,449)	(474,686)	—	(476,818)
Adjustments for exchange differences	2,225,320	294,909	36,877	*10,417*	2,557,106
Balance as at 31 December 2021	**171,339,270**	**12,326,943**	**5,698,151**	***159,766***	**189,364,364**

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

Thousand euro

	31/12/2021	31/12/2020
Secured with a mortgage (*)	2,708,483	2,363,867
Of which: Stage 3 financial assets with guarantees covering all of the risk	*1,617,399*	*1,897,377*
Other collateral (**)	288,025	274,821
Of which: Stage 3 financial assets with guarantees covering all of the risk	*190,379*	*178,650*
Other	2,701,643	2,681,259
Total	**5,698,151**	**5,319,947**

(*) Assets secured with a mortgage with an outstanding exposure below 100% of their valuation amount.

(**) Includes the rest of assets secured with collateral.

The breakdown by geographical area of the balance of assets classed as stage 3 as at 31 December 2021 and 2020 is as follows:

Thousand euro

	31/12/2021	31/12/2020
Spain	4,846,743	4,531,715
United Kingdom	679,817	564,290
Rest of European Union	45,538	44,099
Americas	96,950	89,587
Rest of the world	29,103	90,256
Total	**5,698,151**	**5,319,947**

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

Thousand euro	
Balance as at 31 December 2019	**5,043,769**
Additions	**676,779**
Use of accumulated impairment balance	531,055
Directly recognised on income statement	68,935
Contractually payable interests	62,944
Other items	13,845
Disposals	**(507,193)**
Collections of principal in cash from counterparties	(44,508)
Collections of interest in cash from counterparties	(1,274)
Debt forgiveness	(19,328)
Referrals	(129,542)
Forbearance	—
Sales	(256,102)
Foreclosure of tangible assets	(7,118)
Other items	(49,321)
Exchange differences	**(22,223)**
Balance as at 31 December 2020	**5,191,132**
Additions	**903,346**
Use of accumulated impairment balance	451,678
Directly recognised on income statement	35,855
Contractually payable interests	151,956
Other items	263,857
Disposals	**(195,527)**
Collections of principal in cash from counterparties	(63,553)
Collections of interest in cash from counterparties	(1,817)
Debt forgiveness	(17,847)
Referrals	—
Forbearance	—
Sales	(108,972)
Foreclosure of tangible assets	(2,510)
Other items	(828)
Exchange differences	**30,891**
Balance as at 31 December 2021	**5,929,842**

Allowances

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

Thousand euro

Stage 1	**2021**	**2020**
Debt securities	—	296
Loans and advances	377,703	447,796
Central banks and Credit institutions	2,041	1,032
Customers	375,662	446,763
Total stage 1	**377,703**	**448,092**
Stage 2		
Debt securities	—	—
Loans and advances	494,047	465,067
Central banks and Credit institutions	22	—
Customers	494,025	465,067
Total stage 2	**494,047**	**465,067**
Stage 3		
Debt securities	—	—
Loans and advances	2,432,345	2,169,874
Central banks and Credit institutions	—	392
Customers	2,432,345	2,169,482
Total stage 3	**2,432,345**	**2,169,874**
Total stages	**3,304,096**	**3,083,032**

Movements in impairment allowances allocated by the Group to cover credit risk during 2021 and 2020 are as follows:

Thousand euro

	Individually measured		Collectively measured			Total
	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Balance as at 31 December 2019	**16,149**	**491,526**	**399,862**	**252,593**	**1,773,862**	**2,933,992**
Movements reflected in impairment gains/(losses) (*)	**2,418**	**219,856**	**70,290**	**309,375**	**979,230**	**1,581,169**
Increases due to origination	—	—	266,479	—	—	266,479
Changes due to credit risk variance	2,350	234,695	(79,918)	225,626	985,257	1,368,010
Changes in calculation approach	—	—	—	—	—	—
Other movements	68	(14,839)	(116,271)	83,749	(6,027)	(53,320)
Movements not reflected in impairment gains/(losses)	**(7,014)**	**(112,934)**	**(12,357)**	**(103,510)**	**(1,170,095)**	**(1,405,910)**
Transfers between impairment stages	(6,066)	94,538	(6,301)	(81,020)	(1,151)	—
Stage 1	741	(1,785)	189,108	(163,198)	(24,866)	—
Stage 2	(486)	(608)	(177,906)	208,896	(29,896)	—
Stage 3	(6,321)	96,931	(17,503)	(126,718)	53,611	—
Utilisation of allocated provisions	(948)	(198,503)	(6,020)	(22,222)	(1,105,905)	(1,333,598)
Other movements (**)	—	(8,969)	(36)	(268)	(63,039)	(72,312)
Adjustments for exchange differences	**(14)**	**(8,164)**	**(9,704)**	**(4,931)**	**(3,406)**	**(26,219)**
Balance as at 31 December 2020	**11,540**	**590,283**	**448,092**	**453,527**	**1,579,591**	**3,083,032**
Scope additions / exclusions	.					
Movements reflected in impairment gains/(losses) (*)	**(7,060)**	**114,141**	**(86,142)**	**223,992**	**608,267**	**853,198**
Increases due to origination	—	—	259,110	1,400	76	260,586
Changes due to credit risk variance	(14,852)	159,904	(270,812)	177,536	571,293	623,069
Changes in calculation approach	—	—	—	—	—	—
Other movements	7,792	(45,763)	(74,440)	45,056	36,898	(30,457)
Movements not reflected in impairment gains/(losses)	**(1,885)**	**(139,793)**	**(10,598)**	**(197,849)**	**(310,485)**	**(660,610)**
Transfers between impairment stages	(1,516)	28,135	4,263	(176,866)	145,984	—
Stage 1	—	2,388	167,249	(143,558)	(26,079)	—
Stage 2	8,907	11,211	(150,882)	165,464	(34,699)	—
Stage 3	(10,423)	14,536	(12,104)	(198,772)	206,763	—
Utilisation of allocated provisions	(368)	(167,929)	(14,795)	(20,944)	(427,654)	(631,689)
Other movements (**)	—	—	(66)	(39)	(28,816)	(28,921)
Adjustments for exchange differences	**—**	**(16,169)**	**26,352**	**11,768**	**6,525**	**28,476**
Balance as at 31 December 2021	**2,595**	**548,461**	**377,703**	**491,438**	**1,883,898**	**3,304,096**

(*) This figure, corresponding to the amortisation charged to results on impaired financial assets derecognised from the asset side of the balance sheet and the recovery of write-offs, has been recognised with a balancing entry under the heading 'Impairment and gains or losses on changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or (-) losses on changes' (see Note 34)

(**) Corresponds to credit loss allowances transferred to non-current assets held for sale (see Note 13).

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

Thousand euro

	2021	2020
Spain	2,746,076	2,565,302
United Kingdom	252,181	301,257
Rest of European Union	120,486	44,408
Americas	170,454	100,665
Rest of the world	14,899	71,400
Total	**3,304,096**	**3,083,032**

Sensitivity analysis of the key variables of macroeconomic scenarios

An analysis of the sensitivity of the Group's expected loss and its impact by stage on impairment allowances in the event of a change, ceteris paribus, from the actual macroeconomic environment, relative to the most probable baseline macroeconomic scenario included in the Group's business plan, is set out below. The results of this analysis are shown below:

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

(*) Changes in macroeconomic variables reflect impacts, in absolute values, on the baseline macroeconomic scenario described in Note 1.3.4.

Note 12 – Derivatives - hedge accounting

Hedging management

The main hedges arranged by the Group are described below:

Interest rate risk hedge

Based on the balance sheet position and the market situation and outlooks, interest rate risk mitigation strategies are proposed and agreed upon to adapt this position to the one desired by the Group. With this aim in mind, Banco Sabadell Group establishes interest rate hedging strategies for positions that are not included in the trading book and, to that end, derivative instruments are used, whether fair value or cash flow hedging instruments, and a distinction is made between them depending on the items hedged:

– Macro-hedges: hedges intended to mitigate the risk of balance sheet components.

– Micro-hedges: hedges intended to mitigate the risk of a particular asset or liability.

When a transaction is designated as a hedging operation, it is classified as such from the outset of the transaction or the inception of the instruments included in the hedge, and a document is prepared which covers the hedging strategy, defining it in management and accounting terms and setting out its governance. The aforesaid document clearly identifies the item or items hedged and the hedging instrument, the risk that it seeks to hedge and the criteria or methodologies followed by the Group to evaluate its effectiveness.

The Group operates with the following types of hedges intended to mitigate structural interest rate risk:

– Fair value hedges: hedges against the exposure to changes in the fair value of assets and liabilities recognised on the balance sheet, or against the analogous exposure of a specific selection of such assets and liabilities, that can be attributed to interest rate risk. These are used to keep a stable economic value of equity.

  The main types of balance sheet items hedged are:

  • Fixed-rate loans included in the lending portfolio.

  • Debt securities included in the portfolio of "Financial assets at fair value through other comprehensive income" and the portfolio of "Financial assets at amortised cost".

  • Fixed-rate liabilities, including fixed-term deposits and the Institution's funding operations in the capital markets.

  Banco Sabadell generally uses macro-hedging for balance sheet items, both assets and liabilities, while TSB uses macro-hedging for fixed-rate loans or deposits and micro-hedging for debt securities or the Bank's funding operations in the capital markets, for which they arrange derivative contracts, typically for a nominal amount identical to the hedged item and with the same financial features.

If the hedge relates to assets, the Group enters into a fixed-for-floating swap, whereas if the macro-hedge relates to liabilities, it enters into a floating-to-fixed interest rate swap. These derivatives can be traded in cash or as forwards. The hedged risk is the interest rate risk arising from a potential change in the risk-free interest rate that gives rise to changes in the value of the hedged balance sheet items. As such, the hedge will not cover any risk inherent in the hedged items other than the risk of a change in the risk-free interest rate

In order to assess the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated monthly variance in the fair value of the hedged item against the accumulated monthly variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that future changes in the fair value of the hedged balance sheet items are offset by future changes in the fair value of the derivative.

– Cash flows: hedging against the exposure to changes in cash flows arising from a particular risk associated with a previously recognised asset or liability, or a forecast transaction that is highly likely to materialise and which could affect the results for the year. They are used to reduce net interest income volatility.

  The main types of balance sheet items hedged are:

  - Floating rate mortgage loans indexed to the mortgage Euribor.
  - Floating rate liabilities indexed to the 3-month Euribor.

  Banco Sabadell generally uses macro-hedging for balance sheet items, both assets and liabilities, while TSB also uses micro-hedging for floating-rate issues of its own-name securities, for which they arrange derivative contracts, typically for a nominal amount identical to the hedged item and with the same financial features.

  If the hedge relates to assets, the Group enters into a floating-to-fixed interest rate swap, whereas if the macro-hedge relates to liabilities, it enters into a fixed-for-floating swap. These derivatives can be traded in cash or as forwards. The hedged risk is the interest rate risk associated with the effect that a potential change in the benchmark interest rate could have on the future interest accrued on hedged balance sheet items. The credit spread and risk premium which, together with the benchmark index, make up the contractual interest rate applicable to the hedged balance sheet items is expressly excluded from the hedge.

  In order to assess the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated variance in the fair value of the hedged item against the accumulated variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that the expected cash flows on the hedged items are still highly likely to materialise.

  Possible causes of partial or total ineffectiveness include changes in the sufficiency of the portfolio of hedged balance sheet items or differences in their contractual characteristics in relation to hedging derivatives.

  Every month the Group calculates the interest rate risk metrics and establishes hedging strategies in accordance with the established risk appetite framework. Hedges are therefore managed, establishing hedges or discontinuing them, as required, on the basis of the evolution of the balance sheet items described previously within the management and control framework defined by the Group through its policies and procedures.

<u>Hedges of net investments in foreign operations</u>

The positions of subsidiaries and foreign branches implicitly entail exposure to foreign exchange risk, which is managed by creating hedges through the use of forward contracts.

The maturities of these instruments are periodically renewed on the basis of prudential and forward-looking criteria.

2021 hedging disclosures

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

Thousand euro

	2021			2020		
	Nominal	**Assets**	**Liabilities**	**Nominal**	**Assets**	**Liabilities**
Micro-hedges:						
Fair value hedges	**7,583,852**	**168,282**	**92,692**	**5,231,704**	**46,337**	**45,992**
Exchange rate risk	—	—	—	1,002	82	—
Of non-monetary items (B)	—	—	—	*1,002*	*82*	—
Interest rate risk	4,293,666	105,455	25,189	3,439,560	38,759	42,817
For funding operations (A)	*32,359*	*309*	*879*	*444,105*	*4,824*	*623*
For lending operations (C)	*4,261,307*	*105,146*	*24,310*	*2,995,455*	*33,935*	*42,194*
Risk associated with shares	3,290,186	62,827	67,503	1,791,142	7,496	3,175
For funding operations (A)	*3,290,186*	*62,827*	*67,503*	*1,791,142*	*7,496*	*3,175*
Cash flow hedges	**3,553,777**	**20,071**	**44,935**	**4,255,363**	**139,086**	**25,972**
Interest rate risk	2,756,394	13,923	9,041	2,896,963	94	19,835
Of future transactions (D)	*238,016*	*2,686*	*625*	*156,746*	—	*2,441*
For funding operations (A)	*376,708*	*11,136*	*6,756*	*227,146*	*35*	*15,055*
For securitisation operations (E)	*2,141,670*	*101*	*1,660*	*2,513,071*	*59*	*2,339*
Risk associated with shares	23,383	—	187	3,400	—	11
For funding operations (F)	*23,383*	—	*187*	*3,400*	—	*11*
Other risks	774,000	6,148	35,707	1,355,000	138,992	6,126
For inflation-linked bonds (G)	*774,000*	*6,148*	*35,707*	*1,355,000*	*138,992*	*6,126*
Hedge of net investment in foreign operations	**932,919**	**71**	**18,733**	**1,005,975**	**3,562**	**8,569**
Exchange rate risk (H)	*932,919*	*71*	*18,733*	*1,005,975*	*3,562*	*8,569*
Macro-hedges:						
Fair value hedges	**35,581,142**	**336,958**	**356,082**	**32,091,269**	**360,565**	**697,089**
Interest rate risk	35,581,142	336,958	356,082	32,091,269	360,565	697,089
For funding operations (I)	*13,460,963*	*116,215*	*106,676*	*12,316,156*	*358,012*	*371*
For lending operations (J)	*22,120,179*	*220,743*	*249,406*	*19,775,113*	*2,553*	*696,718*
Cash flow hedges	**—**	**—**	**—**	**250,000**	**—**	**5,035**
Interest rate risk	—	—	—	250,000	—	5,035
For funding operations (K)	—	—	—	*250,000*	—	*5,035*
Total	**47,651,690**	**525,382**	**512,442**	**42,834,311**	**549,550**	**782,657**
By currency:						
In euro	*20,381,698*	*231,943*	*353,202*	20,643,531	393,373	523,545
In foreign currency	*27,269,992*	*293,439*	*159,240*	22,190,780	156,177	259,112
Total	**47,651,690**	**525,382**	**512,442**	**42,834,311**	**549,550**	**782,657**

The types of hedges according to their composition that are identified in the table are as follows:

A. Micro-hedges of interest rate risk on the Institution's funding operations in capital markets and transactions involving term deposits opened by customers, recognised under the heading "Financial liabilities at amortised cost".

B. Micro-hedges against the foreign exchange risk of equity transactions recognised under the heading "Non-trading financial assets mandatorily at fair value through profit or loss". As at 31 December 2021, the micro-hedges against the foreign exchange risk of transactions involving equity securities are not in effect.

C. Micro-hedges of transactions involving customer loans, recognised under the heading "Financial assets at amortised cost" and those involving debt securities under the headings "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost".

D. Micro-hedges against interest rate risk on futures transactions involving fixed-income securities. The Institution designates as a hedging item derivative contracts that will be settled at their gross value by transferring the underlying asset (according to the contract price) which, in accordance with the IAS 39 Implementation Guidance, can be considered as a cash flow hedge in respect of the consideration that will be settled in a future transaction arising from the settlement of the derivative itself in gross terms. If no derivative had been arranged, the Group would be exposed to changes in price.

E. Micro-hedging carried out by the Group's securitisation funds.

F. Micro-hedges of transactions involving term deposits arranged by customers and which are currently being sold.

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

H. Hedges against foreign exchange risk on permanent investments currently cover 213 million pounds sterling and 10,003 million Mexican pesos corresponding to interests held in Group entities (213 million pounds sterling and 9,003 million Mexican pesos as at 31 December 2020) and 280 million US dollars corresponding to interests held in foreign branches (150 million US dollars as at 31 December 2020). All of these hedges are carried out through currency forwards

I. Macro-hedges of the Institution's funding operations in capital markets, transactions involving term deposits and demand deposits arranged by customers and recognised under the heading "Financial liabilities at amortised cost".

J. Macro-hedges of debt securities classified under the headings "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost", and of fixed-rate mortgage loans granted to customers (recognised under the heading "Financial assets at amortised cost").

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

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

Thousand euro

	2021					
	Nominal					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 and 5 years**	**More than 5 years**	**Total**
Exchange rate risk	304,396	610,373	18,150	—	—	**932,919**
Interest rate risk	242,999	238,016	6,871,995	19,164,433	16,113,758	**42,631,201**
Risk associated with shares	2,501	376,528	463,911	2,192,832	277,797	**3,313,569**
Other risks	—	—	—	449,000	325,000	**774,000**
Total	**549,896**	**1,224,917**	**7,354,056**	**21,806,265**	**16,716,555**	**47,651,689**

Thousand euro

	2020					
	Nominal					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 and 5 years**	**More than 5 years**	**Total**
Exchange rate risk	506,233	482,538	18,206	—	—	**1,006,977**
Interest rate risk	4,141	1,563,818	3,229,878	17,130,246	16,749,709	**38,677,792**
Risk associated with shares	8,475	19,726	219,837	1,492,680	53,824	**1,794,542**
Other risks	—	11,000	—	449,000	895,000	**1,355,000**
Total	**518,849**	**2,077,082**	**3,467,921**	**19,071,926**	**17,698,533**	**42,834,311**

In 2021 and 2020 there were no reclassifications from equity to the consolidated income statement due to cash flow hedges and hedges of net investments in foreign operations for transactions that were ultimately not executed.

The following table shows the accounting information of items covered by the fair value micro-hedges arranged by the Group:

Thousand euro

	2021					2020	
	Carrying amount of hedged item		**Accumulated fair value adjustments in the hedged item**		**Accumulated amount of adjustments in hedged items for which hedge accounting no longer applies**	**Carrying amount of hedged item**	
	Assets	**Liabilities**	**Assets**	**Liabilities**		**Assets**	**Liabilities**
Micro-hedges:							
Fair value hedges							
Exchange rate risk	—	—	—	—	—	—	—
Interest rate risk	5,384,640	356,924	(65,713)	(9,377)	3,206	4,275,182	1,003,491
Risk associated with shares	—	1,708,590	—	14,149	(7)	—	1,903,259
Total	**5,384,640**	**2,065,514**	**(65,713)**	**4,772**	**3,199**	**4,275,182**	**2,906,750**

In terms of fair value macro-hedges, the carrying amount of the hedged items recognised in assets and liabilities for 2021 amounted to 29,343,668 thousand euros and 60,195,513 thousand euros, respectively (28,907,233 thousand euros and 60,851,577 thousand euros in 2020, respectively). Similarly, fair value adjustments of the hedged items amounted to -3,963 thousand euros and 19,472 thousand euros as at 31 December 2021, respectively (458,849 thousand euros and 371,642 thousand euros as at 31 December 2020).

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

Thousand euro

	2021		2020	
	Hedging instruments	**Hedged items**	**Hedging instruments**	**Hedged items**
Micro-hedges	**33,932**	**(38,524)**	**45,768**	**(45,691)**
Fixed-rate assets	89,231	(94,757)	(31,239)	31,665
Capital markets and fixed-rate liabilities	(18,498)	19,386	(3,785)	4,044
Assets denominated in foreign currency	(36,801)	36,847	80,792	(81,400)
Macro-hedges	**297,263**	**(293,854)**	**(233,051)**	**242,738**
Capital markets and fixed-rate liabilities	(318,769)	340,540	162,619	(158,746)
Fixed-rate assets	616,032	(634,394)	(395,670)	401,484
Total	**331,195**	**(332,378)**	**(187,283)**	**197,047**

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

Hedge ineffectiveness in the results for 2021 related to cash flow hedges amounted to losses of 3,668 thousand euros (losses of 300 thousand euros in 2020).

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

Note 13 – Non-current assets and disposal groups classified as held for sale

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

Thousand euro

	2021	2020
Assets	**998,210**	**1,269,690**
Loans and advances	67	243,890
Customers	67	243,890
Equity instruments	159,853	—
Real estate exposure	838,290	1,004,859
Tangible assets for own use	44,945	53,074
Foreclosed assets	793,345	951,785
Leased out under operating leases	—	9,141
Rest of other assets	—	11,800
Impairment allowances	**(220,175)**	**(294,150)**
Non-current assets and disposal groups classified as held for sale	**778,035**	**975,540**

Tangible assets for own use relate mainly to commercial premises.

Regarding real estate assets obtained through foreclosures, 93.7% of the balance corresponds to residential properties, 5.7% to industrial properties and 0.6% to agricultural assets.

The average term during which assets remained within the category of "Non-current assets and assets and liabilities included in disposal groups classified as held for sale – Foreclosed assets" was 43 months in 2021 (35 months in 2020). The policies concerning the sale or disposal by other means of these assets is set out in Note 4.4.2.1.

The percentage of foreclosed assets sold with financing granted to the buyer in 2021 was 4.1% (in 2020 it was 4.9%). On the date of sale, these properties had a gross asset value of 9.6 million euros in 2021 (7.2 million euros in 2020).

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

In 2021, the Group recognised its 20% stake in the capital of the associate company Promontoria Challenger I, S.A., an entity controlled by Cerberus, into which the Group transferred a large portion of its real estate exposure in 2019, as a non-current asset held for sale. With regard to this investment, the Group has an account receivable with Cerberus Capital Management L.P. amounting to 633 million euros in respect of a deferred collection on the sale, in 2019, of 80% of the business managed by Promontoria Challenger I, S.A., recognised under "Financial assets at amortised cost – Loans and advances – Customers" on the consolidated balance sheet as at 31 December 2021.

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

Thousand euro

	Note	Non-current assets held for sale
Cost:		
Balances as at 31 December 2019		**976,084**
Additions		685,665
Disposals		(462,095)
Transfer of credit losses (*)		(41,918)
Other transfers/reclassifications		111,954
Balances as at 31 December 2020		**1,269,690**
Additions		104,087
Disposals		(495,649)
Transfer of credit losses (*)	11	(28,921)
Other transfers/reclassifications		149,003
Balances as at 31 December 2021		**998,210**
Impairment allowances:		
Balances as at 31 December 2019		**211,881**
Impairment through profit or loss	37	410,285
Reversal of impairment through profit or loss	37	(182,110)
Utilisations		(108,935)
Other transfers/reclassifications		(36,971)
Balances as at 31 December 2020		**294,150**
Impairment through profit or loss	37	71,148
Reversal of impairment through profit or loss	37	(53,236)
Utilisations		(88,494)
Other transfers/reclassifications		(3,393)
Balances as at 31 December 2021		**220,175**
Net balances as at 31 December 2020		**975,540**
Net balances as at 31 December 2021		**778,035**

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

Details of the net carrying amount of transfers shown in the table above are as follows:

Thousand euro

	Note	2021	2020
Loans and advances		—	243,890
Tangible assets	15	(17,099)	100,173
Inventories	17	17,605	(85,854)
Equity interests	14	159,853	—
Other		(7,963)	(109,284)
Total		**152,396**	**148,925**

Note 14 – Investments in joint ventures and associates

Movements in this heading of the consolidated balance sheets as at 31 December 2021 and 2020 are as follows:

Thousand euro

Balance as at 31 December 2019	**733,930**
Scope additions / exclusions	12
Profit/(loss) for the year	35,926
Acquisition or capital increase (*) (**)	85,379
Sale or dissolution	(22,340)
Dividends	(47,347)
Transfer	(4,375)
Impairment, allowances, translation differences and other	(1,326)
Balance as at 31 December 2020	**779,859**
Scope additions / exclusions	—
Profit/(loss) for the year	100,280
Acquisition or capital increase (*)	3,912
Sale or dissolution	(2,279)
Dividends	(60,824)
Transfer	(160,429)
Impairment, allowances, translation differences and other	(21,737)
Balance as at 31 December 2021	**638,782**

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

(**) As at 31 December 2020, 62,061 thousand euros are non-monetary contributions and 23,318 thousand euros are cash.

The section of the cash flow statement "Cash flows from investing activities – Collections – Investments in joint ventures and associates" shows 63,086 thousand euros which correspond to the sum of 2,279 thousand euros on sales or dissolutions, 60,824 thousand euros of dividends charged and (17) thousand euros resulting from the derecognitions and settlements included in the breakdown shown in Schedule I. Furthermore, the section "Cash flows from investing activities – Payments – Investments in joint ventures and associates" of this statement shows 3,912 thousand euros, which correspond to the acquisitions and capital increases carried out during 2021.

The main investee companies included for the first time in the balance sheet and those no longer in the balance sheet in 2021 y 2020 are indicated in Schedule I.

As at 31 December 2021 and 2020, goodwill linked to investments in joint ventures and associates corresponding to the investee Solvia Servicios Inmobiliarios, S.L.U. amounted to 25,637 thousand euros. This goodwill arose as a result of the recognition at fair value of the interest held in this entity following the sale of 80% of its share capital to a non-Group third party.

As at 31 December 2021 and 2020, no support agreements or other type of significant contractual commitment had been provided by the Bank or its subsidiaries to associates.

The reconciliation between the Group's investment in investees and the balance recorded under the heading "Investments in joint ventures and associates" is as follows:

Thousand euro

	2021	2020
Group investment in investees (Schedule I)	493,156	502,019
Contributions due to retained earnings	326,138	296,707
Companies classified as non-current assets held for sale	(159,853)	—
Valuation adjustments	(20,659)	(18,867)
Total	**638,782**	**779,859**

Set out below are the most relevant financial data for the associate, Bansabadell Vida, S.A., as at 31 December 2021 and 2020, through which the Bank extends its customer offering via the distribution of insurance products through its branch network:

Thousand euro

	BanSabadell Vida (*)	
	2021	**2020**
Total assets	10,418,907	10,866,241
Of which: financial investments	*9,455,504*	*9,625,116*
Total liabilities	9,745,468	10,166,025
Of which: technical provisions	*8,929,810*	*9,035,756*
Result of the technical account of insurer	115,465	112,308
Of which: premiums allocated to the year	*1,239,765*	*1,210,419*
Of which: claims ratio for the year	*(1,227,205)*	*(1,302,047)*
Of which: technical financial yield	*156,927*	*131,405*

(*) Figures taken from BanSabadell Vida accounts without taking into consideration consolidation adjustments nor the Group's percentage holding.

As at 31 December 2021 and 2020, the carrying amount of the investment in Bansabadell Vida, S.A. amounted to 289,861 thousand euros and 306,509 thousand euros, respectively. Furthermore, as at these dates, the aggregate carrying amount of investments in associates not considered individually significant was of 348,921 thousand euros and 267,757 thousand euros, respectively. In addition, as at 31 December 2020, the carrying amount of the investment in Promontoria Challenger I, S.A. amounted to 205,593 thousand euros. This investment has been classified as a non-current asset held for sale in 2021 (see Note 13).

Note 15 – Tangible assets

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

Thousand euro

	2021				2020			
	Cost	Depreciation	Impairment	Net value	Cost	Depreciation	Impairment	Net value
Property, plant and equipment	**4,173,480**	**(1,706,114)**	**(69,876)**	**2,397,490**	**4,636,930**	**(1,767,492)**	**(17,151)**	**2,852,287**
For own use:	4,168,101	(1,703,527)	(69,876)	2,394,698	4,278,181	(1,682,036)	(17,143)	2,579,002
Computer equipment and related facilities	710,316	(471,866)	—	238,450	643,025	(423,776)	—	219,249
Furniture, vehicles and other facilities	1,005,308	(598,167)	—	407,141	1,154,022	(660,514)	—	493,508
Buildings	2,309,743	(619,881)	(66,328)	1,623,534	2,384,730	(582,115)	(17,143)	1,785,472
Work in progress	63,495	(6,013)	(3,548)	53,934	9,522	(2)	—	9,520
Other	79,239	(7,600)	—	71,639	86,882	(15,629)	—	71,253
Leased out under operating leases	5,379	(2,587)	—	2,792	358,749	(85,456)	(8)	273,285
Investment properties	**504,952**	**(54,308)**	**(71,376)**	**379,268**	**429,367**	**(38,610)**	**(42,665)**	**348,092**
Buildings	504,558	(54,308)	(71,067)	379,183	429,367	(38,610)	(42,665)	348,092
Rural property, plots and sites	394	—	(309)	85	—	—	—	—
Total	**4,678,432**	**(1,760,422)**	**(141,252)**	**2,776,758**	**5,066,297**	**(1,806,102)**	**(59,816)**	**3,200,379**

Movements in the balance under this heading during 2021 and 2020 were as follows:

Thousand euro

	Note	Own use - Buildings, work in progress and other	Own use - Computer equipment, furniture and related facilities	Investment properties	Leased out under operating leases	Total
Cost:						
Balances as at 31 December 2019		**2,400,985**	**1,799,124**	**614,308**	**393,339**	**5,207,756**
Additions		86,215	165,307	33,587	109,538	394,647
Disposals		(31,128)	(163,222)	(41,381)	(143,599)	(379,330)
Transfers		51,892	1,552	(177,146)	—	(123,702)
Exchange rate		(26,830)	(5,714)	—	(529)	(33,073)
Balances as at 31 December 2020		**2,481,133**	**1,797,048**	**429,367**	**358,749**	**5,066,298**
Additions		222,489 (*)	113,553	7,331	—	343,373
Disposals		(237,770)	(202,541)	(22,589)	(353,979)	(816,879)
Transfer of credit losses		—	—	—	—	—
Transfers		(46,197)	(296)	90,843	—	44,350
Exchange rate		32,819	7,861	—	610	41,290
Balances as at 31 December 2021		**2,452,478**	**1,715,625**	**504,952**	**5,380**	**4,678,432**
Accumulated depreciation:						
Balances as at 31 December 2019		**474,219**	**1,069,421**	**43,381**	**78,113**	**1,665,134**
Additions		159,843	133,312	11,766	40,412	345,333
Disposals		(23,234)	(114,272)	(4,860)	(38,668)	(181,033)
Transfers		(3,091)	(49)	(11,678)	—	(14,818)
Exchange rate		(9,991)	(4,121)	—	5,599	(8,514)
Balances as at 31 December 2020		**597,746**	**1,084,290**	**38,610**	**85,456**	**1,806,102**
Additions		142,693	142,888	10,572	5	296,158
Disposals		(115,494)	(160,490)	(2,167)	(83,184)	(361,335)
Transfers		(5,754)	(1,105)	7,293	—	434
Exchange rate		14,303	4,451	—	310	19,064
Balances as at 31 December 2021		**633,494**	**1,070,034**	**54,308**	**2,587**	**1,760,423**
Impairment losses:						
Balances as at 31 December 2019		**13,907**	**4,078**	**56,298**	**5,940**	**80,223**
Impairment through profit or loss	35	3,433	—	16,963	—	20,396
Reversal of impairment through profit or loss	35	(8,383)	—	(19,704)	—	(28,087)
Utilisations		4,191	(4,078)	1,815	(5,933)	(4,005)
Transfers		3,995	—	(12,706)	—	(8,711)
Balances as at 31 December 2020		**17,144**	**—**	**42,665**	**8**	**59,816**
Impairment through profit or loss	35	58,580	—	36,180	—	94,760
Reversal of impairment through profit or loss	35	(211)	—	(29,066)	—	(29,277)
Utilisations		(10,472)	—	(385)	(8)	(10,865)
Transfers		4,836	—	21,981	—	26,817
Balances as at 31 December 2021		**69,877**	**—**	**71,375**	**—**	**141,251**
Net balances as at 31 December 2020		**1,866,244**	**712,758**	**348,092**	**273,285**	**3,200,379**
Net balances as at 31 December 2021		**1,749,108**	**645,591**	**379,268**	**2,793**	**2,776,758**

(*) Includes 117,747 thousand euros of revaluations and new right-of-use assets corresponding to leased properties in which the Group acts as lessee.

The net carrying amount of "Transfers" shown in the table above (17,099 thousand euros and -100,173 thousand euros in 2021 and 2020, respectively) correspond to reclassification of assets from or to the heading "Non-current assets and disposal groups classified as held for sale" (see Note 13).

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

Thousand euro

	2021	2020
Gross value of tangible assets for own use in use and fully depreciated	481,244	454,649
Net carrying amount of tangible assets of foreign operations	401,094	363,344

Lease contracts in which the Group acts as lessee

As at 31 December 2021, the cost of property, plant and equipment for own use includes right-of-use assets corresponding to leased tangible assets in which the Group acts as lessee, in the amount of 1,341,931 thousand euros, which have accumulated depreciation of 324,916 thousand euros and are impaired in the amount of 36,666 thousand euros as at the aforesaid date (1,231,842 thousand euros as at 31 December 2020, which had accumulated depreciation of 224,115 thousand euros as at that date).

The cost recognised in the consolidated income statement for 2021 for the depreciation of right-of-use assets corresponding to leased tangible assets in which the Group acts as lessee amounted to 103,155 thousand euros (112,855 thousand euros in 2020). The total amount of impairments on these assets as at 31 December 2021 was recognised with a balancing entry in the consolidated income statement for 2021.

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

Thousand euro

	2021	2020
Interest expense on lease liabilities	(17,481)	(16,258)
Expense related to short-term low-value leases (*)	(11,537)	(17,888)
Total lease payments in cash (**)	110,934	117,535

(*) Recognised in the "Administrative expenses" heading, in the item on "Of property, plant and equipment" (see note 33).

(**) Payments of the principal and interest components of the lease liability are recognised as cash flows from financing activities in the group's consolidated cash flow statement.

The future cash outflows to which the Group may potentially be exposed as lessee and which are not included under lease liabilities are not significant.

Minimum future payments over the non-cancellable period for lease contracts in effect as at 31 December 2021 are indicated below:

Thousand euro

	2021	2020
Undiscounted future lease payments		
Up to 1 month	875	7,624
1 to 3 months	25,417	21,136
3 to 12 months	75,769	79,792
1 to 5 years	352,190	427,161
More than 5 years	569,317	501,878

Sale and leaseback transactions

Between 2009 and 2012, the Group completed transactions for the sale of properties and simultaneously entered into a lease contract, for the same properties, with the buyers (maintenance, insurance and taxes to be borne by the Bank). The main characteristics of the most significant lease contracts in effect as at year-end 2021 are as follows:

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

Specific information in connection with this set of lease contracts as at 31 December 2021 is given below:

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

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

Contracts in which the Group acts as lessor

The lease contracts entered into by the Group in which it acts as lessor are mainly operating leases.

The Group implements strategies to reduce risks related to the rights held over the underlying assets. For example, the lease contracts include clauses which stipulate a minimum non-cancellable lease term, a deposit which the lessor may retain as compensation if the asset sustains excessive wear during the lease term, and additional guarantees or sureties to limit losses in the event of non-payment.

With regard to the tangible assets leased out under operating leases, the bulk of the operating lease operations corresponded to vehicle leasing and were carried out through the subsidiary BanSabadell Renting, S.L.U. As indicated in Note 2, this subsidiary was sold during 2021 to a non-Group third party.

