Sabadell

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

CERTIFIES:

That at the meeting of the company's Board of Directors held today by telematics means at the registered office, by written notice dated 16 February 2024, attended by the Chairman José Oliu Creus and directors Pedro Fontana García, César González-Bueno Mayer Wittgenstein, Anthony Frank Elliott Ball, Aurora Catá Sala, Luis Deulofeu Fuguet, María José García Beato, Mireia Giné Torrens, Laura González Molero, George Donald Johnston, David Martínez Guzmán, José Manuel Martínez Martínez, Alicia Reyes Revuelta, Manuel Valls Morató y David Vegara Figueras, with the undersigned acting as Secretary, the following resolutions were unanimously adopted after due deliberation, among other matters not contradicting it:

> "The members of the Board of Directors declare that, to the best of their knowledge, the individual and consolidated annual financial statements for the fiscal year 2023, prepared today and drawn up in accordance with the accounting principles applicable under current legislation, give a true and fair overview of the equity, financial position and results of Banco de Sabadell, S.A. and of the companies included in its scope of consolidation taken as a whole, and that the respective Directors' reports prepared include a true and fair analysis of the performance and results of the business and of the position of Banco de Sabadell, S.A. and of the companies included in its scope of consolidation taken as a whole, together with a description of the main risks and uncertainties they face."

Express mention is hereby made that the minutes of the aforesaid Board meeting in which the above resolutions were read and unanimously approved at the end of the meeting, and that they have been signed by the Secretary with the Chairman's approval.

In witness whereof and for all pertinent purposes, I hereby issue this Certificate with the approval of the Chairman, in Alicante, on 22 February 2024.

Approved by

The Chairman | The Secretary

Auditor's Report on Banco de Sabadell, S.A.

(Together with the annual financial statements and directors' report of Banco de Sabadell, S.A. for the year ended 31 December 2023)

(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 Annual Financial Statements

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

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

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Opinion

We have audited the annual financial statements of Banco de Sabadell, S.A. (hereinafter the "Bank"), which comprise the balance sheet at 31 December 2023, and the income statement, statement of recognised income and expenses, statement of total changes in equity and cash flow statement for the year then ended, and notes.

In our opinion, the accompanying annual financial statements give a true and fair view, in all material respects, of the equity and financial position of the Bank at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 1 to the accompanying annual financial statements) and, in particular, with the accounting principles and criteria set forth therein.

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 Annual Financial Statements* section of our report.

We are independent of the Bank in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the annual financial statements pursuant to the legislation regulating the audit of accounts in Spain. We have not provided any non-audit services, nor have any situations or circumstances arisen which, under the aforementioned regulations, have affected the required independence such that this has been compromised.

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

Key Audit Matters

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

Impairment of loans and advances to customers See notes 1.3.3.1, 3.4.2 and 10 to the annual financial statements	
Key audit matter	*How the matter was addressed in our audit*
The Bank's portfolio of loans and advances to customers classified as financial assets at amortised cost reflects a net balance of Euros 108,290 million at 31 December 2023, while allowances and provisions recognised at that date for impairment total Euros 2,751 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 Bank, 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 models for estimating expected losses, which the Bank 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. Allowances and provisions for credit risk determined individually consider estimates of future business performance and the market value of collateral provided for credit transactions. In the case of allowances and provisions calculated collectively, expected losses are estimated using	Our audit approach in relation to the Bank'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; and determining the future macroeconomic scenarios. We also assessed the mathematical accuracy of the calculations of expected losses 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 Bank's accounting policies with the applicable regulations. – Evaluating the appropriateness of the classification of the loans and advances to customers portfolio based on credit risk, in accordance with the criteria defined by the Bank, 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 credit risk, and for the management and valuation of collateral, are functioning correctly.

(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 1.3.3.1, 3.4.2 and 10 to the annual financial statements	
Key audit matter	*How the matter was addressed in our audit*
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 and present information and future forecasts to be considered. The Bank regularly conducts tests of its internal models in order to improve their predictive capabilities based on actual historical experience. The ongoing geopolitical uncertainty, the current levels of inflation and central banks' monetary policy decisions continue to cause uncertainty as to future macroeconomic developments, impacting on the economy and business activities of the countries where the Bank operates. Calculating expected credit risk losses therefore entails greater uncertainty and requires a higher degree of judgement, primarily as regards estimating macroeconomic scenarios, and the Group has supplemented its estimate of resulting expected loss with certain additional temporary adjustments. The consideration of this matter as a key audit matter is based both on the significance of the Bank's loans and advances to customers portfolio, and thus of the related allowance and provision for impairment, 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.	– Assessing whether the aspects observed by the Internal Validation Unit in its periodic reviews and in the tests of the models used to estimate collective allowances and provisions for impairment have been taken into consideration. – Evaluating the integrity, accuracy and updating of the data used and of the control and management process in place. – We assessed the process of reviewing the updates of the additional temporary adjustments to the expected loss models recognised by the Bank. 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 discounted cash flow models used by the Bank. We also selected a sample from the population of significant transactions and assessed the appropriateness of both the credit risk classification and the corresponding allowance and provision recognised. – With respect to the allowances and provisions for impairment estimated collectively, we evaluated the methodology used by the Bank, assessing the integrity and accuracy of the input balances for the process and whether the calculation engine is functioning correctly by replicating the calculation process, taking into account the segmentation and assumptions used by the Bank. – We evaluated the methods and assumptions used to estimate exposure at default, probability of default and loss given default. – We considered the macroeconomic scenario variables used by the Bank in its internal models to estimate expected losses. – We analysed a sample of guarantees associated with credit transactions, checking their valuation, with the involvement of our real estate valuation specialists.

(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 1.3.3.1, 3.4.2 and 10 to the annual financial statements

Key audit matter	*How the matter was addressed in our audit*
	– We evaluated the additional adjustments to the internal models used to estimate the expected losses recognised by the Bank at 31 December 2023. Likewise, we analysed whether the disclosures in the notes to the annual financial statements were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Bank.

Risks associated with information technology

Key audit matter	*How the matter was addressed in our audit*
The Bank operates in a complex technological environment that is constantly evolving and which must efficiently and reliably meet business requirements. The high level of dependence on these systems with regard to the processing of the Bank'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, systems operation, or development and maintenance of IT applications and systems used to prepare financial information. We have therefore considered the risks associated with information technology to be a key audit matter.	With the help of our information systems specialists, we performed tests relating to internal control over the processes and systems involved in generating the financial information, in the following areas: - 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 those applications and systems. - Testing of the controls over the operation, maintenance and development of applications and systems.

Other Information: Directors' Report

Other information solely comprises the 2023 directors' report, the preparation of which is the responsibility of the Bank's Directors and which does not form an integral part of the annual financial statements.

Our audit opinion on the annual financial statements does not encompass the directors' report. Our responsibility regarding the information contained in the directors' report is defined in the legislation regulating the audit of accounts, as follows:

a) Determine, solely, whether the 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 directors' report with the annual financial statements, based on knowledge of the Bank obtained during the audit of the aforementioned annual financial statements. Also, assess and report on whether the content and presentation of this part of the 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 directors' report is consistent with that disclosed in the annual financial statements for 2023, 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 Annual Financial Statements

The Bank's Directors are responsible for the preparation of the accompanying annual financial statements in such a way that they give a true and fair view of the equity, financial position and financial performance of the Bank in accordance with the financial reporting framework applicable to the Bank in Spain, and for such internal control as they determine is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the Directors are responsible for assessing the Bank'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 Bank 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 annual financial statements.

Auditor's Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with prevailing legislation regulating the audit of accounts in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

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 annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

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 Bank's Audit and Control Committee, we determine those that were of most significance in the audit of the annual financial statements of the current period and which are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital file of Banco de Sabadell, S.A. for 2023 in European Single Electronic Format (ESEF) comprising an XHTML file with the annual financial statements for the aforementioned year, which will form part of the annual financial report.

The Directors of Banco de Sabadell, S.A. are responsible for the presentation of the 2023 annual report in accordance with the format requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation"). In this regard, they have incorporated the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration by means of a reference thereto in the directors' report.

Our responsibility consists of examining the digital file 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 annual financial statements included in the aforementioned digital file fully corresponds to the annual financial statements we have audited, and whether the annual financial statements have been formatted, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital file examined fully corresponds to the audited annual financial statements, and these are presented, in all material respects, in accordance with the requirements of the ESEF Regulation.

(Translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

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 22 February 2024.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting held on 20 March 2023 for a period of one year, from the year commenced 1 January 2023.

Previously, we had been appointed for a period of three years, by consensus of the shareholders at their ordinary general meeting, and have been auditing the annual financial statements since the year ended 31 December 2020.

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Francisco Gibert Pibernat
On the Spanish Official Register of Auditors ("ROAC") with No. 15,586

22 February 2024

BANCO DE SABADELL, S.A.

Annual financial statements and Director's Report
for the year ended 31 December 2023

Translation of the Annual Accounts originally issued in Spanish and prepared in accordance with Spanish generally accepted accounting principles (Bank of Spain Circular 4/2017, and as amended thereafter, adapted to EU-IFRS). In the event of a discrepancy the Spanish-language version prevails.

Contents: Banco de Sabadell, S.A. annual financial statements and Directors' Report for the year ended 31 December 2023

Annual accounts for the year ended 31 December 2023

Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2023 and 2022

Thousand euro

Assets	Note	2023	2022 (*)
Cash, cash balances at central banks and other demand deposits (**)	**6**	**22,301,225**	**34,063,579**
Financial assets held for trading		**1,731,823**	**2,671,253**
Derivatives	9	1,589,328	2,254,122
Equity instruments		—	—
Debt securities	7	142,495	417,131
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		*1,915*	*93,000*
Non-trading financial assets mandatorily at fair value through profit or loss		**149,792**	**35,534**
Equity instruments	8	4,335	1,977
Debt securities	7	39,038	33,557
Loans and advances	*10*	106,419	—
Central banks		—	—
Credit institutions		—	—
Customers		106,419	—
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		**6,329,974**	**5,754,945**
Equity instruments	8	74,402	68,025
Debt securities	7	6,255,572	5,686,920
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		*557,303*	*1,770,205*
Financial assets at amortised cost		**134,693,403**	**138,642,033**
Debt securities	7	18,264,771	18,305,267
Loans and advances	10	116,428,632	120,336,766
Central banks		—	—
Credit institutions		8,138,573	6,193,344
Customers		108,290,059	114,143,422
Memorandum item: loaned or pledged as security with sale or pledging rights		*5,996,602*	*6,329,769*
Derivatives – Hedge accounting	11	**896,227**	**1,342,300**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**11**	**(389,403)**	**(933,593)**
Investments in subsidiaries, joint ventures and associates	**13**	**5,944,643**	**5,768,013**
Group entities		5,839,491	5,664,601
Associates		105,152	103,412
Tangible assets	**14**	**1,622,189**	**1,776,960**
Property, plant and equipment		1,591,499	1,719,906
For own use		1,591,499	1,719,906
Leased out under operating leases		—	—
Investment properties		30,690	57,054
Of which: leased out under operating leases		*30,690*	*57,054*
Memorandum item: acquired through finance leases		*736,918*	*745,611*
Intangible assets	**15**	**20,284**	**36,805**
Goodwill		12,199	25,835
Other intangible assets		8,085	10,970
Tax assets		**5,633,120**	**5,494,027**
Current tax assets		354,794	167,127
Deferred tax assets	35	5,278,326	5,326,900
Other assets	**16**	**210,571**	**233,946**
Insurance contracts linked to pensions		80,693	89,729
Inventories		—	—
Rest of other assets		129,878	144,217
Non-current assets and disposal groups classified as held for sale	**12**	**802,065**	**735,161**
TOTAL ASSETS		**179,945,913**	**195,620,963**

(*) Shown for comparative purposes only.

(**) See details in the cash flow statement.

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the balance sheet as at 31 December 2023.

Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2023 and 2022

Thousand euro

Liabilities	Note	2023	2022 (*)
Financial liabilities held for trading		**1,718,159**	**2,156,675**
Derivatives	9	1,380,786	1,932,228
Short positions		337,373	224,447
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		**164,594,328**	**180,367,656**
Deposits		137,853,646	154,872,472
Central banks	17	5,106,963	21,599,297
Credit institutions	17	12,955,735	10,701,141
Customers	18	119,790,948	122,572,034
Debt securities issued	19	22,029,313	20,586,641
Other financial liabilities	20	4,711,369	4,908,543
Memorandum item: subordinated liabilities		*3,607,886*	*3,493,041*
Derivatives – Hedge accounting	**11**	**835,204**	**941,607**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**11**	**(323,973)**	**(596,817)**
Provisions	**21**	**435,748**	**493,191**
Pensions and other post employment defined benefit obligations		51,345	57,841
Other long term employee benefits		69	170
Pending legal issues and tax litigation		60,550	89,843
Commitments and guarantees given		153,646	162,481
Other provisions		170,138	182,856
Tax liabilities		**156,717**	**156,166**
Current tax liabilities		91,950	90,122
Deferred tax liabilities	35	64,767	66,044
Share capital repayable on demand		**—**	**—**
Other liabilities	**16**	**514,469**	**649,483**
Liabilities included in disposal groups classified as held for sale		**—**	**—**
TOTAL LIABILITIES		**167,930,652**	**184,167,961**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the balance sheet as at 31 December 2023.

Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2023 and 2022

Thousand euro

Equity	Note	2023	2022 (*)
Shareholders' equity	**22**	**12,211,566**	**11,733,884**
Capital		680,028	703,371
Paid up capital		680,028	703,371
Unpaid capital which has been called up		—	—
Memorandum item: capital not called up		—	—
Share premium		7,695,227	7,899,227
Equity instruments issued other than capital		—	—
Equity component of compound financial instruments		—	—
Other equity instruments issued		—	—
Other equity		12,625	11,606
Retained earnings		5,165,689	4,630,414
Revaluation reserves		—	—
Other reserves		(2,228,293)	(2,115,524)
(-) Treasury shares		(39,621)	(23,721)
Profit or loss for the year		1,088,014	740,551
(-) Interim dividends		(162,103)	(112,040)
Accumulated other comprehensive income	**23**	**(196,305)**	**(280,882)**
Items that will not be reclassified to profit or loss		(64,140)	(71,687)
Actuarial gains or (-) losses on defined benefit pension plans		(4,898)	(3,427)
Non-current assets and disposal groups classified as held for sale		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income		(59,242)	(68,260)
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		(132,165)	(209,195)
Hedge of net investments in foreign operations [effective portion]		7,220	(7,113)
Foreign currency translation		60,767	102,712
Hedging derivatives. Cash flow hedges reserve [effective portion]		(64,982)	(110,748)
Fair value changes of debt instruments measured at fair value through other comprehensive income		(135,170)	(194,046)
Hedging instruments [not designated elements]		—	—
Non-current assets and disposal groups classified as held for sale		—	—
TOTAL EQUITY		**12,015,261**	**11,453,002**
TOTAL EQUITY AND TOTAL LIABILITIES		**179,945,913**	**195,620,963**
Memorandum item: off-balance sheet exposures			
Loan commitments given	**24**	**20,500,850**	**21,297,399**
Financial guarantees given	**24**	**7,052,638**	**8,741,124**
Other commitments given	**24**	**7,988,420**	**9,722,964**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the balance sheet as at 31 December 2023.

Income statements of Banco de Sabadell, S.A.

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
Interest income	26	5,832,407	3,143,677
Financial assets at fair value through other comprehensive income		128,253	70,670
Financial assets at amortised cost		5,399,054	2,779,144
Other interest income		305,100	293,863
(Interest expenses)	26	(2,494,588)	(754,253)
(Expenses on share capital repayable on demand)		—	—
Net interest income	**26**	**3,337,819**	**2,389,424**
Dividend income		134,782	104,495
Fee and commission income	27	1,238,999	1,524,125
(Fee and commission expenses)	27	(67,363)	(218,257)
Gains or (-) losses on financial assets and liabilities, net	28	64,977	206,020
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		7,470	(10,607)
Financial assets at amortised cost		4,679	(21,429)
Other financial assets and liabilities		2,791	10,822
Gains or (-) losses on financial assets and liabilities held for trading, net		38,166	207,246
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		38,166	207,246
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		4,896	(3,625)
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		4,896	(3,625)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		—	—
Gains or (-) losses from hedge accounting, net		14,445	13,006
Exchange differences [gain or (-) loss], net	28	(106,255)	(129,035)
Other operating income		46,734	51,850
(Other operating expenses)	29	(440,271)	(300,778)
Gross income		**4,209,422**	**3,627,844**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying Schedules I to VI form an integral part of the income statement for 2023.

Income statements of Banco de Sabadell, S.A.

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
(Administrative expenses)		(1,820,686)	(1,717,097)
(Staff expenses)	30	(1,006,895)	(932,632)
(Other administrative expenses)	30	(813,791)	(784,465)
(Depreciation and amortisation)	14, 15	(167,571)	(193,817)
(Provisions or (-) reversal of provisions)	21	(10,958)	(65,784)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	31	(693,307)	(716,518)
(Financial assets at fair value through other comprehensive income)		852	(182)
(Financial assets at amortised cost)		(694,159)	(716,336)
Profit/(loss) on operating activities		**1,516,900**	**934,628**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)	13	(45,026)	62,371
(Impairment or (-) reversal of impairment on non-financial assets)	32	(906)	(10,573)
(Tangible assets)		(906)	(10,573)
(Intangible assets)		—	—
(Other)		—	—
Gains or (-) losses on derecognition of non-financial assets, net	33	(3,455)	25,360
Negative goodwill recognised in profit or loss		—	—
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	34	(43,415)	(21,689)
Profit or (-) loss before tax from continuing operations		**1,424,098**	**990,097**
(Tax expense or (-) income related to profit or loss from continuing operations)	35	(336,084)	(249,546)
Profit or (-) loss after tax from continuing operations		**1,088,014**	**740,551**
Profit or (-) loss after tax from discontinued operations		—	—
PROFIT OR (-) LOSS FOR THE YEAR		**1,088,014**	**740,551**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying Schedules I to VI form an integral part of the income statement for 2023.

Statements of recognised income and expenses of Banco de Sabadell, S.A.

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
Profit or loss for the year		**1,088,014**	**740,551**
Other comprehensive income	**23**	**84,577**	**(212,926)**
Items that will not be reclassified to profit or loss		7,547	2,715
Actuarial gains or (-) losses on defined benefit pension plans		(2,101)	(4,640)
Non-current assets and disposal groups held for sale		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income		10,393	7,155
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		—	—
Other valuation adjustments			
Income tax relating to items that will not be reclassified		(745)	200
Items that may be reclassified to profit or loss		77,030	(215,641)
Hedge of net investments in foreign operations [effective portion]		14,333	(4,198)
Valuation gains or (-) losses taken to equity		14,333	(4,198)
Transferred to profit or loss		—	—
Other reclassifications		—	—
Foreign currency translation		(41,945)	58,573
Translation gains or (-) losses taken to equity		(41,945)	58,573
Transferred to profit or loss		—	—
Other reclassifications		—	—
Cash flow hedges [effective portion]		65,380	(129,304)
Valuation gains or (-) losses taken to equity		(26,469)	(96,761)
Transferred to profit or loss		90,116	(32,582)
Transferred to initial carrying amount of hedged items		1,733	39
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		83,578	(247,394)
Valuation gains or (-) losses taken to equity		82,236	(236,237)
Transferred to profit or loss		1,342	(11,157)
Other reclassifications		—	—
Non-current assets and disposal groups held for sale		—	—
Valuation gains or (-) losses taken to equity		—	—
Transferred to profit or loss		—	—
Other reclassifications		—	—
Income tax relating to items that may be reclassified to profit or (-) loss		(44,316)	106,682
Total comprehensive income for the year		**1,172,591**	**527,625**

(*) Shown for comparative purposes only.

Explanatory notes 1 to 39 and the accompanying Schedules I to VI form an integral part of the statement of recognised income and expenses for 2023.

Statements of total changes in equity of Banco de Sabadell, S.A.

For the years ended 31 December 2023 and 2022

Thousand euro

Sources of equity changes	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
Closing balance 31/12/2022	**703,371**	**7,899,227**	**—**	**11,606**	**4,630,414**	**—**	**(2,115,524)**	**(23,721)**	**740,551**	**(112,040)**	**(280,882)**	**11,453,002**
Effects of corrections of errors	—	—	—	—	—	—	—	—	—	—	—	—
Effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—
Opening balance 01/01/2022	**703,371**	**7,899,227**	**—**	**11,606**	**4,630,414**	**—**	**(2,115,524)**	**(23,721)**	**740,551**	**(112,040)**	**(280,882)**	**11,453,002**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,088,014**	**—**	**84,577**	**1,172,591**
Other equity changes	**(23,343)**	**(204,000)**	**—**	**1,019**	**535,275**	**—**	**(112,769)**	**(15,900)**	**(740,551)**	**(50,063)**	**—**	**(610,332)**
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 (see Note 22)	(23,343)	(204,000)	—	—	—	—	23,343	204,000	—	—	—	**—**
Dividends (or shareholder remuneration)	—	—	—	—	(111,645)	—	—	—	—	(162,103)	—	**(273,748)**
Purchase of treasury shares	—	—	—	—	—	—	—	(274,060)	—	—	—	**(274,060)**
Sale or cancellation of treasury shares	—	—	—	—	—	—	4,100	54,160	—	—	—	**58,260**
Reclassification of financial instruments from equity to liability	—	—	—	—	—	—	—	—	—	—	—	**—**
Reclassification of financial instruments from liability to equity	—	—	—	—	—	—	—	—	—	—	—	**—**
Transfers among components of equity	—	—	—	—	628,511	—	—	—	(740,551)	112,040	—	**—**
Equity increase or (-) decrease resulting from business combinations	—	—	—	—	—	—	—	—	—	—	—	**—**
Share based payments	—	—	—	1,019	—	—		—	—	—	—	**1,019**
Other increase or (-) decrease in equity	—	—	—	—	18,409	—	(140,212)	—	—	—	—	**(121,803)**
Closing balance 31/12/2023	**680,028**	**7,695,227**	**—**	**12,625**	**5,165,689**	**—**	**(2,228,293)**	**(39,621)**	**1,088,014**	**(162,103)**	**(196,305)**	**12,015,261**

Explanatory notes 1 to 39 and the accompanying Schedules I to VI form an integral part of the statement of total changes in equity for 2023.

Statements of total changes in equity of Banco de Sabadell, S.A.

For the years ended 31 December 2023 and 2022

Thousand euro

Sources of equity changes	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
Closing balance 31/12/2021	**703,371**	**7,899,227**	**—**	**9,663**	**4,486,020**	**—**	**(2,021,071)**	**(34,419)**	**328,412**	**—**	**(67,956)**	**11,303,247**
Effects of corrections of errors	—	—	—	—	—	—	—	—	—	—	—	**—**
Effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	**—**
Opening balance 01/01/2021	**703,371**	**7,899,227**	**—**	**9,663**	**4,486,020**	**—**	**(2,021,071)**	**(34,419)**	**328,412**	**—**	**(67,956)**	**11,303,247**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**740,551**	**—**	**(212,926)**	**527,625**
Other equity changes	**—**	**—**	**—**	**1,943**	**144,394**	**—**	**(94,453)**	**10,698**	**(328,412)**	**(112,040)**	**—**	**(377,870)**
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)	—	—	—	—	(168,809)	—	—		—	(112,040)	—	**(280,849)**
Purchase of treasury shares	—	—	—	—	—	—	—	(86,457)	—	—	—	**(86,457)**
Sale or cancellation of treasury shares	—	—	—	—	—	—	3,948	97,155	—	—	—	**101,103**
Reclassification of financial instruments from equity to liability	—	—	—	—	—	—	—	—	—	—	—	**—**
Reclassification of financial instruments from liability to equity	—	—	—	—	—	—	—	—	—	—	—	**—**
Transfers among components of equity	—	—	—	—	328,412	—	—	—	(328,412)	—	—	**—**
Equity increase or (-) decrease resulting from business combinations	—	—	—	—	—	—	—	—	—	—	—	**—**
Share based payments	—	—	—	1,943	—	—	—	—	—	—	—	**1,943**
Other increase or (-) decrease in equity	—	—	—	—	(15,209)	—	(98,401)	—	—	—	—	**(113,610)**
Closing balance 31/12/2022	**703,371**	**7,899,227**	**—**	**11,606**	**4,630,414**	**—**	**(2,115,524)**	**(23,721)**	**740,551**	**(112,040)**	**(280,882)**	**11,453,002**

Shown for comparative purposes only.

Explanatory notes 1 to 39 and the accompanying Schedules I to VI form an integral part of the statement of total changes in equity for 2023.

Cash flow statements of Banco de Sabadell, S.A.

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
Cash flows from operating activities		**(11,080,427)**	**(7,168,059)**
Profit or loss for the period		1,088,014	740,551
Adjustments to obtain cash flows from operating activities		1,300,720	1,170,198
Depreciation and amortisation		167,571	193,817
Other adjustments		1,133,149	976,381
Net increase/decrease in operating assets		3,176,288	(7,701,809)
Financial assets held for trading		939,430	(905,369)
Non-trading financial assets mandatorily at fair value through profit or loss		(114,258)	41,298
Financial assets designated at fair value through profit or loss		—	—
Financial assets at fair value through other comprehensive income		(506,284)	(72,121)
Financial assets at amortised cost		3,098,012	(6,719,683)
Other operating assets		(240,612)	(45,934)
Net increase/decrease in operating liabilities		(16,361,826)	(1,393,419)
Financial liabilities held for trading		(438,515)	967,181
Financial liabilities designated at fair value through profit or loss		—	—
Financial liabilities at amortised cost		(15,873,328)	(1,627,512)
Other operating liabilities		(49,983)	(733,088)
Cash payments or refunds of income taxes		(283,623)	16,420
Cash flows from investing activities		**17,010**	**117,100**
Payments		(367,980)	(174,269)
Tangible assets	14	(155,680)	(154,255)
Intangible assets	15	(1,557)	(16,765)
Investments in joint ventures and associates	13	—	—
Other business units	13	(210,743)	(3,249)
Non-current assets and liabilities classified as held for sale		—	—
Other payments related to investing activities		—	—
Collections		384,990	291,369
Tangible assets		17,416	42,384
Intangible assets		—	—
Investments in joint ventures and associates	13	13,873	123,811
Other business units	13	160,574	57,874
Non-current assets and liabilities classified as held for sale		193,127	67,300
Other collections related to investing activities		—	—

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the cash flow statement for 2023.

Cash flow statements of Banco de Sabadell, S.A.

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
Cash flows from financing activities		**(616,424)**	**(1,213,618)**
Payments		(1,674,684)	(1,314,721)
Dividends		(273,748)	(280,849)
Subordinated liabilities	3	(900,000)	(750,000)
Redemption of own equity instruments		—	—
Acquisition of own equity instruments		(274,060)	(86,457)
Other payments related to financing activities		(226,876)	(197,415)
Collections		1,058,260	101,103
Subordinated liabilities		1,000,000	—
Issuance of own equity instruments		—	—
Disposal of own equity instruments		58,260	101,103
Other collections related to financing activities		—	—
Effect of changes in foreign exchange rates		**(82,513)**	**22,298**
Net increase (decrease) in cash and cash equivalents		**(11,762,354)**	**(8,242,279)**
Cash and cash equivalents at the beginning of the year	**6**	**34,063,579**	**42,305,858**
Cash and cash equivalents at the end of the year	**6**	**22,301,225**	**34,063,579**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Cash on hand	6	623,406	587,119
Cash equivalents in central banks	6	21,413,344	32,924,771
Other demand deposits	6	264,475	551,689
Other financial assets		—	—
Less: bank overdrafts repayable on demand		—	—
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**22,301,225**	**34,063,579**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the cash flow statement for 2023.

Annual report of Banco Sabadell, S.A. for the year ended 31 December 2023

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 tax identification number (NIF) A08000143 and 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 Institution is entered in the Companies Register of Alicante under Volume 4070, Folio 1, Sheet A-156980 and in the Bank of Spain's Official Register of Credit Institutions under code number 0081. The Legal Entity Identifier (LEI) of Banco de Sabadell, S.A. is SI5RG2M0WQQLZCXKRM20.

The Articles of Association and other public information can be viewed both at the Bank's registered office and on its website (www.grupbancsabadell.com).

The Bank is the parent company of a corporate group of entities (see Note 13 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 and other material disclosures

The Bank's annual financial statements for the year ended 31 December 2023 have been prepared in accordance with that set forth in Bank of Spain Circular 4/2017 of 27 November (hereinafter, "Circular 4/2017"), as well as other provisions of the financial reporting regulations applicable to the Bank, and considering the formatting and mark-up requirements established in Commission Delegated Regulation EU 2019/815, in order to fairly present the equity and financial situation as at 31 December 2023 and the results of its operations, recognised income and expenses, changes in equity and cash flows in 2023. The aforesaid Circular 4/2017 constitutes the implementation and transposition to Spanish credit institutions of the International Financial Reporting Standards adopted by the European Union (EU-IFRS) in accordance with that set forth in Regulation 1606/2002 of the European Parliament and of the Council regarding the application of these standards.

The information included in these annual financial statements is the responsibility of the directors of the Bank. The Bank's annual financial statements for 2023 were signed off by the directors of Banco Sabadell at a meeting of the Board of Directors on 22 February 2024 and will be submitted to shareholders at the Annual General Meeting for approval. It is expected that the shareholders will approve the accounts without significant changes.

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

The consolidated annual financial statements of Banco Sabadell Group, which have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU-IFRS), are presented separately from the standalone financial statements. The key figures given in the consolidated annual financial statements that have been subject to audit procedures are as follows:

Thousand euro

	2023	2022
Total assets	235,172,955	251,241,223
Shareholders' equity	14,343,946	13,635,172
Income from financial activities	10,529,569	6,990,081
Profit or loss attributable to owners of the parent	1,332,181	889,392

Use of judgements and estimates in preparing the annual financial statements

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

The main judgements and estimates relate to the following:

- The accounting classification of financial assets according to their credit risk (see Notes 1.3.3, 7, 10 and 24).
- Impairment losses on certain financial assets and off-balance sheet exposures (see Notes 1.3.3, 7, 10 and 24).
- The assumptions used in actuarial calculations of liabilities and post-employment obligations (see Notes 1.3.15 and 21).
- The measurement of goodwill (see Notes 1.3.11 and 15).
- The useful life and impairment losses of tangible assets and other intangible assets (see Notes 1.3.9, 1.3.10, 1.3.11, 14 and 15).
- The provisions and consideration of contingent liabilities (see Notes 1.3.14 and 21).
- The fair value of certain unquoted financial assets (see Notes 1.3.2 and 5).
- The fair value of real estate assets held on the balance sheet (see Notes 1.3.8, 1.3.9 and 5).
- The recoverability of non-monetisable deferred tax assets and tax credits (see Notes 1.3.18 and 35).

The estimates are based on the best knowledge available of current and foreseeable circumstances, taking into account the uncertainties stemming from the existing economic environment, consequently, the 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 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 Bank's annual financial statements for 2023.

1.3.1 Investments in subsidiaries, joint ventures and associates

The Bank considers subsidiaries to be companies over which it has the ability to exercise control, which exists when:

- it has the power to lead the subsidiary's significant activities, i.e. those that significantly affect its returns, due to a legal provision, article of association or agreement;
- it has the existing (i.e. practical) ability to exercise rights to use this power to influence its returns; and
- due to its involvement, it is exposed, or entitled, to variable returns of the investee.

Generally, voting rights are rights that provide it with the power to lead the significant activities of an investee. Furthermore, the Bank takes into account any event or circumstance that could weigh in on the decision as to whether or not control exists, in accordance with the requirements of Circular 4/2017.

Joint ventures are entities subject to joint control agreements whereby decisions on significant activities are made unanimously by all of the entities which share control, and where the Bank has rights over its net assets. The Bank has not held investments in joint ventures in 2023 and 2022.

Associates are entities over which the Bank 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.

Investments in the capital of subsidiaries, joint ventures and associates are initially recognised at cost, which is equivalent to the fair value of the consideration given.

The Bank recognises allowances for the impairment of investments in subsidiaries, joint ventures and associates, always provided 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 Bank 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 performance compared to the data included in budgets, business plans or milestones.
- 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 economic environment 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 entities included under the heading of “Investments in subsidiaries, joint ventures and associates” is estimated by comparing their recoverable amount against their carrying amount. The carrying amount will be the higher of the fair value, less selling costs, and the value in use.

The Bank determines the value in use of each interest held based on its net asset value, or based on estimates of the companies’ profit/loss, pooling them into activity sectors (real estate, renewable energy, industrial, financial, among others) 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 income statement for the year in which they materialise and subsequent recoveries are recognised in the income statement for the year in which they are recovered.

Financial and insurance institutions in which the Bank holds an interest, both subsidiaries and associates, regardless of the country in which they are located, are subject to supervision and regulation by various bodies.

The laws in effect in the various jurisdictions, along with the need to meet certain minimum capital requirements and 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 13 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 Classification and measurement of financial instruments and recognition of changes arising in their subsequent measurement

In general, all financial instruments are initially recognised at fair value (see definition in Note 5) which, unless evidence to the contrary is available, coincides with the transaction price. For financial instruments not recognised at fair value through profit or loss, the fair value is adjusted by either 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 income statement. As a general rule, conventional purchases and sales of financial assets are recognised in the Bank’s balance sheet using the settlement date.

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

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

Changes in 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. In the case of financial assets, classification is generally based on the following aspects:

- The business model under which they are managed, and
- Their contractual cash flow characteristics.

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 Bank's intentions for an individual instrument, rather, it is determined for a group of instruments.

The business models used by the Bank are indicated 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 financial assets

Financial assets should initially be classified in 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.

  - Financial assets with interest rates linked to environmental, social or governance targets (ESG-linked features): these financial assets provide general funding at a contractual interest rate that is adjusted depending on the borrower achieving pre-determined ESG targets that are specific to the borrower, the purpose of the adjustment being to incentivise the achievement of those targets. The key consideration here is whether the resulting cash flows reflect a return for risk that is unrelated to a basic lending arrangement. Thus, if the adjustment linked to ESG targets does not introduce compensation for risks that is inconsistent with a basic lending arrangement, then it is considered that the financial asset has contractual cash flows that are compatible with a basic lending arrangement. In addition, for this type of financial asset, the nature of the ESG-linked feature is taken into account, such as a contingent event, which is considered to be an indicator in assessing whether the contractual cash flows consist solely of payments of principal and interest.

  - 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 principal 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:

<u>Financial assets at amortised cost</u>

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 Bank's business.

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

<u>Financial assets at fair value through other comprehensive income</u>

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 Bank may opt, at initial recognition and irrevocably, to include in the portfolio of financial assets at fair value through other comprehensive income investments in equity instruments that should not be 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.

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

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

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

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

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

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

Financial assets at fair value through profit or loss

A financial asset is classified in the portfolio of financial assets at fair value through profit or loss whenever the business model used by the Bank for its management or 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 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.

In 2023 and 2022, no reclassifications took place between the portfolios in which financial assets are recognised for the purpose of their measurement.

Financial liabilities held for trading

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 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.

<u>Financial liabilities at amortised cost</u>

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 Bank which, given their legal classification as capital, do not meet the requirements to be classified as equity for accounting purposes. These are essentially issued shares that do not carry voting rights and whose return is calculated based on a fixed or variable rate of interest.

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

Hybrid financial instruments

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

Generally, when the host contract of a hybrid financial instrument is a financial asset, the embedded derivative is not separated and the 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 separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative instrument, and if the hybrid contract is not fully measured at fair value through profit or loss.

Most of the hybrid financial instruments issued by the Bank 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 Bank's financial instruments as at 31 December 2023 and 2022 is indicated in Note 5.

<u>1.3.3 Impairment of financial assets</u>

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, expected inflows that are lower than the contractual cash flows due if the holder of a loan commitment draws down the loan or, in the case of financial guarantees given, inflows that are lower than the payments scheduled to be made.

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

1.3.3.1 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 income statement for the year in which the impairment is estimated. The recoveries of any previously recognised losses are also recognised in the income statement for the year in which the impairment is eliminated or reduced.

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

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

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

The Bank has policies, methods and procedures in place to estimate the losses that it may incur as a result of its credit risks, due to both 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>1.3.3.1.1 Accounting classification on the basis of credit risk attributable to insolvency</u>

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

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

Definition of classification categories

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

- Stage 1: 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 approval. 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 (the amount of non-recourse factoring transactions with arrears of between 30 and 60 days represented 28 million euros as at year-end 2023 and 55 million euros as at year-end 2022), 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.

  Refinanced and restructured transactions classified in this category shall be classified into a lower risk category when they meet the criteria for such reclassification. Transactions that were classified as standard exposures under special monitoring (stage 2), due to the existence of amounts more than 30 days past due, will be reclassified into the category of standard exposures (stage 1) after passing a 3-month probation period, depending on the likelihood of them re-entering the stage 2 category. Transactions that were classified as standard exposures under special monitoring (stage 2) due to significant increases in credit risk will be subject to a 3-month probation period when they belong to customers who have been given a negative rating/score by internal customer monitoring tools. Furthermore, transactions that were classified in this category after passing a 3-month probation period in the “doubtful for reasons other than borrower arrears” category (stage 3) will be reclassified into the category of standard exposures (stage 1) once they have completed an additional 9-month probation period in stage 2.

- 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 as 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 and which will be maintained, for a 3-month probation period, in the stage 3 category for reasons other than borrower arrears.

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

- Write-off:

  The Bank derecognises from the balance sheet transactions for which the possibility of full or partial recovery is concluded to be remote following an individual assessment. This category includes exposures of customers who are in bankruptcy proceedings filing for liquidation, as well as transactions classified as stage 3 as a result of borrower arrears that have been in this category for more than four years, or less than four years, when any amounts not covered by effective guarantees have been kept on the balance sheet with a credit risk allowance covering 100% of that amount for more than two years, except for those balances that have sufficient effective guarantees. 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 Bank's debt collection rights ('definitive loss') – for reasons such as debt remissions or debt reductions – or because they are considered irrecoverable even though debt collection rights have not been terminated ('write-downs'), will be fully classified in the corresponding category on the basis of their credit risk.

  In the above situations, the Bank derecognises write-offs along with their associated provisions from the balance sheet, notwithstanding any actions that may be taken to collect payment until no more rights to collect payment exist, whether due to time-barring, 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.

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

The prudential definition of default adopted by the Bank 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, all contracts impaired from an accounting standpoint are also considered impaired for prudential purposes, except where they are impaired by reason of the accounting definition of default but where the 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 Bank applies various criteria to classify borrowers and transactions into different categories based on their credit risk. These include:

- Automatic criteria;

- Criteria based on indicators (triggers); and

- Specific criteria for refinancing.

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 Bank establishes different triggers for significant and non-significant borrowers. The details for each borrower group are described in the sections on “Individual assessment” and “Collective assessment”. 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 Bank either classifies its borrowers as stage 2 or 3 or keeps them in stage 1.

Individual assessment

The Bank 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 or 2, and at 5 million euros for customers classified in stage 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, with specific triggers in place for certain segments. In any event, the system of triggers does not automatically or individually classify borrowers. Instead, it brings forward the due date for assessment of the borrower by an analyst and prompts decision-making with regard to their classification. The main aspects identified by the system of triggers are listed here below:

Stage 2 triggers:

- Adverse changes in the financial situation, such as a significant increase in levels of leverage or a sharp drop in turnover or equity.
- 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 fall in the internal credit rating of the borrower.
- Significant increase in credit risk of other transactions of the same borrower, or in entities associated with the borrower's risk group.
- For transactions secured with collateral, significant decline in the value of the collateral received.

Stage 3 triggers:

- Negative EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation), 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.

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

Collective assessment

For borrowers who have been classed below the significant borrower threshold and who, in addition, have not been classified as stage 2 or 3 by the automatic classification algorithm, there is a process in place 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 Bank 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, it is possible to measure the annualised 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 annualised 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.

A statistical model is used that estimates significant increase in credit risk for borrowers and transactions subject to collective assessment models. The estimate is made using a logistic regression that considers, as explanatory variables, the ratio and the absolute increase between the annualised lifetime PD under the economic and idiosyncratic circumstances at the time the provision is calculated and the annualised residual lifetime PD under the circumstances that existed at the time the transaction was approved, along with other defining variables of the borrower or exposure. For this model, thresholds for the increase in annualised lifetime PD, requiring stage 2 classification, have been calibrated using historical data with the aim of maximising efficient and early detection of arrears at 30 days, refinancings and defaults, thereby maximising risk discrimination among borrowers and/or transactions classified as stage 1 and 2.

The thresholds for significant increase in credit risk vary according to the portfolio, business size, product and level of PD upon approval, requiring higher relative increases if the PD upon approval is low.

Exceptionally, these thresholds are not applicable at certain low levels of current PD where there is practically no indication of significant increase in credit risk over a 6-month horizon (Low Credit Risk Exemption); these levels will vary according to the portfolio/segment and have been calibrated using historical data. The current PD thresholds to identify the population exempt from significant increases in credit risk have been calibrated differently for each of the portfolios under the collective model perimeter, i.e. companies differentiated by size, mortgages and consumer loans.

In any case, as a general criterion and in addition to those described previously, for portfolios in Spain, borrowers included in the watchlist identified by the risk function (list of high-risk borrowers) and all transactions that have a current 12-month PD above a given threshold that varies according to portfolio/segment and is statistically calibrated, are reclassified to stage 2. Similarly, all transactions with a current 12-month PD above a particular threshold, which varies according to portfolio/segment, are reclassified to stage 3.

Refinancing and restructuring transactions

Credit risk management policies and procedures applied by the Bank ensure that borrowers are carefully monitored, identifying cases where provisions need to be allocated as there is evidence that their solvency is declining (see Note 3). To this end, the Bank allocates loan loss provisions for the transactions that require them given the borrower's circumstances, before formally executing any refinancing/restructuring transactions, which should be understood as follows:

– Refinancing transaction: transaction which, irrespective of the borrower or guarantees involved, is approved or used for economic or legal reasons related to the current or foreseeable financial difficulties of the borrower (or borrowers) to repay one or more transactions approved by the Bank and granted to the borrower (or borrowers) or to another company or companies belonging to its group, or to bring outstanding payments fully or partially up to date, with a view to making it easier for holders of refinanced transactions to repay 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: transaction in which, for economic or legal reasons related to the current or foreseeable financial difficulties of the borrower (or borrowers), the financial terms and conditions are modified to make it easier for them to repay 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 such a modification is already provided for in the contract. In any case, transactions in which the debt is written down or assets are received to reduce the debt, or transactions whose terms are modified to extend the term to maturity, or to amend the repayment schedule so as to the reduce repayment instalment amounts in the short term or 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, except where it can be proven that the terms are being modified for reasons other than borrowers' financial difficulties and that the modified terms are analogous to those applied in the market, on the date of such modification, to transactions approved for borrowers with a similar risk profile.

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 (e.g. an inadequate business plan), the existence of certain 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.

– At least 12 months have passed since the grace period came to an end.

– The refinanced amount of both the contract and the borrower has been reduced and the cumulative amount since the refinancing date is at least the amount equivalent to the refinanced unpaid amount, the write-down or the new risk approved.

Refinancing, refinanced and restructured transactions remain in the stage 3 category until it can be verified that they meet the general criteria for reclassification to the stage 2 category, particularly the following requirements:

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

– 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 to stage 2.

– At least 12 months have passed since the grace period came to an end.

– The refinanced amount of both the contract and the borrower has been reduced and the cumulative amount since the refinancing date is at least the amount equivalent to the refinanced unpaid amount, the write-down or the new risk approved.

In the case of refinanced/restructured loans classified as stage 2, in addition to the general classification criteria, certain specific criteria are applicable which, if met, lead to reclassification into one of the higher risk categories described previously (i.e. to 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.

1.3.3.1.2 Credit loss allowances

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

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

  The exposure metrics considered by the Bank 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 Bank 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 Bank reviews the quality and stability of the rating tools that are currently in use on an annual basis. The review process includes the definition of the sample used and the methodology to be applied when monitoring rating models.

  The tools used to assess 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 performance patterns of actual defaulted loans. 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.

  - Credit scores: in general, credit risks undertaken with individuals are rated using credit scoring systems, which are in turn based on a quantitative model of historical statistical data, where the relevant predictive factors are identified. In geographical areas 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): rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a 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%); alternative scenario 1, which is more optimistic and envisages greater potential growth and non-existent inflation (10%); and alternative scenario 2, which is more adverse and envisages a halt in the disinflation process, financial instability and recession (30%). 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 2022, the Group considered three macroeconomic scenarios with weights of 61%, 9% and 30%, respectively, and the same macroeconomic variables.

  Baseline scenarios

  - Global economic growth is fragile and constrained by the materialisation of impacts stemming from monetary policy tightening, which affect activity, financing conditions and lending. In terms of regions, there are still structural adjustments in China, while in the Eurozone, Germany’s weaker performance contrasts with the periphery countries that benefit from the Next Generation (NGEU) funds. Labour markets show relative stability, with a more even balance between supply and demand for jobs.

  - Inflation gradually eases towards monetary policy targets. Movements in inflation are especially determined by largely domestic factors, such as the job market, the real estate market and the fiscal policy of each country. However, unstable supply conditions could generate new disruptions in production chains and new specific cost pressures.

  - The geopolitical environment is uncertain, characterised by greater confrontations between blocs and a lack of cooperation in various areas. Countries tend to prioritise trade relations with their neighbours or with countries that are similar to them, and tend to respond to events that generate uncertainty with protectionist policies.

  - In terms of economic policy, concerns over the state of public finances take centre stage. The bigger role played by the State in tackling the major challenges and transitions that society will face in the future (climate, adverse demographics, convoluted geopolitics, industrial policy, new technologies, etc.) requires governments to seek new and often unorthodox income measures in an attempt to cover higher structural costs. In the European Union, the Next Generation funds continue to be rolled out and serve as a mechanism to channel public investment in the next few years.

  - Central banks cut interest rates as inflation eases off and comes closer to monetary policy targets, in order to avoid a further rebound of the real interest rate. This process starts in 2024 and continues gradually until levels around monetary neutrality are reached. Meanwhile, central banks continue to make progress on their quantitative tightening policies, although they are eventually forced to stop this process to avoid causing liquidity problems in the markets.

  - The environment of tight financial conditions is prone to further episodes of stress due to issues in some segments of the financial sector, including some banks, or liquidity mismatches in the system. In any event, these events are localised and the authorities manage to control them; therefore, their economic repercussions are non-existent.

  - Spain continues to stand out in a positive light in the Eurozone. The recovery in real household incomes, thanks to a favourable job market, rising wages and lower inflation, leads to an improvement in private consumption. The robustness of household balance sheets and a relatively low sensitivity to interest rate hikes also support household spending. The NGEU funds remain a supporting factor.

- Private sector lending in Spain declines in the near term, while in the long term it continues to grow below nominal GDP, impacted by high interest rates, global economic weakness, companies' ample liquidity buffers and, in the case of mortgage loans, also by reduced affordability and accessibility.
- In relation to financial markets, long-term government bond yields remain stable over the forecast period, despite weak economic growth and more moderate inflation. This is because the market gradually prices in a higher forward premium, due to central banks' quantitative tightening (QT) and concerns about the state of public finances.
- Risk premiums of the European periphery remain contained and in line with their respective ratings.
- The dollar depreciates gradually amidst slowing inflation and a cooling US economy once the Fed starts to cut interest rates in 2024.

Alternative scenario 1: Greater potential growth and non-existent inflation

- The geopolitical environment improves and the conflict in Ukraine is resolved with an agreement that works for all parties, thus removing a source of uncertainty in Europe.
- Global supply conditions improve substantially and revert back to pre-Covid-19 levels. This is the result of a healthier geopolitical environment, the absence of climate shocks and productivity gains thanks to technological developments (e.g. those related to artificial intelligence).
- Global economic growth is more robust and synchronised from the outset than in the baseline scenario, due to a better business climate, less uncertainty over geopolitics, lower energy and commodity prices and the positive evolution of core inflation. In the medium term, productivity gains also materialise stemming from the rapid implementation of new technologies and a more sustainable economy, improving economies' potential growth prospects.
- Inflation falls faster than in the baseline scenario and remains at levels close to the monetary policy targets of the respective central banks.
- This environment allows central banks to ease their monetary policies more quickly than in the baseline scenario.
- Global financing conditions remain lax, with no 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 maintains significant growth momentum thanks to the resolution of the conflict in Ukraine, lower interest rates and the use of the NGEU funds.

Alternative scenario 2: Halt in disinflation process, financial instability and recession

- The scenario centres on the potential materialisation of risks to financial stability.
- At first, the inflation moderation process stops prematurely and inflation stabilises at levels clearly above central banks' targets during 2024. Against this backdrop, central banks are forced to further tighten their monetary policies during the first half of 2024.
- The financial vulnerabilities in the current environment have the potential to trigger significant financial instability. Additional monetary tightening clearly increases the likelihood of persistent financial stress with economic repercussions.
- The global economy falls into a recession in 2024, as a result of financial instability and the accumulated monetary tightening. Labour markets deteriorate with sharp rises in unemployment.

- Despite the initial downward stickiness of inflation, it eventually recedes due to damage to the credit channel, financial market dislocation and economic recession.
- Monetary policy is forced to respond to financial instability through balance sheet policies and liquidity programmes. Central banks also cut official interest rates to expansive levels.
- Global financing conditions tighten, in terms of both capital markets and credit. Government bond yields end up falling in the face of central banks' monetary policy shift, economic recession and decreasing inflation.
- Periphery risk premiums rise sharply, reducing fiscal headroom in some countries.
- The Spanish economy falls into a recession in the first half of 2024 and records negative growth until the second half of 2025. This is influenced by tightened credit supply, the economic weakness of its main trading partners and the uncertainty characterising this scenario.

As at 31 December 2023 and 2022, the main forecast variables considered for Spain are those shown below:

%

	31/12/2023				
	Year 1	Year 2	Year 3	Year 4	Year 5
GDP growth					
Baseline scenario	1.6	1.9	1.8	1.6	1.6
Alternative scenario 1	4.1	3.5	2.2	2.0	2.0
Alternative scenario 2	-0.2	-1.0	1.0	1.2	1.2
Unemployment rate					
Baseline scenario	11.4	11.2	10.9	10.7	10.5
Alternative scenario 1	10.3	9.0	8.4	8.1	8.0
Alternative scenario 2	15.3	16.0	14.5	13.0	11.5
House price growth (*)					
Baseline scenario	0.5	1.7	1.8	1.9	1.9
Alternative scenario 1	5.6	4.6	3.5	3.5	3.5
Alternative scenario 2	-3.6	-2.1	0.0	1.9	1.9

(*) The price variation is calculated at year-end.

%

	31/12/2022				
	Year 1	Year 2	Year 3	Year 4	Year 5
GDP growth					
Baseline scenario	1.3	2.0	2.0	1.8	1.7
Alternative scenario 1	4.4	4.4	2.5	2.0	2.0
Alternative scenario 2	-1.1	0.1	1.6	1.8	1.7
Unemployment rate					
Baseline scenario	12.7	12.4	12.1	11.9	11.7
Alternative scenario 1	11.6	10.2	9.0	8.6	8.4
Alternative scenario 2	15.6	16.7	15.8	14.9	14.2
House price growth (*)					
Baseline scenario	1.0	1.6	2.0	2.0	2.0
Alternative scenario 1	3.0	3.6	3.8	3.6	3.6
Alternative scenario 2	-2.6	-1.6	2.0	2.0	2.0

(*) The price variation is calculated at year-end.

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

The Bank applies a series of additional adjustments to the results of its credit risk models, referred to as overlays, in order to address situations in which the results of the models are not sufficiently sensitive to the uncertainty of the macroeconomic environment. These adjustments are temporary and remain in place until the reasons for which they were originally applied cease to exist. The application of these adjustments is subject to the governance principles established by the Bank. Specifically, as at 31 December 2022, the impairment losses of the loan portfolio included a series of additional provisions that included sector-specific characteristics of the macroeconomic situation and inflationary environment, in the amount of 170 million euros, the adjustment remaining on the balance sheet as at 31 December 2023 being around 80 million euros. The balance variation during the year is mainly due to the specific way in which those adjustments were made, after having completed the recurring updates of internal provisioning models and their parameters.

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:

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

Lifetime expected credit losses are defined as:

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

Where:

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

For transactions identified as having negligible risk (see section entitled “Collective allowance estimates” within this note), an allowance percentage of 0% is applied, with the exception of transactions classified as stage 3, whose impairment is assessed individually. During this estimation process, a calculation is made of the allowance necessary to cover, on one hand, the credit risk attributable to the borrower in question and, on the other hand, country risk.

The Bank 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 amount of effective guarantees received is also taken into account.

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

Individual allowance estimates

The Bank 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 Bank has developed a methodology to estimate these allowances, calculating the difference between the gross carrying amount of the transaction and the present value of the estimated cash flows it expects to receive, discounted using the effective interest rate. To this end, effective guarantees received are taken into account (see the 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 company's activity and economic/financial structure. 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 Bank mainly takes the following aspects into account:

- The impairment estimation process takes all credit exposures into account, with the exception of those with negligible risk not classified as stage 3 for which, in general, the methods established by the Bank of Spain based on statistical data and models are used. These aggregate the average performance of institutions within the banking industry. The Bank recognises an impairment loss equal to the best estimate available from internal models, taking into account all of the relevant information which it holds on the existing conditions at the end of the reported period. The Bank has identified the following transactions with negligible risk for the estimation of credit loss allowances:

  - transactions with central banks;

  - transactions with general governments of European Union countries, including those arising from reverse repurchase agreements of debt securities;

  - transactions with central governments of countries classified as Group 1 for country risk purposes;

  - transactions in the name of deposit guarantee funds and resolution funds, provided they are comparable in terms of credit quality to those of the European Union;

  - transactions in the name of credit institutions and financial credit establishments of European Union countries and, in general, of countries classified as Group 1 for country risk purposes;

  - transactions with Spanish mutual guarantee societies and with public bodies or public companies of other countries classified as Group 1 for country risk purposes whose main activity is the provision of credit insurance or guarantees;

  - transactions with non-financial companies which are not included in the public sector;

  - advances of pensions and wages corresponding to the following month, always provided that the paying institution is a general government and that these items are arranged to be paid into accounts held in Banco Sabadell, as well as advances other than loans.

- In order to collectively assess impairment, internal models estimate a different PD and LGD for each contract. To that 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 being 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 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 (such as origination date and 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 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:

<table>
<tr><th colspan="5">Observed credit impairment since initial recognition</th></tr>
<tr><th>Credit risk category</th><th>Stage 1</th><th>Stage 2</th><th>Stage 3</th><th>Write-off</th></tr>
<tr><td rowspan="2">Criteria for classification into stages</td><td rowspan="2">Transactions in which there has been no significant increase in credit risk since initial recognition and which do not meet the requirements for classification into other categories</td><td rowspan="2">Transactions which show a significant increase in credit risk since initial recognition</td><td>Transactions whose full recovery is considered doubtful, even if no amounts are more than ninety days past due</td><td rowspan="2">Transactions whose possibility of recovery is considered remote due to a manifest and irreversible deterioration of the solvency of the transaction or the borrower</td></tr>
<tr><td>Transactions with amounts more than 90 days past due</td></tr>
<tr><td>Calculation of allowance</td><td>12-month expected credit loss</td><td colspan="2">Lifetime expected credit loss</td><td>Write-off from balance sheet and recognition of the loss in the income statement, at the carrying amount of the transaction</td></tr>
<tr><td>Accrual of interest</td><td colspan="2">Calculated by applying the effective interest rate to the gross carrying amount of the transaction</td><td>Calculated by applying the effective interest rate to the amortised cost (adjusted to account for any impairment allowances)</td><td>Not recognised in the income statement</td></tr>
<tr><td rowspan="3">Transactions included, by stage</td><td rowspan="3">Initial recognition</td><td>Transactions which show a significant increase in credit risk since initial recognition</td><td>Transactions classified as stage 3 as a result of borrower arrears:
Amount of debt instruments with one or more amounts more than 90 days past due</td><td>Transactions whose possibility of recovery is considered remote</td></tr>
<tr><td>Refinancing, refinanced and restructured transactions that do not meet the conditions for classification as stage 3</td><td rowspan="2">Transactions classified as stage 3 for reasons other than borrower arrears:
· Transactions with no amounts more than 90 days past due but whose full recovery is considered doubtful
· Refinancing, refinanced and restructured transactions that do not meet the conditions for classification as stage 2
· Purchased or originated credit-impaired (POCI) transactions</td><td rowspan="2">Transactions partially deemed to be irrecoverable even though debt collection rights have not yet been terminated (write-downs)</td></tr>
<tr><td>Transactions with amounts more than 30 days past due</td></tr>
</table>

Classification of credit risk and allowances for country risk

Country risk is the risk arising in counterparties resident in a particular country for reasons other than ordinary business risk (sovereign risk, transfer risk or risks arising from international financial activity). The Bank classifies transactions carried out with third parties into different groups, based on the economic development of those countries, their political situation, regulatory and institutional framework, and payment capacity and experience.