As regards the investment properties item, the rental income from these investment properties and the direct costs associated with the investment properties that produced rental income during 2021 amounted to 25,785 thousand euros and 14,358 thousand euros, respectively. Direct costs associated with investment properties that did not produce rental income were not significant in the context of the consolidated annual financial statements.

Note 16 – Intangible assets

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

Thousand euro

	2021	2020
Goodwill:	**1,026,457**	**1,026,105**
Banco Urquijo	473,837	473,837
Grupo Banco Guipuzcoano	285,345	285,345
From acquisition of Banco BMN Penedés assets	245,364	245,364
Other	21,911	21,559
Other intangible assets:	**1,554,964**	**1,569,978**
With a finite useful life:	1,554,964	1,569,978
Private Banking Business, Miami	8,444	11,332
Contractual relations with TSB customers and brand	84,589	118,873
Computer software	1,460,744	1,438,427
Other	1,187	1,346
Total	**2,581,421**	**2,596,083**

Goodwill

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

The main transactions that generated goodwill were the acquisition of Banco Urquijo in 2006, of Banco Guipuzcoano in 2010 and of certain assets of BMN-Penedès in 2013.

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

The value in use of the Banking Business Spain operating segment is used to determine its recoverable amount. The valuation method used in this analysis was that of discounting future net distributable profit associated with the activity carried out by the Banking Business Spain operating segment until 2026, plus an estimated terminal value.

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

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

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

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

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

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

- Discount rate +/- 0.5%.
- Growth rate in perpetuity +/- 0.5%.
- Minimum capital requirement +/-0.5%.
- NIM/ATAs in perpetuity +/- 5bps.
- Cost of risk in perpetuity +/- 10bps.

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

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

Other intangible assets

Miami Private Banking Business

Intangible assets associated with the acquisition in 2008 of the Private Banking business in Miami include the value of contractual rights arising from customer relationships taken over from this business, mainly short-term lending and deposits. These assets are amortised over a period of between 10 and 15 years from their creation.

Contractual relations with TSB customers and brand

The intangible assets associated with the acquisition of TSB include the value of the contractual rights arising from customer relationships taken over from TSB for core deposits, initially estimated at 353,620 thousand euros. This asset is amortised over a period of 8 years. The valuation of these intangible assets was carried out by calculating the value in use based on the income approach (discounted cash flows) with the multi-period excess earnings method. To determine whether there is any evidence of impairment, the balance of deposits currently in TSB linked to existing customers at the time of its acquisition by the Bank has been compared against the estimated balance that such customers would have at the end of 2021, forecast at the time of the initial valuation. Based on this comparison, it can be concluded that there is no evidence of any impairment. The carrying amount of contractual relationships with TSB customers amounted to 56,135 thousand euros as at 31 December 2021 (87,443 thousand euros as at 31 December 2020).

The value of the exclusive right of use of the TSB brand was also estimated at an initial amount of 73,328 thousand euros. The value attributable to this asset was determined through the replacement cost method, consisting of establishing the cost of rebuilding or acquiring an exact replica of the asset in question. This asset is amortised over a period of 12 years. For the brand, the assessment of the recoverable amount of the TSB UGE included an implicit analysis of its valuation and concluded that there is no impairment. The carrying amount of the TSB brand amounted to 28,454 thousand euros as at 31 December 2021 (31,430 thousand euros as at 31 December 2020).

Computer software

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

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

Movements

Movements in goodwill in 2021 and 2020 were as follows:

Thousand euro

	Goodwill	Impairment	Total
Balance as at 31 December 2019	**1,031,824**	**—**	**1,031,824**
Additions	500	—	500
Disposals	(6,219)	—	(6,219)
Balance as at 31 December 2020	**1,026,105**	**—**	**1,026,105**
Additions	352	—	352
Balance as at 31 December 2021	**1,026,457**	**—**	**1,026,457**

Movements in other intangible assets in 2021 and 2020 were as follows:

Thousand euro

	Cost			Amortisation			Impairment			Total
	Internally developed	Other	Total	Internally developed	Other	Total	Internally developed	Other	Total	
Balance as at 31 December 2019	**2,013,009**	**968,417**	**2,981,426**	**(768,284)**	**(679,983)**	**(1,448,267)**	**—**	**—**	**—**	**1,533,159**
Additions	271,363	17,008	288,371	(155,289)	(63,168)	(218,457)	—	(2,025)	(2.025) (*)	67,889
Disposals	(15,726)	(11,280)	(27,006)	2,237	6,553	8,790	—	—	—	(18,216)
Other	(1,652)	—	(1,652)	(39)	—	(39)	—	—	—	(1,691)
Exchange differences	(16,473)	(9,659)	(26,132)	5,482	9,487	14,969	—	—	—	(11,163)
Balance as at 31 December 2020	**2,250,521**	**964,486**	**3,215,007**	**(915,893)**	**(727,111)**	**(1,643,004)**	**—**	**(2,025)**	**(2,025)**	**1,569,978**
Additions	236,049	40,092	276,141	(166,853)	(63,502)	(230,355)	(1,570)	—	(1.570) (*)	44,216
Disposals	(63,144)	(172,010)	(235,154)	13,823	155,133	168,956	1,570	2,025	3,595	(62,603)
Other	(22,713)	12	(22,701)	5,937	(3)	5,934	—	—	—	(16,767)
Exchange differences	12,898	29,967	42,865	(2,554)	(20,171)	(22,725)	—	—	—	20,140
Balance as at 31 December 2021	**2,413,611**	**862,547**	**3,276,158**	**(1,065,540)**	**(655,654)**	**(1,721,194)**	**—**	**—**	**—**	**1,554,964**

(*) See Note 35.

The gross value of other intangible assets that were in use and had been fully amortised as at 31 December 2021 and 2020 amounted to 1,141,823 thousand euros and 945,626 thousand euros, respectively.

Note 17 – Other assets

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

Thousand euro

	Note	2021	2020
Insurance contracts linked to pensions	22	116,453	133,757
Inventories		142,713	194,264
Rest of other assets		360,549	580,335
Total		**619,715**	**908,356**

The “Rest of other assets” item includes mainly prepaid expenses, the accrual of customer fees and commissions and transactions in progress pending settlement.

Movements in inventories in 2021 and 2020 were as follows:

Thousand euro

	Note	Land	Buildings under construction	Finished buildings	Total
Balance as at 31 December 2019		**516,561**	**175,386**	**176,629**	**868,577**
Additions		68,398	15,161	46,049	129,609
Disposals		(488,691)	(137,522)	(217,496)	(843,709)
Impairment through profit or loss	35	(50,156)	26,206	(65,714)	(89,663)
Reversal of impairment through profit or loss	35	3,788	300	39,508	43,596
Other transfers	13	(40,077)	(77,746)	203,676	85,854
Balance as at 31 December 2020		**9,824**	**1,786**	**182,653**	**194,264**
Additions		7,920	255	58,727	66,902
Disposals		(6,006)	(300)	(55,628)	(61,934)
Impairment through profit or loss	35	(4,997)	(381)	(51,763)	(57,141)
Reversal of impairment through profit or loss	35	1,608	156	16,463	18,227
Other transfers	13	60	—	(17,665)	(17,605)
Balance as at 31 December 2021		**8,409**	**1,516**	**132,787**	**142,713**

As at 31 December 2021 and 2020, there are no inventories associated with debt secured with mortgages.

Note 18 – Deposits of central banks and credit institutions

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

Thousand euro

	2021	2020
By heading:		
Financial liabilities at amortised cost	47,067,145	41,964,732
Total	**47,067,145**	**41,964,732**
By nature:		
Demand deposits	534,995	375,755
Deposits with agreed maturity	41,468,444	34,535,298
Repurchase agreements	5,398,905	6,789,993
Hybrid financial liabilities	—	73,200
Other accounts	114,975	185,472
Valuation adjustments	(450,174)	5,014
Total	**47,067,145**	**41,964,732**
By currency:		
In euro	38,458,261	35,781,889
In foreign currency	8,608,884	6,182,843
Total	**47,067,145**	**41,964,732**

Note 19 – Customer deposits

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

Thousand euro

	2021	2020
By heading:		
Financial liabilities at amortised cost	162,239,453	151,269,710
Total	**162,239,453**	**151,269,710**
By nature:		
Demand deposits	147,268,436	130,294,703
Deposits with agreed maturity	13,131,887	18,906,351
Fixed term	11,205,749	16,674,741
Non-marketable covered bonds and bonds issued	1,111,603	1,397,479
Other	814,535	834,131
Hybrid financial liabilities (see Notes 10 and 12)	1,680,942	1,898,153
Repurchase agreements	60,312	13,022
Valuation adjustments	97,876	157,481
Total	**162,239,453**	**151,269,710**
By sector:		
General governments	7,905,699	6,456,561
Other sectors	154,235,878	144,655,668
Other valuation adjustments (interest, fees and commissions, other)	97,876	157,481
Total	**162,239,453**	**151,269,710**
By currency:		
In euro	111,119,866	106,121,344
In foreign currency	51,119,587	45,148,366
Total	**162,239,453**	**151,269,710**

Note 20 – Debt securities in issue

The breakdown of the balance of debt securities issued by the Group by type of issuance and recognised on the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
Straight bonds/debentures	7,079,915	6,822,802
Straight bonds	7,022,715	6,717,715
Structured bonds	57,200	105,087
Commercial paper	426,094	374,317
Covered bonds	6,540,400	8,041,000
Covered Bonds (TSB)	2,082,640	1,390,387
Asset-backed bonds	671,317	874,049
Subordinated marketable debt securities	4,200,000	2,873,239
Subordinated liabilities	1,800,000	1,723,239
Preference shares	2,400,000	1,150,000
Valuation and other adjustments	50,589	37,604
Total	**21,050,955**	**20,413,398**

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

The remuneration for preference shares that are contingently convertible into ordinary shares amounted to 100,593 thousand euros in 2021 (73,250 thousand euros in 2020) and is recognised under the heading “Other reserves” of consolidated equity.

Note 21 – Other financial liabilities

The breakdown of the balance of other financial liabilities in the consolidated balance sheets as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
By heading:		
Financial liabilities designated at fair value through profit or loss	—	—
Financial liabilities at amortised cost	4,821,669	3,742,926
Total	**4,821,669**	**3,742,926**
By nature:		
Debentures payable	356,465	157,545
Guarantee deposits received	11,261	73,364
Clearing houses	672,355	607,792
Collection accounts	2,214,033	1,383,699
Lease liabilities	1,037,265	1,045,162
Other financial liabilities	530,290	475,364
Total	**4,821,669**	**3,742,926**
By currency:		
In euro	4,294,286	3,442,277
In foreign currency	527,383	300,649
Total	**4,821,669**	**3,742,926**

The following table shows information relating to the average time taken to pay suppliers (days payable outstanding), as required by Additional Provision Three of Law 15/2010, taking into account the amendments introduced by Law 31/2014 of 3 December, amending the Capital Companies Act in order to improve corporate governance:

Number of days and thousand euro

	2021	2020
Days		
Average time taken to pay suppliers (*)	27.30	30.13
Ratio of paid operations	27.30	30.14
Ratio of operations payable	17.06	17.99
Amount		
Total payments made	957,417	995,338
Total payments outstanding	127	119

(*) Refers to the average period of payment to suppliers by consolidated undertakings based in Spain.

Note 22 – Provisions and contingent liabilities

Movements during 2021 and 2020 under the "Provisions" heading are shown below:

Thousand euro

	Pensions and other post employment defined benefit obligations	Other long term employee benefits	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
Balance as at 31 December 2019	**99,346**	**6,938**	**66,889**	**110,746**	**146,515**	**430,434**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**(745)**	**(745)**
Interest and similar charges - pension commitments	**1,004**	**107**	**—**	**—**	**—**	**1,111**
Allowances charged to income statement - staff expenses (*)	**2,488**	**196**	**—**	**—**	**345,150**	**347,834**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**1,224**	**(38)**	**70,003**	**87,180**	**117,039**	**275,408**
Allocation of provisions	14	—	70,879	239,662	117,369	427,924
Reversal of provisions	—	—	(876)	(152,482)	(330)	(153,688)
Actuarial losses / (gains)	1,210	(38)	—	—	—	1,172
Exchange differences	**(556)**	**(162)**	**—**	**(375)**	**(4,193)**	**(5,286)**
Utilisations:	**(8,575)**	**(3,205)**	**(22,795)**	**—**	**(63,146)**	**(97,721)**
Contributions by the sponsor	(39)	1	—	—	—	(38)
Pension payments	(8,536)	(3,206)	—	—	—	(11,742)
Other	—	—	(22,795)	—	(63,146)	(85,941)
Other movements	**4,759**	**135**	**—**	**(1,672)**	**29,255**	**32,477**
Balance as at 31 December 2020	**99,690**	**3,971**	**114,097**	**195,879**	**569,875**	**983,512**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**(788)**	**(788)**
Interest and similar charges - pension commitments	**1,010**	**4**	**—**	**—**	**—**	**1,014**
Allowances charged to income statement - staff expenses (*)	**2,859**	**6**	**—**	**—**	**280,390**	**283,255**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**1,305**	**17**	**39,608**	**(9,046)**	**55,682**	**87,566**
Allocation of provisions	39	—	41,093	197,837	57,363	296,332
Reversal of provisions	—	—	(1,485)	(206,882)	(1,681)	(210,048)
Actuarial losses / (gains)	1,266	17	—	—	—	1,283
Exchange differences	**344**	**—**	**—**	**1,629**	**9,349**	**11,322**
Utilisations:	**(8,043)**	**(1,417)**	**(76,857)**	**—**	**(123,363)**	**(209,680)**
Net contributions by the sponsor	281	—	—	—	—	281
Pension payments	(8,324)	(1,417)	—	—	—	(9,741)
Other	—	—	(76,857)	—	(123,363)	(200,220)
Other movements	**(11,145)**	**(1,931)**	**—**	**2,129**	**(259,116)**	**(270,063)**
Balance as at 31 December 2021	**86,020**	**650**	**76,848**	**190,591**	**532,029**	**886,138**

(*) See Note 33.

The headings "Pensions and other post-employment defined benefit obligations" and "Other long term employee benefits" include the amount of provisions for the coverage of post-employment remuneration and commitments undertaken with early retirees and similar commitments.

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

During the usual course of business, the Group is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third party experts when necessary and, where appropriate, provisions are recognised under the headings "Pending legal issues and tax litigation" and "Other provisions". As at 31 December 2021 and 2020, these headings mainly include:

- Provisions allocated to provide compensation to certain TSB customers in arrears who received financial support that could have been detrimental to them during the 2013-2020 period. The estimated potential cost of compensation payable, which includes compensatory interest and associated operational costs, amounted to 65 million euros as at 31 December 2021 (61 million euros as at 31 December 2020).

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

- Provisions to cover the anticipated restructuring costs at TSB amounting to 28 million euros as at 31 December 2021 (75 million euros as at 31 December 2020).

- Provisions to cover the anticipated costs relating to restructuring plans in Spain amounting to 274 million euros as at 31 December 2021 (305 million euros as at 31 December 2020) – see Note 33.

- Provisions for the possible reimbursement of amounts paid as a result of the application of mortgage floor clauses, whether as a result of the hypothetical voiding by the courts of law of floor clauses or whether due to the implementation of Royal Decree-Law 1/2017 of 20 January on measures to protect consumers regarding floor clauses, for the amount of euros 114 million euros as at 31 December 2021 (85 million euros as at 31 December 2020). In the highly adverse scenario of potential additional claims being filed, both through the procedures established by the Institution, in accordance with that set forth in the aforesaid Royal Decree, and through court proceedings applying the percentages set forth in the current agreement, the maximum contingency would amount to 141 million euros.

  With regard to these provisions, the Bank considers its floor clauses to be transparent and clear to customers, and in general, these have not been definitively voided with a final ruling. On 12 November 2018, Section 28 of the Civil Division of the Provincial Court of Madrid issued a ruling in which it partially supported the appeal brought forth by Banco de Sabadell, S.A. against the ruling issued by the Commercial Court no. 11 of Madrid on the invalidity of the restrictive interest rate clauses, considering that some of the clauses established by Banco de Sabadell, S.A. are transparent and valid in their entirety. With regard to the rest of the clauses, the Bank still considers that it has legal arguments which should be reviewed in the legal appeal which the Institution presented to the Supreme Court, with regard to the ruling made by the Provincial Court of Madrid.

- In addition, the Supreme Court ruling dated 4 March 2020, relating to revolving credit card contracts and/or contracts with deferred payment of a third-party institution, modifies the court's own previous doctrine and clarifies that the specific benchmark interest rate for this category of credit transactions published in the Statistical Bulletin of the Bank of Spain is the one that should be used as a benchmark to determine the legal interest rate for the purposes of the Law on the Suppression of Usury. In the case in question, the average rate published was somewhat higher than 20%. The court does not set specific criteria to determine what a manifestly disproportionate interest rate means; therefore, each contract must be analysed on a case-by-case basis. Banco Sabadell considers that the Supreme Court ruling is unlikely to have a significant effect on its financial statements. As at 31 December 2021, provisions set aside to cover this contingency were not significant.

The final disbursement amount and the payment schedule are uncertain due to the difficulties inherent in estimating the factors used to determine the amount of the provisions set aside.

Pensions and similar obligations

The origins of liabilities recognised in respect of post-employment benefits and other similar long-term obligations on the Group’s balance sheet are shown below:

Thousand euro

	2021	2020	2019	2018	2017
Obligations arising from pension and similar commitments	739,456	819,789	803,905	768,695	793,871
Fair value of defined benefit plan assets	(652,786)	(716,128)	(697,621)	(667,835)	(692,537)
Net liability recognised on balance sheet	**86,670**	**103,661**	**106,284**	**100,860**	**101,334**

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

Movements during 2021 and 2020 in obligations due to pensions and similar commitments and the fair value of the plan assets are as follows:

Thousand euro

	Obligations arising from pension and similar commitments	Fair value of defined benefit plan assets	Net liability recognised on balance sheet
Balance as at 31 December 2019	**803,905**	**697,621**	**106,284**
Interest costs	6,204	—	6,204
Interest income	—	5,092	(5,092)
Normal cost in year	2,643	—	2,643
Past service cost	—	—	—
Benefits paid	(48,220)	(36,478)	(11,742)
Settlements, curtailments and terminations	(8,695)	(9,905)	1,210
Net contributions by the Institution	—	(62)	62
Actuarial gains or losses from changes in demographic assumptions	23,964	—	23,964
Actuarial gains or losses from changes in financial assumptions	22,499	—	22,499
Actuarial gains or losses from changes in actuarial assumptions	(5,229)	—	(5,229)
Yield on defined benefit plan assets excluding interest income	—	39,788	(39,788)
Other movements	22,718	20,072	2,646
Balance as at 31 December 2020	**819,789**	**716,128**	**103,661**
Interest costs	4,503	—	4,503
Interest income	—	3,489	(3,489)
Normal cost in year	1,951	—	1,951
Past service cost	914	—	914
Benefits paid	(47,979)	(38,238)	(9,741)
Settlements, curtailments and terminations	(13,352)	(14,618)	1,266
Net contributions by the Institution	—	(181)	181
Actuarial gains or losses from changes in demographic assumptions	—	—	—
Actuarial gains or losses from changes in financial assumptions	(43,340)	—	(43,340)
Actuarial gains or losses from changes in actuarial assumptions	1,369	—	1,369
Yield on defined benefit plan assets excluding interest income	—	(30,845)	30,845
Other movements	15,601	17,051	(1,450)
Balance as at 31 December 2021	**739,456**	**652,786**	**86,670**

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

Thousand euro

		2021	
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**358,922**	
Insurance policies with related parties	Matched	33,404	1.00 %
Insurance policies with unrelated parties	Matched	325,518	1.00 %
Insurance policies		**372,859**	
Insurance policies with related parties	Matched	78,285	1.00 %
Insurance policies with unrelated parties	Matched	294,574	1.00 %
Internal funds	Without cover	**7,675**	**1.00 %**
Total obligations		**739,456**	

Thousand euro

		2020	
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**413,423**	
Insurance policies with related parties	Matched	39,817	0.50 %
Insurance policies with unrelated parties	Matched	373,606	0.50 %
Insurance policies		**396,162**	
Insurance policies with related parties	Matched	88,078	0.50 %
Insurance policies with unrelated parties	Matched	308,084	0.50 %
Internal funds	Without cover	**10,203**	0.50 %
Total obligations		**819,788**	

The value of the commitments covered by matched insurance policies as at 31 December 2021 amounted to 731,781 thousand euros (809,585 thousand euros as at 31 December 2020), therefore in 98.96% of its commitments (98.76% as at 31 December 2020) there is no mortality risk (mortality tables) or profitability risk (interest rate) for the Group. Therefore, the evolution of interest rates in 2021 has not had an impact on the Institution's financial situation.

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

%

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

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

Thousand euro

	Years										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Total
Future benefit payments	8,847	8,189	7,935	7,837	7,674	8,618	8,335	8,041	7,737	7,425	**80,638**

The fair value of assets linked to pensions recognised on the consolidated balance sheet amounted to 116,453 thousand euros as at 31 December 2021 (133,757 thousand euros as at 31 December 2020) – see Note 17.

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

%

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

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

Thousand euro

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

Contingent liabilities

As at the date of preparation of these consolidated annual financial statements, the investigation by the British authorities into the incidents that occurred following the migration to TSB's new IT platform in April 2018 has not yet been completed. The decision to recognise a provision for this item requires the use of judgement in order to determine whether there is a current payment obligation and, if so, to reliably estimate the same. Based on the information available regarding the progress made in the aforesaid investigation, the Group's Management considers that the circumstances do not require a provision for potential sanctions to be recognised, as there is currently no payment obligation and, if such obligation were to exist, there is no way to reliably estimate the amount that would need to be disbursed.

Note 23 – Shareholders' equity

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

Thousand euro

	2021	2020
Capital	703,371	703,371
Share premium	7,899,227	7,899,227
Equity instruments issued other than capital	—	—
Other equity	19,108	20,273
Retained earnings	5,441,185	5,444,622
Revaluation reserves	—	—
Other reserves	(1,201,701)	(1,088,384)
(-) Treasury shares	(34,523)	(37,517)
Profit or loss attributable to owners of the parent	530,238	2,002
(-) Interim dividends	—	—
Total	**13,356,905**	**12,943,594**

Capital

The Bank's share capital as at 31 December 2021 and 2020 stood at 703,370,587.63 euros, represented by 5,626,964,701 registered shares with a par value of 0.125 euros each. All shares are fully paid up and are numbered in sequential order from 1 through 5,626,964,701, inclusive.

The Bank's shares are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and on Spain's electronic market (Mercado Continuo) managed by Sociedad de Bolsas, S.A.

None of the other subsidiary companies included in the scope of consolidation are listed on the stock exchange.

The rights conferred to the equity instruments are those regulated by the Capital Companies Act. During the Annual General Meeting, shareholders may exercise a percentage of votes equivalent to the percentage of the share capital in their possession. The Articles of Association do not contain any provision for additional loyalty voting rights.

There were no changes in the Bank's share capital in 2021 and 2020.

Significant investments in the Bank's capital

As required by Articles 23 and 32 of Royal Decree 1362/2007 of 19 October, implementing the Securities Market Law 24/1988 of 28 July, on transparency requirements relating to information on issuers whose securities have been admitted to trading on an official secondary market or on any other European Union regulated market, the following table gives details of significant investments in the share capital of Banco Sabadell as at 31 December 2021:

Direct owner of the shareholding	% of voting rights assigned to shares	% of voting rights through financial instruments	% of total voting rights	Indirect owner of the shareholding
Various subsidiaries of BlackRock Inc.	3.02%	0.41%	3.43%	Blackrock Inc.
Fintech Europe S.A.R.L.	3.45%	—%	3.45%	David Martínez Guzmán
Sanders Capital LLC	3.47%	—%	3.47%	Lewis A. Sanders and clients of Sanders Capital LLC who delegate their voting rights to others

The sources for the information provided are communications sent by shareholders to the National Securities Market Commission (CNMV) or directly to the Institution.

Share premium

The balance of the share premium as at 31 December 2021 amounted to 7,899,227 thousand euros, remaining unchanged from the amounts in 2021 and 2020.

Retained earnings and Other reserves

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

Thousand euro

	2021	2020
Restricted reserves:	**206,665**	**195,966**
Statutory reserve	140,674	140,674
Reserves for treasury shares pledged as security	52,315	41,832
Canary Island investment reserve	10,561	10,345
Reserve for share capital redenomination in euro	113	113
Capital redemption reserve	3,002	3,002
Unrestricted reserves	**3,797,366**	**3,895,788**
Reserves of entities valued using the equity method	**235,453**	**264,484**
Total	**4,239,484**	**4,356,238**

Information on the reserves for each of the consolidated companies is indicated in Schedule I.

Other equity

This heading includes share-based remuneration pending settlement which, as at 31 December 2021 and 2020, amounted to 19,108 thousand euros and 20,273 thousand euros, respectively.

Business involving own equity instruments

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

	No. of shares	Nominal value *(in thousand euro)*	Average price *(in euro)*	% Shareholding
Balance as at 31 December 2019	**6,006,864**	**750.86**	**1.42**	**0.11**
Purchases	342,926,719	42,865.84	0.42	6.09
Sales	300,372,716	37,546.59	0.39	5.34
Balance as at 31 December 2020	**48,560,867**	**6,070.11**	**0.77**	**0.86**
Purchases	115,224,411	14,403.05	0.56	2.05
Sales	123,106,070	15,388.26	0.55	2.19
Balance as at 31 December 2021	**40,679,208**	**5,084.90**	**0.85**	**0.72**

Net gains and losses arising from transactions involving own equity instruments have been included under the heading "Shareholders' equity – Other reserves" on the consolidated balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to the sale or cancellation of treasury shares.

As at 31 December 2021, TSB holds 233,658 Banco Sabadell shares (66,016 as at 31 December 2020), with a cost of 104 thousand euros (60 thousand euros as at 31 December 2020), which are recorded as treasury shares on the consolidated balance sheet.

As at 31 December 2021, the number of shares of the Bank pledged as collateral for transactions was 88,399,047 with a nominal value of 11,450 thousand euros (118,169,913 shares with a nominal value of 14,771 thousand euros as at 31 December 2020).

The number of Banco de Sabadell, S.A. equity instruments owned by third parties, yet managed by the different companies of the Group, amounts to 17,183,167 and 12,669,119 securities as at 31 December 2021 and 2020, respectively. Their nominal value amounts to 2,148 thousand euros and 1,584 thousand euros, respectively. In both years, 100% of the securities corresponded to Banco Sabadell shares.

Note 24 – Accumulated other comprehensive income

The composition of this heading of consolidated equity as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021	2020
Items that will not be reclassified to profit or loss	(41,758)	(64,419)
Actuarial gains or (-) losses on defined benefit pension plans	917	(693)
Non-current assets and disposal groups classified as held for sale	—	—
Share of other recognised income and expense of investments in joint ventures and associates	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income	(42,675)	(63,726)
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	—	—
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	—	—
Items that may be reclassified to profit or loss	(343,846)	(459,171)
Hedge of net investments in foreign operations (effective portion) (*)	157,741	211,841
Foreign currency translation	(481,266)	(737,073)
Hedging derivatives. Cash flow hedges (effective portion) (**)	(30,163)	39,798
Amount deriving from outstanding operations	(67,193)	(4,662)
Amount deriving from discontinued operations	37,030	44,460
Fair value changes of debt instruments measured at fair value through other comprehensive income	(11,724)	(871)
Hedging instruments (not designated elements])	—	—
Non-current assets and disposal groups classified as held for sale	—	—
Share of other recognised income and expense of investments in joint ventures and associates	21,566	27,134
Total	**(385,604)**	**(523,590)**

(*) The value of the hedge of net investments in foreign operations is fully obtained from outstanding transactions (see note 12).

(**) Cash flow hedges mainly mitigate interest rate risk and other risks (see note 12).

The breakdown of the items in the statement of recognised income and expense as at 31 December 2021 and 2020, indicating their gross and net of tax effect amounts, is as follows:

Thousand euro

	2021			2020		
	Gross amount	**Tax effect**	**Net**	**Gross amount**	**Tax effect**	**Net**
Items that will not be reclassified to profit or loss	20,611	2,050	22,661	(15,603)	(4,139)	(19,742)
Actuarial gains or (-) losses on defined benefit pension plans	2,299	(689)	1,610	2,383	(715)	1,668
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Share of other recognised income and expense of investments in joint ventures and associates	—	—	—	—	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income	18,312	2,739	21,051	(17,986)	(3,424)	(21,410)
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	—	—	—	—	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedged item)	—	—	—	—	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income (hedging instrument)	—	—	—	—	—	—
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	—	—	—	—	—	—
Items that may be reclassified to profit or loss	78,796	35,988	114,784	(254,533)	17,730	(236,803)
Hedge of net investments in foreign operations [effective portion]	(54,100)	—	(54,100)	97,604	—	97,604
Foreign currency translation	255,804	—	255,804	(291,902)	—	(291,902)
Hedging derivatives. Cash flow hedges reserve [effective portion]	(103,229)	33,269	(69,960)	(67,603)	17,557	(50,046)
Fair value changes of debt instruments measured at fair value through other comprehensive income	(14,112)	2,719	(11,393)	1,392	173	1,565
Hedging instruments (not designated elements])	—	—	—	—	—	—
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Share of other recognised income and expense of investments in joint ventures and associates	(5,567)	—	(5,567)	5,976	—	5,976
Total	**99,407**	**38,038**	**137,445**	**(270,136)**	**13,591**	**(256,545)**

Note 25 – Minority interests (non-controlling interests)

The companies comprising this consolidated equity heading as at 31 December 2021 and 2020 are the following:

Thousand euro

	2021			2020		
	% Minority interests	**Amount**	***Of which: Profit/ (loss) attributed***	**% Minority interests**	**Amount**	***Of which: Profit/ (loss) attributed***
BancSabadell d'Andorra, S.A.	—	—	*4,700*	49.03 %	49,815	*4,967*
Aurica Coinvestment, S.L.	38.24 %	24,190	*4,129*	38.24 %	20,707	(2,290)
Other	—	790	*(360)*	—	1,112	*(1,669)*
Total		**24,980**	***8,469***		**71,634**	***1,008***

The movements in the balance of this heading in 2021 and 2020 were as follows:

Thousand euro

Balances as at 31 December 2019	**69,346**
Valuation adjustments	299
Other	1,989
Percentage shareholding and other	981
Profit or loss for the year	1,008
Balances as at 31 December 2020	**71,634**
Valuation adjustments	(541)
Other	(46,113)
Scope additions / exclusions (*)	(52,502)
Percentage shareholding and other	(2,080)
Profit or loss for the year	8,469
Balances as at 31 December 2021	**24,980**

(*) Corresponds, fundamentally, to disposal of stake held in BancSabadell d'Andorra (see Note 2).

The dividends distributed to minority shareholders of Group entities in 2021 amounted to 2,118 thousand euros (1,472 thousand euros to BancSabadell d'Andorra, S.A. And 646 thousand euros to Aurica Coinvestment, S.L.) and 650 thousand euros in 2020 (Aurica Coinvestment, S.L.).

In 2021, the companies Aurica Coinvestment S.L., Business Services for Operational Support, S.A.U. and their investees are included within Banking Business Spain (see Note 38).

Note 26 – Off-balance sheet exposures

The breakdown of this heading for the years ended 31 December 2021 and 2020 is the following:

Thousand euro

Commitments and guarantees given	Note	2021	2020
Loan commitments provided		**28,403,146**	**29,295,155**
Of which, amount classified as Stage 2		*1,310,996*	*1,584,252*
Of which, amount classified as Stage 3		*84,768*	*128,512*
Can be drawn by third parties		28,403,146	29,295,155
By credit institutions		295	78
By general governments		1,062,490	1,472,415
By other resident sectors		15,553,771	16,470,386
By non-residents		11,786,590	11,352,276
Provisions recognised on liabilities side of the balance sheet	22	68,136	88,562
Financial guarantees provided (*)		**2,034,143**	**2,035,638**
Of which, amount classified as Stage 2		*143,686*	*136,415*
Of which, amount classified as Stage 3		*116,373*	*108,143*
Provisions recognised on liabilities side of the balance sheet (**)	22	42,417	38,605
Other commitments provided		**7,384,863**	**7,594,720**
Of which, amount classified as Stage 2		*473,436*	*479,396*
Of which, amount classified as Stage 3		*358,184*	*349,677*
Other guarantees given		7,234,081	7,237,127
Assets earmarked for third-party obligations		—	—
Irrevocable letter of credit		967,766	760,160
Additional settlement guarantee		25,000	20,000
Other guarantees and sureties given		6,241,315	6,456,967
Other contingent risks		—	—
Other commitments provided		150,782	357,593
Financial asset forward purchase commitments		—	204,692
Conventional financial asset purchase contracts		50,116	171
Capital subscribed but not paid up		19	1,939
Underwriting and subscription commitments		—	—
Other loan commitments given		100,647	150,791
Provisions recognised on liabilities side of the balance sheet	22	80,038	68,712
Total		**37,822,152**	**38,925,513**

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

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

Total commitments drawable by third parties as at 31 December 2021 include home equity loan commitments amounting to 5,778,794 thousand euros (5,160,536 thousand euros as at 31 December 2020). As regards other commitments, in the majority of cases there are other types of guarantees which are in line with the Group's risk management policy.

Financial guarantees and other commitments provided classed as Stage 3

The movement of the balance of the financial guarantees and other commitments provided classed as stage 3 during 2021 and 2020 was the following:

Thousand euro

Balances as at 31 December 2019	**198,452**
Additions	338,411
Disposals	(79,922)
Balances as at 31 December 2020	**456,941**
Additions	94,214
Disposals	(76,598)
Balances as at 31 December 2021	**474,557**

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

Thousand euro

	2021	2020
Spain	469,444	455,929
United Kingdom	4	5
Rest of European Union	439	437
Americas	2,808	4
Rest of the world	1,862	566
Total	**474,557**	**456,941**

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

Thousand euro

	2021	2020
Specific individually measured allowances:	86,050	82,961
Stage 2	424	934
Stage 3	85,626	82,027
Specific collectively measured allowances:	36,405	24,355
Stage 1	6,317	7,651
Stage 2	5,229	5,539
Stage 3	24,141	10,667
Allowances for country risk	718	498
Total	**122,455**	**107,316**

The movement of this coverage during the years 2021 and 2020, together with the coverage of other loan commitments given, is shown in Note 22.

Note 27 – Off-balance sheet customer funds

Off-balance sheet customer funds managed by the Group, those sold but not under management and the financial instruments deposited by third parties as at 31 December 2021 and 2020 are shown below:

Thousand euro

	2021	2020
Managed by the group:	**5,160,075**	**5,036,415**
Investment firms and funds	1,364,922	1,738,444
Asset management	3,795,153	3,297,971
Sold by the group:	**36,517,746**	**33,028,002**
Mutual Funds	23,228,405	19,627,494
Pension funds	3,524,786	3,349,136
Insurance	9,764,555	10,051,372
Financial instruments deposited by third parties	**47,881,913**	**69,347,471**
Total	**89,559,734**	**107,411,888**

The reduction in the balance of “Financial instruments deposited by third parties” in 2021 is due to the sale of the institutional depository business (see Note 2).