Debt instruments and off-balance sheet exposures whose end obligors are residents of countries that have long experienced difficulties in servicing their debt, and whose recovery is therefore deemed unlikely, are classified as stage 3, unless they should be classified as write-offs.

There are two stages involved in estimating allowances: first, the loan loss allowance is estimated, and then the additional country risk provision is determined. This way, exposures not fully provisioned for by the amount that can be recovered with either effective collateral or loan loss allowances are provisioned for by applying the coverage percentages established in Circular 4/2017, based on the country risk group in which the transaction has been included and its credit risk classification in the accounts.

Allowances for country risk are not significant in relation to the impairment allowances allocated by the Bank.

Guarantees

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

Under no circumstances will guarantees whose effectiveness 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 liability to the customer falls to the new guarantors, who are persons or entities whose solvency is sufficiently verified to ensure the full redemption of the transaction under the terms set forth.

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

Real estate guarantees for loan transactions are valued on the date they are 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, the criteria for updating the appraisal, established in Annex 9 to Circular 4/2017 published by the Bank of Spain are applied for assets subject to the calculation of provisions for impairment 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 Bank has developed internal methodologies to estimate credit loss allowances. These methodologies use the appraisal value as a starting point to determine the amount that can be recovered with the enforcement of real estate guarantees. This appraisal value is adjusted to account for the time required to enforce such guarantees, price trends and the Bank's ability and experience in realising the value of 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 Bank has established backtesting methodologies to compare estimated losses against actual losses.

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

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

1.3.4 Hedging transactions

The Bank applies the criteria established by Circular 4/2017, based on IAS 39 on hedge accounting.

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

Financial derivatives that do not qualify for designation as hedging instruments are classified as derivatives held for trading. To be designated as a hedging instrument, a financial derivative must meet the following 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 Bank analyses whether, at the time of its inception, a hedge is expected to operate with a high level of effectiveness in business-as-usual conditions. It also runs effectiveness tests throughout the life of the hedge, in order to verify that the results of these tests show an effectiveness that falls within a range of between 80% and 125%.

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

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

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

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

  In fair value hedges of interest rate risk of a portfolio of financial instruments, gains or losses arising when the hedging instrument is measured are recognised directly in the income statement. Losses and gains arising from fair value changes in the hedged item that can be attributed to the hedged risk are recognised in the income statement with a balancing entry under the heading "Fair value changes of the hedged items in portfolio hedge of interest rate risk" on either the asset side or the liability side of the balance sheet, as 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 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]" of the statement of equity. These differences are recognised in the income statement when the losses or gains on the hedged item are recognised through profit or loss, when the envisaged transactions are executed, or on the maturity date of the hedged item.

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

– Measurement differences in hedging instruments relating to the ineffective portion of cash flow hedges and net investments in foreign operations are recognised under the heading "Gains or (-) losses on financial assets and liabilities, net" of the income statement. Hedges of non-monetary items are treated as fair value hedges due to the exchange rate component.

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

1.3.5 Financial guarantees

Contracts by which the Bank 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 Bank 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 Bank 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 income statement for the period in which the service is provided. Subsequently, the Bank applies analogous criteria to debt instruments measured at amortised cost.

Financial guarantees are classified according to the risk of incurring loan losses attributable to either 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 income statement and calculated applying the rate laid down in the related contract to the nominal amount of the guarantee. Interest from long-term guarantees given in cash to third parties is recognised by the Bank under the heading “Interest income” in the income statement.

1.3.6 Transfers and derecognition of financial instruments from the balance sheet

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

Note 3 provides details of asset transfers in effect at the end of 2023 and 2022, indicating those that did not involve the derecognition of the asset from the balance sheet.

1.3.7 Offsetting of financial instruments

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

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

The “Non-current assets and disposal groups classified as held for sale” heading on the 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 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 Bank for the full or partial settlement of debtors’ payment obligations are treated as non-current assets and disposal groups classified as held for sale, unless the Bank has decided to make continued use of 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 Bank has specific units that focus on the management and sale of real estate assets.

The heading “Liabilities included in disposal groups classified as held for sale” includes credit balances associated with assets or disposal groups, or with the Bank’s discontinued operations.

Non-current assets and disposal groups classified as held for sale are measured, both on the acquisition date and thereafter, at the lower of their carrying amount and 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 held for sale.

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

The appraisal value of real estate assets recognised in this heading is obtained the policies and criteria described in the section entitled “Guarantees” in Note 1.3.3. The main appraisal firms and agencies used to obtain market values are listed in Note 5.

Gains and losses arising from the disposal of non-current assets and assets and liabilities included in disposal groups classified as held for sale, as well as impairment losses and their reversal, where applicable, are recognised under the heading “Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations” in the income statement. The remaining income and expenses relating to these assets and liabilities are disclosed 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 area that is significant and separate from the rest or is part of a single coordinated plan to dispose of that business or geographical area, 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 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.

1.3.9 Tangible assets

Tangible assets include (i) property, plant and equipment held by the Bank for current or future use that is expected to be used for more than 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 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	17 to 75
Fixtures and fittings	5 to 20
Furniture, office equipment and other	3 to 15
Vehicles	3 to 6
Computer equipment	5 to 6

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

At each year-end closing, the Bank analyses whether there are any internal or external signs that a tangible asset might be impaired. If there is evidence of impairment, the Bank assesses whether this impairment actually exists by comparing the asset’s net 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 Bank 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 Bank records the reversal of the impairment loss recognised in previous years and adjusts future depreciation charges accordingly. The reversal of an impairment loss on an asset component shall in no circumstances result in its 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 that end, the Bank (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) that 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 in perpetuity determined by the Bank (see Note 15).

For investment properties, the Bank 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 income statement for the year in which they are incurred.

1.3.10 Leases

The Bank 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 Bank acts as lessee

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

For lease contracts with a specified lease term that include, or not, a unilateral option for early termination that can be exercised by the Bank and in which the cost associated with such termination is not significant, the term of the lease is generally equivalent to the duration initially 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 Bank, the choice to exercise this option will be made on the basis of economic incentives and past experience.

The lease liability is initially recognised in the heading "Financial liabilities at amortised cost – Other financial liabilities" of the balance sheet (see Note 20), at a value equal to the present value of the estimated payments outstanding, based on the envisaged maturity date. Lease payments are discounted using the implicit interest rate, if this can be easily determined and, if not, using 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.

These payments comprise fixed payments (less any lease incentives payable), variable payments determined by reference to an index or rate, amounts expected to be paid for residual value guarantees given to the lessor, the strike price of a call option (if the Bank is reasonably certain that it will exercise that option) and payments of penalties for terminating the lease (if the lease term shows that an option to terminate the lease is exercised).

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

A right-of-use asset, which is classified as a fixed asset based on the nature of the leased asset, is initially recognised at cost, which comprises the amount of the initial measurement of the lease liability, payments made before or at the commencement date of the lease, initial direct costs and, where appropriate, the estimated costs of dismantling or restoring the asset to the condition required under 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 1.3.9).

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

<u>Sale and leaseback</u>

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

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

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

Leases in which the Bank acts as lessor

<u>Finance leases</u>

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

<u>Operating leases</u>

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

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

1.3.11 Intangible assets

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

Intangible assets are initially recognised at their acquisition or production cost and are subsequently measured at cost less 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 and subsequently merged entities are recognised as goodwill on the asset side of the balance sheet. These differences represent an advance payment made by the Bank of the future economic benefits derived from the acquired entities that are not individually identified and separately recognised.

Goodwill is only recognised when acquired for valuable consideration and it is amortised over a period of 10 years.

Goodwill is assigned to one or more cash-generating units (CGUs) which are expected to benefit from the synergies arising from the business combinations. These CGUs are the smallest identifiable group of assets which, as a result of their continuous operation, generate cash flows for the Bank, separately from other assets or groups of assets.

CGUs (or groups of CGUs) to which goodwill has been assigned are tested at least once a year for impairment, or whenever there is evidence that impairment might have occurred. To this end, the Bank 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 (post-tax): 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 CGU (or group of CGUs to which goodwill has been assigned) is higher than its recoverable amount, the Bank recognises an impairment loss that is allocated, firstly, by reducing the goodwill attributed to that CGU 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 are amortised on the basis of their useful lives, applying similar criteria to those used for tangible assets. The useful life of brands and contractual rights arising from relationships with customers of the acquired businesses varies between 5 and 15 years, while for computer software the useful life ranges from 3 to 15 years. In particular, the applications 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 applications corresponding to channels and to data & analytics ranges from 7 to 10 years.

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

1.3.12 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 own equity instruments, including their issuance or redemption, are recognised directly with a balancing entry in equity.

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

Equity instruments issued in full or partial settlement of a financial liability are recognised at fair value unless this cannot be reliably determined. In this case, the difference between the 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.

1.3.13 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 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 equity cannot subsequently be reversed, even when employees do not exercise their right to receive the equity items.

For transactions involving share-based remuneration paid in cash, the Bank 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 balance sheet. The Bank measures this liability at fair value until it is settled. Changes in value are recognised in the income statement for the year.

1.3.14 Provisions, contingent assets and contingent liabilities

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

In general, the Bank's annual financial statements include all significant provisions based on which it is estimated that it is more likely than not that the obligation will need to be settled. These provisions include, among other items, pension commitments undertaken with employees (see Note 1.3.15), as well as provisions for tax litigation and other contingencies.

Contingent liabilities are any possible obligations in the Bank that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the Bank. Contingent liabilities include present obligations of the Bank 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 annual financial statements, rather, they are disclosed in the notes to the 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 Bank. These contingent assets are not recognised on the balance sheet or in the income statement, but they are disclosed in the corresponding report where an inflow of economic benefits is probable.

1.3.15 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 income statement (see Note 30).

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.

The "Provisions – Pensions and other post employment defined benefit obligations" heading on the liabilities side of the 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.

The fair value of the plan assets is deducted from the obligations calculated in this way. Plan assets are assets that will be used to settle obligations, including insurance policies, since they meet the following conditions: (i) they are not owned by the Group but by a legally separate third party not qualifying as a related party, (ii) they are only available to pay or fund employee benefits and are not available to creditors of the Group, even in the event of insolvency, (iii) they cannot be returned to the Group unless the assets remaining in the plan are sufficient to settle all obligations, either 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, and (iv) 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 measurement of pension commitments are as follows:

	2023	2022
Tables	PER2020_Col_1er.orden	PER2020_Col_1er.orden
Discount rate, pension plan	3.75% per annum	3.25% per annum
Discount rate, internal fund	3.75% per annum	3.25% per annum
Discount rate, related insurance	3.75% per annum	3.25% per annum
Discount rate, non-related insurance	3.75% per annum	3.25% per annum
Inflation	2.00% per annum	2.00% per annum
Rate of increase in salaries	3.00% per annum	3.00% per annum
Employee disability	SS90-Absolute	SS90-Absolute
Employee turnover	Not considered	Not considered
Early retirement	Considered	Considered
Normal retirement age	65 or 67 years	65 or 67 years

In 2023 and 2022, the discount rate on all commitments was determined by reference to the return on AA-rated corporate bonds (iBoxx € Corporates AA 10+), with an average duration of 11.96 and 13 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 was determined by applying the same discount rate used in actuarial assumptions (3.75% and 3.25% in 2023 and 2022, respectively).

1.3.16 Foreign currency transactions

The Bank's functional and reporting 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:

- 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 in the translation of debit and credit balances denominated in foreign currency are recognised in the 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 statement of equity, a breakdown is given for the exchange rate component of the remeasurement of the non-monetary item.

1.3.17 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 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 income statement based on the following criteria:

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

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

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

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

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

Non-financial income and 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.

<u>Deposit Guarantee Fund</u>

The Bank is a member of the Deposit Guarantee Fund. In 2023, 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 0.175% of the value of deposits guaranteed as at 31 December 2022. Each entity's contribution is calculated according to the amount of deposits guaranteed and their risk profile. 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 2023 (see Note 29).

<u>Single Resolution Fund</u>

Law 11/2015 of 18 June, together with its implementing regulation through Royal Decree 1012/2015, entailed the transposition into Spanish law of Directive 2014/59/EU. This Directive established a new framework for the resolution of credit institutions and investment firms, and it is also one of the standards that have contributed to the establishment of the Single Resolution Mechanism, created through Regulation (EU) No 806/2014. This Regulation sets out standard rules and procedures for the resolution of credit institutions and investment firms within the framework of a Single Resolution 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 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 29).

Temporary levy of credit institutions and financial credit establishments

Law 38/2022 of 27 December was published on 28 December 2022. Among other aspects, it establishes a temporary levy for credit institutions and financial credit establishments. This levy must be paid during 2023 and 2024 by credit institutions and financial credit establishments operating in Spain whose sum of interest income and fee and commission income in 2019 was 800 million euros or more. The payment amount was set at 4.8% of the sum of net interest income plus net fees and commissions stemming from their activities in Spain recognised on the income statement for the calendar year immediately preceding the year in which the payment obligation arose. The payment obligation arises each 1 January and must be paid during the first 20 calendar days of the month of September of each year, without prejudice to a 50% advance payment of the total levy, which must be made during the first 20 calendar days of the first February following the date on which the payment obligation arises (see Note 29).

The Fifth Additional Provision of Royal Decree-Law 8/2023 of 27 December extends the payment of the temporary levy by one year, to 2025.

1.3.18 Income tax

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

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

Deferred tax assets and deferred tax liabilities relate to taxes expected to be payable or recoverable arising from differences between the carrying 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 35).

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

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

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

The "Tax assets" and "Tax liabilities" on the balance sheet include all tax assets and tax liabilities, differentiating between current tax assets/liabilities (to be recovered/paid in the next twelve months) and deferred tax assets/liabilities (to be recovered/paid in future years).

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

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 the Spanish tax group and of the other entities, based on the financial budgets approved by the Bank'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.

1.3.19 Statement of recognised income and expenses

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

1.3.20 Statement of total changes in equity

This statement sets out all changes in the Bank'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 equity.

1.3.21 Cash flow statement

Cash flow statements have been prepared using the indirect method, in such a way that, based on the Bank'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 investing or financing activities..

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

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

1.4 Comparability

The information presented in these annual financial statements corresponding to 2022 is provided solely and exclusively for purposes of comparison with the information for the year ended 31 December 2023 and therefore does not constitute the Bank's annual financial statements for 2022.

Note 2 – Shareholder remuneration and earnings per share

Set out below is the proposed distribution of the profits earned by Banco de Sabadell, S.A. in 2023, which the Board of Directors will submit to shareholders for approval at the Annual General Meeting, together with the proposed distribution of profits earned by Banco de Sabadell S.A. in 2022, which was approved by shareholders at the Annual General Meeting of 23 March 2023:

Thousand euro

	2023	2022
To dividends	326,413	225,079
To Canary Island investment reserve	183	279
To voluntary reserves	761,418	515,193
Profit for the year of Banco de Sabadell, S.A.	**1,088,014**	**740,551**

On 25 October 2023, the Board of Directors of Banco Sabadell agreed to distribute an interim dividend in cash, to be paid out of its earnings in 2023, of 0.03 euros (gross) per share, which was paid on 29 December 2023.

In fulfilment of the mandatory requirement indicated in Article 277 of Spain's Capital Companies Act (*Ley de Sociedades de Capital*), the provisional statement of accounts provided below was created by the Bank to confirm the existence of sufficient liquidity and profit at the time of its approval of the aforesaid interim dividend:

Thousand euro

Available for the payment of dividends according to the interim statement at:	**30/09/2023**
Banco Sabadell profit as at the date indicated, after provisions for taxes	861,364
Estimated statutory reserve	—
Estimated Canary Island investment reserve	—
Maximum amount available for distribution	861,364
Interim dividend proposed	166,797
Cash balance available at Banco de Sabadell, S.A. (*)	27,263,008

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

Similarly, on 31 January 2024, the Board of Directors of Banco Sabadell resolved to propose to the next Annual General Meeting of Shareholders a supplementary dividend of 0.03 euros (gross) per share charged to the results of the 2023 financial year, to be paid in cash foreseeably during the month following the holding of the Annual General Meeting of Shareholders.

In addition to this cash dividend, the Board of Directors of Banco Sabadell, after having obtained the prior permission of the competent authority, has also resolved to establish, out of the 2023 earnings, a buyback programme of treasury shares for their redemption through a resolution for share capital reduction to be proposed to the Annual General Meeting of Shareholders, of up to a maximum amount of 340 million euros, whose terms, once they are set by the Board of Directors, will be the content of a new announcement before starting its execution.

The total shareholder remuneration corresponding to 2023, which combines the cash dividend and the share buyback programme, will, therefore, be equivalent to 50% of the profit attributable to the owners of the parent company, complying with the shareholder remuneration policy.

In addition, at its meeting of 25 January 2023, the Board of Directors submitted a proposal to the Annual General Meeting concerning the distribution of a supplementary gross cash dividend of 0.02 euros per share to be paid out of 2022 earnings, which was approved at the Annual General Meeting on 23 March 2023 and paid out in the same month. Previously, the Board of Directors of Banco Sabadell had agreed, on 26 October 2022, to distribute an interim dividend in cash, to be paid out of its earnings in 2022, of 0.02 euros (gross) per share, which was paid on 30 December 2022. Consequently, the cash dividend reached 0.04 euros per share, paid out of 2022 earnings.

The remaining shareholder remuneration, of up to 430 million euros equivalent to 50% of the profit attributable to the owners of the parent in 2022, was reached by establishing a share buyback programme, which is described below.

Share buyback programme

On 30 June 2023, after receiving the required permission of the competent authority, Banco Sabadell gave notice, by means of an Inside Information filing, of the establishment and execution of a temporary share buyback programme for a maximum pecuniary amount of 204 million euros for the purpose of reducing the Bank's share capital through the redemption of the treasury shares acquired. The share buyback programme was carried out in accordance with the provisions of Article 5 of Regulation (EU) 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016.

On 13 November 2023, the Bank gave notice, by means of an 'Other Relevant Information' filing, of the end of the share buyback programme as the maximum pecuniary amount mentioned above had been reached, having acquired 186,743,254 treasury shares with a par value of 0.125 euros each, representing approximately 3.32% of Banco Sabadell's share capital.

On 30 November 2023, the Board of Directors agreed to execute Banco Sabadell's share capital reduction through the redemption of all the treasury shares acquired under the share buyback programme. The capital reduction was approved under the powers conferred to the Board of Directors by the Ordinary Annual General Meeting held on 23 March 2023 in the amount of 23,342,906.75 euros. The public deed corresponding to the capital reduction was entered with the Companies Register of Alicante on 11 December 2023 (see Note 22).

Earnings per share

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

	2023	2022 (*)
Profit or loss attributable to owners of the parent (thousand euro)	1,332,181	889,392
Adjustment: Remuneration of other equity instruments (thousand euro)	(115,391)	(110,375)
Profit or (-) loss after tax from discontinued operations (thousand euro)	—	—
Profit or loss attributable to owners of the parent, adjusted (thousand euros)	1,216,790	779,017
Weighted average number of ordinary shares outstanding (**)	5,401,123,639	5,593,885,977
Assumed conversion of convertible debt and other equity instruments		
Weighted average number of ordinary shares outstanding, adjusted	5,401,123,639	5,593,885,977
Earnings (or loss) per share (euros)	0.23	0.14
Basic earnings (or loss) per share adjusted for the effect of mandatory convertible bonds (euros)	0.23	0.14
Diluted earnings (or loss) per share (euros)	0.23	0.14

(*) See Note 1.4. to Banco Sabadell Group's consolidated annual financial statements.

(**) Average number of total shares minus average treasury stock and average number of shares subject to a buyback programme.

As at 31 December 2023 and 2022, there were no other financial instruments or share-based commitments with employees with a significant impact on the calculation of diluted earnings (or loss) per share for the periods presented. For this reason, basic earnings (or loss) per share coincide with diluted earnings (or loss) per share.

Note 3 – Risk management

Throughout 2023, 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 activity, good management of these risks is a central part of the business. The Group has established a set of principles, set out in policies and rolled out through procedures, strategies and processes, which 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.

3.1 Macroeconomic, political and regulatory environment

Macroeconomic environment

When managing risks, the Group considers the macroeconomic environment. The most significant aspects of 2023 are set out below:

- The main factors at play in 2023 were the interest rate hikes carried out by central banks and their gradual effects on economic activity.
- In 2023, inflation gradually eased from the peaks observed in 2022.
- The correction in the prices of energy and industrial goods was, to a large extent, the force behind the moderation of headline inflation. The evolution of core inflation was more subdued, although it also showed a clear downward trend.
- The evolution of the global economy showed a marked divergence between the dynamism of the US economy, which proved to be stronger than expected, and the Eurozone and UK economies, which lagged and were practically stagnant throughout the year.
- Spain continued to outperform other Eurozone countries. The economy was driven mainly by a gradual improvement of private consumption and, to a lesser extent, by the contribution of the public sector.

- In terms of economic policy in Spain, the approval of the second part of the government's pension reform and the continuance of most of the measures to alleviate the impacts of the energy crisis were noteworthy features.

- The European Commission approved the addendum to the Spanish Recovery Plan, which will mobilise an additional 94 billion euros from the Next Generation EU funds.

- The emerging economies proved themselves resilient to the global economic landscape. Adjustment of the real estate sector in China intensified, although the repercussions remain limited.

- In Mexico, the economy performed well. Investment grew at historic double-digit rates, partly due to nearshoring with the United States.

- Global geopolitics continues to represent a vector of uncertainty for the economic environment. The outbreak of a new conflict between Israel and Hamas reignited instability in the Middle East, although the broader economic repercussions were marginal.

- The financial sector suffered a temporary episode of instability, related to the collapse of US regional banks Silicon Valley Bank (SVB) and Signature Bank and the acquisition of Credit Suisse by UBS. The authorities managed to contain the financial contagion and, ultimately, the economic consequences were limited.

- The developed nations' central banks continued their cycle of interest rate hikes in 2023, although the pace was somewhat less intense than in 2022. In the latter part of the year, they signalled that the rate hike cycle could have reached its end.

- The European Central Bank (ECB) implemented an unprecedented tightening of its monetary policy and ended up raising the deposit rate to a record high of 4.00%. The reduction of its balance sheet also continued, due to the maturity of TLTRO-III loans and the reduction of asset holdings.

- For its part, the Federal Reserve (Fed) continued to pursue its rake hike cycle, with official interest rates at a range of 5.25%-5.50%. With regard to its balance sheet, the reduction process continued, interrupted only briefly to respond to the episode of instability caused by the collapse of SVB.

- The Bank of England (BoE) raised its base rate to 5.25% and continued with its balance sheet reduction programme.

- The financial markets performed better in 2023 than the previous year, when a large portion of financial assets posted heavy losses.

- Long-term government bond yields continued on an upward trend for much of the year. They were driven by pressure from monetary policy tightening, the resilience of the US economy and concerns regarding high levels of need for sovereign debt funding. In the last two months of the year, some unexpected falls in price data and a shift in central banks' communication policy (particularly that of the Fed) led to a turnaround in yields, which completely reversed the upward trend.

- The risk premiums on peripheral sovereign debt were at lower levels than those seen at the end of 2022. In the case of Spain, the risk premium remained stable and at low levels.

- The US dollar posted numerous swings in its exchange rate against the euro, finishing the year at somewhat lower levels compared to the end of 2022 (EUR 1.00 = USD 1.10).

- In emerging economies' financial markets, sovereign risk premiums were slightly reduced over the year. Regarding exchange rates, the high official interest rates continued to buoy emerging market currencies and the Mexican peso performed particularly well.

- The banking sector generally displayed adequate capital levels, with a CET1 ratio that, according to the authorities, would remain above the minimum regulatory requirements even in an adverse scenario. Furthermore, profitability increased, thanks to the positive evolution of net interest income.

- The financial authorities continued to rate the risks associated with global financial instability as high. Attention was mainly focused on the commercial real estate sector, risks related to the non-banking financial sector and the situation facing companies, above all the most highly leveraged ones, in an environment of higher financing costs.

Political and regulatory environment

Impacts stemming from the war in Ukraine

The war between Russia and Ukraine, which broke out at the end of February 2022 and which is still ongoing today, prompted governments to adopt plans and measures to mitigate the impacts of the conflict by providing public support for the affected sectors.

On 23 March 2022, the European Commission approved a temporary framework for State aid measures intended to support the economy following Russia's aggression against Ukraine. This framework was implemented in Spain by Royal Decree-Law 6/2022. The Agreements of the Spanish Council of Ministers of 10 May 2022 and of 27 December 2022 released the first two tranches of the guarantee line for a total of 5.5 billion euros. On 12 December 2023, the Agreement of the Council of Ministers of 5 December 2023 was published in the Official State Gazette (*Boletín Oficial del Estado* or BoE), establishing the terms and conditions for the third tranche of the guarantee line amounting to 4.5 billion euros for financing granted to companies and self-employed persons. Among other changes, it was decided to increase the threshold for guaranteed loans from 2 million to 2.25 million euros and to extend the application deadline for the corresponding guarantee line to 1 June 2024. The amount of the above mentioned third tranche was reduced to 3.5 billion euros through the Agreement of the Council of Ministers of 27 December 2023, amending the Agreement of the Council of Ministers of 5 December 2023. The European Commission will be notified of the aforesaid changes so that it may authorise them; their application requires the express authorisation of the European Commission.

In addition, on 27 December 2023, the Council of Ministers adopted Royal Decree-Law 8/2023, which extends certain measures to respond to the economic and social consequences arising from the conflict in Ukraine.

Banco Sabadell Group's credit risk with both individuals and companies from these countries is limited, and the same is true of its counterparty credit risk with financial institutions from Russia and Ukraine. Specifically, the largest exposures relate to mortgage loans granted to customers of Russian, Ukrainian or Belarusian nationality residing outside Spain, which amounted to 233 million euros and 293 million euros as at 31 December 2023 and 2022, respectively. The real estate assets securing those exposures are located in Spain and have an average loan-to-value of 37.7% and 39% as at 31 December 2023 and 2022, respectively. Furthermore, these are all transactions that, on average, were originated more than 7 years ago.

Impacts of interest rate hikes and rising inflation

Measures to ease the mortgage burden and strengthening of financial inclusion

On 22 November 2022, the government introduced a package of measures designed to ease the mortgage burden. The package focuses on three key aspects.

Firstly, it amends the 2012 Code of Good Practice to provide greater relief to vulnerable households. This includes a reduction of the interest rate during a five-year grace period (to Euribor minus 0.10% instead of Euribor plus 0.25%), the option to apply for debt restructuring for a second time and to extend the period during which customers can request that their home be surrendered in settlement of the outstanding debt to two years. In addition, the scope of the Code of Good Practice was extended so that households that have not managed to increase their effort rate by the required 50% may take advantage of certain measures.

Secondly, a new temporary Code of Good Practice was established (valid for two years) to help middle-class families ease the financial burden of mortgages taken out up to 31 December 2022. This is achieved by freezing repayment instalment amounts and extending the repayment period of the loan by up to seven years.

Thirdly, it was decided to reduce expenses and fees to make it easier to change from a floating-rate mortgage to a fixed-rate mortgage, and to scrap the fees charged for early repayments and for changing from a floating-rate mortgage to a fixed-rate mortgage throughout the whole of 2023.

Uptake of the two Codes of Good Practice by financial institutions is voluntary, although once they sign up to them, compliance is mandatory. Banco Sabadell signed up to the new Code of Good Practice on 16 December 2022.

As mentioned previously, on 27 December 2023, the Council of Ministers adopted Royal Decree-Law 8/2023 prolonging certain anti-crisis measures, which extended the duration of most of the measures adopted in 2022 and 2023. Notable among them was a series of measures intended to provide mortgage relief for homeowners. One such measure was to raise the income threshold at which the Code of Good

Practice may be accessed for at-risk borrowers. This threshold was increased from 3.5 to 4.5 times the monthly Multiplier for the Public Income Index (hereinafter, IPREM), enabling households with an annual income of up to around 37,800 euros to benefit. In addition, the suspension of all fees charged for early repayment of variable-rate mortgage loans and switching to fixed rate was extended to 2024, and free-of-charge conversions from variable-rate to hybrid mortgages were also extended. When this measure ends, the permanent cap of 0.05% that limits the amount of fees applicable when switching a mortgage from variable rate to fixed rate will also apply when switching from variable rate to hybrid rate.

In addition, Royal Decree-Law 8/2023 approves various measures to strengthen the financial inclusion of older and/or disabled persons, including the removal of fees charged for cash withdrawals at bank counters, and extends the preventive framework to provide relief to at-risk mortgage holders.

3.2 Key milestones during the year

3.2.1 The Group's risk profile during the year

The following milestones have been achieved in relation to the Group's risk profile during 2023:

I. Non-performing assets:

– During 2023, non-performing assets were reduced by -223 million euros. The NPL ratio for the year stands at 3.52%.

II. Lending performance:

– Gross performing loans ended the year 2023 with a balance of 149,798 million euros, declining by 4.1% year-on-year.

– In Spain, gross performing loans show a fall of 4.6% year-on-year, impacted by lower business and mortgage portfolio volumes.

– In TSB, at constant exchange rates, gross performing loans show a fall of -5.9% year-on-year, due to the reduced volume of the mortgage portfolio.

– In Mexico, at constant exchange rates, gross performing loans increased by 7.1% year-on-year.

III. Concentration:

– From a sectoral point of view, the loan portfolio is diversified and has limited exposure to the sectors most sensitive to the current environment.

– Similarly, in terms of individual concentration, the metrics relating to concentration of large exposures show a slight downward trend and remain within the appetite level. The credit rating of the largest exposures has also improved over the year.

– Geographically speaking, the portfolio is positioned in dynamic regions, both in Spain and worldwide. International exposures account for 37% of the loan book.

IV. Strong capital position:

– The CET1 ratio improved by 64 basis points to 13.2% in fully-loaded terms as at 2023 year-end (compared to 12.55% as at 2022 year-end).

– The fully-loaded and phase-in Total Capital ratios stand at 17.76% as at the end of 2023, thus remaining above the requirements for 2024 with an MDA buffer of 431 basis points. The fully-loaded and phase-in leverage ratio is 5.19%.

V. Sound liquidity position:

– The Liquidity Coverage Ratio stands at 228% (compared with 234% at the end of 2022), with total liquid assets of 61,783 million euros.

3.2.2 Strengthened credit risk management and control environment

2023 has been marked by the monitoring and control of the effects stemming from the inflationary environment and the cycles of interest rate hikes implemented by the central banks in the main geographical areas where Banco Sabadell operates.

To that end, special attention has been paid to strengthening the RAS metrics framework, while risk frameworks have been revised and the risk exposure to the sectors most severely impacted by the current environment has been assessed, proactively managing the counterparties that are potentially most affected.

In the case of individuals, oversight of the management and control framework has continued, with monitoring of the RAS metrics, origination rules and proposals for interest rate adjustments, as well as effort rates and available income to cope with higher rates and the inflationary environment, anticipating the needs of more vulnerable customers by managing, among other things, the commitments pursuant to the Code of Good Practice, for certain customer groups at risk of vulnerability.

Performance of the main solutions offered in Spain

With regard to the ICO Covid lines, as at 31 December 2023, loans and credit granted amounted to approximately 4.7 billion euros (7.4 billion euros as at 31 December 2022). As at year-end, there were very few unexpired grace periods remaining.

3.3 General principles of risk management

Global Risk Framework

The Global Risk Framework aims to establish the common basic principles relating to the risk management and control activity of Banco Sabadell Group including, among other things, all actions associated with the identification, decision-making, 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 with the risk strategy and the risk appetite.
- Understand the risk environment in which it operates.
- Ensure, following the guidelines of the Board of Directors, that critical risks are identified, understood, managed and controlled efficiently.

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

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

3.3.1 Global Risk Framework Policy

As an integral part of the Global Risk Framework, the Global Risk Framework Policy establishes the common basic principles for Banco Sabadell Group’s risk management and control activities, including, among other things, all actions associated with the identification, decision-making, 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.

The Group's risk governance arrangements are designed to organise risk management and control activities by means of the model of three lines of defence, granting independence, hierarchical authority and sufficient resources to the Risk Control function. In the same way, the governance model seeks to ensure that risk management and control processes offer an end-to-end vision of the phases involved.

– 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 embedded 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 of its areas of activity, ensuring compliance with supervisory expectations and best practices in relation to risk management, monitoring and control.

One of the priorities established by the Group is the maintenance of a sound 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.

3.3.2 Risk Appetite Framework (RAF)

The risk appetite is a key element in setting the risk strategy, as it determines 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.

Effective implementation of the RAF requires an adequate combination of policies, processes, controls, systems and procedures that enable a set of defined targets and objectives to not only be achieved, but to be done so in an effective and continuous way.

The RAF covers all of 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 strategic planning and budgeting processes, the 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.

3.3.3 Risk Appetite Statement (RAS)

The RAS is a key element in determining the Institution's risk strategies. It establishes qualitative expressions and quantitative limits for the different risks that the Institution is willing to accept, or seeks 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 measure deemed to be relevant. The RAS is therefore a key element in setting the risk strategy, as it determines the area of activity.

Qualitative aspects of the RAS

The Group's RAS includes the definition of a set of qualitative aspects, which essentially help to define the Group's position with regard to 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) metrics, executive (or second-tier) metrics 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 of deterioration of the risk position and thus be able to monitor and control it more effectively, the RAS sets out 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 rectify the situation.

These thresholds are established to reflect different levels of severity, making it possible to take preventive action before excessive levels are reached. Some or all of the thresholds will be established for a given metric, depending on the nature of that metric and its hierarchical level within the structure of RAS metrics.

3.3.4 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.

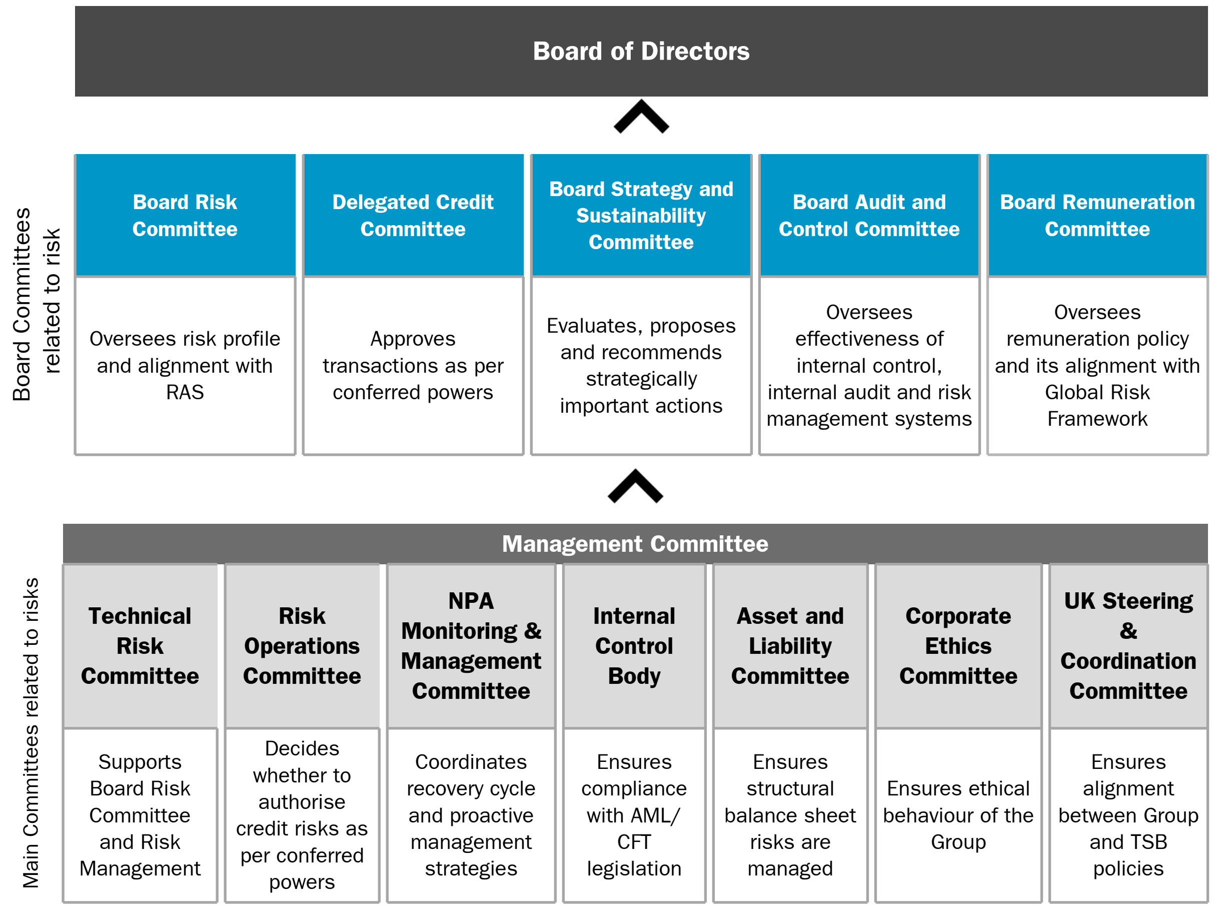
3.3.5 Overall organisation of the risk function

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, and for 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 five committees involved in the Group's Global Risk Framework and, therefore, in risk management and control (the Board Risk Committee, the Board Strategy and Sustainability Committee, the Delegated Credit Committee, the Board Audit and Control Committee and the Board Remuneration 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 targets and 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 three lines of defence. This model is described, for each of the risks, in the various policies that make up the Group’s body of regulations, in which responsibilities specific to each of the three lines of defence are established.

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

    - Maintain effective internal controls and perform day-to-day risk assessment and control procedures;

    - Identify, quantify, control and mitigate risks, complying with the established internal policies and procedures and ensuring that activities are consistent with the established goals and objectives;

    - Implement suitable processes to manage and mitigate material risks.

    - Participate in decision-making processes, identifying, assessing, controlling and mitigating the risks inherent in the implementation of significant changes and one-off transactions.

    - Define the strategy for each risk.

– Second line of defence: broadly speaking, 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 duties attributed to this line are the following:

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

    - Participate in the decision-making process where it concerns the implementation of significant changes and one-off transactions.

    - Monitor the risk strategy approved by the Board of Directors through its approval of the RAS.

    - Keep the risk inventory up to date, justifying those not considered to be material, and review the inventory of material risks.

    - Establish and maintain an equivalence between subsidiaries’ local taxonomies and the Group taxonomy.

    - Conduct a risk assessment of the Group’s risk profile on an annual basis.

    - Supervise the risk management and control activities carried out by the first line of defence to ensure they conform to the established policies and procedures, bearing in mind the tasks specifically assigned to it, and identify potential improvements within risk management.

    - The Validation Division gives opinions regarding the suitability of new proposals, changes or adjustments to models, tools and processes with material methodological components. It also designs and rolls out the model risk management and control framework and monitors the Group’s model risk profile.

    - The Compliance Division identifies and periodically assesses compliance risks in the different areas of activity.

– Third line of defence: helps the Group to achieve its objectives, carrying out verification activities and providing independent and objective advice. Provides regular oversight of governance processes and of the established risk management and internal control activities.

3.4 Management and monitoring of the main material risks

The most salient aspects concerning the management of the first-tier risks identified in the Banco Sabadell Group risk taxonomy and concerning the actions taken in this regard in 2023 are set out below:

3.4.1 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 for a specified period of time. In 2021, Banco Sabadell defined a new Strategic Plan which sets out the key courses of action and transformation for each business line over the coming years, in order to seize the opportunity of consolidating its position as a major domestic bank.

As part of the Strategic Plan, the Group carries out five-year financial projections, which are the result of the implementation of the strategies defined in the Plan. These projections are carried out on the basis of the most likely economic scenario for the key geographies (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 and their monitoring are integrated into management arrangements, as they set out the key aspects of the Group's medium- and long-term strategy. The Plan is drawn up 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 risk appetite.

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 an institution 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: current or future risk of the Bank's competitive capacity being affected as a result of: (i) actions or omissions, carried out by or attributed to the Group, Senior Management or its governing bodies, or (ii) maintaining business relationships with counterparties with poor reputation, resulting in a negative perception by its stakeholders (regulators, employees, customers, shareholders, investors and the general public).

- Environmental risk: risk of incurring losses as a result of the impacts, both those existing at present and those that may exist in the future, of environmental risk factors on counterparties or invested assets, as well as aspects affecting financial institutions as legal entities. Environmental factors are related to the quality and functioning of natural systems and resources, and include factors such as climate change and environmental degradation. Any one of them can have a positive or negative impact on the financial performance or solvency of an institution, sovereign state or individual. These factors may materialise mainly in physical aspects (effects of climate change and environmental degradation, including more frequent extreme weather events and gradual changes in weather patterns and in the balance of ecosystems) and transitional aspects (arising from processes to adjust to an environmentally sustainable economy, for example, lower emissions, greater energy efficiency and reduced consumption of natural resources, among others).

3.4.1.1 Solvency risk

Banco Sabadell's ratios are above the minimum capital requirements established by the European Central Bank (ECB). 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 2023 for solvency risk and capital management are available in Note 5 to the consolidated annual financial statements.

3.4.1.2 Business risk

2023 was a year marked by various macroeconomic and geopolitical events, most notable among them:

- The interest rate hikes implemented by central banks, persistently high inflation rates, and the progressive transfer of the impacts of these to economic activity.
- Specific episodes of uncertainty of different kinds, among them: (i) the collapse of certain US regional banks, (ii) the takeover of Credit Suisse by UBS due to the problems observed in the Swiss institution, and (iii) the start of a new conflict in the Middle East, between Israel and Hamas.

Against this backdrop, in year-on-year terms, Banco Sabadell significantly increased its bottom line. This Group profit was mainly driven by the good performance of core results (net interest income + fees and commissions – recurrent costs), which improved due to both the increase in net interest income and the efforts made to contain costs.

It is also worth highlighting the improvement in the Group's credit quality, which has made it possible to reduce provisions for non-performing assets and place the total cost of risk below the levels recorded in 2022.

All these aspects are clearly reflected in the Group's improved profitability, shown by an improvement of its ROTE, which increased from 8.2% as at 31 December 2022 to 11.5% as at 31 December 2023.

3.4.1.3 Reputational risk

In recent years, both customers and society as a whole have attached more importance to the service offered by banks. Vulnerable customers and their specific needs have gained visibility. The change of the Group's business model, shifting to one in which less of the service is provided in person, increases the materiality of this risk, as these stakeholders' perception of its performance is one of the factors that it considers.

Banco Sabadell Group bases its business model on corporate values such as ethics, professionalism, rigour, transparency, quality and, in general, long-term business relationships that are beneficial to both the Group and its counterparties.

The Group rigorously manages its reputational risk, identifying any potential or actual threat of this type in good time and ensuring that it is suitably dealt with as quickly and as early as possible, as the materialisation of such a risk could jeopardise the achievement of the vision that the Group has for its future and that it wishes to convey to the market, with its own unique and recognisable personality.

The Group monitors this risk through the Board Risk Committee, which has a dashboard with indicators associated with the main stakeholders. The qualitative aspects of the RAS include the following aspects:

- Low appetite in the event of threats to the Group's reputation.
- Special consideration of restrictions on transactions with borrowers associated with political parties and the media.
- The Group neither invests nor provides funding to companies linked to the development, manufacture, distribution, storage, transfer or sale of controversial weapons, as set forth in the various conventions of the United Nations currently in force.
- The products and services offered to customers need to be known by all of the parties involved, who must be specifically trained for their sale, only offering customers products and services that are appropriate to their needs, and safeguarding their interests.

3.4.1.4 Environmental risk

The 2015 Paris Agreement, the major milestone in the international commitment against climate change, promotes the reduction of greenhouse gas (GHG) emissions to limit global warming to "well below" 2ºC in 2100 and seeks to ensure that it does not exceed 1.5ºC in relation to pre-industrial average temperatures (1850-1900).

The European Union adopted the Agreement and, in line with its goals, has been promoting various regulatory and non-regulatory measures to achieve a fully decarbonised economy by mid-century. From a financial perspective, this has been implemented through the 2018 Action Plan on Sustainable Finance (APSF), a roadmap that was reformulated and updated in 2021 in the Renewed Sustainable Finance Strategy

(RSFS), with strategies that have been developed by applying a regulatory and supervisory "tsunami" aimed at achieving the promised objectives.

In this context, Banco Sabadell Group's commitment to sustainability has been incorporated with a cross-cutting approach into its strategy and business model, internal governance and risk identification, management and control, in order to guide its activity and processes towards contributing to a more sustainable and resilient economy. The aim is to support the Group's customers with their transformation in two ways: on one hand, by providing them with appropriate funding to meet their needs and, on the other, by offering them savings and investment products that serve as a catalyst to achieve an emissions-neutral world that is resistant to climate variability and the degradation of natural ecosystems. The commitment also extends to the Group as an entity separate from its customers, as the Institution also aims to reduce its own consumption and emissions, thereby ensuring its contribution to the collective aim of sustainability.

As part of this corporate goal, throughout 2023 Banco Sabadell Group has continued to implement the Sustainable Finance Plan, which includes a series of initiatives that add to its track record of projects designed to pursue a more sustainable economy, as described below.

To align with its commitment to achieve a sustainable future, Banco Sabadell Group has been part of the Net-Zero Banking Alliance (NZBA) since 2021. This is an international alliance on climate change formed by major banking institutions, whose main objective is to align their loan and investment portfolios with net-zero emissions scenarios by 2050 or earlier, in accordance with the most ambitious goals of the Paris Agreement (1.5ºC). The Institution has already outlined pathways for four "high risk" sectors: oil & gas, energy, cement and coal.

Banco Sabadell Group also made a commitment, from 2020 onwards, 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 Group Sustainable Finance Plan

Since 2020, Banco Sabadell Group has been developing a Sustainable Finance Plan with cross-cutting effect, which includes a set of additional initiatives that allow it to incorporate, develop, apply and comply not only with its sustainability commitments but also with the regulatory and supervisory requirements to which it is subject.

Within the initiatives carried out, it is worth noting 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 Environmental Risk Policy drawn up in July 2021 (which defines the critical management parameters to progressively and proportionally integrate these risks in the risk management and control units and business units), which are both regularly updated.

In 2022, the Climate Risk Policy was reviewed and its scope of application and content were expanded to include the risks associated with environmental degradation (air pollution, water pollution, water scarcity, land pollution, loss of biodiversity, deforestation, etc.). This is why the Climate Risk Policy was renamed the Environmental Risk Policy.

During this year, environmental risk indicators have continued to be defined and developed and are gradually being converted to metrics that are included in the Risk Appetite Framework in order to manage and monitor these risks.

Environmental risk management

The Institution has continued to pay increasing attention to environmental risks to include them in management and in its day-to-day banking activities with its customers. Environmental risk should be understood as the risk of incurring losses as a result of the impacts, both those existing at present and those that may exist in the future, stemming from the environmental risk factors (associated with climate change and environmental degradation) and affecting counterparties or invested assets, as well as aspects affecting financial institutions as legal entities.

Environmental factors can produce negative impacts (as well as opportunities) through different risk factors, which can be categorised as either physical risks or transition risks:

- Physical risks are those that occur due to the physical effects of climate change (consequence of adverse climate-related and geological events or changes in climate patterns) and due to environmental degradation (consequence of changes and severe effects on the balance of ecosystems); they are usually classified as acute risks or chronic risks.

– Transition risks are those that occur due to the uncertainty related with the timing and speed of the process for adjusting to an environmentally sustainable and resilient economy. This process can be affected by four risks, according to the risk types enumerated by the TCFD: legal & regulatory, technological, market and reputational.

In this context and in line with the EBA's Sustainable Finance Plan for 2020-2025 under which ESG risks and factors are expected to be included in the EU regulatory framework (Pillars I, II and III of the Basel prudential framework for credit institutions), Banco Sabadell Group is adapting and aligning its internal corporate governance, strategy, structure and risk management and control processes, and market disclosure of these, in order to comply with the regulatory and supervisory requirements in force.

This change process is based on the materiality assessment of the impacts of environmental risk (the E in ESG) and on the analysis of the transmission channels through which those impacts may materialise. Ultimately, environmental risk affects the Institution by acting as an additional risk factor compounding traditional bank risks (for example, credit, market, liquidity and operational risks). It is therefore important to measure its final impact (for example, in terms of the solvency of both customers/counterparties and of the Institution itself).

At present, as the regulatory and supervisory authorities and other bodies all acknowledge, there is a need to continue to develop the most suitable methodologies that can be used to tackle the technical challenges and lack of robust data facing the field of sustainability-related risks (with each of the letters of the ESG acronym).

For its part, Banco Sabadell Group now carries out, on an annual basis, qualitative and quantitative materiality assessments of the impacts that environmental risks have on the main traditional bank risks affected: credit risk, market risk, liquidity risk, operational risk, reputational risk or strategy and business model risk). Since 2022, these assessments have been expanded to include not only climate-related risk but also the risk associated with environmental degradation. Therefore, the Institution regularly carries out (i) a qualitative analysis of the impact of environmental risk factors on the aforesaid risks, (ii) a quantitative estimate of the impacts stemming from environmental risk on credit risk, market risk, liquidity risk and operational risk, (iii) a quantitative analysis of the exposure of its credit portfolios to the most carbon-intensive sectors, and (iv) a measurement of its sustainable exposure (green, social and sustainability-linked transactions).

Furthermore, it should be noted that following a review of the qualitative assessment of the materiality of environmental risk factors on risks that could be significantly impacted, it was concluded that the impacts were concentrated in credit portfolios. Specifically, transition risks were found to be the most material, from a triple point of view: regulations, technological change and market factors. While no impact is expected in the near term, the Group monitors and assesses the potential medium- and long-term impacts on an ongoing basis, depending on the sector. It should be noted that in 2023 and in previous years, the Group has not had any significant losses related to environmental risk.

More information on environmental risk can be found in the Non-Financial Disclosures Report (NFDR), which forms part of the consolidated Directors' report.

As regards banking activity, a network of teams specialising in environmental risks is being developed and deployed in both risk management and control areas and in the business units themselves, who collect information related to the sustainability of customers and their banking activity through specific ESG questionnaires and indicators. The end goal is to support customers in their transition to a more sustainable and resilient economy.

It should also be noted that the Group has an Environmental and Social Risk Framework that establishes the Group's position, designed to limit activities with a high environmental risk. At the same time, the Group fosters green financing, using to that end an Eligibility Guide that outlines the activities deemed to be sustainable (in environmental and social terms) and whose main references are the EU Taxonomy and the best practices in the market, such as the Green Loan Principles and the Social Bond Principles.

In parallel, the Sustainable Finance Plan expands its portfolio of sustainable products with the aim of facilitating the transition towards a more sustainable and resilient economy. New financing solutions have been launched, including products such as 'eco-leases' and the '*eco-reformas*' loan for energy-efficient and sustainable home renovations. They have also been integrated across the entire product portfolio, making it possible for a wide range of products to be made sustainable, provided the financed investment meets the stipulated requirements. In addition, the Institution is collating the ESG preferences of retail customers, in line with regulatory requirements, in order to offer them financial products aligned with their preferences in terms of green content and intensity.

Lastly, it is worth mentioning that over the year Banco Sabadell Group has continued with a new placement of green bonds in the capital market for a total amount of 750 million euros (1,695 million euros in 2022).

3.4.2. Credit risk

Credit risk refers to the risk of losses being incurred as a result of borrowers' failure to fulfil their payment obligations, or of losses in value taking place due simply to the deterioration of borrower quality.

3.4.2.1 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 established 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 confer different approval powers to different decision-making levels. The implementation of authority thresholds in credit approval systems ensures that the conferral of approval powers established at each level is linked to the expected loss calculated for each transaction, also considering the total amount of the total risk exposure with an economic group and the amount of 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 insight into 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 as it ensures 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 natural persons, 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 system at both the transaction/borrower level and at the portfolio level, and both systems use the firm's internal information and external information 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 to 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 for risks that exceed a given 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.

Responsible lending

In accordance with the nature of the Group's financial transactions and in order to ensure suitable customer protection in banking services, policies and procedures are implemented in relation to the evaluation and granting of responsible loans and credits, in relation to which it is particularly worth mentioning the importance of the general principles governing responsible lending, as detailed in Annex 6 to Bank of Spain Circular 5/2012 of 27 June on transparency of banking services and responsible lending.

The Bank's internal regulations, reflected in the updated Group Credit Risk Acceptance and Monitoring Policy, approved by the Board of Directors on 30 June 2023, explicitly address the application of responsible lending principles when granting and monitoring various types of finance. This commitment is aligned with the guidelines established in the third paragraph of Article 29.1 of Law 2/2011 of 4 March on Sustainable Economy, and covers policies, methods and procedures designed to comply with applicable legislation, such as Order EHA/2899/2011 and Bank of Spain Circular 5/2012, specifically its Rule 12. Effective control mechanisms have also been implemented to ensure these policies are continuously monitored as part of the comprehensive credit risk management arrangements.

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 aim, when faced with debtors and borrowers that have, or are expected to have, financial difficulties to honour their payment obligations under the prevailing 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 (in other words, whether they are facing short-term or long-term difficulties).

– Refinancing and restructuring conditions based on a realistic repayment schedule that is in line with borrowers' current and expected payment capacity, also taking into account the macroeconomic situation and outlooks, avoiding their postponement to a later date.

– If new guarantees are provided, these must be regarded as a secondary and exceptional means of recovering the debt, so as to avoid adversely affecting existing means. In any case, the ordinary interest accrued should be paid up to the refinancing or restructuring date.

– Limits are applied to the length of grace periods and to the granting of successive refinancing.

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 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 (management of risk, calculation of regulatory capital and provisions) is based on the following pillars:

– Effective management of changes to internal models.

– Ongoing monitoring of the performance 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 management model for its non-performing exposures in place to manage the impaired assets portfolio. The purpose of managing non-performing exposures 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 IV “Other risk information: Refinancing and restructuring transactions” to these annual financial statements.

Real estate credit risk management

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

The main measure that is implemented in this portfolio is the ongoing monitoring of projects, both during the construction phase and once the works have been completed. This monitoring makes it possible to validate the progress made, ensuring everything is moving forward as planned, and to take action in the event of any possible deviations. The aim at all times is for the available funding to be sufficient to complete the works and for the existing sales to be able to significantly reduce the risks. The Bank has established three strategic lines of action:

– New lending: real estate development business

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

  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 an acceptance and monitoring methodology that allows the Group to gain in-depth knowledge about all the projects analysed by the unit.

  - Two Real Estate Investment Analysis and Monitoring divisions (reporting to the Real Estate Risks Division), whose role is to analyse all real estate projects from a technical and real estate point of view. They analyse both the location and suitability of the product, as well as the potential supply and demand. They also compare them against the figures of the business plan submitted by the customer (particularly costs, income, margin and timelines). This analysis process goes hand in hand with a model used to track real estate developments through monitoring reports, which validate the progress made in each development project in order to keep track of drawdowns and compliance with the business plan (income, costs and timelines).

  - The Real Estate Risk Division, with specialised analysts in each of the Territorial Divisions. This makes it possible to ensure that newly accepted risks are in line with the policies and acceptance framework for this type of risk.

– Management of non-performing real estate credit

  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 refinancing or restructuring takes place, or until the properties are surrendered in payment of debt (payment in kind)/purchased in an amicable settlement/settlement with debt reduction, 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 with a settlement with debt reduction), or else court 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, in order to maximise the potential of each asset during the sale.

  The main disposal mechanism is the sale of the asset, for which the Bank has developed different channels depending on 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 IV "Other risk information – Credit Risk: Exposure to construction and real estate development sector" to these annual financial statements.

3.4.2.2. Risk management models

Credit rating

Credit risks incurred with companies, 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. An estimated 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 2023 and 2022 is detailed below:

%

Distribution, by credit rating, of Banco Sabadell's portfolio of companies 2023										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.80%	2.20%	8.90%	24.40%	28.14%	19.69%	11.58%	3.69%	0.53%	0.06%	**100%**

In this scale of 0 to 9, probability of default (PD) goes from high to low. The PD used is the risk management PD.

%

Distribution, by credit rating, of Banco Sabadell's portfolio of companies 2022										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.64%	1.56%	9.02%	18.8%	28.88%	23.2%	13.11%	4.08%	0.62%	0.1%	**100%**

In this scale of 0 to 9, probability of default (PD) goes from high to low. The PD used is the risk management PD.

Credit scores

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

Scoring models are used in both the new risk origination process (reactive scoring) and to monitor portfolio risk (behavioural scoring).

The percentage distribution by behavioural score of Banco Sabadell's portfolio of individuals as at 31 December 2023 and 2022 is detailed below:

%

Distribution, by behavioural score, of Banco Sabadell's portfolio of individuals 2023										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.99%	7.74%	26.28%	35.61%	17.67%	6.73%	2.64%	1.33%	0.66%	0.35%	**100%**

In this scale of 0 to 9, probability of default (PD) goes from high to low. The PD used is the risk management PD.

%

Distribution, by behavioural score, of Banco Sabadell's portfolio of individuals 2022										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.89%	8.92%	26.39%	35.56%	17.11%	6.21%	2.50%	1.35%	0.67%	0.40%	**100%**

In this scale of 0 to 9, probability of default (PD) goes from high to low. The PD used is the risk management PD.

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 individuals and companies (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.

3.4.2.3 Credit risk exposures

The table below shows the distribution, by headings of the balance sheet of Banco de Sabadell, S.A. and of off-balance sheet exposures, of the Bank's maximum gross credit risk exposure as at 31 December 2023 and 2022, 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	2023	2022
Financial assets held for trading		**142,495**	**417,131**
Debt securities	7	142,495	417,131
Non-trading financial assets mandatorily at fair value through profit or loss		**149,792**	**35,534**
Equity instruments	8	4,335	1,977
Debt securities	7	39,038	33,557
Loans and advances	10	106,419	—
Financial assets at fair value through other comprehensive income		**6,435,662**	**5,862,794**
Equity instruments	8	180,090	175,874
Debt securities	7	6,255,572	5,686,920
Financial assets at amortised cost		**137,448,994**	**141,266,655**
Debt securities	7	18,266,198	18,305,478
Loans and advances	10	119,182,796	122,961,177
Derivatives	**9, 11**	**2,485,555**	**3,596,422**
Total credit risk due to financial assets		**146,662,498**	**151,178,536**
Loan commitments given	24	20,500,850	21,297,399
Financial guarantees given	24	7,052,638	8,741,124
Other commitments given	24	7,988,420	9,722,964
Total off-balance sheet exposures		**35,541,908**	**39,761,487**
Total maximum credit risk exposure		**182,204,406**	**190,940,023**

The Bank also has guarantees and loan commitments given to borrowers, materialising in the establishment of guarantees given or commitments inherent in credit agreements up to an availability level or limit that ensures that customers can access funding when required. These facilities also require credit risk to be taken and they are subject to the same management and monitoring systems described above. For further information, see Note 24.

Schedule IV to these annual financial statements shows quantitative data relating to credit risk exposures by geographical area and activity sector.

3.4.2.4. 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 established 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 completed 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 guarantor 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 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 Bank has not received any significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantees, except for those intrinsic in treasury activities, which are mostly reverse repos (see Note 5). The fair value of the assets sold in connection with reverse 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 1,012,508 thousand euros (417,982 thousand euros as at 31 December 2022) and are included by type under the repos heading in Notes 17 and 18.

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

The values of the guarantees received to ensure collection, broken down into collateral and other guarantees, as at 31 December 2023 and 2022 are as follows:

Thousand euro

Guarantees received	**2023**	**2022**
Value of collateral	52,169,085	54,549,694
Of which: securing stage 2 loans	*3,566,575*	*4,595,052*
Of which: securing stage 3 loans	*1,286,456*	*1,511,325*
Value of other guarantees	13,980,144	16,261,030
Of which: securing stage 2 loans	*1,761,736*	*2,499,028*
Of which: securing stage 3 loans	*1,021,772*	*1,010,398*
Total value of guarantees received	**66,149,229**	**70,810,724**

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 2023, the exposure to home equity loans and credit lines represented 44.2% of total gross performing lending items granted to customers (43.3% as at 31 December 2022).

In addition, the Bank has carried out four synthetic securitisation transactions since 2020. Details of the outstanding transactions as at 2023 year-end are shown below:

In September 2023, the Bank carried out a synthetic securitisation of a 1,139 million euro portfolio of loans to SMEs and mid-corporates, having received an initial guarantee from Sabadell Galera 3-2023 Designated Activity Company in the amount of 58 million euros (58 million euros as at 31 December 2023), covering losses of between 0.95% and 5.05% on the securitised portfolio.

In September 2022, the Bank carried out a synthetic securitisation transaction of a 1 billion euro portfolio of project finance loans, having received an initial guarantee from Sabadell Boreas 1-2022 Designated Activity Company for 105 million euros (82 million euros as at 31 December 2023), which covers losses of up to 10.5% on the securitised portfolio.

In September 2021, the Bank carried out a synthetic securitisation of a 1.5 billion euro portfolio of loans to SMEs and mid-corporates, having received an initial guarantee of 75 million euros (38 million euros as at 31 December 2023), covering losses of between 0.9% and 5.9% on the securitised portfolio.

In June 2020, the Bank carried out a synthetic securitisation of a 1.6 billion euro portfolio of loans to SMEs and mid-corporates, having received an initial guarantee of 96 million euros (63 million euros as at 31 December 2023), covering losses of between 1.5% and 7.5% on the securitised portfolio.

These transactions 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.

These transactions are given preferential treatment for capital consumption purposes, in accordance with Article 270 of Regulation (EU) 2017/2401 and Article 26 of Regulation (EU) 2021/557.

In the case of market transactions, counterparty credit risk is managed as explained in section 3.4.2.7 of these annual financial statements.

3.4.2.5. Credit quality of financial assets

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

The exposure percentage calculated by the Group using internal models, for solvency purposes, is 90%. This percentage has been calculated following the specifications of the ECB guide to internal models (Article 28a) published in June 2023.

The breakdown of the Bank's total exposures rated based on the various internal rating levels, as at 31 December 2023 and 2022, is as follows:

Million euro

Breakdown of exposure by rating	Note	Exposures assigned rating/score				
		2023				
		Stage 1	*Stage 2*	*Stage 3*	*Of which: purchased credit-impaired*	Total
AAA/AA		15,489	1	—	—	15,490
A		11,221	4	—	—	11,225
BBB		59,197	246	—	—	59,443
BB		24,625	497	—	—	25,122
B		18,134	1,981	—	—	20,115
Other		2,794	4,353	4,604	—	11,751
No rating/score assigned		844	19	14	—	876
Total gross amount	**10**	**132,304**	**7,101**	**4,618**	**—**	**144,023**
Impairment allowances	**10**	**(257)**	**(392)**	**(2,107)**	**—**	**(2,756)**
Total net amount		**132,047**	**6,710**	**2,511**	**—**	**141,268**

Group exposure not including TSB transactions.

Million euro

Breakdown of exposure by rating	Note	Exposures assigned rating/score				
		2022				
		Stage 1	*Stage 2*	*Stage 3*	*Of which: purchased credit-impaired*	Total
AAA/AA		10,299	—	—	—	10,299
A		10,297	4	—	—	10,302
BBB		61,533	169	—	—	61,702
BB		23,196	455	—	—	23,651
B		23,751	2,445	—	—	26,196
Other		3,441	5,851	4,666	—	13,958
No rating/score assigned		1,610	20	3	—	1,634
Total gross amount	**10**	**134,127**	**8,945**	**4,670**	**—**	**147,741**
Impairment allowances	**10**	**(259)**	**(382)**	**(1,983)**	**—**	**(2,625)**
Total net amount		**133,868**	**8,562**	**2,686**	**—**	**145,117**

The breakdown of the Bank's total off-balance sheet exposures rated based on the various internal rating levels, as at 31 December 2023 and 2022, is as follows:

Million euro

Breakdown of exposure by rating	Note	Exposures assigned rating/score				
		2023				
		Stage 1	*Stage 2*	*Stage 3*	*Of which: purchased credit-impaired*	Total
AAA/AA		1,066	44	17	—	1,127
A		2,648	—	—	—	2,648
BBB		15,703	32	—	—	15,735
BB		8,053	87	—	—	8,139
B		6,445	358	—	—	6,803
Other		148	500	314	—	961
No rating/score assigned		128	1	—		129
Total gross amount	**10**	**34,191**	**1,021**	**330**	**—**	**35,542**
Impairment allowances	**10**	**(43)**	**(26)**	**(84)**	**—**	**(154)**
Total net amount		**34,147**	**995**	**246**	**—**	**35,388**

Group exposure not including TSB transactions.

Million euro

Breakdown of exposure by rating	Note	Exposures assigned rating/score				
		2022				
		Stage 1	*Stage 2*	*Stage 3*	*Of which: purchased credit-impaired*	Total
AAA/AA		996	64	18	—	1,077
A		2,205	—	—	—	2,205
BBB		15,312	38	—	—	15,350
BB		10,221	156	—	—	10,377
B		8,295	541	—	—	8,836
Other		683	689	341	—	1,712
No rating/score assigned		202	2	—		203
Total gross amount	**10**	**37,913**	**1,489**	**359**	**—**	**39,761**
Impairment allowances	**10**	**(46)**	**(22)**	**(94)**	**—**	**(162)**
Total net amount		**37,867**	**1,467**	**265**	**—**	**39,599**

Further details on the credit rating and credit scoring models are included in section 3.4.2.2 of these annual financial statements.

For those borrowers included within business in Spain whose coverage has been assessed using internal models as at 31 December 2023 and 2022, the following table shows the breakdown by segment of the average EAD-weighted PD and LGD parameters, distinguishing between on-balance sheet and off-balance sheet exposures, and the stage in which the transactions are classified according to their credit risk:

%

	31/12/2023							
	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	**0.70%**	**23.20%**	**21.50%**	**23.90%**	**100.00%**	**59.90%**	**4.10%**	**24.00%**
Other financial corporations	0.70%	27.10%	8.90%	30.20%	100.00%	67.80%	1.10%	27.20%
Non-financial corporations	1.20%	32.00%	15.40%	28.20%	100.00%	63.80%	4.50%	32.20%
Households	0.40%	16.40%	29.80%	18.00%	100.00%	56.90%	3.90%	17.30%

%

	31/12/2023							
	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	**1.00%**	**38.80%**	**16.80 %**	**38.40%**	**100.00%**	**77.20%**	**1.60%**	**38.90%**
Other financial corporations	1.40%	35.60%	1.80 %	35.50%	0.00%	0.00%	1.40%	35.60%
Non-financial corporations	1.10%	32.70%	17.00 %	38.20%	100.00%	77.80%	1.90%	33.00%
Households	0.70%	59.60%	15.50 %	40.80%	100.00%	58.00%	0.90%	59.30%

%

	31/12/2022							
	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%**	**20.70%**	**21.00%**	**20.30%**	**100.00%**	**56.10%**	**4.30%**	**21.20%**
Other financial corporations	0.90%	21.10%	20.50%	17.70%	100.00%	84.70%	1.70%	21.10%
Non-financial corporations	1.60%	30.90%	15.70%	25.20%	100.00%	60.60%	4.90%	30.80%
Households	0.50%	13.00%	28.40%	13.50%	100.00%	52.60%	3.90%	13.70%

%

	31/12/2022							
	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	**1.40%**	**32.50%**	**16.20%**	**34.20%**	**100.00%**	**73.50%**	**2.10%**	**32.60%**
Other financial corporations	1.20%	35.30%	21.00%	27.10%	0.00%	0.00%	1.30%	35.30%
Non-financial corporations	1.50%	30.80%	15.60%	34.50%	100.00%	74.00%	2.50%	31.10%
Households	0.80%	36.70%	21.40%	31.70%	100.00%	55.00%	1.30%	36.60%

During 2023, the usual LGD model maintenance processes have been continued in order to improve certain aspects identified during the ongoing monitoring carried out by Banco Sabadell or during the independent reviews conducted by the internal control units (Models Validation and Internal Audit). The adjustment processes follow the internal governance arrangements established for their validation, review and approval by the corresponding units.

Risks classified as stage 3 decreased by 37 million euros in 2023 (a decrease of 85 million euros excluding TSB). However, this reduction was accompanied by a decrease in the risk base by 6,415 million euros (a decrease of 4,724 million euros excluding TSB), which has led to an increase in the Group's NPL ratio, as shown in the table below:

%

	2023	**Proforma 2023 (*)**	**2022**	**Proforma 2022 (*)**
NPL ratio (*)	3.52	4.22	3.41	4.13
NPL (stage 3) coverage ratio (*)	42.33	45.55	39.42	42.25
NPL (stage 3) coverage ratio, with total provisions (*)	58.29	60.25	55.04	56.41

(*) Corresponds to the ratio excluding TSB.

A more detailed quantitative breakdown of allowances and assets classified as stage 3 can be found in Note 10, and a more detailed breakdown of refinancing and restructuring transactions is included in Schedule IV.

3.4.2.6. Concentration risk

Concentration risk refers to the level of exposure to a series of economic groups which could, given the size of that exposure, 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 geography.

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 to specific customers, either to a single customer or to 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 Risk 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 are in place, along with their associated limits.

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 necessary to match the concentration risk to the levels approved in the RAS by the Board of Directors.

<u>Exposure to customers or significant risks</u>

As at 31 December 2023 and 2022, there were no borrowers with an approved lending transaction that individually exceeded 10% of the Group's own funds.

<u>Country risk: geographical exposure to credit risk</u>

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 IV includes quantitative data relating to the breakdown of the concentration of risks by activity and on a global scale.

3.4.2.7. Counterparty credit risk

This heading considers credit risk associated with activities in financial markets involving specific transactions that have an associated counterparty credit risk. Counterparty credit risk is a type of credit risk that refers to the risk of a counterparty defaulting before definitively settling cash flows of either a transaction with derivatives or a transaction with a repurchase commitment, with deferred settlements or collateral financing.

The amount exposed to a potential default by the counterparty does not correspond to the notional amount of the contract, instead, it is uncertain and depends on market price fluctuations until the maturity or settlement of the financial contracts.

Exposure to counterparty credit risk is mainly concentrated in customers, financial institutions and central counterparty clearing houses.

The following tables show the breakdown of exposures by credit rating and by the geographical areas in which the Group operates, as at 31 December 2023 and 2022:

%

2023															
AAA	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**BB+**	**BB**	**BB-**	**B+**	**Other**	**TOTAL**
0.7%	11.5%	0.1%	32.1%	21.2%	8.1%	7.9%	3.0%	3.4%	2.0%	2.9%	2.8%	2.3%	0.5%	1.6%	**100%**

%

2022															
AAA	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**BB+**	**BB**	**BB-**	**B+**	**Other**	**TOTAL**
17.4%	0.0%	2.4%	31.0%	14.5%	11.8%	9.0%	4.6%	2.5%	1.9%	2.2%	1.5%	0.7%	0.1%	0.4%	**100%**

%

	2023	**2022**
Eurozone	77.3%	70.7%
Rest of Europe	16.9%	24.5%
United States and Canada	3.0%	3.0%
Rest of the world	2.8%	1.8%
Total	**100%**	**100%**

As can be seen in the table, the risk is concentrated in counterparties with a high credit quality, with 82% of the risk relating to counterparties rated A, whereas as at 31 December 2022 this concentration was 86%.

In 2016, under the European Market Infrastructure Regulation (EMIR) (Regulation 648/2012), the obligation to settle and clear certain over-the-counter (OTC) 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 clearing houses. 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, a clearing house or an organised market, is shown below:

Thousand euro

	2023	2022
Transactions with organised markets	1,505,736	979,533
OTC transactions	124,900,589	123,537,072
Settled through clearing houses	*52,003,965*	*56,009,153*
Total	**126,406,325**	**124,516,605**

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 tables show the aggregate amount reflected on the balance sheet for the financial instruments subject to a master netting and collateral agreement for 2023 and 2022:

Thousand euro

	2023				
	Financial assets subject to collateral agreements				
			Guarantee received		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net amount
Financial assets	**(a)**	**(b)**	**(c)**	**(d)**	**(a) - (b) - (c) - (d)**
Derivatives	2,329,936	1,583,556	756,919	36,453	(46,992)
Repos	5,146,361	—	45,522	5,207,911	(107,071)
Total	**7,476,297**	**1,583,556**	**802,441**	**5,244,364**	**(154,063)**

Thousand euro

	2023				
	Financial liabilities subject to collateral agreements				
			Guarantee given		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net amount
Financial liabilities	**(a)**	**(b)**	**(c)**	**(d)**	**(a) - (b) - (c) - (d)**
Derivatives	1,709,657	1,583,556	280,306	358,000	(512,205)
Reverse repos	11,065,324	—	144,461	11,608,411	(687,548)
Total	**12,774,981**	**1,583,556**	**424,767**	**11,966,411**	**(1,199,753)**

Thousand euro

	2022				
	Financial assets subject to collateral agreements				
			Guarantee received		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net amount
Financial assets	**(a)**	**(b)**	**(c)**	**(d)**	**(a) - (b) - (c) - (d)**
Derivatives	3,372,355	2,076,811	1,289,931	44,732	(39,119)
Repos	3,114,966	—	23,590	3,008,362	83,014
Total	**6,487,321**	**2,076,811**	**1,313,521**	**3,053,094**	**43,895**

Thousand euro

	2022				
	Financial liabilities subject to collateral agreements				
			Guarantee given		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net amount
Financial liabilities	**(a)**	**(b)**	**(c)**	**(d)**	**(a) - (b) - (c) - (d)**
Derivatives	2,338,042	2,076,811	350,984	489,144	(578,897)
Reverse repos	8,122,568	—	126,059	8,413,322	(416,813)
Total	**10,460,610**	**2,076,811**	**477,043**	**8,902,466**	**(995,710)**

The values of derivative financial instruments which are settled through a clearing house as at 31 December 2023 and 2022 are indicated hereafter:

Thousand euro

	2023	2022
Derivative financial assets settled through a clearing house	1,604,983	2,432,578
Derivative financial liabilities settled through a clearing house	1,091,297	1,579,647

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 subject to daily monitoring and they are 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 areas 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 Spain's Framework Agreement for Financial Transactions (the *Contrato Marco de Operaciones Financieras*, or CMOF)).

– Variation margin collateral agreements for derivatives (CSA and Annex 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 counterparties wishing 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 trade in derivatives or repos with financial institutions, the Group requires variation margin collateral agreements to be in place. Furthermore, for derivative transactions with these institutions, the Group is obliged 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 aforesaid regulation, is bilateral (i.e. both parties are obliged to deposit collateral) and includes the daily exchange of guarantees in the form of cash and in euros.

Initial margin collateral agreements include the provision of guarantees to 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.

3.4.2.8 Assets pledged in financing activities

As at the end of 2023 and 2022, 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 19 and Schedule II). 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 funding operations with central banks and all types of collateral provided to secure derivative transactions.

The issuing entity Banco Sabadell did not issue any public sector covered bonds in either 2023 or 2022.

The Bank has used part of its portfolio of loans and similar credit in fixed-income securities by transferring assets to various securitisation funds created for this purpose. Under current regulations, securitisations in which there is no significant risk transfer cannot be derecognised from the balance sheet.

The balance of the financial assets securitised under these programmes by the Bank, as well as other financial assets transferred, depending on whether they have been derecognised or retained in full on the balance sheet, is as follows:

Thousand euro

	2023	2022
Fully derecognised from the balance sheet:	**568,975**	**693,852**
Securitised mortgage assets	111,624	116,867
Other securitised assets	228,671	319,468
Other financial assets transferred	228,680	257,517
Fully retained on the balance sheet:	**5,364,150**	**6,316,633**
Securitised mortgage assets	4,899,726	5,650,976
Other securitised assets	464,424	665,657
Other transfers to credit institutions	—	—
Total	**5,933,125**	**7,010,485**

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 on the balance sheet. As at 31 December 2023 and 2022, there was no significant aid from the Group for securitisations not held on the balance sheet.

Schedule II to these annual financial statements includes certain information regarding securitisation funds.

3.4.3. Financial risks

Financial risk is defined as the possibility of obtaining inadequate returns or having insufficient levels of liquidity that prevent an institution from meeting future requirements and expectations.

3.4.3.1. Liquidity risk

Liquidity risk refers to the possibility of losses being incurred as a result of the Institution being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets or because it is 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 liquid assets and a funding structure that, in line with its strategic objectives and based on its Risk Appetite Statement, allow it to honour its payment commitments as usual 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, Board committees and management bodies, following the model of three lines of defence, and a clear segregation 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 (LMUs) to manage its liquidity. Each LMU is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, working together with the Group's corporate functions. At present, the LMUs are Banco Sabadell (includes Banco de Sabadell, S.A., which in turn includes activity in foreign branches, as well as the business in Mexico of Banco 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 LMUs' retail business model and the defined strategic objectives:

- Risk governance and involvement of the Board of Directors and Senior Management in managing and controlling liquidity risk. The Board of Directors has the highest level of responsibility for the oversight of liquidity risk, while the management bodies of the LMUs are in charge of transposing these strategies to their local areas of activity.

- Integration of the risk culture, based on prudent liquidity risk management and clear and consistent definitions of their terminology, and on its alignment with the Group's business strategy through the established risk appetite.

- Clear segregation of responsibilities and duties between the different areas and bodies within the organisation, with a clear-cut distinction between each of the three lines of defence, providing independence in the evaluation 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 processes for the identification, measurement, management, control and disclosure of the different liquidity sub-risks to which the Group is exposed.

- Holistic overview of risk, through first- and second-tier risk taxonomies, and complying with regulatory requirements, recommendations and guidelines.

- Existence of a transfer pricing system to transfer the cost of funding.

- Balanced funding structure with a predominance of customer deposits.
- Ample base of unencumbered liquid assets that can be used immediately to generate liquidity and which comprise the Group's first line of liquidity.
- Diversification of funding sources, with controlled use of short-term wholesale funding without having to depend on individual fund suppliers.
- Self-funding by the main banking subsidiaries outside Spain.
- Oversight of the balance sheet volume being used as collateral in funding operations.
- Maintenance of a second line of liquidity that includes the capacity to issue covered bonds.
- Alignment with the interests of stakeholders through regular public disclosure of liquidity risk information.
- Availability of a Liquidity Contingency Plan.

With respect to 2023, the mitigating measures introduced by central banks due to Covid-19 continue to be phased out and certain measures, such as the granting of loans and credit to non-defaulted non-financial companies (including SMEs) and self-employed persons with a State guarantee granted under and in accordance with Art. 29 of Royal Decree-Law 8/2020 of 17 March, and the extraordinary urgent measures to address the economic and social impact of Covid-19, as well as the reduction of haircuts applied to the valuation of collateral provided to secure loans, were discontinued.

<u>Tools/metrics for monitoring and controlling liquidity risk management</u>

Banco Sabadell Group has a system of metrics and thresholds which are provided in the RAS and which define the appetite for liquidity risk, previously approved by the Board of Directors. This 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 established at the Group level and calculated on a consolidated basis, metrics established at the Group level and rolled out to each Group LMU, as well as metrics established at the LMU 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 tiers).

It should be mentioned that the Group has designed and implemented a system of early warning indicators (EWIs) at the LMU level, which includes market and liquidity indicators adapted to the funding structure and business model of each LMU. The rollout of these indicators at the LMU level complements the RAS metrics and allows tensions in the local liquidity position and funding structure to be detected early, thereby making it easier to take corrective measures and actions and reducing the risk of contagion between the different management units.

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

The metrics reporting and control framework involves, among other things:

- Monitoring the RAS metrics and their thresholds on a consolidated basis, as well as those established for each LMU, in line with the established monitoring frequency.
- Reporting on the relevant set of metrics to the governing body, Board 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 LMU has a 1-year and 5-year funding plan in which they set out their potential funding needs and the strategy for their management, and they regularly analyse compliance with that plan, any deviations from the projected budget and the extent to which the plan is appropriate to the market environment.

In addition, Banco Sabadell regularly reviews the identification of potential liquidity risks and assesses their materiality. It also conducts regular liquidity stress tests, which envisage a series of stress scenarios in the short and longer term, and it analyses their impact on the liquidity position and the main metrics in order to ensure that the existing exposures are consistent at all times with the established liquidity risk tolerance level.

The Institution also has an internal 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 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, the inventory of measures available to generate liquidity in business-as-usual situations or in a crisis situation linked to the invocation of the LCP and a communication plan (both internal and external) for the LCP.

<u>Residual maturity periods</u>

The tables below show the breakdown, by contractual maturity, of certain pools of items on the balance sheet as at 31 December 2023 and 2022, under business-as-usual market conditions:

Thousand euro

	2023									
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**
ASSETS										
Cash, balances at central banks and other demand deposits	2,265,438	20,022,671	30	1,972	152	1,630	230	—	9,102	22,301,225
Financial assets at fair value through other comprehensive income	—	—	5,236	707,383	708,637	1,057,456	302,223	1,364,554	2,110,083	6,255,572
Debt securities	—	—	5,236	707,383	708,637	1,057,456	302,223	1,364,554	2,110,083	6,255,572
Loans and advances	—	—	—	—	—	—	—	—	—	—
Customers	—	—	—	—	—	—	—	—	—	—
Financial assets at amortised cost	3,580,424	5,056,861	5,540,990	11,518,549	9,489,181	8,887,128	8,864,589	8,234,458	73,521,223	134,693,403
Debt securities	—	—	280,622	1,081,793	928,217	366,969	1,606,715	1,092,281	12,908,174	18,264,771
Loans and advances	3,580,424	5,056,861	5,260,368	10,436,756	8,560,964	8,520,159	7,257,874	7,142,177	60,613,049	116,428,632
Central banks	—	—	—	—	—	—	—	—	—	—
Credit institutions	709,808	504,746	997,925	2,320,331	1,919,654	1,113,287	446,230	83,835	42,757	8,138,573
Customers	2,870,616	4,552,115	4,262,443	8,116,425	6,641,310	7,406,872	6,811,644	7,058,342	60,570,292	108,290,059
Total assets	**5,845,862**	**25,079,532**	**5,546,256**	**12,227,904**	**10,197,970**	**9,946,214**	**9,167,042**	**9,599,012**	**75,640,408**	**163,250,200**
LIABILITIES										
Financial liabilities at amortised cost	105,811,952	9,614,747	10,455,131	12,678,520	8,138,027	5,070,199	2,734,764	3,506,824	6,584,164	164,594,328
Deposits	101,349,947	8,877,125	8,922,883	9,731,792	5,599,932	1,311,842	356,202	765,357	938,566	137,853,646
Central banks	—	—	5,106,963	—	—	—	—	—	—	5,106,963
Credit institutions	1,054,792	5,967,265	691,160	1,986,944	1,771,487	957,314	64,082	56,501	406,190	12,955,735
Customers	100,295,155	2,909,860	3,124,760	7,744,848	3,828,445	354,528	292,120	708,856	532,376	119,790,948
Debt securities	—	698,938	1,522,986	2,931,601	2,528,733	3,752,252	2,374,367	2,737,720	5,482,716	22,029,313
Other financial liabilities	4,462,005	38,684	9,262	15,127	9,362	6,105	4,195	3,747	162,882	4,711,369
Total liabilities	**105,811,952**	**9,614,747**	**10,455,131**	**12,678,520**	**8,138,027**	**5,070,199**	**2,734,764**	**3,506,824**	**6,584,164**	**164,594,328**
Trading and Hedging derivatives										
Receivable	—	17,312,673	10,019,095	23,430,224	9,702,802	5,557,152	3,619,884	5,218,989	31,467,442	106,328,261
Payable	—	4,685,130	9,798,525	24,029,670	11,424,012	5,488,264	3,742,351	5,365,210	35,636,895	100,170,057
Contingent risks										
Financial guarantees	17,922	66,449	66,038	414,471	259,415	90,627	249,813	34,938	5,852,965	7,052,638

Thousand euro

					2022					
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**
ASSETS										
Cash, balances at central banks and other demand deposits	2,606,065	31,450,935	—	18	1,089	107	1,206	173	3,986	34,063,579
Financial assets at fair value through other comprehensive income	—	45,287	50,044	802,905	691,950	738,253	971,211	244,104	2,143,167	5,686,920
Debt securities	—	45,287	50,044	802,905	691,950	738,253	971,211	244,104	2,143,167	5,686,920
Loans and advances	—	—	—	—	—	—	—	—	—	—
Customers	—	—	—	—	—	—	—	—	—	—
Financial assets at amortised cost	3,265,467	8,090,840	5,381,540	12,543,903	7,750,713	8,156,713	8,282,389	9,152,221	76,018,248	138,642,033
Debt securities	—	—	—	1,403,285	1,211,545	946,673	373,968	1,859,042	12,510,754	18,305,267
Loans and advances	3,265,467	8,090,840	5,381,540	11,140,618	6,539,168	7,210,040	7,908,421	7,293,178	63,507,494	120,336,766
Central banks	—	—	—	—	—	—	—	—	—	—
Credit institutions	681,043	2,248,224	458,265	1,717,725	339,909	196,547	413,636	70,946	67,048	6,193,344
Customers	2,584,424	5,842,615	4,923,274	9,422,892	6,199,260	7,013,493	7,494,784	7,222,233	63,440,446	114,143,422
Total assets	**5,871,532**	**39,587,062**	**5,431,584**	**13,346,826**	**8,443,752**	**8,895,072**	**9,254,807**	**9,396,497**	**78,165,400**	**178,392,532**
LIABILITIES										
Financial liabilities at amortised cost	116,676,728	9,168,191	4,508,026	21,852,905	10,290,892	3,574,436	3,431,916	3,688,587	7,175,975	180,367,656
Deposits	111,985,554	9,083,638	2,436,248	20,249,161	6,652,418	1,041,570	685,553	1,310,966	1,427,363	154,872,472
Central banks	—	—	—	16,660,008	4,939,290	—	—	—	—	21,599,297
Credit institutions	856,241	7,375,514	874,634	572,077	235,110	62,893	88,614	79,629	556,430	10,701,141
Customers	111,129,314	1,708,125	1,561,614	3,017,077	1,478,018	978,677	596,939	1,231,338	870,934	122,572,034
Debt securities issued	—	72,408	2,055,057	1,590,320	3,631,762	2,526,055	2,741,399	2,371,575	5,598,064	20,586,641
Other financial liabilities	4,691,174	12,145	16,720	13,423	6,712	6,812	4,964	6,046	150,547	4,908,543
Total liabilities	**116,676,728**	**9,168,191**	**4,508,026**	**21,852,905**	**10,290,892**	**3,574,436**	**3,431,916**	**3,688,587**	**7,175,975**	**180,367,656**
Trading and Hedging derivatives										
Receivable	—	12,955,799	8,582,574	17,444,042	18,282,098	5,737,155	4,977,036	3,146,284	31,346,860	102,471,849
Payable	—	9,523,493	8,519,750	15,978,035	18,690,780	5,980,773	4,795,665	3,256,120	33,935,041	100,679,657
Contingent risks										
Financial guarantees	33,551	39,680	102,916	389,812	188,177	163,372	58,470	238,094	7,527,052	8,741,124

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 rolled over they actually end up satisfying these requirements and at times even result in the growth of 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 these tables, it is worth highlighting that the tables show 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 needs, as it does not include behavioural models of asset and/or liability items.

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:

- Transactions are placed in different time brackets according to their contractual maturity date.
- 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 needs. 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 related to financial guarantee contracts have been included for the parent company, allocating the maximum amount of the guarantee to the earliest period in which the guarantee can be called.

– Funding in capital markets obtained through instruments that include clauses which 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 2023 and 2022, the Bank had no instruments in addition to those regulated by master agreements associated with the arrangement of derivatives and repos/reverse repos.

– The Bank did 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 2023 and 2022.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 rolled over they actually end up satisfying these requirements and at times even result in the growth of outstanding balances.

Funding strategy and evolution of liquidity in 2023

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 and regularly renews various short-term and long-term funding programmes in order to achieve an adequate level of diversification by type of product, term and investor. The Institution maintains a diversified portfolio of liquid assets that are largely eligible as collateral in exchange for access to funding operations with the European Central Bank (ECB).

On-balance sheet customer funds

As at 31 December 2023 and 2022, on-balance sheet customer funds broken down by maturity were as follows:

Million euro / %

	Note	2023	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**120,518**	**6.7 %**	**2.8 %**	**3.9 %**	**3.5 %**	**83.1 %**
Term deposits and others		18,926	37.9 %	15.8 %	23.9 %	22.4 %	0.0 %
Sight accounts	18	100,184	0.0 %	0.0 %	0.0 %	0.0 %	100.0 %
Retail issues		1,408	53.8 %	30.9 %	14.7 %	0.6 %	0.0 %

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

Million euro / %

	Note	2022	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**123,099**	**5.2 %**	**1.2 %**	**1.3 %**	**2.9 %**	**89.4 %**
Term deposits and others		12,105	49.0 %	8.1 %	13.1 %	29.8 %	0.0 %
Sight accounts	18	110,084	0.0 %	0.0 %	0.0 %	0.0 %	100.0 %
Retail issues		910	33.9 %	58.4 %	5.6 %	2.1 %	0.0 %

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

Due to rising interest rates in the financial markets, the weight of term deposits and other deposits in the composition of on-balance sheet customer funds has increased.

Details of off-balance sheet customer funds managed by the Bank and those sold but not under management are provided in Note 25 to these annual financial statements.

In 2023, the funding gap has widened, presenting a sharper decline in lending than in customer funds, thus placing the Group's Loan-to-Deposit (LtD) ratio at 94.0% as at 2023 year-end (95.6% as at 2022 year-end).

Capital markets

In 2023, the level of funding in capital markets has increased, with senior non-preferred debt being the item with the greatest net increase, in order to keep an adequate level of own funds and eligible liabilities above the applicable regulatory requirement or MREL (Minimum Requirement for own funds and Eligible Liabilities).

The outstanding nominal balance of funding in capital markets, by type of product, as at 31 December 2023 and 2022, is shown below:

Million euro

	2023	2022
Outstanding nominal balance	**21,741**	**21,301**
Covered bonds	7,811	7,999
Commercial paper and ECP	*749*	*581*
Senior debt	4,250	4,475
Senior non-preferred debt	4,450	3,530
Subordinated debt and preferred securities	3,565	3,465
Asset-backed securities	916	1,251

Maturities of issues in capital markets, by type of product (excluding securitisations and commercial paper), and considering their legal maturity, as at 31 December 2023 and 2022, are analysed below:

Million euro

	2024	2025	2026	2027	2028	2029	>2029	Balance outstanding
Mortgage bonds and covered bonds (*)	1,850	836	1,390	1,100	985	950	700	7,811
Senior debt (**)	750	1,500	—	500	750	750	—	4,250
Senior non-preferred debt (**)	420	500	1,317	18	500	1,500	195	4,450
Subordinated debt and preferred securities (**)	—	—	500	—	—	—	3,065	3,565
Total	**3,020**	**2,836**	**3,207**	**1,618**	**2,235**	**3,200**	**3,960**	**20,076**

(*) Secured issues.

(**) Unsecured issues.

Million euro

	2023	2024	2025	2026	2027	2028	>2028	Balance outstanding
Mortgage bonds and covered bonds (*)	1,388	1,850	836	390	1,100	985	1,450	7,999
Senior debt (**)	975	750	1,500	—	500	750	—	4,475
Senior non-preferred debt (**)	—	1,000	500	1,317	18	500	195	3,530
Subordinated debt and preferred securities (**)	—	—	—	500	—	500	2,465	3,465
Total	**2,363**	**3,600**	**2,836**	**2,207**	**1,618**	**2,735**	**4,110**	**19,469**

(*) Secured issues.

(**) Unsecured issues.

The Bank has a number of funding programmes in operation in capital markets, with a view to diversifying its different funding sources.

In terms of short-term funding, as at year-end the Bank had one commercial paper programme in operation, which governs the issuance of such securities and is aimed at institutional and retail investors. The Banco Sabadell Commercial Paper Programme for 2023, registered with Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR), has an issuance limit of 7 billion euros, which can be extended to 9 billion euros. As at 31 December 2023, the outstanding balance of the programme was 1,383 million euros (net of commercial paper subscribed by Group companies), compared with 872 million euros as at 31 December 2022.

Regarding medium- and long-term funding, the Institution has the following programmes in operation:

– Programme for the issuance of non-equity securities ("Fixed Income Programme") registered with the CNMV on 16 November 2023, with an issuance limit of 10 billion euros: this programme regulates the issuance of straight, non-preferred or structured bonds and debentures, in addition to mortgage covered bonds and public sector covered bonds (European guaranteed bonds, also known as premium covered bonds) issued under Spanish law through the CNMV and aimed at institutional and retail investors, both domestic and foreign. As at 31 December 2023, the limit available for new issues under the Banco Sabadell Programme for the issuance of non-equity securities for 2023 is 9.8 billion euros (as at 31 December 2022, the available limit under the Fixed Income Programme for 2022 was 9.0 billion euros).

  In 2023, Banco Sabadell carried out two public issues of mortgage covered bonds under the current Fixed Income Programme amounting to a total of 1.2 billion euros.

Million euro

	ISIN code	Type of investor	Issue date	Amount	Term (years)
Mortgage Covered Bonds 1/2023	ES0413860836	Institutional	28/2/2023	1,000	4
Mortgage Covered Bonds EIB 1/2023	ES0413860844	Institutional	22/12/2023	200	8

- Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 19 May 2023 and renewed on 27 July and 26 October 2023. This programme allows senior debt (preferred and non-preferred) and subordinated debt to be issued in various currencies, with a maximum limit of 15 billion euros.

  In 2023, Banco Sabadell executed four issues under the EMTN Programme, amounting to a total of 2,750 million euros: one issue of senior preferred debt, two issues of senior non-preferred debt and one subordinated Tier 2 bond issue. Of the four issues, the senior preferred issue was in green format, amounting to 750 million euros. The issues executed by Banco Sabadell over the year are indicated here below (showing the legal maturity period in the case of issues with an early redemption option):

Million euro

	ISIN code	Type of investor	Issue date	Amount	Term (years)
Senior Non-Preferred Debt 1/2023	XS2583203950	Institutional	7/2/2023	750	6
Subordinated Debt 1/2023	XS2588884481	Institutional	16/2/2023	500	11
Green Senior Debt 1/2023	XS2598331242	Institutional	7/6/2023	750	6
Senior Non-Preferred Debt 2/2023	XS2677541364	Institutional	8/9/2023	750	6

On 18 January 2023, Banco Sabadell carried out an issue of preferred securities contingently convertible into ordinary shares of the Bank (Additional Tier 1 CoCos) for 500 million euros at a fixed rate of 9.375%.

In 2023, having obtained the corresponding authorisations, Banco Sabadell exercised the early redemption option on the AT1 2/2017 issue amounting to 400 million euros on 23 February 2023 and the early redemption option on the Subordinated Debt 1/2018 issue amounting to 500 million euros on 12 December 2023. Furthermore, on 8 September 2023, together with the Senior Non-Preferred Debt 2/2023 issue, Banco Sabadell called the Senior Non-Preferred Debt 1/2019 issue in the amount of 580.4 million euros, leaving an outstanding balance on this issue of 419.6 million euros.

In relation to traditional format asset securitisation:

- The Bank is active in this market and has 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 15 outstanding traditional asset securitisation transactions fully recognised on the balance sheet. A portion of the securities issued by securitisation funds have been placed in the capital markets and the remainder have been kept in the Bank's portfolio. Of the latter, the securities eligible for funding operations with the Central Bank are pledged in the credit facility held by Banco Sabadell with the Central Bank. As at 31 December 2023, the nominal balance of asset-backed securities placed in the market was 916 million euros.

- On 13 September 2023, the Management Company TdA (Titulización de Activos, Sociedad Gestora de Fondos de Titulización, S.A.) published an inside information notice through the National Securities Market Commission (CNMV) disclosing the fact that Banco Sabadell had exercised its pre-emptive right to buy back its portion of the portfolio sold to the multi-seller fund TDA 25 FTA (currently in the process of being liquidated by the management company).

As at the end of 2023, Banco Sabadell had 5 billion euros of outstanding TLTRO III borrowing, due to mature in March 2024, having prepaid 17 billion euros of the aforesaid borrowing during the year. In 2023, the Group recognised interest expense related to TLTRO III in the amount of 305 million euros (162 million euros of interest income in 2022).

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

	2023	2022
Cash(*) + Net Interbank Position	25,036	35,012
Funds available in Bank of Spain facility	15,363	7,788
ECB eligible assets not pledged in facility	*11,419*	*6,010*
Other non-ECB eligible marketable assets (**)	*6,740*	*5,234*
Memorandum item:		
Balance drawn from Bank of Spain facility (***)	5,000	22,000
Balance drawn from Bank of England Term Funding Scheme (****)	4,608	6,201
Total Liquid Assets Available	58,558	54,044

(*) Excess reserves and Marginal Deposit Facility in 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.

(***) Correspond to TLTRO-III facility.

(****) As at year-end 2023, includes 4 billion pounds to support Small and Medium-sized Enterprises (TFSME) and 5 million pounds from the Indexed Long Term Repo (ILTR). As at year-end 2022, included 5 billion pounds from the TFSME and 500 million pounds from the ILTR.

With regard to 2023, the balance of reserves and marginal deposit facility in central banks and the net interbank position showed a decline of 9,976 million euros, while the volume of European Central Bank (ECB) eligible assets increased by 12,984 million euros and the available non-ECB eligible assets increased by 1,506 million euros, thus having increased the first line of liquidity by 4,514 million euros in the year, with the funding gap and increased wholesale issues standing out as positive factors.

It should be noted that the Group follows a decentralised liquidity management model. This model tends to limit the transfer of liquidity between the different subsidiaries involved in liquidity management, thereby limiting intra-group exposures, beyond any restrictions imposed by the local regulators of 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 LMU monitors its liquidity buffer with an internal conservative criterion, referred to as the counterbalancing capacity. In the case of the BSab LMU (includes Banco de Sabadell S.A., which in turn includes activity in foreign branches as well as the businesses of Banco de Sabadell S.A. in Mexico), this liquidity buffer comprises the first and second lines of liquidity. As at 31 December 2023, the second line of liquidity added a volume of 12,185 million euros to the liquidity buffer, including the covered bond issuing capacity, considering the average valuation applied by the central bank to own-use covered bonds to obtain funding, as well as the deposits held in other financial institutions and immediately available for the business in Mexico not included in the first line of liquidity.

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 all LMUs.

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 LMUs. At the Group level, throughout the year, the LCR has consistently been well above 100%. As at 31 December 2023, the LCR stood at 274% for Banco Sabadell Spain.

In terms of the NSFR, the regulatory minimum requirement, effective from June 2021, is 100%, a level amply surpassed by all LMUs of the Institution given the 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 2023, the NSFR stood at 134% for Banco Sabadell Spain.

As at 31 December 2023, Banco Sabadell had outstanding issues of mortgage covered bonds amounting to 15,876 million euros (16,114 million euros as at 31 December 2022), which are secured by eligible mortgage loans and credit in the amount of 24,677 million euros (24,187 million euros at 31 December

2022). The mortgage covered bonds therefore have an overcollateralisation ratio of 161% (150% as at 31 December 2022), with all their collateral denominated in euros. More information can be found on the corporate website at www.grupbancsabadell.com (see section on Shareholders and Investors - Fixed income investors).

3.4.3.2. Market risk

Market risk is defined as the risk of financial instrument positions losing some or all of their market value due to changes in risk factors affecting their market price or quotations, their volatility, or the correlations between them.

Positions that generate market risk are usually held in connection with trading activity, which consists of the 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 addressed in the sections on structural risks.

The items of the balance sheet as at 31 December 2023 and 2022 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

	31/12/2023			
	On-balance sheet balance	**Trading activity**	**Other**	**Main market risk factor in "Other"**
Assets subject to market risk	**179,945,913**	**1,731,724**	**178,214,189**	
Cash, cash balances at central banks and other demand deposits	22,301,225	—	22,301,225	Interest rate
Financial assets held for trading	1,731,823	1,731,724	99	Interest rate; credit spread
Non-trading financial assets mandatorily at fair value through profit or loss	149,792	—	149,792	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	6,329,974	—	6,329,974	Interest rate; credit spread
Financial assets at amortised cost	134,693,403	—	134,693,403	Interest rate
Derivatives – Hedge accounting	896,227	—	896,227	Interest rate
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(389,403)	—	(389,403)	Interest rate
Investments in joint ventures and associates	5,944,643	—	5,944,643	Equity
Other assets	8,288,229	—	8,288,229	—
Liabilities subject to market risk	**167,930,652**	**1,689,953**	**166,240,699**	
Financial liabilities held for trading	1,718,159	1,689,953	28,206	Interest rate
Derivatives – Hedge accounting	835,204	—	835,204	Interest rate
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(323,973)	—	(323,973)	Interest rate
Financial liabilities at amortised cost	164,594,328	—	164,594,328	Interest rate
Other liabilities	1,106,934	—	1,106,934	—
Equity	**12,015,261**	**—**	**12,015,261**	

Thousand euro

	31/12/2022			
	On-balance sheet balance	Trading activity	Other	Main market risk factor in "Other"
Assets subject to market risk	**195,620,963**	**2,670,824**	**192,950,139**	
Cash, cash balances at central banks and other demand deposits	34,063,579		34,063,579	Interest rate; credit spread
Financial assets held for trading	2,671,253	2,670,824	429	—
Non-trading financial assets mandatorily at fair value through profit or loss	35,534	—	35,534	Interest rate
Financial assets at fair value through other comprehensive income	5,754,945	—	5,754,945	Equity
Financial assets at amortised cost	138,642,033	—	138,642,033	—
Derivatives – Hedge accounting	1,342,300	—	1,342,300	—
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(933,593)	—	(933,593)	—
Investments in joint ventures and associates	5,768,013	—	5,768,013	—
Other assets	8,276,899	—	8,276,899	—
Liabilities subject to market risk	**184,167,961**	**2,149,776**	**182,018,185**	
Financial liabilities held for trading	2,156,675	2,149,776	6,899	—
Derivatives – Hedge accounting	941,607	—	941,607	—
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(596,817)	—	(596,817)	—
Financial liabilities at amortised cost	180,367,656	—	180,367,656	—
Other liabilities	1,298,840	—	1,298,840	—
Equity	**11,453,002**	**—**	**11,453,002**	

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 different trading desks have the obligation to always manage their positions within the limits established by the Board of Directors and the Investments and Liquidity Committee. Market risk limits are aligned with the Group's targets and risk appetite framework.

Trading activity

The main market risk factors considered by the Group in its trading activity are the following:

- 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 incurred in trading activity is measured using the VaR and stressed VaR methodologies. These allow 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 specified 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 data.

The reliability of the VaR methodology used can be verified 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. No backtesting exceptions occurred in 2023 or 2022.

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. These stressed conditions are determined on the basis of currently outstanding transactions, and may vary if the portfolios' risk profile changes. The methodology used for this risk measurement is historical simulation.

Market risk monitoring 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 particular 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 considering extreme market scenarios (stress testing). These exercises consist of revaluing the portfolios in scenarios to which different assumptions are applied. Broadly speaking there are two types of scenarios: on one hand, historical scenarios, developed based on historical events that have occurred in the markets in the past and which are relevant to the current position of the portfolios (e.g. the global financial crisis or the Covid-19 crisis) and, on the other hand, hypothetical scenarios, which consider theoretical shifts in risk factors, such as shifts in yield curves, credit spreads or exchange rates, as well as movements in these factors resulting from the application of different macroeconomic forecasts determined based on the current situation. As at the end of December 2023, the impact of the most adverse scenario considered was -21 million euros.

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 Investments and Liquidity Committee for each trading desk (limits based on nominal value, 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 2023 and 2022 was as follows:

Million euro

	2023			2022		
	Average	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Interest rate risk	1.98	3.96	1.00	1.08	2.21	0.61
Foreign exchange risk (trading)	2.26	2.52	1.79	1.29	2.40	0.88
Equity	—	—	—	0.13	1.24	—
Credit spread	0.27	0.72	0.09	0.25	0.57	0.11
Aggregate VaR	**4.51**	**5.93**	**3.25**	**2.74**	**4.78**	**2.09**

In 2023, the overall VaR figures for trading activity increased, particularly where trading involves interest and exchange rates. This is due to greater exposure to interest rate risk, mainly short-term rates, and foreign exchange risk.

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 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 shifts).

- 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 time to maturity (non-parallel shifts).

- 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. lending floors and caps), both embedded and explicit, in which the Balance Sheet Management Unit (BSMU) 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 produce 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 (BSMUs). In coordination with the Group's corporate functions, each BSMU has the autonomy and capability 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 BSMU has appropriate tools and robust processes and systems in place to adequately identify, measure, manage, control and report on IRRBB, following the main criteria defined by the Group's internal methodology. 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/BSMU in the event of potential losses arising from IRRBB under different scenarios affecting 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 BSMU has the autonomy and structure required to properly manage and control IRRBB. Specifically, each BSMU has sufficient autonomy to choose the management target that it will pursue, although all BSMUs 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 precepts at all times.

As defined in the IRRBB Management and Control Policy, the first line of defence is undertaken by the various BSMUs, which report to their respective 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 BSMUs, based on the results obtained from the exercise carried out to identify sub-risks and assess their materiality mentioned previously, and by each of the local asset and liability committees. The diversification effect between currencies and BSMUs is taken into account when disclosing overall figures.

The main calculations performed by the Group on a monthly basis are the following:

- 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.

- Duration analysis: a static metric based on the allocation of all flows of principal and interest of pools of interest rate sensitive items to time buckets. The duration of each pool of balance sheet items is calculated based on the variation of its net present value due to a parallel shift of 1 basis point in the interest rate curve. This gives the duration of both assets and liabilities.

- Net interest margin sensitivity: dynamic metric that measures the impact of interest rate fluctuations over different time horizons. It is obtained by comparing the net interest margin over given time horizon in the baseline scenario, which would be the one obtained from implied market 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 mark-ups, in line with the Group's IRRBB management strategy. This metric supplements the net interest margin sensitivity.

- Sensitivity that combines the two above metrics: the effect of changes in value of instruments recognised directly through profit or loss or through equity is added to the net interest margin sensitivity.

In the quantitative interest rate risk estimations made by each BSMU, 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 shifts and non-parallel shifts of 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 -150 basis points for current maturities and increasing by 3 basis point intervals, eventually reaching 0% after 50 years or more.

In addition, in the annual planning exercises, measurements are carried out that include assumptions regarding the evolution of the balance sheet based on the forward-looking 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 BSMUs regularly carry out stress tests, which allow them to forecast high-impact situations with a low probability of occurrence that could place BSMUs 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 Bank's interest rate gap based on estimated maturities as at 31 December 2023 and 2022:

Thousand euro

	2023								
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	23,177,700	664,785	1,820,033	1,648,692	571,125	6,597	—	—	**27,888,932**
Loans and advances	14,680,748	16,838,603	31,942,158	9,000,220	7,176,115	5,138,082	3,818,980	18,818,624	**107,413,530**
Debt securities	369,930	1,880,110	1,417,314	1,534,115	1,369,823	1,982,663	2,962,985	13,030,444	**24,547,384**
Other assets	—	—	—	—	—	—	—	—	**—**
Total assets	**38,228,378**	**19,383,498**	**35,179,505**	**12,183,027**	**9,117,063**	**7,127,342**	**6,781,965**	**31,849,068**	**159,849,846**
Money Market	11,117,948	1,058,899	1,894,799	1,724,586	439,417	—	—	—	**16,235,649**
Customer deposits	33,464,816	4,887,400	13,058,687	10,859,871	7,979,481	7,880,174	8,307,497	30,976,478	**117,414,404**
Issues of marketable securities	752,336	4,011,953	2,392,849	3,908,110	3,457,000	3,118,100	3,735,000	1,660,025	**23,035,373**
Of which: Subordinated liabilities	—	—	—	300,000	1,500,000	750,000	500,000	515,025	***3,565,025***
Other liabilities	48,661	133,257	232,342	152,773	138,920	121,899	110,203	615,072	**1,553,127**
Total liabilities	**45,383,761**	**10,091,509**	**17,578,677**	**16,645,340**	**12,014,818**	**11,120,173**	**12,152,700**	**33,251,575**	**158,238,553**
Hedging derivatives	**1,352,964**	**(3,024,776)**	**2,863,365**	**4,239,622**	**1,211,678**	**1,475,052**	**292,115**	**(8,410,020)**	**—**
Interest rate gap	**(5,802,419)**	**6,267,213**	**20,464,193**	**(222,691)**	**(1,686,077)**	**(2,517,779)**	**(5,078,620)**	**(9,812,527)**	**1,611,293**

Thousand euro

	2022								
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	36,068,169	373,780	593,215	125,651	—	—	8,668	—	37,169,483
Loans and advances	16,221,330	17,273,107	35,725,359	9,363,247	6,926,992	5,384,177	4,265,903	18,076,148	113,236,263
Debt securities	471,227	860,922	2,017,614	1,692,448	1,384,951	939,393	2,783,050	13,928,303	24,077,908
Other assets	—	—	—	—	—	—	—	—	—
Total assets	**52,760,726**	**18,507,809**	**38,336,188**	**11,181,346**	**8,311,943**	**6,323,570**	**7,057,621**	**32,004,451**	**174,483,654**
Money Market	29,893,180	290,048	550,024	125,651	—	—	—	—	30,858,903
Customer deposits	42,425,781	4,388,898	9,017,412	4,708,778	4,375,263	4,866,364	9,931,817	39,589,454	119,303,767
Issues of marketable securities	1,680,252	3,493,442	1,853,628	3,510,000	3,908,110	2,457,000	3,118,100	2,145,025	22,165,557
Of which: Subordinated liabilities	—	400,000	500,000	—	300,000	1,500,000	750,000	15,025	*3,465,025*
Other liabilities	55,015	122,537	277,700	217,712	144,908	130,335	113,172	670,277	1,731,656
Total liabilities	**74,054,228**	**8,294,925**	**11,698,764**	**8,562,141**	**8,428,281**	**7,453,699**	**13,163,089**	**42,404,756**	**174,059,883**
Hedging derivatives	**2,366,916**	**(5,434,459)**	**587,325**	**3,803,604**	**1,946,135**	**872,912**	**1,294,035**	**(5,436,468)**	**—**
Interest rate gap	**(18,926,586)**	**4,778,425**	**27,224,749**	**6,422,809**	**1,829,797**	**(257,217)**	**(4,811,433)**	**(15,836,773)**	**423,771**

The following tables show the interest rate risk levels in terms of the sensitivity of the Group's main currencies, as at 2023 year-end, to the most frequently used interest rate scenarios in the sector, under stressed pass-through assumptions:

	Instant and parallel interest rate increase	
	100 bp	**200 bp**
Interest rate sensitivity	**Impact on net interest margin (*)**	**Impact on economic value of equity (**)**
EUR	0.2%	1.9%
GBP	0.5%	(0.1)%
USD	1.2%	(0.5)%
MXN	0.0%	0.0%

(*) Percentage calculated on the basis of net interest margin at 12 months.

(**) Percentage calculated on the basis of shareholders' equity.

Interest rate sensitivity	Instant and parallel interest rate decrease 100 bp Impact on net interest margin (*)	 200 bp Impact on economic value of equity (**)
EUR	(1.7)%	(6.6)%
GBP	(0.5)%	0.0%
USD	(1.3)%	0.5%
MXN	0.0%	0.0%

(*) Percentage calculated on the basis of net interest margin at 12 months.

(**) Percentage calculated on the basis of shareholders' equity.