Note 28 – Interest income and expenses

These headings in the consolidated income statement include interest accrued during the year on all financial assets and liabilities the yield of which, implicit or explicit, is obtained by applying the effective interest rate approach, irrespective of whether they are measured at fair value or otherwise, and using product adjustments due to accounting hedges.

The majority of interest income is generated by the Group’s financial assets measured either at amortised cost or at fair value through other comprehensive income.

The average annual interest rate during 2021 and 2020 of the indicated balance sheet headings is shown below:

%

	2021		2020	
	Banco Sabadell Group	Ex TSB (*)	Banco Sabadell Group	Ex TSB (*)
Assets				
Cash, cash balances at central banks and other demand deposits	(0.26)	(0.28)	(0.01)	(0.06)
Debt securities	0.62	0.72	0.92	0.96
Loans and advances				
Customers	2.31	2.21	2.52	2.42
Liabilities				
Deposits				
Central banks and Credit institutions	0.74	0.82	0.40	0.52
Customers	(0.05)	(0.04)	(0.15)	(0.12)
Debt securities issued	(1.17)	(1.18)	(1.30)	(1.26)

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

(*) Group figures, not including TSB.

The breakdown of quarterly net interest income for the years 2021 and 2020, as well as returns and average costs of the different components which comprise the total investment and funds, is as follows:

Thousand euro

	2021												
	1st quarter			2nd quarter			3rd quarter			4th quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Return on the investment	**236,160,370**	**1.54**	**899,136**	**245,532,351**	**1.45**	**889,206**	**248,758,987**	**1.44**	**901,290**	**250,605,494**	**1.41**	**892,879**	**3,582,511**
Cash and cash equivalents (*)	41,910,017	(0.21)	(21,253)	48,148,899	(0.32)	(38,016)	49,896,356	(0.26)	(32,404)	54,664,905	(0.24)	(32,787)	**(124,460)**
Loans and advances	148,164,054	2.37	865,945	151,579,415	2.31	874,637	153,649,238	2.28	881,295	155,218,363	2.28	891,305	**3,513,182**
Fixed-income portfolio (**)	25,197,742	0.67	41,722	26,343,512	0.63	41,483	26,079,617	0.65	42,697	22,365,247	0.50	28,322	**154,224**
Equity portfolio	1,006,811			1,120,353			1,046,087			1,002,849			—
Tangible and intangible assets	5,428,850			5,278,329			5,026,872			4,986,359			—
Rest of other assets	14,452,896	0.36	12,722	13,061,843	0.34	11,102	13,060,817	0.29	9,702	12,367,771	0.19	6,039	**39,565**
Cost of resources	**236,160,370**	**(0.11)**	**(66,193)**	**245,532,351**	**(0.06)**	**(36,847)**	**248,758,987**	**(0.04)**	**(24,014)**	**250,605,494**	**(0.05)**	**(30,001)**	**(157,055)**
Central banks and Credit institutions	34,678,942	0.70	59,981	38,111,490	0.78	74,281	38,419,927	0.77	74,610	41,133,647	0.69	71,751	**280,623**
Customer deposits (***)	157,697,667	(0.08)	(29,691)	163,315,847	(0.06)	(22,500)	165,534,132	(0.04)	(14,718)	164,343,879	(0.05)	(20,687)	**(87,596)**
Capital markets	22,365,550	(1.31)	(72,059)	22,480,193	(1.15)	(64,265)	23,455,466	(1.10)	(65,191)	22,793,830	(1.12)	(64,361)	**(265,876)**
Other liabilities	8,844,806	(1.12)	(24,424)	9,017,734	(1.08)	(24,363)	8,591,010	(0.86)	(18,715)	9,358,896	(0.71)	(16,704)	**(84,206)**
Own funds	12,573,405			12,607,087			12,758,452			12,975,242			—
Net interest income			**832,943**			**852,359**			**877,276**			**862,878**	**3,425,456**
Average total assets			**236,160,370**			**245,532,351**			**248,758,987**			**250,605,494**	**245,313,451**
Ratio (margin/ATA)			**1.43**			**1.39**			**1.40**			**1.36**	**1.40**

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes 917 thousand euros corresponding to interest on financial assets held for trading.

(***) Includes repos.

Financial income and expense arising from the application of negative interest rates are assigned to the associated instrument. Thus, profit/(loss) on investments and the cost of resources include financial expenses and income amounting to 176,703 thousand euros and 388,335 thousand euros, respectively, arising from such assignment. In particular, the credit institutions row on the liabilities side includes financial income on negative interest rates applied to balances of credit institutions in the liabilities side, mainly those relating to TLTRO III.

Thousand euro

	2020												
	1st quarter			2nd quarter			3rd quarter			4th quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Return on the investment	**220,337,733**	**2.09**	**1,143,474**	**222,558,306**	**1.83**	**1,013,548**	**233,151,256**	**1.62**	**949,587**	**234,373,619**	**1.59**	**933,855**	**4,040,464**
Cash and cash equivalents (*)	26,254,634	0.19	12,589	28,340,676	0.10	6,985	36,048,331	(0.08)	(7,385)	38,368,333	(0.17)	(15,959)	**(3,770)**
Loans and advances	142,034,120	2.80	988,433	143,837,623	2.52	899,910	144,698,464	2.39	869,015	146,228,816	2.37	870,503	**3,627,861**
Fixed-income portfolio (**)	27,498,622	1.16	79,200	26,549,681	0.96	63,359	29,524,076	0.87	64,674	27,692,825	0.72	50,088	**257,321**
Equity portfolio	1,000,487	—	—	1,038,194	—	—	1,043,559	0.00	—	955,928	0.00	—	**—**
Tangible and intangible assets	5,475,464	—	—	5,411,995	—	—	5,353,196	0.00	—	5,385,265	0.00	—	**—**
Rest of other assets	18,074,406	1.41	63,252	17,380,137	1.00	43,294	16,483,630	0.56	23,283	15,742,452	0.74	29,223	**159,052**
Cost of resources	**220,337,733**	**(0.47)**	**(258,988)**	**222,558,306**	**(0.35)**	**(193,507)**	**233,151,256**	**(0.19)**	**(108,716)**	**234,373,619**	**(0.14)**	**(80,137)**	**(641,348)**
Central banks and Credit institutions	22,792,000	(0.14)	(7,687)	23,720,351	0.08	4,841	34,093,243	0.69	59,216	34,379,243	0.69	59,704	**116,074**
Customer deposits (***)	149,636,087	(0.22)	(82,390)	151,934,692	(0.16)	(60,571)	153,693,757	(0.12)	(45,973)	154,676,457	(0.09)	(34,376)	**(223,310)**
Capital markets	25,329,889	(1.33)	(83,523)	24,211,144	(1.28)	(77,177)	23,439,410	(1.31)	(77,269)	22,752,551	(1.27)	(72,355)	**(310,324)**
Other liabilities	9,671,576	(3.55)	(85,388)	9,953,190	(2.45)	(60,600)	9,164,748	(1.94)	(44,690)	9,700,751	(1.36)	(33,110)	**(223,788)**
Own funds	12,908,181	—	—	12,738,929	—	—	12,760,098	—	—	12,864,617	0.00	—	**—**
Net interest income			**884,486**			**820,041**			**840,871**			**853,718**	**3,399,116**
Average total assets			**220,337,733**			**222,558,306**			**233,151,256**			**234,373,619**	**227,638,874**
Ratio (margin/ATA)			**1.62**			**1.48**			**1.43**			**1.45**	**1.49**

(*) Includes cash, central banks, credit institutions and reverse repos.

(**) Includes 1,333 thousand euros corresponding to interest on financial assets held for trading.

(***) Includes repos.

Financial income and expense arising from the application of negative interest rates are assigned to the associated instrument. Thus, profit/(loss) on investments and the cost of resources include financial expenses and income amounting to 71,085 thounsand euros and 212,253 thousand euros, respectively, arising from such assignment. In particular, the credit institutions row on the liabilities side includes financial income on negative interest rates applied to balances of credit institutions in the liabilities side, mainly those relating to TLTRO II and TLTRO III.

In terms of annual average, net interest margin on average total assets stood at 1.40% (1.22% ex-TSB), declining by 9 basis points in comparison with the previous year (1.49% in 2020).

Note 29 – Fee and commission income and expenses

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

Thousand euro

	2021	2020
Fees from risk transactions	**270,392**	**259,640**
Lending operations	168,717	159,148
Sureties and other guarantees	101,675	100,492
Service fees	**839,528**	**755,128**
Payment cards	222,539	196,976
Payment orders	74,196	56,888
Securities	66,848	70,554
Sight accounts	293,245	240,011
Other	182,700	190,699
Asset management and marketing fees	**357,621**	**335,560**
Mutual funds	121,734	122,952
Sale of pension funds and insurance products	198,338	188,157
Asset management	37,549	24,451
Total	**1,467,541**	**1,350,328**
Memorandum item		
Fee and commission income	1,661,610	1,538,377
Fee and commission expenses	(194,069)	(188,049)
Fees and commissions (net)	**1,467,541**	**1,350,328**

Note 30 – Gains or (-) losses on financial assets and liabilities (net) and exchange differences (net)

“Gains or (-) losses on financial assets and liabilities, net” groups together a series of headings from the consolidated income statement for the years ended 31 December 2021 and 2020, which are shown below:

Thousand euro

	2021	2020
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	340,985	782,143
Financial assets at fair value through other comprehensive income	15,412	54,044
Financial assets at amortised cost	323,840	728,200
Financial liabilities at amortised cost	1,733	(101)
Gains or (-) losses on financial assets and liabilities held for trading, net	(183,555)	444,354
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	4,466	(9,544)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	—	—
Gains or (-) losses from hedge accounting, net	(4,851)	9,464
Total	**157,045**	**1,226,417**
By type of financial instrument:		
Net gain/(loss) on debt securities	346,978	794,404
Net gain/(loss) other equity instruments	2,396	1,745
Net gain/(loss) on derivatives	(192,370)	446,708
Net gain/(loss) on other items (*)	41	(16,440)
Total	**157,045**	**1,226,417**

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

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

Thousand euro

	2021	2020
Exchange differences [gain or (-) loss], net	187,174	(426,777)

During 2021, the Group has carried out sales of certain debt securities which it held in its portfolio of financial assets at fair value through other comprehensive income, generating profits of 15,412 thousand euros (54,044 thousand euros in 2020). Of this profit, 4,127 thousand euros (35,849 thousand euros in the year 2020) derive from the sale of debt securities held with general governments.

In addition, during 2021 and 2020, the Group sold certain debt securities held in the portfolio of financial assets at amortised cost in order to fortify the Group’s solvency as part of a series of actions taken to improve future profitability and the quality of its balance sheet in response to the economic crisis triggered by COVID-19 (see Notes 8 and 33).

Meanwhile, the “Net gain/(loss) on derivatives” heading in the table above includes, mainly, the change in the fair value of derivatives used to hedge against the foreign exchange risk of debit and credit balances denominated in foreign currencies. The results obtained from these derivatives are recognised under the heading “Gains or (-) losses on financial assets and liabilities held for trading, net” of the consolidated income statement, while the exchange differences generated by debit and credit balances denominated in foreign currencies hedged with these derivatives are recognised under the heading “Exchange differences [gain or (-) loss], net” of the consolidated income statement.

Note 31 – Other operating income

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

Thousand euro

	2021	2020
Income from use of investment properties (*)	25,785	38,507
Sales and other income from the provision of non-financial services	11,382	18,675
Other operating income	117,565	168,038
Total	**154,732**	**225,220**

(*) The amounts relate mainly to revenues from operating leases in which the group acts as lessor.

The income recognised in "Other operating income" basically corresponds to income from Group entities engaging in non-financial activities (mostly operating leases). The fall in the balance recorded for this item in 2021 is due, mainly, to the sale of the vehicle leasing business managed by Bansabadell Renting, S.L.U. (see Note 2).

Note 32 – Other operating expenses

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

Thousand euro

	2021	2020
Contribution to deposit guarantee schemes	(128,883)	(123,437)
Banco Sabadell	(116,341)	(110,587)
TSB	(879)	(166)
BS IBM México	(11,663)	(12,684)
Contribution to resolution fund	(87,977)	(78,388)
Other items	(250,502)	(307,268)
Total	**(467,362)**	**(509,093)**

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

Note 33 – Administrative expenses

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

Staff expenses

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

Thousand euro

	Nota	2021	202(
Payrolls and bonuses for active staff		(1,098,835)	(1,137,15ς
Social Security payments		(231,357)	(247,427
Contributions to defined benefit pension plans	22	(2,865)	(2,683
Contributions to defined contribution pension plans		(70,132)	(66,807
Other staff expenses		(373,608)	(430,50C
Of which: restructuring plans in Spain and United Kingdom		*(298,272)*	*(345,15C*
Total		(1,776,797)	(1,884,57€

In October 2021, the Bank reached an agreement with all trade union sections involved in the negotiating committee representing workers, under the framework of a collective dismissal procedure in Spain, which concerns 1,605 employees (496 in 2021 and the rest during the first quarter of 2022). This agreement involved an expenditure of 274,301 thousand euros, which was funded with income from the sale of debt instruments recognised in the amortised cost portfolio (see Notes 8, 22 and 30).

In December 2020, the Group reached an agreement with the trade unions in Spain on voluntary early retirement and incentivised redundancies, which involved expenditure of 304,805 thousand euros in 2020 and concerned approximately 1,800 employees, who left the Group in the first quarter of 2021 (see Notes 8, 22 and 30). In 2020, the Group recognised restructuring costs for its subsidiary, TSB, amounting to 40,345 thousand euros (see Note 22).

As at 31 December 2021 and 2020, the breakdown of the average workforce for all companies within the Group by category and sex is as follows:

Average number of employees

	2021			2020		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Management staff	494	190	684	531	185	716
Middle management	2,227	1,363	3,590	2,433	1,315	3,748
Specialist staff	6,024	8,153	14,177	6,946	9,116	16,062
Administrative staff	739	2,137	2,876	799	2,765	3,564
Total	**9,484**	**11,843**	**21,327**	**10,708**	**13,381**	**24,089**

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

Average number of employees

	2021	**2020**
Management staff	9	13
Middle management	33	36
Specialist staff	238	299
Administrative staff	109	160
Total	**389**	**508**

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

Number of employees

	2021			2020		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Management staff	515	214	729	516	180	696
Middle management	1,988	1,281	3,269	2,422	1,324	3,746
Specialist staff	5,663	7,766	13,429	6,855	8,970	15,825
Administrative staff	724	1,919	2,643	738	2,453	3,191
Total	**8,890**	**11,180**	**20,070**	**10,531**	**12,927**	**23,458**

Of the total workforce as at 31 December 2021, 344 had some form of recognised disability (482 as at 31 December 2020).

Long-term share-based complementary incentive scheme

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

Share-based complementary incentive scheme

At the Annual General Meeting of 19 April 2018, shareholders approved a long-term complementary incentive based on the increase in value of shares of Banco de Sabadell, S.A., which takes into account multi-year objectives, for members of the Group’s Identified Staff with allocated variable remuneration (ICLP 2018). It consisted of assigning a specific number of stock options to the beneficiaries, carrying the right to receive the increase in value of the same number of shares of Banco de Sabadell, S.A., based on the share's market price, while also being tied to the Bank's attainment of certain multi-year indicators over a given period of time, and would be paid 55% in the form of Banco de Sabadell, S.A. shares and 45% in cash. In April 2021, this scheme expired with no settlement since the strike price (1,841 euros) was above the listed share price.

As regards TSB, the Share Incentive Plan (SIP) provides its employees with the opportunity to own shares in Banco Sabadell and grants, where applicable, shares to certain senior employees as part of their hiring arrangements.

Long-term remuneration scheme

The Board of Directors, in its meeting of 20 December 2018, at the proposal of the Remuneration Committee, approved Long-Term Remuneration for 2019-2021, aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff who are assigned to TSB Banking Group Plc or its subsidiaries, which consists of the allocation of a certain amount to each beneficiary, which is determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. The incentive will be paid 55% in shares of the Bank (using the weighted average price of the last 20 trading sessions of December 2019 to calculate the number of shares) and 45% in cash. The incentive vesting period started on 1 January 2019 and ended on 31 December 2021, and consisted of two sub-periods:

- Individual annual targets measurement period: this is the period from 1 January 2019 to 31 December 2019, in which the annual targets of each beneficiary (composed of Group targets, Management targets and individual targets) established to determine the "Adjusted Target" were measured, which was subject to the Risk Correction Factor, with capital (CET1) and liquidity (Liquidity Coverage Ratio) indicators.

- Group multi-year targets measurement period: this is the period from 1 January 2019 to 31 December 2021, in which multi-year Group targets were measured for the purpose of determining the final incentive, which was also subject to the Risk Correction Factor. The Group's multi-year targets were related to the following indicators: total shareholder return (25%), the Group's liquidity coverage ratio (25%), the CET1 capital indicator (25%) and the Group's return on risk-adjusted capital (RoRAC) (25%). The results were 0% relative to total shareholder return, 100% relative to the Group's liquidity coverage ratio, 100% relative to the CET1 capital ratio and 0% relative to the Group's return on risk-adjusted capital (RoRAC). Based on the above, a final pay-out of 50% of the Target was determined for management staff who had been allocated to receive this incentive.

In addition to meeting the annual and multi-year targets described above, payment of the incentive will be subject to the requirements set out in the General Terms and Conditions of the 2019-2021 Long Term Remuneration scheme.

Furthermore, the Board of Directors, in its meeting of 19 December 2019, at the proposal of the Remuneration Committee, approved Long-Term Remuneration for 2020-2022, aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff who are assigned to TSB Banking Group Plc or its subsidiaries, and which consists of the allocation of a certain amount to each beneficiary, the amount of which is determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. The incentive will be paid 55% in shares of the Bank (using the weighted average price of the last 20 trading sessions of the month of December 2020 to calculate the number of shares) and 45% in cash. The incentive vesting period started on 1 January 2020 and ends on 31 December 2022, and comprises two sub-periods:

- Individual annual targets measurement period: this is the period from 1 January 2020 to 31 December 2020, in which the annual targets of each beneficiary (composed of Group targets, Management targets and individual targets) established to determine the "Adjusted Target" were measured, which was subject to the Risk Correction Factor, with capital (CET1) and liquidity (Liquidity Coverage Ratio) indicators.

- Group multi-year targets measurement period: this is the period from 1 January 2020 to 31 December 2022, in which multi-year Group targets are measured for the purpose of determining the final incentive, which is also subject to the Risk Correction Factor. The Group's multi-year targets relate to the following indicators: total shareholder return (25%), the Group's liquidity coverage ratio (25%), the CET1 capital indicator (25%) and the Group's return on risk-adjusted capital (RoRAC) (25%).

In addition to meeting the annual and multi-year targets described above, payment of the incentive will be subject to the requirements set out in the General Terms and Conditions of the 2020-2022 Long Term Remuneration scheme.

Furthermore, the Board of Directors, in its meeting of 17 December 2020, at the proposal of the Remuneration Committee, approved Long-Term Remuneration for 2021-2023, aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff who are assigned to TSB Banking Group Plc or its subsidiaries, and which consists of the allocation of a certain amount to each beneficiary, the amount of which is determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. The incentive will be paid 55% in shares of the Bank (using the weighted average price of the last 20 trading sessions of the month of December 2021 to calculate the number of shares) and 45% in cash. The incentive vesting period started on 1 January 2021 and ends on 31 December 2023, and comprises two sub-periods:

- Individual annual targets measurement period: this is the period from 1 January 2021 to 31 December 2021, in which the annual targets of each beneficiary (composed of Group targets, Management targets and individual targets) established to determine the "Adjusted Target" were measured, which was subject to the Risk Correction Factor, with capital (CET1) and liquidity (Liquidity Coverage Ratio) indicators.

- Group multi-year targets measurement period: this is the period from 1 January 2021 to 31 December 2023, in which multi-year Group targets are measured for the purpose of determining the final incentive, which is also subject to the Risk Correction Factor. The Group's multi-year targets relate to the following indicators: total shareholder return (25%), the Group's liquidity coverage ratio (25%), the CET1 capital indicator (25%) and the Group's return on risk-adjusted capital (RoRAC) (25%).

In addition to meeting the annual and multi-year targets described above, payment of the incentive will be subject to the requirements set out in the General Terms and Conditions of the 2021-2023 Long Term Remuneration scheme.

As regards the staff expenses associated with share-based incentive schemes (see Note 1.3.15), the balancing entry for such expenses is recognised in equity in the case of stock options settled with shares (see consolidated statement of total changes in equity – share-based payments), while those settled with cash are recognised in the "Other liabilities" heading of the consolidated balance sheet.

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

Thousand euro

	2021	**2020**
Settled in Shares	3,962	6,285
Settled in Cash	1,390	1,386
Total	**5,352**	**7,671**

Other administrative expenses

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

Thousand euro

	2021	2020
Property, plant and equipment	(85,358)	(111,498)
Information technology	(415,128)	(356,122)
Communication	(30,929)	(38,633)
Publicity	(79,452)	(87,783)
Subcontracted administrative services	(113,068)	(156,658)
Contributions and taxes	(130,340)	(143,795)
Technical reports	(32,357)	(49,142)
Security services and fund transfers	(16,899)	(18,442)
Entertainment expenses and staff travel expenses	(4,537)	(6,400)
Membership fees	(5,278)	(5,057)
Other expenses	(90,747)	(80,028)
Total	**(1,004,093)**	**(1,053,558)**

Audit firm fees

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

Thousand euro

	2021	2020
Statutory audit services (*)	**2,495**	**2,253**
Of which: Audit of the Bank’s annual and semi-annual accounts	2,049	1,793
Of which: Audit of the annual accounts of foreign branches (**)	25	25
Of which: Audit of the annual accounts of subsidiaries	421	435
Audit-related services	**283**	**65**
Total	**2,778**	**2,318**

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

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

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

Thousand euro

	2021	2020
Statutory audit services (*)	**6,493**	**5,109**
Of which: Audit of the annual accounts of foreign branches	302	280
Of which: Audit of the annual accounts of Group subsidiaries	6,191	4,829
Audit-related services	**219**	**28**
Other services	**257**	**219**
Of which: Other	257	219
Total	**6,969**	**5,356**

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

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

Finally, the Group engaged auditors other than KPMG to carry out the audits of foreign branches and other Group subsidiaries. Audit and other services provided by those companies amounted to 61 thousand euros and 5 thousand euros in the year ended 31 December 2021, respectively (50 and 5 thousand euros in the year ended 31 December 2020).

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

Other information

The cost-to-income ratio as at 2021 year-end (staff and general expenses/gross margin) stood at 55.33% (55.41% in 2020).

Information about the Group's branches and offices is given below:

Number of branches

	2021	2020
Branches	**1,593**	**2,083**
Spain	1,270	1,589
Outside Spain	323	494

Note 34 – Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and modification losses or (-) gains, net

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

Thousand euro

	Note	2021	2020
Financial assets at fair value through other comprehensive income		697	288
Debt securities	8	697	288
Other equity instruments		—	—
Financial assets at amortised cost	11	(960,204)	(1,745,302)
Debt securities		73	16
Loans and advances		(960,277)	(1,745,318)
Total		**(959,507)**	**(1,745,014)**

Note 35 – Impairment or (-) reversal of impairment on non-financial assets

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

Thousand euro

	Note	2021	2020
Property, plant and equipment	15	(58,369)	4,950
Investment properties	15	(7,114)	2,742
Goodwill and other intangible assets	16	(1,570)	(2,025)
Inventories	17	(38,914)	(46,068)
Total		**(105,967)**	**(40,401)**

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

The total allowance for the impairment of investment properties in 2021 and 2020 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 381,261 thousand euros and 319,672 thousand euros in 2021 and 2020, respectively.

Of the total inventory impairment allowances for 2021 and 2020, 20,659 thousand euros and 26,206 thousand euros were allocated based on Level 2 valuations, respectively, and 18,255 thousand euros and 19,862 thousand euros based on Level 3 valuations, respectively. The fair value of impaired assets amounted to 138,216 thousand euros and 173,532 thousand euros at 2021 and 2020 year-end, respectively.

Note 36 – Gains or (-) losses on derecognition of non-financial assets, net

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

Thousand euro

	2021	2021
Property, plant and equipment	(320)	(7,860)
Investment properties	145	3,525
Intangible assets	(36,936)	(4,498)
Interests (*)	14,575	419
Other items	93,657	5,547
Total	**71,121**	**(2,867)**

(*) See Schedule I – Companies no longer consolidated.

The "Other items" heading includes 84 million euros in 2021 corresponding to profit recognised on the sale of the institutional depository business to BP2S (see Note 2).

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

Note 37 – Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

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

Thousand euro

	Note	2021	2020
Property, plant and equipment for own use and foreclosed		(63,475)	(217,378)
Gains/losses on sales		(45,563)	10,797
Impairment/Reversal	13	(17,912)	(228,175)
Investment properties		789	406
Interests (*)		40,172	343,169
Other items		15,126	(23,615)
Total		**(7,388)**	**102,582**

(*) See Schedule I - Companies no longer consolidated.

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

The total allowance for the impairment of non-current assets held for sale in 2021 and 2020 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 452,743 thousand euros and 518,495 thousand euros at 2021 and 2020 year-end, respectively.

Note 38 – Segment reporting

Segmentation criteria

This section gives information regarding earnings and other indicators of the Group’s business units.

For 2021, the criteria that Banco Sabadell Group uses to report on results for each segment are:

- Three geographical regions: Banking Business in Spain, United Kingdom and Mexico. Banking Business Spain includes the Foreign Branches (OFEX) and the Representative Offices.
- Each business unit is allocated capital equivalent to 12% of its risk-weighted assets and the surplus of own funds is allocated to Banking Business Spain.

In terms of the other criteria applied, segment information is first structured with a breakdown by region and then broken down based on the customers to which each segment is aimed.

The information presented is based on the individual accounting records of each Group company, after all consolidation disposals and adjustments have been made.

Each business unit bears its own direct costs, calculated on the basis of general accounting.

Details of profit attributable to the Group and other key figures for each business unit for the years 2021 and 2020 are shown in the table below, along with a reconciliation of the totals shown in the table with those shown in the consolidated Group accounts:

Million euro

	2021 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Net interest income	**2,302**	**1,011**	**113**	**3,425**
Fees and commissions (net)	1,336	121	11	1,468
Net banking revenues	**3,638**	**1,132**	**123**	**4,893**
Net trading income and exchange differences	342	2	—	344
Equity-accounted affiliates and dividends	102	—	—	102
Other operating income/expense	(269)	(33)	(10)	(313)
Gross income	**3,812**	**1,101**	**114**	**5,026**
Operating expenses and depreciation and amortisation	(2,276)	(942)	(89)	(3,307)
Pre-provisions income	**1,536**	**159**	**24**	**1,719**
Provisions and impairments	(1,193)	—	(32)	(1,225)
Capital gains on asset sales and other revenue	135	(9)	(0.011)	126
Profit/(loss) before tax	**478**	**150**	**(8)**	**620**
Corporation tax	(58)	(32)	9	(81)
Profit or loss attributed to minority interests	8	—	—	8
Profit attributable to the Group	**412**	**118**	**1**	**530**
ROE (profit / average shareholders' equity)	4.2%	4.5%	0.1%	4.0%
Cost-to-income (general administrative expenses / gross income)	50.2%	71.3%	71.1%	55.3%
NPL ratio	4.6%	1.4%	1.0%	3.7%
Stage 3 exposure coverage ratio (**)	57.6%	38.1%	265.7%	56.3%
Employees	13,855	5,762	453	20,070
Domestic and foreign branches	1,288	290	15	1,593

(*) Exchange rates used in the income statement: GBP 0.8594 (average), MXN 23.9687 (average), USD 1.1865 (average) and MAD 10.4982 (average).

(**) Considering total provisions for losses on transactions in stage 3.

Million euro

	2021 (*)			
	Banking Business Spain	Banking Business UK	Banking Business Mexico	Total Group
Assets	**191,162**	**55,657**	**5,128**	**251,947**
Gross performing loans to customers	107,089	44,050	3,773	154,912
Non-performing real estate assets (net)	842	—	—	842
Liabilities	**181,389**	**53,012**	**4,550**	**238,950**
On-balance sheet customer funds	116,788	42,779	2,453	162,020
Wholesale Funding Capital Markets	18,090	2,975	—	21,065
Allocated capital	**9,773**	**2,645**	**578**	**12,996**
Off-balance sheet customer funds	**41,678**	**—**	**—**	**41,678**

(*) Exchange rates used in the balance sheet: GBP 0.8403, MXN 23.1438, USD 1.1326 and MAD 10.518.

Million euro

	2020 (*)			
	Banking Business Spain	**Banking Business UK**	**Banking Business Mexico**	**Total Group**
Net interest income	**2,400**	**885**	**114**	**3,399**
Fees and commissions (net)	1,246	96	7	1,350
Net banking revenues	**3,646**	**981**	**122**	**4,749**
Net trading income and exchange differences	770	25	4	800
Equity-accounted affiliates and dividends	37	—	—	37
Other operating income/expense	(271)	2	(14)	(284)
Gross income	**4,182**	**1,008**	**112**	**5,302**
Operating expenses and depreciation and amortisation	(2,344)	(1,035)	(82)	(3,461)
Pre-provisions income	**1,838**	**(27)**	**30**	**1,841**
Provisions and impairments	(2,007)	(240)	(28)	(2,275)
Capital gains on asset sales and other revenue	317	(4)	—	313
Profit/(loss) before tax	**147**	**(271)**	**3**	**(121)**
Corporation tax	71	51	1	124
Profit or loss attributed to minority interests	1	—	—	1
Profit attributable to the Group	**218**	**(220)**	**4**	**2**
ROE (profit / average shareholders' equity)	2.0%	0.0%	0.8%	0.0%
Cost-to-income (general administrative expenses / gross income)	47.6%	86.8%	64.3%	55.4%
NPL ratio	4.4%	1.3%	0.5%	3.6%
Stage 3 exposure coverage ratio (**)	55.7%	57.4%	231.6%	56.5%
Employees	16,260	6,709	489	23,458
Domestic and foreign branches	1,614	454	15	2,083

(*) Exchange rates used in the income statement: GBP 0.8888 (average), MXN 24.5034 (average), USD 1.1389 (average) and MAD 10.8769 (average).

(**) Considering total provisions for losses on transactions in stage 3.

Million euro

	2020 (*)			
	Banking Business Spain	**Banking Business UK**	**Banking Business Mexico**	**Total Group**
Assets	**183,896**	**47,284**	**4,584**	**235,763**
Outstanding gross loans and advances	106,327	36,977	3,574	146,878
Non-performing real estate assets (net)	871	—	—	871
Liabilities	**173,664**	**45,566**	**4,041**	**223,272**
On-balance sheet customer funds	110,572	38,213	1,993	150,778
Wholesale Funding Capital Markets	18,332	2,319	—	20,651
Allocated capital	**10,204**	**1,736**	**551**	**12,492**
Off-balance sheet customer funds	**38,064**	**—**	**—**	**38,064**

(*) Exchange rates used in the balance sheet: GBP 0.8990, MXN 24.416, USD 1.2271 and MAD 10.882.

The Group's average total assets as at 31 December 2021 amounted to 245,313,451 thousand euros (227,638,874 thousand euros as at 31 December 2020).

The types of products and services from which ordinary income is derived are described below for each business unit:

– Banking Business Spain:

  Groups together the Retail Banking, Business Banking and Corporate Banking business units, where Individuals and Businesses are managed under the same Branch Network:

  – Retail Banking: offers financial products and services to individuals for personal use. These include investment products and medium- and long-term finance, such as consumer loans, mortgages and leasing or rental services, as well as short-term finance. Funds come mainly from customer deposits and current accounts, savings insurance, mutual funds and pension plans. The main services also include payment methods such as cards and insurance linked to consumer loans and mortgages. High value-added products and services are also offered to Private Banking customers.

  – Business Banking: offers financial products and services to companies and self-employed persons. These include investment and financing products, such as working capital products, revolving loans and medium- and long-term finance. It also offers customised structured finance and capital market solutions, as well as specialised advice for businesses. Funds mainly come from customer deposits, current accounts and mutual funds. The main services also include collection/payment methods such as cards and POS terminals, as well as import and export services.

  – Corporate Banking (CIB) offers specialised lending services together with a comprehensive offering of solutions, ranging from transaction banking services to more complex and tailored solutions relating to the fields of lending and cash management, as well as import and export activities, among others.

– Banking Business United Kingdom:

  The TSB franchise includes business conducted in the United Kingdom, which includes current and savings accounts, loans, credit cards and mortgages.

– Banking Business Mexico:

  Offers corporate banking and commercial banking financial services.

Details of income from ordinary activities and the pre-tax profit/(loss) generated by each business unit, are set out below for the years 2021 and 2020:

Thousand euro

	Consolidated			
	Income from ordinary activities (*)		Profit/(loss) before tax	
SEGMENTS	**2021**	**2020**	**2021**	**2020**
Banking Business Spain	4,680,955	5,843,283	477,976	147,359
Banking Business UK	1,200,385	1,196,722	150,144	(271,072)
Banking Business Mexico	240,858	274,829	(8,131)	2,883
Total	**6,122,198**	**7,314,834**	**619,989**	**(120,830)**

(*) Includes the following headings from the consolidated income statements: “Interest income”, “Dividend income”, “Fee and commission income”, “Gains or (-) losses on financial assets and liabilities, net” and “Other operating income”.

The table below shows the balance of net interest income and net fees and commissions income generated by each business unit as a percentage of the total for 2021 and 2020:

%

	2021				
	Breakdown net interest income and net fees and commissions				
	Customer loans		Customer deposits		Income from services (*)
	% of average balance	% of total yield	% of average balance	% of total cost	% of total balance
SEGMENTS					
Banking Business Spain	69.1 %	69.1 %	71.5 %	80.0 %	91.0 %
Banking Business UK	28.5 %	25.5 %	26.4 %	6.1 %	8.2 %
Banking Business Mexico	2.4 %	5.4 %	2.1 %	13.9 %	0.8 %
Total	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**

(*) Segment percentage of total net fees and commissions.

%

	2020				
	Breakdown net interest income and net fees and commissions				
	Customer loans		Customer deposits		Income from services (*)
	% of average balance	% of total yield	% of average balance	% of total cost	% of total balance
SEGMENTS					
Banking Business Spain	72.4 %	66.4 %	73.3 %	15.8 %	92.3 %
Banking Business UK	25.2 %	27.6 %	25.4 %	37.7 %	7.1 %
Banking Business Mexico	2.4 %	6.0 %	1.3 %	46.5 %	0.6 %
Total	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**

(*) Segment percentage of total net fees and commissions.

Furthermore, a breakdown by region of the “Interest income” heading of the 2021 and 2020 income statements is shown below:

Thousand euro

	Breakdown of interest income by geography			
Geography	**Individual**		**Consolidated**	
	2021	**2020**	**2021**	**2020**
Domestic market	2,601,517	2,797,680	2,625,364	2,844,649
International market	221,413	209,970	1,522,185	1,479,153
European Union	42,689	35,156	42,689	35,156
Euro zone	42,689	35,156	42,689	35,156
Non Euro zone	—	—	—	—
Other	178,724	174,814	1,479,496	1,443,997
Total	**2,822,930**	**3,007,650**	**4,147,549**	**4,323,802**

Section 4 of the consolidated Directors’ Report gives a more detailed assessment of each of these business units.

Note 39 – Tax situation (income tax relating to continuing operations)

Consolidated tax group

Banco de Sabadell, S.A. is the parent company of a consolidated tax group for corporation tax purposes, in Spain, comprising all the Spanish companies in which the Bank holds an interest that meet the requirements of the Spanish Corporation Tax Law.