The metrics are calculated taking into account the behavioural assumptions concerning 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 optionality): 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. Changes in market interest rates can prompt customers to terminate their loans or term deposits early, altering the future behaviour of balances with respect to that envisaged in the contractual schedule. Prepayment mainly affects fixed-rate mortgages when their contractual interest rates are high 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 parameters concerning the deposits' stability, the percentage of interest rate movements that is passed through to the interest paid on the deposits and the delay with which this occurs, depending on the type of product (type of account/transactionality/interest paid) and the type of customer (retail/wholesale). The model captures the effect of low interest rates on the stability of deposits, as well as the potential migration to other deposits that earn more interest in different interest rate scenarios.

- Modelling of non-performing lending items: a model has been defined that allows the expected payment flows associated with non-performing positions (net of provisions, i.e. those expected to be recovered) to be included in pools of interest rate-sensitive items. To this end, both existing balances and estimated recovery periods are included.

The process for approving and updating 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 the duties of the different areas involved in the models, the internal validation framework to be followed, the monitoring requirements established on the basis of their materiality and the backtesting processes.

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 relation to information governance and data quality. 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 Financial 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 and to ensure it remains within the established risk appetite. 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 in keeping with the Institution's risk appetite. In addition, proposals can be put forward to redefine the interest rate characteristics of commercial products or the launch of new products.

Derivatives, mainly interest rate swaps (IRS), which qualify as hedges for accounting purposes, are arranged in financial markets to be used as risk hedging instruments. Two separate types of macro-hedges are used:

- Cash flow macro-hedges of interest rate risk, the purpose of which is to reduce the volatility of the net interest margin due to changes in interest rates over one-year time horizon.

- Fair value macro-hedges of interest rate risk, the purpose of which is to maintain the economic value of the hedged items, consisting of fixed-rate assets and liabilities.

For each type of macro-hedge, there is a framework document that includes the hedging strategy, defining it in terms of management and accounting and establishing its governance.

In Banco Sabadell, as part of the continuous improvement process, structural interest rate risk management and monitoring activities are implemented and regularly updated, aligning the Institution with best market practices and current regulations. In particular, throughout 2023 work has continued on the review and continuous improvement of the systems and behavioural models in accordance with the new guidelines established by the EBA. Among other things, some of the improvements worth noting are the update of the key behavioural modelling assumptions for demand deposits, prepayment of the loan portfolio and early termination of term deposits, taking sufficiently large time series data to capture periods of both rising and falling interest rate stress, obtaining different results based on the different interest rate scenarios modelled, and their recurrent monitoring to ensure the appropriateness of those assumptions.

In 2023, the Bank's loan book has continued to trend towards a higher proportion of fixed-rate transactions (mainly mortgages and business loans), while on the liabilities side, balances of interest-bearing demand deposits and term deposits have increased in contrast with a reduced balance of non-interest bearing demand deposits, all while keeping costs at low levels relative to the upward trend of interest rates over the year. In addition, other balance sheet variations in 2023 included: the increase of the fixed-income portfolio on the asset side, which acts as a balance sheet management and coverage lever; the maturity of 17 billion euros of TLTRO III, leaving a total of 5 billion euros to mature in 2024 on the liabilities side.

With regard to interest rates, in 2023 benchmark rates increased in all currencies as inflation remained at high levels, affecting the euro in particular, with the 12-month Euribor, for example, standing above 4% in the month of September and falling back to 3.51% as at the end of 2023. The marginal deposit rate of the European Central Bank (ECB) ended the year at 4% (increase of 200 basis points over the year), while the base rate of the Bank of England (BoE) ended at 5.25% (increase of 175 basis points over the year). The scenario envisaged in the short/medium term will likely involve a reduction in central bank rates as inflation continues to fall back gradually. This is already reflected in current market rates, and it is therefore expected that Euribor levels will remain at levels similar to those at the end of 2023. In this respect, it is expected that the cost of customer funds may increase slightly as balances of interest-bearing products continue to grow.

Taking into account the balance sheet variations detailed previously, as well as episodes of volatility and variations in the benchmark interest rates of all the Group's major currencies, the IRRBB metrics have been affected during the year, although the measures taken have allowed the Group's IRRBB metrics to be kept within the risk appetite and below the levels considered significant under current legislation.

Furthermore, the Group continues to monitor customer behaviour in reaction to interest rate hikes and variations of other economic variables (unemployment rates, gross domestic product, etc.), in order to anticipate possible changes and impacts on the behavioural assumptions used to measure and manage IRRBB. In particular, it analyses customer behaviour related to non-maturing items (changes in the stability of demand deposits and possible migration to other products that earn more interest) and related to 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).

3.4.3.3. 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 produce 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 targets 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 prominent permanent investments in non-local currencies are held in US dollars, pounds sterling and Mexican pesos.

The Group has been following a hedging policy for its equity that seeks to minimise the sensitivity of capital ratios to adverse movements in these currencies against the euro. To that end, the evolution of foreign business is monitored, as are the political and macroeconomic variables that could have a significant impact on exchange rates.

As regards permanent investments in US dollars, the overall position in this currency has gone from 1,154 million as at 31 December 2022 to 1,270 million as at 31 December 2023. In relation to this position, as at 31 December 2023, a buffer of 38% of total investment is maintained.

In terms of permanent investments in Mexican pesos, the capital buffer has gone from 8,833 million Mexican pesos as at 31 December 2022 (of a total exposure of 13,359 million Mexican pesos) to 8,133 million Mexican pesos as at 31 December 2023 (of a total exposure of 15,013 million Mexican pesos), representing 54% of the total investment made.

As regards permanent investments in pounds sterling, the capital buffer has increased from 333 million pounds sterling as at 31 December 2022 to 393 million pounds sterling as at 31 December 2023 (total exposure has been maintained at 1,700 million pounds sterling between 31 December 2022 and 31 December 2023), representing 23% of the total investment made (excluding intangibles).

Currency hedges are continuously reviewed in light of market movements.

The exchange value in euros of assets and liabilities in foreign currencies maintained by the Bank as at 31 December 2023 and 2022, classified in accordance with their nature, is as follows:

Thousand euro

	2023			
	USD	**GBP**	**Other currencies**	**TOTAL**
Assets denominated in foreign currency:	**10,364,129**	**4,821,353**	**1,243,457**	**16,428,939**
Cash, cash balances with central banks and other demand deposits	333,977	40,472	51,044	425,493
Debt securities	1,520,449	1,368,956	76,846	2,966,251
Loans and advances	8,253,477	1,139,618	281,888	9,674,983
Central banks and Credit institutions	643,984	3,779	12,259	660,022
Customers	7,609,493	1,135,839	269,629	9,014,961
Other assets	256,226	2,272,307	833,679	3,362,212
Liabilities denominated in foreign currency:	**5,246,459**	**495,286**	**182,603**	**5,924,348**
Deposits	5,007,815	461,485	157,376	5,626,676
Central banks and Credit institutions	375,588	54,819	11,166	441,573
Customers	4,632,227	406,666	146,210	5,185,103
Other liabilities	238,644	33,801	25,227	297,672

Thousand euro

	2022			
	USD	GBP	Other currencies	TOTAL
Assets denominated in foreign currency:	**10,319,136**	**4,793,442**	**1,139,566**	**16,252,144**
Cash, cash balances at central banks and other demand deposits	494,729	68,136	40,444	603,309
Debt securities	1,069,061	1,058,081	94,543	2,221,685
Loans and advances	8,482,414	1,380,039	298,311	10,160,764
Central banks and Credit institutions	297,358	5,365	46,316	349,039
Customers	8,185,056	1,374,674	251,995	9,811,725
Other assets	272,932	2,287,186	706,268	3,266,386
Liabilities denominated in foreign currency:	**6,068,875**	**556,257**	**192,431**	**6,817,563**
Deposits	5,769,132	516,562	165,608	6,451,302
Central banks and Credit institutions	729,832	136,788	36,731	903,351
Customers	5,039,300	379,774	128,877	5,547,951
Other liabilities	299,743	39,695	26,823	366,261

The net position of foreign currency assets and liabilities includes the structural position of the Institution, valued as at 31 December 2023, which amounted to 2,633 million euros, of which 1,504 million euros corresponded to permanent equity holdings in pounds sterling, 715 million euros corresponded to permanent equity holdings in US dollars and 367 million euros to permanent equity holdings in Mexican pesos. Net assets and liabilities valued at historical exchange rates are hedged with currency forwards and currency options in line with the Group's risk management policy.

As at 31 December 2023, the sensitivity of the equity exposure to a 2.5% exchange rate depreciation against the euro of the main currencies to which exposure exists, calculated based on quarterly exchange rate volatility over the past three years, amounted to 66 million euros, of which 57% corresponded to the pound sterling, 27% corresponded to the US dollar and 14% to the Mexican peso.

3.4.4. 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 communications 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 (formed of Senior Management members from different functional areas within the Institution) and by ensuring that regular audits are carried out of the application of the management framework and of the reliability of the reported information, as well audits of the internal validation tests of the operational risk model. Operational risk is managed through two main courses of action:

The first course of action 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 Institution to any increase in this exposure, and also enable it to identify the causes of that increase and measure the effectiveness of the implemented controls and improvements.

At the same time, checks are run to verify that specific business continuity plans have been defined and implemented for processes identified as being highly critical in the event of any service disruption.

The second course of action 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 associated risks. Recoveries are also recorded, which make it possible to reduce the extent of the loss either as a result of its direct management or by having an insurance policy that covers all or part of the resulting impacts.

Furthermore, 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: broadly speaking, this is defined as the current or future possibility of incurring losses due to the inadequate provision of financial services or any other activity carried out by the Institution, due to misconduct with customers (existing or potential), employees (in relation to human rights, equality, well-being, inclusion, and health & safety in the workplace), shareholders and suppliers, markets, political parties or society in general, including cases of wilful misconduct or negligence.

– Technology risk: technology risk (or information and communications technology (ICT) 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, confidentiality or traceability of infrastructures, applications and data, or would make it impossible for IT platforms to be changed at a reasonable cost and within a reasonable timeframe in response to the changing needs of the environment or the business.

  It also includes security risks resulting from inadequate or failed internal processes or external events, including cyberattacks or inadequate physical security in data centres.

– Outsourcing risk: this is the current or future risk of losses arising 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 encompasses other related risks, such as concentration risk, country risk, legal risk or compliance risk and includes the risk of losses arising from the use of third-party resources and/or media for the standard, ongoing and stable performance over time of certain business processes of the subcontracting company, which in itself involves exposure to a series of underlying risks, such as operational risk, (including conduct risk, risks related to Information and Communications Technology (ICT), reputational risk, concentration risk and vendor lock-in risk.

– Model risk: current or future risk of an institution incurring losses as a result of decisions largely based on the outputs of internal models, due to errors in their development, implementation or use.

– 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: defined as the risk of incurring legal or administrative penalties, significant financial losses or reputational damage as a result of an infringement of laws, regulations, internal rules or codes of conduct applicable to banking activity.

Senior Management and, in particular, the Board Risk Committee, closely monitor 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). No noteworthy impacts have been detected in 2023.

Detailed information on the risks that the Group deems most material is provided below:

3.4.4.1 Technology risk

In recent years, the importance, complexity and use of technology and data have increased even further in banking processes, especially in remote channels (online banking) as a result of the impact of Covid-19 and the growing use of cloud services. Consequently, the reliance on information systems and their availability is a key factor, as the Bank is more exposed to cyberattacks just like the other operators in the sector. The ongoing geopolitical conflicts have brought with them the risk of becoming a target for cyberattacks, generating the need to introduce back-up measures. At the present time, the risk related to geopolitical conflicts is stable, though latent.

Furthermore, the Institution is currently undergoing a process of transformation, based on the digitalisation and automation of processes, which increases the reliance on systems and the exposure to risks associated with this change, including digital fraud. Technology risk therefore remains one of the key focus areas of Banco Sabadell Group's risk management.

It should be mentioned that this risk is not only applicable to the Group's own systems and processes, 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. On the topic of IT outsourcing, with regard to 2022 it is particularly worth noting the implementation of Project Dingle, which has concentrated the outsourcing of application development and testing in three key suppliers, thus requiring a greater level of supplier control and monitoring and the need for special oversight and adjustment throughout 2023, reducing the probability of experiencing cybersecurity incidents in this area with input from the aforesaid outsourcing suppliers.

In order to holistically and adequately manage all risks related to technology and data, the Institution classifies and categorises these risks into eight 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 of there being an impact on the confidentiality, availability, integrity and traceability of the information (data and metadata) that they contain (including cyberattacks and deliberate action), as well as the potential repudiation of digital operations.

- IT availability (technological resilience): risk of critical services provided to customers and employees becoming affected by systems failures.

- IT change: risk arising from errors in the change and development processes of information systems.

- Data integrity: risk of data stored and processed by IT systems being incomplete, inaccurate or inconsistent.

- IT outsourcing: risk that engaging a third party or another Group entity (intragroup outsourcing) to provide IT systems, their management or related services produces a negative effect on the Institution's performance (including impacts on customers, as well as reputational, regulatory or 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 partners) to ensure effective and efficient coverage of technological activities, processes and services.

3.4.4.2 Tax risk

With regard to tax risk, Banco Sabadell Group's tax risk policies aim to establish the general guidelines for managing and controlling tax risk, specifying the applicable principles and critical parameters and covering all significant elements to systematically identify, assess and manage any risks that may affect the Group's tax strategy and fiscal objectives, meeting the 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 this regard.

Banco Sabadell Group's tax strategy, approved by the Board of Directors, 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 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 carry considerable 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 registered 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.

Consequently, the duties of the Board of Directors of Banco Sabadell include the obligation to approve the corporate tax policy and ensure compliance therewith by implementing an appropriate control and oversight system, which is enshrined in the general risk management and control framework of the Group.

3.4.4.3 Compliance risk

As regards compliance risk, one of the core 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 that end, the Group has a Compliance Division, whose mission is to promote and strive to attain the highest levels of Group compliance and ethics, mitigating compliance risk, understood as the risk of legal or administrative sanctions, significant financial losses or loss of reputation due to a breach of laws, regulations, internal regulations and codes of conduct applicable to the Group's activity; minimising the possible occurrence of any regulatory breach and ensuring that any breaches that may occur are diligently identified, reported and resolved.

This division assesses and manages compliance risk through the following duties:

– Monitoring and overseeing the adaptation to new regulations through proactive management to ensure regular and systematic monitoring of legal updates, and ensuring the distribution of those which are deemed to have an impact on any area of the Institution's business, according to the scope established in the corresponding internal procedures.

– 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.
- Conducting an appropriate follow-up on any findings (incidents, weakness or areas for improvement detected in the Institution, which may have an impact on compliance risk), in accordance with the corresponding internal 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.
- Monitoring and coordinating inspections, as well as responses to the requirements of supervisors and regulators, and checking that their recommendations have been acted on accordingly.
- With regard to Anti-Money Laundering, Countering the Financing of Terrorism (AML/CFT) and International Sanctions, implementing, managing and updating policies and procedures on the topic of AML/CFT and international sanctions; carrying out the preliminary classification of the AML/CFT risk of customers during the onboarding process; applying enhanced due diligence measures when onboarding high-risk customers so that they may be accepted and duly updated beforehand; managing tracking alerts; detecting matches in 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 conducting a periodic risk assessment of internal control procedures in relation to AML/CFT and international sanctions.
- Advising on data protection through the Data Protection Office, acting as the point of contact with the Spanish Data Protection Agency (Agencia Española de Protección de Datos) and performing all other duties assigned in regulations to the Data Protection Officer.
- Taking part in the process to formulate remuneration policies and practices.
- 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 perform their duties correctly.
- Assigning functional responsibilities for compliance where necessary.
- 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.
- Sharing relevant information, reviewing and proposing corrective measures and/or responses to incidents detected in matters of conduct or to queries submitted to the Corporate Ethics Committee, which is tasked with promoting the Group’s ethical conduct to ensure compliance with the action principles set out in the Banco Sabadell Group Code of Conduct, the Banco Sabadell Group Internal Code of Conduct relating to the securities market, the Banco Sabadell Group General Policy on Conflicts of Interest, the Banco Sabadell Group Corporate Crime Prevention Policy and the Banco Sabadell Group Anti-Corruption Policy.
- 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.
- Taking on institutional responsibilities and interacting with supervisory authorities and institutions in relation to matters within its remit and where agreed by the Institution’s management and administrative bodies.

The following compliance risks have been identified:

- Anti-Money Laundering and Counter-Terrorist Financing.
- Data protection.
- Market integrity.

- Customer protection (including the following risks: MiFID, EBA, other products and services, sustainability, misconduct with customers and advertising).
- New legislation.
- Ethics and conduct (includes risks related to corporate crime prevention, remuneration and the code of conduct and ethics).
- Customer Care Service (*Servicio de Atención al Cliente*, or SAC).

Note 4 – Minimum own funds and capital management

As at 31 December 2023 and 2022, the Bank's eligible own funds exceeded those required by the current regulatory framework concerning capital (Directive 2013/36/EU and Regulation (EU) 575/2013).

Note 5 to Banco Sabadell Group's consolidated annual financial statements provides detailed information on capital management.

Note 5 – Fair value of assets and liabilities

Financial assets and financial liabilities

The fair value of a financial asset or financial liability at a given date is understood as the amount at which it could be sold or transferred, respectively, as at that date, between two independent and knowledgeable parties acting freely and prudently, 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 based on 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. Notwithstanding the foregoing, 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 that 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 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 one or more significant inputs is 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	- Issuer 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 - Quoted prices 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
Other derivatives (a)	Analytic/ semi-analytic formulae	- For equity derivatives, FX or commodities: 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 interest rate derivatives: Normal model and shifted Libor Market Model: negative rates and forward rates in the term structure of the interest rate curve are fully correlated. For calculation of CVA and DVA adjustments: Normal model and Black-Scholes model	- Term structure of interest rates - Volatility surfaces of Libor rate options (caps) and swap rate options (swaptions) - Probability of default for calculation of CVA and DVA (b)
	Monte Carlo simulations	- For valuation of equity derivatives, FX or commodities: 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
	Hybrid local stochastic volatility models	- For FX derivatives: Tremor model: implicit volatility obtained through stochastic differential equations	- Forward structure of the underlying asset, given by market data (dividends, swap points, etc.). - Volatility surfaces of options
	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates	- Price listings of Credit Default Swaps (CDS) - Historic volatility of credit spreads

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

(b) To calculate CVA and DVA, levels of severity fixed at 60% have been used, which corresponds to the market standard for senior debt. Average future, positive and negative exposures have been estimated using market models, Libor for interest rates and the Black-Scholes model for FX, 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 market prices have been assigned.

Level 3 financial instruments	Valuation techniques	Main assumptions	Main non-observable inputs
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account in each case: - An estimate of pre-payment rates - Issuers' credit risk - Other estimates of variables that affect future cash flows: claims, losses, redemptions	- Estimated credit spreads of the issuer or a similar issuer - Rates of claims, losses and/or redemptions
Loans and advances	Net present value method	Calculation of the present value of future cash flows discounted at market interest rates based on the scenarios generated	- The entity's business plans
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	- The 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
	For commodity derivatives: - Net present value method	Forward curve calculated based on adjusted quoted market prices	Unquoted futures curves

(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.

Determination of the fair value of financial instruments

A comparison between the value at which the main financial assets and financial liabilities are recognised on the accompanying balance sheets and their corresponding fair values is shown below:

Thousand euro

	Note	2023		2022	
		Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Cash, cash balances at central banks and other demand deposits	6	22,301,225	22,301,225	34,063,579	34,063,579
Financial assets held for trading	7, 9	1,731,823	1,731,823	2,671,253	2,671,253
Non-trading financial assets mandatorily at fair value through profit or loss	7, 8, 10	149,792	149,792	35,534	35,534
Financial assets at fair value through other comprehensive income	7, 8	6,329,974	6,329,974	5,754,945	5,754,945
Financial assets at amortised cost	7, 10	134,693,403	131,381,357	138,642,033	133,396,897
Derivatives – Hedge accounting	11	896,227	896,227	1,342,300	1,342,300
Total assets		**166,102,444**	**162,790,398**	**182,509,644**	**177,264,508**

Thousand euro

	Note	2023		2022	
		Carrying amount	Fair value	Carrying amount	Fair value
Liabilities:					
Financial liabilities held for trading	9	1,718,159	1,718,159	2,156,675	2,156,675
Financial liabilities at amortised cost	17, 18, 19, 20	164,594,328	164,171,595	180,367,656	177,182,773
Derivatives – Hedge accounting	11	835,204	835,204	941,607	941,607
Total liabilities		**167,147,691**	**166,724,958**	**183,465,938**	**180,281,055**

Financial instruments at fair value

The following tables show the main financial instruments recognised at fair value in the accompanying balance sheets, broken down according to the valuation method used to estimate their fair value:

Thousand euro

	Note	2023			
		Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		142,495	1,589,328	—	1,731,823
Derivatives	9	—	1,589,328	—	1,589,328
Debt securities	7	142,495	—	—	142,495
Non-trading financial assets mandatorily at fair value through profit or loss		4,530	1,605	143,657	149,792
Equity instruments	8	3,864	471	—	4,335
Debt securities	7	666	1,134	37,238	39,038
Loans and advances	10	—	—	106,419	106,419
Financial assets at fair value through other comprehensive income		3,749,010	2,220,927	360,037	6,329,974
Equity instruments	8	336	73,750	316	74,402
Debt securities	7	3,748,674	2,147,177	359,721	6,255,572
Derivatives – Hedge accounting	11	—	896,227	—	896,227
Total assets		**3,896,035**	**4,708,087**	**503,694**	**9,107,816**

Thousand euro

	Note	2023			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		337,373	1,380,786	—	1,718,159
Derivatives	9	—	1,380,786	—	1,380,786
Short positions		337,373	—	—	337,373
Derivatives – Hedge accounting	11	—	835,204	—	835,204
Total liabilities		**337,373**	**2,215,990**	**—**	**2,553,363**

Thousand euro

	Note	2022			
		Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		417,131	2,251,627	2,495	2,671,253
Derivatives	9	—	2,251,627	2,495	2,254,122
Debt securities	7	417,131	—	—	417,131
Non-trading financial assets mandatorily at fair value through profit or loss		3,010	1,174	31,350	35,534
Equity instruments	8	1,945	32	—	1,977
Debt securities	7	1,065	1,142	31,350	33,557
Financial assets at fair value through other comprehensive income		4,846,409	575,577	332,959	5,754,945
Equity instruments	8	336	65,326	2,363	68,025
Debt securities	7	4,846,073	510,251	330,596	5,686,920
Derivatives – Hedge accounting	11	—	1,332,320	9,980	1,342,300
Total assets		**5,266,550**	**4,160,698**	**376,784**	**9,804,032**

Thousand euro

	Note	2022			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		224,447	1,932,228	—	2,156,675
Derivatives	9	—	1,932,228	—	1,932,228
Short positions		224,447	—	—	224,447
Derivatives – Hedge accounting	11	—	941,607	—	941,607
Total liabilities		**224,447**	**2,873,835**	**—**	**3,098,282**

Derivatives with no credit support annexes (CSAs) include the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA), respectively, in their fair value. The fair values of these derivatives represent 6.54% of the total, and their adjustment for credit and debit risks represents 5.39% of their fair value as at 31 December 2023 (6.91% and 11.91%, respectively, as at 31 December 2022).

Movements in the balances of financial assets and financial liabilities recognised at fair value and classified as Level 3, disclosed in the accompanying balance sheets, are shown below:

Thousand euro

	Assets	Liabilities
Balance as at 31 December 2021	**486,006**	**—**
Valuation adjustments recognised in profit or loss (*)	3,992	—
Valuation adjustments not recognised in profit or loss	(46,071)	—
Purchases, sales and write-offs	(46,627)	—
Net additions/removals in Level 3	(4,465)	—
Exchange differences and other	(16,051)	—
Balance as at 31 December 2022	**376,784**	**—**
Valuation adjustments recognised in profit or loss (*)	6,021	—
Valuation adjustments not recognised in profit or loss	20,694	—
Purchases, sales and write-offs	(16,989)	—
Exchange differences and other	112,664	—
Balance as at 31 December 2023	**503,694**	**—**

(*) Relates to securities retained on the balance sheet.

Details of financial instruments that were transferred to different valuation levels in 2023 are as follows:

Thousand euro

	2023					
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	687,365	4,520	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Liabilities:						
Financial liabilities held for trading	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	—	—	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Total	**687,365**	**4,520**	**—**	**—**	**—**	**—**

Details of financial instruments that were transferred to different valuation levels in 2022 are as follows:

Thousand euro

	2022					
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	—	—	—	—	4,465	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Liabilities:						
Financial liabilities held for trading	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	—	—	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Total	**—**	**—**	**—**	**—**	**4,465**	**—**

Transfers from Level 1 to Level 2 in 2023 correspond mainly to bonds issued by US government agencies for which, given their characteristics, it has been determined that their fair value should be obtained primarily using directly or indirectly observable market data.

Transfers from Level 1 to Level 3 in 2023 are due to the fact that the markets in which these instruments (fixed-income bonds) are traded are no longer considered to be active markets; therefore, their value is instead calculated using valuation techniques in which one of the main significant inputs is based on unobservable market data.

Transfers from Level 3 to Level 1 in 2022 were due to the fact that the markets in which those instruments (senior bonds) were traded began to be considered active markets; therefore, their valuation was instead obtained from quoted prices.

As at 31 December 2023 and 2022, 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.

As 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.

Financial instruments at amortised cost

The following tables show the fair value of the main financial instruments recognised at amortised cost in the accompanying balance sheets:

Thousand euro

	2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets at amortised cost:				
Debt securities	15,418,873	1,502,527	456,548	17,377,948
Loans and advances	—	22,289,951	91,713,459	114,003,409
Total assets	**15,418,873**	**23,792,478**	**92,170,007**	**131,381,357**

Thousand euro

	2023			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Financial liabilities at amortised cost (*):				
Deposits (**)	—	137,811,504	—	137,811,504
Debt securities issued	16,874,549	4,774,173	—	21,648,722
Total liabilities	**16,874,549**	**142,585,677**	**—**	**159,460,226**

(*) As at 31 December 2023, the Bank had other financial liabilities amounting to 4,711,369 thousand euros.

(**) The fair value of demand deposits has been likened to their carrying amount as they are mainly short-term balances.

Thousand euro

	2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets at amortised cost:				
Debt securities	16,181,515	741,705	197,351	17,120,571
Loans and advances	—	21,576,055	94,700,271	116,276,326
Total assets	**16,181,515**	**22,317,760**	**94,897,622**	**133,396,897**

Thousand euro

	2022			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Financial liabilities at amortised cost (*):				
Deposits (**)	—	152,907,094	—	152,907,094
Debt securities issued	15,613,490	3,753,646	—	19,367,136
Total liabilities	**15,613,490**	**156,660,740**	**—**	**172,274,230**

(*) As at 31 December 2022, the Bank had other financial liabilities amounting to 4,908,543 thousand euros.

(**) The fair value of demand deposits has been likened to their carrying amount as they are mainly short-term balances.

In general, the fair value of "Financial assets at amortised cost" and "Financial liabilities at amortised cost" has been estimated using the discounted cash flow method, applying market interest rates as at the end of each year adjusted for the credit spread and incorporating any behavioural assumptions deemed relevant, with the exception of debt securities with active markets, for which it has been estimated using year-end quoted prices.

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.

Financial instruments at cost

As at the end of 2023 and 2022, there were no equity instruments valued at their acquisition cost that could be considered significant.

Non-financial assets

Real estate assets

As at 31 December 2023 and 2022, the net carrying amounts of real estate assets do not differ significantly from the fair values of these assets (see Notes 12 and 14).

The selection criteria for appraisers and the update of appraisals are defined in the section on "Guarantees", in Note 1.3.3. to these annual financial statements.

Valuation techniques are generally used by all appraisal companies based on each type of 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 acquisition date and their location, updating the value in accordance with price trends in the area concerned as from the date of purchase. To that 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 timeframes for project completion are in line with the relevant regulations.

Depending on the type of asset, the methods used for the valuation of the Bank's portfolio are the following:

– Completed buildings: valued using the comparison method, the rental update method or the statistical model (Level 2).

– Buildings under construction: 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 by the valuation method used to estimate their fair value as at 31 December 2023 and 2022:

Thousand euro

	2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Housing	—	428,017	—	428,017
Branches and offices, retail establishments and other real estate	—	578,511	—	578,511
Land and building plots	—	5,295	13,264	18,559
Work in progress	—	—	676	676
Total assets	**—**	**1,011,823**	**13,940**	**1,025,763**

Thousand euro

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Housing	—	485,251	—	485,251
Branches and offices, retail establishments and other real estate	—	605,124	—	605,124
Land and building plots	—	5,351	15,716	21,067
Work in progress	—	—	1,849	1,849
Total assets	**—**	**1,095,726**	**17,565**	**1,113,291**

Significant unobservable variables used in valuations classed as Level 3 have not been developed 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 account for 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 Bank's possession is very fragmented, and they are very diverse, 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 2023 and 2022 are shown below:

Thousand euro

	Housing	**Branches and offices, retail establishments and other real estate**	**Land**
Balance as at 31 December 2021	**—**	**—**	**21,108**
Purchases	—	—	374
Sales	—	—	(2,301)
Net additions/removals in Level 3	—	—	(1,616)
Balance as at 31 December 2022	**—**	**—**	**17,565**
Purchases	—	—	1,342
Sales	—	—	(2,647)
Net additions/removals in Level 3	—	—	(2,320)
Balance as at 31 December 2023	**—**	**—**	**13,940**

No material movements between valuation levels took place during 2023 and 2022.

The following table shows a comparison between the value at which real estate assets obtained through foreclosures are recognised under the headings "Investment properties" and "Non-current assets and disposal groups classified as held for sale" and their appraisal value, as at the end of 2023 and 2022:

Thousand euro

		2023				2022			
	Note	Carrying amount (*)	Impairment	Net carrying amount	Appraisal value	Carrying amount (*)	Impairment	Net carrying amount	Appraisal value
Investment properties	14	47,734	(17,045)	30,690	52,779	73,940	(16,886)	57,054	87,722
Non-current assets held for sale	12	705,655	(179,555)	526,100	766,391	714,708	(180,627)	534,081	848,298
Total		**753,389**	**(196,600)**	**556,790**	**819,170**	**788,648**	**(197,513)**	**591,135**	**936,020**

(*) Cost less accumulated depreciation.

The fair values of real estate assets valued by appraisal companies and included in the headings "Investment properties" and "Non-current assets and disposal groups classified as held for sale" in 2023 are as follows:

Thousand euro

Appraisal firm	Investment properties	Non-current assets held for sale
Afes Técnicas de Tasación, S.A.	185	4,550
Alia Tasaciones, S.A.	1,390	23,202
Arco Valoraciones, S.A.	—	912
CBRE Valuation Advisory SA	635	30,062
Col.lectiu d'Arquitectes Taxadors	—	720
Cushman & Wakefield	—	271
Eurovaloraciones, S.A.	1,190	29,363
Gestión de Valoraciones y Tasaciones, S.A.	14	2,095
Gloval Valuation, S.A.U.	3,647	91,913
Ibertasa, S.A.	—	165
Krata, S.A.	—	41
Sociedad de Tasación, S.A.	16,517	176,052
Tecnitasa Técnicos en Tasación, S.A	269	6,420
Tinsa Tasaciones Inmobiliarias, S.A.	2,854	32,289
Valoraciones Mediterráneo, S.A.	2,466	89,828
UVE Valoraciones, S.A.	1,523	38,055
Other	—	162
Total	**30,690**	**526,100**

The fair value of property, plant and equipment for own use does not differ significantly from its amount in euros.

Note 6 – Cash, cash balances at central banks and other demand deposits

The composition of this balance sheet heading as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
By nature:		
Cash	623,406	587,119
Cash balances at central banks	21,413,344	32,924,771
Other demand deposits	264,475	551,689
Total	**22,301,225**	**34,063,579**
By currency:		
In euro	21,875,732	33,460,270
In foreign currency	425,493	603,309
Total	**22,301,225**	**34,063,579**

Cash balances at central banks include balances held to comply with the central bank's mandatory minimum required reserves (MRR) ratio. Throughout 2023 and 2022, Banco Sabadell has complied with minimum requirements set out in applicable regulations regarding that ratio.

Note 7 – Debt securities

Debt securities reported in the accompanying balance sheets as at 31 December 2023 and 2022 are broken down below:

Thousand euro

	2023	2022
By heading:		
Financial assets held for trading	142,495	417,131
Non-trading financial assets mandatorily at fair value through profit or loss	39,038	33,557
Financial assets at fair value through other comprehensive income	6,255,572	5,686,920
Financial assets at amortised cost	18,264,771	18,305,267
Total	**24,701,876**	**24,442,875**
By nature:		
General governments	21,725,152	22,722,348
Credit institutions	1,239,837	568,492
Other sectors	1,874,840	1,529,145
Stage 3 assets	899	73
Impairment allowances	(1,427)	(211)
Other valuation adjustments (interest, fees and commissions, other)	(137,425)	(376,972)
Total	**24,701,876**	**24,442,875**
By currency:		
In euro	21,735,625	22,221,190
In foreign currency	2,966,251	2,221,685
Total	**24,701,876**	**24,442,875**

The breakdown of debt securities classified according to their credit risk and movements of impairment allowances associated with these instruments are included, together with those of other financial assets, in Note 10.

Details of debt instruments included under the "Financial assets at fair value through other comprehensive income" heading, as at 31 December 2023 and 2022, are shown below:

Thousand euro

	2023	2022
Amortised cost	6,439,375	5,955,145
Fair value (*)	6,255,572	5,686,920
Accumulated losses recognised in equity	(257,894)	(319,559)
Accumulated capital gains recognised in equity	74,585	52,673
Value adjustments made for credit risk	(494)	(1,339)

(*) Includes net impairment gains/(losses) in the income statements for 2023 and 2022, in the amount of 852 thousand euros and -182 thousand euros, of which, -192 thousand euros and -742 thousand euros correspond to allowances, and 1,044 thousand euros and 560 thousand euros correspond to reversals, respectively (see Note 31).

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 2023 and 2022, are as follows:

Thousand euro

	2023	2022
Amortised cost	4,273,438	4,467,428
Fair value	4,053,305	4,232,226
Accumulated losses recognised in equity	(254,662)	(278,541)
Accumulated capital gains recognised in equity	34,659	43,446
Value adjustments made for credit risk	(130)	(107)

Details of the "Financial assets at amortised cost" portfolio as at 31 December 2023 and 2022 are shown below:

Thousand euro

	2023	2022
General governments	17,436,416	17,887,829
Credit institutions	571,455	298,256
Other sectors	258,326	119,393
Impairment allowances	(1,426)	(211)
Total	**18,264,771**	**18,305,267**

Note 8 – Equity instruments

The balance of equity instruments as at 31 December 2023 and 2022 breaks down as follows:

Thousand euro

	2023	2022
By heading:		
Non-trading financial assets mandatorily at fair value through profit or loss	4,335	1,977
Financial assets at fair value through other comprehensive income	74,402	68,024
Total	**78,737**	**70,001**
By nature:		
Resident sector	73,286	66,978
Credit institutions	9,408	8,484
Other	63,878	58,494
Non-resident sector	1,116	1,046
Other	1,116	1,046
Participations in investment vehicles	4,335	1,977
Total	**78,737**	**70,001**
By currency:		
In euro	78,732	69,996
In foreign currency	5	5
Total	**78,737**	**70,001**

As at 31 December 2023 and 2022, there were no investments in listed equity instruments for which their quoted price was not considered as a reference of their fair value.

In addition, as at the aforesaid dates, there were no investments in equity instruments included in the portfolio of "Financial assets at fair value through other comprehensive income" considered to be individually significant.

Details of equity instruments included under the "Financial assets at fair value through other comprehensive income" heading are as follows:

Thousand euro

	2023	2022
Acquisition cost	167,680	171,697
Fair value	74,402	68,025
Accumulated capital losses recognised in equity at reporting date	(139,087)	(142,165)
Accumulated capital gains recognised in equity at reporting date	45,809	38,493
Transfers of gains or losses within equity during the year	(4,462)	(4,468)
Recognised dividends from investments held at the end of the year	1,964	1,777

Note 9 – Derivatives held for trading

The breakdown by type of risk of derivatives held for trading as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023		2022	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Securities risk	3,472	4,691	14,807	16,354
Interest rate risk	1,088,647	1,016,667	1,608,169	1,497,444
Foreign exchange risk	367,380	229,645	552,812	342,639
Other types of risk	129,829	129,783	78,334	75,791
Total	**1,589,328**	**1,380,786**	**2,254,122**	**1,932,228**
By currency:				
In euro	1,413,916	1,222,531	2,061,315	1,748,191
In foreign currency	175,412	158,255	192,807	184,037
Total	**1,589,328**	**1,380,786**	**2,254,122**	**1,932,228**

The fair values of derivatives held for trading, broken down by type of derivative instrument as at 31 December 2023 and 2022, are shown below:

Thousand euro

	2023	**2022**
Assets		
Swaps, CCIRS, Call Money Swaps	1,163,443	1,594,722
Currency options	62,626	126,794
Interest rate options	55,012	85,552
Index and securities options	3,472	14,807
Currency forwards	304,754	426,018
Fixed income forwards	21	6,229
Total derivatives on asset side held for trading	**1,589,328**	**2,254,122**
Liabilities		
Swaps, CCIRS, Call Money Swaps	1,111,843	1,538,551
Currency options	62,744	126,486
Interest rate options	34,586	33,640
Index and securities options	3,472	14,807
Currency forwards	166,901	216,153
Fixed income forwards	21	1,044
Equity forwards	1,219	1,547
Total derivatives on liability side held for trading	**1,380,786**	**1,932,228**

As at 31 December 2023, the Bank holds embedded derivatives that have been separated from their host contracts and recognised under the heading "Financial liabilities held for trading – Derivatives" of the balance sheet in the amount of 18,483 thousand euros (278 thousand euros as at 31 December 2022). The host contracts of those embedded derivatives correspond to customer deposits and they have been allocated to the portfolio of financial liabilities at amortised cost.

Note 10 – Loans and advances

Credit institutions

The breakdown of the heading "Loans and advances – Credit institutions" of the balance sheets as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
By heading:		
Financial assets at amortised cost	8,138,573	6,193,344
Total	**8,138,573**	**6,193,344**
By nature:		
Deposits with agreed maturity	2,581,886	2,680,094
Repos	5,093,524	3,111,099
Other	400,580	378,716
Impairment allowances	(3,135)	(2,777)
Other valuation adjustments (interest, fees and commissions, other)	65,718	26,212
Total	**8,138,573**	**6,193,344**
By currency:		
In euro	7,478,551	5,844,305
In foreign currency	660,022	349,039
Total	**8,138,573**	**6,193,344**

Customers

The breakdown of the heading "Loans and advances – Customers" (General governments and Other sectors) as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
By heading:		
Non-trading financial assets mandatorily at fair value through profit or loss	106,419	—
Financial assets at amortised cost	108,290,059	114,143,422
Total	**108,396,478**	**114,143,422**
By nature:		
Overdrafts, etc.	1,901,932	2,028,986
Commercial loans	7,136,524	7,249,924
Finance leases	2,225,215	2,216,983
Secured loans	51,438,727	51,472,660
Repos	17,413	—
Other term loans	43,769,386	49,113,145
Stage 3 assets	4,617,196	4,669,659
Impairment allowances	(2,751,028)	(2,621,634)
Other valuation adjustments (interest, fees and commissions, other) (*)	41,113	13,699
Total	**108,396,478**	**114,143,422**
By sector:		
General governments	8,846,569	10,004,250
Other sectors	97,642,627	102,077,447
Stage 3 assets	4,617,196	4,669,660
Impairment allowances	(2,751,028)	(2,621,634)
Other valuation adjustments (interest, fees and commissions, other) (*)	41,114	13,699
Total	**108,396,478**	**114,143,422**
By currency:		
In euro	99,381,517	104,331,697
In foreign currency	9,014,961	9,811,725
Total	**108,396,478**	**114,143,422**
By geographical area:		
Spain	95,245,969	100,659,836
Rest of European Union	5,045,047	4,679,084
United Kingdom	2,200,279	2,343,575
Americas	7,321,142	7,615,439
Rest of the world	1,335,069	1,467,122
Impairment allowances	(2,751,028)	(2,621,634)
Total	**108,396,478**	**114,143,422**

(*) Other valuation adjustments of financial assets classified as stage 3 amount to 32,892 thousand euros as at 31 December 2023 and 23,645 thousand euros as at 31 December 2022.

The "Loans and advances – Customers" heading on the 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 3 "Risk management".

Finance leases

Certain information concerning finance leases carried out by the Bank in which it acts as lessor is set out below:

Thousand euro

	2023	2022
Finance leases		
Total gross investment	2,464,979	2,399,943
Impairment allowances	(95,540)	(97,994)
Interest income	72,559	52,126

As at 31 December 2023 and 2022, the reconciliation of undiscounted lease payments received against the net investment in the leases is as follows:

Thousand euro

	2023	2022
Undiscounted lease payments received	2,306,580	2,245,279
Residual value	158,399	154,664
Unguaranteed residual value	126,893	123,343
Guaranteed residual value	31,506	31,321
Gross investment in the lease	**2,464,979**	**2,399,943**
Unearned financial income	(239,764)	(182,960)
Net investment in the lease	**2,225,215**	**2,216,983**

The table below shows a breakdown, by term, of the minimum undiscounted future amounts receivable by the Bank during the mandatory term (assuming that no extensions or existing purchase options will be exercised) as set out in the finance lease contracts:

Thousand euro

	2023	2022
Undiscounted lease payments received		
Up to 1 year	592,669	499,059
1-2 years	546,583	525,887
2-3 years	386,313	396,700
3-4 years	256,822	262,804
4-5 years	167,905	171,266
More than 5 years	356,288	389,563
Total	**2,306,580**	**2,245,279**

Past-due financial assets

The balance of "Loans and advances – Customers" past-due and pending collection not classified as stage 3 amounted to 203,447 thousand euros as at 31 December 2023 (158,453 thousand euros as at 31 December 2022). Of this total, over 91% of the balance as at 31 December 2023 (89% of the balance as at 31 December 2022) 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, not considering valuation adjustments, of financial assets classified on the basis of their credit risk as at 31 December 2023 and 2022 is as follows:

Thousand euro

Stage 1	**2023**	**2022**
Debt securities	24,839,829	24,770,812
Loans and advances	107,464,058	109,356,004
Customers	99,388,464	103,192,663
Central banks and Credit institutions	8,075,594	6,163,341
Total stage 1	**132,303,887**	**134,126,816**
By sector:		
General governments	30,560,521	32,721,392
Central banks and Credit institutions	9,315,431	6,731,833
Other private sectors	92,427,935	94,673,591
Total stage 1	**132,303,887**	**134,126,816**
Stage 2		
Debt securities	—	49,173
Loans and advances	7,101,128	8,895,603
Customers	7,100,732	8,889,035
Central banks and Credit institutions	396	6,568
Total stage 2	**7,101,128**	**8,944,776**
By sector:		
General governments	11,200	5,207
Central banks and Credit institutions	396	6,568
Other private sectors	7,089,532	8,933,000
Total stage 2	**7,101,128**	**8,944,776**
Stage 3		
Debt securities	899	73
Loans and advances	4,617,196	4,669,660
Customers	4,617,196	4,669,660
Central banks and Credit institutions	—	—
Total stage 3	**4,618,095**	**4,669,733**
By sector:		
General governments	802	8,122
Central banks and Credit institutions	—	—
Other private sectors	4,617,293	4,661,610
Total stage 3	**4,618,095**	**4,669,733**
Total stages	**144,023,110**	**147,741,325**

Movements of gross values, not considering valuation adjustments, of assets subject to impairment by the Bank during the years ended 31 December 2023 and 2022 were as follows:

Thousand euro

	Stage 1	*Stage 2*	*Stage 3*	*Of which: purchased credit-impaired*	Total
Balance as at 31 December 2021	**126,981,391**	**13,002,190**	**4,908,024**	***11,280***	**144,891,605**
Transfers between stages	(1,761,941)	487,252	1,274,689	—	—
To stage 1	4,413,349	(4,299,520)	(113,829)	—	—
To stage 2	(5,858,090)	6,426,543	(568,453)	—	—
To stage 3	(317,200)	(1,639,771)	1,956,971	—	—
Increases	50,148,156	869,873	279,840	—	51,297,869
Decreases	(41,688,623)	(5,551,729)	(1,481,874)	*(11,280)*	(48,722,226)
Transfers to write-offs	—	—	(322,819)	—	(322,819)
Adjustments for exchange differences	447,833	137,190	11,873	—	596,896
Balance as at 31 December 2022	**134,126,816**	**8,944,776**	**4,669,733**	**—**	**147,741,325**
Transfers between stages	(816,208)	(165,476)	981,684	—	—
To stage 1	3,494,581	(3,252,264)	(242,317)	—	—
To stage 2	(4,062,391)	4,513,733	(451,342)	—	—
To stage 3	(248,398)	(1,426,945)	1,675,343	—	—
Increases	42,564,210	1,098,148	374,958	—	44,037,316
Decreases	(43,256,455)	(2,758,281)	(1,111,769)		(47,126,505)
Transfers to write-offs	—	—	(292,746)	—	(292,746)
Adjustments for exchange differences	(314,475)	(18,039)	(3,765)	—	(336,279)
Balance as at 31 December 2023	**132,303,888**	**7,101,128**	**4,618,095**	**—**	**144,023,111**

The breakdown of assets classified as stage 3 by type of guarantee as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	**2022**
Secured with a mortgage (*)	1,708,464	1,890,107
Of which: Stage 3 financial assets with guarantees covering all of the risk	*1,429,856*	*1,558,763*
Other collateral (**)	179,250	241,896
Of which: Stage 3 financial assets with guarantees covering all of the risk	*88,598*	*135,817*
Other	2,730,381	2,537,730
Total	**4,618,095**	**4,669,733**

(*) 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 classified as stage 3 as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	**2022**
Spain	4,010,484	4,083,961
Rest of European Union	450,006	456,072
United Kingdom	45,670	30,339
Americas	86,748	70,286
Rest of the world	25,187	29,075
Total	**4,618,095**	**4,669,733**

Movements of impaired financial assets derecognised from the asset side of the balance sheet as the likelihood of them being recovered during 2023 and 2022 was deemed to be remote were as follows:

Thousand euro	
Balance as at 31 December 2021	**5,334,686**
Additions	**462,150**
Use of accumulated impairment balance	322,819
Directly recognised on income statement	—
Contractually payable interests	139,331
Other items	—
Disposals	**(608,692)**
Collections of principal in cash from counterparties	(31,042)
Collections of interest in cash from counterparties	(2,171)
Debt forgiveness	(17,396)
Expiry of statute-of-limitations period	—
Sales	(468,369)
Foreclosure of tangible assets	(857)
Other items	(88,857)
Exchange differences	**—**
Balance as at 31 December 2022	**5,188,144**
Additions	**453,363**
Use of accumulated impairment balance	292,746
Directly recognised on income statement	—
Contractually payable interests	160,617
Other items	—
Disposals	**(99,383)**
Collections of principal in cash from counterparties	(24,204)
Collections of interest in cash from counterparties	(997)
Debt forgiveness	(20,867)
Expiry of statute-of-limitations period	—
Sales	(6,905)
Foreclosure of tangible assets	(694)
Other items	(45,716)
Exchange differences	**—**
Balance as at 31 December 2023	**5,542,124**

Allowances

The values of financial asset impairment allowances under the different headings on the asset side, classified according to their risk as at 31 December 2023 and 2022, were as follows:

Thousand euro

Stage 1	**2023**	**2022**
Debt securities	1,427	211
Loans and advances	255,443	258,668
Central banks and Credit institutions	2,752	2,773
Customers	252,691	255,895
Total stage 1	**256,870**	**258,879**
Stage 2		
Debt securities	—	—
Loans and advances	391,523	382,498
Central banks and Credit institutions	383	4
Customers	391,140	382,494
Total stage 2	**391,523**	**382,498**
Stage 3		
Debt securities	—	—
Loans and advances	2,107,197	1,983,245
Central banks and Credit institutions	—	—
Customers	2,107,197	1,983,245
Total stage 3	**2,107,197**	**1,983,245**
Total stages	**2,755,590**	**2,624,622**

Details of the movement of impairment allowances allocated to cover credit risk during 2023 and 2022 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 2021	**2,641,563**	**552,364**	**256,072**	**378,795**	**1,698,229**	**5,527,024**
Movements reflected in impairment gains/(losses) (*)	**(20,364)**	**71,276**	**64,618**	**92,736**	**465,614**	**673,880**
Increases due to origination	—	—	218,366	—	—	218,366
Changes due to credit risk variance	(17,983)	82,426	(1,098)	114,556	468,092	645,993
Changes in calculation approach	—	—	—	—	—	—
Other movements	(2,381)	(11,150)	(152,650)	(21,820)	(2,478)	(190,479)
Movements not reflected in impairment gains/(losses)	**(2,616,604)**	**(113,155)**	**(61,637)**	**(92,931)**	**(687,304)**	**(3,571,631)**
Transfers between stages	4,977	6,447	(60,759)	(106,107)	155,442	—
To stage 1	(171)	(285)	58,623	(49,979)	(8,188)	—
To stage 2	9,929	(6,108)	(104,235)	186,256	(85,842)	—
To stage 3	(4,781)	12,840	(15,147)	(242,384)	249,472	—
Utilisation of allocated provisions	(2,608,344)	(91,556)	(878)	—	(854,658)	(3,555,436)
Other movements (**)	(13,237)	(28,046)	—	13,176	11,912	(16,195)
Adjustments for exchange differences	**29**	**(1,551)**	**(173)**	**(758)**	**(2,197)**	**(4,650)**
Balance as at 31 December 2022	**4,624**	**508,934**	**258,880**	**377,842**	**1,474,342**	**2,624,622**
Scope additions / exclusions						
Movements reflected in impairment gains/(losses) (*)	**(2,228)**	**69,741**	**55,009**	**101,749**	**377,984**	**602,255**
Increases due to origination	—	—	289,697	—	—	289,697
Changes due to credit risk variance	(2,740)	71,430	(13,674)	92,024	318,890	465,930
Changes in calculation approach	—	—	—	—	—	—
Other movements	512	(1,689)	(221,014)	9,725	59,094	(153,372)
Movements not reflected in impairment gains/(losses)	**9,375**	**(79,370)**	**(57,900)**	**(100,249)**	**(245,303)**	**(473,447)**
Transfers between stages	9,375	49,759	(57,746)	(98,310)	96,922	—
To stage 1	(530)	158	38,942	(44,167)	5,597	—
To stage 2	14,729	(10,993)	(89,780)	137,591	(51,547)	—
To stage 3	(4,824)	60,594	(6,908)	(191,734)	142,872	—
Utilisation of allocated provisions	—	(113,894)	(81)	(1,845)	(317,632)	(433,452)
Other movements (**)	—	(15,235)	(73)	(94)	(24,593)	(39,995)
Adjustments for exchange differences	**15**	**778**	**881**	**392**	**94**	**2,160**
Balance as at 31 December 2023	**11,786**	**500,083**	**256,870**	**379,734**	**1,607,117**	**2,755,590**

(*) 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 31)

(**) Corresponds to credit loss allowances transferred to non-current assets held for sale and investment property .

The breakdown by geographical area of the balance of impairment allowances as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Spain	2,447,164	2,382,696
Rest of European Union	171,176	121,016
United Kingdom	40,118	30,369
Americas	83,244	77,164
Rest of the world	13,888	13,377
Total	**2,755,590**	**2,624,622**

Sensitivity analysis of the key variables of macroeconomic scenarios

The table below analyses the sensitivity of the expected loss of the Group and of the main geographies and its impact, by segment, on impairment allowances in the event of a deviation in the key variables, *ceteris paribus*, from the actual macroeconomic environment, with respect to the most probable baseline macroeconomic scenario envisaged in the Group's business plan:

Spain			
	Change in the variable (*)	Impact on expected loss	
		Corporates	Individuals
GDP growth deviation	-100 pb	5.3%	2.7%
	+100 pb	(4.7)%	(2.4)%
Unemployment rate deviation	+100 pb	1.9%	1.2%
	-100 pb	(1.8)%	(1.0)%
House price growth deviation	-100 pb	0.7%	1.3%
	+100 pb	(0.6)%	(1.2)%

(*) Changes to macroeconomic variables are applied in absolute terms.

Note 11 – Derivatives - hedge accounting

Hedging management

The main hedges arranged by the Bank 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 that position to the one desired by Banco Sabadell. With this aim in mind, the Bank establishes interest rate risk 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 inception of the transaction or 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 arrangements. The aforesaid document clearly identifies the item(s) hedged and the hedging instrument(s), the risk that it seeks to hedge and the criteria or methodologies followed by the Bank to evaluate its effectiveness.

The Bank operates with the following types of hedges intended to mitigate structural interest rate risk:

– Fair value hedges: hedges against the exposure to changes in the fair value of assets and liabilities recognised on the balance sheet, or against the analogous exposure of a specific selection of such assets and liabilities, that can be attributed to interest rate risk. These are used to keep a stable economic value of equity.

  The main types of balance sheet items hedged are:

  - Fixed-rate loans included in the lending portfolio.

  - Debt securities included in the portfolio of "Financial assets at fair value through other comprehensive income" and the portfolio of "Financial assets at amortised cost".

  - Fixed-rate liabilities, including fixed-term deposits and the Institution's funding operations in capital markets.

If the hedge relates to assets, the Bank enters into a fixed-for-floating swap, whereas if the 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 deriving 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 in the event of any changes in the market interest rate curve.

– Cash flows: hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect profit or loss. They are used to reduce net interest income volatility.

  The main types of balance sheet items hedged are:

  - Floating-rate mortgage loans indexed to the mortgage Euribor.

  - Floating-rate liabilities indexed to the 3-month Euribor.

  If the hedge relates to assets, the Bank enters into a floating-to-fixed interest rate swap, whereas if the 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 deriving from a potential change in the benchmark interest rate that affects the future interest accrued on hedged balance sheet items. The credit risk spread or credit risk premium which, together with the benchmark index, makes 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 of the hedged items are still highly probable.

Possible causes of partial or total ineffectiveness include changes in the sufficiency of the portfolio of hedged balance sheet items or differences in their contractual characteristics in relation to hedging derivatives.

Every month the Bank calculates the interest rate risk metrics and establishes hedging strategies in accordance with the established risk appetite framework. Hedges are therefore managed, establishing hedges or discontinuing them, as required, on the basis of the evolution of the balance sheet items described previously within the management and control framework defined by the Bank through its policies and procedures.

Hedging disclosures

The nominal values and the fair values of hedging instruments as at 31 December 2023 and 2022, broken down by risk category and type of hedge, are as follows:

Thousand euro

	2023			2022		
	Nominal	Assets	Liabilities	Nominal	Assets	Liabilities
Microhedges:						
Fair value hedges	**10,092,525**	**72,901**	**247,475**	**7,095,166**	**101,877**	**204,569**
Foreign exchange risk	886,601	1,404	4,745	798,976	22,628	—
Of liability-side transactions (A)	—	—	—	—	—	—
Of permanent investments (B)	*886,601*	*1,404*	*4,745*	*798,976*	*22,628*	—
Of non-monetary items	—	—	—	—	—	—
Interest rate risk	1,031,639	23,830	23,990	2,063,856	39,104	29,640
Of liability-side transactions (A)	*686,434*	*912*	*23,990*	*65,304*	—	*5,532*
Of asset-side transactions (B)	*345,205*	*22,918*	—	*1,998,552*	*39,104*	*24,108*
Equity risk	8,174,285	47,667	218,740	4,232,334	40,145	174,929
Of liability-side transactions (A)	*8,174,285*	*47,667*	*218,740*	*4,232,334*	*40,145*	*174,929*
Cash flow hedges	**890,488**	**8,748**	**20,795**	**1,467,999**	**15,141**	**132,400**
Foreign exchange risk	—	—	—	—	—	—
Of non-monetary items	—	—	—	—	—	—
Interest rate risk	134,000	3,467	—	229,902	5,161	1,733
Of future transactions (D)	—	—	—	*95,902*	—	*1,733*
Of liability-side transactions (A)	*134,000*	*3,467*	—	*134,000*	*5,161*	—
Of securitisation transactions	—	—	—	—	—	—
Other	—	—	—	—	—	—
Equity risk	31,380	258	9	63,980	—	639
Of liability-side transactions (E)	*31,380*	*258*	*9*	*63,980*	—	*639*
Other risks	725,108	5,023	20,786	1,174,117	9,980	130,028
Of inflation-linked bonds (F)	*725,000*	*5,023*	*20,786*	*1,174,000*	—	*130,028*
Of future transactions (D)	*108*	—	—	*117*	*9,980*	—
Hedge of net investment in foreign operations	**434,389**	**15,463**	**—**	**398,462**	**12,687**	**—**
Foreign exchange risk (B)	434,389	15,463	—	398,462	12,687	—
Macrohedges:						
Fair value hedges	**20,271,900**	**792,191**	**536,360**	**16,979,900**	**1,212,501**	**602,948**
Interest rate risk	20,271,900	792,191	536,360	16,979,900	1,212,501	602,948
Of liability-side transactions (G)	*8,455,000*	*9,660*	*378,703*	*7,455,000*	—	*600,478*
Of asset-side transactions (H)	*11,816,900*	*782,531*	*157,657*	*9,524,900*	*1,212,501*	*2,470*
Cash flow hedges	**9,800,000**	**6,924**	**30,574**	**2,050,000**	**94**	**1,690**
Interest rate risk	9,800,000	6,924	30,574	2,050,000	94	1,690
Of liability-side transactions	—	—	—	—	—	—
For lending operations (I)	*9,800,000*	*6,924*	*30,574*	*2,050,000*	*94*	*1,690*
Total	**41,489,302**	**896,227**	**835,204**	**27,991,527**	**1,342,300**	**941,607**
By currency:						
In euro	39,751,654	871,435	831,453	26,325,139	1,300,183	934,333
In foreign currency	1,737,648	24,792	3,751	1,666,388	42,117	7,274
Total	**41,489,302**	**896,227**	**835,204**	**27,991,527**	**1,342,300**	**941,607**

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 funding operations in capital markets and structured deposits, as well as transactions involving structured term deposits opened by customers, recognised under the heading “Financial liabilities at amortised cost”.