The other companies in the accounting group, both those that are Spanish and those not resident in Spain, are taxed in accordance with the tax regulations applicable to them.

Reconciliation

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

Thousand euro

	2021	2020
Profit/(loss) before tax	619,989	(120,829)
Increases in taxable income	454,192	776,635
From profits	454,192	772,072
From equity	—	4,563
Decreases in taxable income	(610,249)	(768,077)
From profits	(485,618)	(676,695)
From equity	(124,631)	(91,382)
Taxable income	**463,932**	**(112,271)**
Tax payable (30%)	**(139,180)**	**33,681**
Deductions for double taxation, training and other	12,891	11,911
Tax payable (less tax credits)	**(126,289)**	**45,592**
Due to timing differences (net)	49,710	88,753
Other adjustments (net)	(4,703)	(10,506)
(Tax expense or (-) income related to profit or loss from continuing operations)	**(81,282)**	**123,839**

The reconciliation between the Group's corporation tax expense calculated by applying the general tax rate and the expense recognised for this corporation tax in the consolidated income statements is as follows:

Thousand euro

	2021	2020
Profit or loss before tax	**619,989**	**(120,829)**
Corporation tax, applying national tax rate (30%)	**(185,997)**	**36,249**
Reconciliation:		
Gains/(losses) on sale of equity instruments (exempt)	3,432	95,289
Remuneration of preference shares	30,178	21,968
Profit/(loss) of entities accounted for using the equity method	29,079	10,778
Difference in effective tax rate on companies outside Spain (*) (**)	33,594	(25,599)
Generated deductions/Non-deductible expenses	1,489	5,176
Other	6,943	(20,022)
(Tax expense or (-) income related to profit or loss from continuing operations)	**(81,282)**	**123,839**

(*) Calculated applying the difference between the current tax rate for the Group in Spain (30%) and the effective tax rate applied to the Group's profit/(loss) in each jurisdiction.

(**) In 2021, the United Kingdom's corporation tax rate was changed to 25% (from 19%). As a result, deferred tax assets have increased by 17.9 million euros.

Taxable income – increases and decreases

The increases and decreases in taxable income are analysed in the following table on the basis of whether they arose from temporary or permanent differences:

Thousand euro

	2021	2020
Permanent difference	53,479	109,462
Temporary difference arising during the year	349,070	630,717
Temporary difference arising in previous years	51,643	36,456
Increases	**454,192**	**776,635**
Permanent difference	(375,237)	(396,748)
Temporary difference arising during the year	—	(513)
Temporary difference arising in previous years	(235,012)	(370,816)
Decreases	**(610,249)**	**(768,077)**

Deferred tax assets and liabilities

Under current tax and accounting regulations, certain temporary differences should be taken into account when quantifying the relevant tax expense related to profit from continuing operations.

In 2013, Spain made a provision (Royal Decree-Law 14/2013) for tax assets generated by allowances for the impairment of loans and other assets arising from the potential insolvency of debtors not related to the relevant taxable person, as well as those corresponding to contributions or provisions in respect of social welfare systems and, where appropriate, early retirement schemes, to be afforded the status of assets guaranteed by the Spanish State (hereinafter, "monetisable tax assets").

Monetisable tax assets can be converted into credit enforceable against the Spanish Tax Authority in cases where the taxable person incurs accounting losses or the Institution is liquidated or legally declared insolvent. Similarly, they can be exchanged for public debt securities, once the 18-year term has elapsed, calculated from the last day of the tax period in which these assets were recognised in the accounting records. To retain the State guarantee, in order to keep their status as monetisable tax assets, deferred tax assets generated before 2016 are subject to an annual capital contribution of 1.5% of the deferred tax assets that meet the legal requirements.

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

Thousand euro

Deferred tax assets	2021	2020
Monetisable	**5,042,392**	**5,058,733**
Due to credit impairment	3,355,733	3,358,141
Due to real estate asset impairment	1,560,908	1,574,672
Due to pension funds	125,751	125,920
Non-monetisable	**1,156,067**	**1,066,199**
Tax credits for losses carried forward	**478,826**	**483,831**
Deductions not applied	**30,242**	**35,975**
Total	**6,707,527**	**6,644,738**

Deferred tax liabilities	2021	2020
Property restatements	55,838	56,677
Adjustments to value of wholesale debt issuances arising in business combinations	12,916	19,871
Other financial asset value adjustments	1,475	34,666
Other	53,536	55,303
Total	**123,765**	**166,517**

The breakdown by country of deferred tax assets and liabilities is as follows:

Thousand euro

	2021		2020	
Country	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Spain	6,461,238	111,904	6,417,678	151,614
United Kingdom	155,795	11,861	166,992	12,762
US	23,781	—	7,737	1,925
Mexico	60,260	—	43,434	—
Other	6,453	—	8,897	216
Total	**6,707,527**	**123,765**	**6,644,738**	**166,517**

As indicated in Note 1.3.20, according to the information available as at year-end, and the projections taken from the Group's business plan for the coming years, the Group estimates that it will be able to generate sufficient taxable income to offset tax loss carryforwards and non-monetisable tax assets when these can be deducted on the basis of current tax regulations, and that it will be able to generate this within a period of 10 years.

In addition, the Group performs a sensitivity analysis of the most significant variables used in the deferred tax asset recovery analysis, taking into consideration reasonable changes to the key assumptions on which the projected results of each entity or fiscal group are based and the estimated reversal of timing differences. With respect to Spain, the variables included are those used in the sensitivity analysis of the calculation of the recoverable amount of goodwill (see Note 16). The conclusions arising from that analysis are not significantly different from those reached without stressing the significant variables.

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

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

Monetisable tax assets are guaranteed by the State; therefore, their recoverability does not depend on the generation of future tax benefits.

As at 31 December 2021, the Group had deferred tax assets for tax loss carryforwards and unused deductions of 74.5 million euros not recognised in the balance sheet (generated in financial years prior to the integration of the company giving rise to them into the Spanish tax group). The maximum time limit for applying unused deductions is 2025, while there is no time limit for the application of tax loss carryforwards.

Years subject to tax inspection

As at 31 December 2021, corporation tax for the consolidated tax group in Spain is open to review for 2015 and subsequent years.

In relation to value added tax (VAT) corresponding to entities forming part of the VAT group in Spain, 2016 and subsequent periods are open to review.

The review of all taxes not verified and not required in accordance with the corresponding tax regulations is still pending for other Group entities that are not taxed within the consolidated tax group or the VAT group in Spain.

Procedures

On 11 January 2022, the State Agency for Tax Administration (AEAT by its Spanish acronym) gave notice of the commencement of verification and investigation procedures into Banco Sabadell, as the parent company of the consolidated tax group, in relation to Corporation Tax (2015 to 2019), Value Added Tax (2018 and 2019), Withholdings and payments on account (2018 and 2019) and Tax on Deposits of Credit Institutions (2017 to 2019).

As at 31 December 2021, the Income Tax (Impuesto sobre la Renta or ISR) corresponding to the Mexican subsidiary, Banco Sabadell. S.A. Institución de Banca Múltiple, for the financial year 2018 is currently undergoing an investigation by the Mexican tax authorities (Servicio de Administración Tributaria or SAT); the process is currently at the documentation submission stage.

Ongoing disputes

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

– Administrative-financial claim lodged before the Central Tax Appeal Board on 25 March 2019 against the settlement agreement issued in relation to the disputed tax assessment concerning VAT for the period 07/2012 to 12/2014 which contained an adjustment for an amount of tax due of 5,638 thousand euros (6,938 thousand euros in total including late-payment interest) in relation to various sector-based issues. On 15 October 2019, the corresponding representations were submitted. As at 31 December 2021, the aforesaid board had not yet issued a ruling

– Appeal for judicial review before the Spanish National Court in relation to the rebuttal of the settlement of the disputed VAT assessment for Banco Sabadell between 2008-2010 for an amount of tax due of 1,831 thousand euros (2,337 thousand euros in total including late-payment interest), after a tax settlement was issued in execution of a decision made by the Central Tax Appeal Board partially upholding the claim.

The Group has, in any event, made suitable provisions for any contingencies that it is considered may arise in relation to these tax settlements.

In relation to items for which the statute of limitations is unexpired, due to potential differences in the interpretation of tax regulations, the results of the tax authority inspections for the years subject to review may give rise to contingent tax liabilities, which it is not possible to quantify objectively. However, the Group considers that the possibility of such liabilities materialising is remote and, if they did materialise, the resulting tax charge would not be such as to have any significant impact on these consolidated annual financial statements.

Note 40 – Related party transactions

In accordance with the provisions of Chapter VII bis. Related Party Transactions, of the Capital Companies Act, introduced by Law 5/2021, of 12 April, amending the restated text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July, and other financial regulations, with regard to the promotion of long-term shareholder involvement in listed companies, there are no transactions with officers and directors of the company that could be considered relevant, other than those considered to be "related party transactions" in accordance with Article 529 *vicies* of the Capital Companies Act, carried out following the corresponding approval procedure and, where applicable, reported in accordance with Articles 529 *unvicies et seq.* of the aforesaid Capital Companies Act. Those that did take place were performed in the normal course of the company's business or were performed on an arm's-length basis or under the terms available to any employee. There is no record of any transactions being performed other than on an arm's-length basis with persons or entities related to directors or senior managers.

With regard to transactions, significant because of their size or relevant because of their purpose, carried out by the Bank with related parties, following a favourable report from the Audit and Control Committee on 18 November 2021, the Board of Directors approved a related party transaction consisting of a loan to Acerinox, S.A. in the amount of 205 million euros for a five year term (the first two years being arranged as a grace period), which was entered into on 23 December 2021. The transaction is considered a related-party transaction given that a director of Banco Sabadell is also an independent director of Acerinox, S.A. and sits on its Committees (member of the Executive Committee and Chairman of the Audit Committee of Acerinox, S.A.). As the transaction amount exceeded 2.5% of turnover as stated in the 2020 consolidated annual financial statements of Banco Sabadell, it was reported, together with the corresponding report of the Audit and Control Committee, to the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores* or CNMV) and published as Other Relevant Information on 23 December 2021 with registration reference number 13,328, in accordance with the provisions set forth in Article 529 unvicies of the Capital Companies Act.

The most significant balances held with related parties, and the effect on the income statement of related party transactions, are shown below:

Thousand euro

	2021					2020
	Joint control or signif. influence (in B.Sab)	**Associates**	**Key personnel**	**Other related parties (*)**	**TOTAL**	**TOTAL**
Assets:						
Customer lending and other financial assets	—	173,423	4,774	540,008	**718,205**	**329,540**
Liabilities:						
Customer deposits and other financial liabilities	—	199,883	7,450	87,272	**294,605**	**527,333**
Off-balance sheet exposures:						
Financial guarantees provided	—	302	—	10,042	**10,344**	**672**
Loan commitments given	—	102	449	108,373	**108,924**	**40,896**
Other commitments provided	—	6,749	—	112,112	**118,861**	**7,566**
Income statement:						
Interest and similar income	—	3,625	25	5,004	**8,654**	**7,139**
Interest and similar charges	—	(76)	1	(20)	**(95)**	**(83)**
Return on capital instruments	—		—	—	**—**	**—**
Fees and commissions (net)	—	139,930	48	1,444	**141,422**	**131,376**
Other operating income/expense	—	13,538	(1)	1	**13,538**	**18,900**

(*) Includes employee pension schemes.

Note 41 – Remuneration of members of the Board of Directors and Senior Management and their respective balances

The following table shows, for the years ended 31 December 2021 and 2020, the amount paid to directors in remuneration and in contributions to meet their pension commitments for services provided by them in that capacity:

Thousand euro

	Remuneration		Pension commitments		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**
Josep Oliu Creus (1)	1,259	234	—	35	1,259	269
Pedro Fontana García (2)	257	198	—	—	257	198
José Javier Echenique Landiríbar (3)	185	207	—	—	185	207
César González-Bueno Mayer (*) (4)	83	—	—	—	83	—
Jaime Guardiola Romojaro (5)	17	100	—	—	17	100
Anthony Frank Elliott Ball	162	150	—	—	162	150
Aurora Catá Sala	178	166	—	—	178	166
Luis Deulofeu Fuguet (6)	39	—	—	—	39	—
María José García Beato (7)	166	100	—	—	166	100
Maria Teresa Garcia-Milà Lloveras (8)	—	38	—	—	—	38
Mireya Giné Torrens	150	39	—	—	150	39
George Donald Johnston III	188	188	—	—	188	188
David Martínez Guzmán	100	100	—	—	100	100
José Manuel Martínez Martínez	167	138	—	—	167	138
José Ramón Martínez Sufrategui	135	140	—	—	135	140
José Luis Negro Rodríguez (9)	—	74	—		—	74
Alicia Reyes Revuelta	164	—	—	—	164	—
Manuel Valls Morató	145	160	—	—	145	160
David Vegara Figueras (*)	100	100	—	—	100	100
Total	**3,495**	**2,132**	**—**	**35**	**3,495**	**2,167**

(*) Perform executive functions.

(1) Non-Executive Chair (Other External Director) since 26 March 2021.

(2) Appointed Deputy Chair of the Board on 28 July 2021.

(3) Submitted resignation from position as Director on 28 July 2021.

(4) On 17 December 2020, the Board of Directors approved his appointment as Chief Executive Officer. He accepted the position on 18 March 2021.

(5) Submitted resignation from position as Chief Executive Officer on 18 March 2021.

(6) On 28 July 2021, the Board of Directors approved his appointment as member of the Board of Directors, in the capacity of Independent Director. He accepted the position on 26 October 2021.

(7) Other External Director, effective from 31 March 2021.

(8) Submitted resignation from position as Director, effective from 26 March 2020.

(9) Submitted resignation from position as Director, effective from 24 September 2020.

In 2021, following the changes to the Articles of Association introduced at the General Shareholders' Meeting of 26 March 2021, the directorship of the Chairman of the Board of Directors, Josep Oliu Creus, changed to non-executive status in the category of Other External Director.

The Chairman, through the performance of his duties, is ultimately responsible for the effective operation of the Board of Directors and, as such, he represents the Bank in all matters and signs on its behalf, convenes and chairs meetings of the Board of Directors, sets the meeting agenda, leads discussions and deliberations during Board meetings and ensures the fulfilment of the motions adopted by the Board of Directors. Due to the broad scope and particular nature of the duties assigned to him, the contract of the Chairman in his non-executive capacity provides for a fixed annual remuneration of 1,500 thousand euros, in addition to remuneration corresponding to him due to his membership of the Board. In 2021 he received a proportional amount in line with the date on which he assumed non-executive status.

The directorship of María José García Beato also changed to the category of Other External Director, effective as from 31 March 2021.

Aside from the items mentioned above, members of the Board of Directors received 124 thousand euros as fixed remuneration in 2021 (60 thousand euros in 2020) by reason of their membership of boards of directors in Banco Sabadell Group companies or advisory boards (these amounts are included in the Annual Report on Directors' Remuneration).

Remuneration corresponding to directors for discharging their executive duties amounted to 6,563 thousand euros in 2021.

In the case of the Chairman and the Directors who gave up their executive duties during 2021, the amounts correspond to the amounts earned in the period during which they performed those executive duties.

Thousand euro

	Fixed remuneration	Variable remuneration	Long-term remuneration	Total ordinary remuneration	Severance pay	Total 2021	Total 2020
Josep Oliu Creus	468	355	165	**988**	—	**988**	**1,752**
César González-Bueno Mayer	1,597	558	—	**2,155**	—	**2,155**	**—**
Jaime Guardiola Romojaro	304	264	129	**697**	—	**697**	**1,363**
María José García Beato	145	—	43	**188**	1,849	**2,037**	**511**
David Vegara Figueras	535	100	51	**686**	—	**686**	**455**
José Luis Negro Rodríguez	—	—	—	**—**	—	**—**	**507**
Total	**3,049**	**1,277**	**388**	**4,714**	**1,849**	**6,563**	**4,588**

For comparative purposes, it is important to note that in 2020, the Chairman and the Executive Directors voluntarily waived payment of their annual variable remuneration for 2020, and that no long-term remuneration allocation was made. Additionally, the figures in 2021 include extraordinary amounts in respect of severance payments, amounting to 1,849 thousand euros.

In 2021, pension rights were vested in favour of Directors for discharging their executive duties in the amount of 36,066 thousand euros, including 32,134 thousand euros corresponding to contributions made prior to 2021 (no pension rights were vested in 2020).

The contributions made in 2021 in this respect, insurance premiums covering pension contingencies, amount to 4,381 thousand euros (2,174 thousand euros in 2020), including 4,286 thousand euros corresponding to pre-existing legal or contractual obligations.

Total risk transactions granted by the Bank and consolidated companies to directors of the parent company amounted to 1,068 thousand euros as at 31 December 2021, of which 909 thousand euros corresponded to loans and receivables and 159 thousand euros related to loan commitments given (2,037 thousand euros as at 31 December 2020, consisting of 1,850 thousand euros in loans and receivables and 187 thousand euros in loan commitments given). These transactions form part of the ordinary business of the Bank and are carried out under normal market conditions. Liabilities amounted to 5,928 thousand euros as at 31 December 2021 (5,254 thousand euros as at 31 December 2020).

Total Senior Management remuneration earned during 2021 amounted to 11,578 thousand euros. Pursuant to applicable regulations, this amount includes the remuneration of Senior Management members plus the Internal Audit Officer. The total remuneration of Senior Management includes amounts received by all those who were members of Senior Management at any time during 2021, in proportion to the time they spent in that position.

Thousand euro

	Ordinary remuneration	Severance pay	Total 2021	Total 2020
Senior Management and Internal Audit remuneration	6,418	5,340	**11,758**	**5,077**

For comparative purposes, it is important to note that in 2020, Senior Management staff voluntarily waived payment of their annual variable remuneration for 2020, amounting to 1,223 thousand euros, and that no long-term remuneration allocation was made.

Additionally, for 2021, extraordinary amounts in respect of severance payments amount to 5,340 thousand euros and correspond to pre-existing legal or contractual obligations.

Risk transactions granted by the Bank and consolidated companies to Senior Management staff (with the exception of those who are also executive directors, for whom details are provided above) amounted to 4,156 thousand euros as at 31 December 2021 (3,429 thousand euros in 2020), comprising 3,865 thousand euros in loans and receivables and 290 thousand euros related to loan commitments given (in 2020, 3,221 thousand euros related to loans and receivables and 208 thousand euros to loan commitments given). Liabilities amounted to 1,520 thousand euros as at 31 December 2021 (1,081 thousand euros as at 31 December 2020).

The accrued expenses corresponding to long-term remuneration schemes granted to members of Senior Management, including Executive Directors (see Note 33), amounted to 1 million euros in 2021 (2 million euros in 2020).

Details of existing agreements between the company and members of the Board and management staff with regard to severance pay are set out in the Group's Annual Report on Corporate Governance, which forms part of the consolidated Directors' Report.

For further details on Directors' remuneration, see the Annual Report on the Remuneration of Directors for 2021, which forms part of the consolidated Directors' Report.

The amounts included in the Annual Report on the Remuneration of Directors and in the Annual Report on Corporate Governance follow the criteria set forth in CNMV Circular 5/2013, amended by Circular 2/2018, of 12 June, CNMV Circular 1/2020, of 6 October and CNMV Circular 3/2021, of 28 September, therefore, those amounts accrued and not subject to deferral are reported. The amounts included in this Note follow the criteria set forth in the accounting standards applicable to the Bank, and therefore take into account the amounts accrued during 2021, irrespective of the deferral schedule to which they are subject.

The Executive Directors and Senior Management are specified below, indicating the positions they hold in the Bank as at 31 December 2021:

Executive Directors	
César González-Bueno Mayer	Sabadell Group CEO
David Vegara Figueras	Director-General Manager
Senior Management	
Leopoldo Alvear Trenor	General Manager
Miguel Montes Güell	General Manager
José Nieto de la Cierva	General Manager
Carlos Ventura Santamans	General Manager
Gonzalo Barettino Coloma	Secretary General
Marc Armengol Dulcet	Deputy General Manager
Xavier Comerma Carbonell	Deputy General Manager
Ana Ribalta Roig	Deputy General Manager

Other information relating to the Board

In accordance with the provisions of Article 229 of the Capital Companies Act in relation to the duty to avoid situations of conflict of interest, and without prejudice to the provisions of Article 529 *vicies et seq*. of the aforesaid Act, directors have reported to the Company that, during 2021, they or persons related to them, as defined in Article 231 of the Capital Companies Act[1], directors have reported to the Company that, during 2021, they or persons related to them, as defined in Article 231 of the Capital Companies Act:

- Have not carried out transactions with the Company without taking into account usual operations, performed under standard conditions for customers and whose significance is immaterial, understanding such operations to be those that do not need to be reported to give a true and fair view of the Company's equity, financial situation and income, or any operations carried out and considered to be "related party transactions" in accordance with Article 529 *vicies* of the Capital Companies Act, having applied with the corresponding approval procedure and reporting requirement, in accordance with Articles 529 *unvicies et seq*. of the aforesaid Capital Companies Act.

- Have not used the name of the Company or their position as administrator to unduly influence the performance of personal transactions.

- Have not made use of corporate assets, including the Company's confidential information, for personal purposes.

- Have not taken undue advantage of the Company's business opportunities.

[1] The regulation of related-party transactions is governed by its own special regime.

- Have not obtained advantages or remuneration from third parties other than the Company or Group in connection with the discharge of their duties, with the exception of acts of mere courtesy.

- Have not carried out activities on their own behalf or on behalf of a third party that involve competition with the Company, whether on an isolated or potential basis, or that might otherwise place them in permanent conflict with the Company's interests.

The Bank has entered into a liability insurance policy for 2021 that covers the Institution's Directors and Senior Management staff. The total premium paid was 5,420 thousand euros (2,651 thousand euros in 2020).)

Note 42 – Other information

Transactions with significant shareholders

No major transactions with significant shareholders have been carried out during 2021 and 2020.

Environmental disclosures

The Group examines the materiality of ESG matters by adopting a "double materiality" approach. Specifically, it considers the main positive or negative impacts from two perspectives: the impact of environmental matters on the Group and that of the Group on its stakeholders, in line with the guidelines of the main bodies currently recommending this approach.

In the specific case of climate change and the environment, this dual perspective is reflected in the impacts set out below:

– Impact of the climate and the environment on Banco Sabadell Group

  The correct management of this aspect allows the Group to reduce its exposure to climate and environment-related risks in the future, improving the Bank's reputation and its relationship with its stakeholders, and allowing the Group to maintain its alignment with the regulatory requirements in this regard.

  The management of this aspect requires continuous investment by the Group so that it may continue to develop a high level of market monitoring with improvements to information systems, design of specialised continuous training plans for employees and the hiring of qualified profiles.

– Impact of Banco Sabadell Group on climate and the environment

  This aspect involves incentivising investment in sectors and products that are aligned with ecological transition, introducing new sustainable products for customers and generating greater confidence among investors and in society.

  The management of climate change and environmental risks may involve greater control and tougher funding conditions for those activities that carry a higher risk.

The Bank's activity is governed by compliance with the regulations in force with regard to environmental protection and health and safety in the workplace. Consequently, the Bank maintains procedures that are designed to foster and ensure compliance with the aforesaid regulations.

In this respect, the Bank measures and discloses its impacts on the environment in the form of Scope 1, 2 and 3 Greenhouse Gas (GHG) emissions, as well as other waste generated as a result of its activities. In this way, the Bank has adopted the corresponding measures relating to the protection and improvement of the environment and the minimisation of any environmental impacts of its activities, complying with the regulations in force in this regard. In 2021, the Bank has continued to carry out plans related to waste treatment, recycling of consumables, energy saving, as well reducing its GHG emissions and, in that regard, it has set up GHG offset projects.

It has not considered it necessary to recognise any provision for risks or expenses relating to the environment, as there are no contingencies related to the protection and improvement of the environment.

For further details, see the Non-Financial Disclosures Report, which is included as part of the consolidated Directors' Report.

Customer Care Service (SAC)

The Customer Care Service (hereinafter, SAC as per its Spanish acronym) and its head, who is appointed by the Board of Directors, report directly to the Compliance Division and is independent of the Bank's business and operational lines. Its main function is to handle and resolve complaints and claims brought forward by customers and users of the financial services of Banco de Sabadell, S.A., when these relate to their interests and legally recognised rights arising from contracts, transparency and customer protection regulations or good financial practices and uses, in accordance with Banco Sabadell Regulations for the Protection of Customers and Users of Financial Services.

The SAC, in accordance with its Regulations, handles and resolves complaints and claims from customers and users of Banco de Sabadell, S.A., as well as those deriving from other entities associated with it:

Bansabadell Financiación, E.F.C., S.A., Sabadell Asset Management, S.A., S.G.I.I.C. Sociedad Unipersonal, Urquijo Gestión, S.G.I.I.C, S.A. and Sabadell Consumer Finance, S.A.U.

On 21 July 2021, guidelines on the criteria for the organisation and operation of customer care services of institutions supervised by the Bank of Spain came into force, which provide control mechanisms for the SAC to evaluate all complaints and claims handled in the Institution. The implementation of these control mechanisms is planned during 2022.

A total of 49,720 complaints and claims were received in 2021, of which 2,489 were complaints (5.01%), and 47,231 were claims (94.99%), in addition to a further 1,143 cases that were pending as at 31 December 2020.

Of this total, 49,949 were processed in 2021, of which a total of 34,701 were accepted for processing and resolved, 15,248 were declined and 914 remained pending as at 31 December 2021.

The five products that received the most claims are detailed below:

Product	No. of claims	% of total received
Current accounts	18,198	36.60 %
Mortgage loans	15,530	31.23 %
Credit/Debit cards	6,305	12.68 %
Personal loans	2,168	4.36 %
Direct debits	878	1.77 %
Other	6,641	13.36 %
Total	**49,720**	**100.00 %**

Complaints and claims processed by SAC at first instance

During 2021, the SAC received 45,943 complaints and claims, of which 32,000 were accepted for processing and resolved, in accordance with the provisions of Order ECO 734/2004 of 11 March.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 15,328 (47.90%) were resolved in the customer's favour and 16,666 (52.08%) in the Institution's favour and in 6 cases (0.02%) the customer withdrew their complaint.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 16,435 (51.36%) were processed within a period of 15 working days, 14,110 (44.09%) within a period of less than 1 month and 1,455 (4.55%) within a period longer than 1 month.

Complaints and claims managed by the Ombudsman

At Banco Sabadell, the role of Customer Ombudsman is assumed by Mr José Luis Gómez-Dégano y Ceballos-Zúñiga. The Ombudsman is responsible for resolving the complaints brought forward by the customers and users of Banco de Sabadell, S.A., and of the other aforementioned entities associated with it, both at first and second instance, and for resolving issues that are passed on by the SAC. The Ombudsman's decisions are binding on the Institution.

In 2021, the SAC received a total of 3,144 complaints and claims via the Customer Ombudsman, of which 2,063 were accepted for processing and resolved during the year.

Of the claims and complaints accepted for processing and resolved, the Ombudsman decided in favour of the customer in 118 (5.72%) cases, and in favour of the Institution in 726 (35.19%) cases, and 5 claims were withdrawn by the customer (0.24%). Furthermore, the SAC acquiesced to the claimant's request in 1,185 (57.44%) cases. The other 29 complaints and claims (1.41%) remained pending final resolution by the Ombudsman, following dispatch of arguments by the SAC.

Complaints and claims managed by the Bank of Spain and the CNMV

Under current legislation, customers or users who are dissatisfied with the response received from the SAC or from the Customer Ombudsman may submit their claims and complaints to the Market Conduct and Complaints Department of the Bank of Spain, to the CNMV or to the Directorate General for Insurance and Pension Funds, subject to the essential prerequisite of having previously addressed their complaint or claim to the Institution.

The SAC received a total of 633 claims referred by the Bank of Spain and the CNMV until 31 December 2021. This year, taking into account claims that remained pending at the end of the previous year, 639 claims were accepted and resolved.

Note 43 – Subsequent events

Since 31 December 2021, there have been no significant events worthy of mention.

Schedule I – Banco Sabadell Group companies

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L. en Liquidación (1)	Real estate	Alicante - Spain	100.00	—	100	339	(10)	—	427	10,538	(10,099)	(10)
Aurica Coinvestments, S.L.	Holding	Barcelona - Spain	—	61.76	50,594	(1,045)	1,880	1,043	51,459	31,247	(1,758)	(4,165)
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	1,598	709	(25)	—	3,001	2,439	(378)	(25)
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	—	—	703,371	10,271,463	328,412	—	197,187,820	—	12,378,089	366,036
Banco Sabadell, S.A., Institución de Banca Múltiple	Credit institution	Mexico DF - Mexico	99.99	0.01	573,492	(57,153)	(12,296)	—	3,851,192	576,941	(54,325)	(24,286)
BanSabadell Factura, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	100	(276)	157	—	2,602	299	(475)	157
BanSabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell - Spain	100.00	—	24,040	12,339	517	—	649,954	24,040	12,339	517
BanSabadell Inversió Desenvolupament, S.A.U.	Holding	Barcelona - Spain	100.00	—	16,975	103,159	(213)	—	198,505	108,828	19,810	(2,401)
Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del Grupo Banco Sabadell, S.A.	Other regulated companies	Alicante - Spain	—	100.00	301	59	8,232	9,288	53,763	524	(4,174)	10,809
Bitarte, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	6,506	(2,117)	(59)	—	4,416	9,272	(4,405)	(83)
BStartup 10, S.L.U.	Holding	Barcelona - Spain	—	100.00	1,000	3,768	384	—	9,605	1,000	(621)	(157)
Business Services for Operational Support, S.A.	Other ancillary activities	Sant Cugat del Valles - Spain	80.00	—	530	(8,052)	(1,938)	—	35,059	1,160	(6,290)	(1,372)
Compañía de Cogeneración del Caribe Dominicana, S.A.	Power generation	Santo Domingo - Dominican Republic	—	100.00	5,016	(4,606)	—	—	427	—	(312)	—
Crisae Private Debt, S.L.U.	Other ancillary activities	Barcelona - Spain	—	100.00	3	196	(14)	—	199	200	(1)	(15)
Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. en Liquidación	Real estate	Elche - Spain	—	100.00	1,942	(90,935)	1,109	—	2	1,919	(90,912)	1,109
Duncan de Inversiones S.I.C.A.V., S.A.	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	99.81	—	7,842	(5,242)	(53)	—	2,553	2,887	(291)	(53)
Ederra, S.A.	Real estate	San Sebastián - Spain	97.85	—	2,036	34,219	(31)	—	36,331	36,062	(405)	108
ESUS Energía Renovable, S.L.	Power generation	Vigo - Spain	—	90.00	50	(727)	(44)	—	3,701	23	(1,367)	(173)
Europea Pall Mall Ltd.	Real estate	London - United Kingdom	100.00	—	20,843	(1,412)	633	—	24,194	20,843	(5,173)	347
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other ancillary activities	Alicante - Spain	100.00	—	1,232	2,458	502	—	7,096	2,771	1,763	199

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Fuerza Eólica De San Matías, S. de R.L. de C.V.	Power generation	Monterrey - Mexico	—	99.99	8,144	(10,146)	(3,981)	—	51,515	5,951	(4,845)	(4,688)
Galeban 21 Comercial, S.L.U.	Services	A Coruña - Spain	100.00	—	10,000	(4,292)	—	—	5,708	14,477	(8,769)	—
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	53	(20,740)	(49)	—	1,695	23,891	(44,578)	(49)
Gest 21 Inmobiliaria, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	7,810	1,142	(34)	—	8,926	80,516	(46,718)	(8)
Gestión Financiera del Mediterráneo, S.A.U.	Other financial services	Alicante - Spain	100.00	—	13,000	2,551	12,043	2,789	27,903	66,787	(41,914)	3,614
Guipuzcoano Promoción Empresarial, S.L.	Holding	San Sebastián - Spain	—	100.00	53	(75,502)	(161)	—	6,774	7,160	(82,600)	(161)
Hobalear, S.A.U.	Real estate	Barcelona - Spain	—	100.00	60	61	11	—	135	414	61	11
Hondarriberri, S.L.	Holding	San Sebastián - Spain	99.99	0.01	41	18,545	(386)	—	59,216	120,669	95,578	(138)
Hotel Management 6 Gestión Activa, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	135,730	29,104	(835)	—	163,999	136,335	49,803	532
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	—	100.00	29,074	(22,041)	(2,093)	—	61,620	27,611	(20,405)	(2,266)
Interstate Property Holdings, LLC.	Holding	Miami - United States	100.00	—	7,293	(1,349)	5	—	5,951	3,804	6,387	1,462
Inverán Gestión, S.L. en Liquidación (2)	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	90	(34)	(46)	—	70	45,090	(45,034)	(46)
Inversiones Cotizadas del Mediterráneo, S.L.	Holding	Alicante - Spain	100.00	—	308,000	198,920	3,717	—	727,461	589,523	(83,233)	(554)
Inversiones en Resorts Mediterráneos, S.L. en liquidación	Real estate	Torre Pacheco - Spain	—	55.06	299,090	(302,367)	—	—	68	175,124	—	—
LSP Finance, S.L.U.	Provision of technology services	Sant Cugat del Valles - Spain	—	100.00	252	(1,825)	1,229	—	3,012	6,484	(3,865)	(2,964)
Manston Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	33,357	(12,930)	(665)	—	20,055	33,357	(12,930)	(665)
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	62	(65,791)	(316)	—	6,661	55,013	(120,741)	(316)
Mediterráneo Sabadell, S.L.	Holding	Alicante - Spain	50.00	50.00	85,000	16,853	(171)	9	101,685	510,829	(408,829)	(171)
Paycomet, S.L.U.	Payment institution	Torrelodones - Spain	—	100.00	200	223	517	—	8,458	8,853	(275)	509
Plataforma de Innovación Sabadell, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	(1)	(3)	—	4	3	(1)	(3)
Puerto Pacific Vallarta, S.A. de C.V.	Real estate	Mexico DF - Mexico	—	100.00	28,947	(16,979)	(150)	—	11,820	29,164	(11,571)	(379)
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	—	20	(290)	(11)	—	356,364	20	(290)	(11)
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	—	3	(24)	(6)	—	479,591	3	(24)	(6)
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Other financial services	São Paulo - Brazil	99.99	0.01	905	(845)	—	—	78	250	393	—
Sabadell Consumer Finance, S.A.U.	Credit institution	Sabadell - Spain	100.00	—	35,720	56,936	20,444	—	1,777,133	72,232	25,069	20,722

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Sabadell Corporate Finance, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	70	8,078	(131)	—	8,134	9,373	(1,204)	(152)
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	—	100.00	12,036	22,563	(115)	—	61,548	41,296	(8,266)	(115)
Sabadell Information Systems, S.A.U.	Provision of technology services	Sabadell - Spain	100.00	—	40,243	36,312	23,004	—	1,561,069	143,695	(67,662)	15,589
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	1,000	3,824	(2,073)	—	45,555	1,000	(2,651)	(600)
Sabadell Innovation Cells, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	(2,988)	169	—	2,929	3	(3,041)	(320)
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	30,116	813,910	(17,922)	—	888,175	863,895	(19,869)	(8,101)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	100,060	235,327	(1,123)	—	334,842	500,622	(165,235)	(1,123)
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	15,807	(2,406,085)	(36,983)	—	1,151,093	2,147,442	(4,513,277)	(39,337)
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	2,073	122	(2,893)	—	25,235	14,292	(11,836)	(3,154)
Sabadell Securities USA, Inc.	Other financial services	Miami - United States	100.00	—	551	5,266	530	—	6,547	551	4,873	539
Sabadell Strategic Consulting, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	320	168	—	1,018	3	275	213
Sabadell Venture Capital, S. L.U.	Holding	Barcelona - Spain	—	100.00	3	12,061	1,763	—	56,417	3	2,964	582
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico DF - Mexico	49.00	51.00	164,828	20,841	24,759	4,826	1,493,425	151,709	55,610	24,779
Sinia Capital, S.A. de C.V.	Holding	Mexico DF - Mexico	—	100.00	20,830	6,542	(526)	—	75,454	18,150	6,538	(1,563)
Sinia Renovables, S.A.U.	UCITS, funds and similar financial corporations	Barcelona - Spain	100.00	—	15,000	1,338	505	—	60,915	15,000	3,400	718
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.	Real estate	Alicante - Spain	100.00	—	3	9,893	70	—	11,707	3	10,026	(62)
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	60,729	(11,092)	(613)	—	49,496	60,729	(11,092)	(613)
Tasaciones de Bienes Mediterráneo, S.A. en Liquidación	Other ancillary activities	Alicante - Spain	99.88	0.12	1,000	1,416	—	—	2,420	5,266	(2,876)	26
Tenedora de Inversiones y Participaciones, S.L.	Holding	Alicante - Spain	100.00	—	296,092	(528,628)	(11,037)	—	351,343	2,564,914	(2,725,376)	(13,159)
TSB Bank PLC	Credit institution	Edinburgh - United Kingdom	—	100.00	90,710	1,981,428	149,533	—	55,583,840	1,814,636	193,342	137,490
TSB Banking Group PLC	Holding	London - United Kingdom	100.00	—	7,028	1,864,273	1,979	—	2,787,944	2,213,148	(189,474)	(38,646)
TSB Banking Group plc Employee Share Trust	Other ancillary activities	Saint Helier - Jersey	—	100.00	1	(12,225)	44	—	526	—	(11,183)	—

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
TSB Covered Bonds (Holdings) Limited	Holding	London - United Kingdom	—	100.00	1	—	—	—	1	—	—	—
TSB Covered Bonds (LM) Limited	Other ancillary activities	London - United Kingdom	—	100.00	1	—	—	—	1	—	—	—
TSB Covered Bonds LLP	UCITS, funds and similar financial corporations	London - United Kingdom	—	100.00	1	14	3	—	61	—	14	3
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	100.00	—	3,606	4,858	4,213	2,717	18,542	3,084	5,380	4,213
Urumea Gestión, S.L. en Liquidación	Other ancillary activities	San Sebastián - Spain	—	100.00	9	(13)	(1)	—	1	9	(12)	(1)
VeA Rental Homes , S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	5,000	(17,022)	1,380	—	44,202	5,000	(17,022)	1,380
Venture Debt SVC, S.L.U.	Holding	Barcelona - Spain	—	100.00	3	—	—	—	3	3	—	—
TOTAL								**20,672**		**13,418,379**	**4,004,030**	**439,553**

(1) Formerly, Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L.