B. Hedges against foreign exchange risk on permanent investments, recognised in the heading “Investments in subsidiaries, joint ventures and associates”, currently cover 393 million pounds sterling and 8,133 million Mexican pesos corresponding to interests held in Group entities, considered fair value hedges (333 million pounds sterling and 8,833 million Mexican pesos as at 31 December 2022) and 480 million US dollars corresponding to interests held in foreign branches

(425 million US dollars as at 31 December 2022), considered hedges of net investments in foreign operations (see Note 3). All of these hedges are arranged through currency forwards.

C. Micro-hedges of transactions involving loans granted to customers, recognised under the heading "Financial assets at amortised cost", and those involving debt securities under the heading "Financial assets at fair value through other comprehensive income". As at 31 December 2023, the hedge of transactions involving loans granted to customers was no longer in effect.

D. Micro-hedges of highly probable future transactions. The Institution designates as a hedging item those derivative contracts that will be settled at their gross amount through the transfer of the underlying asset (generally fixed-income securities) according to the contract price.

E. Micro-hedges of transactions involving structured term deposits arranged with customers and which are currently being sold.

F. 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.

G. Micro-hedges of funding operations in capital markets and transactions involving term deposits opened by customers, recognised under the heading "Financial liabilities at amortised cost". The average rate of interest rate swaps used for this hedge was 0.98% as at 31 December 2023 (0.71% as at 31 December 2022).

H. 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". The average rates of financial interest rate swaps used to hedge debt securities were 1.07% and 1.16%, respectively, as at 31 December 2023 (0.62% and 1.03%, respectively, as at 31 December 2022). The average rate of financial interest rate swaps used to hedge fixed-rate mortgage loans was 2.82% as at 31 December 2023 (1.79% as at 31 December 2022).

I. Macro-hedges of floating-rate mortgage loans granted to customers recognised under the heading "Financial assets at amortised cost". The average rate of interest rate swaps used for this hedge was 3.87% as at 31 December 2023 (3.59% as at 31 December 2022).

The maturity profiles of the hedging instruments used by the Bank as at 31 December 2023 and 2022 are shown below:

Thousand euro

	2023					
	Nominal					
	Up to 1 month	1 to 3 months	3 to 12 months	1 and 5 years	More than 5 years	Total
Foreign exchange risk	675,264	645,726	—	—	—	1,320,990
Interest rate risk	—	2,870,000	7,907,097	9,899,041	10,561,401	31,237,539
Equity risk	49,073	229,858	2,809,004	5,106,350	11,380	8,205,665
Other risks	—	—	—	525,000	200,108	725,108
Total	**724,337**	**3,745,584**	**10,716,101**	**15,530,391**	**10,772,889**	**41,489,302**

Thousand euro

	2022					
	Nominal					
	Up to 1 month	1 to 3 months	3 to 12 months	1 and 5 years	More than 5 years	Total
Foreign exchange risk	460,156	737,282	—	—	—	1,197,438
Interest rate risk	107,395	—	825,000	8,979,789	11,411,474	21,323,658
Equity risk	60,038	90,741	408,348	3,539,198	197,989	4,296,314
Other risks	—	—	449,000	200,000	525,117	1,174,117
Total	**627,589**	**828,023**	**1,682,348**	**12,718,987**	**12,134,580**	**27,991,527**

In 2023 and 2022 there were no reclassifications from equity to the income statement due to cash flow hedges and hedges of net investments in foreign operations for transactions that were ultimately not executed.

The following table shows the accounting information of items covered by the fair value micro-hedges arranged by the Bank as at 31 December 2023 and 2022:

Thousand euro

	2023				
	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
	Assets	Liabilities	Assets	Liabilities	
Micro-hedges:					
Fair value hedges					
Foreign exchange risk	886,601	—	—	—	—
Interest rate risk	323,316	24,940	—	(718)	(620)
Equity risk	—	4,052,256	—	(17,108)	—
Total	**1,209,917**	**4,077,196**	**—**	**(17,826)**	**(620)**

Thousand euro

	2022				
	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
	Assets	Liabilities	Assets	Liabilities	
Micro-hedges:					
Fair value hedges					
Foreign exchange risk	798,976	—	—	—	—
Interest rate risk	1,742,188	23,274	23,178	(1,444)	(76)
Equity risk	—	2,040,966	—	(92,318)	—
Total	**2,541,164**	**2,064,240**	**23,178**	**(93,762)**	**(76)**

In terms of fair value macro-hedges, the carrying amount of the hedged items recognised in assets and liabilities as at 31 December 2023 amounted to 49,290,943 thousand euros and 33,493,163 thousand euros, respectively (63,996,765 thousand euros and 44,104,826 thousand euros as at 31 December 2022, respectively). Similarly, fair value adjustments of the hedged asset and liability items in the portfolio hedge of interest rate risk amounted to -389,403 thousand euros and -323,973 thousand euros as at 31 December 2023, respectively (-933,593 thousand euros and -596,8176 thousand euros as at 31 December 2022, respectively).

In relation to fair value hedges, the losses and gains recognised in 2023 and 2022 arising from both hedging instruments and hedged items are detailed hereafter:

Thousand euro

	2023		2022	
	Hedging instruments	**Hedged items**	**Hedging instruments**	**Hedged items**
Microhedges:	**3,813**	**(3,962)**	**(148,234)**	**149,852**
Fixed-rate assets	(17,262)	17,002	(8,687)	9,362
Capital markets and fixed-rate liabilities	76,055	(75,866)	(107,478)	108,411
Assets denominated in foreign currency	(54,980)	54,902	(32,069)	32,079
Macrohedges:	**(364,461)**	**380,346**	**695,269**	**(684,655)**
Capital markets and fixed-rate liabilities	279,762	(282,832)	(672,209)	675,505
Fixed-rate assets	(644,223)	663,178	1,367,478	(1,360,160)
Total	**(360,648)**	**376,384**	**547,035**	**(534,803)**

In cash flow hedges, the amounts recognised in the statement of equity during the year and the amounts derecognised from equity and included in profit and loss during the year are indicated in the Bank's statement of total changes in equity.

The ineffectiveness of cash flow hedges recognised in profit or loss for 2023 amounted to losses of 1,291 thousand euros (income of 773 thousand euros in 2022).

As at 31 December 2023, the Bank 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 the liabilities side of the balance sheet in the amount of 18,322 thousand euros and 173,828 thousand euros, respectively (33,586 thousand euros and 46,917 thousand euros, respectively, as at 31 December 2022). The host contracts of those embedded derivatives correspond to customer deposits and debt securities issued and they have been allocated to the portfolio of financial liabilities at amortised cost.

Note 12 – Non-current assets and disposal groups classified as held for sale

The composition of this heading in the balance sheets as at 31 December 2023 and 2022 was as follows:

Thousand euro

	2023	2022
Assets	**989,964**	**945,341**
Loans and advances	5,889	10,337
Credit institutions	—	—
Customers	5,889	10,337
Debt securities	—	—
Real estate exposure	705,655	775,256
Tangible assets for own use	49,432	56,030
Foreclosed assets	656,223	719,226
Other tangible assets	4,955	—
Equity interests	273,465	159,748
Impairment allowances	**(187,899)**	**(210,180)**
Non-current assets and disposal groups classified as held for sale	**802,065**	**735,161**

Tangible assets for own use relate mainly to commercial premises.

Regarding real estate assets obtained through foreclosures, 94.51% of the balance corresponds to residential properties, 5.04% to industrial properties and 0.45% to agricultural properties.

The average term during which assets remained within the category of "Non-current assets and assets and liabilities included in disposal groups classified as held for sale – Foreclosed assets" was 61 months in 2023 (52 months in 2022). The policies on the sale or disposal by other means of these assets are described in Note 3.4.2.1.

The percentage of foreclosed assets sold with financing granted to the buyer by the Bank in 2023 was 3.3% (4.9% in 2022). On the date of sale, these properties had a gross asset value of 4.6 million euros in 2023 (5.7 million euros in 2022).

On 27 February 2023, Banco Sabadell signed a strategic agreement to provide merchant acquiring services with Nexi S.p.A. (hereinafter, "Nexi"), a leading European paytech company, for a renewable ten-year period, under which Nexi is to acquire 80% of Banco Sabadell's payments subsidiary Paycomet, S.L.U. for 280 million euros.

On 9 October 2023, the Bank acquired all shares of Paycomet, S.L.U. from its sole shareholder, Sabadell Innovation Capital, S.L.U., a Banco Sabadell Group company, for 42 million euros, recognised under the heading "Non-current assets and disposal groups classified as held for sale".

On 25 October 2023, the Board of Directors of Banco de Sabadell, S.A. (as carve-out company) and the sole shareholder of Paycomet, S.L.U., (as beneficiary company) approved the carve-out of the merchant acquiring business of Banco de Sabadell, S.A., in accordance with the common carve-out project of 26 April 2023, subject to obtaining the corresponding authorisations from competent authorities. The equity carve-out relates to an autonomous economic unit that has been providing services and activities in connection with merchant acquiring in the carve-out company.

The legal structure of the carve-out is a simple carve-out, as the beneficiary company is a company directly and wholly owned by Banco Sabadell. The carve-out is therefore subject to the regime established in Article 49 of Law 3/2009 of 3 April on structural changes in corporations.

Having received the corresponding authorisations from the competent authorities, the carve-out was entered in the Companies Register of Alicante on 5 February 2024 and in the Companies Register of Madrid on 13 February 2024. The Bank also registered the carve-out, derecognising net assets of the business with a balancing entry in the form of a larger value of the interest held in Paycomet, S.L.U., all effective, for accounting purposes, as of 1 January 2023 in accordance with prevailing accounting legislation. The balance of the equity carve-out is shown below:

Million euro

	01/01/2023		01/01/2023
ASSETS		**Equity**	
		Shareholders' equity	**70**
Financial assets at amortised cost	**6**	**Total equity**	**70**
Loans and advances	6		
Credit institutions	3	**Liabilities**	
Customers	3	**Financial liabilities at amortised cost**	**6**
		Deposits	6
Tangible assets	**71**	Customers	6
Property, plant and equipment	71		
For own use	71	**Other liabilities**	**1**
Other assets	**—**	**Total liabilities**	**7**
Total assets	**77**	**Total equity and liabilities**	**77**

In accordance with the above, as at 31 December the heading "Interests" includes 100% of the share capital of Paycomet, S.L.U., which will be transferred under the aforementioned agreement signed with Nexi in relation to the merchant acquiring business once the transaction is closed.

Similarly, this heading also includes the 20% stake held in the associate company Promontoria Challenger I, S.A., an entity controlled by Cerberus, to which the Group transferred a large portion of its real estate exposure in 2019.

Movements in “Non-current assets and disposal groups classified as held for sale” during 2023 and 2022 were as follows:

Thousand euro

	Note	Non-current assets held for sale
Cost:		
Balance as at 31 December 2021		**987,527**
Additions		62,689
Disposals		(108,835)
Transfer of credit losses (*)		(16,195)
Other transfers/reclassifications		20,155
Balance as at 31 December 2022		**945,341**
Additions		171,290
Disposals		(258,695)
Transfer of credit losses (*)		(11,620)
Other transfers/reclassifications		143,648
Balance as at 31 December 2023		**989,964**
Impairment allowances:		
Balance as at 31 December 2021		**216,132**
Impairment through profit or loss	34	47,671
Reversal of impairment through profit or loss	34	(44,468)
Utilisations		(23,049)
Other transfers/reclassifications		13,894
Balance as at 31 December 2022		**210,180**
Impairment through profit or loss	34	56,329
Reversal of impairment through profit or loss	34	(22,021)
Utilisations		(56,461)
Other transfers/reclassifications		(128)
Balance as at 31 December 2023		**187,899**
Balance as at 31 December 2022		**735,161**
Balance as at 31 December 2023		**802,065**

(*) 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	2023	2022
Loans and advances		5,667	10,153
Tangible assets	14	138,109	(3,892)
Total		**143,776**	**6,261**

Note 13 – Investments in subsidiaries, joint ventures and associates

The composition of this heading in the balance sheets as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023		
	Group entities	**Associates**	**Total**
By nature:			
Credit institutions	894,810	—	894,810
Other resident sectors	2,731,854	86,008	2,817,862
Other non-resident sectors	2,212,827	19,144	2,231,971
Total	**5,839,491**	**105,152**	**5,944,643**
By quote:			
Quoted	—	—	—
Not quoted	5,839,491	105,152	5,944,643
Total	**5,839,491**	**105,152**	**5,944,643**
By currency:			
In euro	2,804,817	86,008	2,890,825
In foreign currency	3,034,674	19,144	3,053,818
Total	**5,839,491**	**105,152**	**5,944,643**

Thousand euro

	2022		
	Group entities	**Associates**	**Total**
By nature:			
Credit institutions	787,768	—	787,768
Other resident sectors	2,671,188	84,268	2,755,456
Other non-resident sectors	2,205,645	19,144	2,224,789
Total	**5,664,601**	**103,412**	**5,768,013**
By quote:			
Quoted	—	—	—
Not quoted	5,664,601	103,412	5,768,013
Total	**5,664,601**	**103,412**	**5,768,013**
By currency:			
In euro	2,768,191	84,268	2,852,459
In foreign currency	2,896,410	19,144	2,915,554
Total	**5,664,601**	**103,412**	**5,768,013**

Movements during 2023 and 2022 are shown below:

Thousand euro

	Group entities	Associates	Total
Balance as at 31 December 2021	**5,237,576**	**120,500**	**5,358,076**
Additions due to acquisition(s)	911	—	911
Contributions	3,081,880	—	3,081,880
Sale, dissolution, recovery of investment(s)	(33,029)	(16,677)	(49,706)
Transfers	(2,719,936)	—	(2,719,936)
Exchange differences	32,079	—	32,079
Impairments	62,782	(411)	62,371
Balance as at 31 December 2022	**5,664,601**	**103,412**	**5,768,013**
Additions due to acquisition(s)	—	—	—
Contributions	148,500	—	148,500
Capital increases	62,243	—	62,243
Sale, dissolution, recovery of investment(s)	(43,989)	—	(43,989)
Transfers	—	—	—
Exchange differences	54,902	—	54,902
Impairments	(46,766)	1,740	(45,026)
Balance as at 31 December 2023	**5,839,491**	**105,152**	**5,944,643**

The section of the cash flow statement entitled “Investing activities – Collections from investments in joint ventures and associates” shows an amount of 13,873 thousand euros, which corresponds to dividends received from associates in the amount of 13,753 thousand euros and to gains or (-) losses due to disposals of associates, amounting to 120 thousand euros and recognised under the heading “Gains or (-) losses on derecognition of non-financial assets, net”.

On the other hand, the section of the cash flow statement entitled “Investing activities – Collections from investments in other business units” shows an amount of 160,574 thousand euros, which correspond to the items of (i) “Sale, dissolution, recovery of investment(s)”, amounting to 43,989 thousand euros, (ii) dividends received from Group entities, amounting to 119,064 thousand euros recognised under the heading “Dividend income”, and (iii) gains or (-) losses due to disposals of Group entities, amounting to -2,479 thousand euros and recognised under the heading “Gains or (-) losses on derecognition of non-financial assets, net”.

Most significant changes in investments during 2023

Group entities

– On 22 December 2022, the Board of Directors of Banco Sabadell, S.A. and the Board of Directors of Bansabadell Financiación, E.F.C., S.A.U. approved and signed the common draft terms of the merger between Banco de Sabadell, S.A. (as the absorbing company) and Bansabadell Financiación, E.F.C., S.A.U. (as the absorbed company).

  In accordance with Article 49.1 and 51 of Law 3/2009 of 3 April on structural changes in corporations (*Ley sobre Modificaciones Estructurales de las Sociedades Mercantiles*, hereinafter, “LME”), the approval of this merger by the sole shareholder of the absorbing company was not necessary as Banco de Sabadell, S.A. is the sole owner of the latter and shareholders did not require such approval.

  The merger involved the absorption of Bansabadell Financiación, E.F.C., S.A.U. by Banco de Sabadell, S.A., resulting in the winding-up, through dissolution without liquidation, of Bansabadell Financiación, E.F.C., S.A.U. and the transfer en bloc of all of its assets to Banco Sabadell, S.A., which acquired, by universal succession, all of the rights and obligations of Bansabadell Financiación, E.F.C., S.A.U.

  Having received the corresponding authorisations from the competent authorities, the merger was entered in the Companies Register of Alicante on 10 October 2023. In accordance with prevailing accounting legislation, the merger’s effective date, for accounting purposes, was set at 1 January 2022, having identified no material impacts on the financial statements of Banco de Sabadell, S.A.

For the purposes of the provisions of Article 36.1 of the LME, the following are considered to be the merger balance sheets: (i) the interim financial statements of Banco de Sabadell, S.A. as at 30 June 2022 released on 4 August 2022, and (ii) the balance sheet of Bansabadell Financiación, E.F.C., S.A.U. as at 30 September 2022. The merger balance sheets of the absorbing company and of the absorbed company have been audited by their respective auditors, KPMG Auditores, S.L.

The merger balance sheet as at 30 September 2022 of Bansabadell Financiación E.F.C., S.A.U. (absorbed company) and the last balance sheet closed as at 31 December 2022 corresponding to that company's accounts drawn up for 2022 are shown below:

Thousand euro

	30/09/2022		30/09/2022
ASSETS		**Equity**	
Cash, cash balances at central banks and other demand deposits	**2,240**	**Shareholders' equity**	**36,991**
		Capital	24,040
		Retained earnings	6,514
Financial assets at amortised cost	**589,107**	Other reserves	6,342
Loans and advances	589,107	Profit or loss for the year	95
Customers	589,107	**Total equity**	**36,991**
		Liabilities	
Tax assets	**138**	**Financial liabilities at amortised cost**	**554,592**
Current tax assets	1	Deposits	554,589
Deferred tax assets	137	Credit institutions	554,588
		Customers	1
Other assets	**1**	Other financial liabilities	3
		Provisions	**7**
Non-current assets and disposal groups classified as held for sale	**430**	Pending legal issues and tax litigation	7
		Other liabilities	**326**
		Total liabilities	**554,925**
Total assets	**591,916**	**Total equity and liabilities**	**591,916**
		Memorandum item: loan commitments given	**1,483**

Thousand euro

	31/12/2022		31/12/2022
ASSETS		**Equity**	
Cash, cash balances at central banks and other demand deposits	**2,428**	**Shareholders' equity**	**37,579**
		Capital	24,040
		Retained earnings	6,514
Financial assets at amortised cost	**568,786**	Other reserves	6,342
Loans and advances	568,786	Profit or loss for the year	683
Customers	568,786	**Total equity**	**37,579**
		Liabilities	
Tax assets	**172**	**Financial liabilities at amortised cost**	**534,189**
Current tax assets	—	Deposits	534,186
Deferred tax assets	172	Credit institutions	534,185
		Customers	1
Other assets	**1**	Other financial liabilities	3
		Provisions	**7**
Non-current assets and disposal groups classified as held for sale	**426**	Pending legal issues and tax litigation	7
		Other liabilities	**38**
		Total liabilities	**534,234**
Total assets	**569,385**	**Total equity and liabilities**	**571,813**
		Memorandum item: loan commitments given	**1,484**

Furthermore, and in accordance with the provisions of Article 89.1 of Law 27/2014 of 27 November on corporation tax, Banco de Sabadell, S.A. notified the Tax Authority of the completion of this merger on 26 October 2023, as established by Articles 48 and 49 of Royal Decree 634/2015 of 10 July approving the Corporation Tax Regulation, opting for the application of the special tax regime envisaged in Chapter VII of Title VII of the Law on Corporation Tax.

In addition, the information required by Article 86 of Law 27/2014 of 27 November on corporation tax is included in Schedule VI.

– In 2023, with the aim of providing Sabadell Digital, S.A.U. and Fonomed Gestión Telefónica del Mediterráneo, S.A.U. with the liquid funds needed to meet the liquidity requirement established by the Single Resolution Board, contributions were made as sole shareholder, amounting to 142,500 thousand euros (126,000 thousand euros in Sabadell Digital, S.A.U. and 16,500 thousand euros in Fonomed Gestión Telefónica del Mediterráneo, S.A.U.).

– In 2023, Banco Sabadell, S.A., Institución de Banca Múltiple increased its share capital by 62,243 thousand euros.

– An amount of 13,175 thousand euros invested in Sabcapital, S.A., SOFOM, E.R. were recovered during 2023 as a result of the reduction of its share capital.

Associates

There have been no significant changes during the year.

Most significant changes in investments during 2022

Group entities

In 2022, equity loans and credit facilities were converted into contributions from shareholders to balance the equity of several subsidiaries. That conversion led to contributions that increased the investment in subsidiaries by 3,081,880 thousand euros and to a decrease in the investment due to the transfer of impairment allowances associated with those equity loans and credit facilities of 2,719,936 thousand euros, resulting in a net increase in the investment of 361,944 thousand euros. The most significant subsidiaries in terms of amount were:

– Sabadell Real Estate Development, S.L.U.: 171,490 thousand euros.

– Tenedora de Inversiones y Participaciones, S.L.: 167,216 thousand euros.

Associates

No significant changes took place during 2022.

Schedule I includes details of the recognition and derecognition of equity interests in the years 2023 and 2022.

Note 14 – Tangible assets

The composition of this heading in the balance sheets as at 31 December 2023 and 2022 was as follows:

Thousand euro

	2023				2022			
	Cost	Depreciation	Impairment	Net amount	Cost	Depreciation	Impairment	Net amount
Property, plant and equipment	**3,005,594**	**(1,368,801)**	**(45,294)**	**1,591,499**	**3,135,549**	**(1,369,728)**	**(45,915)**	**1,719,906**
For own use:	3,005,594	(1,368,801)	(45,294)	1,591,499	3,135,549	(1,369,728)	(45,915)	1,719,906
Computer equipment and related facilities	304,202	(234,430)	—	69,772	496,171	(334,369)	—	161,802
Furniture, vehicles and other facilities	841,714	(540,355)	—	301,359	822,413	(520,039)	—	302,374
Buildings	1,839,772	(594,016)	(45,294)	1,200,462	1,797,095	(515,320)	(45,915)	1,235,860
Work in progress	—	—	—	—	—	—	—	—
Other	19,906	—	—	19,906	19,870	—	—	19,870
Investment properties:	**64,524**	**(16,789)**	**(17,045)**	**30,690**	**85,872**	**(11,932)**	**(16,886)**	**57,054**
Buildings	64,524	(16,789)	(17,045)	30,690	85,872	(11,932)	(16,886)	57,054
Total	**3,070,118**	**(1,385,590)**	**(62,339)**	**1,622,189**	**3,221,421**	**(1,381,660)**	**(62,801)**	**1,776,960**

Movements in the balance under this heading during 2023 and 2022 were as follows:

Thousand euro

	Note	Own use - Buildings and other	Own use - Computer equipment, furniture and related facilities	Investment properties	Total
Cost:					
Balances as at 31 December 2021		**1,801,892**	**1,366,647**	**97,515**	**3,266,054**
Additions		65,016	89,157	81	154,254
Disposals		(34,571)	(137,220)	(8,995)	(180,786)
Other transfers		(15,372)	—	(2,729)	(18,101)
Balances as at 31 December 2022		**1,816,965**	**1,318,584**	**85,872**	**3,221,421**
Additions		78,808	76,901	(28)	155,681
Disposals		(10,278)	(24,762)	(9,230)	(44,270)
Other transfers		(25,817)	(224,807)	(12,090)	(262,714)
Balances as at 31 December 2023		**1,859,678**	**1,145,916**	**64,524**	**3,070,118**
Accumulated depreciation:					
Balances as at 31 December 2021		**437,501**	**902,999**	**14,400**	**1,354,900**
Additions		87,697	74,092	2,607	164,396
Disposals		(6,740)	(122,683)	(362)	(129,785)
Other transfers		(3,138)	—	(4,713)	(7,851)
Balances as at 31 December 2022		**515,320**	**854,408**	**11,932**	**1,381,660**
Additions		90,395	55,799	3,521	149,715
Disposals		(4,623)	(13,840)	(2,588)	(21,051)
Other transfers		(7,076)	(121,582)	3,924	(124,734)
Balances as at 31 December 2023		**594,016**	**774,785**	**16,789**	**1,385,590**
Impairment losses:					
Balances as at 31 December 2021		**65,873**	**—**	**8,187**	**74,060**
Impairment through profit or loss	32	1,991	—	11,817	13,808
Reversal of impairment through profit or loss	32	—	—	(3,235)	(3,235)
Other transfers		(15,278)	—	1,135	(14,143)
Balances as at 31 December 2022		**45,915**	**—**	**16,886**	**62,801**
Impairment through profit or loss	32	2,623	—	3,835	6,458
Reversal of impairment through profit or loss	32	(1,255)	—	(4,298)	(5,553)
Utilisations		—	—	(1,496)	(1,496)
Other transfers		(1,989)	—	2,118	129
Balances as at 31 December 2023		**45,294**	**—**	**17,045**	**62,339**
Net balances as at 31 December 2022		**1,255,730**	**464,176**	**57,054**	**1,776,960**
Net balances as at 31 December 2023		**1,220,368**	**371,131**	**30,690**	**1,622,189**

The net carrying amount of “Transfers” in 2023 amounted to 138.109 thousand euros (-3,892 thousand euros in 2022), which mainly corresponded to reclassifications of assets from or to the heading “Non-current assets and disposal groups classified as held for sale” (see Note 12).

Specific information relating to tangible assets as at 31 December 2023 and 2022 is shown here below:

Thousand euro

	2023	2022
Gross value of tangible assets for own use in use and fully depreciated	434,999	350,747
Net carrying amount of tangible assets of foreign operations	12,970	14,379

Lease contracts in which the Bank acts as lessee

As at 31 December 2023, the cost of property, plant and equipment for own use includes right-of-use assets corresponding to leased tangible assets in which the Bank acts as lessee, in the amount of 1,170,758 thousand euros, which have accumulated depreciation of 393,815 thousand euros and are impaired in the amount of 40,026 thousand euros (1,099,996 thousand euros as at 31 December 2022, which had accumulated depreciation and impairment in the amount of 315,729 thousand euros and 38,657 thousand euros, respectively, as at that date).

The expense recognised in the income statement for 2023 for the depreciation and impairment of right-of-use assets corresponding to leased tangible assets in which the Bank acts as lessee amounted to 80,441 thousand euros and 1,369 thousand euros, respectively (77,479 thousand euros and 1,991 thousand euros, respectively, in 2022).

Information is set out below concerning the operating lease contracts in which the Bank acts as lessee:

Thousand euro

	2023	2022
Interest expense on lease liabilities	(14,972)	(13,866)
Expense related to short-term low-value leases (*)	(8,271)	(7,905)
Total lease payments in cash (**)	88,592	87,041

(*) Recognised in the "Administrative expenses" heading, in the item on "Of property, plant and equipment" (see Note 30).

(**) Payments of the principal and interest components of the lease liability are recognised as cash flows from financing activities in the bank's cash flow statement.

Minimum future payments over the non-cancellable period for lease contracts in effect as at 31 December 2023 and 2022 are indicated below:

Thousand euro

	2023	2022
Undiscounted lease payments receivable		
Up to 1 month	6,838	898
1 to 3 months	13,122	19,822
3 to 12 months	58,483	58,942
1 to 5 years	286,189	283,088
More than 5 years	422,917	429,652

Sale and leaseback transactions

Between 2009 and 2012, the Bank 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 which are indicated here below:

2023				
Operating lease contracts	**No. properties sold**	**No. contracts with purchase option**	**No. contracts without purchase option**	**Mandatory term**
2009	60	23	37	10 to 20 years
2010	377	376	1	10 to 25 years
2011 (acquisition B.Guipuzcoano)	32	24	8	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 2023 and 2022 is given below:

Thousand euro

	2023	2022
Undiscounted lease payments receivable		
Up to 1 month	4,145	130
1 to 3 months	8,021	11,167
3 to 12 months	36,677	34,392
1 to 5 years	193,424	178,154
More than 5 years	350,954	367,262

In 2023 and 2022, no significant profit/(loss) was recorded for sale and leaseback transactions.

Note 15 – Intangible assets

The composition of this heading in the balance sheets as at 31 December 2023 and 2022 was as follows:

Thousand euro

	2023	2022
Goodwill	**12,199**	**25,835**
From acquisition of Banco BMN Penedés assets	—	12,268
From acquisition of BSOS assets	12,199	13,567
Other intangible assets:	**8,085**	**10,970**
With a finite useful life:	8,085	10,970
Private Banking Business, Miami	1,825	4,925
Administrative franchises	939	1,018
Computer software	5,238	4,945
Other	83	82
Total	**20,284**	**36,805**

Movements in the balance of goodwill and intangible assets in 2023 and 2022 were as follows:

Thousand euro

	Goodwill		
	Cost	Amortisation	Total
Balance as at 31 December 2021	**1,005,530**	**(968,676)**	**36,854**
Additions	13,681	(24,700)	(11,019)
Balance as at 31 December 2022	**1,019,211**	**(993,376)**	**25,835**
Additions	—	(13,636)	(13,636)
Balance as at 31 December 2023	**1,019,211**	**(1,007,012)**	**12,199**

Thousand euro

	Other intangible assets		
	Cost	Amortisation	Total
Balance as at 31 December 2021	**344,556**	**(332,571)**	**11,986**
Additions	3,084	(4,721)	(1,637)
Disposals	(77,873)	77,873	—
Other	3,730	(3,109)	621
Balance as at 31 December 2022	**273,497**	**(262,528)**	**10,970**
Additions	1,557	(4,219)	(2,662)
Disposals	—	—	—
Other	(3,850)	3,627	(223)
Balance as at 31 December 2023	**271,204**	**(263,120)**	**8,085**

The gross value of other intangible assets that were in use and had been fully amortised as at 31 December 2023 and 2022 amounted to 731,295 thousand euros and 485,767 thousand euros, respectively.

Goodwill

On 1 December 2022, the Bank acquired a business unit of its subsidiary Business Services for Operational Support, S.A.U. This acquisition generated goodwill in the amount of 13,681 thousand euros.

Furthermore, as set forth in the regulatory framework of reference, Banco Sabadell carried out an analysis in 2023 to evaluate the existence of any potential impairment of its goodwill.

Banco Sabadell Group monitors the Group's total goodwill across the ensemble of Cash-Generating Units (CGUs) 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 2028, 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 made, as well as 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 Service.

The approach used to determine the values of assumptions is based both on the projections and on past experience. These values are compared against external information sources, where available.

In 2023, to calculate the terminal value, Spain's real GDP in 2028 was taken as reference, using a growth rate in perpetuity of 1.8% (1.9% in 2022), 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 11.2% (10.4% in 2022), determined using the Capital Asset Pricing Model (CAPM); it therefore comprises a risk-free rate (10-year Spanish bond) plus a risk premium which reflects the inherent risk of the operating segment being evaluated.

The recoverable amount obtained is higher than the carrying amount; therefore, there are no signs of impairment. The individual recoverable amount for each CGU at the end of 2023 and 2022, before allocating goodwill to the ensemble of CGUs, was above its carrying amount; therefore, the Group did not recognise any impairment at the CGU level during the aforesaid years.

In addition, the Group carried out a sensitivity analysis, 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 analysis 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

Private Banking Business, Miami

Intangible assets associated with the acquisition 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 items and deposits. These assets are amortised over a period of between 10 and 15 years from their creation.

Computer software

Computer software costs include mainly the capitalised costs of developing the Bank's computer software and the cost of purchasing software licences.

R&D expenditure in 2023 and 2022 was not significant.

Note 16 – Other assets and liabilities

The "Other assets" heading on the balance sheets as at 31 December 2023 and 2022 breaks down as follows:

Thousand euro

	Note	2023	2022
Insurance contracts linked to pensions	21	80,693	89,729
Rest of other assets		129,878	144,217
Total		**210,571**	**233,946**

The "Rest of other assets" item includes mainly prepaid expenses, the accrual of customer fees and commissions, and transactions in progress pending settlement.

The "Other liabilities" heading on the balance sheets as at 31 December 2023 and 2022 breaks down as follows:

Thousand euro

	31/12/2023	31/12/2022
Other accrual/deferral	485,207	469,313
Rest of other liabilities	29,262	180,170
Total	**514,469**	**649,483**

The "Rest of other liabilities" item mainly includes transactions in progress pending settlement.

Note 17 – Deposits of central banks and credit institutions

Deposits of credit institutions and central banks on the balance sheets as at 31 December 2023 and 2022 break down as follows:

Thousand euro

	2023	2022
By heading:		
Financial liabilities at amortised cost	18,062,699	32,300,438
Total	**18,062,699**	**32,300,438**
By nature:		
Demand deposits	237,317	396,921
Deposits with agreed maturity	6,774,889	24,053,124
Repurchase agreements	10,821,129	8,118,516
Other accounts	73,633	124,873
Valuation adjustments	155,731	(392,996)
Total	**18,062,699**	**32,300,438**
By currency:		
In euro	17,621,126	31,397,086
In foreign currency	441,573	903,352
Total	**18,062,699**	**32,300,438**

In 2023, Banco Sabadell prepaid 17 billion euros corresponding to TLTRO III maturing in March 2024. The balance of this liquidity facility as at the end of 2023 and 2022 amounted to 5 billion euros and 22 billion euros, respectively (see Note 3.4.3.1).

Note 18 – Customer deposits

The balance of customer deposits on the balance sheets as at 31 December 2023 and 2022 breaks down as follows:

Thousand euro

	2023	2022
By heading:		
Financial liabilities at amortised cost	119,790,948	122,572,034
Total	**119,790,948**	**122,572,034**
By nature:		
Demand deposits	100,183,897	110,084,369
Deposits with agreed maturity	14,769,839	10,481,762
Fixed term	13,363,275	7,656,133
Non-marketable covered bonds and bonds issued	323,010	418,835
Other	1,083,554	2,406,794
Hybrid financial liabilities (see Notes 9 and 11)	4,507,056	2,074,477
Repurchase agreements	200,336	—
Other valuation adjustments (interest, fees and commissions, other)	129,820	(68,574)
Total	**119,790,948**	**122,572,034**
By sector:		
General governments	7,855,767	8,490,332
Other sectors	111,805,361	114,150,275
Other valuation adjustments (interest, fees and commissions, other)	129,820	(68,573)
Total	**119,790,948**	**122,572,034**
By currency:		
In euro	114,605,845	117,024,083
In foreign currency	5,185,103	5,547,951
Total	**119,790,948**	**122,572,034**

Due to rising interest rates, the weight of the term deposits making up customer deposits increased during 2023.

Note 19 – Debt securities in issue

The composition of this heading in the balance sheets as at 31 December 2023 and 2022, by type of issuance, is as follows:

Thousand euro

	2023	2022
Straight bonds/debentures	8,731,400	8,050,800
Straight bonds	8,690,100	8,009,500
Structured bonds	41,300	41,300
Commercial paper	2,125,763	1,445,701
Mortgage covered bonds	7,475,000	7,563,000
Subordinated marketable debt securities	3,550,000	3,450,000
Subordinated bonds	1,800,000	1,800,000
Preferred securities	1,750,000	1,650,000
Valuation and other adjustments	147,150	77,140
Total	**22,029,313**	**20,586,641**

Schedule III shows details of the outstanding issues as at 2023 and 2022 year-end.

The remuneration for preferred securities contingently convertible into ordinary shares amounted to 115,391 thousand euros in 2023 (110,374 thousand euros in 2022) and is recognised under the “Other reserves” heading in equity.

Note 20 – Other financial liabilities

The composition of this heading in the balance sheets as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
By heading:		
Financial liabilities at amortised cost	4,711,369	4,908,543
Total	**4,711,369**	**4,908,543**
By nature:		
Debentures payable	288,681	358,479
Guarantee deposits received	8,688	8,992
Clearing houses	1,138,627	1,032,869
Collection accounts	1,973,067	1,834,098
Lease liabilities	798,638	804,732
Other financial liabilities	503,668	869,373
Total	**4,711,369**	**4,908,543**
By currency:		
In euro	4,642,449	4,831,154
In foreign currency	68,920	77,389
Total	**4,711,369**	**4,908,543**

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 consideration the amendments introduced by Law 18/2022 of 28 September on the creation and growth of companies:

	2023	2022
Average payment period and supplier payment ratios (in days)		
Average time taken to pay suppliers	10.15	17.29
Ratio of transactions paid (*)	10.15	17.29
Ratio of transactions payable (**)	20.56	—
Payments made and pending at year-end (in thousand euro)		
Total payments made	1,913,038	1,463,066
Total payments outstanding	31	—
Payments made in < 60 days (in thousand euro) (***)		
Monetary volume of paid invoices	1,864,501	1,410,723
Percentage of total amount of payments to suppliers	97	96
Number of invoices paid in < 60 days (***)		
Number of invoices paid	127,037	137,086
Percentage of total number of invoices	92	93

(*) The ratio of transactions paid is equal to the amount of each transaction paid multiplied by the number of days elapsed since the date of receipt of the invoice until its payment, divided by the total amount of payments made.

(**) The ratio of transactions pending payment is equal to the amount of each transaction pending payment multiplied by the number of days elapsed since the date of receipt of the invoice until the last day of the period, divided by the total amount of pending payments.

(***) Corresponds to invoices paid within the maximum period established in regulations on late payment.

Note 21 – Provisions and contingent liabilities

Movements during 2023 and 2022 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 2021	**79,575**	**297**	**76,841**	**277,888**	**405,538**	**840,139**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**—**	**—**
Interest and similar expenses - pension commitments	**1,299**	**4**	**—**	**—**	**—**	**1,303**
Allowances charged to income statement - staff expenses (*)	**224**	**5**	**—**	**—**	**2,195**	**2,424**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**228**	**(32)**	**45,211**	**(5,678)**	**26,055**	**65,784**
Allocation of provisions	84	—	47,619	206,249	26,055	280,007
Reversal of provisions	—	—	(2,408)	(211,927)	—	(214,335)
Actuarial losses / (gains)	144	(32)	—	—	—	112
Exchange differences	**—**	**—**	**—**	**(305)**	**—**	**(305)**
Utilisations:	**(7,272)**	**(188)**	**(32,209)**	**—**	**(138,528)**	**(178,197)**
Net contributions of plan assets by sponsor	612	—		—	—	612
Pension payments	(7,884)	(188)	—	—	—	(8,072)
Other	—	—	(32,209)	—	(138,528)	(170,737)
Other movements	**(16,213)**	**84**	**—**	**(109,424)**	**(112,404)**	**(237,957)**
Balance as at 31 December 2022	**57,841**	**170**	**89,843**	**162,481**	**182,856**	**493,191**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**—**	**—**
Interest and similar expenses - pension commitments	**1,755**	**4**	**—**	**—**	**—**	**1,759**
Allowances charged to income statement - staff expenses (*)	**72**	**4**	**—**	**—**	**—**	**76**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**1,260**	**(4)**	**(4,561)**	**(8,441)**	**22,704**	**10,958**
Allocation of provisions	1,260	—	1,209	206,507	22,882	231,858
Reversal of provisions	—	—	(5,770)	(214,948)	(178)	(220,896)
Actuarial losses / (gains)	—	(4)	—	—	—	(4)
Exchange differences	**—**	**—**	**—**	**1,295**	**—**	**1,295**
Utilisations:	**(7,409)**	**(105)**	**(24,739)**	**—**	**(35,427)**	**(67,680)**
Net contributions of plan assets by sponsor	233	—	—	—	—	233
Pension payments	(7,642)	(105)	—	—	—	(7,747)
Other	—	—	(24,739)	—	(35,427)	(60,166)
Other movements	**(2,174)**	**—**	**7**	**(1,689)**	**5**	**(3,851)**
Balance as at 31 December 2023	**51,345**	**69**	**60,550**	**153,646**	**170,138**	**435,748**

(*) See Note 30.

The headings "Pensions and other post employment defined benefit obligations" and "Other long term employee benefits" include the amount of provisions allocated for the coverage of post-employment remuneration and commitments undertaken with early retirees and similar obligations.

The heading “Commitments and guarantees given” includes the amount of provisions allocated for the coverage of commitments given and contingent risks arising from financial guarantees or other types of contracts.

During the usual course of business, the Bank is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third-party experts where necessary and, where appropriate, provisions are recognised under the headings “Pending legal issues and tax litigation” or “Other provisions”. As at 31 December 2023 and 2022, these headings mainly included:

– Provisions for legal contingencies amounting to 17 million euros as at 31 December 2023 (23 million euros as at 31 December 2022).

– Other provisions for legal contingencies in Spain arising from customer claims in connection with certain general contractual terms and conditions amounting to 150 million euros (179 million euros as at 31 December 2022). The most significant provision relates to the possible reimbursement of amounts received 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, in the amount of 81 million euros as at 31 December 2023 (99 million euros as at 31 December 2022). In an unlikely 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 arrangements, the maximum contingency would amount to 111 million euros.

  With regard to these provisions, it is worth specifying that 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 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 filed with the Supreme Court with regard to the ruling made by the Provincial Court of Madrid. This appeal has been suspended by the Supreme Court, which has referred the matter to the Court of Justice of the European Union for a preliminary ruling. A hearing took place in the aforesaid Court on 28 September 2023, but no ruling has been made as yet.

  The remaining provisions mainly relate to customer claims in connection with the repayment of mortgage arrangement fees, developer deposit funds and revolving card interest, with the provision set aside amounting to 69 million euros as at 31 December 2023 (80 million euros as at 31 December 2022).

– Provision to cover the anticipated costs relating to restructuring plans announced in previous years and not yet implemented amounting to 56 million euros as at 31 December 2023 (56 million euros as at 31 December 2022).

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

Defined benefit plans cover all existing commitments arising from the Collective Bargaining Agreement for Banks (*Convenio Colectivo de Banca*). These commitments are financed through the following vehicles:

Pension plan

Banco Sabadell's employee pension plan covers the benefits detailed above payable under the 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.
- Supervening incapacity 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.

Banco Sabadell's 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 in particular:

- Commitments expressly excluded from Banco Sabadell's employee pension plan (indicated in the previous section).
- Serving employees covered by a collective bargaining agreement of Banco Atlántico.
- Pension commitments undertaken with certain serving employees not provided for under the collective bargaining agreement.
- Commitments towards employees on extended leave of absence not covered with benefits accrued in Banco Sabadell's employee pension plan.
- Commitments towards early retirees; these may be partly financed with benefits accrued in Banco Sabadell's 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 obligations with respect 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.

The origins of liabilities recognised in respect of post-employment benefits and other similar long-term obligations on the Bank's balance sheet are shown below:

Thousand euro

	2023	2022	2021	2020	2019
Obligations arising from pension and similar commitments	502,983	559,504	732,658	811,819	796,260
Fair value of plan assets	(451,569)	(501,493)	(652,786)	(716,128)	(697,621)
Net liability recognised on balance sheet	**51,414**	**58,011**	**79,872**	**95,691**	**98,639**

The return on Banco Sabadell's employee pension plan was 5.37% and that of the E.P.S.V. was -0.17% in 2023 (-13.88% and 0.22%, respectively, in 2022).

Movements during 2023 and 2022 in obligations due to pension 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 plan assets	Net liability recognised on balance sheet
Balance as at 31 December 2021	**732,658**	**652,786**	**79,872**
Interest costs	12,141	—	12,141
Interest income	—	10,838	(10,838)
Normal cost in year	229	—	229
Past service cost	—	—	—
Benefits paid	(46,857)	(38,784)	(8,073)
Payments for settlements, curtailments and terminations	(3,832)	(3,976)	144
Net contributions by the Institution	—	(644)	644
Actuarial gains or losses from changes in demographic assumptions	—	—	—
Actuarial gains or losses from changes in financial assumptions	(142,910)	—	(142,910)
Actuarial gains or losses from experience	(4,605)	—	(4,605)
Return on plan assets excluding interest income	—	(131,322)	131,322
Other movements	12,680	12,595	85
Balance as at 31 December 2022	**559,504**	**501,493**	**58,011**
Interest costs	17,452	—	17,452
Interest income	—	15,693	(15,693)
Normal cost in year	76	—	76
Past service cost	1,232	—	1,232
Benefits paid	(44,997)	(37,251)	(7,746)
Settlements, curtailments and terminations	(1,300)	(1,300)	—
Net contributions by the Institution	—	(233)	233
Actuarial gains or losses from changes in demographic assumptions	—	—	—
Actuarial gains or losses from changes in financial assumptions	(23,085)	—	(23,085)
Actuarial gains or losses from experience	(10,517)	—	(10,517)
Return on plan assets excluding interest income	—	(31,391)	31,391
Other movements	4,618	4,558	60
Balance as at 31 December 2023	**502,983**	**451,569**	**51,414**

The breakdown of the Bank's pension commitments and similar obligations as at 31 December 2023 and 2022, based on the financing vehicle, coverage and the interest rate applied in their calculation, is given below:

Thousand euro

		2023	
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**236,298**	
Insurance policies with related parties	Matched	22,709	3.75%
Insurance policies with unrelated parties	Matched	213,589	3.75%
Insurance contracts		**266,615**	
Insurance policies with related parties	Matched	55,095	3.75%
Insurance policies with unrelated parties	Matched	211,520	3.75%
Internal funds	Without cover	**69**	3.75%
Total obligations		**502,982**	

Thousand euro

		2022	
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**270,917**	
Insurance policies with related parties	Matched	26,279	3.25%
Insurance policies with unrelated parties	Matched	244,638	3.25%
Insurance contracts		**288,417**	
Insurance policies with related parties	Matched	60,555	3.25%
Insurance policies with unrelated parties	Matched	227,862	3.25%
Internal funds	Without cover	**170**	3.25%
Total obligations		**559,504**	

The value of the obligations covered by matched insurance policies under pension plans and insurance contracts as at 31 December 2023 amounted to 502,914 thousand euros (559,334 thousand euros as at 31 December 2022); therefore, in 99.99% of its commitments (99.97% as at 31 December 2022) there is no mortality risk (mortality tables) or profitability risk (interest rate) for the Bank. Therefore, the evolution of interest rates in 2023 had no impact on the Institution's capacity to pay its pension commitments.

The sensitivity analysis for the actuarial assumptions of the technical interest rate and the rate of salary increase shown in Note 1.3.15 to these annual financial statements, as at 31 December 2023 and 2022, shows how the obligation and the service cost of the current year would have been affected by changes deemed reasonably possible as at that date.

%

	2023	2022
Sensitivity analysis	**Percentage change**	
Interest rate		
Interest rate -50 basis points:		
Assumption	3.25%	2.75%
Change in obligation	4.59%	5.19%
Change in current service cost	10.64%	11.60%
Interest rate +50 basis points:		
Assumption	4.25%	3.75%
Change in obligation	(4.24)%	(4.47)%
Change in current service cost	(9.19)%	(10.13)%
Rate of salary increase		
Rate of salary increase -50 basis points:		
Assumption	2.50%	2.50%
Change in obligation	(0.01)%	(0.01)%
Change in current service cost	(3.03)%	(3.49)%
Rate of salary increase +50 basis points:		
Assumption	3.50%	3.50%
Change in obligation	0.01%	0.01%
Change in current service cost	3.50%	3.88%

The estimate of probable present values, as at 31 December 2023, of benefits payable for the next ten years, is set out below:

Thousand euro

	Years										
	2024	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**Total**
Probable pensions	7,681	7,412	7,139	6,865	6,578	6,283	5,975	5,659	5,337	5,010	**63,939**

The fair value of assets linked to pensions recognised on the balance sheet amounted to 80,693 thousand euros as at 31 December 2023 (89,729 thousand euros as at 31 December 2022); see Note 16.

The main categories of the plan assets as at 31 December 2023 and 2022 are indicated hereafter:

%

	2023	2022
Mutual funds	3.63 %	2.90 %
Deposits and guarantees	0.38 %	0.42 %
Other (non-linked insurance policies)	95.99 %	96.68 %
Total	**100 %**	**100 %**

There were no financial instruments issued by the Bank included in the fair value of plan assets as at 31 December 2023 and 2022.

Note 22 – Shareholders' equity

The breakdown of the balance of shareholders' equity on the balance sheets as at 31 December 2023 and 2022 is the following:

Thousand euro

	2023	2022
Capital	680,028	703,371
Share premium	7,695,227	7,899,227
Other equity	12,625	11,606
Retained earnings	5,165,689	4,630,414
Other reserves	(2,228,293)	(2,115,524)
(-) Treasury shares	(39,621)	(23,721)
Profit or loss for the year	1,088,014	740,551
(-) Interim dividends	(162,103)	(112,040)
Total	**12,211,566**	**11,733,884**

Capital

The Bank's share capital as at 31 December 2023 amounted to 680,027,680.875 euros, represented by 5,440,221,447 registered shares at a par value of 0.125 each (as at 31 December 2022, it amounted to 703,370,587.63 euros, represented by 5,626,964,701 registered shares with a par value of 0.125 euros). All shares are fully paid up and numbered in sequential order from 1 through 5,440,221,447, 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.

Capital reduction

On 30 November 2023, the Board of Directors of Banco Sabadell agreed to execute the Bank's share capital reduction, in the amount of 23,343 thousand euros, through the redemption charged to unrestricted reserves of all the treasury shares acquired under the share buyback programme, i.e. 186,743,254 shares with a par value of 0.125 euros each, representing approximately 3.32% of the Bank's share capital (see Note 3). This capital reduction was approved as part of the resolution adopted by the Annual General Meeting on 23 March 2023.

The capital reduction and the amendment of Article 7 of the Articles of Association relating to share capital were entered in the Companies Register of Alicante on 11 December 2023, the reduction being thus completed and the redeemed shares delisted.

This operation did not entail the reimbursement of contributions made by shareholders, as the Bank was the holder of the redeemed shares.

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 Banco Sabadell's share capital as at 31 December 2023:

Name or company name of shareholder	% of voting rights assigned to shares		% of voting rights through financial instruments		Total % of voting rights
	Direct	Indirect	Direct	Indirect	
BlackRock, Inc (*)	—	3.43%	—	0.67%	4.10%
Dimensional Fund Advisors LP (**)	—	3.11%	—	—	3.11%
David Martínez Guzmán (***)	—	3.56%	—	—	3.56%

The sources for the information provided are communications sent by shareholders to the National Securities Market Commission (CNMV) or directly to the Bank. In accordance with Royal Decree 1362/2007 of 19 October, implementing Securities Market Law 24/1998 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, a shareholder is considered to own a significant shareholding when they have in their possession a proportion of at least 3% of the voting rights, or 1% in the case of residents in tax havens.

(*) BlackRock, Inc. owns an indirect shareholding through several of its subsidiaries.

(**) Dimensional Fund Advisors LP disclosed the shares held in funds and accounts advised by either itself or by its subsidiary undertakings. The voting rights correspond to shares held in those funds and accounts. Neither Dimensional Fund Advisors LP nor any of its subsidiaries are beneficial owners of those shares and/or their voting rights.

(***) Fintech Europe, S.À.R.L. (FE) is 100% owned by Fintech Investments Ltd. (FIL), which is the investment fund managed by Fintech Advisory Inc. (FAI). FAI is 100% owned by David Martínez Guzmán. Consequently, the stake currently held by FE is considered to be under the control of David Martínez Guzmán.

Share premium

The share premium's balance as at 31 December 2023 came to 7,695,227 thousand euros (7,899,227 thousand euros as at 31 December 2022).

In 2023, the share premium was reduced by 180,657 thousand euros, which corresponds to the difference between the purchase price of the shares redeemed as part of the Bank's capital reduction explained in this note (204,000 thousand euros) and the nominal value of those shares (23,343 thousand euros).

Furthermore, pursuant to applicable legislation, a restricted capital redemption reserve has been created, with a charge to the share premium in an amount equal to the nominal value of the redeemed shares, 23,343 thousand euros, subject to the same disposal requirements applied for the share capital reduction.

Retained earnings and Other reserves

The balance of these headings of the balance sheets as at 31 December 2023 and 2022 breaks down as follows:

Thousand euro

	2023	2022
Restricted reserves:	**228,033**	**222,819**
Statutory reserve (*)	140,674	140,674
Reserve for treasury shares pledged as security	50,061	68,469
Reserve for investments in the Canary Islands	10,840	10,561
Reserve for redenomination of share capital	113	113
Capital redemption reserve	26,345	3,002
Unrestricted reserves	**2,709,363**	**2,292,071**
Total	**2,937,396**	**2,514,890**

(*) At its meeting held on 22 February 2024, the Board of Directors agreed to submit a proposal to the Annual General Meeting for the reclassification to voluntary reserves of the amount held in the statutory reserve equivalent to 20% of the share capital resulting from the capital reduction carried out.

Other equity

This heading includes share-based remuneration pending settlement which, as at 31 December 2023 and 2022, amounted to 12,625 thousand euros and 11,606 thousand euros, respectively.

Treasury shares

The movements of the parent company's shares acquired by the Bank during the years 2023 and 2022 were as follows:

	No. of shares	Nominal value *(in thousand euro)*	Average price *(in euro)*	% Shareholding
Balance as at 31 December 2021	**40,679,208**	**5,084.90**	**0.85**	**0.72**
Purchases	115,797,928	14,474.74	0.75	2.06
Sales	131,704,453	16,463.06	0.77	2.34
Balance as at 31 December 2022	**24,772,683**	**3,096.58**	**0.96**	**0.44**
Purchases	248,821,193	31,102.65	1.10	4.43
Sales	236,416,334	29,552.04	1.11	4.21
Balance as at 31 December 2023	**37,177,542**	**4,647.19**	**1.07**	**0.68**

Net gains and losses arising from transactions involving own equity instruments are included under the heading "Shareholders' equity – Other reserves" on the balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to the sale or cancellation of treasury shares.

As at 31 December 2023, the number of the Bank's shares pledged as collateral for transactions was 44,978,083 with a nominal value of 5,622 thousand euros (77,735,661 shares with a nominal value of 9,717 thousand euros as at 31 December 2022).

The number of Banco de Sabadell, S.A. equity instruments owned by third parties but managed by the different companies of the Group amounted to 12,398,979 and 3,067,904 securities as at 31 December 2023 and 2022, with a nominal value as at those dates of 1,550 thousand euros and 383 thousand euros, respectively. In both years, 100% of the securities corresponded to Banco Sabadell shares.