(2) Formerly, Inveran Gestión, S.L.

Banco Sabadell Group companies as at 31 December 2021 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Atrian Bakers, S.L.	Manufacturing	Castellgalí - Spain	—	22.41	26,249	(11,299)	(1,380)	—	32,988	2,000	(854)	(1,146)
Aurica Capital Desarrollo, S.G.E.I.C., S.A.	Funds management activities	Barcelona - Spain	20.00	—	750	(79)	596	602	2,078	161	119	35
Aurica III, Fondo de Capital Riesgo	UCITS, funds and similar financial corporations	Barcelona - Spain	—	47.50	76,699	(8,760)	217	—	69,308	37,183	1,992	33,282
Aurica IIIB, S.C.R., S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	—	42.85	51,839	(5,990)	142	—	46,771	22,680	1,207	21,313
BanSabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	—	7,813	35,176	737	—	49,466	40,378	(18,913)	369
BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	10,000	77,263	22,658	5,000	297,303	34,000	9,311	11,330
BanSabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	43,858	537,011	92,570	52,500	10,418,907	27,106	236,190	49,328
Doctor Energy Central Services, S.L.	Other business management consulting activities	Granollers - Spain	—	24.99	7	(2)	1	—	23	12	(11)	—
Parque Eólico Casa Vieja S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	629	267	(15)	—
Parque Eólico Villaumbrales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	628	267	(15)	—
Parque Eólico Perales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	628	267	(15)	—
Parque Eólico Los Pedrejones S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	628	267	(15)	—
Energíes Renovables Terra Ferma, S.L.	Power generation	Barcelona - Spain	—	50.00	6	(55)	(13)	—	1,531	3	(3)	—
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	—	38,288	11,436	5,620	1,407	95,226	19,144	3,062	2,868
Flex Equipos de Descanso, S.A.	Manufacturing	Getafe - Spain	—	19.16	66,071	21,237	19,472	1,917	268,777	50,930	2,912	10,834
Gestora de Aparcamientos del Mediterráneo, S.L. en Liquidación	Services	Alicante - Spain	—	40.00	1,000	(10,551)	(207)	—	2,006	7,675	(7,675)	—
Murcia Emprende, S.C.R. de R.S., S.A.	Other financial services	Murcia - Spain	28.70	—	2,557	(316)	(169)	—	2,307	2,026	(1,337)	(103)
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	—	45.01	3	(15,260)	(25)	—	31,967	3,057	(3,057)	—
Portic Barcelona, S.A.	Data processing, hosting and related activities	Barcelona - Spain	25.00	—	291	1,754	131	—	2,392	486	506	33
Promontoria Challenger I, S.A.	Holding	Madrid - Spain	20.00	—	60	1,046,526	(180,635)	—	2,895,135	225,206	(18,446)	(46,907)
SBD Creixent, S.A.	Real estate	Sabadell - Spain	23.05	—	5,965	(1,168)	90	—	5,437	3,524	(2,414)	17
Solvia Servicios Inmobiliarios, S.L.	Real estate	Alicante - Spain	20.00	—	660	143,772	37,703	—	221,138	16,517	32,924	9,432
Total								**61,426**		**493,156**	**235,453**	**90,685**

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Figures for foreign companies were translated to euro at the historical exchange rate, and amounts in the consolidated income statement were translated at the average exchange rate.

(b) Results pending approval by Annual General Meeting of Shareholders and Partners.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

(1) Formerly, Aurica Capital Desarrollo, S.G.E.I.C., S.A.U.

The balance of total ordinary income from associates consolidated by the equity method and individually considered to be non-material amounted to 709,825 thousand euros as at 31 December 2021. The balance of liabilities as at the end of 2021 amounts to 519,694 thousand euros. The key figures as at 2021 year-end for BanSabadell Vida, S.A. are included in Note 14 of the consolidated annual financial statements.

Changes in the scope of consolidation in 2021

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Fair value of equity instruments issued for the acquisition		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Cost of acquisition	Fair value of equity instruments issued for the acquisition					
Parque Eólico Casa Vieja S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Parque Eólico Villaumbrales S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Parque Eólico Perales S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Parque Eólico Los Pedrejones S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Aurica Capital Desarrollo, S.G.E.I.C., S.A.	Associate	6/5/2021	248	—	20.00 %	20.00 %	Direct	Equity method	b
Doctor Energy Central Services, S.L.	Associate	5/10/2021	12	—	24.99 %	24.99 %	Indirect	Equity method	a
Portic Barcelona, S.A.	Associate	1/7/2021	486	—	25.00 %	25.00 %	Direct	Equity method	a
Venture Debt SVC, S.L.U.	Subsidiary	24/11/2021	3	—	100.00 %	100.00 %	Indirect	Full consolidation	c
Total newly consolidated subsidiaries			**3**						
Total newly consolidated associates			**1,814**						

(b) Acquisition of associates.

(b) Change in consolidation method.

(c) Incorporation of subsidiaries.

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Caminsa Urbanismo, S.A.U. en Liquidación	Subsidiary	20/1/2021	100.00 %	0.00 %	—	Indirect	Full consolidation	b
Gestión de Proyectos Urbanísticos del Mediterráneo, S.L.U. en Liquidación	Subsidiary	19/1/2021	100.00 %	0.00 %	—	Indirect	Full consolidation	b
Guipuzcoano Valores, S.A. en Liquidación	Subsidiary	8/2/2021	100.00 %	0.00 %	(37)	Direct	Full consolidation	b
Tierras Vega Alta del Segura, S.L. en Liquidación	Subsidiary	19/1/2021	100.00 %	0.00 %	—	Indirect	Full consolidation	b
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Subsidiary	2/6/2021	100.00 %	0.00 %	(31)	Direct	Full consolidation	b
Verum Inmobiliaria Urbanismo y Promoción, S.A.	Subsidiary	14/5/2021	97.20 %	0.00 %	(2)	Indirect	Full consolidation	b
Duncan Holdings 2020-1 Limited	Subsidiary	23/7/2021	100.00 %	0.00 %	—	Indirect	Full consolidation	b
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	Associate	5/8/2021	47.81 %	0.00 %	(17)	Direct	Equity method	b
Termosolar Borges, S.L.	Associate	5/8/2021	47.50 %	0.00 %	(13,920)	Direct	Equity method	a
Villoldo Solar, S.L.	Associate	5/8/2021	50.00 %	0.00 %	52	Direct	Equity method	a
Aurica Capital Desarrollo, S.G.E.I.C., S.A.U.	Subsidiary	6/5/2021	80.00 %	20.00 %	(99)	Direct	Full consolidation	c
Assegurances Segur Vida, S.A.U.	Subsidiary	5/10/2021	50.97 %	0.00 %	—	Indirect	Full consolidation	a
BancSabadell d'Andorra, S.A.	Subsidiary	5/10/2021	50.97 %	0.00 %	11,725	Direct	Full consolidation	a
Sabadell d'Andorra Inversions, S.G.O.I.C., S.A.U.	Subsidiary	5/10/2021	50.97 %	0.00 %	—	Indirect	Full consolidation	a
Serveis i Mitjans de Pagament XXI, S.A.	Associate	5/10/2021	20.00 %	0.00 %	—	Indirect	Equity method	a
BanSabadell Renting, S.L.U.	Subsidiary	30/11/2021	100.00 %	0.00 %	41,907	Direct	Full consolidation	a
Duncan Holdings 2016 -1 Limited	Subsidiary	21/12/2021	100.00 %	0.00 %	—	Indirect	Full consolidation	b
Duncan Holdings 2015-1 Limited	Subsidiary	21/12/2021	100.00 %	0.00 %	—	Indirect	Full consolidation	b
Other					15,169			
TOTAL					**54,747**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Partial sale and change of consolidation method.

Banco Sabadell Group companies as at 31 December 2020 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L.	Real estate	Alicante - Spain	100.00	—	100	716	(377)	—	437	10,538	(9,722)	(377)
Assegurances Segur Vida, S.A.U.	Other regulated companies	Andorra la Vella - Andorra	—	50.97	602	834	151	—	47,913	802	323	77
Aurica Capital Desarrollo, S.G.E.I.C., S.A.U.	Funds management activities	Barcelona - Spain	100.00	—	3,601	727	926	—	6,208	4,342	(7)	919
Aurica Coinvestments, S.L.	Holding	Barcelona - Spain	—	61.76	50,594	(1,266)	1,909	1,050	51,242	31,247	(1,948)	2,282
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	1,598	604	(72)	—	2,794	2,439	(298)	(80)
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	—	—	703,371	10,299,269	93,781	—	188,909,020	—	12,158,438	213,991
Banco Sabadell, S.A., Institución de Banca Múltiple	Credit institution	Mexico DF - Mexico	99.99	0.01	573,492	(83,163)	459	—	3,427,477	558,017	(48,446)	(12,831)
BancSabadell d'Andorra, S.A.	Credit institution	Andorra la Vella - Andorra	50.97	—	30,069	61,399	9,878	—	991,035	15,326	30,661	5,015
BanSabadell Factura, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	100	(659)	383	—	2,520	299	(857)	383
BanSabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell - Spain	100.00	—	24,040	11,574	765	—	722,649	24,040	5,232	7,107
BanSabadell Inversió Desenvolupament, S.A.U.	Holding	Barcelona - Spain	100.00	—	16,975	99,719	783	—	186,066	108,828	18,216	(906)
Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del Grupo Banco Sabadell, S.A.	Other regulated companies	Alicante - Spain	—	100.00	301	60	7,832	2,748	54,330	524	(164)	5,278
BanSabadell Renting, S.L.U.	Vehicle and equipment leasing	Sant Cugat del Valles - Spain	100.00	—	2,000	2,589	7,180	—	611,805	3,861	728	7,180
Bitarte, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	6,506	1,021	(3,137)	—	4,633	9,272	(1,960)	(2,342)
BStartup 10, S.L.U.	Holding	Barcelona - Spain	—	100.00	1,000	2,757	244	—	8,160	1,000	(1,186)	(79)
Business Services for Operational Support, S.A.	Other ancillary activities	Sant Cugat del Valles - Spain	80.00	—	530	547	(8,605)	—	31,722	1,160	396	(6,686)
Caminsa Urbanismo, S.A.U. en Liquidación	Real estate	Alicante - Spain	—	100.00	—	—	—	—	32	—	37	(37)
Compañía de Cogeneración del Caribe Dominicana, S.A.	Power generation	Santo Domingo - Dominican Republic	—	100.00	5,016	(4,638)	—	—	394	—	(312)	—
Crisae Private Debt, S.L.U.	Other ancillary activities	Barcelona - Spain	—	100.00	3	197	—	—	200	200	—	—
Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. en Liquidación	Real estate	Elche - Spain	—	100.00	1,942	(91,065)	130	—	7	1,919	(91,042)	130
Duncan de Inversiones S.I.C.A.V., S.A.	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	87.35	—	7,842	(5,195)	(47)	—	2,607	2,560	(248)	(41)
Duncan Holdings 2015-1 Limited	Holding	London - United Kingdom	—	100.00	1	—	—	—	1	1	—	—

Banco Sabadell Group companies as at 31 December 2020 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Duncan Holdings 2016 -1 Limited	Holding	London - United Kingdom	—	100.00	1	—	—	—	1	1	—	—
Duncan Holdings 2020-1 Limited	Holding	London - United Kingdom	—	100.00	1	—	—	—	1	—	—	—
Ederra, S.A.	Real estate	San Sebastián - Spain	97.85	—	2,036	34,089	151	—	36,537	36,062	(723)	339
Europea Pall Mall Ltd.	Real estate	London - United Kingdom	100.00	—	20,843	(2,369)	(1,017)	—	20,057	20,843	(3,682)	(1,491)
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other ancillary activities	Alicante - Spain	100.00	—	1,232	1,539	931	—	5,763	2,771	554	1,208
Fuerza Eólica De San Matías, S. de R.L. de C.V.	Power generation	Monterrey - Mexico	—	99.99	8,144	(13,093)	(1,343)	—	50,869	5,951	(2,793)	(2,052)
Galeban 21 Comercial, S.L.U.	Services	A Coruña - Spain	100.00	—	10,000	(4,291)	(1)	—	5,709	14,477	(8,768)	(1)
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	53	(20,672)	(68)	—	1,756	23,891	(44,510)	(68)
Gest 21 Inmobiliaria, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	7,810	609	533	—	8,968	80,516	(32,920)	(2,142)
Gestión de Proyectos Urbanísticos del Mediterráneo, S.L.U. en Liquidación	Real estate	Sant Cugat del Valles - Spain	—	100.00	—	—	—	—	314	—	(840)	840
Gestión Financiera del Mediterráneo, S.A.U.	Other financial services	Alicante - Spain	100.00	—	13,000	2,600	2,789	1,531	18,398	66,787	(48,392)	(7)
Guipuzcoano Promoción Empresarial, S.L.	Holding	San Sebastián - Spain	—	100.00	53	(75,438)	(64)	—	6,933	7,160	(81,533)	(1,067)
Guipuzcoano Valores, S.A.	Real estate	Sant Cugat del Valles - Spain	99.99	0.01	4,514	(3,712)	(783)	1,745	34	4,181	(3,379)	(783)
Hobalear, S.A.U.	Real estate	Barcelona - Spain	—	100.00	60	50	11	—	125	414	50	11
Hondarriberri, S.L.	Holding	San Sebastián - Spain	99.99	0.01	41	21,859	(3,314)	—	60,403	120,669	96,534	(955)
Hotel Management 6 Gestión Activa, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	135,730	36,251	(6,475)	—	165,781	136,335	58,741	(8,938)
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	—	100.00	29,074	(22,282)	414	—	63,859	27,611	(20,726)	321
Interstate Property Holdings, LLC.	Holding	Miami - United States	100.00	—	7,293	(3,250)	34	—	5,868	3,804	6,353	34
Inverán Gestión, S.L.	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	90	(12,055)	12,021	—	117	45,090	(43,456)	(1,579)
Inversiones Cotizadas del Mediterráneo, S.L.	Holding	Alicante - Spain	100.00	—	308,000	196,051	3,635	—	508,905	589,523	(86,868)	3,635
Inversiones en Resorts Mediterráneos, S.L. en liquidación	Real estate	Torre Pacheco - Spain	—	55.06	299,090	(302,367)	—	—	68	175,124	—	—
LSP Finance, S.L.U.	Provision of technology services	Barcelona - Spain	—	100.00	252	(1,124)	(703)	—	2,194	6,484	(1,136)	(2,728)
Manston Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	33,357	(12,809)	(121)	—	20,447	33,357	(12,809)	(121)
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	62	(52,688)	(13,102)	—	15,090	55,013	(107,639)	(13,102)
Mediterráneo Sabadell, S.L.	Holding	Alicante - Spain	50.00	50.00	85,000	16,999	9	53	102,012	510,829	(408,829)	9

Banco Sabadell Group companies as at 31 December 2020 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante - Spain	100.00	—	795	(3,000)	(25)	—	5,063	986	(3,192)	(25)
Paycomet, S.L.U.	Payment institution	Torrelodones - Spain	—	100.00	200	430	(199)	—	3,336	8,500	(75)	(200)
Plataforma de Innovación Sabadell, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	(1)	—	—	2	3	(1)	—
Puerto Pacific Vallarta, S.A. de C.V.	Real estate	Mexico DF - Mexico	—	100.00	28,947	(17,315)	(58)	—	11,574	29,164	(11,513)	(58)
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	—	20	(287)	(3)	—	293,417	20	(287)	(3)
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	—	3	(14)	(10)	—	552,295	3	(14)	(10)
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Other financial services	São Paulo - Brazil	99.99	0.01	905	(846)	—	—	75	250	393	—
Sabadell Consumer Finance, S.A.U.	Credit institution	Sabadell - Spain	100.00	—	35,720	45,998	10,938	—	1,672,099	72,232	14,408	10,661
Sabadell Corporate Finance, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	70	4,271	3,828	—	10,371	9,373	2,827	3,828
Sabadell d'Andorra Inversions, S.G.O.I.C., S.A.U.	Funds management activities	Andorra la Vella - Andorra	—	50.97	300	1,155	98	—	2,217	300	623	51
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	100.00	—	12,036	20,943	(508)	—	70,664	41,296	1,216	(482)
Sabadell Information Systems, S.A.U.	Provision of technology services	Sabadell - Spain	100.00	—	40,243	33,268	18,025	—	1,804,100	143,695	(87,632)	21,841
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	1,000	646	(3,270)	—	37,792	1,000	(1,062)	(1,145)
Sabadell Innovation Cells, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	(3,582)	541	—	2,607	3	(3,708)	667
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	30,116	819,109	(5,199)	—	911,472	863,895	(13,663)	(6,206)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	100,060	232,843	2,483	—	338,208	500,622	(167,718)	2,483
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	15,807	(2,336,904)	(67,382)	—	1,273,692	2,147,442	(4,452,738)	(62,120)
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	2,073	553	(170)	—	29,170	14,292	(11,666)	(170)
Sabadell Securities USA, Inc.	Other financial services	Miami - United States	100.00	—	551	3,862	923	—	5,677	551	3,945	928
Sabadell Strategic Consulting, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	139	136	—	896	3	139	136
Sabadell Venture Capital, S. L.U.	Holding	Barcelona - Spain	—	100.00	3	7,597	1,764	—	49,408	3	1,327	529
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico DF - Mexico	49.00	51.00	164,828	4,813	17,026	—	1,261,679	150,351	50,317	17,027
Sinia Capital, S.A. de C.V.	Holding	Mexico DF - Mexico	—	100.00	20,830	4,665	2,275	—	78,652	17,204	5,694	844
Sinia Renovables, S.A.U.	UCITS, funds and similar financial corporations	Barcelona - Spain	100.00	—	15,000	(9,682)	11,020	—	42,278	15,000	(15,217)	15,871

Banco Sabadell Group companies as at 31 December 2020 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.	Real estate	Alicante - Spain	100.00	—	3	9,718	308	—	12,891	3	9,681	344
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	60,729	(10,471)	(621)	—	49,809	60,729	(10,471)	(621)
Tasaciones de Bienes Mediterráneo, S.A. en Liquidación	Other ancillary activities	Alicante - Spain	99.88	0.12	1,000	1,389	1	—	2,395	5,266	(2,878)	2
Tenedora de Inversiones y Participaciones, S.L.	Holding	Alicante - Spain	100.00	—	296,092	(522,554)	(3,138)	—	375,783	2,564,914	(2,721,195)	(4,181)
Tierras Vega Alta del Segura, S.L. en Liquidación	Real estate	Sant Cugat del Valles - Spain	—	100.00	—	—	—	—	59	—	3,155	(3,155)
TSB Bank PLC	Credit institution	Edinburgh - United Kingdom	—	100.00	90,710	2,003,814	(175,893)	—	47,138,659	1,814,636	370,653	(177,437)
TSB Banking Group PLC	Holding	London - United Kingdom	100.00	—	7,028	1,745,350	(3,406)	—	2,705,089	2,196,583	(146,786)	(42,688)
TSB Banking Group plc Employee Share Trust	Other ancillary activities	Saint Helier - Jersey	—	100.00	1	(10,438)	(414)	—	580	—	(10,571)	(6)
TSB Covered Bonds (Holdings) Limited	Holding	London - United Kingdom	—	100.00	1	—	—	—	1	—	—	—
TSB Covered Bonds (LM) Limited	Other ancillary activities	London - United Kingdom	—	100.00	1	—	—	—	1	—	—	—
TSB Covered Bonds LLP	UCITS, funds and similar financial corporations	London - United Kingdom	—	100.00	1	9	3	—	47	—	10	3
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	—	100.00	3,606	4,858	2,717	—	16,119	3,084	5,082	3,015
Urumea Gestión, S.L. en Liquidación	Other ancillary activities	San Sebastián - Spain	—	100.00	9	(11)	(1)	—	—	9	(11)	(1)
VeA Rental Homes , S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	5,000	(18,678)	1,655	—	47,621	5,000	(18,677)	1,655
Verum Inmobiliaria Urbanismo y Promoción, S.A.	Real estate	Sant Cugat del Valles - Spain	—	97.20	12,000	(44,495)	32,501	—	62	11,662	(9,711)	(1,944)
TOTAL								**7,127**		**13,421,342**	**4,091,754**	**(30,221)**

Banco Sabadell Group companies as at 31 December 2020 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Atrian Bakers, S.L.	Manufacturing	Castellgalí - Spain	-	22.41	26,249	(7,536)	(2,591)	-	33,082	2,000	225	(1,079)
Aurica III, Fondo de Capital Riesgo	UCITS, funds and similar financial corporations	Barcelona - Spain	-	48.15	75,497	(2,651)	(2,081)	-	70,965	36,933	(1,274)	3,266
Aurica IIIB, S.C.R., S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	-	43.43	41,524	(1,825)	(1,411)	-	47,345	22,528	(803)	2,010
BanSabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	-	7,813	35,935	(656)	-	45,882	40,378	(18,585)	(328)
BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	10,000	70,333	18,307	5,000	273,370	34,000	5,159	9,154
BanSabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	-	43,858	567,012	89,346	37,500	10,866,241	27,106	241,319	48,139
Energíes Renovables Terra Ferma, S.L.	Power generation	Barcelona - Spain	-	50.00	6	(3)	(68)	-	1,136	3	(2)	(1)
ESUS Energía Renovable, S.L.	Power generation	Vigo - Spain	-	45.00	50	(701)	(34)	-	2,938	23	(23)	-
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	-	38,288	7,137	3,090	2,931	71,854	19,144	2,725	1,744
Flex Equipos de Descanso, S.A.	Manufacturing	Getafe - Spain	-	19.16	66,071	21,081	3,439	-	242,481	50,930	8,892	(5,980)
Gestora de Aparcamientos del Mediterráneo, S.L. en Liquidación	Services	Alicante - Spain	-	40.00	1,000	(10,072)	(495)	-	2,080	7,675	(7,675)	-
Murcia Emprende, S.C.R. de R.S., S.A.	Other financial services	Murcia - Spain	28.70	-	5,399	(2,838)	(160)	-	2,435	2,026	(1,629)	292
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	-	45.01	3	(15,260)	(3)	-	31,984	3,004	(3,004)	-
Promontoria Challenger I, S.A.	Holding	Madrid - Spain	20.00	-	60	1,127,382	(139,813)	-	3,203,880	224,019	—	(18,059)
SBD Creixent, S.A.	Real estate	Sabadell - Spain	23.05	-	5,965	(1,227)	75	-	5,337	3,524	(2,447)	33
Serveis i Mitjans de Pagament XXI, S.A.	Other ancillary activities	Andorra la Vella - Andorra	-	20.00	60	129	77	-	1,467	12	-	21
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	UCITS, funds and similar financial corporations	Sabadell - Spain	48.46	-	4,818	(175)	(333)	-	4,345	397	1,853	(161)
Solvia Servicios Inmobiliarios, S.L.	Real estate	Alicante - Spain	20.00	-	660	132,300	2,015	-	177,269	16,517	39,753	(6,828)
Termosolar Borges, S.L.	Power generation	Barcelona - Spain	47.50	-	14,700	(37,468)	(12)	-	134,054	11,800	-	-
Villoldo Solar, S.L.	Power generation	Barcelona - Spain	50.00	-	3	36	63	24	178	-	-	-
Total								**45,455**		**502,019**	**264,484**	**32,223**

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Figures for foreign companies were translated to euro at the historical exchange rate, and amounts in the consolidated income statement were translated at the average exchange rate.

(b) Results pending approval by Annual General Meeting of Shareholders and Partners.

(c) Includes supplementary dividends from the previous year and dividends on account paid to the Group.

The balance of total ordinary income from associates consolidated by the equity method and individually considered to be non-material amounted to 560,797 thousand euros as at 31 December 2020. The balance of liabilities as at the end of 2020 amounts to 636,908 thousand euros. The key figures as at 2020 year-end for BanSabadell Vida and Promontoria Challenger I, S.A. are included in Notes 13 and 14 to the consolidated annual financial statements for that year.

Changes in the scope of consolidation in 2020

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Fair value of equity instruments issued for the acquisition		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Cost of acquisition	Fair value of equity instruments issued for the acquisition					
Same Age Wallets, S.L.	Associate	1/1/2020	1,011	—	20.00 %	20.00 %	Indirect	Equity method	b
Serveis i Mitjans de Pagament XXI, S.A.	Associate	1/1/2020	12	—	20.00 %	20.00 %	Indirect	Equity method	b
Torenia Solar, S.L.	Subsidiary	21/2/2020	193	—	100.00 %	100.00 %	Indirect	Full consolidation	a
Gate Solar 21, S.L.	Subsidiary	21/2/2020	213	—	100.00 %	100.00 %	Indirect	Full consolidation	a
Crisae Private Debts, S.L.U.	Subsidiary	2/12/2020	200	—	100.00 %	100.00 %	Indirect	Full consolidation	d
Total newly consolidated subsidiaries			**606**						
Total newly consolidated associates			**1,023**						

(a) Acquisition of subsidiaries.

(b) Acquisition or incorporation of associates

(c) Change in consolidation method.

(d) Incorporation of subsidiaries.

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Gate Huerta Solar 44, S.L	Subsidiary	29/5/2020	100.00%	—%	133	Indirect	Full consolidation	a
Gate Solar 21 S.L.	Subsidiary	29/5/2020	100.00%	—%	32	Indirect	Full consolidation	a
Inversiones Samiac 14 S.L.	Subsidiary	29/5/2020	100.00%	—%	25	Indirect	Full consolidation	a
Nueva Pescanova, S.L.	Associate	3/4/2020	25.00%	—%	25,272	Direct	Equity method	a
Sabadell Asset Management Luxembourg, S.A.	Subsidiary	30/6/2020	100.00%	—%	—	Indirect	Full consolidation	a
Sabadell Asset Management, S.A., S.G.I.I.C.	Subsidiary	30/6/2020	100.00%	—%	292,507	Direct	Full consolidation	a
Torenia Solar, S.L.	Subsidiary	29/5/2020	100.00%	—%	118	Indirect	Full consolidation	a
Gate Solar Gestión, S.L.	Associate	27/11/2020	50.00%	—%	516	Direct	Equity method	a
Hydrophytic, S.L.	Associate	23/12/2020	50.00%	—%	77	Indirect	Equity method	a
Sdin Residencial, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	28,947	Direct	Full consolidation	a
Promontoria Challenger Industrial Assets, S.L.U. en liquidacion	Subsidiary	26/8/2020	100.00%	—%	(3)	Direct	Full consolidation	b
Promontoria Challenger Land, S.L.U. en liquidacion	Subsidiary	26/8/2020	100.00%	—%	(3)	Direct	Full consolidation	b
Promontoria Challenger Real Estate, S.L.U. en liquidacion	Subsidiary	26/8/2020	100.00%	—%	(3)	Direct	Full consolidation	b
Promontoria Challenger Residential, S.L.U. en liquidacion	Subsidiary	26/8/2020	100.00%	—%	(3)	Direct	Full consolidation	b
Grecoholdco, S.A.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 1, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 2, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 3, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 4, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 5, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 6, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 7, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 8, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 9, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 10, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 11, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 12, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 13, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 14, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Grecopropco 15, S.L.U.	Subsidiary	21/9/2020	100.00%	—%	—	Direct	Full consolidation	a
Hotel Value Added Primera, S.L.U. en liquidacion	Subsidiary	27/8/2020	100.00%	—%	(115)	Indirect	Full consolidation	b
Redes 2 Promotora Unica, S.L.	Associate	21/9/2020	20.00%	—%	412	Indirect	Equity method	a
Same Age Wallets, S.L.	Associate	16/7/2020	20.37%	—%	(935)	Indirect	Equity method	a
Sabadell BS Select Fund of Hedge Funds SICAV (Luxembourg) in Liquidation	Subsidiary	22/2/2020	100.00%	—%	(276)	Direct	Full consolidation	b
Xunqueira Eólica, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	366	Indirect	Full consolidation	a
Vitigudina FV, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	7,896	Indirect	Full consolidation	a
Orión Energía 1, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 2, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 3, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 4, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 5, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 6, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Orión Energía 7, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 8, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 9, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 10, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 11, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 12, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 13, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 14, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 15, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 16, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 17, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 18, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 19, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 20, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 21, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 22, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 23, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 24, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 25, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 26, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 27, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 28, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 29, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Orión Energía 30, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Indirect	Full consolidation	a
Sabadell Asabys Health Innovation Investments, S.C.R., S.A.	Associate	30/10/2020	-	—%	309	Indirect	Equity method	c
Parque Eólico Lecrín, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Direct	Full consolidation	a
Parque Eólico Las Lomas de Lecrín, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	123	Direct	Full consolidation	a
Parque Eólico Lomas de Manteca, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	373	Direct	Full consolidation	a
Parque Eólico Jaufil, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	—	Direct	Full consolidation	a
Parque Eólico Zorreras, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	1,763	Direct	Full consolidation	a
Parque Eólico Tahuna, S.L.U.	Subsidiary	22/12/2020	100.00%	—%	1,106	Direct	Full consolidation	a
Other (*)					(15,049)			
TOTAL					**343,588**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Exclusions due to reclassification into “Financial assets at fair value through other comprehensive income”.

(*) Corresponds, mainly, to a negative adjustment of 17,001 thousand euros of the sale price of Solvia Servicios Inmobiliarios, S.L. (Solvia), a company 80% of whose share capital was sold in 2019 (see Note 2).

Schedule II – Structured entities - Securitisation funds

Thousand euro

Year	Securitisation funds fully retained on the balance sheet	Entity	Total securitised assets as at 31/12/2021
2005	TDA 23, F.T.A	Banco Guipuzcoano	18,445
2005	TDA CAM 4 F.T.A	Banco CAM	144,740
2005	TDA CAM 5 F.T.A	Banco CAM	325,213
2006	TDA 26-MIXTO, F.T.A	Banco Guipuzcoano	54,766
2006	TDA CAM 6 F.T.A	Banco CAM	230,636
2006	FTPYME TDA CAM 4 F.T.A	Banco CAM	71,985
2006	TDA CAM 7 F.T.A	Banco CAM	360,160
2006	CAIXA PENEDES 1 TDA, FTA	BMN- Penedés	142,145
2007	TDA 29, F.T.A	Banco Guipuzcoano	74,442
2007	TDA CAM 8 F.T.A	Banco CAM	336,083
2007	TDA CAM 9 F.T.A	Banco CAM	337,662
2007	CAIXA PENEDES PYMES 1 TDA, FTA	BMN- Penedés	27,305
2007	CAIXA PENEDES 2 TDA, FTA	BMN- Penedés	111,476
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	BMN- Penedés	43,501
2009	GAT-ICO-FTVPO 1, F.T.H (CP)	BMN- Penedés	2,636
2017	TDA SABADELL RMBS 4, FT	Banco Sabadell	4,288,843
2017	IM SABADELL PYME 11, FT	Banco Sabadell	380,668
Total			**6,950,706**

Thousand euro

Year	Securitisation funds fully derecognised from the balance sheet	Entity	Total securitised assets as at 31/12/2021
2006	TDA 25, FTA (*)	Banco Gallego	3,480
2010	FPT PYMES 1 LIMITED	Banco CAM	147,101
2019	SABADELL CONSUMO 1, FT	Banco Sabadell	365,772
Total			**516,353**

(*) Securitisation fund in process of early liquidation.

Schedule III – Information required to be kept by issuers of mortgage market securities and the special accounting mortgage register

Details of the data from the special accounting register of the issuing entity Banco Sabadell, referred to in Article 21 of Royal Decree 716/2009, required by Bank of Spain Circular 5/2011, are given below:

A) Asset-side transactions

Details of the aggregate nominal values of mortgage loans and credit as at 31 December 2021 and 2020 used as collateral for issues, their eligibility and the extent to which they qualify as such for mortgage market purposes, are presented in the following table:

Thousand euro

Analysis of overall mortgage loan & credit portfolio; eligibility and qualifying amounts (nominal values)		
	2021	**2020**
Total mortgage loan and credit portfolio	**50,225,414**	**50,756,669**
Participation mortgages issued	**1,535,765**	**1,918,951**
Of which: Loans held on balance sheet	*1,502,504*	*1,875,011*
Mortgage transfer certificates	**5,466,788**	**6,087,432**
Of which: Loans held on balance sheet	*5,219,354*	*5,855,389*
Mortgage loans pledged as security for financing received	**—**	**—**
Loans backing issues of mortgage bonds and covered bonds	**43,222,861**	**42,750,286**
Ineligible loans	8,794,185	10,169,340
Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009	8,429,918	9,603,831
Other	364,267	565,509
Eligible loans	34,428,676	32,580,946
Non-qualifying portions	59,146	91,307
Qualifying portions	34,369,530	32,489,639
Loans covering mortgage bond issues	—	—
Loans eligible as coverage for covered bond issues	34,369,530	32,489,639
Substitution assets for covered bond issues	**—**	**—**

A breakdown of these nominal values according to different attributes is given below:

Thousand euro

Analysis of total mortgage loan and credit portfolio backing mortgage market issues				
	2021		**2020**	
	Total	***Of which: Eligible loans***	**Total**	***Of which: Eligible loans***
Total mortgage loan and credit portfolio	**43,222,861**	***34,428,676***	**42,750,286**	***32,580,946***
Origin of operations	**43,222,861**	***34,428,676***	**42,750,286**	***32,580,946***
Originated by the institution	42,655,304	*34,016,806*	42,183,959	*32,174,163*
Subrogated from other entities	292,307	*256,014*	269,499	*233,253*
Other	275,250	*155,856*	296,828	*173,530*
Currency	**43,222,861**	***34,428,676***	**42,750,286**	***32,580,946***
Euro	43,173,341	*34,386,431*	42,695,243	*32,535,432*
Other currencies	49,520	*42,245*	55,043	*45,514*
Payment status	**43,222,861**	***34,428,676***	**42,750,286**	***32,580,946***
Satisfactory payment	39,681,234	*32,280,269*	38,634,588	*30,360,821*
Other situations	3,541,627	*2,148,407*	4,115,698	*2,220,125*
Average residual maturity	**43,222,861**	***34,428,676***	**42,750,286**	***32,580,946***
Up to 10 years	9,789,964	*8,350,104*	9,951,936	*8,286,771*
10 to 20 years	16,907,433	*13,923,891*	16,848,912	*13,429,613*
20 to 30 years	16,088,183	*11,979,015*	14,764,169	*10,498,681*
More than 30 years	437,281	*175,666*	1,185,269	*365,881*
Interest rate	**43,222,861**	***34,428,676***	**42,750,287**	***32,580,946***
Fixed	21,087,632	*17,206,952*	17,799,195	*14,337,428*
Variable	22,135,229	*17,221,724*	24,951,092	*18,243,518*
Mixed				
Borrowers	**43,222,861**	***34,428,676***	**42,750,287**	***32,580,946***
Legal entities and individual entrepreneurs	11,403,204	*8,578,554*	12,077,615	*8,481,935*
Of which: Real estate developments	*1,805,426*	*1,062,649*	*2,426,325*	*1,223,926*
Other individuals and NPISHs	31,819,657	*25,850,122*	30,672,672	*24,099,011*
Type of guarantee	**43,222,861**	***34,428,676***	**42,750,287**	***32,580,946***
Assets /finished buildings	42,517,282	*33,960,470*	41,869,228	*32,013,323*
Residential	*35,052,356*	*28,295,021*	*34,365,662*	*26,602,780*
Of which: Subsidised housing	*1,360,692*	*1,120,368*	*1,460,161*	*1,185,576*
Commercial	*7,238,866*	*5,491,003*	*7,300,429*	*5,258,460*
Other	*226,060*	*174,446*	*203,137*	*152,083*
Assets/ buildings under construction	139,896	*132,851*	193,026	*174,259*
Residential	*125,565*	*118,595*	*153,794*	*138,421*
Of which: Subsidised housing	*50*	*50*	*137*	*137*
Commercial	*13,977*	*13,902*	*38,991*	*35,598*
Other	*354*	*354*	*241*	*240*
Land	565,683	*335,355*	688,033	*393,364*
Developed	*68,582*	*22,181*	*127,609*	*52,908*
Rest	*497,101*	*313,174*	*560,424*	*340,456*

The nominal value of available funds (undrawn commitments) of mortgage loans and credit as at 31 December 2021 and 2020 is as follows:

Thousand euro

Undrawn balances (nominal value). Total mortgage loans and credit backing the issue of mortgage bonds and covered bonds		
	2021	**2020**
Potentially eligible	1,051,888	1,067,752
Ineligible	1,969,968	2,040,402

The breakdown of nominal values based on the loan-to-value (LTV) ratio measuring the risk based on the last available valuation of the mortgage lending portfolio eligible for the issuance of mortgage bonds and mortgage covered bonds as at 31 December 2021 and 2020 is given hereafter:

Thousand euro

LTV ratio by type of security. Eligible loans for the issue of mortgage bonds and covered bonds	2021	2020
Secured on residential property	**28,408,838**	**26,756,164**
Of which LTV <= 40%	*8,015,059*	*7,774,941*
Of which LTV 40%-60%	*9,912,812*	*9,511,514*
Of which LTV 60%-80%	*10,480,967*	*9,469,709*
Of which LTV > 80%	—	—
Secured on other property	**6,019,838**	**5,824,782**
Of which LTV <= 40%	*3,666,010*	*3,488,807*
Of which LTV 40%-60%	*2,353,828*	*2,335,975*
Of which LTV > 60%	—	—

Changes during 2021 and 2020 in the nominal values of mortgage loans that secure issues of mortgage bonds and mortgage covered bonds (eligible and ineligible) are as follows:

Thousand euro

Changes in nominal values of mortgage loans	Eligible	Ineligible
Balance as at 31 December 2019	**31,386,834**	**11,478,524**
Derecognised during the year	**(5,479,375)**	**(3,865,051)**
Terminations at maturity	(2,335,360)	(382,752)
Early terminations	(1,302,776)	(469,732)
Subrogations by other entities	(35,810)	(5,249)
Derecognised due to securitisations	—	—
Other	(1,805,429)	(3,007,318)
Additions during the year	**6,673,487**	**2,555,867**
Originated by the institution	3,676,398	1,335,728
Subrogations by other entities	24,685	6,543
Other	2,972,404	1,213,596
Balance as at 31 December 2020	**32,580,946**	**10,169,340**
Derecognised during the year	**(5,351,119)**	**(3,764,409)**
Terminations at maturity	(2,694,833)	(523,277)
Early terminations	(2,037,072)	(1,205,645)
Subrogations by other entities	(47,071)	(6,509)
Derecognised due to securitisations	—	—
Other	(572,143)	(2,028,978)
Additions during the year	**7,198,849**	**2,389,254**
Originated by the institution	4,816,896	1,835,061
Subrogations by other entities	56,991	2,358
Other	2,324,962	551,835
Balance as at 31 December 2021	**34,428,676**	**8,794,185**

B) Liability-side transactions

Information on issues carried out and secured with Banco Sabadell's mortgage loans and credit portfolio is provided in the following table, broken down according to whether the sale was by public offering or otherwise and by their residual maturity:

Thousand euro

Nominal value	2021	2020
Covered bonds issued	**14,986,254**	**16,653,854**
Of which: Not reflected under liabilities on the balance sheet	*7,315,000*	*7,182,000*
Debt securities. Issued through public offering	**4,100,000**	**5,450,000**
Time to maturity up to one year	—	1,350,000
Time to maturity from one to two years	1,000,000	—
Time to maturity from two to three years	1,000,000	1,000,000
Time to maturity from three to five years	—	2,100,000
Time to maturity from five to ten years	2,100,000	1,000,000
Time to maturity more than ten years	—	—
Debt securities. Other issues	**9,755,400**	**9,773,000**
Time to maturity up to one year	1,677,400	3,000,000
Time to maturity from one to two years	338,000	1,695,000
Time to maturity from two to three years	1,600,000	338,000
Time to maturity from three to five years	5,140,000	4,350,000
Time to maturity from five to ten years	1,000,000	390,000
Time to maturity more than ten years	—	—
Deposits	**1,130,854**	**1,430,854**
Time to maturity up to one year	694,444	300,000
Time to maturity from one to two years	100,000	694,444
Time to maturity from two to three years	—	100,000
Time to maturity from three to five years	336,410	336,410
Time to maturity from five to ten years	—	—
Time to maturity more than ten years	—	—

	2021		2020	
	Nominal value (thousand euro)	**Average residual maturity** (years)	**Nominal value** (thousand euro)	**Average residual maturity** (years)
Mortgage transfer certificates	**5,466,788**	**20**	**6,087,432**	**21**
Issued through public offering			—	—
Other issues	5,466,788	20	6,087,432	21
Participation mortgages	**1,535,765**	**12**	**1,918,951**	**12**
Issued through public offering			—	—
Other issues	1,535,765	12	1,918,951	12

Banco de Sabadell, S.A.'s overcollateralisation ratio (the nominal value of the full mortgage loans and credit portfolio backing the issuance of mortgage covered bonds, divided by the nominal value of issued mortgage covered bonds), stood at 288% as at 31 December 2021 (257% as at 31 December 2020).

As required by Royal Decree 716/2009, implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market and other matters relating to mortgage lending, the Board of Directors declares that it is responsible for ensuring that the Institution has a set of policies and procedures in place to assure compliance with mortgage market regulations.

In line with these policies and procedures related to the Group's mortgage market activities, the Board of Directors is responsible for ensuring compliance with mortgage market regulations and for implementing the Group's risk management and control procedures (see Note 4.3 "General Principles of Risk Management"). In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated Credit Committee, which then sub-delegates authority to the various decision-making levels. The internal procedures set up to handle the origination and monitoring of assets that make up the Group's lending, and particularly those secured by mortgages, which back the Group's mortgage covered bond issues, are described in detail below for each type of loan applicant.

Individuals

Loans to individuals are approved and decided on using the credit scoring tools described in Note 4.4.2.2 “Risk management models”. Where necessary, these tools are complemented with the work of a risk analyst, who carries out more in-depth studies of supplementary materials and reports. Furthermore, a series of other information and parameters are considered, such as the consistency of customers’ applications and how well their requested products match their repayment possibilities; customers’ ability to pay based on their current and future circumstances; the value of the property provided as security for the loan (as determined by an appraisal carried out by a valuation firm authorised by Bank of Spain and which the Institution’s own internal approval processes will, additionally, have shown to be free of any association with the Group); the availability of any additional guarantees; examinations of internal and external databases of defaulters, etc.

One aspect of the decision-making process involves establishing the maximum amount of the loan, based on the appraisal value of the assets pledged as guarantees as well as the purchase value, if that is the purpose of the loan. As a general rule, under internal Group policies, the maximum amount of the loan relative to the appraisal value or the purchase value, whichever is lower, is applicable to purchases by individuals of properties for use as their primary residence and is fixed at 80%. This provides an upper limit below which a range of other maximum ratios of less than 80% are set, having regard to the purpose of the loan.

A further step that must be taken before an application can be decided upon is to review all charges and liens associated with the property on which the loan is to be secured and also any insurance taken out to cover the security. Once a loan application has been approved, the mortgage must be registered with the Property Registry as part of the formalities for arranging the loan.

Concerning approval discretions, the credit scoring tools are the main reference for determining the feasibility of the transaction. Where the loan being sought is above a certain amount, or where factors are present that are not readily captured by a credit scoring procedure, a risk analyst will be involved. The limit for each discretion is based on credit scores and the amount of the transaction/risk of the customer, with additional conditions being specified at each level to determine when special intervention is required. A list of exceptions has been drawn up, based on the particular circumstances of the borrower and the transaction, and these exceptions are covered in the Group’s internal rules and procedures.

As mentioned in Note 4.4.2.2 “Risk management models”, the Group has a comprehensive monitoring system in place which uses early warning tools that enable the early detection of borrowers that could be predisposed to compliance issues. A key part of this process consists of well-established procedures to review and validate the guarantees given.

Companies unrelated to construction and/or real estate development

Analyses and decisions concerning the approval of risks (lending and guarantees) are based on rating tools and “basic risk management teams”, formed by one person from the business side and one from the risks side at different decision-making levels, both described in Note 4.4.2.2 “Risk management models”. A range of other data and parameters are also taken into account, such as the consistency of the application, ability to pay and the nature of the security provided (as determined by an appraisal carried out by a Bank of Spain-authorised valuation firm which Banco Sabadell’s own approval processes will, additionally, have shown to be free of any association with the Group) and considering any supplementary guarantees, the “fit” between the company’s working capital and its total sales; the appropriateness of the total amount borrowed from the Group based on the business’s capital strength, examinations of internal and external databases of defaulters, etc.

Reviews of charges and liens associated with the security provided and the registration of mortgages with the Property Registry are also applicable in this case.

Discretion figures are assigned based on the expected loss on the transaction/customer/risk group and the total risk of the customer or risk group. There are several levels in the approval process. In each such level there is a “basic management team”, one member of which will be on the business side and one on the risk management side. All loan approvals must be the result of a joint decision. As with individuals, a set of exceptional circumstances has been specified for borrowers and sectors, and these are provided in the Group’s internal procedures.

As in the case of individuals, transactions are monitored using early warning tools. There are also procedures to ensure that the securities and guarantees provided are constantly being reviewed and validated.

Companies related to construction and/or real estate development

The Bank includes the management of real estate developer loans in the Real Estate Business Division. This unit has its own organisational structure geared towards a specialised management of these assets based on knowledge of the situation and the evolution of the real estate market. Managing the risks in this portfolio is the responsibility of the Real Estate Risk Division, a specialist unit which forms part of the Risk Management Division.

Risk assessments are carried out by teams of specialised analysts who operate in conjunction with the Real Estate Business Division to ensure that a risk management perspective is combined with a view based on direct contact with customers.

Factors influencing the decision include an assessment of both the developer and the project together with a series of other supplementary considerations such as the financial position and net worth of the developer, revenue and cash flow projections, any business plans relating to the project and, most particularly, an in-depth analysis of the current risk situation, which may cover the finished product, plots or land or other developments.

There is a scale of maximum LTV ratios defined internally by the Group based on the purpose of the loan, the quality of the developer and an internal appraisal of the development.

Decision-making powers and discretions are assigned according to the specific types of portfolios handled within this business segment, which may be related to new projects, sales, purchases or action plans, as established in internal regulations.

Loans are subject to the kind of continuous monitoring that asset management necessarily implies. For finished products, monitoring focuses on sales or rental figures; for those under construction, the progress of the work. A system of continuous control is established to check that commitments are being adhered to and, as with other companies, procedures are in place for the continuous review and validation of the guarantees provided.

Other matters

Banco Sabadell Group is an active participant in capital markets and has a number of funding programmes in operation (see section on “Funding strategy and evolution of liquidity in 2021” in Note 4). As one element of the Group’s funding strategy, Banco de Sabadell, S.A. is an issuer of mortgage covered bonds. Mortgage covered bonds are issued with the portfolio of home equity loans granted by the issuer as collateral, adhering to the eligibility criteria defined in Royal Decree 716/2009 regulating the mortgage market and other standards of the financial mortgages system in Spain. The Group has control procedures in place to monitor its entire mortgage lending portfolio (one of which involves keeping special accounting records of all mortgage loans and credit – and any assets that replace them – used to back issues of covered bonds and mortgage bonds, as well as records of any associated financial derivatives). There are also procedures in place to verify that all loans meet the eligibility criteria for use as collateral in issues of mortgage covered bonds, and to ensure that bond issues are kept within their maximum limits at all times. These procedures are all regulated by current mortgage market regulations.

Schedule IV – Information on issuers of public sector covered bonds and on the special accounting register of public sector covered bonds

Details of the data from the special accounting register of public sector covered bonds of the issuing entity Banco Sabadell, referred to in the sole additional provision of Royal Decree 579/2014, required by Bank of Spain Circular 4/2015, are given below. In 2021, all of the public sector covered bonds issued were redeemed early.

A) Asset-side transactions

Details of the aggregate nominal values of loans and credit with general governments as at 31 December 2021 and 2020 which are used as collateral for issues, their eligibility and the extent to which they qualify as collateral for public sector covered bonds are presented in the following table:

Thousand euro

	2021	2020
Central governments	—	219,036
Regional governments or governments in autonomous communities	—	3,108,232
Local governments	—	1,162,742
Social Security Trust Funds	—	—
Total loans and credit portfolio	**—**	**4,490,010**

The entirety of the portfolio of loans and credit with general governments used as collateral for issues, as well as their eligibility and qualifying amounts for the purpose of public sector covered bonds, corresponds to transactions granted to residents in Spain.

B) Liability-side transactions

The balance, as at 31 December 2021 and 2020, of issues carried out and secured with the Bank's portfolio of loans and credit to general governments is set out below, broken down according to whether or not they involved a public offering and by their residual maturity:

Thousand euro

Nominal value	**2021**	**2020**
Public sector covered bonds issued	**—**	**1,600,000**
Of which: Not reflected under liabilities on the balance sheet	—	*1,600,000*
Issued through public offering	**—**	**—**
Time to maturity up to one year	—	—
Time to maturity from one to two years	—	—
Time to maturity from two to three years	—	—
Time to maturity from three to five years	—	—
Time to maturity from five to ten years	—	—
Time to maturity more than ten years	—	—
Other issues	**—**	**1,600,000**
Time to maturity up to one year	—	—
Time to maturity from one to two years	—	400,000
Time to maturity from two to three years	—	—
Time to maturity from three to five years	—	1,200,000
Time to maturity from five to ten years	—	—
Time to maturity more than ten years	—	—

Banco de Sabadell, S.A.'s overcollateralisation ratio (the nominal value of the full portfolio of loans and credit to general governments backing the issuance of public sector covered bonds, divided by the nominal value of issued public sector covered bonds) stood at 280% as at 31 December 2020.

As required by Royal Decree 579/2014, the Board of Directors declares that it is responsible for ensuring that the Institution has a set of policies and procedures in place relating to the activities for the financing of public entities to assure compliance with regulations governing the issuance of these securities (see Note 4 "Risk management").

In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated Credit Committee, which then sub-delegates authority to the various decision-making levels. Internal procedures are in place to handle the origination and monitoring of the assets that make up the Group's loans and receivables and particularly assets with public entities, which back the Group's issues of public sector covered bonds.

Schedule V – Details of outstanding issues and subordinated liabilities of the Group

Debt securities in issue

The breakdown of the Group's issues as at 31 December 2021 and 2020 is as follows:

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2021	Maturity/call date	Issue currency	Target of offering
		31/12/2021	31/12/2020				
Banco de Sabadell, S.A.	03/07/2017	10,000	10,000	MAX(EURIBOR 3M + 0,30; 0,3%)	04/07/2022	Euros	Retail
Banco de Sabadell, S.A.	28/07/2017	26,800	26,800	MAX(EURIBOR 3M; 0,60%)	28/07/2022	Euros	Retail
Banco de Sabadell, S.A.	28/09/2017	10,000	10,000	MAX(EURIBOR 3M + 0,30; 0,3%)	28/09/2022	Euros	Retail
Banco de Sabadell, S.A.	05/12/2017	1,000,000	1,000,000	0.875%	05/03/2023	Euros	Institutional
Banco de Sabadell, S.A.	26/02/2018	4,000	4,000	MAX(EURIBOR 3M; 0,4%)	27/02/2023	Euros	Retail
Banco de Sabadell, S.A.	16/03/2018	6,000	6,000	MAX(EURIBOR 3M; 0,67%)	17/03/2025	Euros	Retail
Banco de Sabadell, S.A.	03/04/2018	6,000	6,000	MAX(EURIBOR 3M; 0,4%)	03/04/2023	Euros	Retail
Banco de Sabadell, S.A.	31/05/2018	3,000	3,000	MAX(EURIBOR 3M; 0,3%)	31/05/2023	Euros	Retail
Banco de Sabadell, S.A.	07/09/2018	750,000	750,000	1.625%	07/03/2024	Euros	Institutional
Banco de Sabadell, S.A.	14/11/2018	1,000	1,000	MAX(EURIBOR 3M; 1,1%)	14/11/2023	Euros	Retail
Banco de Sabadell, S.A.	14/11/2018	2,500	2,500	MAX(EURIBOR 3M; 1,5%)	14/11/2025	Euros	Retail
Banco de Sabadell, S.A.	28/03/2019	601,415	601,415	0.700%	28/03/2022	Euros	Retail
Banco de Sabadell, S.A.	08/04/2019	—	300,000	0.454%	08/04/2021	Euros	Institutional
Banco de Sabadell, S.A.	10/05/2019	1,000,000	1,000,000	1.750%	10/05/2024	Euros	Institutional
Banco de Sabadell, S.A.	22/07/2019	1,000,000	1,000,000	0.875%	22/07/2025	Euros	Institutional
Banco de Sabadell, S.A.	27/09/2019	500,000	500,000	1.125%	27/03/2025	Euros	Institutional
Banco de Sabadell, S.A. (*)	07/11/2019	500,000	500,000	0.625%	07/11/2024	Euros	Institutional
Banco de Sabadell, S.A. (*)	29/06/2020	500,000	500,000	1.750%	29/06/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	11/09/2020	500,000	500,000	1.125%	11/03/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	15/10/2020	120,000	120,000	EURIBOR 3M + 0,646%	15/05/2024	Euros	Institutional
TSB Banking Group Plc (*) (**)	29/12/2020	535,536	500,539	SONIA + 2.1%	29/06/2022	Pounds sterling	Institutional
Banco de Sabadell, S.A. (*)	16/06/2021	500,000	—	0.875%	16/06/2027	Euros	Institutional
Banco de Sabadell, S.A.	29/11/2021	67,000	—	MAX(EURIBOR 12M; 0,77%)	30/11/2026	Euros	Institutional
Subscribed by Group companies		(620,536)	(623,540)				
Total straight bonds		**7,022,715**	**6,717,715**				

(*) "Maturity/call date" refers to the first call date.

(**) Equivalent amount in EUR as at end December 2021.

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2021	Maturity date	Issue currency	Target of offering
		31/12/2021	31/12/2020				
Banco Guipuzcoano, S.A. (*)	18/04/2007	25,000	25,000	1.70%	18/04/2022	Euros	Institutional
Banco de Sabadell, S.A.	25/07/2012	3,000	3,000	ref . underlying assets	25/07/2022	Euros	Retail
Banco de Sabadell, S.A.	14/07/2014	10,000	10,000	ref . underlying assets	15/07/2024	Euros	Retail
Banco de Sabadell, S.A.	14/07/2014	—	3,000	ref . underlying assets	14/07/2021	Euros	Retail
Banco de Sabadell, S.A.	30/11/2016	—	45,000	ref . underlying assets	30/11/2021	Euros	Retail
Banco de Sabadell, S.A.	05/11/2018	10,000	10,000	ref . underlying assets	01/04/2025	Euros	Retail
Banco de Sabadell, S.A.	12/11/2018	3,200	3,200	ref . underlying assets	01/04/2025	Euros	Retail
Banco de Sabadell, S.A.	18/02/2019	3,000	3,000	ref . underlying assets	18/02/2022	Euros	Retail
Banco de Sabadell, S.A.	04/04/2019	3,000	3,000	ref . underlying assets	04/10/2022	Euros	Retail
Subscribed by Group companies		—	(113)				
Total structured bonds		**57,200**	**105,087**				

(*) Company merged with Banco Sabadell.

Thousand euro

Issuer	Date of issue	Amount		Average interest rate	Maturity date	Issue currency	Target of offering
		31/12/2021	31/12/2020	31/12/2021			
Banco de Sabadell, S.A. (*)	12/05/2021	903,897	782,221	0.00%	Various	Euros	Institutional
Subscribed by Group companies		(477,803)	(407,904)				
Total commercial paper		**426,094**	**374,317**				

(*) Programme with issuance limit of 7,000,000 thousand euros, which can be extended to 9,000,000 thousand euros, registered with Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR).

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2021	Maturity date	Issue currency	Target of offering
		31/12/2021	31/12/2020				
Banco de Sabadell, S.A.	08/05/2009	—	100,000	EURIBOR 3M + 1	08/05/2021	Euros	Institutional
Banco de Sabadell, S.A.	13/07/2011	—	50,000	EURIBOR 3M + 2,60	13/07/2021	Euros	Institutional
Banco de Sabadell, S.A.	12/12/2011	—	150,000	EURIBOR 3M + 3,10	12/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	05/10/2012	77,400	95,000	EURIBOR 3M + 4,80	05/10/2022	Euros	Institutional
Banco de Sabadell, S.A.	09/12/2013	—	200,000	EURIBOR 3M+ 1,60	09/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	26/09/2014	250,000	250,000	EURIBOR 3M + 0,70	26/09/2022	Euros	Institutional
Banco de Sabadell, S.A.	03/10/2014	38,000	38,000	EURIBOR 3M + 0,68	03/10/2023	Euros	Institutional
Banco de Sabadell, S.A.	12/11/2014	—	1,350,000	0.88%	12/11/2021	Euros	Institutional
Banco de Sabadell, S.A.	05/12/2014	100,000	100,000	EURIBOR 3 M + 0,40	05/12/2022	Euros	Institutional
Banco de Sabadell, S.A.	04/05/2015	250,000	250,000	EURIBOR 3 M + 0,13	04/05/2023	Euros	Institutional
Banco de Sabadell, S.A.	03/07/2015	50,000	50,000	EURIBOR 3 M + 0,20	03/07/2023	Euros	Institutional
Banco de Sabadell, S.A.	26/01/2016	550,000	550,000	EURIBOR 3M + 0,80	26/01/2024	Euros	Institutional
Banco de Sabadell, S.A.	24/05/2016	50,000	50,000	EURIBOR 3M + 0,535	24/05/2024	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2016	1,000,000	1,000,000	0.63%	10/06/2024	Euros	Institutional
Banco de Sabadell, S.A.	20/10/2016	1,000,000	1,000,000	0.13%	20/10/2023	Euros	Institutional
Banco de Sabadell, S.A.	21/12/2016	—	500,000	EURIBOR 12M + 0,27	21/12/2021	Euros	Institutional
Banco de Sabadell, S.A.	29/12/2016	250,000	250,000	0.97%	27/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	26/04/2017	1,100,000	1,100,000	1.00%	26/04/2027	Euros	Institutional
Banco de Sabadell, S.A.	21/07/2017	500,000	500,000	0.89%	21/07/2025	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	—	1,000,000	EURIBOR 12M + 0,085	18/06/2021	Euros	Institutional
Banco de Sabadell, S.A.	18/12/2018	—	1,000,000	EURIBOR 12M + 0,086	18/07/2021	Euros	Institutional
Banco de Sabadell, S.A.	21/12/2018	390,000	390,000	1.09%	21/12/2026	Euros	Institutional
Banco de Sabadell, S.A.	30/01/2019	1,250,000	1,250,000	EURIBOR 12M + 0,130	30/01/2022	Euros	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	750,000	EURIBOR 12M + 0,074	20/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	750,000	EURIBOR 12M + 0,104	22/12/2025	Euros	Institutional
Banco de Sabadell, S.A.	20/01/2020	1,000,000	1,000,000	0.13%	10/02/2028	Euros	Institutional
Banco de Sabadell, S.A.	23/06/2020	1,500,000	1,500,000	EURIBOR 12M + 0,080	23/06/2025	Euros	Institutional
Banco de Sabadell, S.A.	30/03/2021	1,000,000	—	EURIBOR 12M + 0,018	30/03/2026	Euros	Institucional
Banco de Sabadell, S.A.	08/06/2021	1,000,000	—	EURIBOR 12M + 0,012	08/06/2026	Euros	Institucional
Banco de Sabadell, S.A.	08/06/2021	1,000,000	—	EURIBOR 12M + 0,022	08/06/2027	Euros	Institucional
Subscribed by Group companies		(7,315,000)	(7,182,000)				
Total covered bonds		**6,540,400**	**8,041,000**				

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2021	Maturity date	Issue currency	Target of offering
		31/12/2021	31/12/2020				
Banco de Sabadell, S.A.	18/12/2018	—	800,000	EURIBOR 12M + 0,242	18/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	16/12/2019	—	400,000	EURIBOR 12M + 0,007	16/12/2022	Euros	Institutional
Banco de Sabadell, S.A.	16/12/2019	—	400,000	EURIBOR 12M + 0,104	16/12/2025	Euros	Institutional
Subscribed by Group companies		—	(1,600,000)				
Total public sector covered bonds		**—**	**—**				

In 2021, all of the public sector covered bonds issued were redeemed early.

Thousand euro

Issuer	Date of issue	Amount		Interest rate ruling as at 31/12/2021	Maturity date	Issue currency	Target of offering
		31/12/2021	31/12/2020				
TSB Banking Group Plc	7/12/2017	595,040	556,155	SONIA + 0.372	7/12/2022	Pounds sterling	Institutional
TSB Banking Group Plc	15/2/2019	892,560	834,232	SONIA + 0.870	15/2/2024	Pounds sterling	Institutional
TSB Banking Group Plc	22/6/2021	595,040	—	SONIA + 0.370	22/6/2028	Pounds sterling	Institutional
Subscribed by Group companies		—	—				
Total Covered Bonds		**2,082,640**	**1,390,387**				

Securitisations

The following table shows the bonds issued by asset securitisation funds outstanding as at 31 December 2021 and 2020, respectively:

Thousand euro

Year	Name of fund (*)	Types of issue	Issue: Number of securities	Issue: Amount	Outstanding balance of liabilities: 2021	Outstanding balance of liabilities: 2020	Yield
2005	TDA CAM 4,FTA	RMBS	20,000	2,000,000	72,293	101,353	EURIBOR 3M + (between 0,09% y 0,24%
2005	TDA CAM 5,FTA	RMBS	20,000	2,000,000	126,029	147,402	EURIBOR 3M + (between 0,12% y 0,35%
2006	TDA CAM 6 F.T.A	RMBS	13,000	1,300,000	83,863	99,601	EURIBOR 3M + (between 0,13% y 0,27%
2006	TDA CAM 7 F.T.A	RMBS	15,000	1,500,000	101,682	118,552	EURIBOR 3M + (between 0,14% y 0,3%
2006	CAIXA PENEDES 1 TDA, FTA	RMBS	10,000	1,000,000	37,882	44,451	EURIBOR 3M + 0,14%
2006	FTPYME TDA CAM 4 F.T.A	PYMES	11,918	1,191,800	33,739	40,458	EURIBOR 3M + (between 0,29% y 0,61%
2007	TDA CAM 8 F.T.A	RMBS	17,128	1,712,800	87,919	100,207	EURIBOR 3M + (between 0,13% y 0,47%
2007	CAIXA PENEDES PYMES 1 TDA, FTA	PYMES	7,900	790,000	300	300	EURIBOR 3M + 0,8%
2007	TDA CAM 9 F.T.A	RMBS	15,150	1,515,000	124,231	139,481	EURIBOR 3M + (between 0,19% y 0,75%
2017	IM SABADELL PYME 11, F.T.	PYMES	19,000	1,900,000	3,379	82,244	EURIBOR 3M + 0,75%
Total securitisation funds					**671,317**	**874,049**	

(*) The bonds issued by securitisation funds are listed in the AIAF market.

Subordinated liabilities

Subordinated liabilities issued by the Group as at 31 December 2021 and 2020 are as follows:

Thousand euro

Issuer	Date of issue	Amount: 31/12/2021	Amount: 31/12/2020	Interest rate ruling as at 31/12/2021	Maturity/call date	Issue currency	Target of offering
TSB Banking Group Plc (*)	01/05/2014	—	428,239	5.75%	06/05/2021	Pounds sterling	Institutional
Banco de Sabadell, S.A.	06/05/2016	500,000	500,000	5.63%	06/05/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	12/12/2018	500,000	500,000	5.38%	12/12/2023	Euros	Institutional
Banco de Sabadell, S.A. (*)	17/01/2020	300,000	300,000	2.00%	17/01/2025	Euros	Institutional
TSB Banking Group Plc (*)	01/05/2014	357,024	—	3.45%	30/03/2026	Pounds sterling	Institutional
Banco de Sabadell, S.A. (*)	15/01/2021	500,000	—	2.50%	15/04/2026	Euros	Institutional
Subscribed by Group companies		(357,024)	(5,000)				
Total subordinated bonds		**1,800,000**	**1,723,239**				

(*) "Maturity/call date" refers to the first call date.

Thousand euro

Issuer	Date of issue	Amount: 31/12/2021	Amount: 31/12/2020	Interest rate ruling as at 31/12/2021	Maturity/call date	Issue currency	Target of offering
Banco de Sabadell, S.A. (*)	18/05/2017	750,000	750,000	6.50%	18/05/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	23/11/2017	400,000	400,000	6.13%	23/11/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	15/03/2021	500,000	—	5.75%	15/09/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	19/11/2021	750,000	—	5.00%	19/11/2027	Euros	Institutional
Total preference shares		**2,400,000**	**1,150,000**				

(*) Perpetual issue. The date of the first call option is reported as the “maturity/redemption date”. The aforesaid subordinated securities and undated securities are perpetual, although they may be converted into newly issued Banco Sabadell shares, if either Banco Sabadell or its consolidated group has a Common Equity Tier 1 (CET1) ratio lower than 5.125%, calculated in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council, of 26 June, on prudential requirements for credit institutions and investment firms.

The issues included in subordinated liabilities, for the purposes of credit priority, are ranked below all of the Group’s regular creditors.

For the purpose of complying with the requirements of IAS 7, the table below shows the reconciliation of liabilities derived from funding activities, identifying the components of their movements:

Thousand euro	
Total subordinated liabilities as at 31 December 2019	**3,010,465**
New issuances	300,000
Amortised	(424,600)
Capitalisation	—
Exchange rate	(24,276)
Variation in subordinated liabilities subscribed by group companies.	11,650
Total subordinated liabilities as at 31 December 2020	**2,873,239**
New issuances	1,750,000
Amortised	(443,497)
Capitalisation	—
Exchange rate	15,258
Variation in subordinated liabilities subscribed by group companies.	5,000
Total subordinated liabilities as at 31 December 2021	**4,200,000**

Schedule VI – Other risk information

Credit risk exposure

Loans and advances to customers, broken down by activity and type of guarantee

The breakdown of the balance of the heading "Loans and advances – Customers" by activity and type of guarantee, excluding advances not classed as loans, as at 31 December 2021 and 2020, respectively, is as follows:

Thousand euro

	2021							
				Collateralised loans. Carrying amount based on last available valuation. Loan to value				
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100
General governments	**9,408,771**	**33,916**	**553,176**	**13,891**	**11,091**	**—**	**963**	**561,14**
Other financial corporations and individual entrepreneurs (financial business activity)	**948,435**	**188,751**	**370,675**	**394,379**	**119,440**	**26,501**	**6,063**	**13,04**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**60,321,572**	**13,494,991**	**5,387,073**	**7,661,213**	**4,648,179**	**2,596,527**	**1,397,013**	**2,579,13**
Construction and real estate development (including land)	2,652,955	1,569,215	320,736	829,524	496,816	248,870	144,481	170,26
Civil engineering construction	819,200	32,852	25,371	26,128	12,252	2,556	2,803	14,48
Other purposes	56,849,417	11,892,924	5,040,966	6,805,561	4,139,111	2,345,101	1,249,729	2,394,38
Large enterprises	24,465,428	1,893,913	1,944,357	1,992,477	332,307	294,649	505,815	713,02
SMEs and individual entrepreneurs	32,383,989	9,999,011	3,096,609	4,813,084	3,806,804	2,050,452	743,914	1,681,36
Rest of households	**86,247,200**	**78,518,084**	**1,316,948**	**16,755,153**	**23,692,853**	**28,115,931**	**7,955,458**	**3,315,63**
Home loans	77,741,032	77,267,421	324,331	15,851,014	23,061,319	27,752,944	7,775,459	3,151,01
For consumption	5,387,338	48,559	622,025	164,816	245,859	127,265	74,417	58,22
Other purposes	3,118,830	1,202,104	370,592	739,323	385,675	235,722	105,582	106,39
TOTAL	**156,925,978**	**92,235,742**	**7,627,872**	**24,824,636**	**28,471,563**	**30,738,959**	**9,359,497**	**6,468,95**
MEMORANDUM ITEM Forbearance (refinanced and restructured loans)	**5,503,333**	**3,117,314**	**397,856**	**955,550**	**949,483**	**742,577**	**409,411**	**458,14**

Thousand euro

	2020							
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Collateralised loans. Carrying amount based on last available valuation. Loan to value				
				Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**10,117,502**	**37,367**	**1,195**	**16,791**	**13,547**	**449**	**—**	**7,775**
Other financial corporations and individual entrepreneurs (financial business activity)	**1,026,650**	**200,685**	**343,959**	**391,825**	**147,582**	**2,513**	**1,042**	**1,682**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**59,195,501**	**14,252,188**	**5,925,953**	**7,487,468**	**5,230,205**	**2,753,867**	**1,991,429**	**2,715,172**
Construction and real estate development (including land)	3,225,295	2,133,149	363,967	821,140	741,075	469,467	276,798	188,636
Civil engineering construction	864,217	34,541	47,841	27,048	14,647	2,734	3,400	34,553
Other purposes	55,105,989	12,084,498	5,514,145	6,639,280	4,474,483	2,281,666	1,711,231	2,491,983
Large enterprises	24,318,504	2,039,938	1,858,595	1,901,801	504,081	324,836	415,900	751,915
SMES and individual entrepreneurs	30,787,485	10,044,560	3,655,550	4,737,479	3,970,402	1,956,830	1,295,331	1,740,068
Rest of households	**77,989,598**	**70,324,572**	**984,767**	**15,063,405**	**20,698,838**	**23,929,365**	**7,933,957**	**3,683,774**
Home loans	69,488,848	69,015,248	32,602	14,145,483	20,096,602	23,567,589	7,772,722	3,465,454
For consumption	5,199,956	55,329	575,512	158,939	211,889	105,013	56,647	98,353
Other purposes	3,300,794	1,253,995	376,653	758,983	390,347	256,763	104,588	119,967
TOTAL	**148,329,251**	**84,814,812**	**7,255,874**	**22,959,489**	**26,090,172**	**26,686,194**	**9,926,428**	**6,408,403**
MEMORANDUM ITEM Forbearance (refinanced and restructured loans)	**4,211,651**	**2,511,856**	**225,603**	**582,300**	**718,600**	**583,768**	**410,712**	**442,080**

In terms of risks with LTV >80%, these mainly correspond to transactions from acquired entities or business operations in which, as a supplement to the valuation of the transaction, a mortgage guarantee is available to cover that transaction. Similarly, there are other additional reasons for approval, which mainly correspond to solvent borrowers with a proven payment capacity, as well as customers with a good profile who contribute guarantees (personal guarantees and/or pledges) which are additional to the mortgage guarantees already considered in the LTV ratio.