Note 23 – Accumulated other comprehensive income

The composition of this heading of equity as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Items that will not be reclassified to profit or loss	(64,140)	(71,687)
Actuarial gains or (-) losses on defined benefit pension plans	(4,898)	(3,427)
Non-current assets and disposal groups classified as held for sale	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income	(59,242)	(68,260)
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	(132,165)	(209,195)
Hedge of net investments in foreign operations [effective portion] (*)	7,220	(7,113)
Foreign currency translation	60,767	102,712
Hedging derivatives. Cash flow hedges [effective portion] (**)	(64,982)	(110,748)
Amount deriving from outstanding operations	(87,231)	(140,086)
Amount deriving from discontinued operations	22,249	29,338
Fair value changes of debt instruments measured at fair value through other comprehensive income	(135,170)	(194,046)
Hedging instruments [not designated elements]	—	—
Non-current assets and disposal groups classified as held for sale	—	—
Total	**(196,305)**	**(280,882)**

(*) The value of the hedge of net investments in foreign operations is fully obtained from outstanding transactions (see Note 11).
(**) Cash flow hedges mainly mitigate interest rate risk and other risks (see Note 11).

The breakdown of the items in the statement of recognised income and expenses as at 31 December 2023 and 2022, indicating their gross and net of tax effect amounts, is as follows:

Thousand euro

	2023			2022		
	Gross value	**Tax effect**	**Net**	**Gross value**	**Tax effect**	**Net**
Items that will not be reclassified to profit or loss	8,292	(745)	7,547	2,515	200	2,715
Actuarial gains or (-) losses on defined benefit pension plans	(2,101)	630	(1,471)	(4,640)	1,392	(3,248)
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income	10,393	(1,375)	9,018	7,155	(1,192)	5,963
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	121,346	(44,316)	77,030	(322,323)	106,682	(215,641)
Hedge of net investments in foreign operations [effective portion]	14,333	—	14,333	(4,198)	—	(4,198)
Foreign currency translation	(41,945)	—	(41,945)	58,573	—	58,573
Hedging derivatives. Cash flow hedges reserve [effective portion]	65,380	(19,614)	45,766	(129,304)	38,791	(90,513)
Fair value changes of debt instruments measured at fair value through other comprehensive income	83,578	(24,702)	58,876	(247,394)	67,891	(179,503)
Hedging instruments [not designated elements]	—	—	—	—	—	—
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Total	**129,638**	**(45,061)**	**84,577**	**(319,808)**	**106,882**	**(212,926)**

Note 24 – Off-balance sheet exposures

The composition of off-balance sheet exposures as at 31 December 2023 and 2022 is as follows:

Thousand euro

Commitments and guarantees given	**Note**	**2023**	**2022**
Loan commitments given		**20,500,850**	**21,297,399**
Of which, amount classified as stage 2		*483,306*	800,416
Of which, amount classified as stage 3		*62,425*	*34,916*
Drawable by third parties		20,500,850	21,297,399
By credit institutions		691,596	101,133
By general governments		910,744	1,019,180
By other resident sectors		15,353,500	16,176,208
By non-residents		3,545,010	4,000,878
Provisions recognised on liabilities side of the balance sheet	21	61,158	57,357
Financial guarantees given (*)		**7,052,638**	**8,741,124**
Of which, amount classified as stage 2		*165,222*	*254,090*
Of which, amount classified as stage 3		*44,828*	*58,197*
Provisions recognised on liabilities side of the balance sheet (**)	21	23,814	26,817
Other commitments given		**7,988,420**	**9,722,964**
Of which, amount classified as stage 2		*372,597*	*434,869*
Of which, amount classified as stage 3		*223,000*	*265,507*
Other guarantees given		6,877,782	6,964,640
Assets earmarked for third-party obligations		—	—
Irrevocable letters of credit		738,668	722,640
Additional settlement guarantee		25,000	25,000
Other guarantees and sureties given		6,114,114	6,217,000
Other contingent risks		—	—
Other commitments given		1,110,638	2,758,324
Financial asset forward purchase commitments		1,007,047	2,639,536
Conventional financial asset purchase contracts		8,249	—
Capital subscribed but not paid up		19	19
Underwriting and subscription commitments		—	—
Other loan commitments given		95,323	118,769
Provisions recognised on liabilities side of the balance sheet	21	68,674	78,307
Total		**35,541,908**	**39,761,487**

(*) Includes 99,631 and 122,500 thousand euro as of 31 December 2023 and 2022, respectively, corresponding to financial guarantees given in connection with construction and real estate development.

(**) Includes 3,402 thousand euros and 4,305 thousand euros as at 31 December 2023 and 2022, respectively, corresponding to provisions for financial guarantees given in connection with construction and real estate development.

Total commitments drawable by third parties as at 31 December 2023 include home equity loan commitments amounting to 3,012,961 thousand euros (3,212,266 thousand euros as at 31 December 2022). 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 given classified as stage 3

The movement of the balance of financial guarantees and other commitments given classified as stage 3 during 2023 was the following:

Thousand euro

Balances as at 31 December 2021	**474,557**
Additions	90,909
Disposals	(241,762)
Balances as at 31 December 2022	**323,704**
Additions	43,391
Disposals	(99,268)
Balances as at 31 December 2023	**267,827**

The breakdown by geographical area of the balance of the financial guarantees and other commitments given classified as stage 3 as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Spain	265,046	321,296
Rest of European Union	448	439
United Kingdom	15	8
Americas	1,905	14
Rest of the world	413	1,947
Total	**267,827**	**323,704**

Credit risk allowances corresponding to financial guarantees and other commitments given as at 31 December 2023 and 2022, broken down by the method used to determine such allowances, are as follows:

Thousand euro

	2023	2022
Specific individually measured allowances:	**67,247**	**79,564**
Stage 2	7,454	3,753
Stage 3	59,793	75,811
Specific collectively measured allowances:	**25,241**	**25,560**
Stage 1	3,930	4,833
Stage 2	6,325	7,098
Stage 3	14,672	13,234
Allowances for country risk	314	395
Total	**92,488**	**105,124**

Movements in these allowances during the years 2023 and 2022, together with movements in allowances for loan commitments given, are shown in Note 21.

Note 25 – Off-balance sheet customer funds

Off-balance sheet customer funds managed by the Bank, those sold but not under management and the financial instruments deposited by third parties as at 31 December 2023 and 2022 are shown below:

Thousand euro

	2023	2022
Managed by the bank:	**4,186,603**	**4,234,635**
Investment firms and funds	588,844	702,580
Asset management	3,597,759	3,532,055
Sold by the bank:	**36,373,953**	**34,257,725**
Mutual Funds	23,503,719	21,878,344
Pension funds	3,249,167	3,182,486
Insurance	9,621,067	9,196,895
Financial instruments deposited by third parties	**67,755,559**	**59,098,735**
Total	**108,316,115**	**97,591,095**

Note 26 – Interest income and expenses

These headings in the income statement include interest accrued during the year on all financial assets and financial 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 corrections of income from hedge accounting operations.

The majority of interest income is generated by financial assets measured either at amortised cost or at fair value through other comprehensive income.

The breakdown of net interest income for the years ended 31 December 2023 and 2022 is the following:

Thousand euro

	2023	2022
Interest income		
Loans and advances	4,995,019	2,585,976
Central banks	904,669	143,759
Credit institutions	227,015	41,347
Customers	3,863,335	2,400,870
Debt securities (*)	510,338	243,588
Stage 3 assets	22,772	18,912
Correction of income from hedging operations	246,459	44,948
Other interest (**)	57,819	250,253
Total	**5,832,407**	**3,143,677**
Interest expense		
Deposits	(1,476,183)	(216,009)
Central banks	(305,164)	(2,468)
Credit institutions	(464,097)	(49,099)
Customers	(706,922)	(164,442)
Debt securities issued	(529,260)	(279,549)
Correction of expenses on hedging operations	(452,639)	(130,665)
Other interest (***)	(36,506)	(128,030)
Total	**(2,494,588)**	**(754,253)**
Net Interest Income	**3,337,819**	**2,389,424**

(*) Includes 15,902 thousand euros in 2023 and 1,524 thousand euros in 2022 corresponding to interest on financial assets at fair value through profit or loss (trading book).

(**) Includes positive returns from liability products.

(***) Includes negative returns on asset products.

The average annual interest rate during 2023 and 2022 of the following balance sheet headings is shown below:

%

	2023	2022
Assets		
Cash, cash balances at central banks and other demand deposits	3.08	0.14
Debt securities	2.62	1.04
Loans and advances		
Customers	3.55	2.15
Liabilities		
Deposits		
Central banks and Credit institutions	(2.99)	0.35
Customers	(0.59)	(0.04)
Debt securities issued	(3.05)	(1.45)

Positive (negative) figures correspond to income (expenses) for the Bank.

Note 27 – 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

	2023	2022
Fees from risk transactions	**275,060**	**292,235**
Asset-side transactions	163,118	177,846
Sureties and other guarantees	111,942	114,389
Service fees	**633,370**	**720,955**
Payment cards	121,130	180,735
Payment orders	80,900	81,450
Securities	54,135	51,433
Sight accounts	245,812	245,811
Other	131,393	161,526
Asset management and marketing fees	**263,206**	**292,678**
Mutual funds	112,614	118,799
Sale of pension funds and insurance products	127,723	152,016
Asset management	22,869	21,863
Total	**1,171,636**	**1,305,868**
Memorandum item		
Fee and commission income	1,238,999	1,524,125
Fee and commission expenses	(67,363)	(218,257)
Fees and commissions (net)	**1,171,636**	**1,305,868**

Note 28 – Gains or (-) losses on financial assets and liabilities, net and exchange differences, net

The composition of this heading of the income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	7,470	(10,607)
Financial assets at fair value through other comprehensive income	(1,342)	11,157
Financial assets at amortised cost	4,679	(21,429)
Financial liabilities at amortised cost	4,133	(335)
Gains or (-) losses on financial assets and liabilities held for trading, net	38,166	207,246
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	4,896	(3,625)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	—	—
Gains or (-) losses from hedge accounting, net	14,445	13,006
Total	**64,977**	**206,020**
By type of financial instrument:		
Net gain/(loss) on debt securities	4,359	4,622
Net gain/(loss) on other equity instruments	405	(433)
Net gain/(loss) on derivatives	58,368	223,260
Net gain/(loss) on other items (*)	1,845	(21,429)
Total	**64,977**	**206,020**

(*) 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 income statement for the years ended 31 December 2023 and 2022 is shown below:

Thousand euro

	2023	2022
Exchange differences [gain or (-) loss], net	(106,255)	(129,035)

During 2023, the Bank carried out sales of certain debt securities which it held in its portfolio of financial assets at fair value through other comprehensive income, generating losses of 1,342 thousand euros (11,157 thousand euros as at 31 December 2022). In 2023, the Bank did not dispose of debt securities issued by general governments and recorded in this portfolio. In 2022, 100% of these profits came from the sale of debt securities held with general governments.

The "Net gain/(loss) on derivatives" heading in the table above includes, among other things, 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. As at 31 December 2023, the gains generated by these derivatives amounted to 136,797 thousand euros (147,631 thousand euros as at 31 December 2022), which are recognised under the heading "Gains or (-) losses on financial assets and liabilities held for trading, net" of the income statement, while the exchange differences generated by debit and credit balances denominated in foreign currencies hedged with these derivatives are recognised under the heading "Exchange differences [gain or (-) loss], net" of the income statement.

Note 29 – Other operating expenses

The composition of this heading of the income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Contribution to deposit guarantee scheme	(132,209)	(113,832)
Contribution to resolution fund	(76,068)	(99,655)
Other items	(231,994)	(87,291)
Of which: temporary levy of credit institutions and financial credit establishments (*)	*(156,182)*	—
Total	**(440,271)**	**(300,778)**

(*) See Note 1.3.17.

The "Other items" heading includes expenses corresponding to the Spanish tax on deposits of credit institutions, amounting to 34,418 thousand euros in 2023 (34,894 thousand euros in 2022), as well as expenses associated with non-financial activities.

Note 30 – Administrative expenses

This heading of the income statement includes expenses incurred by the Bank corresponding to staff and other general administrative expenses.

Staff expenses

The staff expenses recognised in the income statement for the years ended 31 December 2023 and 2022 were as follows:

Thousand euro

	Note	2023	2022
Payrolls and bonuses for active staff		(749,375)	(705,425)
Social Security payments		(188,210)	(166,002)
Contributions to defined benefit pension plans	21	(76)	(229)
Contributions to defined contribution pension plans		(26,578)	(24,863)
Other staff expenses		(42,656)	(36,113)
Total		**(1,006,895)**	**(932,632)**

As at 31 December 2023 and 2022, the breakdown of the Bank's average workforce by category and sex is as follows:

Average number of employees

	2023			2022		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Senior management	423	195	618	376	157	533
Middle management	1,696	1,258	2,954	1,616	1,152	2,768
Specialist staff	3,797	5,481	9,278	3,695	5,369	9,064
Total	**5,916**	**6,934**	**12,850**	**5,687**	**6,678**	**12,365**

The breakdown of the Bank's average workforce who informed the Bank that they have a disability of 33% or more, by category, as at 31 December 2023 and 2022 is as follows:

Average number of employees

	2023	**2022**
Senior management	3	3
Middle management	12	10
Specialist staff	104	96
Total	**119**	**109**

As at 31 December 2023 and 2022, the breakdown of the Bank's workforce by category and sex is as follows:

Number of employees

	2023			2022		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Senior management	442	209	651	368	158	526
Middle management	1,777	1,406	3,183	1,633	1,169	2,802
Specialist staff	3,762	5,369	9,131	3,750	5,466	9,216
Total	**5,981**	**6,984**	**12,965**	**5,751**	**6,793**	**12,544**

Of the total workforce as at 31 December 2023, 120 employees had informed the Bank that they have some form of recognised disability (114 as at 31 December 2022).

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 21 December 2023, at the proposal of the Board Remuneration Committee, members of the Group's Identified Staff, with the exception of Non-Executive Directors, were allocated long-term remuneration through the schemes in effect during 2023, as described below:

Long-term remuneration scheme

Every year, the Board of Directors, at the proposal of the Board Remuneration Committee, approves Long-Term Remuneration aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff assigned to TSB Banking Group Plc or its subsidiaries, which consists of allocating a certain amount to each beneficiary, determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. 55% of the incentive is paid in the Bank's shares (using the weighted average price of the last 20 trading sessions of the month of December of the first year of the accrual period to calculate the number of shares), with the remaining 45% paid in cash. The incentive accrual period consists of three financial years, beginning on 1 January of the financial year immediately following the date of its approval and ending two years later, on 31 December of the third financial year. The aforesaid accrual period in turn comprises two sub-periods:

– Individual annual targets measurement period: this period lasts one financial year, from 1 January to 31 December of the year following the date on which the incentive is approved. During that period, each beneficiary's annual targets are measured (formed of Group targets, management targets and individual targets) established to determine the "Adjusted Target".

– Group multi-year targets measurement period: this period lasts three financial years, beginning on 1 January of the financial year immediately following the date on which the incentive is approved and ending two years later, on 31 December of the third financial year. During that period, the Group's multi-year targets are measured in order to determine the final incentive, which is subject to the Risk Correction Factor. The Group's multi-year targets for each incentive are linked to the following indicators and weights, whose achievement percentages are used to calculate the final payment owed, if any, to management staff who have been assigned that incentive:

Incentive	Indicators and weights
Long-Term Remuneration 2019-2021, 2020-2022 and 2021-2023	- Total shareholder return (25%) - Group liquidity coverage ratio (25%) - CET1 capital indicator (25%) - Group return on risk-adjusted capital (RoRAC) (25%)
Long-Term Remuneration 2022-2024	- Total shareholder return (25%) - Group liquidity coverage ratio (25%) - CET1 capital indicator (25%) - Return on tangible equity (ROTE) (25%)
Long-Term Remuneration 2023-2025	- Total shareholder return (40%) - Return on tangible equity (ROTE) (40%) - Sustainability indicator (20%)

In addition to the achievement of the annual and multi-year targets described above, payment of the incentives is subject to the requirements set out in the General Conditions of each long-term remuneration scheme.

The main characteristics of the current incentives under the long-term remuneration scheme are summarised below:

Thousand euro

Incentive	Date approved by Board of Directors	Incentive accrual period	Individual annual targets	Group multi-year targets			Amount pending payment as at 31/12/2023
			Measurement period	Measurement period	Percentage achievement	Final payment	
2019-2021 Long-term remuneration	20/12/2018	01/01/2019 - 31/12/2021	01/01/2019 - 31/12/2019	01/01/2019 - 31/12/2021	0% total shareholder return. 100% liquidity coverage ratio. 100% CET1 indicator. 0% RoRAC indicator.	50% of target	444
2020-2022 Long-term remuneration	19/12/2019	01/01/2020 - 31/12/2022	01/01/2020 - 31/12/2020	01/01/2020 - 31/12/2022	50% total shareholder return. 100% liquidity coverage ratio. 100% CET1 indicator. 100% RoRAC indicator.	87.5% of target	2,265
2021-2023 Long-term remuneration	17/12/2020	01/01/2021 - 31/12/2023	01/01/2021 - 31/12/2021	01/01/2021 - 31/12/2023	50% total shareholder return. 100% liquidity coverage ratio. 100% CET1 indicator. 100% RoRAC indicator.	100% of target	4,533
2022-2024 Long-term remuneration	16/12/2021	01/01/2022 - 31/12/2024	01/01/2022 - 31/12/2022	01/01/2022 - 31/12/2024	—	—	—
2023-2025 Long-term remuneration	21/12/2022	01/01/2023 - 31/12/2025	01/01/2023 - 31/12/2023	01/01/2023 - 31/12/2025	—	—	—

As regards the staff expenses associated with share-based incentive schemes (see Note 1.3.13), 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 balance sheet.

Expenditure recognised in relation to incentive schemes and long-term remuneration granted to employees in 2023 and 2022 is shown below:

Thousand euro

	2023	2022
Settled in shares	1,632	849
Settled in cash	1,330	693
Total	**2,962**	**1,542**

Other general administrative expenses

The composition of this heading in the income statement for the years 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Property, plant and equipment	(33,840)	(39,782)
Information technology	(431,717)	(412,607)
Communication	(5,581)	(6,045)
Publicity	(54,513)	(40,608)
Subcontracted administrative services	(76,705)	(95,456)
Contributions and taxes	(133,180)	(113,260)
Technical reports	(12,908)	(10,323)
Security services and fund transfers	(15,426)	(16,330)
Entertainment expenses and staff travel expenses	(8,708)	(5,198)
Membership fees	(2,968)	(2,435)
Other expenses	(38,245)	(42,421)
Total	**(813,791)**	**(784,465)**

Audit firm fees

The fees received by KPMG Auditores, S.L. in the years ended 31 December 2023 and 2022 for audit and other services were as follows:

Thousand euro

	2023	2022
Audit services (*)	**2,498**	**2,127**
Of which: Audit of the Bank's annual and interim accounts	2,471	2,100
Of which: Audit of the annual accounts of foreign branches (**)	27	27
Audit-related services	**272**	**264**
Total	**2,770**	**2,391**

(*) 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 2023 and 2022 for audit and other services were as follows:

Thousand euro

	2023	2022
Audit services (*)	**341**	**343**
Of which: Audit of the annual accounts of foreign branches	341	343
Audit-related services	**54**	**52**
Other services	**474**	**383**
Of which: Other	474	383
Total	**869**	**778**

(*) 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 auditors are required to produce under applicable regulations, the issuance of comfort letters and other assurance reports required. "Other services" includes fees related to review reports of the Pillar III Disclosures report and the Non-Financial Disclosures report, mainly provided by other companies of the KPMG network.

Lastly, outside of Spain, the Bank engaged auditors other than KPMG to carry out the audits of foreign branches. Audit and other services provided to those branches amounted to 23 thousand euros and 0 thousand euros in the year ended 31 December 2023, respectively (13 and 9 thousand euros in the year ended 31 December 2022).

The information related to non-audit services provided by KPMG Auditores, S.L. to companies controlled by the Bank during 2023 and 2022 is set out in Banco Sabadell Group's consolidated annual financial statements for 2023.

All services provided by the auditors and companies forming part of their network comply with the requirements for statutory auditor independence set forth in the Spanish Audit Law and do not, in any case, include work that is incompatible with the audit function.

Note 31 – Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains

The composition of this heading of the income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	Note	2023	2022
Financial assets at fair value through other comprehensive income		852	(182)
Debt securities	7	852	(182)
Other equity instruments		—	—
Financial assets at amortised cost (*)	10	(694,159)	(716,336)
Debt securities		(1,191)	(190)
Loans and advances		(692,968)	(716,146)
Total		**(693,307)**	**(716,518)**

(*) This figure mainly includes allowances recorded in the income statement allocated to cover credit risk exposures, as shown in the impairment allowances movements of Note 10.

Note 32 – Impairment or (-) reversal of impairment on non-financial assets

The composition of this heading of the income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	Note	2023	2022
Property, plant and equipment for own use	14	(1,368)	(1,991)
Investment properties	14	463	(8,582)
Total		**(905)**	**(10,573)**

The allowance for the impairment of investment properties in 2023 and 2022 was estimated based on Level 2 valuations (see Note 5).

Note 33 – Gains or (-) losses on derecognition of non-financial assets, net

The composition of this heading of the income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	Note	2023	2022
Property, plant and equipment		(1,096)	(928)
Intangible assets		—	—
Interests	13	(2,359)	26,289
Other items		—	(1)
Total		**(3,455)**	**25,360**

The sale of tangible assets under finance leases in which the Bank acted as lessor did not have a material impact on the 2023 and 2022 income statements.

In 2022, the item "Interests" included profit on the sale of the Bank's 20% stake in Solvia Servicios Inmobiliarios, S.L. for 18,533 thousand euros.

Note 34 – Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The composition of this heading of the income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	Note	2023	2022
Property, plant and equipment for own use and foreclosed		(41,599)	(24,404)
Gains/losses on sales		(7,291)	(21,201)
Impairment/Reversal	12	(34,308)	(3,203)
Interests		437	2,972
Other items		(2,253)	(257)
Total		**(43,415)**	**(21,689)**

In 2023, the heading "Plant and equipment for own use and foreclosed - Impairment/reversal" mainly includes the impact of the recognition at fair value of tangible assets to be disposed of as part of the sale of the merchant acquiring business (see Note 13).

The impairment of non-current assets held for sale and disposal groups classified as held for sale excludes income from the increase in fair value less selling costs.

The total allowance for the impairment of non-current assets held for sale in 2023 and 2022 was calculated based on Level 2 valuations (see Note 5). The fair value of impaired assets amounted to 375,184 thousand euros and 393,300 thousand euros as at 2023 and 2022 year-end, respectively.

Note 35 – Tax situation (income tax relating to continuing operations)

Consolidated tax group

Banco de Sabadell, S.A. is the parent company of a consolidated tax group for corporation tax purposes, comprising, as subsidiaries, all the Spanish entities in which the Bank holds an interest that meet the requirements of the Spanish Corporation Tax Law.

The amount of this tax in the year has been calculated bearing in mind this circumstance and it will be paid to Banco de Sabadell S.A., as the parent company of the Group, which will in turn settle the consolidated tax with the tax authority (Hacienda Pública).

Reconciliation

The reconciliation between the pre-tax profit and the taxable income for corporation tax purposes for 2023 and 2022 is shown below:

Thousand euro

	2023	2022
Profit/(loss) before tax	1,424,098	990,097
Increases in taxable income	445,776	167,623
From profits	445,776	167,623
From equity		
Decreases in taxable income	(729,980)	(737,313)
From profits	(592,989)	(626,939)
From equity	(136,991)	(110,374)
Taxable income	**1,139,894**	**420,407**
Tax payable (30%)	**(341,968)**	**(126,122)**
Deductions for double taxation, training and other	2,182	1,744
Tax payable (less tax credits)	**(339,786)**	**(124,378)**
Due to timing differences (net)	(7,610)	(32,192)
Other adjustments (net) (*)	11,312	(92,976)
(Tax expense or (-) income related to profit from continuing operations)	**(336,084)**	**(249,546)**

(*) Includes -58 million euros in 2023 (-48.7 million euros in 2022) of expense for corporation tax on foreign branches and offices.

The effective tax rate, calculated as tax expenses related to profit divided by profit or loss before tax, came to 23.6% and 25.2% in 2023 and 2022, respectively.

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 timing or permanent differences:

Thousand euro

	2023	2022
Permanent difference	269,432	88,619
Gains/(losses) on sale of equity instruments	6,093	6,955
Amortisation of Goodwill	12,268	24,586
Generated deductions/Non-deductible expenses	209,557	51,853
Other	41,514	5,225
Timing difference arising during the year	155,882	53,727
Timing difference arising in previous years	20,462	25,277
Increases	**445,776**	**167,623**
Permanent difference	(412,880)	(440,628)
Gains/(losses) on sale of equity instruments (exempt)	(129,158)	(116,261)
Difference in effective tax rate on permanent establishments	(230,273)	(198,043)
Generated deductions/Non-deductible expenses	(44,968)	(50,480)
Other	(8,481)	(75,844)
Timing difference arising during the year	(115,391)	(110,374)
Timing difference arising in previous years	(201,709)	(186,311)
Decreases	**(729,980)**	**(737,313)**

Deferred tax assets and liabilities

Under current tax and accounting regulations, certain timing 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 before the Spanish Tax Authority in cases where the taxable person incurs accounting losses or the Institution is liquidated or legally declared insolvent. Similarly, they can be exchanged for public debt securities, once the 18-year term has elapsed, calculated from the last day of the tax period in which these assets were recognised in the accounting records. In order to retain the State guarantee, these are subject to an annual capital contribution of 1.5% of their amount as of 2016.

Movements of deferred tax assets and liabilities during 2023 and 2022 are shown below:

Thousand euro

Deferred tax assets	**Monetisable**	**Non-monetisable**	**Tax credits for losses carried forward**	**Deductions not applied**	**Total**
Balances as at 31 December 2021	**3,995,751**	**1,006,747**	**263,320**	**—**	**5,265,818**
(Debit) or credit recorded in the income statement	(48,542)	43,735	(36,861)	7	(41,661)
(Debit) or credit recorded in equity	—	85,337	—	—	85,337
Exchange differences and other movements	17,713	(9,335)	9,026	—	17,404
Balances as at 31 December 2022	**3,964,922**	**1,126,484**	**235,485**	**7**	**5,326,898**
(Debit) or credit recorded in the income statement	(92,904)	78,683	(69,691)	—	(83,912)
(Debit) or credit recorded in equity	—	(45,061)	—	—	(45,061)
Exchange differences and other movements	36,285	7,168	36,928	19	80,400
Balances as at 31 December 2023	**3,908,303**	**1,167,274**	**202,722**	**26**	**5,278,325**

Thousand euro

Deferred tax liabilities	**Total**
Balances as at 31 December 2021	**72,576**
(Debit) or credit recorded in the income statement	(5,880)
(Debit) or credit recorded in equity	(17)
Exchange differences and other movements	(635)
Balances as at 31 December 2022	**66,044**
(Debit) or credit recorded in the income statement	(2,246)
(Debit) or credit recorded in equity	502
Exchange differences and other movements	467
Balances as at 31 December 2023	**64,767**

The sources of the deferred tax assets and liabilities recognised in the balance sheets as at 31 December 2023 and 2022 are as follows:

Thousand euro

Deferred tax assets	2023	2022
Monetisable	**3,908,304**	**3,964,922**
Due to credit impairment	3,368,559	3,321,585
Due to real estate asset impairment	414,680	517,911
Due to pension funds	125,065	125,426
Non-monetisable	**1,167,274**	**1,126,486**
Tax credits for losses carried forward	**202,722**	**235,485**
Deductions not applied	**26**	**7**
Total	**5,278,326**	**5,326,900**

Deferred tax liabilities	2023	2023
Property restatements	53,091	54,197
Adjustments to value of wholesale debt issuances arising in business combinations	4,020	7,472
Other financial asset value adjustments	1,657	1,455
Other	5,999	2,920
Total	**64,767**	**66,044**

As indicated in Note 1.3.18, according to the information available as at year-end and the projections taken from the Bank's business plan for the coming years, the Group estimates that it will be able to generate sufficient taxable income to offset tax loss carry-forwards within a period of four years and non-monetisable tax assets, where these can be deducted according to current tax regulations, 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 recoverability analysis, taking into consideration reasonable changes to the key assumptions on which the projected results of each entity or tax group are based and the estimated reversal of timing differences. With respect to Spain, the variables considered are those used in the sensitivity analysis of the calculation of the recoverable amount of goodwill (see Note 15). The conclusions drawn from that analysis are not significantly different from those reached without stressing the significant variables.

The Constitutional Court declared, in its ruling 11/2024 dated 18 January 2024, published in the Official State Gazette (*Boletín Oficial del Estado*) on 20 February 2024, that certain measures related to corporation tax introduced by Royal Decree-Law 3/2016 of 2 December were unconstitutional. The effects of this ruling are expected to lead to an earlier use of tax credits, with no significant impact estimated for the Bank.

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.

The Bank has no deferred tax assets that have not been recognised in the balance sheet.

Other information

In compliance with the accounting obligations set out in Article 86 of Law 27/2014 of 27 November on Corporation Tax, with regard to the mergers carried out to date between Banco de Sabadell, S.A. and Solbank SBD, S.A., Banco Herrero, S.A., Banco de Asturias, S.A., BanSabadell Leasing EFC, S.A., Solbank Leasing EFC, S.A., BanAsturias Leasing EFC, S.A., Banco Atlántico, S.A., Banco Urquijo, S.A., Europea de Inversiones y Rentas S.L., Banco CAM, S.A., Banco Guipuzcoano, S.A., BS Profesional, Axel Group, Sabadell Solbank S.A.U. (formerly Lloyds Bank) and Banco Gallego, S.A., the requisite information was included in the first annual report of Banco de Sabadell, S.A. approved following each of the aforesaid mergers.

Reserve for investments in the Canary Islands

As set out in Note 2 to these annual financial statements, the Annual General Meeting held on 23 March 2023 approved the allocation of a reserve for investments in the Canary Islands amounting to 279 thousand euros. This reserve was fully realised in 2022 through investments carried out in that same year in various items of property, plant and equipment classified as fixtures and fittings.

Years subject to tax inspection

As at 31 December 2023, Banco de Sabadell S.A.'s corporation tax payments for 2020 and subsequent years are subject to review, while in relation to value added tax (VAT), its payments for 2016, 2017, 2020 and subsequent periods are open for review.

As at 31 December 2023, corporation tax for Banco de Sabadell, S.A. was open to review for 2020 and subsequent years. In relation to value added tax (VAT) corresponding to entities forming part of the VAT group in Spain, 2016, 2017, 2020 and subsequent periods were open to review.

<u>Proceedings</u>

In January 2022, the State Agency for Tax Administration (Administración Estatal de Administración Tributaria, or AEAT) gave notice to Banco Sabadell, as the parent company of the consolidated tax group, of the commencement of assurance and investigation proceedings in relation to the main taxes affecting the Group. Specifically, the items and periods listed below:

- Corporation Tax for the years 2015 to 2019.
- Capital contribution associated with the conversion of deferred tax assets into credit eligible for the Spanish Tax Authority (Capital Contribution) for the years 2016 to 2019.
- Value Added Tax (VAT) for the years 2018 and 2019.
- Withholdings and payments on account (employment income, income from movable capital) for the years 2018 and 2019.
- Tax on deposits of credit institutions (*Impuesto sobre Depósitos de las Entidades de Crédito*, IDEC) for the years 2017 to 2019.

The corresponding tax assessments were signed on 30 November 2023. Details about the current status of the proceedings are given here below:

- Corporation Tax and Capital Contribution: The total balance due for both items amounts to 1.6 million euros (refundable amount of 0.9 million euros and amount payable of 2.5 million euros for late-payment interest). The only disputed tax assessment relates to the settlement of a deduction associated with technological innovation projects following the change of criteria of Spain's National Court (called the Audiencia Nacional, a division of the Supreme Court) announced in its ruling of 23 November 2022, a change of criteria that was applied in that Court's subsequent rulings and which is currently under appeal at the Supreme Court. In this respect, the corresponding disputes were filed on 28 December 2023. The tax clearance certificate is currently pending release.
- Value added tax: The total balance due comes to 9.5 million euros (of which 1.5 million euros correspond to late-payment interest), as the sector-related matters subject to verification in previous proceedings are under dispute. In this respect, the corresponding disputes were filed on 22 December 2023. The tax clearance certificate is currently pending release.
- Withholdings, payments on account and tax on deposits of credit institutions: The total amount due comes to 0.6 million euros (of which 95 thousand euros correspond to late-payment interest).

<u>Ongoing disputes</u>

The main tax-related disputes that were ongoing as at 31 December 2023 are set out below:

- Appeal for judicial review before Spain's 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 1.8 million euros (2.3 million euros in total including late-payment interest), after a tax clearance certificate was issued in execution of a decision made by the Central Tax Appeal Board partially upholding the claim.
- Appeal for judicial review before Spain's National Court in relation to Order HFP/94/2023 of 2 February approving, among others, Model 797 "Temporary levy of credit institutions and financial credit establishments. Declaration of payment made" and Model 798 "Temporary levy of credit institutions and financial credit establishments. Advance payment".

In addition, rectification requests were submitted in relation both to the advance payment of the temporary levy of credit institutions and financial credit establishments carried out in February 2023 (Model 798) and to the declaration of the payment made in September 2023 (Model 797).

The Bank has, in any event, made suitable provisions for any contingencies that it is thought could arise in relation to these proceedings.

In relation to the remaining tax periods and items for which the statute of limitations is unexpired, due to potential differences in the interpretation of tax regulations, the results of the tax authority inspections for the years subject to review may give rise to contingent tax liabilities, which it is not possible to quantify objectively. However, the Bank considers that the possibility of such liabilities materialising is remote and, if they did materialise, the resulting tax charge would not be such as to have any significant impact on these annual financial statements.

Note 36 – Related party transactions

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 material, 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 generally applicable 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.

At its meeting of 30 November 2023, having received a favourable report from the Board Audit and Control Committee, the Board of Directors approved a related-party transaction consisting of a 150 million euro factoring facility opened for Puig Brands, S.A., which was formally arranged on 4 December 2023. This is considered to be a related-party transaction as Banco Sabadell's Chairman, Josep Oliu Creus, was also Chair of the parent company of the Puig Group (Exea Empresarial, S.L., shareholder of Puig, S.L.), as well as being the natural person appointed as representative of that company in the role of Board member of Puig Brands, S.A. As the amount of this transaction, together with two other transactions carried out in the past twelve months, was more than 2.5% of the turnover amount recorded in Banco Sabadell Group's consolidated annual financial statements for 2022, an "Other Relevant Information" notice, along with the corresponding report by the Board Audit and Control Committee, was sent to the CNMV on the same day, 4 December 2023, and assigned record number 25,658, in accordance with that set forth in Article 529 unvicies of the Capital Companies Act. Information was also provided about the other two aforesaid transactions, which were approved by the Board of Directors on 30 June 2023, after receiving a favourable report from the Board Audit and Control Committee, and attached to the same Other Relevant Information notice of 4 December 2023. The aforesaid transactions consisted of granting a 4-year 100 million euro loan and an interest rate and forex derivatives facility of 10 million euros.

Details of the most significant balances held with related parties as at 31 December 2023 and 2022, as well as the effect of related-party transactions on the income statements for 2023 and 2022, are shown below:

Thousand euro

	2023				
	Subsidiaries	Associates	Key personnel	Other related parties	TOTAL
Assets:					
Loans and advances – Credit institutions	2,015,194	38,142	—	—	**2,053,336**
Loans and advances – Customers	4,997,385	1,092	3,757	829,620	**5,831,854**
Liabilities:					
Deposits from credit institutions	15,600	—	—	—	**15,600**
Customer deposits	2,535,612	455,741	5,452	218,477	**3,215,282**
Debt securities issued	734,421	—	—	—	**734,421**
Off-balance sheet exposures:					
Financial guarantees given	5,066,197	294	—	29,136	**5,095,627**
Loan commitments given	1,532,217	54	378	261,702	**1,794,351**
Other commitments given	45,697	6,491	—	84,726	**136,914**
Income statement:					
Interest income	320,530	3,461	47	18,108	**342,146**
Interest expense	(43,071)	(4,010)	(75)	(915)	**(48,071)**
Fees and commissions (net)	123,426	1,781	13	1,452	**126,672**
Other general expenses	(443,044)	(4,873)	—	(3,517)	**(451,434)**

Thousand euro

	2022				
	Subsidiaries	Associates	Key personnel	Other related parties	TOTAL
Assets:					
Loans and advances – Credit institutions	1,992,532	38,668	—	—	2,031,200
Loans and advances – Customers	5,960,922	68,850	3,305	514,566	6,547,643
Liabilities:					
Deposits from credit institutions	19,197	—	—	—	19,197
Customer deposits	2,747,055	225,959	5,718	75,107	3,053,839
Debt securities issued	567,945	—	—	—	567,945
Off-balance sheet exposures:					
Financial guarantees given	6,710,890	294	—	15,067	6,726,251
Loan commitments given	1,160,577	47	395	296,880	1,457,899
Other commitments given	48,582	6,499	—	82,913	137,994
Income statement:					
Interest income	126,751	3,249	33	5,644	135,677
Interest expense	(46,466)	(18)	(5)	(643)	(47,132)
Fees and commissions (net)	152,917	2,200	25	(64)	155,078
Other general expenses	(467,303)	(3,652)	—	(2,714)	(473,669)

As at 31 December 2023, the Bank had no subordinated bonds on its balance sheet (as at 31 December 2022, there were no subordinated bonds on its balance sheet).

Note 37 – Remuneration of members of the Board of Directors and Senior Management and their respective balances

Board of Directors

The following table shows, for the years ended 31 December 2023 and 2022, the remuneration paid to directors for services provided by them in that capacity:

Thousand euro

	Remuneration	
	2023	**2022**
Josep Oliu Creus	1,600	1,600
Pedro Fontana García	342	335
César González-Bueno Mayer (*)	100	100
Anthony Frank Elliott Ball (1)	24	158
Aurora Catá Sala	173	179
Luis Deulofeu Fuguet	175	175
María José García Beato	170	180
Mireya Giné Torrens	165	160
Laura González Molero (2)	145	30
George Donald Johnston III	206	178
David Martínez Guzmán	95	100
José Manuel Martínez Martínez	170	180
José Ramón Martínez Sufrategui (3)	—	91
Alicia Reyes Revuelta	170	150
Manuel Valls Morató	178	140
David Vegara Figueras (*)	100	100
Pedro Viñolas Serra (4)	90	—
Total	**3,903**	**3,856**

(*) Perform executive functions.

(1) Resigned from his position as Director, effective as from the date of the Ordinary Annual General Meeting, which took place on 23 March 2023.

(2) On 26 May 2022, the Board of Directors approved her appointment as member of the Board of Directors, in the capacity of Independent Director and she accepted the position on 19 September 2022.

(3) Resigned from his position as Director on 26 May 2022, effective as from the date of obtaining regulatory authorisation to fill the vacancy, which was received on 31 August 2022.

(4) On 23 March 2023, the Annual General Meeting approved his appointment as member of the Board of Directors, in the capacity of Independent Director. He accepted the position on 22 June 2023.

In 2023 and 2022, no contributions were made to meet pension commitments for directors as a result of their duties as members of the Board of Directors.

Aside from the items mentioned above, members of the Board of Directors received 60 thousand euros as fixed remuneration in 2023 (94 thousand euros in 2022) by reason of their membership of boards of directors in Banco Sabadell Group companies (these amounts are included in the Annual Report on Director Remuneration).

Remuneration earned by directors for performing their executive duties during 2023 amounted to 3,496 thousand euros (3,520 thousand euros in 2022).

Thousand euro

	Fixed remuneration	Variable remuneration	Long-term remuneration	Total 2023	Total 2022
Executive Directors					
César González-Bueno Mayer	1,134	983	558	**2,676**	**2,722**
David Vegara Figueras	592	116	112	820	**743**
Non-Executive Directors					
María José García Beato (*)	—	—	—	**—**	**55**
Total	**1,726**	**1,099**	**670**	**3,496**	**3,520**

(*) Remuneration in 2022 corresponds to the long-term remuneration scheme that began in 2019 (see Note 30).

In compliance with the Director Remuneration Policy for the years 2024, 2025 and 2026, in force since its approval by the Annual General Meeting held on 23 March 2023, the remuneration scheme for the Chief Executive Officer was changed. Their annual fixed remuneration is 1,600 thousand euros in cash. After the corresponding personal income tax withholdings, the Chief Executive Officer systematically reinvests 300 thousand euros of his gross fixed remuneration by purchasing an equivalent annual net amount of the Bank’s shares. Every year, a 300 thousand euro annual retirement contribution will be made, as described in the aforesaid Policy. Therefore, the Chief Executive Officer’s annual fixed remuneration is 1,600 thousand euros in cash.

Exceptionally, to begin the plan, an initial contribution to the retirement plan of 600 thousand euros (in addition to those mentioned in the previous paragraph) was made for the 2023 financial year, with the ensuing reduction of an equal amount in his fixed remuneration. As each director's Remuneration Policy was applied on a pro-rata basis for the corresponding year, the amount of fixed remuneration for 2023 was 1,100 thousand euros plus 34 thousand euros as remuneration in kind and employee benefits.

Taking the foregoing into account, the contributions made in 2023 in insurance premiums covering pension contingencies for executive directors amounted to 961 thousand euros (101 thousand euros in 2022).

In addition, for the purposes of comparison, it is worth noting that the first full cycle in which the current Chief Executive Officer could earn long-term remuneration ended in 2023 (as it covered the period from 2021-2023).

For further details on directors’ remuneration, see the Annual Report on Director Remuneration for 2023, which is included for reference purposes in the Directors’ Report.

The amounts included in the Annual Report on Directors’ Remuneration and in the Annual Corporate Governance Report follow the criteria set forth in CNMV Circular 5/2013, amended by CNMV 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 2023, irrespective of any deferral schedule to which they may be subject.

Total risk transactions granted by the Bank and consolidated companies to directors of the parent company amounted to 875 thousand euros as at 31 December 2023, of which 738 thousand euros corresponded to loans and receivables and 137 thousand euros related to loan commitments given (907 thousand euros as at 31 December 2022, consisting of 748 thousand euros in loans and receivables and 159 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. As for remuneration, compensation payable amounted to 3,751 thousand euros as at 31 December 2023 (4,376 thousand euros as at 31 December 2022).

Senior Management

Total Senior Management remuneration earned during 2023 amounted to 8,140 thousand euros. Pursuant to applicable regulations, this amount includes the remuneration of Senior Management members plus that of 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 2023, in proportion to the time they spent in that position (on average 10 members in 2023 and 8.3 members in 2022).

Thousand euro

	2023			2022		
	Ordinary remuneration	Severance pay	Total	Ordinary remuneration	Severance pay	Total
Senior Management and Director of Internal Audit remuneration	8,165	—	**8,165**	6,675	6,200	**12,875**

Risk transactions granted by the Bank and consolidated companies to Senior Management members (with the exception of those who are also Executive Directors, for whom details are provided above) amounted to 3,260 thousand euros as at 31 December 2023 (3,405 thousand euros as at 31 December 2022), comprising 3,019 thousand euros in loans and receivables and 241 thousand euros related to loan commitments given (as at 31 December 2022, 3,169 thousand euros related to loans and receivables and 236 thousand euros to loan commitments given). As for remuneration, compensation payable amounted to 1,700 thousand euros as at 31 December 2023 (1,342 thousand euros as at 31 December 2022).

The accrued expenses corresponding to long-term remuneration schemes granted to members of Senior Management, including Executive Directors (see Note 30), amounted to 1,494 thousand euros in 2023 (1,181 thousand euros in 2022).

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 Corporate Governance Report, which is included for reference purposes in the Directors' Report.

The Executive Directors and Senior Management staff are specified below, indicating the positions they hold in the Bank as at 31 December 2023:

Executive Directors	
César González-Bueno Mayer	Sabadell Group CEO
David Vegara Figueras	Director-General Manager
Senior Management	
Leopoldo Alvear Trenor	General Manager
Marc Armengol Dulcet	General Manager
Gonzalo Barettino Coloma	Secretary General
Elena Carrera Crespo	General Manager
Cristóbal Paredes Camuñas	General Manager
Carlos Paz Rubio	General Manager
Sonia Quibus Rodríguez	General Manager
Jorge Rodríguez Maroto	General Manager
Carlos Ventura Santamans	General Manager

At its meeting of 30 November 2023, the Board of Directors appointed Marcos Prat Rojo as a General Manager of Banco Sabadell; he will also take on the role of Strategy Director, reporting to the Chief Executive Officer, subject to obtaining the European Central Bank's statement of no objection to his suitability and effective as from that moment. The Board also approved his becoming a member of Banco Sabadell's Management Committee during that same meeting. Given that, as at 31 December 2023, the statement of no objection to his suitability had not yet been received from the European Central Bank, this director was not considered a member of Senior Management for the purpose of these annual financial statements.

Other information relating to the Board

In accordance with the provisions of Article 229 of Royal Legislative Decree 1/2010 of 2 July, approving the restated text 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[1], directors have reported to the company that, during 2023, they or parties related to them, as defined in Article 231 of the Capital Companies Act:

[1] Related-party transactions are governed by their own special regime.

- Have not carried out transactions with the company without taking into account usual operations, performed under standard conditions for customers and whose amount 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 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 director 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.

- Have not obtained advantages or remuneration from third parties other than the company or its Group in connection with the performance 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 civil liability insurance policy for 2023 that covers the Institution's Directors and Senior Management staff. The total premium paid was 1,395 thousand euros (3,761 thousand euros in 2022).

Note 38 – Other information

Transactions with significant shareholders

No major transactions with significant shareholders were carried out during 2023 and 2022.

Environmental disclosures

In the face of the challenges brought by climate change and in its capacity as a financial institution, the Group believes it has a fundamental role to play in the transition towards a sustainable economy and in the achievement of the goals established in the Paris Agreement and the 2030 Agenda. To that end, Banco Sabadell has an ESG action framework that is aligned with the Sustainable Development Goals (SDGs) and in which climate action (SDG 13) is one of the priority SDGs of its corporate strategy.

Banco Sabadell, with its Sustainability Policy and its Environmental and Social Risk Framework, strives to frame the Group's activity and organisation within ESG parameters. Environmental, social and governance factors are present both in decision-making and when responding to the needs and concerns of all its stakeholders. As a result of that same goal, Banco Sabadell, TSB and Banco Sabadell Mexico have incorporated the aforesaid parameters into their own commitments.

As a financial institution, Banco Sabadell plays a fundamental role in rebuilding an inclusive and decarbonised economy. On one hand, mobilising resources, identifying technologies and creating opportunities and, on the other, incorporating new capabilities with an in-house transformation to embed sustainability into all agendas, managing the risk of its customer portfolio, minimising its impact on ESG risks and funding a large part of the investments needed to fulfil the Paris Agreement, the European Green Pact and the 2030 Agenda.

In this context, and to continue making progress with its goal of accelerating economic and social transformations that contribute to sustainable development, the Bank already reinforced the ESG dimensions applicable to the strategy, governance and its business model back in 2022, with the launch of its ESG framework, Sabadell's Commitment to Sustainability, setting specific targets for 2025-2050 across four strategic pillars. This set of commitments includes the alignment of business targets with SDGs and establishes levers for transformation and promotion actions. The main courses of action are the following:

- Progress as a sustainable institution: the Bank focuses on achieving greenhouse gas (GHG) emissions neutrality, on making progress in diversity, on ensuring talent and on continuing to incorporate ESG criteria into its governance arrangements, in addition to collaborating in key partnerships.

- Support customers in the transition to a sustainable economy: to that end, the Institution sets decarbonisation pathways, supports customers in the transition with specialised solutions for renewable energies, energy efficiency and sustainable mobility, and it establishes the Environmental and Social Risk Framework, which contains sectoral rules that limit controversial activities and/or activities with a negative impact on social and environmental development.

- Offer investment opportunities that contribute to sustainability: in the investor ecosystem, the Bank focuses on increasing savings and investment opportunities that contribute to sustainability, rolling out a wide range of social, ethical, green and sustainability bonds and funds, both its own and those of third parties.

- Work together for a sustainable and cohesive society: in its commitment to society, the Institution believes that it is imperative to take an active role to improve financial education, drive forward inclusion, minimise vulnerabilities and ensure secure transactions and exchanges of information.

To complement this, the Bank continues to make progress in the area of sustainable finance with its ESG Activities Plan, as an operational tool that ensures achievement of the milestones stemming from the new developments and needs generated by the regulatory and supervisory environment, which have implications for the business strategy, business model, governance arrangements, risk management and reporting. Among its main courses of action, which are monitored on an ongoing basis by the Sustainability Committee, it is worth noting the mobilisation of resources and capabilities in the area of sustainable finance, the progress made with the Sustainable Finance Plan, the assurance of market disclosures and the identification of sustainable progress mechanisms in fields such as communication, training and measurement.

All of these actions and goals set out in Sabadell's Commitment to Sustainability shape the Bank's ESG roadmap.

Given the activities in which it is engaged, as at 31 December 2023, the Bank does not have any responsibilities, expenses, assets, revenues, provisions or contingencies of an environmental nature that could be deemed significant with respect to its equity, financial position or consolidated results; therefore, no specific disclosures are included in the environmental disclosures document provided for in Order JUS/616/2022 of 30 June, approving the new templates for the submission to the Companies Register of the annual financial statements of institutions required to published them.

For further details, see the Non-Financial Disclosures Report, which is included as part of the consolidated Directors' Report.

Relationships with agents

In accordance with Article 21 of Royal Decree 84/2015 of 13 February, implementing Law 10/2014 of 26 June on the regulation, supervision and solvency of credit institutions, the Bank has not kept any agency contracts in force with agents authorised to operate on a frequent basis with its customers, in the name of or on behalf of the principal, to negotiate or arrange transactions typical of the activity of a credit institution.

Customer Care Service (SAC)

The Customer Care Service (hereinafter, SAC as per its Spanish acronym) and its head, who is appointed by the Board of Directors, report directly to the Compliance Division and are independent of the Bank's business and operational lines. The main function of the SAC is to handle and resolve complaints and claims brought forward by customers and users of the financial services of Banco de Sabadell, S.A. and the entities that adhere to the relevant regulations, where 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 the Banco Sabadell Regulations for the Protection of Customers and Users of Financial Services.

The entities that adhere to the SAC Regulations are the following: Sabadell Asset Management, S.A., S.G.I.I.C. Sociedad Unipersonal; Urquijo Gestión, S.G.I.I.C, S.A.; and Sabadell Consumer Finance, S.A.U.

In 2023, the SAC received 54,884 complaints and handled 54,048 complaints during the year, with 2,301 claims and complaints pending analysis as at 31 December 2023.

Details of complaints received by the SAC in 2023, broken down by type of product or service, are provided here below:

	Complaints	% of total received
Product		
Loans and credit secured with mortgages	17,819	32.5 %
Loans and credit not secured with collateral	8,391	15.3 %
Demand deposits and payment accounts	19,882	36.2 %
Payment instruments and electronic money	3,576	6.5 %
Other payment services	2,156	3.9 %
Other products/services	2,007	3.7 %
Other products	1,053	1.9 %
Total	**54,884**	**100.0 %**

Complaints and claims processed by SAC at first instance

During 2023, the SAC received 51,175 complaints and claims, of which 32,455 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, 17,646 (54.4%) were resolved in the customer's favour, 14,803 (45.6%) in the Institution's favour and in 6 cases the customer withdrew their complaint. During 2023, 17,923 complaints and claims were not accepted for processing due to reasons set out in the SAC Regulations.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 20,823 (64.16%) were processed within a period of 15 working days, 10,321 (31.80%) within a period of less than one month and 1,311 (4.04%) within a period longer than one month.

Complaints and claims managed by the Ombudsman

At Banco Sabadell, the role of Customer Ombudsman is performed by José Luis Gómez-Dégano y Ceballos-Zúñiga. The Ombudsman is responsible for resolving complaints brought forward by the customers and users of Banco de Sabadell, S.A., and those of the other aforementioned entities associated with it, at both 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 2023, the SAC received a total of 2,952 complaints and claims via the Customer Ombudsman, of which 2,933 were handled during the year.

With regard to claims and complaints resolved by the Customer Ombudsman, 24 were resolved in the customer's favour, 727 were resolved in the Institution's favour, in 1,149 cases the Bank conceded and in 4 cases the customer withdrew their complaint. 988 complaints were rejected by the Ombudsman in accordance with the regulations governing their activity. As at 31 December 2023, 72 complaints were pending submission of allegations and 41 were pending the Ombudsman's ruling.

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 vital prerequisite of having previously addressed their complaint or claim to the Institution.

The SAC received a total of 757 claims referred by the Bank of Spain and the CNMV up to 31 December 2023. In 2023, taking into account claims that remained pending at the end of the previous year, 737 claims were accepted for processing and resolved.

Note 39 – Subsequent events

No significant events meriting disclosure have occurred since 31 December 2023.