Refinancing and restructuring transactions

The outstanding balance of refinanced and restructured transactions as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021						
	Credit institutions	**General governments**	**Other financial corporations and individual entrepreneurs (financial business activity)**	**Non-financial corporations and individual entrepreneurs (non-financial business activity)**	***Of which: lending for construction and real estate development (including land)***	**Rest of households**	**Total**
TOTAL							
Not secured with collateral							
Number of transactions	—	14	173	35,608	*688*	64,850	**100,645**
Gross carrying amount	—	9,055	28,192	2,571,808	*138,613*	332,020	**2,941,075**
Secured with collateral							
Number of transactions	—	2	17	8,732	*1,367*	14,957	**23,708**
Gross carrying amount	—	203	2,492	2,329,048	*170,870*	1,561,620	**3,893,363**
Impairment allowances	—	1,255	16,215	972,963	*78,863*	340,664	**1,331,097**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	—	12	58	17,603	*410*	44,497	***62,170***
Gross carrying amount	—	8,133	17,719	977,368	*64,623*	210,091	***1,213,311***
Secured with collateral							
Number of transactions	—	1	9	5,543	*1,253*	8,417	***13,970***
Gross carrying amount	—	126	627	916,569	*78,527*	879,217	***1,796,539***
Impairment allowances	—	1,255	15,978	823,960	*69,424*	302,977	***1,144,170***
TOTAL							
Number of transactions	—	16	190	44,340	*2,055*	79,807	**124,353**
Gross amount	—	9,258	30,684	4,900,856	*309,483*	1,893,640	**6,834,438**
Impairment allowances	—	1,255	16,215	972,963	*78,863*	340,664	**1,331,097**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—	—

Thousand euro

	2020						
	Credit institutions	General governments	Other financial corporations and individual entrepreneurs (financial business activity)	Non-financial corporations and individual entrepreneurs (non-financial business activity)	*Of which: lending for construction and real estate development (including land)*	Rest of households	Total
TOTAL							
Not secured with collateral							
Number of transactions	—	14	78	27,484	*537*	53,083	**80,659**
Gross carrying amount	—	13,615	5,520	1,797,259	*166,133*	347,615	**2,164,009**
Secured with collateral							
Number of transactions	—	4	20	9,513	*1,434*	15,511	**25,048**
Gross carrying amount	—	1,188	13,854	1,730,287	*142,435*	1,428,279	**3,173,608**
Impairment allowances	—	1,104	11,939	864,030	*84,100*	257,531	**1,134,604**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	—	*12*	*42*	*13,451*	*289*	*32,807*	***46,312***
Gross carrying amount	—	*8,593*	*699*	*936,595*	*72,557*	*197,421*	***1,143,308***
Secured with collateral							
Number of transactions	—	*3*	*13*	*4,633*	*268*	*10,321*	***14,970***
Gross carrying amount	—	*271*	*13,647*	*769,606*	*63,498*	*780,523*	***1,564,047***
Impairment allowances	—	*1,104*	*11,756*	*729,115*	*71,097*	*215,213*	***957,188***
TOTAL							
Number of transactions	—	18	98	36,997	*1,971*	68,594	**105,707**
Gross amount	—	14,803	19,374	3,527,546	*308,568*	1,775,894	**5,337,617**
Impairment allowances	—	1,104	11,939	864,030	*84,100*	257,531	**1,134,604**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—	**—**

The value of the guarantees received to ensure collection associated with refinanced and restructured transactions, broken down into collateral and other guarantees, as at 31 December 2021 and 2020, is as follows:

Thousand euro

Guarantees received	2021	2020
Value of collateral	3,430,237	2,742,754
Of which: securing Stage 3 loans	*1,382,700*	*1,223,896*
Value of other guarantees	1,281,854	702,241
Of which: securing Stage 3 loans	*316,047*	*282,816*
Total value of guarantees received	**4,712,091**	**3,444,995**

Detailed movements of the balance of refinancing and restructuring transactions during 2021 and 2020 are as follows:

Thousand euro

	2021	2020
Opening balance	**5,337,617**	**4,554,370**
(+) Forbearance (refinancing and restructuring) in the period	3,190,252	2,397,895
Memorandum item: impact recognised on the income statement for the period	*227,263*	*223,082*
(-) Debt amortisations	(854,208)	(938,644)
(-) Foreclosures	(13,460)	(41,267)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(137,743)	(156,458)
(+)/(-) Other changes (*)	(688,020)	(478,279)
Year-end balance	**6,834,438**	**5,337,617**

(*) Includes transactions no longer classified as refinancing, refinanced or restructured due to meeting the requirements for reclassification from stage 2 to stage 1 risks (see note 1.3.4).

The table below shows the value of transactions which, after refinancing or restructuring, have been classified as stage 3 exposures during 2021 and 2020:

Thousand euro

	2021	2020
General governments	—	—
Other legal entities and individual entrepreneurs	**297,088**	**185,514**
Of which: Lending for construction and real estate development	*15,882*	*16,906*
Other natural persons	**209,610**	**208,074**
Total	**506,698**	**393,588**

The average probability of default on current refinanced and restructured transactions broken down by activity as at 31 December 2021 and 2020 is as follows:

%

	2021	2020
General governments (*)	—	—
Other legal entities and individual entrepreneurs	**13**	**8**
Of which: Lending for construction and real estate development	*12*	*9*
Other natural persons	**10**	**10**

(*) Authorisation has not been granted for the use of internal models in the calculation of capital requirements.

Average probability of default calculated as at 30 September 2021.

Concentration risk

Geographical exposure

Global

The breakdown of risk concentration, by activity and at a global level, as at 31 December 2021 and 2020 is as follows:

Thousand euro

	2021				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**56,135,227**	**42,901,463**	**4,324,590**	**1,937,097**	**6,972,077**
General governments	**30,944,737**	**23,058,110**	**2,905,921**	**1,521,875**	**3,458,831**
Central governments	22,243,892	15,386,550	2,905,917	492,765	3,458,660
Other	8,700,845	7,671,560	4	1,029,110	171
Other financial corporations and individual entrepreneurs	**3,029,456**	**1,281,242**	**773,852**	**478,222**	**496,140**
Non-financial corporations and individual entrepreneurs	**62,991,664**	**48,323,248**	**3,330,753**	**8,599,608**	**2,738,055**
Construction and real estate development	2,721,772	2,296,122	3,961	300,391	121,298
Civil engineering construction	916,490	872,392	19,718	5,013	19,367
Other purposes	59,353,402	45,154,734	3,307,074	8,294,204	2,597,390
Large enterprises	26,326,637	15,295,916	2,159,755	7,218,989	1,651,977
SMEs and individual entrepreneurs	33,026,765	29,858,818	1,147,319	1,075,215	945,413
Rest of households	**86,396,456**	**39,304,626**	**979,842**	**515,497**	**45,596,491**
Home loans	77,782,121	33,274,507	952,291	218,760	43,336,563
For consumption	5,387,338	3,297,195	6,812	5,521	2,077,810
Other purposes	3,226,997	2,732,924	20,739	291,216	182,118
TOTAL	**239,497,540**	**154,868,689**	**12,314,958**	**13,052,299**	**59,261,594**

Thousand euro

	2020				
	TOTAL	**Spain**	**Rest of European Union**	**Americas**	**Rest of the world**
Central banks and Credit institutions	**44,185,857**	**29,420,936**	**4,917,055**	**1,516,600**	**8,331,266**
General governments	**32,730,612**	**25,586,932**	**3,846,229**	**1,242,360**	**2,055,091**
Central governments	24,976,083	18,620,808	3,835,065	495,085	2,025,125
Other	7,754,529	6,966,124	11,164	747,275	29,966
Other financial corporations and individual entrepreneurs	**4,091,799**	**1,838,198**	**1,207,143**	**562,420**	**484,038**
Non-financial corporations and individual entrepreneurs	**62,377,945**	**47,376,248**	**4,218,718**	**8,200,957**	**2,582,022**
Construction and real estate development	3,298,822	2,834,328	6,997	264,304	193,193
Civil engineering construction	948,975	888,596	21,662	10,042	28,675
Other purposes	58,130,148	43,653,324	4,190,059	7,926,611	2,360,154
Large enterprises	26,736,168	14,873,770	3,546,002	6,906,457	1,409,939
SMEs and individual entrepreneurs	31,393,980	28,779,554	644,057	1,020,154	950,215
Rest of households	**78,372,221**	**38,312,557**	**927,035**	**501,945**	**38,630,684**
Home loans	69,704,167	32,161,472	819,070	208,093	36,515,532
For consumption	5,199,966	3,282,539	8,061	4,939	1,904,427
Other purposes	3,468,088	2,868,546	99,904	288,913	210,725
TOTAL	**221,758,434**	**142,534,871**	**15,116,180**	**12,024,282**	**52,083,101**

By autonomous communities

The breakdown of risk concentration, by activity and at the level of Spanish autonomous communities, as at 31 December 2021 and 2020, respectively, is as follows:

Thousand euro

	2021									
		AUTONOMOUS COMMUNITIES								
	TOTAL	**Andalusia**	**Aragón**	**Asturias**	**Balearic Islands**	**Canary Islands**	**Cantabria**	**Castilla-La Mancha**	**Castilla y León**	**Catalonia**
Central banks and Credit institutions	**42,901,463**	**5,610**	**8**	**2**	**—**	**2**	**290,083**	**1**	**—**	**270,562**
General governments	**23,058,110**	**350,471**	**119,243**	**360,503**	**383,630**	**299,697**	**6,647**	**105,290**	**709,478**	**904,436**
Central governments	15,386,550	—	—	—	—	—	—	—	—	—
Other	7,671,560	350,471	119,243	360,503	383,630	299,697	6,647	105,290	709,478	904,436
Other financial corporations and individual entrepreneurs	**1,281,242**	**5,325**	**2,810**	**3,642**	**1,323**	**837**	**287**	**833**	**14,705**	**536,990**
Non-financial corporations and individual entrepreneurs	**48,323,248**	**2,477,885**	**1,027,327**	**1,490,319**	**2,294,312**	**1,261,855**	**201,262**	**625,905**	**1,106,996**	**14,226,345**
Construction and real estate development	2,296,122	84,280	40,585	46,909	90,043	26,854	10,497	15,220	26,690	556,249
Civil engineering construction	872,392	33,172	9,461	20,230	7,502	3,639	5,580	6,740	17,163	143,110
Other purposes	45,154,734	2,360,433	977,281	1,423,180	2,196,767	1,231,362	185,185	603,945	1,063,143	13,526,986
Large enterprises	15,295,916	520,792	312,677	446,085	932,259	351,140	55,657	143,991	199,151	4,413,074
SMEs and individual entrepreneurs	29,858,818	1,839,641	664,604	977,095	1,264,508	880,222	129,528	459,954	863,992	9,113,912
Rest of households	**39,304,626**	**2,764,232**	**547,729**	**1,163,902**	**1,435,534**	**596,049**	**114,198**	**496,557**	**773,274**	**15,321,766**
Home loans	33,274,507	2,285,812	470,373	929,102	1,276,716	424,622	96,902	401,705	617,482	13,241,197
For consumption	3,297,195	344,663	42,835	89,927	85,105	147,048	9,043	64,404	86,338	1,020,198
Other purposes	2,732,924	133,757	34,521	144,873	73,713	24,379	8,253	30,448	69,454	1,060,371
TOTAL	**154,868,689**	**5,603,523**	**1,697,117**	**3,018,368**	**4,114,799**	**2,158,440**	**612,477**	**1,228,586**	**2,604,453**	**31,260,099**

Thousand euro

	2021								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**—**	**5,136**	**42,024,234**	**2**	**180**	**116,748**	**188,895**	**—**	**—**
General governments	**87,251**	**419,626**	**1,876,784**	**55,766**	**291,266**	**701,521**	**859,215**	**110,090**	**30,646**
Central governments	—	—	—	—	—	—	—	—	—
Other	87,251	419,626	1,876,784	55,766	291,266	701,521	859,215	110,090	30,646
Other financial corporations and individual entrepreneurs	**99**	**4,380**	**655,805**	**3,107**	**477**	**27,658**	**22,862**	**84**	**18**
Non-financial corporations and individual entrepreneurs	**176,135**	**2,348,363**	**12,190,026**	**1,133,579**	**601,156**	**4,889,933**	**2,063,837**	**187,401**	**20,612**
Construction and real estate development	2,071	64,311	1,023,028	35,361	20,977	146,930	96,077	9,698	342
Civil engineering construction	2,039	47,318	429,982	12,463	2,607	63,133	65,976	1,815	462
Other purposes	172,025	2,236,734	10,737,016	1,085,755	577,572	4,679,870	1,901,784	175,888	19,808
Large enterprises	19,967	726,793	4,587,849	235,642	205,908	1,392,587	705,700	46,124	520
SMEs and individual entrepreneurs	152,058	1,509,941	6,149,167	850,113	371,664	3,287,283	1,196,084	129,764	19,288
Rest of households	**139,718**	**900,696**	**5,226,038**	**2,038,198**	**171,896**	**6,183,773**	**1,274,889**	**80,285**	**75,892**
Home loans	103,585	669,564	4,339,875	1,735,994	138,787	5,283,696	1,128,245	59,509	71,341
For consumption	28,185	137,929	533,090	157,659	12,085	451,813	69,924	14,684	2,265
Other purposes	7,948	93,203	353,073	144,545	21,024	448,264	76,720	6,092	2,286
TOTAL	**403,203**	**3,678,201**	**61,972,887**	**3,230,652**	**1,064,975**	**11,919,633**	**4,409,698**	**377,860**	**127,168**

Thousand euro

	2020									
		AUTONOMOUS COMMUNITIES								
	TOTAL	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**29,420,936**	**4,598**	**993**	**1**	**6,074**	**2**	**617,150**	**2**	**3**	**212,048**
General governments	**25,586,932**	**380,489**	**21,587**	**330,312**	**248,961**	**150,713**	**33,214**	**9,717**	**553,752**	**1,051,831**
Central governments	18,620,808	—	—	—	—	—	—	—	—	—
Other	6,966,124	380,489	21,587	330,312	248,961	150,713	33,214	9,717	553,752	1,051,831
Other financial corporations and individual entrepreneurs	**1,838,198**	**5,004**	**2,465**	**2,019**	**2,462**	**820**	**343**	**619**	**11,946**	**453,208**
Non-financial corporations and individual entrepreneurs	**47,376,248**	**2,382,035**	**936,636**	**1,431,427**	**2,357,582**	**1,349,760**	**225,878**	**600,582**	**1,077,727**	**13,732,232**
Construction and real estate development	2,834,328	124,291	40,290	60,513	91,105	29,161	12,387	18,660	28,684	654,353
Civil engineering construction	888,596	29,629	9,548	16,756	8,876	2,476	4,427	4,927	13,931	186,360
Other purposes	43,653,324	2,228,115	886,798	1,354,158	2,257,601	1,318,123	209,064	576,995	1,035,112	12,891,519
Large enterprises	14,873,770	514,509	267,324	211,558	1,069,219	325,161	85,436	153,827	226,559	4,042,935
SMEs and individual entrepreneurs	28,779,554	1,713,606	619,474	1,142,600	1,188,382	992,962	123,628	423,168	808,553	8,848,584
Rest of households	**38,312,557**	**2,682,667**	**511,530**	**1,172,830**	**1,392,281**	**591,397**	**106,171**	**500,511**	**764,662**	**14,719,983**
For house purchase	32,161,472	2,212,757	430,222	932,081	1,226,686	417,738	89,760	403,838	598,153	12,569,748
For consumption	3,282,539	322,301	43,904	91,289	89,420	149,524	7,611	62,097	85,029	1,032,314
Other purposes	2,868,546	147,609	37,404	149,460	76,175	24,135	8,800	34,576	81,480	1,117,921
TOTAL	**142,534,871**	**5,454,793**	**1,473,211**	**2,936,589**	**4,007,360**	**2,092,692**	**982,756**	**1,111,431**	**2,408,090**	**30,169,302**

Thousand euro

	2020								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**—**	**2,822**	**27,987,038**	**3**	**180**	**183,709**	**406,313**	**—**	**—**
General governments	**94,267**	**323,727**	**1,936,240**	**42,329**	**291,466**	**692,996**	**691,704**	**78,151**	**34,668**
Central governments	—	—	—	—	—	—	—	—	—
Other	94,267	323,727	1,936,240	42,329	291,466	692,996	691,704	78,151	34,668
Other financial corporations and individual entrepreneurs	**121**	**4,628**	**1,300,197**	**2,928**	**633**	**30,025**	**20,681**	**99**	**—**
Non-financial corporations and individual entrepreneurs	**127,200**	**2,222,322**	**12,237,925**	**1,086,692**	**550,895**	**4,575,097**	**2,261,729**	**202,443**	**18,086**
Construction and real estate development	1,838	60,853	1,398,386	38,359	21,677	159,377	81,831	12,207	356
Civil engineering construction	2,325	60,171	427,546	10,155	2,468	48,827	58,863	1,254	57
Other purposes	123,037	2,101,298	10,411,993	1,038,178	526,750	4,366,893	2,121,035	188,982	17,673
Large enterprises	17,071	635,883	4,655,580	209,291	195,585	1,242,267	964,218	56,638	709
SMEs and individual entrepreneurs	105,966	1,465,415	5,756,413	828,887	331,165	3,124,626	1,156,817	132,344	16,964
Rest of households	**134,837**	**832,278**	**5,057,519**	**2,026,821**	**171,367**	**6,295,414**	**1,196,673**	**83,366**	**72,250**
For house purchase	98,729	612,786	4,144,488	1,735,126	129,863	5,391,483	1,040,818	59,129	68,067
For consumption	28,663	129,891	545,091	143,836	17,644	442,613	74,317	14,868	2,127
Other purposes	7,445	89,601	367,940	147,859	23,860	461,318	81,538	9,369	2,056
TOTAL	**356,425**	**3,385,777**	**48,518,919**	**3,158,773**	**1,014,541**	**11,777,241**	**4,577,100**	**364,059**	**125,004**

Sovereign risk exposure

Sovereign risk exposures, broken down by type of financial instrument and applying the criteria required by the EBA, as at 31 December 2021 and 2020, are as follows:

Thousand euro

	2021											
	Sovereign debt securities							Derivatives				
Sovereign risk exposure by country (*)	**Financial assets held for trading**	**Financial liabilities held for trading - Short positions**	**Mandatorily at fair value through profit or loss**	**Measured at fair value through other comprehensive income**	**Financial assets at amortised cost**	**Loans and advances to customers (**)**	***Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value to equity***	**With positive fair value**	**With negative fair value**	**Total**	**Other off-balance sheet exposures (***)**	**%**
Spain	74,979	(46,751)	—	3,807,149	9,747,536	10,486,762	—	15,323	(16)	24,084,982	—	75.3%
Italy	202,456	—	—	49,021	2,135,300	—	—	—	—	2,386,777	—	7.5%
United States	—	—	2,727	887,114	197,875	233	—	—	—	1,087,949	—	3.4%
United Kingdom	—	—	—	1,284,232	1,921,159	34,011	—	—	—	3,239,402	—	10.1%
Portugal	5	—	—	—	355,552	1,949	—	—	—	357,506	—	1.1%
Mexico	—	—	—	311,831	100,194	12,499	—	—	—	424,524	—	1.3%
Rest of the world	261,156	—	—	106,623	—	22,704	—	—	—	390,483	—	1.2%
Total	**538,596**	**(46,751)**	**2,727**	**6,445,970**	**14,457,616**	**10,558,158**	**—**	**15,323**	**(16)**	**31,971,623**	**—**	**100%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (1,084 million euros as at 31 December 2021).

(***) Relates to commitments for cash purchases and sales of financial assets.

Thousand euro

	2020											
	Sovereign debt securities							Derivatives				
Sovereign risk exposure by country (*)	**Financial assets held for trading**	**Financial liabilities held for trading - Short positions**	**Mandatorily at fair value through profit or loss**	**Measured at fair value through other comprehensive income**	**Financial assets at amortised cost**	**Loans and advances to customers (**)**	***Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value to equity***	**With positive fair value**	**With negative fair value**	**Total**	**Other off-balance sheet exposures (***)**	**%**
Spain	61,869	(98,627)	—	3,418,696	11,974,783	11,591,514	—	23,390	(13)	26,971,612	—	79.1%
Italy	5,013	—	—	—	2,792,307	—	—	—	—	2,797,320	—	8.2%
United States	—	—	2,516	509,136	300,555	159	—	—	—	812,366	—	2.4%
United Kingdom	—	—	—	1,336,434	617,616	11	—	—	—	1,954,061	—	5.7%
Portugal	5	—	—	—	925,500	—	—	—	—	925,505	—	2.7%
Mexico	—	—	—	328,974	101,017	—	—	—	—	429,991	—	1.3%
Rest of the world	3,940	—	—	109,619	38,565	61,210	—	—	—	213,334	—	0.6%
Total	**70,827**	**(98,627)**	**2,516**	**5,702,859**	**16,750,343**	**11,652,894**	**—**	**23,390**	**(13)**	**34,104,189**	**—**	**100%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (1,492 million euros as at 31 December 2020).

(***) Relates to commitments for cash purchases and sales of financial assets.

Exposure to construction and real estate development sector

Details of lending for construction and real estate development and the relevant allowances are as follows: The lending items shown have been classified in terms of their intended purpose, rather than by the debtor's NACE code. This implies, for example, that if a debtor is: (a) a real estate company, but uses the financing for a purpose other than construction or real estate development, it is not included in this table; or (b) a company whose primary activity is not construction or real estate, but where the loan is used for the financing of properties intended for real estate development, it is included in the table:

Million euro

	2021		
	Gross carrying amount	**Excess value of the collateral**	**Adjustments due to impairment (*)**
Lending for construction and real estate development (including land) (business in Spain)	**2,554**	**607**	**135**
Of which: risks classified as Stage 3	*218*	*93*	*111*

Million euro

	2020		
	Gross carrying amount	**Excess value of the collateral**	**Adjustments due to impairment (*)**
Lending for construction and real estate development (including land) (business in Spain)	**3,099**	**766**	**161**
Of which: risks classified as Stage 3	*228*	*107*	*117*

(*) Allowances for the exposure for which the bank retains the credit risk. Does not include allowances for exposures with transferred risk.

Million euro

Gross carrying amount ***Memorandum item:***	**2021**	**2020**
Write-offs (*)	15	44

Million euro

Memorandum item:	**2021**	**2020**
Loans to customers, excluding General Governments (business in Spain) (carrying amount)	90,569	88,196
Total assets (total business) (carrying amount)	251,947	235,763
Allowances and provisions for exposures classed as Stage 2 or Stage 1 (total operations)	942	913

(*) Refers to lending for construction and real estate development reclassified as write-offs during the year.

The breakdown of lending for construction and real estate development for transactions registered by credit institutions (business in Spain) is as follows:

Million euro

	Gross carrying amount 2021	Gross carrying amount 2020
Not secured with real estate	**745**	**719**
Secured with real estate	**1,809**	**2,380**
Buildings and other finished constructions	835	883
Housing	596	630
Other	239	253
Buildings and other construction in progress	784	1,234
Housing	751	1,165
Other	33	69
Land	190	262
Consolidated urban land	154	225
Other land	36	37
Total	**2,554**	**3,099**

The figures presented do not show the total value of guarantees received, but rather the net carrying amount of the associated exposure.

Guarantees received associated with lending for construction and real estate development are shown hereafter, for both periods:

Million euro

Guarantees received	2021	2020
Value of collateral	1,727	2,425
Of which: securing Stage 3 loans	*88*	*94*
Value of other guarantees	321	328
Of which: securing Stage 3 loans	*13*	*10*
Total value of guarantees received	**2,048**	**2,753**

The breakdown of lending to households for house purchase for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

	2021	
	Gross carrying amount	*Of which: Stage 3 exposures*
Lending for house purchase	**35,253**	**924**
Not secured with real estate	553	*44*
Secured with real estate	34,700	*880*

Million euro

	2020	
	Gross carrying amount	*Of which: Stage 3 exposures*
Lending for house purchase	**33,953**	**819**
Not secured with real estate	475	*41*
Secured with real estate	33,478	*778*

The tables below show mortgage-secured lending to households for house purchase broken down by the loan-to-value ratio of transactions recorded by credit institutions (business in Spain):

Million euro

	2021	
	Gross amount	***Of which: Stage 3 exposures***
LTV ranges	**34,700**	***880***
LTV <= 40%	6,500	*120*
40% < LTV <= 60%	9,112	*180*
60% < LTV <= 80%	11,783	*210*
80% < LTV <= 100%	4,443	*160*
LTV > 100%	2,862	*210*

Million euro

	2020	
	Gross amount	***Of which: Stage 3 exposures***
LTV ranges	**33,478**	**778**
LTV <= 40%	6,103	*87*
40% < LTV <= 60%	8,709	*131*
60% < LTV <= 80%	10,733	*160*
80% < LTV <= 100%	4,475	*165*
LTV > 100%	3,459	*236*

Lastly, the table below gives details of assets foreclosed or received in lieu of debt by the consolidated Group entities, for transactions recorded by credit institutions within Spain, as at 31 December 2021 and 2020:

Million euro

	2021			
	Gross carrying amount	Allowances	*Gross amount (*)*	*Allowances (*)*
Real estate assets acquired through lending for construction and real estate development	**639**	**204**	***686***	***264***
Finished buildings	594	185	*631*	*236*
Housing	378	114	*400*	*145*
Rest	216	71	*230*	*91*
Buildings under construction	5	2	*7*	*4*
Housing	5	2	*6*	*4*
Rest	—	—	—	—
Land	40	17	*48*	*24*
Building land	23	9	*30*	*13*
Other land	17	8	*19*	*11*
Real estate assets acquired through mortgage lending to households for house purchase	**566**	**154**	***646***	***242***
Rest of real estate assets foreclosed or received in lieu of debt	**24**	**5**	***30***	***13***
Capital instruments foreclosed or received in lieu of debt	**3**	**—**	**—**	**—**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
Financing to institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
TOTAL	**1,232**	**363**	**1,362**	**520**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

Million euro

	2020			
	Gross carrying amount	**Allowances**	***Gross amount (*)***	***Allowances (*)***
Real estate assets acquired through lending for construction and real estate development	**747**	**240**	***713***	***259***
Finished buildings	690	214	*654*	*230*
Housing	439	125	*413*	*137*
Rest	251	89	*241*	*93*
Buildings under construction	12	5	*8*	*4*
Housing	11	5	*7*	*4*
Rest	—	—	—	—
Land	44	21	*51*	*25*
Building land	25	11	*31*	*14*
Other land	19	10	*20*	*11*
Real estate assets acquired through mortgage lending to households for house purchase	**629**	**180**	***632***	***231***
Rest of real estate assets foreclosed or received in lieu of debt	**28**	**7**	***29***	***12***
Capital instruments foreclosed or received in lieu of debt	**14**	**—**	**—**	**—**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
Financing to institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
TOTAL	**1,418**	**427**	**1,373**	**502**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

The table below sets out the reconciliation between assets foreclosed or received in lieu of debt and real estate assets considered problematic by the Group as at 31 December 2021 and 2020:

Million euro

	2021		
	Gross amount	**Allowances**	**Net carrying value**
Total real estate portfolio in the national territory (in books)	**1,229**	**363**	**867**
Total operations outside the national territory and others	7	3	5
Provision allocated in original loan	194	194	—
Credit risk transferred in portfolio sales	(69)	(40)	(29)
Total non-performing real estate	**1,362**	**520**	**842**

Million euro

	2020		
	Gross amount	**Allowances**	**Net carrying value**
Total real estate portfolio in the national territory (in books)	**1,404**	**427**	**977**
Performing real estate (*)	(16)	(2)	(14)
Total operations outside the national territory and others	22	7	15
Provision allocated in original loan	242	242	—
Credit risk transferred in portfolio sales	(279)	(172)	(107)
Total non-performing real estate	**1,373**	**502**	**871**

(*) Performing real estate refers to assets classified as investment property with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment, on which a profit is expected to be realised.

Loans and advances subject to statutory and sector moratoria and financing granted subject to government guarantee schemes and operations modified in accordance with the Code of Good Practice

Information concerning loans and credit granted by the Group that are subject to statutory or sector moratoria, as well as financing granted that has benefited from the government guarantee schemes established to enable the Group's customers to cope with the impact of COVID-19, as at 31 December 2021 and 2020, is set out below:

Thousand euro

	31/12/2021						
	Gross carrying amount	**Performing**	***Of which: exposures with forbearance measures***	***Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)***	**Non performing**	***Of which: exposures with forbearance measures***	***Of which: Unlikely to pay that are not past-due or past-due <= 90 days***
Loans and advances subject to moratorium	**197,135**	**195,611**	***52,126***	***53,927***	**1,524 (*)**	***1,394***	***1,408***
Of which: Households	*8,100*	*6,666*	*650*	*2,180*	*1,434*	*1,366*	*1,380*
Of which: Collateralised by residential immovable property	*2,804*	*1,549*	*528*	*977*	*1,255*	*1,255*	*1,255*
Of which: Non-financial corporations	*189,034*	*188,945*	*51,476*	*51,747*	*90*	*29*	*29*
Of which: Small and Medium-sized Enterprises	158,210	*158,121*	*51,476*	*51,747*	*90*	29	29
Of which: Collateralised by commercial immovable property	*51,936*	*51,875*	*40,532*	*40,649*	*61*	—	—

(*) Of which 1.5 million euro correspond to stage 3 transactions.

Thousand euro

	31/12/2021						
	Accumulated impairment, accumulated negative changes in fair value due to credit risk	**Performing**	***Of which: exposures with forbearance measures***	***Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)***	**Non performing**	***Of which: exposures with forbearanc e measures***	***Of which: Unlikely to pay that are not past-due or past-due <= 90 days***
Loans and advances subject to moratorium	**(3,258)**	**(3,072)**	**(3,054)**	**(2,172)**	**(2,201)**	***(186)***	***(67)***
Of which: Households	*(210)*	*(48)*	*(29)*	*(5)*	*(34)*	*(163)*	*(44)*
Of which: Collateralised by residential immovable property	*(129)*	*(14)*	—	*(1)*	*(14)*	*(115)*	—
Of which: Non-financial corporations	*(3,048)*	*(3,025)*	*(3,025)*	*(2,166)*	*(2,168)*	*(23)*	*(23)*
Of which: Small and Medium-sized Enterprises	*(2,964)*	*(2,941)*	*(2,941)*	*(2,166)*	*(2,168)*	*(23)*	*(23)*
Of which: Collateralised by commercial immovable property	*(1,634)*	*(1,622)*	*(1,622)*	*(1,603)*	*(1,604)*	*(11)*	*(11)*

Thousand euro

	31/12/2020						
	Gross carrying amount	**Performing**	***Of which: exposures with forbearance measures***	***Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)***	**Non performing**	***Of which: exposures with forbearance measures***	***Of which: Unlikely to pay that are not past-due or past-due <= 90 days***
Loans and advances subject to moratorium	**3,197,211**	**2,865,616**	***189,727***	***1,275,154***	**331.595 (*)**	***257,008***	***307,688***
Of which: Households	*2,863,089*	*2,536,220*	*181,770*	*1,226,601*	*326,869*	*256,373*	*306,906*
Of which: Collateralised by residential immovable property	*2,604,776*	*2,317,591*	*161,727*	*1,139,159*	*287,185*	*220,552*	*269,379*
Of which: Non-financial corporations	*334,107*	*329,381*	*7,957*	*48,553*	*4,726*	*636*	*782*
Of which: Small and Medium-sized Enterprises	*227,431*	*222,706*	*7,957*	*26,687*	*4,726*	*636*	*782*
Of which: Collateralised by commercial immovable property	*183,349*	*182,628*	*6,918*	*46,762*	*721*	*574*	*721*

(*) Of which 289 million euro correspond to stage 3 transactions.