Schedule I – Banco Sabadell Group companies

Banco Sabadell Group companies as at 31 December 2023 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			
Aurica Coinvestments, S.L.	Holding	Barcelona - Spain	—	61.76	50,594	(3,205)	4,712	2,614	52,175	50,594	(15,793)	2,420
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	1,598	712	(90)	—	2,952	2,439	(435)	(90)
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	—	—	680,028	10,247,219	1,088,014	—	179,945,913	—	12,961,312	1,020,744
Banco Sabadell, S.A., Institución de Banca Múltiple	Credit institution	Mexico City - Mexico	99.99	0.01	635,734	65,095	25,755	—	5,721,555	725,419	(42,119)	2,197
BanSabadell Factura, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	100	812	613	—	1,828	799	114	613
BanSabadell Inversió Desenvolupament, S.A.U.	Holding	Sant Cugat del Valles - Spain	100.00	—	16,975	165,564	21,193	—	205,074	108,828	84,911	6,827
Bansabadell Mediación, Operador de Banca-Seguros Vinculado del Grupo Banco Sabadell, S.A.	Other regulated companies	Alicante - Spain	—	100.00	301	60	3,110	8,393	38,485	524	(3,552)	4,259
Bitarte, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	6,506	(2,288)	240	—	4,640	9,272	(4,582)	(173)
BStartup 10, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	1,000	4,495	509	—	12,761	1,000	(374)	(185)
Crisae Private Debt, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	—	100.00	3	286	203	—	607	200	88	204
Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. en Liquidación	Real estate	Elche - Spain	—	100.00	1,942	(89,871)	(209)	—	42	1,919	(89,848)	(209)
Duncan Holdings 2022-1 Limited	Holding	London - United Kingdom	—	100.00	1	—	—	—	1	—	5,993	(1,469)
Ederra, S.A.	Real estate	Sant Cugat del Valles - Spain	97.85	—	2,036	34,452	(461)	—	36,486	36,062	(38)	(503)
ESUS Energía Renovable, S.L.	Power generation	Vigo - Spain	—	90.00	50	(1,522)	(313)	—	18,476	45	(1,666)	(584)
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other ancillary activities	Alicante - Spain	100.00	—	1,232	20,652	382	—	25,479	19,271	3,477	2,068
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	53	(20,795)	(79)	—	1,795	23,891	(44,634)	(79)
Gest 21 Inmobiliaria, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	7,810	1,140	24	—	8,995	80,516	(46,689)	24
Gestión Financiera del Mediterráneo, S.A.U.	Other financial services	Alicante - Spain	100.00	—	13,000	2,596	6,046	9,531	21,818	66,787	(42,846)	(2,296)
Gier Operations 2021, S.L.U.	Other ancillary activities	Andorra - Andorra	100.00	—	730	(9)	(9)	—	712	730	(9)	(9)
Guipuzcoano Promoción Empresarial, S.L.	Holding	Sant Cugat del Valles - Spain	—	100.00	53	(77,109)	(258)	—	5,264	7,160	(84,207)	(258)
Hobalear, S.A.U.	Real estate	Sant Cugat del Valles - Spain	—	100.00	60	79	6	—	146	414	79	6
Hondarriberri, S.L.	Holding	Sant Cugat del Valles - Spain	99.99	0.01	41	8,991	61	—	10,100	165,669	93,348	324
Hotel Management 6 Gestión Activa, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	135,730	28,210	(129)	—	163,812	136,335	50,295	45
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	—	100.00	29,074	(24,148)	(178)	—	61,401	27,611	(22,685)	(178)
Interstate Property Holdings, LLC.	Holding	Miami - United States	100.00	—	7,293	(1,152)	211	—	6,439	3,804	7,900	211
Inverán Gestión, S.L. en Liquidación	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	90	(96)	—	—	50	45,090	(45,096)	—
Inversiones Cotizadas del Mediterráneo, S.L.	Holding	Alicante - Spain	100.00	—	308,000	207,830	6,564	—	1,008,718	589,523	(73,054)	6,564
Manston Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	33,357	(13,688)	(95)	—	19,921	33,357	(13,689)	(95)
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	62	(11,598)	(43)	—	3,821	109,529	(121,065)	(43)
Mediterráneo Sabadell, S.L.	Holding	Alicante - Spain	50.00	50.00	85,000	16,567	1,085	—	103,121	510,829	(409,218)	1,085
Paycomet, S.L.U.	Payment institution	Torrelodones - Spain	100.00		200	(19,658)	21,981	—	88,170	80,622	1,021	21,962
Puerto Pacific Vallarta, S.A. de C.V.	Real estate	Mexico City - Mexico	—	100.00	28,947	(14,693)	(74)	—	14,180	29,164	(12,264)	(74)
Ripollet Gestión, S.L.U.	Other financial services	Sant Cugat del Valles - Spain	100.00	—	20	396	(369)	—	625,387	593	(177)	(369)
Rubí Gestión, S.L.U.	Other financial services	Sant Cugat del Valles - Spain	100.00	—	3	14	(6)	—	295,504	53	(36)	(6)

Banco Sabadell Group companies as at 31 December 2023 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 Consumer Finance, S.A.U.	Credit institution	Sabadell - Spain	100.00	—	35,720	95,237	5,182	—	2,139,044	72,232	63,647	5,182
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	—	100.00	12,036	21,507	422	—	34,469	41,296	(8,160)	422
Sabadell Digital, S.A.U.	Provision of technology services	Sabadell - Spain	100.00	—	40,243	236,148	(45,105)	—	1,473,772	269,695	1,434	(49,813)
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	1,000	8,552	31,752	—	43,824	1,000	(7,607)	(991)
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	30,116	795,014	(5,789)	—	821,973	863,895	(38,820)	(5,734)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	100,060	234,014	3	—	334,918	500,622	(166,548)	3
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	15,807	137,336	(5,495)	—	1,036,087	4,748,442	(4,573,410)	(8,263)
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	2,073	662	20	—	4,786	23,792	(21,058)	20
Sabadell Securities USA, Inc.	Other financial services	Miami - United States	100.00	—	551	6,197	694	—	7,601	551	5,692	686
Sabadell Strategic Consulting, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	664	226	—	1,625	3	664	226
Sabadell Venture Capital, S. L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	3	14,160	2,818	—	72,709	3	9,552	1,075
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico City - Mexico	49.00	51.00	127,864	49,577	44,928	51,527	1,420,571	126,007	25,073	41,762
Sinia Capital, S.A. de C.V.	Holding	Mexico City - Mexico	—	100.00	20,830	15,320	(6,405)	—	58,881	22,435	(4,160)	9,721
Sinia Renovables, S.A.U.	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	100.00	—	15,000	2,055	9,591	—	176,162	15,000	4,449	8,047
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.	Real estate	Alicante - Spain	100.00	—	3	10,078	248	—	11,960	3	11,659	(439)
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	60,729	(11,826)	(119)	—	49,277	60,729	(11,826)	(119)
Tasaciones de Bienes Mediterráneo, S.A. in liquidation	Other ancillary activities	Alicante - Spain	99.88	0.12	1,000	1,417	87	—	2,507	5,266	(2,850)	87
Tenedora de Inversiones y Participaciones, S.L.	Holding	Alicante - Spain	100.00	—	296,092	(129,129)	(38,776)	—	232,643	2,975,977	(2,739,862)	(38,596)
TSB Bank PLC	Credit institution	Edinburgh - United Kingdom	—	100.00	90,710	1,945,133	196,655	137,839	54,786,747	1,814,636	351,887	212,331
TSB Banking Group PLC	Holding	London - United Kingdom	100.00	—	7,028	1,826,060	138,687	56,749	3,358,703	2,207,741	(245,481)	(21,409)
TSB Banking Group plc Employee Share Trust	Other ancillary activities	Saint Helier - Jersey	—	100.00	1	(15,404)	(25)	—	286	—	(14,787)	1
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	20	3	—	72	—	21	3
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	100.00	—	3,606	4,858	(1,536)	1,257	8,573	3,084	5,380	(1,536)
VeA Rental Homes , S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	5,000	(222)	(2,229)	—	13,131	22,000	(17,222)	(2,229)
Venture Debt SVC, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	3	—	—	—	5,251	3	—	—
Total								**267,910**		**16,642,461**	**4,762,129**	**1,213,370**

Banco Sabadell Group companies as at 31 December 2023 accounted for using 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 (d) (**)	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Aurica III, Fondo de Capital Riesgo	UCITS, funds and similar financial corporations	Barcelona - Spain	—	47.50	51,130	81,088	1,306	6,290	64,340	24,318	2,115	4,128
Aurica IIIB, S.C.R., S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	—	42.85	34,557	79,139	908	1,518	43,386	12,520	3,562	2,507
BanSabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	—	7,813	34,412	3,343	—	49,106	40,378	(18,915)	1,672
BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	10,000	85,856	21,730	11,000	312,609	34,000	16,997	10,866
BanSabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	43,858	241,380	189,414	—	9,556,627	27,106	82,370	96,365
Doctor Energy Central Services, S.L.	Other business management consulting activities	Granollers - Spain	—	16.66	300	(100)	(166)	—	1,276	75	(50)	(19)
Catalana de Biogás Iberia, S.L.	Power generation	Barcelona - Spain	—	24.90	10	(373)	1	—	1	2	—	(2)
Parque Eólico Casa Vieja S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Parque Eólico Villaumbrales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	832	267	(15)	—
Parque Eólico Perales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Parque Eólico Los Pedrejones S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Energíes Renovables Terra Ferma, S.L.	Power generation	Barcelona - Spain	—	50.00	6	(73)	(15)	—	3,236	3	(3)	—
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	—	38,288	13,539	9,441	2,753	104,156	19,144	3,825	4,289
Flex Equipos de Descanso, S.A.	Manufacturing	Getafe - Spain	—	19.16	66,071	58,387	6,186	—	365,595	50,930	36,123	—
Murcia Emprende, S.C.R. de R.S., S.A.	Other financial services	Murcia - Spain	28.70	—	2,557	910	(182)	—	3,340	2,026	(910)	(173)
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	—	45.01	1,762	(15,237)	(11)	—	31,992	3,906	(3,114)	(792)
Portic Barcelona, S.A.	Data processing, hosting and related activities	Barcelona - Spain	25.00	—	291	1,841	25	—	2,391	5	548	(14)
SBD Creixent, S.A.	Real estate	Sabadell - Spain	23.05	—	5,965	(891)	256	—	6,030	3,524	(2,299)	4
Total								**21,561**		**219,544**	**120,189**	**118,811**

(*) Companies accounted for using the equity method as the Group does not have control over them but does have significant influence.

(**) See Note 1.4.

(a) Figures for foreign companies translated to euros at the historical exchange rate; amounts in the consolidated income statement translated at the average exchange rate.

(b) Results pending approval by Annual General Meeting of Shareholders and Partners.

(c) Includes supplementary dividends from previous year and interim dividends paid to Group.

(d) The heading "Reserves or accumulated losses of investments in joint ventures and associates" on the consolidated balance sheet as at 31 December 2023 also includes -65,353 thousand euros corresponding to Promontoria Challenger I, S.A., an entity classified as a non-current asset held for sale.

The balance of total revenue from associates consolidated by the equity method and individually considered to be non-material amounted to 621,313 thousand euros as at 31 December 2023. The balance of liabilities as at the end of 2023 amounted to 540,899 thousand euros.

Changes in the scope of consolidation in 2023

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
			Acquisition cost	Fair value of equity instruments issued for the acquisition					
Sydinia, S.L.	Associate	20/7/2023	113	—	50.00 %	50.00 %	Indirect	Equity method	a
Enerlan Solutions, S.L.	Associate	21/11/2023	274	—	19.00 %	19.00 %	Indirect	Equity method	a
Ingubide, S.L.	Associate	21/11/2023	152	—	19.00 %	19.00 %	Indirect	Equity method	a
Total newly consolidated subsidiaries			**—**						
Total newly consolidated associates			**539**						

(a) Acquisition of associates.

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
BanSabadell Financiación, E.F.C., S.A.	Subsidiary	10/10/2023	100.00 %	— %	—	Direct	Full consolidation	b
Business Services for Operational Support, S.A.U.	Subsidiary	19/1/2023	100.00 %	— %	43	Direct	Full consolidation	a
Duncan de Inversiones S.I.C.A.V., S.A. in liquidation	Subsidiary	11/1/2023	99.81 %	— %	—	Direct	Full consolidation	a
Galeban 21 Comercial, S.L	Subsidiary	18/10/2023	100.00 %	— %	64	Direct	Full consolidation	a
Sabadell Innovation Cells, S.L.U.	Subsidiary	28/9/2023	100.00 %	— %	121	Direct	Full consolidation	a
Compañía de Cogeneración del Caribe Dominicana, S.A.	Subsidiary	15/2/2023	100.00 %	— %	312	Indirect	Full consolidation	a
Fuerza Eólica De San Matías, S. de R.L. de C.V.	Subsidiary	15/12/2023	100.00 %	— %	11,892	Indirect	Full consolidation	c
Urumea Gestión, S.L. in liquidation	Subsidiary	28/12/2023	100.00 %	— %	—	Indirect	Full consolidation	a
Other					(4,237)			
Total					**8,195**			

(a) Removed from the scope due to dissolution and/or liquidation.

(b) Removed from the scope due to merger by absorption.

Banco Sabadell Group companies as at 31 December 2022 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding Direct	% Shareholding Indirect	Company data Capital	Other equity	Profit/(loss)	Dividends paid	Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
Aurica Coinvestments, S.L.	Holding	Barcelona - Spain	—	61.76	50,594	(853)	1,880	1,043	51,651	50,594	(5,050)	(10,045)
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	1,598	825	(31)	—	3,155	2,439	(403)	(32)
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	—	—	703,371	10,009,080	740,551	—	195,620,963	—	12,573,535	593,675
Banco Sabadell, S.A., Institución de Banca Múltiple	Credit institution	Mexico City - Mexico	99.99	0.01	573,492	(16,619)	12,599	—	4,789,408	618,750	(78,166)	(12,409)
BanSabadell Factura, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	100	381	432	—	1,150	799	(318)	432
BanSabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell - Spain	100.00	—	24,040	12,856	683	—	571,813	24,040	12,856	683
BanSabadell Inversió Desenvolupament, S.A.U.	Holding	Barcelona - Spain	100.00	—	16,975	99,786	71,235	—	214,258	108,828	70,161	3,196
Bansabadell Mediación, Operador de Banca-Seguros Vinculado del Grupo Banco Sabadell, S.A.	Other regulated companies	Alicante - Spain	—	100.00	301	60	7,244	8,232	53,073	524	(1,597)	6,437
Bitarte, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	6,506	(2,176)	(113)	—	4,325	9,272	(4,488)	(93)
BStartup 10, S.L.U.	Holding	Barcelona - Spain	—	100.00	1,000	4,107	(315)	—	11,232	1,000	(999)	(169)
Business Services for Operational Support, S.A.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	—	—	—	—	51	—	(8,726)	2,825
Compañía de Cogeneración del Caribe Dominicana, S.A.	Power generation	Santo Domingo - Dominican Republic	—	100.00	5,016	(4,581)	—	—	454	—	(312)	—
Crisae Private Debt, S.L.U.	Other ancillary activities	Barcelona - Spain	—	100.00	3	181	104	—	352	200	(16)	103
Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. in liquidation	Real estate	Elche - Spain	—	100.00	1,942	(89,826)	(45)	—	3	1,919	(89,803)	(45)
Duncan de Inversiones S.I.C.A.V., S.A. en Liquidación	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	99.81	—	7,842	(7,787)	(55)	—	18	—	(345)	(55)
Duncan Holdings 2022-1 Limited	Holding	London - United Kingdom	—	100.00	1	—	—	—	1	—	—	5,993
Ederra, S.A.	Real estate	San Sebastián - Spain	97.85	—	2,036	34,085	371	—	36,563	36,062	(398)	363
ESUS Energía Renovable, S.L.	Power generation	Vigo - Spain	—	90.00	50	(1,279)	(173)	—	2,975	23	(1,361)	(297)
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other ancillary activities	Alicante - Spain	100.00	—	1,232	2,913	1,017	—	6,820	2,771	1,962	1,247
Fuerza Eólica De San Matías, S. de R.L. de C.V.	Power generation	Monterrey - Mexico	—	99.99	8,144	(14,919)	(7,095)	—	53,496	5,951	(10,502)	(6,497)
Galeban 21 Comercial, S.L.U.	Services	A Coruña - Spain	100.00	—	10,000	(4,292)	(6)	—	5,702	14,477	(8,769)	(6)
Gazteluberri, S.L.	Real estate	Sant Cugat del Vallès - España	—	100.00	53	(20,789)	(7)	—	1,672	23,891	(44,627)	(7)
Gest 21 Inmobiliaria, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	7,810	1,108	33	—	8,958	80,516	(46,727)	38
Gestión Financiera del Mediterráneo, S.A.U.	Other financial services	Alicante - Spain	100.00	—	13,000	2,573	8,211	12,875	23,963	66,787	(42,959)	1,269
Gier Operations 2021, S.L.U.	Other ancillary activities	Andorra - Andorra	100.00	—	730	—	(9)	—	722	730	—	(9)

Banco Sabadell Group companies as at 31 December 2022 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			
Guipuzcoano Promoción Empresarial, S.L.	Holding	San Sebastián - Spain	—	100.00	53	(75,662)	(1,447)	—	5,307	7,160	(82,761)	(1,447)
Hobalear, S.A.U.	Real estate	Barcelona - Spain	—	100.00	60	72	7	—	141	414	72	7
Hondarriberri, S.L.	Holding	San Sebastián - Spain	99.99	0.01	41	63,158	(54,168)	—	10,037	165,669	95,440	(2,092)
Hotel Management 6 Gestión Activa, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	135,730	28,269	(54)	—	163,945	136,335	50,335	(40)
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	—	100.00	29,074	(24,133)	(15)	—	61,579	27,611	(22,671)	(15)
Interstate Property Holdings, LLC.	Holding	Miami - United States	100.00	—	7,293	(977)	51	—	6,387	3,804	7,849	51
Inverán Gestión, S.L. en Liquidación	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	90	(80)	(15)	—	52	45,090	(45,081)	(15)
Inversiones Cotizadas del Mediterráneo, S.L.	Holding	Alicante - Spain	100.00	—	308,000	195,644	10,690	—	1,005,403	589,523	(83,787)	10,733
Manston Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	33,357	(13,595)	(93)	—	19,939	33,357	(13,595)	(93)
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	62	(11,590)	(8)	—	3,882	109,529	(121,057)	(8)
Mediterráneo Sabadell, S.L.	Holding	Alicante - Spain	50.00	50.00	85,000	16,528	(217)	—	101,314	510,829	(409,000)	(217)
Paycomet, S.L.U.	Payment institution	Torrelodones - Spain	—	100.00	200	726	802	—	24,335	9,205	234	787
Puerto Pacific Vallarta, S.A. de C.V.	Real estate	Mexico City - Mexico	—	100.00	28,947	(16,488)	338	—	12,798	29,164	(11,951)	(314)
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	—	20	272	124	—	458,163	593	(301)	124
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	—	3	20	(6)	—	402,936	53	(30)	(6)
Sabadell Consumer Finance, S.A.U.	Credit institution	Sabadell - Spain	100.00	—	35,720	77,380	17,857	—	1,888,124	72,232	45,790	17,857
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	—	100.00	12,036	20,653	169	—	33,228	41,296	(8,332)	169
Sabadell Information Systems, S.A.U.	Provision of technology services	Sabadell - Spain	100.00	—	40,243	60,832	48,796	—	1,387,578	143,695	(47,700)	47,463
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	1,000	11,030	(1,129)	—	53,491	1,000	(8,152)	783
Sabadell Innovation Cells, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	755	155	—	1,354	3,203	(3,361)	528
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	30,116	795,988	(1,029)	—	828,149	863,895	(27,970)	(10,850)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	100,060	234,204	(190)	—	334,467	500,622	(166,358)	(190)
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	15,807	157,455	(19,168)	—	1,081,488	4,748,442	(4,552,614)	(20,796)
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	2,073	730	(6,068)	—	7,521	17,792	(14,990)	(6,068)
Sabadell Securities USA, Inc.	Other financial services	Miami - United States	100.00	—	551	6,200	265	—	7,219	551	5,412	280
Sabadell Strategic Consulting, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	488	176	—	1,266	3	488	176
Sabadell Venture Capital, S.L.U.	Holding	Barcelona - Spain	—	100.00	3	13,942	3,275	—	69,559	3	4,833	3,983
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico City - Mexico	49.00	51.00	164,828	69,276	44,696	—	1,618,240	154,568	80,389	44,679

Banco Sabadell Group companies as at 31 December 2022 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			
Sinia Capital, S.A. de C.V.	Holding	Mexico City - Mexico	—	100.00	20,830	10,230	6,899	—	84,776	20,140	5,448	7,391
Sinia Renovables, S.A.U.	UCITS, funds and similar financial corporations	Barcelona - Spain	100.00	—	15,000	2,318	(446)	—	117,076	15,000	3,885	211
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.	Real estate	Alicante - Spain	100.00	—	3	9,963	101	—	11,380	3	11,559	101
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	60,729	(11,704)	(122)	—	49,390	60,729	(11,705)	(122)
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	(2,850)	—
Tenedora de Inversiones y Participaciones, S.L.	Holding	Alicante - Spain	100.00	—	296,092	(128,603)	(532)	—	345,066	2,975,977	(2,738,513)	(1,336)
TSB Bank PLC	Credit institution	Edinburgh - United Kingdom	—	100.00	90,710	1,967,452	111,939	78,531	55,752,618	1,814,636	329,136	99,938
TSB Banking Group PLC	Holding	London - United Kingdom	100.00	—	7,028	1,764,655	80,586	—	3,001,958	2,200,560	(227,995)	(39,268)
TSB Banking Group plc Employee Share Trust	Other ancillary activities	Saint Helier - Jersey	—	100.00	1	(13,106)	(56)	—	343	—	(12,896)	—
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	15	4	—	67	—	17	4
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	100.00	—	3,606	4,858	1,257	4,213	13,822	3,084	5,380	1,257
Urumea Gestión, S.L. en Liquidación	Other ancillary activities	San Sebastián - Spain	—	100.00	9	(14)	—	—	—	9	(14)	—
VeA Rental Homes , S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	5,000	1,358	(1,580)	—	36,383	22,000	(15,642)	(1,580)
Venture Debt SVC, S.L.U.	Holding	Barcelona - Spain	—	100.00	3	—	—	—	2,578	3	—	—
Total								**104,894**		**16,382,618**	**4,329,889**	**738,662**

Banco Sabadell Group companies as at 31 December 2022 accounted for using 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 (d)	Contribution to Group consolidated profit/(loss) (e)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Aurica III, Fondo de Capital Riesgo	UCITS, funds and similar financial corporations	Barcelona - Spain	—	47.50	51,130	(46,881)	69,348	36,612	75,249	24,318	(1,337)	9,743
Aurica IIIB, S.C.R., S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	—	42.85	34,557	(56,273)	71,330	22,320	50,765	14,837	199	4,881
BanSabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	—	7,813	34,569	(740)	—	45,833	40,378	(18,544)	(370)
BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	10,000	78,476	21,390	6,000	308,357	34,000	15,585	12,379
BanSabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	43,858	437,575	117,961	60,000	8,808,926	27,106	(11,734)	94,103
Doctor Energy Central Services, S.L.	Other business management consulting activities	Granollers - Spain	—	24.99	125	(57)	(127)	—	278	50	(33)	(17)
Catalana de Biogás Iberia, S.L.	Power generation	Barcelona - Spain	—	24.90	10	(1)	1	—	1	2	—	—
Parque Eólico Casa Vieja S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Parque Eólico Villaumbrales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Parque Eólico Perales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Parque Eólico Los Pedrejones S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Energíes Renovables Terra Ferma, S.L.	Power generation	Barcelona - Spain	—	50.00	6	(65)	(9)	—	1,928	3	(3)	—
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	—	38,288	13,710	7,579	2,514	102,654	19,144	3,416	3,163
Flex Equipos de Descanso, S.A.	Manufacturing	Getafe - Spain	—	19.16	66,071	66,817	10,262	—	261,388	50,930	11,829	26,210
Murcia Emprende, S.C.R. de R.S., S.A.	Other financial services	Murcia - Spain	28.70	—	2,557	(594)	1,925	—	1,962	2,026	(1,441)	531
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	—	45.01	3	(15,303)	8	—	31,981	3,114	(3,114)	—
Portic Barcelona, S.A.	Data processing, hosting and related activities	Barcelona - Spain	25.00	—	291	1,812	108	—	2,447	5	539	9
SBD Creixent, S.A.	Real estate	Sabadell - Spain	23.05	—	5,965	(1,073)	421	—	5,571	3,524	(2,397)	98
Total								**127,446**		**220,505**	**(7,095)**	**150,730**

(*) 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 translated to euros at the historical exchange rate; amounts in the consolidated income statement translated at the average exchange rate.

(b) Results pending approval by Annual General Meeting of Shareholders and Partners.

(c) Includes supplementary dividends from previous year and interim dividends paid to Group.

(d) The heading "Reserves or accumulated losses of investments in joint ventures and associates" on the consolidated balance sheet as at 31 December 2022 also includes -65,353 thousand euros corresponding to Promontoria Challenger I, S.A., an entity classified as a non-current asset held for sale.

The balance of total revenue from associates consolidated by the equity method and individually considered to be non-material amounted to 561,496 thousand euros as at 31 December 2022. The balance of liabilities as at the end of 2022 amounted to 439,403 thousand euros.

Changes in the scope of consolidation in 2022

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: Acquisition cost	Fair value of equity instruments issued for the acquisition: Fair value of equity instruments issued for the acquisition	% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
Catalana de Biogás Iberia, S.L.	Associate	25/4/2022	2	—	24.90 %	24.90 %	Indirect	Equity method	a
Duncan Holdings 2022-1 Limited	Subsidiary	29/3/2022	1	—	100.00 %	100.00 %	Indirect	Full consolidation	b
Gier Operations 2021, S.L.U.	Subsidiary	21/2/2022	730	—	100.00 %	100.00 %	Direct	Full consolidation	b
Total newly consolidated subsidiaries			**731**						
Total newly consolidated associates			**2**						

(a) Acquisition of subsidiaries.

(b) Change in consolidation method.

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Inversiones en Resorts Mediterráneos, S.L. in liquidation	Subsidiary	20/1/2022	55.06 %	— %	(800)	Indirect	Full consolidation	a
Aurica Capital Desarrollo, S.G.E.I.C., S.A.	Associate	29/7/2022	20.00 %	— %	2,585	Direct	Equity method	b
Europea Pall Mall Ltd.	Subsidiary	15/7/2022	100.00 %	— %	(32)	Direct	Full consolidation	b
Gestora de Aparcamientos del Mediterráneo, S.L. in liquidación	Associate	5/5/2022	40.00 %	— %	—	Indirect	Equity method	a
Plataforma de Innovación Sabadell, S.L.U.	Subsidiary	11/7/2022	100.00 %	— %	—	Direct	Full consolidation	a
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Subsidiary	30/8/2022	100.00 %	— %	(733)	Direct	Full consolidation	a
Sabadell Corporate Finance, S.L.U.	Subsidiary	22/6/2022	100.00 %	— %	(2)	Direct	Full consolidation	a
Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L. in liquidation	Subsidiary	14/12/2022	100.00 %	— %	(24)	Direct	Full consolidation	a
Atrian Bakers, S.L.	Associate	28/12/2022	22.41 %	— %	1,833	Indirect	Equity method	b
Solvia Servicios Inmobiliarios, S.L.	Associate	2/12/2022	20.00 %	— %	4,092	Direct	Equity method	b
LSP Finance, S.L.U. in liquidation	Subsidiary	28/10/2022	100.00 %	— %	(10)	Indirect	Full consolidation	a
Other					2,711			
Total					**9,620**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

Schedule II – Structured entities - Securitisation funds

Thousand euro

Year	Securitisation funds fully retained on the balance sheet	Entity	Total securitised assets as at 31/12/2023	Of which: issued via mortgage transfer certificates (*)	Of which: issued via mortgage participations (*)
2005	TDA CAM 4 F.T.A	Banco CAM	83,578	13,608	69,352
2005	TDA CAM 5 F.T.A	Banco CAM	233,752	67,851	164,564
2006	TDA 26-MIXTO, F.T.A	Guipuzcoano	36,380	1,303	34,678
2006	TDA CAM 6 F.T.A	Banco CAM	171,009	73,797	95,552
2006	FTPYME TDA CAM 4 F.T.A	Banco CAM	52,644	41,118	—
2006	TDA CAM 7 F.T.A	Banco CAM	269,629	113,981	153,700
2006	CAIXA PENEDES 1 TDA, FTA	BMN- Penedés	97,182	21,103	75,933
2007	TDA 29, F.T.A	Guipuzcoano	52,988	5,593	46,625
2007	TDA CAM 8 F.T.A	Banco CAM	242,268	63,614	176,747
2007	TDA CAM 9 F.T.A	Banco CAM	255,472	95,129	159,434
2007	CAIXA PENEDES PYMES 1 TDA, FTA	BMN- Penedés	16,654	15,534	—
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	BMN- Penedés	29,668	29,161	—
2009	GAT-ICO-FTVPO 1, F.T.H (CP)	BMN- Penedés	736	—	736
2017	TDA SABADELL RMBS 4, FT	Banco Sabadell	3,383,327	3,380,614	—
2022	SABADELL CONSUMO 2 FDT	Banco Sabadell	438,863	—	—
Total			**5,364,150**	**3,922,406**	**977,321**

(*) Corresponds to the allocation at source of loans when mortgage transfer certificates and mortgage participations were issued.

Thousand euro

Year	Securitisation funds fully derecognised from the balance sheet	Entity	Total securitised assets as at 31/12/2023	Of which: issued via mortgage transfer certificates (*)	Of which: issued via mortgage participations (*)
2010	FPT PYMES 1 LIMITED	Banco CAM	212,141	87,703	23,921
2019	SABADELL CONSUMO 1, FT	Banco Sabadell	128,154	—	—
Total			**340,295**	**87,703**	**23,921**

(*) Corresponds to the allocation at source of loans when mortgage transfer certificates and mortgage participations were issued.

Schedule III – Details of outstanding issues and subordinated liabilities

Debt securities in issue

The breakdown of the Bank's issues as at 31 December 2023 and 2022 is as follows:

Thousand euro

Issuer	Issue date	Amount		Interest rate ruling as at 31/12/2023	Maturity/call date	Issue currency	Target of offering
		31/12/2023	31/12/2022				
Banco de Sabadell, S.A.	05/12/2017	—	1,000,000	0.875%	05/03/2023	Euro	Institutional
Banco de Sabadell, S.A.	26/02/2018	—	4,000	MAX(EURIBOR 3M; 0.4%)	27/02/2023	Euro	Retail
Banco de Sabadell, S.A.	16/03/2018	6,000	6,000	MAX(EURIBOR 3M; 0.67%)	17/03/2025	Euro	Retail
Banco de Sabadell, S.A.	03/04/2018	—	6,000	MAX(EURIBOR 3M; 0.4%)	03/04/2023	Euro	Retail
Banco de Sabadell, S.A.	31/05/2018	—	3,000	MAX(EURIBOR 3M; 0.3%)	31/05/2023	Euro	Retail
Banco de Sabadell, S.A.	07/09/2018	750,000	750,000	1.625%	07/03/2024	Euro	Institutional
Banco de Sabadell, S.A.	14/11/2018	—	1,000	MAX(EURIBOR 3M; 1.1%)	14/11/2023	Euro	Retail
Banco de Sabadell, S.A.	14/11/2018	2,500	2,500	MAX(EURIBOR 3M; 1.5%)	14/11/2025	Euro	Retail
Banco de Sabadell, S.A.	10/05/2019	419,600	1,000,000	1.750%	10/05/2024	Euro	Institutional
Banco de Sabadell, S.A.	22/07/2019	1,000,000	1,000,000	0.875%	22/07/2025	Euro	Institutional
Banco de Sabadell, S.A.	27/09/2019	500,000	500,000	1.125%	27/03/2025	Euro	Institutional
Banco de Sabadell, S.A. (*)	07/11/2019	500,000	500,000	0.625%	07/11/2024	Euro	Institutional
Banco de Sabadell, S.A. (*)	11/09/2020	500,000	500,000	1.125%	11/03/2026	Euro	Institutional
Banco de Sabadell, S.A. (*)	16/06/2021	500,000	500,000	0.875%	16/06/2027	Euro	Institutional
Banco de Sabadell, S.A.	29/11/2021	67,000	67,000	MAX(EURIBOR 12M; 0.77%)	30/11/2026	Euro	Institutional
Banco de Sabadell, S.A. (*)	24/03/2022	750,000	750,000	2.625%	24/03/2025	Euro	Institutional
Banco de Sabadell, S.A.	30/03/2022	120,000	120,000	3.150%	30/03/2037	Euro	Institutional
Banco de Sabadell, S.A. (*)	08/09/2022	500,000	500,000	5.375%	08/09/2025	Euro	Institutional
Banco de Sabadell, S.A.	02/11/2022	750,000	750,000	5.125%	10/11/2027	Euro	Institutional
Banco de Sabadell, S.A. (*)	23/11/2022	75,000	75,000	5.500%	23/11/2031	Euro	Institutional
Banco de Sabadell, S.A. (*)	07/02/2023	750,000	—	5.250%	07/02/2028	Euro	Institutional
Banco de Sabadell, S.A. (*)	07/06/2023	750,000	—	5.000%	07/06/2028	Euro	Institutional
Banco de Sabadell, S.A. (*)	08/09/2023	750,000	—	5.500%	8/9/2028	Euro	Institutional
Subscribed by Group companies		—	(25,000)				
Total straight bonds		**8,690,100**	**8,009,500**				

(*) "Maturity/call date" refers to the first call option.

Thousand euro

Issuer	Issue date	Amount		Interest rate ruling as at 31/12/2023	Maturity date	Issue currency	Target of offering
		31/12/2023	31/12/2022				
Banco de Sabadell, S.A.	14/07/2014	10,000	10,000	Underlying benchmark	15/07/2024	Euro	Retail
Banco de Sabadell, S.A.	05/11/2018	10,000	10,000	Underlying benchmark	01/04/2025	Euro	Retail
Banco de Sabadell, S.A.	12/11/2018	3,200	3,200	Underlying benchmark	01/04/2025	Euro	Retail
Banco de Sabadell, S.A.	03/06/2022	8,900	8,900	MAX (EURIBOR 12M; 2.75%)	03/06/2027	Euro	Institutional
Banco de Sabadell, S.A.	01/08/2022	9,200	9,200	MAX (EURIBOR 12M; 4%)	02/08/2027	Euro	Institutional
Total structured bonds		**41,300**	**41,300**				

Thousand euro

Issuer	Issue date	Amount		Average interest rate	Maturity date	Issue currency	Target of offering
		31/12/2023	31/12/2022	31/12/2023			
Banco de Sabadell, S.A. (*)	10/05/2022	2,125,763	1,445,701	0.00%	Various	Euro	Institutional
Total commercial paper		**2,125,763**	**1,445,701**				

(*) 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	Issue date	Amount		Interest rate ruling as at 31/12/2023	Maturity date	Issue currency	Target of offering
		31/12/2023	31/12/2022				
Banco de Sabadell, S.A.	03/10/2014	—	38,000	EURIBOR 3M + 0.68	03/10/2023	Euro	Institutional
Banco de Sabadell, S.A.	04/05/2015	—	250,000	EURIBOR 3 M + 0.13	04/05/2023	Euro	Institutional
Banco de Sabadell, S.A.	03/07/2015	—	50,000	EURIBOR 3 M + 0.20	03/07/2023	Euro	Institutional
Banco de Sabadell, S.A.	26/01/2016	550,000	550,000	EURIBOR 3M + 0.80	26/01/2024	Euro	Institutional
Banco de Sabadell, S.A.	24/05/2016	50,000	50,000	EURIBOR 3M + 0.535	24/05/2024	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2016	1,000,000	1,000,000	0.63%	10/06/2024	Euro	Institutional
Banco de Sabadell, S.A.	20/10/2016	—	1,000,000	0.13%	20/10/2023	Euro	Institutional
Banco de Sabadell, S.A.	29/12/2016	250,000	250,000	0.97%	27/12/2024	Euro	Institutional
Banco de Sabadell, S.A.	26/04/2017	1,100,000	1,100,000	1.00%	26/04/2027	Euro	Institutional
Banco de Sabadell, S.A.	21/07/2017	500,000	500,000	0.89%	21/07/2025	Euro	Institutional
Banco de Sabadell, S.A.	21/12/2018	390,000	390,000	1.09%	21/12/2026	Euro	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	750,000	EURIBOR 12M + 0.074	20/12/2024	Euro	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	750,000	EURIBOR 12M + 0.104	22/12/2025	Euro	Institutional
Banco de Sabadell, S.A.	20/01/2020	1,000,000	1,000,000	0.13%	10/02/2028	Euro	Institutional
Banco de Sabadell, S.A.	23/06/2020	1,500,000	1,500,000	EURIBOR 12M + 0.080	23/06/2025	Euro	Institutional
Banco de Sabadell, S.A.	30/03/2021	1,000,000	1,000,000	EURIBOR 12M + 0.018	30/03/2026	Euro	Institutional
Banco de Sabadell, S.A.	08/06/2021	1,000,000	1,000,000	EURIBOR 12M + 0.012	08/06/2026	Euro	Institutional
Banco de Sabadell, S.A.	08/06/2021	1,000,000	1,000,000	EURIBOR 12M + 0.022	08/06/2027	Euro	Institutional
Banco de Sabadell, S.A.	21/01/2022	1,500,000	1,500,000	EURIBOR 12M + 0.010	21/09/2027	Euro	Institutional
Banco de Sabadell, S.A.	30/05/2022	1,000,000	1,000,000	1.75%	30/05/2029	Euro	Institutional
Banco de Sabadell, S.A.	12/12/2022	500,000	500,000.00	EURIBOR 12M + 0.140	12/06/2028	Euro	Institutional
Banco de Sabadell, S.A.	21/12/2022	500,000	500,000	EURIBOR 3M + 0.600	20/12/2030	Euro	Institutional
Banco de Sabadell, S.A.	28/02/2023	1,000,000	—	3.50%	28/08/2026	Euro	Institutional
Banco de Sabadell, S.A.	21/12/2023	200,000	—	EURIBOR 3M + 0.77	28/8/2026	Euro	Institutional
Subscribed by Group companies		(8,065,000)	(8,115,000)				
Total mortgage covered bonds		**7,475,000**	**7,563,000**				

Subordinated liabilities

Subordinated liabilities issued by the Bank as at 31 December 2023 and 2022 are as follows:

Thousand euro

Issuer	Issue date	Amount		Interest rate ruling as at 31/12/2023	Maturity/call date	Issue currency	Target of offering
		31/12/2023	31/12/2022				
Banco de Sabadell, S.A.	06/05/2016	500,000	500,000	5.625%	06/05/2026	Euro	Institutional
Banco de Sabadell, S.A. (*)	12/12/2018	—	500,000	5.375%	12/12/2023	Euro	Institutional
Banco de Sabadell, S.A. (*)	17/01/2020	300,000	300,000	2.000%	17/01/2025	Euro	Institutional
Banco de Sabadell, S.A. (*)	15/01/2021	500,000	500,000	2.500%	15/04/2026	Euro	Institutional
Banco de Sabadell, S.A.	16/02/2023	500,000	—	6.000%	16/05/2028	Euro	Institutional
Total subordinated bonds		**1,800,000**	**1,800,000**				

(*) "Maturity/call date" refers to the first call option.

Thousand euro

Issuer	Issue date	Amount		Interest rate ruling as at 31/12/2023	Maturity/call date	Issue currency	Target of offering
		31/12/2023	31/12/2022				
Banco de Sabadell, S.A. (*)	23/11/2017	—	400,000	6.125%	23/2/2023	Euro	Institutional
Banco de Sabadell, S.A. (*)	15/03/2021	500,000	500,000	5.750%	15/9/2026	Euro	Institutional
Banco de Sabadell, S.A. (*)	19/11/2021	750,000	750,000	5.000%	19/11/2027	Euro	Institutional
Banco de Sabadell, S.A. (*)	18/01/2023	500,000	—	9.375%	18/7/2028	Euro	Institutional
Total preferred securities		**1,750,000**	**1,650,000**				

(*) Perpetual issue. "Maturity/call date" refers to date of first call option. 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.

Schedule IV – 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 2023 and 2022, respectively, is as follows:

Thousand euro

	2023							
				Secured 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	**8,879,167**	**23,776**	**393,229**	**18,369**	**6,621**	**42**	**857**	**391,116**
Other financial corporations and individual entrepreneurs (financial business activity)	**3,360,525**	**206,658**	**236,874**	**232,729**	**161,030**	**5,606**	**9,239**	**34,928**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**54,642,284**	**9,532,935**	**4,127,237**	**5,285,857**	**4,087,739**	**1,734,081**	**1,249,784**	**1,302,711**
Construction and real estate development (including land)	2,785,128	1,198,880	115,394	485,869	516,027	179,444	52,431	80,503
Civil engineering construction	1,005,165	26,668	43,482	39,612	8,729	2,981	5,465	13,363
Other purposes	50,851,991	8,307,387	3,968,361	4,760,376	3,562,983	1,551,656	1,191,888	1,208,845
Large enterprises	28,800,192	1,735,589	1,717,062	1,073,530	824,323	348,757	791,500	414,541
SMEs and individual entrepreneurs	22,051,799	6,571,798	2,251,299	3,686,846	2,738,660	1,202,899	400,388	794,304
Other households	**41,270,371**	**37,020,249**	**549,552**	**8,093,122**	**10,549,010**	**13,672,542**	**3,131,385**	**2,123,742**
Home loans	36,100,898	35,779,350	250,150	7,426,854	10,157,025	13,413,483	3,026,458	2,005,680
Consumer loans	2,225,033	40,182	98,490	33,245	26,146	27,913	16,605	34,763
Other purposes	2,944,440	1,200,717	200,912	633,023	365,839	231,146	88,322	83,299
TOTAL	**108,152,347**	**46,783,618**	**5,306,892**	**13,630,077**	**14,804,400**	**15,412,271**	**4,391,265**	**3,852,497**
MEMORANDUM ITEM Refinancing, refinanced and restructured transactions	**3,222,346**	**1,726,637**	**129,952**	**699,226**	**472,504**	**379,137**	**164,477**	**141,245**

Thousand euro

	2022							
				Secured loans. Carrying amount based on last available valuation. Loan to value				
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**10,068,930**	**27,806**	**404,416**	**21,478**	**8,006**	**—**	**906**	**401,832**
Other financial corporations and individual entrepreneurs (financial business activity)	**3,569,177**	**302,774**	**360,862**	**433,111**	**194,239**	**21,531**	**6,269**	**8,486**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**58,977,122**	**12,172,978**	**5,094,721**	**7,407,846**	**4,513,781**	**2,136,053**	**1,457,980**	**1,752,039**
Construction and real estate development (including land)	3,137,713	1,441,862	159,024	720,244	535,819	160,726	70,348	113,749
Civil engineering construction	965,826	25,764	148,284	140,080	11,224	2,729	973	19,042
Other purposes	54,873,583	10,705,352	4,787,413	6,547,522	3,966,738	1,972,598	1,386,659	1,619,248
Large enterprises	24,009,662	1,537,848	1,544,613	1,745,349	414,164	263,073	320,375	339,500
SMEs and individual entrepreneurs	30,863,921	9,167,504	3,242,800	4,802,173	3,552,574	1,709,525	1,066,284	1,279,748
Other households	**41,130,684**	**37,134,823**	**856,792**	**7,886,386**	**10,138,198**	**13,107,918**	**4,131,691**	**2,727,422**
Home loans	36,312,519	35,966,599	294,096	7,064,809	9,751,515	12,847,617	4,021,277	2,575,477
Consumer loans	1,978,387	41,627	146,775	33,157	26,694	46,646	27,288	54,617
Other purposes	2,839,778	1,126,597	415,921	788,420	359,989	213,655	83,126	97,328
TOTAL	**113,745,913**	**49,638,381**	**6,716,791**	**15,748,821**	**14,854,224**	**15,265,502**	**5,596,846**	**4,889,779**
MEMORANDUM ITEM Refinancing, refinanced and restructured transactions	**3,850,469**	**2,288,063**	**259,775**	**844,812**	**708,339**	**469,491**	**242,143**	**283,053**

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 provide guarantees (personal guarantees and/or pledges) which are additional to the mortgage guarantees already considered in the LTV ratio.

The outstanding balance of refinancing and restructuring transactions as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023							
	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)*	Other households	Total	Additional information: lending included under non-current assets and disposal groups classified as held for sale
TOTAL								
Not secured with collateral								
Number of transactions	—	12	65	28,615	*784*	17,735	**46,427**	8
Gross carrying amount	—	6,338	17,562	1,773,447	*72,421*	161,669	**1,959,016**	1,047
Secured with collateral								
Number of transactions	—	1	8	5,484	*272*	12,234	**17,727**	52
Gross carrying amount	—	75	179	1,347,259	*77,368*	913,369	**2,260,882**	5,802
Impairment allowances	—	429	15,005	693,739	*65,640*	288,379	**997,552**	4,815
Of which, non-performing loans								
Not secured with collateral								
Number of transactions	—	2	30	18,782	*548*	11,820	**30,634**	8
Gross carrying amount	—	630	16,249	1,001,701	*60,029*	93,622	**1,112,202**	1,047
Secured with collateral								
Number of transactions	—	1	4	3,195	*194*	6,351	**9,551**	52
Gross carrying amount	—	75	150	579,368	*52,233*	600,573	**1,180,166**	5,803
Impairment allowances	—	429	14,969	629,810	*64,089*	266,454	**911,662**	4,815
TOTAL								
Number of transactions	—	13	73	34,099	*1,056*	29,969	**64,154**	60
Gross value	—	6,413	17,741	3,120,706	*149,789*	1,075,038	**4,219,898**	6,849
Impairment allowances	—	429	15,005	693,739	*65,640*	288,379	**997,552**	4,815

Thousand euro

	2022							
	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)*	Other households	Total	Additional information: lending included under non-current assets and disposal groups classified as held for sale
TOTAL								
Not secured with collateral								
Number of transactions	—	13	75	29,018	*797*	22,560	**51,666**	—
Gross carrying amount	—	8,115	24,422	1,721,574	*76,398*	171,035	**1,925,146**	—
Secured with collateral								
Number of transactions	—	1	11	7,900	*1,231*	11,782	**19,694**	—
Gross carrying amount	—	100	1,688	1,909,302	*107,095*	996,303	**2,907,393**	—
Impairment allowances	—	1,049	15,311	736,361	*71,371*	229,349	**982,070**	—
Of which, non-performing loans								
Not secured with collateral								
Number of transactions	—	10	33	14,244	*475*	13,410	**27,697**	—
Gross carrying amount	—	6,938	16,526	854,178	*60,858*	107,575	**985,217**	—
Secured with collateral								
Number of transactions	—	1	5	4,527	*1,125*	5,405	**9,938**	—
Gross carrying amount	—	100	218	855,755	*60,921*	556,027	**1,412,100**	—
Impairment allowances	—	864	15,173	665,609	*69,619*	206,234	**887,880**	—
TOTAL								
Number of transactions	—	14	86	36,918	*2,028*	34,342	**71,360**	—
Gross value	—	8,215	26,110	3,630,876	183,493	1,167,338	**4,832,539**	—
Impairment allowances	—	1,049	15,311	736,361	*71,371*	229,349	**982,070**	—

The value of the guarantees received to ensure collection associated with refinancing and restructuring transactions, broken down into collateral and other guarantees, as at 31 December 2023 and 2022, is as follows:

Thousand euro

Guarantees received	**2023**	**2022**
Value of collateral	1,855,681	2,401,641
Of which: securing stage 3 loans	*815,409*	*1,034,165*
Value of other guarantees	893,948	989,497
Of which: securing stage 3 loans	*404,497*	*337,084*
Total value of guarantees received	**2,749,629**	**3,391,138**

Detailed movements in the balance of refinancing and restructuring transactions during 2023 and 2022 are as follows:

Thousand euro

	2023	**2022**
Opening balance	**4,832,539**	**6,057,322**
(+) Forbearance (refinancing and restructuring) in the period	1,067,242	732,370
Memorandum item: impact recognised on the income statement for the period	*123,084*	*92,476*
(-) Debt repayments	(383,994)	(723,367)
(-) Foreclosures	(4,924)	(8,044)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(90,204)	(87,107)
(+)/(-) Other changes (*)	(1,200,761)	(1,138,635)
Year-end balance	**4,219,898**	**4,832,539**

(*) Includes transactions no longer classified as forborne (refinanced or restructured) loans, as they meet the requirements for their reclassification as performing (Stage 1) as they have completed the cure period.

The table below shows the value of transactions which, after refinancing or restructuring, were classified as stage 3 exposures during 2023 and 2022:

Thousand euro

	2023	**2022**
General governments	—	—
Other legal entities and individual entrepreneurs	**193,359**	**329,510**
Of which: Lending for construction and real estate development	*9,418*	*6,077*
Other natural persons	**92,250**	**60,366**
Total	**285,609**	**389,876**

The average probability of default on current refinancing and restructuring transactions broken down by activity as at 31 December 2023 and 2022 is as follows:

%

	2023	**2022**
General governments (*)	—	—
Other legal entities and individual entrepreneurs	**17**	**14**
Of which: Lending for construction and real estate development	*17*	*19*
Other natural persons	**19**	**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 2023.

Concentration risk

Geographical exposure

Global

The breakdown of risk concentration, by activity and at a global level, as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**39,416,318**	**25,499,906**	**6,318,395**	**2,361,147**	**5,236,870**
General governments	**30,493,042**	**24,179,787**	**4,767,470**	**1,542,286**	**3,499**
Central governments	21,333,745	15,268,815	4,519,320	1,542,125	3,485
Other	9,159,297	8,910,972	248,150	161	14
Other financial corporations and individual entrepreneurs	**8,265,630**	**3,060,806**	**84,325**	**1,520,197**	**3,600,302**
Non-financial corporations and individual entrepreneurs	**58,932,993**	**48,168,437**	**3,625,005**	**5,452,714**	**1,686,837**
Construction and real estate development	3,415,637	3,265,516	74,974	44,218	30,929
Civil engineering construction	1,106,055	776,127	14,205	240,774	74,949
Other purposes	54,411,301	44,126,794	3,535,826	5,167,722	1,580,959
Large enterprises	31,806,301	22,434,834	2,857,795	5,107,768	1,405,904
SMEs and individual entrepreneurs	22,605,000	21,691,960	678,031	59,954	175,055
Other households	**41,368,335**	**37,836,574**	**1,324,890**	**598,992**	**1,607,879**
Home loans	36,100,898	32,888,290	1,306,620	324,260	1,581,728
Consumer loans	2,225,033	2,206,858	7,319	2,433	8,423
Other purposes	3,042,404	2,741,426	10,951	272,299	17,728
TOTAL	**178,476,318**	**138,745,510**	**16,120,085**	**11,475,336**	**12,135,387**

Thousand euro

	2022				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**48,660,689**	**35,722,461**	**3,978,097**	**2,113,512**	**6,846,619**
General governments	**32,544,645**	**26,547,193**	**4,821,397**	**1,144,356**	**31,699**
Central governments	23,775,481	17,828,658	4,771,021	1,144,103	31,699
Other	8,769,164	8,718,535	50,376	253	—
Other financial corporations and individual entrepreneurs	**10,139,025**	**2,455,993**	**2,520,033**	**1,835,480**	**3,327,519**
Non-financial corporations and individual entrepreneurs	**63,858,188**	**53,157,822**	**3,386,051**	**5,522,060**	**1,792,255**
Construction and real estate development	3,260,757	3,131,257	54,640	25,299	49,561
Civil engineering construction	1,040,461	767,633	14,266	236,171	22,391
Other purposes	59,556,970	49,258,932	3,317,145	5,260,590	1,720,303
Large enterprises	28,055,326	20,015,257	1,845,000	4,983,615	1,211,454
SMEs and individual entrepreneurs	31,501,644	29,243,675	1,472,145	276,975	508,849
Other households	**41,229,115**	**37,717,099**	**1,193,172**	**595,615**	**1,723,229**
Home loans	36,312,519	33,177,731	1,170,385	271,741	1,692,662
Consumer loans	1,978,387	1,955,458	8,853	4,041	10,035
Other purposes	2,938,209	2,583,910	13,934	319,833	20,532
TOTAL	**196,431,662**	**155,600,568**	**15,898,750**	**11,211,023**	**13,721,321**

By autonomous community

The breakdown of risk concentration, by activity and at the level of Spanish autonomous communities, as at 31 December 2023 and 2022, respectively, is as follows:

Thousand euro

	2023									
	TOTAL	AUTONOMOUS COMMUNITIES								
		Andalusia	Aragon	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**25,499,906**	**5,410**	**—**	**—**	**—**	**—**	**670,043**	**—**	**—**	**1,577,939**
General governments	**24,179,787**	**578,710**	**241,671**	**381,166**	**343,768**	**664,383**	**3,215**	**135,071**	**1,043,140**	**760,577**
Central governments	15,268,815	—	—	—	—	—	—	—	—	—
Other	8,910,972	578,710	241,671	381,166	343,768	664,383	3,215	135,071	1,043,140	760,577
Other financial corporations and individual entrepreneurs	**3,060,806**	**2,782**	**1,758**	**1,986**	**1,286**	**608**	**150**	**491**	**32,822**	**197,466**
Non-financial corporations and individual entrepreneurs	**48,168,437**	**2,263,294**	**960,830**	**1,176,070**	**2,083,646**	**1,038,755**	**184,294**	**636,809**	**1,055,802**	**16,169,504**
Construction and real estate development	3,265,516	84,243	32,392	34,190	70,540	25,438	5,298	17,468	24,539	1,838,760
Civil engineering construction	776,127	24,615	12,107	18,725	5,653	4,146	2,883	8,684	12,627	136,796
Other purposes	44,126,794	2,154,436	916,331	1,123,155	2,007,453	1,009,171	176,113	610,657	1,018,636	14,193,948
Large enterprises	22,434,834	710,257	414,335	375,031	1,227,307	380,781	77,867	204,641	253,307	7,417,729
SMEs and individual entrepreneurs	21,691,960	1,444,179	501,996	748,124	780,146	628,390	98,246	406,016	765,329	6,776,219
Other households	**37,836,574**	**2,522,178**	**543,468**	**1,125,218**	**1,447,245**	**497,811**	**109,110**	**462,788**	**703,676**	**14,872,406**
Home loans	32,888,290	2,260,819	480,061	890,596	1,302,328	433,508	96,987	403,927	594,361	13,078,263
Consumer loans	2,206,858	122,282	28,370	93,946	69,813	36,586	5,191	30,378	49,379	784,478
Other purposes	2,741,426	139,077	35,037	140,676	75,104	27,717	6,932	28,483	59,936	1,009,665
TOTAL	**138,745,510**	**5,372,374**	**1,747,727**	**2,684,440**	**3,875,945**	**2,201,557**	**966,812**	**1,235,159**	**2,835,440**	**33,577,892**

Thousand euro

	2023								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**—**	**4,984**	**22,079,780**	**1**	**—**	**80,081**	**1,081,668**	**—**	**—**
General governments	**39,126**	**760,893**	**2,290,898**	**60,696**	**266,743**	**586,724**	**682,970**	**52,617**	**18,604**
Central governments	—	—	—	—	—	—	—	—	—
Other	39,126	760,893	2,290,898	60,696	266,743	586,724	682,970	52,617	18,604
Other financial corporations and individual entrepreneurs	**21,078**	**2,438**	**1,630,406**	**3,059**	**2,738**	**1,126,632**	**17,065**	**18,031**	**10**
Non-financial corporations and individual entrepreneurs	**117,830**	**1,985,974**	**12,489,791**	**989,310**	**491,835**	**4,375,260**	**1,979,080**	**153,562**	**16,791**
Construction and real estate development	2,139	89,728	813,881	26,778	9,548	139,160	42,655	7,811	948
Civil engineering construction	1,719	34,342	388,628	14,495	2,295	59,305	46,768	1,044	1,295
Other purposes	113,972	1,861,904	11,287,282	948,037	479,992	4,176,795	1,889,657	144,707	14,548
Large enterprises	21,433	612,673	7,265,280	286,334	248,726	1,897,426	988,186	53,364	157
SMEs and individual entrepreneurs	92,539	1,249,231	4,022,002	661,703	231,266	2,279,369	901,471	91,343	14,391
Other households	**126,503**	**887,106**	**4,904,229**	**2,059,113**	**159,379**	**5,980,732**	**1,282,546**	**67,945**	**85,121**
Home loans	113,058	739,180	4,330,340	1,715,650	132,805	5,012,629	1,167,233	57,450	79,095
Consumer loans	6,065	60,755	213,139	170,662	6,898	475,317	45,597	4,948	3,054
Other purposes	7,380	87,171	360,750	172,801	19,676	492,786	69,716	5,547	2,972
TOTAL	**304,537**	**3,641,395**	**43,395,104**	**3,112,179**	**920,695**	**12,149,429**	**5,043,329**	**292,155**	**120,526**

Thousand euro

	TOTAL	2022								
		AUTONOMOUS COMMUNITIES								
		Andalusia	Aragon	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**35,722,461**	**5,145**	**1**	**13**	**8**	**2**	**321,644**	**—**	**—**	**1,958,272**
General governments	**26,547,193**	**548,524**	**282,965**	**327,336**	**413,874**	**614,807**	**5,646**	**177,985**	**886,455**	**806,615**
Central governments	17,828,658	—	—	—	—	—	—	—	—	—
Other	8,718,535	548,524	282,965	327,336	413,874	614,807	5,646	177,985	886,455	806,615
Other financial corporations and individual entrepreneurs	**2,455,993**	**3,960**	**1,734**	**3,172**	**1,421**	**689**	**239**	**610**	**11,214**	**805,481**
Non-financial corporations and individual entrepreneurs	**53,157,822**	**2,403,668**	**1,074,060**	**1,354,114**	**2,103,980**	**1,129,040**	**202,875**	**667,933**	**1,181,788**	**17,577,684**
Construction and real estate development	3,131,257	97,474	38,811	43,796	73,749	25,553	7,609	16,082	33,632	1,444,300
Civil engineering construction	767,633	32,037	11,282	21,868	5,224	4,860	4,146	6,674	14,556	156,519
Other purposes	49,258,932	2,274,157	1,023,967	1,288,450	2,025,007	1,098,627	191,120	645,177	1,133,600	15,976,865
Large enterprises	20,015,257	620,602	380,078	383,019	939,637	285,252	72,987	185,712	233,434	6,811,424
SMEs and individual entrepreneurs	29,243,675	1,653,555	643,889	905,431	1,085,370	813,375	118,133	459,465	900,166	9,165,441
Other households	**37,717,099**	**2,498,175**	**536,946**	**1,142,255**	**1,421,342**	**482,578**	**107,949**	**457,513**	**721,572**	**14,762,149**
Home loans	33,177,731	2,262,070	481,365	917,983	1,292,532	428,342	96,231	403,058	615,566	13,092,220
Consumer loans	1,955,458	109,199	23,432	86,952	57,148	30,037	4,652	26,207	43,103	704,818
Other purposes	2,583,910	126,906	32,149	137,320	71,662	24,199	7,066	28,248	62,903	965,111
TOTAL	**155,600,568**	**5,459,472**	**1,895,706**	**2,826,890**	**3,940,625**	**2,227,116**	**638,353**	**1,304,041**	**2,801,029**	**35,910,201**

Thousand euro

	2022								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**—**	**11,345**	**32,841,465**	**2**	**—**	**95,218**	**489,346**	**—**	**—**
General governments	**73,251**	**660,025**	**2,075,230**	**53,136**	**308,543**	**693,533**	**709,949**	**56,001**	**24,660**
Central governments	—	—	—	—	—	—	—	—	—
Other	73,251	660,025	2,075,230	53,136	308,543	693,533	709,949	56,001	24,660
Other financial corporations and individual entrepreneurs	**64**	**3,548**	**1,471,985**	**3,294**	**488**	**124,348**	**16,601**	**7,130**	**15**
Non-financial corporations and individual entrepreneurs	**193,875**	**2,390,791**	**12,671,427**	**1,118,463**	**607,800**	**6,147,151**	**2,121,819**	**191,396**	**19,958**
Construction and real estate development	1,948	94,226	969,667	31,131	11,134	151,542	80,439	9,611	553
Civil engineering construction	2,174	43,328	336,020	14,633	3,006	60,242	47,909	2,279	876
Other purposes	189,753	2,253,237	11,365,740	1,072,699	593,660	5,935,367	1,993,471	179,506	18,529
Large enterprises	51,207	760,651	5,513,613	236,223	235,403	2,390,706	856,139	58,931	239
SMEs and individual entrepreneurs	138,546	1,492,586	5,852,127	836,476	358,257	3,544,661	1,137,332	120,575	18,290
Other households	**128,487**	**869,335**	**4,982,280**	**2,007,359**	**163,368**	**5,951,579**	**1,330,735**	**69,483**	**83,994**
Home loans	115,836	719,953	4,419,742	1,722,108	136,475	5,124,087	1,213,593	57,715	78,855
Consumer loans	5,774	55,763	212,248	144,153	7,420	393,692	42,554	5,610	2,696
Other purposes	6,877	93,619	350,290	141,098	19,473	433,800	74,588	6,158	2,443
TOTAL	**395,677**	**3,935,044**	**54,042,387**	**3,182,254**	**1,080,199**	**13,011,829**	**4,668,450**	**324,010**	**128,627**

Sectoral concentration

The breakdown by activity sector of loans and advances to non-financial corporations, as at 31 December 2023 and 2022, is shown below:

Thousand euro

	2023	
	Gross carrying amount	**Allowances**
Agriculture, livestock farming, forestry and fisheries	812,552	(41,432)
Mining and quarrying	384,785	(7,327)
Manufacturing	8,151,076	(262,063)
Electricity, gas, steam and air-conditioning supply	3,969,662	(44,653)
Water supply	329,557	(2,420)
Construction	4,529,931	(183,401)
Wholesale and retail trade	8,040,763	(297,237)
Transportation and storage	3,434,655	(74,410)
Hotel and catering	3,483,039	(124,144)
Information and communication	3,080,060	(29,838)
Financial and insurance activities	5,544,542	(153,386)
Real estate activities	5,513,919	(132,555)
Professional, scientific and technical activities	2,221,804	(87,137)
Administrative and auxiliary services	1,516,455	(36,844)
Public administration and defence; mandatory social security	452,009	(504)
Education	249,886	(9,961)
Healthcare and social services	919,051	(18,260)
Artistic, leisure and entertainment activities	396,503	(22,656)
Other services	278,917	(158,072)
TOTAL	**53,309,166**	**(1,686,300)**

Thousand euro

	2022	
	Gross carrying amount	**Allowances**
Agriculture, livestock farming, forestry and fisheries	835,080	(33,014)
Mining and quarrying	317,187	(7,116)
Manufacturing	9,170,143	(250,072)
Electricity, gas, steam and air-conditioning supply	4,240,866	(78,437)
Water supply	350,914	(3,236)
Construction	4,848,030	(199,788)
Wholesale and retail trade	8,381,271	(247,562)
Transportation and storage	3,532,812	(78,156)
Hotel and catering	3,661,130	(128,690)
Information and communication	2,852,443	(24,621)
Financial and insurance activities	5,203,621	(75,162)
Real estate activities	5,932,621	(129,958)
Professional, scientific and technical activities	2,287,155	(93,756)
Administrative and auxiliary services	2,092,543	(36,170)
Public administration and defence; mandatory social security	377,453	(661)
Education	296,800	(10,046)
Healthcare and social services	833,454	(11,899)
Artistic, leisure and entertainment activities	485,226	(69,884)
Other services	1,009,702	(124,525)
TOTAL	**56,708,451**	**(1,602,753)**

Sovereign risk exposure

Sovereign risk exposure, broken down by type of financial instrument, as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023										
	Sovereign debt securities						Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	16,760	(158,175)	—	2,688,937	12,565,360	9,837,201	2,860	(6,064)	24,946,879	—	80.2%
Italy	62,270	(9,798)	—	95,074	3,354,628	—	—	—	3,502,174	—	11.3%
United States	—	—	—	1,086,999	338,484	161	—	—	1,425,644	—	4.6%
United Kingdom	—	—	—	—	—	—	—	—	—	—	0.0%
Portugal	—	(27,347)	—	—	734,133	—	—	—	706,786	—	2.3%
Mexico	—	—	—	110,214	—	—	—	—	110,214	—	0.4%
Rest of the world	6,891	(134,321)	—	72,082	443,811	8,598	—	—	397,061	—	1.3%
Total	**85,921**	**(329,641)**	**—**	**4,053,306**	**17,436,416**	**9,845,960**	**2,860**	**(6,064)**	**31,088,758**	**—**	**100.0%**

(*) Sovereign risk positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (947 million euros at 31 December 2023).