Thousand euro

	31/12/2020						
	Accumulated impairment, accumulated negative changes in fair value due to credit risk	**Performing**	***Of which: exposures with forbearance measures***	***Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)***	**Non performing**	***Of which: exposures with forbearance measures***	***Of which: Unlikely to pay that are not past-due or past-due <= 90 days***
Loans and advances subject to moratorium	**(76,531)**	**(42,223)**	***(14,198)***	***(36,258)***	**(34,308)**	***(29,896)***	***(31,057)***
Of which: Households	*(68,361)*	*(36,007)*	*(11,158)*	*(31,758)*	*(32,354)*	*(29,847)*	*(30,949)*
Of which: Collateralised by residential immovable property	*(53,894)*	*(27,182)*	*(9,254)*	*(24,068)*	*(26,712)*	*(24,942)*	*(25,910)*
Of which: Non-financial corporations	*(8,169)*	*(6,215)*	*(3,040)*	*(4,500)*	*(1,954)*	*(49)*	*(107)*
Of which: Small and Medium-sized Enterprises	*(7,636)*	*(5,681)*	*(3,040)*	*(4,275)*	*(1,954)*	*(49)*	*(107)*
Of which: Collateralised by commercial immovable property	*(4,955)*	*(4,864)*	*(2,950)*	*(4,338)*	*(91)*	*(33)*	*(91)*

Thousand euro

	31/12/2021							
				Residual maturity of moratoria				
	Gross carrying amount	**Of which: legislative moratoria**	**Of which: expired**	**<= 3 months**	**> 3 months <= 6 months**	**> 6 months <= 9 months**	**> 9 months <= 12 months**	**> 1 year**
Loans and advances subject to moratorium (granted)	**8,544,562**	**5,641,866**	**8,347,428**	**171,892**	**25,243**	**—**	**—**	**—**
Of which: Households	8,021,621	5,258,623	8,013,520	8,100	—	—	—	—
Of which: Collateralised by residential immovable property	*7,457,730*	*5,060,563*	*7,454,926*	*2,804*	—	—	—	—
Of which: Non-financial corporations	522,591	382,892	333,557	163,791	25,243	—	—	—
Of which: Small and Medium-sized Enterprises	*451,817*	*343,018*	*293,606*	*132,967*	*25,243*	—	—	—
Of which: Collateralised by commercial immovable property	*329,570*	*317,178*	*277,634*	*26,693*	*25,243*	—	—	—

Thousand euro

	31/12/2020							
				Residual maturity of moratoria				
	Gross carrying amount	**Of which: legislative moratoria**	**Of which: expired**	**<= 3 months**	**> 3 months <= 6 months**	**> 6 months <= 9 months**	**> 9 months <= 12 months**	**> 1 year**
Loans and advances subject to moratorium (granted)	**9,195,082**	**6,296,696**	**5,997,872**	**1,569,324**	**1,286,121**	**332,826**	**8,939**	**—**
Of which: Households	8,834,333	6,075,190	5,971,244	1,520,515	1,134,637	202,710	5,228	—
Of which: Collateralised by residential immovable property	*8,118,259*	*5,792,984*	*5,513,482*	*1,370,350*	*1,045,157*	*184,732*	*4,539*	—
Of which: Non-financial corporations	360,734	221,491	26,627	48,794	151,484	130,116	3,714	—
Of which: Small and Medium-sized Enterprises	*248,083*	*177,384*	*20,652*	*48,794*	*86,588*	*88,337*	*3,713*	—
Of which: Collateralised by commercial immovable property	*194,538*	*194,211*	*11,190*	*43,635*	*24,080*	*115,516*	*117*	—

Thousand euro

	31/12/2021		
			Maximum amount of the guarantee that can be considered
	Gross carrying amount	**Of which: forborne**	**Public guarantees received**
Newly originated loans and advances subject to public guarantee schemes	**9,362,892 (*)**	**909,670**	**7,189,136**
Of which: Households	1,014,618	—	—
Of which: Collateralised by residential immovable property	—	—	—
Of which: Non-financial corporations	8,345,090	859,706	6,371,037
Of which: Small and Medium-sized Enterprises	6,345,176	—	—
Of which: Collateralised by commercial immovable property	34,650	—	—

(*) Of which 341 million euro correspond to stage 3 transactions.

Thousand euro

	31/12/2020		
	Gross carrying amount	Of which: forborne	Maximum amount of the guarantee that can be considered
			Public guarantees received
Newly originated loans and advances subject to public guarantee schemes	**8,679,922 (*)**	**216,875**	**6,163,719**
Of which: Households	942,257	—	—
Of which: Collateralised by residential immovable property	—	—	—
Of which: Non-financial corporations	7,734,462	193,912	5,953,889
Of which: Small and Medium-sized Enterprises	5,687,668	—	—
Of which: Collateralised by commercial immovable property	7,921	—	—

(*) Of which 93 million euro correspond to stage 3 transactions.

As at 31 December 2021, in accordance with the Code of Good Practice, Banco Sabadell has modified a total of 718 transactions that had an outstanding principal amount of 127 million euros on the date of modification. The total amount corresponds to loan term extensions, with no conversion of profit participation loans and/or write-downs carried out.

Schedule VII – Annual banking report

INFORMATION REQUIRED UNDER ARTICLE 89 OF DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 26 JUNE 2013

This information has been prepared pursuant to Article 89 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and the transposition thereof into Spanish national legislation in accordance with Article 87 and Transitional Provision 12 of Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, published in the Official State Gazette of 27 June 2014.

In accordance with the above regulations, the following information is presented on a consolidated basis and corresponds to the end of the 2021 financial year:

Thousand euro

	Revenue	No. full time equivalents	Gross income before tax	Corporation tax
Spain	3,613,484	13,368	364,677	(39,147)
United Kingdom	1,076,543	5,404	166,089	(31,084)
Mexico	109,865	463	(14,118)	7,981
United States	153,743	243	66,432	(13,084)
Other	72,493	99	36,909	(5,948)
Total	**5,026,128**	**19,577**	**619,989**	**(81,282)**

As at 31 December 2021, the return on Group assets, calculated by dividing the consolidated gains/(losses) for the year by total assets on the consolidated balance sheet, amounts to 0.21%.

The name, geographical location and nature of the business activity of the companies operating in each jurisdiction are set out in Schedule I to these Group consolidated annual financial statements.

As can be seen in Schedule I, the main activity carried out by the Group in the different jurisdictions in which it operates is banking, and fundamentally commercial banking through a wide range of products and services for large and medium-sized enterprises, SMEs, retailers and self-employed workers, professional groups, other individuals and bancassurance.

For the purposes of this information, business turnover is regarded as the gross margin recognised on the consolidated income statement at year-end 2021. Data on full-time equivalent staff have been obtained from the workforce of each company/country as at the end of 2021.

The amount of public subsidies and aid received is not material.

Glossary of terms on alternative performance measures

In the presentation of its results to the market, and for the purpose of monitoring the business and decision-making processes, the Group uses performance indicators pursuant to the generally accepted accounting regulations (EU-IFRS), and also uses other unaudited measures commonly used in the banking sector (Alternative Performance Measures, or "APMs") as monitoring indicators for the management of assets and liabilities, and the financial and economic situation of the Group, which facilitates its comparison with other institutions.

Following the ESMA guidelines on APMs (ESMA/2015/1415 of October 2015), the purpose of which is to promote the use and transparency of information for the protection of investors in the European Union, the Group presents in this section the definition, calculation and reconciliation for each APM.

Performance measure	**Definition and calculation**	**Use or purpose**
Gross performing loans to customers	Also known as outstanding loans, it includes gross customer loans and advances, excluding repos, accrual adjustments and stage 3 assets.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Gross loans to customers	Includes loans and advances to customers excluding impairment allowances.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
On-balance sheet customer funds	Includes customer deposits (ex-repos) and other liabilities sold by the branch network (Banco Sabadell straight bonds, commercial paper and others).	Key figure in the Group's consolidated balance sheet, the performance of which is monitored.
On-balance sheet funds	Includes the following accounting sub-headings: customer deposits, debt securities in issue (borrowings, other marketable securities and subordinated liabilities).	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Off-balance sheet customer funds	Includes mutual funds, asset management, pension funds and insurance products sold.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Funds under management and third-party funds	The sum of on-balance sheet funds and off-balance sheet customer funds.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Customer spread	Difference between the yield and cost of customer-related assets and liabilities, i.e., the contribution to net interest income from customer-only business. Calculated as the difference between the average rate that the Bank charges its customers for loans and the average rate that the Bank pays its customers for deposits. The average rate on customer loans and advances is the annualised ratio, in percentage terms, between financial revenues booked on customer loans and advances and the average daily balance of customer loans and advances. The average rate on customer funds is the annualised ratio, in percentage terms, between the financial cost booked on customer funds and the average daily balance of customer funds.	It reflects the profitability of purely banking activity.
Other assets	Comprises the following accounting items: derivatives — hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax assets, other assets, assets under insurance or reinsurance contracts and non-current assets and disposal groups classified as held for sale.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.

Other liabilities	Comprises the following accounting items: derivatives — hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax liabilities, other liabilities and liabilities included in disposal groups classified as held for sale.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Other operating income and expenses	Comprises the following accounting items: other operating income and other operating expenses as well as income from assets and expenses from liabilities under insurance or reinsurance contracts.	Grouping of items used to explain part of the performance of the Group's consolidated results.
Pre-provisions income	Comprises the following accounting items: gross income plus administrative expenses and amortisation.	It is one of the key figures that reflects the performance of the Group's consolidated results.
Total provisions and impairments	Comprises the following accounting items: (i) impairment or reversal of impairment of financial assets not measured at fair value through profit or loss and net modification losses or gains; (ii) provisions or reversal of provisions; (iii) impairment or reversal of impairment of investments in joint ventures or associates; (iv) impairment or reversal of impairment of non-financial assets; (v) gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excludes gains or (-) losses on the sale of equity holdings).; and (vi) gains or losses on derecognition of non-financial assets and equity holdings, net (including only gains or losses on the sale of investment properties).	Grouping of items used to explain part of the performance of the Group's consolidated results.
Gains on sale of assets and other results	Comprises the following accounting items: (i) gains or (-) losses on derecognition of non-financial assets and equity holdings, net (excluding gains or (-) losses on the sale of investment properties) and (ii) gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (including only gains or losses on the sale of equity holdings).	Grouping of items used to explain part of the performance of the Group's consolidated results.
ROA	Consolidated profit or loss for the year / Average total assets. The numerator is the annualisation of the profit obtained to date. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits at credit institutions (IDEC), except at year-end. Average total assets: arithmetic mean calculated as the sum of the daily balances for the reference period and divided by the number of days in said period.	A measure commonly used in the financial sector to determine the accounting return on Group assets.
RORWA	Profit attributable to the Group / Risk weighted assets (RWAs). The numerator takes into account the annualisation of the profit earned to date. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits at credit institutions (IDEC), except at year-end. Risk-weighted assets: total assets of a credit institution, multiplied by its respective risk factors (risk weights). Risk factors reflect the perceived level of risk of a particular asset class.	A measure commonly used in the financial sector to determine the accounting return on risk-weighted assets.

ROE	Profit attributable to the Group / Average shareholders' equity. The numerator takes into account the annualisation of the profit earned to date. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits at credit institutions (IDEC), except at year-end. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year.	A measure commonly used in the financial sector to determine the accounting profitability on the Group's own funds.
ROTE	Profit attributable to the Group/average own fund. The numerator takes into account the annualisation of the profit earned to date. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits at credit institutions (IDEC), except at year-end. The denominator excludes intangible assets and goodwill of investees. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year.	Additional measure of the accounting profitability on own funds, but excluding goodwill from its calculation.
Cost-to-income ratio	Administrative expenses on adjusted gross income. The straight-line accrual and the contribution to the guarantee and settlement funds and the tax on deposits of credit institutions has been made, except on year-end.	Main indicator of efficiency or productivity of banking activity.
Stage 3 exposures	The sum of the following accounting items: loans and advances to customers classified as stage 3 and not classified as non-current assets held for sale, together with guarantees given classified as stage 3.	Key figure used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and to assess its management.
NPL coverage ratio of stage 3 with total provisions	Percentage of exposures classified as stage 3 that are covered by total provisions. Calculated as impairment of loans and advances to customers (including provisions for guarantees given)/Total exposures classified as stage 3 (doubtful) (including guarantees given classified as stage 3).	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and shows the provisions that the institution has allocated for loans classified as stage 3.
NPL coverage ratio of stage 3	Percentage of exposures classified as stage 3 that are covered by stage 3 provisions. Calculated as impairment of stage 3 customer loans and advances (including provisions for stage 3 guarantees given)/ Total stage 3 exposures (including guarantees given classified as stage 3).	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and shows the stage 3 provisions that the institution has allocated for loans classified as stage 3.
NPA exposures	The sum of risks classified as stage 3 plus non-performing real estate assets. Non-performing real estate assets are foreclosed properties or properties accepted in payment of debt and properties classified in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment properties with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment.	Indicator of total exposure to risks classified as stage 3 and to non-performing real estate assets.

Non-performing real estate coverage ratio	The non-performing real estate coverage ratio is obtained by dividing provisions for non-performing real estate assets by total non-performing real estate assets. Non-performing real estate assets: foreclosed properties or properties accepted in payment of debt and properties classified in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment properties with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment.	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of real estate risk and shows the provisions that the institution has allocated for real estate exposure.
NPA coverage ratio	This is calculated by dividing the provisions associated with non-performing assets by total non-performing assets.	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk and real estate risk, and it shows the provisions that the institution has allocated for non-performing exposures.
NPL ratio	Exposures classified as stage 3 expressed as a percentage of total exposures granted to customers that are not classified as non-current assets held for sale. All components of the calculation are headings or sub-headings of the financial statements. Calculated as the ratio of exposures classified as stage 3, including guarantees given classified as stage 3 / Loans to customers not classified as non-current assets held for sale and guarantees given. (See the definition of stage 3 exposures in this table).	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and to assess its management.
Cost of credit risk (bps)	The ratio between provisions for loan losses / loans to customers and guarantees given. The numerator takes into account the linear annualisation of loan-loss provisions. The numerator is adjusted to account for costs associated with managing assets classified as stage 3 and provisions for institutional portfolio sales.	A relative measure of risk, being one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk through the cost or loss due to financial asset impairments that have taken place in one year.
Loan-to-deposit ratio	Net loans and receivables in retail funding. Calculated by subtracting brokered loans from the numerator. The denominator consists of retail funding or customer funds, as defined in this table.	It measures the Bank's liquidity through the ratio of its available funds to the volume of loans granted to customers. Liquidity is one of the material aspects that define the structure of an institution.
Market capitalisation	Calculated by multiplying the share price by the average number of shares outstanding as at the reporting date.	It is an economic market measurement or market ratio that indicates the total value of a company according to its market price.
Earnings (or loss) per share (EPS)	Calculated by dividing the net profit (or loss) attributable to the Group by the average number of shares outstanding as at the reporting date. The numerator considers the straight-line annualisation of the profit (or loss) earned to date adjusted by the amount of the Additional Tier I coupon, after tax, recorded in own funds. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the deposits at credit institutions (IDEC), except at year-end.	It is an economic measurement or market ratio that indicates a company's profitability, and it is one of the measurements used most frequently to assess institutions' performance.
Book value per share	Book value / Average number of shares as at the reporting date. The book value corresponds to the sum of shareholders' equity, adjusted for the relative accrual of contributions to the guarantee and resolution funds (DGF and SRF), and the tax on deposits at credit institutions (IDEC), except at year-	It is an economic market measurement or market ratio that indicates the book value per share.

TBV per share	Tangible book value / Average number of shares outstanding as at the reporting date. Tangible book value corresponds to the sum of shareholders' equity and adjusted for intangible assets and goodwill of investees, as well as for the relative accrual of contributions to the guarantee and resolution funds (DGF and SRF), and the tax on deposits at credit institutions (IDEC), except at year-end.	It is an economic market measurement or market ratio that indicates the tangible book value per share.
Price/Book value	Share price or value / Book value per share.	Economic measurement or market ratio commonly used by the market, which represents the listed price of a share relative to its book value.
Price / Earnings ratio (P/E)	Share price or value / Net earnings (or loss) per share.	Economic measurement or market ratio commonly used by the market to determine a company's ability to generate future earnings.

Equivalence of headings from the income statement of businesses and management units that appear in the Note 38 on segmented information and in the Directors' Report with those of the consolidated income statement (*)

Net fees and commissions:

- Fee and commission income.
- (Fee and commission expenses).

Core revenue:

- Net interest income.
- Fee and commission income.
- (Fee and commission expenses).

Other operating income and expenses:

- Other operating income.
- (Other operating expenses).

Operating expenses, depreciation and amortisation:

- (Administrative expenses).
- (Depreciation and amortisation).

Pre-provisions income:

- Gross income.
- (Administrative expenses).
- (Depreciation and amortisation).

Provisions and impairments:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains).
- (Provisions or (-) reversal of provisions).
- (Impairment or (-) reversal of impairment of investments in joint ventures and associates).
- Impairment or (-) reversal of impairment on non-financial assets.
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excludes gains or (-) losses from the sale of equity interests).
- Gains or (-) losses on derecognition of non-financial assets and interests, net (only includes gains or (-) losses from the sale of investment property).

Provisions for loan losses:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification gains or (-) losses).
- (Provisions or (-) reversal of provisions) (only includes commitments and guarantees given).

Provisions for other financial assets:

- (Provisions or (-) reversal of provisions) (excludes commitments and guarantees given).

Other provisions and impairments:

- (Impairment or (-) reversal of impairment of investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excludes gains or (-) losses from the sale of equity interests).
- Gains or (-) losses on derecognition of non-financial assets and interests, net (only includes gains or (-) losses from the sale of investment property).

Gains on sale of assets and other results:

- Gains or (-) losses on derecognition of non-financial assets and interests, net (excludes gains or (-) losses from the sale of investment property).
- Gains or (-) losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (only includes gains or (-) losses from the sale of equity interests).

(*) Sub-headings in the consolidated income statement expressed in brackets denote negative figures.

APMs reconciliation (data in million euros, with the exception of those shown in percentages).

BALANCE SHEET	31/12/2021	31/12/2020
<u>**Gross loans to customers/Gross performing loans to customers**</u>		
Mortgage loans & credit	90,718	83,573
Loans and credit secured with other collateral	3,596	3,698
Commercial loans	6,050	4,991
Financial leasing	2,106	2,230
Overdrafts, etc.	52,443	52,386
Gross performing loans to customers	**154,912**	**146,878**
Assets in stage 3 (customers)	5,698	5,320
Accruals adjustments	58	3
Gross loans to customers, excluding repos	**160,668**	**152,201**
Repos	-	63
Gross loans to customers	**160,668**	**152,265**
Impairment allowances	(3,302)	(3,081)
Loans and advances to customers	**157,366**	**149,183**
<u>**On-balance sheet customer funds**</u>		
Financial liabilities at amortised cost	235,179	217,391
Non-retail financial liabilities	73,159	66,612
Deposits - central banks	38,250	31,881
Deposits - credit institutions	8,817	10,083
Institutional issues	21,270	20,905
Other financial liabilities	4,822	3,743
On-balance sheet customer funds	**162,020**	**150,778**
<u>**On-balance sheet funds**</u>		
Customer deposits	162,239	151,270
Sight deposits	147,268	130,295
Deposits with agreed maturity, including deposits redeemable at notice and hybrid financial liabilities	14,813	20,805
Repos	60	13
Accrual adjustments and hedging derivatives	98	157
Debt securities in issue	16,822	17,510
Subordinated liabilities (*)	4,229	2,903
On-balance sheet funds	**183,290**	**171,683**
<u>**Off-balance sheet customer funds**</u>		
Mutual funds	24,593	21,366
Asset management	3,795	3,298
Pension funds	3,525	3,349
Insurance products sold	9,765	10,051
Off-balance sheet customer funds	**41,678**	**38,064**
<u>**Funds under management and third-party funds**</u>		
On-balance sheet funds	183,290	171,683
Off-balance sheet customer funds	41,678	38,064
Funds under management and third-party funds	**224,968**	**209,748**

(*) Subordinated liabilities in connection with debt securities.

BALANCE SHEET	31/12/2021	31/12/2020
Other assets		
Derivatives – Hedge accounting	525	550
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(4)	459
Tax assets	7,027	7,152
Other assets	620	908
Non-current assets and disposal groups classified as held for sale	778	976
Other assets	**8,946**	**10,044**
Other liabilities		
Derivatives – Hedge accounting	512	783
Fair value changes of the hedged items in portfolio hedge of interest rate risk	19	372
Tax liabilities	205	206
Other liabilities	768	883
Liabilities included in disposal groups classified as held for sale	-	-
Other liabilities	**1,505**	**2,244**

INCOME STATEMENT	31/12/2021	31/12/2020
Customer spread		
Loans and advances to customers (net)		
Average balance	152,176	144,207
Profit/(loss)	3,513	3,628
Rate (%)	2.31	2.52
Customer deposits		
Average balance	162,749	152,495
Profit/(loss)	(88)	(223)
Rate (%)	(0.05)	(0.15)
Customer spread	**2.26**	**2.37**
Other operating income and expenses		
Other operating income	155	225
Other operating expenses	(467)	(509)
Income from assets under insurance or reinsurance contracts	-	-
Expenses on liabilities under insurance or reinsurance contracts	-	-
Other operating income and expenses	**(313)**	**(284)**

	31/12/2021	31/12/2020
Pre-provisions income		
Gross income	5,026	5,302
Administrative expenses	(2,781)	(2,938)
Staff expenses	(1,777)	(1,885)
Other general administrative expenses	(1,004)	(1,054)
Depreciation and amortisation	(527)	(523)
Pre-provisions income	**1,719**	**1,841**
Total provisions and impairments		
Impairment or reversal of impairment on investments in joint ventures and associates	(9)	-
Impairment or reversal of impairment on non-financial assets, adjusted	(106)	(37)
Impairment or reversal of impairment on non-financial assets	(106)	(40)
Gains or losses on sales of investment properties	-	4
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, adjusted	(63)	(217)
Gains or losses on non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(7)	103
Gains or losses on sale of equity holdings	(55)	(320)
Other provisions and impairments	**(178)**	**(254)**
Provisions or reversal of provisions	(88)	(275)
Impairment or reversal of impairment and gains or losses on changes in cash flows from financial assets not measured at fair value through profit or loss and net modification gains or losses	(960)	(1,745)
Provisions for loan losses and financial assets	**(1,047)**	**(2,020)**
Total provisions and impairments	**(1,225)**	**(2,275)**
Gains on sale of assets and other results		
Gains or losses on derecognition of non-financial assets, net	71	(3)
Gains on sale of equity holdings	55	320
Gains or losses on sale of investment properties	-	(4)
Gains on sale of assets and other results	**126**	**313**

PROFITABILITY AND EFFICIENCY	31/12/2021	31/12/2020
ROA		
Average total assets	245,313	227,639
Consolidated profit or loss for the year	539	3
ROA (%)	**0.22**	**0.00**
RORWA		
Risk-weighted assets (RWAs)	80,646	78,858
Net profit attributable to the Group	530	2
RORWA (%)	**0.66**	**0.00**
ROE		
Average shareholders' equity	13,106	13,151
Net profit attributable to the Group	530	2
ROE (%)	**4.05**	**0.02**
ROTE		
Average shareholders' equity (excluding intangible assets)	10,508	10,558
Net profit attributable to the Group	530	2
ROTE (%)	**5.05**	**0.02**
Cost-to-income ratio		
Gross income	5,026	5,302
Administrative expenses	(2,781)	(2,938)
Cost-to-income ratio (%)	**55.33**	**55.41**

RISK MANAGEMENT	31/12/2021	31/12/2020
Stage 3 exposures		
Loans and advances to customers	5,729	5,351
Stage 3 guarantees given	475	457
Stage 3 exposures	**6,203**	**5,808**
NPL coverage ratio of stage 3 with total provisions		
Provisions for loan losses	3,495	3,279
Stage 3 exposures	6,203	5,808
NPL coverage ratio of stage 3 with total provisions (%)	**56.3 %**	**56.5 %**
NPL coverage ratio of stage 3		
Provisions for stage 3 loan losses	2,553	2,272
Stage 3 exposures	6,203	5,808
NPL coverage ratio of stage 3 (%)	**41.2 %**	**39.1 %**
NPA exposures		
Stage 3 exposures	6,203	5,808
Non-performing real estate assets	1,362	1,373
NPA exposures	**7,565**	**7,182**
NPA coverage ratio (%)		
Provisions for non-performing assets	4,014	3,781
Non-performing assets	7,565	7,182
NPA coverage ratio (%)	**53.1 %**	**52.6 %**
Non-performing real estate coverage ratio (%)		
Provisions for non-performing real estate assets	520	502
Non-performing real estate assets	1,362	1,373
Non-performing real estate coverage ratio (%)	**38.2 %**	**36.6 %**
NPL ratio (%)		
Stage 3 exposures	6,203	5,808
Loans to customers and guarantees granted	169,937	161,474
NPL ratio (%)	**3.7 %**	**3.6 %**
Cost of credit risk (bps)		
Loans to customers and guarantees given	169,937	161,474
Provisions for loan losses	(950)	(1,832)
NPL expenses	(118)	(117)
Provisions for institutional portfolio sales	-	(325)
Cost of credit risk (bps)	**49**	**86**

LIQUIDITY MANAGEMENT	31/12/2021	31/12/2020
Loan-to-deposit ratio		
Net loans and advances excluding ATAs, adjusted for brokered loans	156,076	147,143
On-balance sheet customer funds	162,020	150,778
Loan-to-deposit ratio (%)	**96.3 %**	**97.6 %**

SHAREHOLDERS AND SHARES	31/12/2021	31/12/2020
Average number of shares (million)	5,586	5,582
Share price	0.592	0.354
Market capitalisation (million euros)	**3,306**	**1,976**
Adjusted profit attributable to the Group	430	(71)
Profit attributable to the Group	530	2
Adjustment for accrued AT1	(101)	(73)
Average number of shares (million)	5,586	5,582
Earnings per share (euros)	**0.08**	**(0.01)**
Shareholders' equity	13,357	12,944
Average number of shares (million)	5,586	5,582
Book value per share (euros)	**2.39**	**2.32**
Shareholders' equity	13,357	12,944
Intangible assets	2,607	2,622
Tangible book value (adjusted shareholders' equity)	10,750	10,322
Average number of shares (million)	5,586	5,582
TBV per share (euros)	**1.92**	**1.85**
Share price	0.592	0.354
Book value per share (euros)	2.39	2.32
Price/Book value	**0.25**	**0.15**
Share price	0.592	0.354
Earnings or (-) loss per share EPS (euros)	0.08	(0.01)
Price / Earnings ratio (P/E)	**7.69**	**(27.75)**

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

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

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

KPMG Auditores, S.L.
Torre Realia
Plaça d'Europa, 41-43
08908 L'Hospitalet de Llobregat
(Barcelona)

Independent Auditor's Report on the Consolidated Annual Accounts

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

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

REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

Opinion

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

In our opinion, the accompanying consolidated annual accounts give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated annual accounts pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

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

Key Audit Matters

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

Impairment of loans and advances to customers

See notes 1.3, 4.1, 4.4.2 and 11 to the consolidated annual accounts

Key audit matter	*How the matter was addressed in our audit*
The Group's portfolio of loans and advances to customers reflects a net balance of Euros 157,366 million at 31 December 2021, while allowances and provisions recognised at that date for impairment total Euros 3,302 million. For the purposes of estimating impairment, financial assets measured at amortised cost are classified into three categories (Stage 1, 2 or 3) according to whether a significant increase in credit risk since their initial recognition has been identified (Stage 2), whether the financial assets are credit-impaired (Stage 3), or whether neither of the foregoing circumstances apply (Stage 1). For the Group, establishing this classification is a relevant process inasmuch as the calculation of allowances and provisions for credit risk varies depending on the category in which the financial asset has been included. Impairment is calculated based on an expected loss model, which the Group estimates on both an individual and a collective basis. This calculation entails a considerable level of judgement as this is a significant and complex estimate. Individual allowances and provisions consider estimates of future business performance and the market value of collateral provided for credit transactions. In the case of collective allowances and provisions, estimates of expected losses are calculated using internal models that use large databases, different macroeconomic scenarios, parameters to estimate provisions, segmentation criteria and automated processes, which are complex in their design and implementation and require past, present and future information to be considered. The Group regularly conducts recalibrations and tests of its internal models in order to improve their predictive capabilities based on actual historical experience.	Our audit approach in relation to the Group's estimate of impairment of loans and advances to customers due to credit risk mainly consisted of assessing the methodology applied to calculate expected losses, particularly as regards the methods and assumptions used to estimate exposure at default, probability of default and loss given default; determining the future macroeconomic scenarios. We also assessed the mathematical accuracy of the expected loss calculations and the reliability of the data used. To this end, we brought in our credit risk specialists. Our procedures related to the control environment focused on the following key areas: – Identifying the credit risk management framework and assessing the compliance of the Group's accounting policies with the applicable regulations. – Evaluating the appropriate classification of the loans and advances to customers portfolio based on their credit risk, in accordance with the criteria defined by the Group, particularly the criteria for identifying and classifying refinancing and restructuring transactions. – Assessing the relevant controls relating to the monitoring of transactions. – Evaluating whether the internal models for estimating both individual and collective allowances and provisions for expected losses, and for the management and valuation of collateral, are functioning correctly. – Assessing the consideration of the aspects observed by the Internal Valuation Unit in the recalibration and tests of the models to estimate collective provisions.

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

Impairment of loans and advances to customers See notes 1.3, 4.1, 4.4.2 and 11 to the consolidated annual accounts	
Key audit matter	*How the matter was addressed in our audit*
The COVID-19 pandemic continues to affect the economy and business activities of the countries where the Group operates. To mitigate the impacts of COVID-19, in 2021 governments of different countries have continued to launch initiatives to support the most affected sectors and customers through various measures relating to the provision of State-backed credit facilities, penalty-free payment deferrals (moratoriums) and flexible financing and liquidity facilities. All these aspects have an impact on the parameters considered by the Group at 31 December 2021 to quantify the expected losses on financial assets (macroeconomic variables, customer net revenues, value of collateral pledged, probability of default, etc.), thus increasing the uncertainty associated with their estimation. The consideration of this matter as a key audit matter is based both on the significance for the Group of the loans and advances to customers portfolio, and thus of the related allowance and provision, as well as on the relevance of the process for classifying these financial assets for the purpose of estimating impairment thereon and the subjectivity and complexity of calculating expected losses, while also taking into consideration the situation brought about by the COVID-19 pandemic.	– Evaluating the integrity, accuracy and updating of the data used and of the control and management process in place. Our tests of detail on the estimated expected losses included the following: – With regard to the impairment of individually significant transactions, we analysed the appropriateness of the cash flow discount models used by the Group. We also selected a sample from the population of significant credit-impaired risks and assessed the adequacy of the provision recognised. – With respect to the allowances and provisions for impairment estimated collectively, we evaluated the methodology used by the Group, assessing the integrity and accuracy of the input balances for the process and the correct functioning of the calculation engine by repeating the calculation process for all contracts, taking into account the segmentation and assumptions used by the Group. – Assessing the methods and assumptions used to estimate exposure at default, probability of default and loss given default. – In carrying out our audit procedures, we have taken into consideration the impacts of COVID-19 and the government aid on the parameters used to calculate the expected losses. To this end, we brought in our corporate business valuation specialists to assess the macroeconomic scenario variables used by the Group in its internal models to estimate the expected loss. Likewise, we analysed whether the disclosures in the notes to the consolidated annual accounts were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Group.

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

Recoverability of goodwill See notes 1.3, 12 and 16 to the consolidated annual accounts	
Key audit matter	*How the matter was addressed in our audit*
At 31 December 2021 the Group has recognised goodwill totalling Euros 1,026 million, from the acquisition of certain entities and businesses in Spain. This goodwill is allocated to the group of cash-generating units (CGUs) that comprise the operating segment of the banking business in Spain. At 31 December 2021 the Group's assessment determined that there was no impairment of recognised goodwill. Testing of goodwill for impairment requires that cash-generating units (or groups of cash-generating units) be determined to which goodwill is allocated, and also requires identification of indications of impairment in each of the CGUs comprising a group of CGUs, calculation of their carrying amount and estimation of the recoverable amount of the CGUs (or groups of CGUs) This estimate entails, among other matters, financial projections that take into account, inter alia, expected trends in macroeconomic variables and their impact on the CGU's (or groups of CGU's) future business, the internal circumstances of the Group and its competitors and trends in discount rates. Due to the high level of judgement and subjectivity of the assumptions and valuation techniques used for its estimate, the recoverability of goodwill has been considered a key audit matter.	Our audit procedures included analysing the key processes and controls established by management relating to the process followed by the Group to identify the group of CGUs to which goodwill is allocated, and evaluating the potential impairment of goodwill made by management, which has been subject to review by an independent expert engaged by the Group. With the collaboration of our specialists in corporate business valuation and financial projections, we performed procedures of detail including the following: – Assessing the existence of indications of impairment of each of the CGUs that comprise the group of CGUs to which goodwill is allocated. – Evaluating the reasonableness of the methodology used by management to analyse goodwill impairment, performing procedures on the reliability of the information used to calculate the recoverable amount of the group of CGUs comprising the operating segment of the banking business in Spain. We also carried out procedures to evaluate the reasonableness of the main assumptions considered, including the financial projections used by the Group. – Analysing the sensitivity of certain assumptions to changes that are considered reasonable. Likewise, we analysed whether the disclosures in the notes to the consolidated annual accounts were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Group.

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

Risks associated with information technology

Key audit matter	*How the matter was addressed in our audit*
The Group operates in a complex technological environment that is constantly evolving and which must efficiently and reliably meet business requirements. The high level of dependence of these systems with regard to the processing of the Group's financial and accounting information, make it necessary to ensure that these systems function correctly. In this context, it is critical to ensure that management of the technological risks that could affect information systems is adequately coordinated and harmonised, in relevant areas such as data and program security, operating of systems, or development and maintenance of information applications and systems used to prepare financial information. We have therefore considered the risks associated with information technology to be a key audit matter.	With the assistance of our specialists in information systems, we carried out tests, at each of the Group entities that are considered relevant for the purpose of the audit, relating to the internal control of the processes and systems involved in generating financial information in the following areas: • An understanding of the information flows and identification of the key controls that ensure the appropriate processing of the financial information. • Testing of the key automated processes that are involved in generating the financial information. • Testing of the controls over the applications and systems related to accessing and processing the information and those related to the security settings of these applications and systems. • Testing of the controls over the operation, maintenance and development of applications and systems.

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

Other Information: Consolidated Directors’ Report

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

Our audit opinion on the consolidated annual accounts does not encompass the consolidated directors' report. Our responsibility regarding the information contained in the consolidated directors’ report is defined in the legislation regulating the audit of accounts, as follows:

a) Determine, solely, whether the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report and the Annual Report on Directors’ Remuneration, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

b) Assess and report on the consistency of the rest of the information included in the consolidated directors’ report with the consolidated annual accounts, based on knowledge of the Group obtained during the audit of the aforementioned consolidated annual accounts. Also, assess and report on whether the content and presentation of this part of the consolidated directors’ report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual accounts for 2021, and that the content and presentation of the report are in accordance with applicable legislation.

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

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

In preparing the consolidated annual accounts, the Bank's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank’s Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Annual Accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank’s Directors.

– Conclude on the appropriateness of the Bank's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

We communicate with the Bank's Audit and Control Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Bank's Audit and Control Committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit and Control Committee of the Bank, we determine those that were of most significance in the audit of the consolidated annual accounts of the current period and which are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital files of Banco de Sabadell, S.A. and its subsidiaries for 2021 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated annual accounts for the aforementioned year and the XBRL files tagged by the Bank, which will form part of the annual financial report.

The Directors of Banco de Sabadell, S.A. are responsible for the presentation of the 2021 annual report in accordance with the format and mark-up requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation").

Our responsibility consists of examining the digital files prepared by the Directors of the Bank, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the consolidated annual accounts included in the aforementioned digital files fully corresponds to the consolidated annual accounts we have audited, and whether the consolidated annual accounts and the aforementioned files have been formatted and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital files examined fully correspond to the audited consolidated annual accounts, and these are presented and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

Additional Report to the Bank's Audit and Control Committee

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

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

Contract Period

We were appointed as auditor of the Group by the shareholders at the ordinary general meeting on 28 March 2019 for a period of three years, beginning the year ended 31 December 2020.

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

(Signed on the original in Spanish)

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