(***) Relates to commitments for cash purchases and sales of financial assets.

Thousand euro

	2022										
	Sovereign debt securities						Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	6,434	(135,382)	—	3,163,014	13,289,970	11,113,244	1,798	(9,391)	27,429,687	—	82.3 %
Italy	20,284	(79,404)	—	—	3,013,221	—	—	—	2,954,101	—	8.9 %
United States	—	—	—	777,201	257,520	233	—	—	1,034,954	—	3.1 %
United Kingdom	—	—	—	—	—	6	—	—	6	—	0.0 %
Portugal	—	—	—	—	740,688	3,042	—	—	743,730	—	2.2 %
Mexico	—	—	—	99,400	—	5	—	—	99,405	—	0.3 %
Rest of the world	293,320	—	—	192,610	586,430	13,583	—	—	1,085,943	—	3.3 %
Total	**320,038**	**(214,786)**	**—**	**4,232,225**	**17,887,829**	**11,130,113**	**1,798**	**(9,391)**	**33,347,826**	**—**	**100.0 %**

(*) Sovereign risk positions shown in accordance with EBA criteria.

(**) Includes undrawn balances of credit transactions and other contingent risks (1,041 million euros as at 31 December 2022).

(***) 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 set out below. The lending items shown have been classified according to their intended purpose, rather than by the debtor's NACE code. This means, 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; alternatively, if the debtor is (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

	2023		
	Gross carrying amount	**Surplus above value of collateral**	**Impairment allowances (*)**
Lending for construction and real estate development (including land) (business in Spain)	**2,038**	**562**	**111**
Of which: non-performing	*169*	*92*	*94*

Million euro

	2022		
	Gross carrying amount	**Surplus above value of collateral**	**Impairment allowances (*)**
Lending for construction and real estate development (including land) (business in Spain)	**2,360**	**578**	**123**
Of which: non-performing	*189*	*82*	*97*

(*) 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***	**2023**	**2022**
Write-offs (*)	12	21

Million euro

Memorandum item	**2023**	**2022**
Loans to customers, excluding General Governments (business in Spain) (carrying amount)	90,082	94,258
Total assets (total business) (carrying amount)	179,946	195,621
Allowances and provisions for exposures classified as stage 2 or stage 1 (total operations)	718	710

(*) 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 2023	**Gross carrying amount 2022**
Not secured with real estate	**741**	**802**
Secured with real estate	**1,298**	**1,558**
Buildings and other completed works	627	772
Housing	466	567
Other	161	205
Buildings and other works in progress	615	654
Housing	590	621
Other	25	34
Land	56	132
Consolidated urban land	55	95
Other land	1	37
Total	**2,038**	**2,360**

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 below, for both periods:

Million euro

Guarantees received	2023	2022
Value of collateral	1,293	1,518
Of which: securing stage 3 loans	*44*	*66*
Value of other guarantees	315	347
Of which: securing stage 3 loans	*25*	*19*
Total value of guarantees received	**1,608**	**1,865**

The breakdown of loans to households for home purchase for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

	2023	
	Gross carrying amount	***Of which: stage 3 exposures***
Loans for home purchase	**35,271**	**872**
Not secured with real estate	603	*20*
Secured with real estate	34,668	*852*

Million euro

	2022	
	Gross carrying amount	***Of which: stage 3 exposures***
Loans for home purchase	**35,379**	**778**
Not secured with real estate	591	*29*
Secured with real estate	34,788	*749*

The tables below show home equity loans granted to households for home purchase broken down by the loan-to-value ratio (ratio of total risk to amount of last available property appraisal) of transactions recorded by credit institutions (business in Spain):

Million euro

	2023	
	Gross value	***Of which: non-performing***
LTV ranges	**34,668**	***852***
LTV <= 40%	*6,942*	*130*
40% < LTV <= 60%	*9,884*	*182*
60% < LTV <= 80%	*12,923*	*220*
80% < LTV <= 100%	*3,039*	*149*
LTV > 100%	*1,880*	*171*

Million euro

	2022	
	Gross value	***Of which: non-performing***
LTV ranges	**34,788**	**749**
LTV <= 40%	6,594	*117*
40% < LTV <= 60%	9,432	*153*
60% < LTV <= 80%	12,402	*192*
80% < LTV <= 100%	3,993	*130*
LTV > 100%	2,367	*157*

The table below gives details of assets foreclosed or received in lieu of debt by the Bank, for transactions recorded by credit institutions within Spain:

Million euro

	2023	
	Gross carrying amount	Allowances
Real estate assets acquired through lending for construction and real estate development	**197**	**44**
Completed buildings	181	38
Housing	109	23
Other	72	15
Buildings under construction	1	1
Housing	1	1
Other	—	—
Land	15	5
Developed land	7	2
Other land	8	3
Real estate assets acquired through mortgage lending to households for home purchase	**456**	**118**
Other real estate assets foreclosed or received in lieu of debt	**18**	**5**
Capital instruments foreclosed or received in lieu of debt	**8,631**	**7,929**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**951**	**—**
Financing to institutions holding assets foreclosed or received in lieu of debt	**—**	**—**
TOTAL	**10,253**	**8,096**

Million euro

	2022	
	Gross carrying amount	Allowances
Real estate assets acquired through lending for construction and real estate development	**237**	**55**
Completed buildings	218	47
Housing	131	29
Other	87	18
Buildings under construction	2	1
Housing	2	1
Other	—	—
Land	17	7
Developed land	8	3
Other land	9	4
Real estate assets acquired through mortgage lending to households for home purchase	**507**	**142**
Other real estate assets foreclosed or received in lieu of debt	**24**	**5**
Capital instruments foreclosed or received in lieu of debt	**—**	**—**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**8,625**	**7,870**
Financing to institutions holding assets foreclosed or received in lieu of debt	**1,133**	**2**
TOTAL	**10,526**	**8,074**

Schedule V – Detailed standalone income statement - Business in Spain for the 2023 and 2022 financial years (Statement FI 2.E)

Thousand euro

	2023	2022
Profit or (-) loss for the year	**915,720**	**591,205**
Profit or (-) loss after tax from continuing operations	**915,720**	**591,205**
Profit or (-) loss before tax from continuing operations	**1,193,824**	**792,053**
Total operating income, net	**4,077,404**	**3,584,684**
Interest income	5,447,416	2,884,034
Financial assets held for trading	15,902	1,524
Non-trading financial assets mandatorily at fair value through profit or loss	5,500	982
Financial assets designated at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	111,099	56,826
Financial assets at amortised cost	5,031,286	2,532,881
Derivatives - Hedge accounting, interest rate risk	246,459	44,948
Other assets	8,595	1,923
Interest income on liabilities	28,575	244,950
(Interest expenses)	(2,391,809)	(719,583)
(Financial liabilities held for trading)	(1)	—
(Financial liabilities designated at fair value through profit or loss)	—	—
(Financial liabilities at amortised cost)	(1,927,167)	(476,760)
(Derivatives - Hedge accounting, interest rate risk)	(452,640)	(130,665)
(Other liabilities)	(11,624)	—
(Interest expense on assets)	(377)	(112,158)
(Expenses on share capital repayable on demand)	—	—
Dividend income	134,782	104,496
Financial assets held for trading	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	1,964	1,777
Investments in subsidiaries, joint ventures and associates accounted for using the equity method and others	132,818	102,719
Fee and commission income	1,187,483	1,472,747
(Fee and commission expenses)	(65,135)	(215,987)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	9,103	(10,920)
Financial assets at fair value through other comprehensive income	(1,342)	11,157
Financial assets at amortised cost	6,312	(21,742)
Financial liabilities at amortised cost	4,133	(335)
Other	—	—
Gains or (-) losses on financial assets and liabilities held for trading, net	36,369	205,300
Gains or (-) losses on trading financial assets and liabilities, net	—	—
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	4,896	(3,625)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	—	—
Gains or (-) losses on financial assets and liabilities not held for trading, net	—	—
Gains or (-) losses from hedge accounting, net	14,445	13,006
Exchange differences [gain or (-) loss], net	(112,020)	(134,026)
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	—	—
Gains or (-) losses on derecognition of non-financial assets, net	(3,455)	25,360
Other operating income	44,012	50,175
(Other operating expenses)	(228,683)	(86,293)

	2023	2022
(Administrative expenses)	(1,740,579)	(1,639,559)
(Staff expenses)	(947,436)	(875,789)
(Other administrative expenses)	(793,143)	(763,770)
(Cash contributions to resolution funds and deposit guarantee schemes) (*)	(208,206)	(213,418)
(Depreciation and amortisation)	(159,158)	(185,604)
(Property, plant and equipment)	(141,813)	(158,182)
(Investment properties)	(3,521)	(2,607)
(Goodwill)	(13,636)	(24,700)
(Other intangible assets)	(188)	(115)
Modification gains or (-) losses, net	—	—
Financial assets at fair value through other comprehensive income	—	—
Financial assets at amortised cost	—	—
(Provisions or (-) reversal of provisions)	(12,683)	(64,380)
(Payment commitments to resolution funds and deposit guarantee schemes)	—	—
(Commitments and guarantees given)	6,677	7,017
(Other provisions)	(19,360)	(71,397)
(Increases or (-) decreases of the fund for general banking risks, net)	—	—
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	(673,608)	(719,779)
(Financial assets at fair value through other comprehensive income)	853	(182)
(Financial assets at amortised cost)	(674,461)	(719,597)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	(45,026)	62,371
(Impairment or (-) reversal of impairment on non-financial assets)	(905)	(10,573)
(Property, plant and equipment)	(1,369)	(1,991)
(Investment properties)	464	(8,582)
(Goodwill)	—	—
(Other intangible assets)	—	—
(Other)	—	—
Negative goodwill recognised in profit or loss	—	—
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	—	—
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(43,415)	(21,689)
(Tax expense or (-) income related to profit or loss from continuing operations)	(278,104)	(200,848)
Extraordinary profit or (-) loss, after tax	—	—
Extraordinary profit or loss, before tax	—	—
(Tax expense or (-) income related to extraordinary profit or loss)	—	—
Profit or (-) loss after tax from discontinued operations	—	—
Profit or (-) loss before tax from discontinued operations	—	—
(Tax expense or (-) income related to discontinued operations)	—	—
Attributable to minority interest [non-controlling interests]	—	—
Attributable to owners of the parent	915,720	591,205

Schedule VI - Information relating to the merger by absorption of Bansabadell Financiación, E.F.C. S.A.U. and Banco Sabadell, S.A., as required by Article 86.1 of Law 27/2014 on Corporation Tax

In fulfilment of the reporting obligations established in Article 86 of Law 27/2014 of 27 November on Corporation Tax (*Ley de Impuesto sobre Sociedades*, hereinafter LIS), information is provided here below regarding transactions subject to the tax regime of mergers, disposals, asset contributions and exchanges of securities, as required by Chapter VII of Title VII of the LIS, in which Banco de Sabadell, S.A. has been involved during 2023.

According to Article 86.1 of the LIS, it is hereby disclosed that Banco de Sabadell, S.A. was involved, acting in the capacity of acquirer, in a merger by absorption of Bansabadell Financiación E.F.C, S.A.U. by the company Banco de Sabadell, S.A., which is the holder of all interests acquired in the absorbed institution. This operation consisted of a merger regulated by Article 76.1.c) of the LIS. The information required by Article 86.1 of the LIS is provided here below.

a. Year in which the transferring institution acquired the depreciable/amortisable assets transferred.

BanSabadell Financiación, E.F.C., S.A.U. has no assets subject to depreciation/amortisation.

b. Most recently closed balance sheet of the transferring institution

The most recent balance sheet of the transferring institution is provided in Note 13 to these annual financial statements.

c. List of assets acquired and entered in the books at a value different from that at which they were recognised in the transferring institution’s books prior to conducting the operation, expressing both values and value adjustments entered in the books of both institutions.

No assets acquired at a value different from that at which they were recognised in the transferring institution’s books prior to conducting the operation have been added to the books.

d. List of tax benefits enjoyed by the transferring institution in relation to which the acquiring institution is required to meet certain requirements.

There are no tax benefits of the transferring institution for which Banco de Sabadell, S.A. is required to meet certain requirements.

Directors' Report
for the year ended
31 December 2023

1 – BANCO SABADELL GROUP

Banco de Sabadell, S.A. (hereinafter, also referred to as Banco Sabadell, the Bank, the Company, or the Institution), 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. It has been subject to prudential supervision on a consolidated basis by the European Central Bank (ECB) since November 2014.

The Bank is the parent company of a corporate group of entities whose activity it controls directly or indirectly and which comprise, together with the Bank, Banco Sabadell Group. Banco Sabadell comprises different financial institutions, brands, subsidiaries and investees that cover all aspects of financial business. It operates mainly in Spain, the United Kingdom and Mexico.

The Group was organised into the following businesses in 2023:

- Banking Business Spain groups together the Retail Banking, Business Banking and Corporate Banking business units, with individuals and businesses 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, leasing and rental services, as well as other short-term finance. Funds come mainly from customers' term and demand deposits, savings insurance, mutual funds and pension plans. The main services also include payment methods such as cards and various kinds of insurance products.

    - 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 custom structured finance and capital market solutions, as well as specialised advice for businesses. Funds mainly come from customers' term and demand deposits and mutual funds. The main services also include collection/payment solutions such as cards and PoS terminals, as well as import and export services. It also includes Private Banking, which offers personalised expert advice, backed by specialised and high-value product capabilities for our customers.

    - Corporate Banking: this unit is responsible for managing the segment of large corporations which, because of their unique characteristics, require a tailor-made service, supplementing the range of transaction banking products with the services of the specialised units, thus offering a single, all-encompassing solution to their needs, taking into account the particular features of the economic activity sector and the markets in which they operate. It has units that develop custom products for large corporations and financial institutions. The units responsible for the development of these custom products do so for the entire Banco Sabadell Group, extending their capabilities to the Corporate and Institutional Banking segment. Through its international presence in 17 countries, with representative offices and operational branches, it offers financial and advisory solutions to large Spanish and international corporations and financial institutions. It has branches operating in London, Paris, Lisbon, Casablanca and Miami.

- Banking Business UK: the TSB franchise covers business conducted in the United Kingdom, which includes current and savings accounts, loans, credit cards and mortgages.

- Banking Business Mexico: offers banking and financial services for Corporate Banking and Commercial Banking.

Banco Sabadell is the parent undertaking of a group of companies that, as at 31 December 2023, numbered a total of 83. Of these, aside from the parent company, 60 are considered subsidiaries and 22 are considered associates (as at 31 December 2022, there were 88 companies: the parent company, 68 subsidiaries and 19 associates).

1.1 Mission, values and business model

Mission and values

Banco Sabadell helps people and businesses bring their projects to life, anticipating their needs and helping them make the best economic decisions. It does this through environmentally and socially responsible management.

This is Banco Sabadell's raison d'être: to help its customers make the best economic decisions so that they may see their personal and/or business projects take shape. To that end, it gives customers the benefit of the opportunities offered by big data, digital capabilities and the expertise of its specialists.

The Bank and those who form part of it share the values that help to accomplish this mission, however, wherever and whenever that may be.

Banco Sabadell accomplishes its mission while staying true to its values:

- Commitment and Non-Conformism, values that define its way of being.
- Professionalism and Effectiveness, values that define its way of working.
- Empathy and Openness, values that define its way of interacting.

Business model, main objectives achieved and actions carried out

The Bank's business model is geared towards profitable growth that generates value for shareholders. This is achieved through a strategy of business diversification based on criteria related to profitability, sustainability, efficiency and quality of service, together with a conservative risk profile, while maintaining high standards of ethics and professional conduct combined with sensitivity to stakeholders' interests.

The Bank's management model focuses on a long-term vision of customers, through constant efforts to promote customer loyalty by adopting an initiative-based, proactive approach to the relationship through the various channels that the Bank's customers have at their disposal. The Bank offers a comprehensive range of products and services, qualified personnel, an IT platform with ample capacity to support future growth, and a relentless focus on quality.

Over the last twelve years, Banco Sabadell has expanded its geographical footprint in Spain and increased its market share with a series of acquisitions, the most significant of which was its acquisition of Banco CAM in 2012. In 2013, Banco Sabadell was able to undertake other corporate transactions as part of the restructuring of banks under suitable economic terms, such as the acquisition of the branch network of the former Caixa d'Estalvis del Penedès in Catalonia and Aragon, Banco Gallego and Lloyds' business in Spain.

As a result of these acquisitions and the organic growth of recent years, Banco Sabadell has strengthened its position in some of Spain's most prosperous regions (Catalonia, Valencia and the Balearic Islands) and it has also increased its market share in other key areas. According to the most recent information available, Banco Sabadell has a market share of 8% in loans and 7% in deposits at the domestic level. Banco Sabadell also has a good market share in other products, such as finance to non-financial companies with 9%, mutual funds with 5% and PoS turnover with 17%.

With regard to international business, Banco Sabadell has always been a benchmark. This has not changed in 2023 and Banco Sabadell continues to be present in strategic areas, supporting companies in their international activity. Over the last few years, Banco Sabadell has expanded its international footprint. The main milestones have been the acquisition of British bank TSB in 2015 and the creation of a bank in Mexico in 2016.

With these developments, the Group has become one of the largest financial institutions in Spain's financial system. It has a geographically diverse business (74% in Spain, 23% in the UK and 3% in Mexico) and its customer base is now six times larger than it was in 2008. It has achieved all of this while safeguarding its solvency and liquidity.

The main factors at play in 2023 were the interest rate hikes carried out by central banks and their gradual effects on economic activity. The continuation of the disinflation process, with inflation rates clearly trending downwards, was the main reason why central banks put a stop to their rate hike cycles at the end of the year. In terms of economic activity, the Eurozone and UK economies suffered more in an environment of restrictive interest rates and maintained a situation of virtual stagnation, while the United States proved to be more resilient and surprised to the upside. Meanwhile, throughout the year there were various episodes of uncertainty, the economic impact of which was limited and short-lived. Some of the most noteworthy include the collapse of certain US regional banks, the problems at Credit Suisse and the outbreak of a new war in the Middle East between Israel and Hamas. Lastly, in the financial markets, 2023 was a more positive year for risk assets than 2022, a year in which a large portion of assets recorded heavy losses.

Against this backdrop, in year-on-year terms, Banco Sabadell significantly increased its bottom line. This Group profit was mainly driven by the good performance of core results (net interest income + fees and commissions – recurrent costs), which improved due to both the increase in net interest income and the efforts made to contain costs.

The reduction in provisions is also noteworthy, reducing both credit provisions and real estate provisions.

Banco Sabadell conducts its business in an ethical and responsible manner, gearing its commitment to society in a way that ensures its activities have a positive impact on people and the environment. Each and every person in the organisation plays their part in applying the principles and policies of corporate social responsibility, ensuring quality and transparency in customer service.

In addition to complying with the applicable regulations and standards, Banco Sabadell has a set of policies, internal rules and codes of conduct that guarantee ethical and responsible behaviour at all levels of the organisation and in all Group activities.

1.2 Strategic priorities

The Group's Strategic Plan was unveiled on 28 May 2021. The strategic priorities revolve around (i) an increased focus on core business in Spain, with different action levers for each business line to strengthen the Bank's competitive position in the domestic market, and (ii) a significant improvement in the profitability of international business, both in the United Kingdom and in other geographies. Another aim is to reduce the cost base, to bring it in line with the current competitive environment. To deliver these changes, capital will be allocated more efficiently, fostering the growth of the Group in the geographies and business lines that offer the highest return on risk-adjusted capital.

In this way, a specific strategic approach is established for each business line:

In Retail Banking, the approach is to undertake a major transformation, profoundly changing the offering of products and services as well as the customer relationship model.

In relation to the aforesaid offering, the goal is to continue working to make transaction services more readily available to customers in a simple and agile way in digital channels. As for the commercial offering of products and services, the goal is to develop a fundamentally digital and remote offering of products for which the customer wants autonomy, immediacy and convenience, such as consumer loans, accounts and cards. For more complex products, such as mortgages, insurance and savings/investment products, where the customer requires support, the approach is to deploy product specialists and offer multi-channel support, all alongside greater process digitalisation.

The goal in Retail Banking is to respond better to customers' needs while at the same time reducing the cost base of the business.

In Business Banking, the goal is to strengthen the sizeable franchise of the Bank in this segment by establishing specific levers to achieve profitable growth, such as sector-specific solutions for businesses, support for customers in their internationalisation process, expansion of specialised solutions for SMEs, and the provision of comprehensive support for Next Generation EU funds. This is to be reinforced with an optimal risk management framework, complementing the perspective of risk experts and business experts with new business intelligence and data analytics tools.

The goal in Business Banking is to drive growth while safeguarding risk quality and boosting profitability.

The approach in Corporate Banking Spain is to develop plans to improve the profitability of each customer and increase the contribution of specialised product units to the generation of income.

The goal in this business line is to obtain adequate profitability in each customer and to meet their needs.

TSB's aim is to focus on what it does best and what it is known for in the market: retail mortgages. TSB has an excellent platform, with high operational capabilities for mortgage management and a well-established network of brokers, a key factor in the British market where a substantial portion of new mortgages are arranged through this channel.

TSB's aim is to increase its contribution to the Group's profitability.

In the Group’s other international business, the priority is to actively manage the capital allocated by the Group to these business lines. On a supplementary basis, there are specific priorities in each geographical area: in Mexico, the focus is on rigorous cost management; in Miami, the Private Banking business will be strengthened; while in other foreign branches, priority will be given to supporting Spanish customers in their international activity.

So far, progress has been very significant. In Retail Banking, some examples include the deployment of more than 800 specialised managers, who now cover the entire branch network both in person and remotely, a new digital landing page for mortgages, an online mortgage simulator, a new portal for customers to monitor their mortgage payments, a new pricing model for consumer loans and mortgages, the digitalisation of consumer loan application processes, a 100% digital card application process, the expansion of pre-approved consumer loans and cards, the integration of Sabadell Wallet in the mobile app, the optimisation of product campaigns, the launch of a customer retention plan, and the launch of the Sabadell Online Account, which allows new customers to be registered through a 100% remote process.

As at 2023 year-end, agents specialising in mortgages generate over 50% of the total new business in this product, those specialising in savings and investment products generate 29%, while those specialising in insurance generate 21%. On the other hand, digital sales of consumer loans represent over 75% of the total, while in 2021 that figure was around 40%. Meanwhile, almost half of cards are now applied for online and 56% of new customers are acquired through the digital channel. In 2021, these digital sales capabilities were non-existent.

In Business Banking, 34 sector-specific offers have been introduced for businesses and the self-employed, and customer acquisition in these sectors has increased by 50% in 2023 compared to 2021. Online banking features have been improved, thus expanding the digital offering and interactions between the customer and the Bank/relationship manager. The use of data analytics in risk management has been enhanced and risk analysts have acquired sector-specific specialisation to better steer new lending. As a result, now, more than 80% of new lending items are granted to priority customers and sectors. In terms of capabilities, the middle market team has been bolstered to broaden the knowledge base already in use in Corporate Banking. It is also important to note that Banco Sabadell has signed a strategic agreement with Nexi, a leading European paytech company, to continue improving the value proposition and customer experience in a key product for the corporate, business and self-employed segments, through a wider and more innovative offering.

A new Private Banking model was launched to which 450 personal bankers were assigned, and the product offering and advice tools have been enhanced with a clear growth objective in both turnover and customers.

As regards costs, efficiency plans affecting both business and retail banking were executed in 2021 and 2022 with a c.20% reduction of the workforce and c.30% reduction of branches, delivering significant cost savings.

In Corporate Banking Spain, greater focus was placed on the continuous monitoring of customer profitability, measuring this profitability as the risk-adjusted return for each customer. Furthermore, action plans were set in motion to increase profitability, resulting in 83% of customers with a RAROC above 10%, when in 2021 only 40% of customers had a RAROC above 10%.

Meanwhile, TSB has been increasing its market share in the mortgage segment since the end of 2020 and has improved its efficiency, turning its results around. After accumulating losses between 2018 and 2020, it has consistently been making positive contributions to Group profits since the first quarter of 2021.

Mexico has focused on reducing its cost base and improving its cost of risk, thus increasing its positive contribution to the Group. The Miami foreign branch, which contributes positively to the Group, has promoted its private banking franchise. As for the other foreign branches, the focus has been on supporting Spanish customers abroad and local customers who operate in Spain.

The key financial targets established in the Strategic Plan were (i) to achieve a return on tangible equity (ROTE) above 6% in 2023, and (ii) to maintain a fully-loaded CET1 capital ratio of over 12% throughout the Plan.

The macroeconomic and interest rate scenario assumptions on which the Strategic Plan forecasts were determined were set in an environment of expansionary monetary policies by central banks and were largely outdated in 2022. Central banks, seeing that inflation was considerably above their established target, were compelled to begin an accelerated and unprecedented interest rate hike cycle at the beginning of last year which has continued in 2023, with rate increases introduced at an even faster pace, pushing benchmark interest rates to levels not seen since 2001.

Buoyed by this more positive interest rate environment for banking intermediation activity, the Institution's revenues have increased substantially during the last two years, especially in 2023. Supported by this improvement in net interest income, the Group's profitability has risen to reach a ROTE of 11.5%, well above the initial target and considerably improving on the figure obtained in 2022, which already met the ROTE target of above 6%. Furthermore, the Group's fully-loaded CET1 capital ratio stood at 13.2%, which is also widely above the target set in the Plan and already deducts a dividend equivalent to 50% of the Group's profits. Therefore, the Group reached the end of the Strategic Plan horizon amply meeting the main targets set at the start.

Consequently, Banco Sabadell updated its targets for 2023 in line with this new environment. The revised scenario projections concerning the income statement for this year were as follows:

Net interest income growth of around 25%, a target revised upwards several times during the year thanks to a better-than-expected performance. This was based on loan book repricing, while the average cost of deposits was estimated to be around 20%-25% of the average Euribor during the year. This target has been met, since net interest income went up 24% in the year.

In terms of fees and commissions, these were expected to record a mid-single digit drop due to the weaker performance of service fees in a context of high interest rates. This income performed in line with expectations, with negative annual growth of 7.0%.

As for costs, inflation was expected to remain contained, with the total cost base standing just below 3 billion euros at the end of the year, equivalent to an increase in costs of no more than 3.5%. In the end, the increase in recurrent costs, excluding the 33 million euros of expenses related to the efficiency plan announced during the results presentation for the fourth quarter of 2023, was 3.5%, in line with expectations.

On the other hand, total cost of risk was expected to remain below 60 basis points, after slightly improving the target during the year thanks to robust asset quality. This projection has been met, since total cost of risk stood at 55 basis points in 2023.

1.3 Banco Sabadell share performance and shareholders

Banco Sabadell's share capital amounts to 680,027,680.875 euros, represented by 5,440,221,447 shares of a single class with a par value of 0.125 euros. The number of shares in the Bank decreased during the year by 186,743,254 as a result of the share buyback programme carried out between July and November, approved at the Annual General Meeting on 23 March 2023, and the subsequent capital reduction through the redemption of shares that was entered in the Companies Register of Alicante on 11 December 2023.

2023 was marked by ongoing interest rate hikes by central banks, liquidity problems of regional banks in the US, entrenchment of the war in Ukraine, inflation still at high rates but on a downward trend, and the outbreak of a new conflict in the Middle East. As a result of all these factors, the macroeconomic indicators of the main developed economies gave mixed signals throughout the year.

In the financial markets, the year started out on a very positive note, particularly in the financial sector, thanks to expectations of higher profitability by financial institutions supported by the interest rate hikes introduced by central banks. However, as the year went on and as a result of the liquidity problems of the USA's Silicon Valley Bank, financial markets on both sides of the Atlantic became more volatile. In particular, the financial sector underwent a sharp correction. Subsequently, further episodes of volatility were triggered by the uncertainty around Credit Suisse, which would be resolved with its acquisition by UBS.

Central banks continued to combat inflation, which started to ease off on a global scale throughout the year, although it remains at rates above the monetary authorities' target. Core inflation also trended downwards, albeit more slowly. The fact that there was no sign of an end to the war in Ukraine, together with the subsequent outbreak of a new conflict in the Middle East, heightened uncertainty about the potential impact on the global economy and on the pace of falling inflation.

In the Eurozone, the European Central Bank continued to tighten monetary policy with six hikes during the year and raised the official interest rate by 200 basis points to 4.50%, the highest it has been in the Eurozone since 2001. Moreover, the 12-month Euribor ended the year at around 3.5%, a level not seen since 2008.

As a result of this environment of higher interest rates, the banking industry, across the board, benefited from the increased capacity to intermediate in the economy and experienced a significant improvement in performance despite higher costs of funding. All in all, on balance it was a positive year, and the profitability of the banking industry converged to levels close to the required cost of capital.

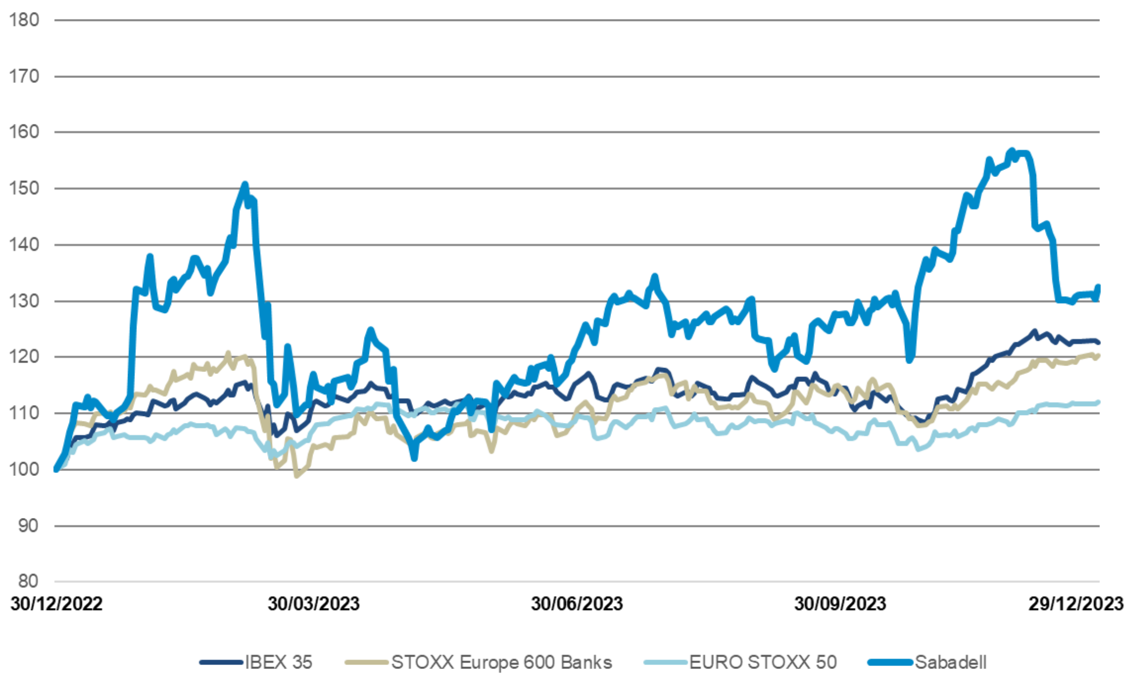
As regards Banco Sabadell's share price performance, it has kept the good tone of recent years, with a revaluation of +33% in the year. On a like-for-like basis, the market revaluation has been above the European banking industry benchmark (STOXX Europe 600 Banks), which rose by +20%, and also above general indices such as EURO STOXX 50 and IBEX 35, which cumulatively increased by +12% and +23%, respectively, over the year. The economic and financial factors mentioned above have had a significant influence on share price performance. In addition, in terms of Banco Sabadell's idiosyncratic factors, it is worth pointing out that improvements in efficiency, operating income and profitability continued, thanks to annual results that have benefited from interest rate hikes and have enabled the Institution to achieve the highest level of annual profit in its history. This was well received by financial analysts and the market in general.

At the end of 2023, 92% of equity analysts covering Banco Sabadell had a Buy or Hold recommendation on the stock.

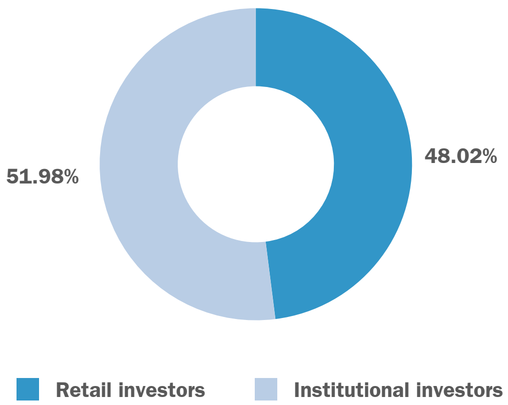
The shareholding structure in 2023 is balanced among institutional and retail shareholders, the former representing 52% and the latter 48%. Within the Bank's shareholding structure, as at year-end 2023, three investor groups reported a holding of more than 3% according to figures reported to the CNMV. The aggregate holding of those three shareholders represents 10.10% of the total share capital; the remaining holdings are free-float capital. The members of the Board of Directors, one of whom indirectly controls the voting rights attributed to the shares held by one of the aforesaid investors, hold 3.75% of the Bank's share capital.

Banco Sabadell's market capitalisation stood at 6,014 million euros at year-end, with a price/tangible book value ratio of 0.51.

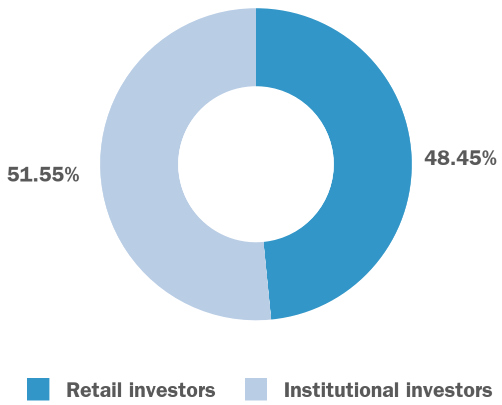
The graph below shows the evolution of the share price performance over the year:



Shareholder distribution in 2023



Shareholder distribution in 2022



Analysis of shareholdings as at 31 December 2023			
Number of shares	**Shareholders**	**Shares in tranche**	**% of capital**
From 1 to 12,000	168,843	531,041,462	9.76%
From 12,001 to 120,000	41,967	1,305,324,842	24.00%
From 120,001 to 240,000	1,656	275,264,990	5.06%
From 240,001 to 1,200,000	930	415,699,219	7.64%
From 1,200,001 to 15,000,000	137	514,826,662	9.46%
More than 15,000,000	27	2,398,064,272	44.08%
TOTAL	**213,560**	**5,440,221,447**	**100.00%**

Analysis of shareholdings as at 31 December 2022			
Number of shares	**Shareholders**	**Shares in tranche**	**% of capital**
From 1 to 12,000	172,396	544,828,582	9.68%
From 12,001 to 120,000	43,289	1,345,690,480	23.92%
From 120,001 to 240,000	1,773	292,025,971	5.19%
From 240,001 to 1,200,000	970	436,083,675	7.75%
From 1,200,001 to 15,000,000	150	462,045,729	8.21%
More than 15,000,000	32	2,546,290,264	45.25%
TOTAL	**218,610**	**5,626,964,701**	**100.00%**

	Million	Million euro	Euro	Million euro	Euro
	Average number of shares (*)	**Profit attributable to the Group**	**Profit attributable to the Group, per share**	**Own funds**	**Book value per share**
2020	5,582	2	—	12,944	2.32
2021	5,586	530	0.080	13,357	2.39
2022 (**)	5,594	889	0.140	13,635	2.43
2023	5,401	1,332	0.225	14,344	2.65

(*) The average number of shares is shown net of the treasury stock position.

(**) The data corresponding to 2022 has been restated to take into account the implementation of IFRS 17 (see Note 1.4 to the consolidated annual financial statements for 2023).

Share performance

Below are a number of indicators of the Bank's share performance:

	2023	2022 (*)	Year-on-year change (%)
Shareholders and trading			
Number of shareholders	213,560	218,610	(2.3)
Total number of shares outstanding (million) (**)	5,403	5,602	(3.6)
Average daily trading (million shares)	30	41	(28.3)
Share price (euro)			
Opening	0.881	0.592	—
High	1.364	0.950	—
Low	0.873	0.565	—
Closing	1.113	0.881	—
Market capitalisation (million euro)	6,014	4,934	—
Market ratios			
Earnings per share (EPS) (euro) (***)	0.23	0.14	—
Book value per share (euro)	2.65	2.43	—
P/TBV (price/tangible book value per share)	0.51	0.44	—
Price/earnings ratio (share price/EPS)	4.94	6.32	—

(*) The data corresponding to 2022 has been restated to take into account the implementation of IFRS 17 (see Note 1.4 to the consolidated annual financial statements for 2023).

(**) Total number of shares minus final treasury stock position.

(***) Denominator corresponds to average number of shares outstanding (average number of total shares minus average treasury stock and minus average number of shares subject to a buyback programme).

Dividend policy

The Bank's shareholder remuneration conforms to the provisions of its Articles of Association. It is proposed by the Board of Directors and submitted to the Annual General Meeting for approval each year. In addition, Banco Sabadell has a Shareholder Remuneration Policy that lays down principles that determine the shareholder remuneration framework.

In 2022, the Bank established a payout ratio (percentage of earnings to be allocated to shareholder remuneration) of 50%. Thus, of the 859 million euros of profit attributable to owners of the parent in 2022, 430 million euros were allocated to shareholder remuneration. The remuneration was distributed in the form of a cash dividend and a share buyback.

The cash dividend was paid in two instalments. An interim dividend of 0.02 euros per share was paid in December 2022, and a supplementary dividend of 0.02 euros per share was paid in April 2023, after the Annual General Meeting approved the profit allocation for the year. The total cash dividend amounted to 225 million euros and represented an increase of 33.3% compared to 2022. Calculated on the closing share price in 2022, the cash dividend yield was 4.5%.

The share buyback commenced on 3 July 2023, once the requisite authorisation from the European Central Bank had been received, and concluded on 10 November 2023, after having reached the approved maximum pecuniary amount of 204 million euros. In total, 186,743,254 shares with a par value of 0.125 euros each were repurchased, representative of approximately 3.32% of Banco Sabadell's share capital. The public deed corresponding to the capital reduction was entered with the Companies Register of Alicante on 11 December 2023.

The most salient aspects of the share buyback programme are shown below. For more information, see Note 2 to the annual financial statements for the year 2023.

Closing date	Number of shares	% of share capital	Payment (thousand euro)
10/11/2023	186,743,254	3.32%	204,000

Meanwhile, on 25 October 2023, the Board of Directors approved an interim dividend in cash of 0.03 euros per share, from 2023 earnings, which was paid on 29 December 2023 and entailed a 50% increase compared to the interim dividend of the previous year. Subsequently, at its meeting of 31 January 2024, the Board of Directors resolved to propose, for approval at the next Annual General Meeting, a supplementary cash dividend of 0.03 euros per share to be paid out of 2023 earnings. Both dividends represent a total amount of 326 million euros or 0.06 euros per share and a yield of 5.4% on the share price as at 2023 year-end.

In addition to this cash dividend, the Board of Directors of Banco Sabadell, after having obtained the prior permission of the competent authority, also resolved to establish, out of the 2023 earnings, a buyback programme of treasury shares for their redemption through a resolution for share capital reduction to be proposed to the Annual General Meeting of Shareholders, of up to a maximum amount of 340 million euros, whose terms, once they are set by the Board of Directors, will be the content of a new announcement before starting its execution.

The total shareholder remuneration corresponding to 2023, which combines the cash dividend and the share buyback programme, will, therefore, be equivalent to 50% of the profit attributable to the owners of the parent company, complying with the shareholder remuneration policy.

All in all, shareholder remuneration reached the aforementioned 50% payout, including both the dividend cash payment and the share buyback, bringing the total distributed amount to 666 million euros or 0.12 euros per share, a 55% increase on the shareholder remuneration in 2022, and representing a yield of 10.8% on the share price as at 2023 year-end.

Credit rating

In 2023, the four agencies that assessed Banco Sabadell's credit quality were S&P Global Ratings, Moody's Investors Service, Fitch Ratings and DBRS Ratings GmbH.

On 9 February 2024, S&P Global Ratings upgraded Banco Sabadell's long-term issuer credit rating to 'BBB+' from 'BBB', changing the outlook to stable from positive. This improvement reflects the Institution's improved profitability, which is currently at levels commensurate with the franchise and its competitors' profitability. The short-term rating was also affirmed at 'A-2'.

On 12 May 2023, DBRS Ratings GmbH affirmed Banco Sabadell's long-term issuer rating at 'A (low)' with a stable outlook, reflecting the strength of the franchise as Spain's fourth largest banking group. It also took a positive view of its solid asset quality profile, its strong position in wholesale funding and liquidity, and the Group's satisfactory capitalisation. The short-term rating remained at 'R-1 (low)'. The full report on the revision was published on 24 May.

On 13 June 2023, Fitch Ratings affirmed its long-term rating of Banco Sabadell at 'BBB-', improving the outlook to positive from stable, mainly reflecting Fitch's expectations that Sabadell's profitability will continue to structurally improve due to higher interest rates, contained credit provisions and improved earnings of the Bank's UK subsidiary. The short-term rating remained at 'F3'. The full report on the revision was published on 30 June.

On 27 October 2023, Moody's Investors Service upgraded the rating of Banco Sabadell's long-term deposits from 'Baa2' to 'Baa1' and that of its long-term senior debt from 'Baa3' to 'Baa2', changing the outlook of both ratings from positive to stable. This rating upgrade reflects the gradual strengthening of Banco Sabadell's credit profile, mainly in terms of asset quality and profitability, and Moody's view that the interest rate environment will support further profitability improvements over the outlook horizon, while the increase in non-performing assets will remain contained. The short-term rating remained at 'Prime-2'. The full report on the revision was published on 7 November.

During 2023, Banco Sabadell has been in continuous contact with the four agencies. In both virtual and face-to-face meetings, issues such as progress with the Strategic Plan 2021-2023, results, capital, liquidity, risks, credit quality and management of NPAs were discussed with analysts from these agencies.

The table below details the current ratings and the last date on which any publication reiterating this rating was made.

	Long-term	Short-term	Outlook	Last updated
DBRS	A (low)	R-1 (low)	Stable	24/05/2023
S&P Global Rating	BBB+	A-2	Stable	09/02/2024
Moody´s Investors Service	Baa2	P-2	Stable	07/11/2023
Fitch Ratings	BBB-	F3	Positive	30/06/2023

1.4 Corporate governance

Banco Sabadell has a sound corporate governance structure that ensures effective and prudent management of the Bank, in which it prioritises ethical, solid and transparent governance, taking into account the interests of shareholders, customers, employees and society in the geographies in which it operates.

The internal governance framework, which sets out, among other aspects, its shareholding structure, the governing bodies, the Group's structure, the composition and operation of corporate governance, the internal control functions, key governance matters, the risk management framework, the internal procedure for the approval of credit transactions granted to directors and their related parties and the Group's policies, is published on the corporate website: www.grupbancsabadell.com (see section "Corporate Governance and Remuneration Policy – Internal Governance Framework").

As required by Article 540 of the Spanish Capital Companies Act, Banco Sabadell Group has prepared the Annual Corporate Governance Report for the year 2023, which, in accordance with Article 49 of the Spanish Commercial Code, forms part of the Directors' Report for 2023. It includes a section on the extent to which the Bank follows recommendations on corporate governance currently in existence in Spain.

As it has done in previous years, Banco Sabadell has opted tlo prepare the Annual Corporate Governance Report in free PDF format, in accordance with CNMV Circular 2/2018 of 12 June, in order to explain and publicise, with maximum transparency, the main aspects contained therein.

Annual General Meeting 2023

The Bank's main governing body is the Annual General Meeting, in which shareholders decide on matters attributed to the Meeting by law, the Articles of Association (available on the corporate website under "Corporate Governance and Remuneration Policy – Articles of Association") and its own Regulation, as well as any business decisions that the Board of Directors considers to be of vital importance for the Bank's future and corporate interests.

The Annual General Meeting has adopted its own Regulation, which sets out the principles and basic rules of action (available on the corporate website under "Shareholders' General Meeting – Regulations of the Shareholders' Meeting"), safeguarding shareholder rights and transparency.

In the Annual General Meeting, shareholders may cast one vote for every thousand shares that they own or represent. The Policy for communication and contact with shareholders, institutional investors and proxy advisors, approved by the Board of Directors and adapted to the Good Governance Code of Listed Companies following its June 2020 revision, aims to promote transparency vis-à-vis the markets and build trust while safeguarding, at all times, the legitimate interests of institutional investors, shareholders and proxy advisors and of all other stakeholders of Banco Sabadell.

The Bank has maintained the highest standards of transparency and participation to improve and promote the participation of shareholders in the Annual General Meeting of 23 March 2023, so that they were able to attend in person as well as remotely through a live broadcast, continuing the approach adopted in 2022, vote on motions on the agenda and speak during question time. In addition, the Bank set up electronic channels through Banco Sabadell's websites (corporate website and BSOnline) and its mobile app (BSMóvil) so that shareholders could delegate and cast their vote ahead of the Annual General Meeting.

The integration of these channels with the Bank's website was also improved to enhance the experience of customers that are shareholders and of shareholders in general and to facilitate interaction.

The Annual General Meeting for 2023, convened on 16 February 2023, took place on 23 March 2023, on second call.

The Annual General Meeting held on 23 March 2023 approved all items on the agenda, among them the annual financial statements and the corporate management for the financial year 2022 and, in relation to appointments, shareholders approved the re-election as Board members of the Chairman, Josep Oliu Creus, in the capacity of Other External Director; of Aurora Catá Sala, in the capacity of Independent Director; of María José García Beato, in the capacity of Other External Director; and of David Vegara Figueras, in the capacity of External Director; as well as the ratification and appointment of Laura González Molero, in the capacity of Independent Director.

Regarding the content of its resolutions, in terms of appointments, it is important to note that on 26 January 2023, Anthony Frank Elliott Ball resigned from his role as Independent Director of Banco Sabadell, effective from the date of the next Annual General Meeting. Mr Ball had held the position of Lead Independent

Director. To fill this vacancy, the Annual General Meeting agreed the appointment of Pedro Viñolas Serra as Independent Director, who joined his first meeting as Board member on 30 June 2023, once the corresponding regulatory authorisations had been received.

In the interests of the aforementioned principle of transparency, and in response to the participation of investors and proxy advisors in the Corporate Governance roadshows, at the Annual General Meeting of 2023, on the occasion of the approval of the new Director Remuneration Policy, among other measures, new remuneration for the Chief Executive Officer for his executive duties was announced. 97.36% of votes were cast in favour of this Policy at the Annual General Meeting.

The Annual General Meeting also approved, under item four on the agenda and with 99.30% of votes in favour, Banco Sabadell's share capital reduction by the nominal amount of treasury shares that could be acquired by the Institution, under the share buyback programme that the Board of Directors planned to implement, for a maximum pecuniary amount of 204 million euros, all within the maximum limit corresponding to 10% of the share capital on the date of the proposed resolution, and after obtaining the corresponding regulatory authorisations. The capital reduction, as planned, would be carried out through the redemption of treasury shares acquired under the authorisation granted by the aforementioned Annual General Meeting under item eight on the agenda or, where appropriate, any resolution of the Annual General Meeting regarding the acquisition of treasury shares for redemption purposes, in accordance with the provisions of applicable legislation and regulations. The Board of Directors was also empowered to specify and develop the aforementioned capital reduction agreement, setting the terms and conditions of the capital reduction in all matters not already provided for and, in particular, setting the date on which the capital reduction should be carried out and determining the number of shares to be redeemed. The Board was also empowered, in certain cases and due to unforeseen circumstances, to opt not to execute the capital reduction. The period to execute on the agreement was established until the date of the next Ordinary Annual General Meeting.

On 30 June 2023, after receiving the required authorisation from the European Central Bank, Banco Sabadell announced to the market, by means of an Inside Information notice filed with the CNMV under number 1909, the establishment and implementation of a temporary share buyback programme for a maximum pecuniary amount of 204 million euros. The buyback programme was carried out in accordance with the provisions of Article 5 of Regulation (EU) 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016.

On 13 November 2023, Banco Sabadell announced the end of the buyback programme after reaching the established maximum pecuniary amount, having acquired a total of 186,743,254 treasury shares representing approximately 3.32% of the share capital prior to the reduction.

On 30 November 2023, the Board of Directors agreed to execute the share capital reduction, setting its amount at 23,342,906.75 euros, through the redemption of all the shares acquired under the buyback programme. Banco Sabadell's share capital resulting from the capital reduction was set at 680,027,680.875 euros, represented by 5,440,221,447 registered shares with a par value of 0.125 euros each, all belonging to the same class and series.

The capital reduction and the amendment to Article 7 of the Articles of Association relating to share capital were entered in the Companies Register of Alicante on 11 December 2023. The reduction was therefore completed and the redeemed shares were delisted.

As regards sustainability, it is also important to note that for the third consecutive year, Banco Sabadell has obtained certification of its Annual General Meeting as a "Sustainable Event", having satisfactorily met the sustainability criteria for certification and having passed the preliminary assessment process and the in-person audit conducted by Eventsost.

In addition, an external consultant verified the procedures established for the preparation and holding of the Annual General Meeting 2023. The external consultant verified, from a technical, procedural and legal perspective, that the requirements, internal procedures and applicable regulations had been complied with in Phase I: pre-Meeting, Phase II: Meeting and Phase III: post-Meeting.

Information regarding the 2023 Annual General Meeting is published on the corporate website www.grupbancsabadell.com (see the website section "Shareholders and Investors - Shareholders' General Meeting").

Composition of the Board of Directors

With the exception of matters reserved to the Annual General Meeting, the Board of Directors is the most senior decision-making body of the company and its consolidated group, as it is responsible, under the law and the Articles of Association, for the management and representation of the Bank. The Board of Directors acts mainly as an instrument of supervision and control, delegating the management of ordinary business matters to the Chief Executive Officer.

The Board of Directors is subject to well-defined and transparent rules of governance, in particular to the Articles of Association and the Regulation of the Board of Directors (available on the corporate website under "Corporate Governance and Remuneration Policy – Regulation of the Board"), and it conforms to best practices in the area of corporate governance.

The Board of Directors, at its meeting on 23 March 2023, agreed to appoint George Donald Johnston III as Lead Independent Director, replacing Anthony Frank Elliott Ball who as mentioned above resigned from his role, effective from the date of the Annual General Meeting that took place on 23 March 2023.

The composition of the Board of Directors as at 31 December 2023 is as follows:

Board composition

	Position
Josep Oliu Creus	Chair
Pedro Fontana García	Deputy Chair
César González-Bueno Mayer	Sabadell Group CEO
Aurora Catá Sala	Director
Luis Deulofeu Fuguet	Director
María José García Beato	Director
Mireya Giné Torrens	Director
Laura González Molero	Director
George Donald Johnston III	Lead Independent Director
David Martínez Guzmán	Director
José Manuel Martínez Martínez	Director
Alicia Reyes Revuelta	Director
Manuel Valls Morató	Director
David Vegara Figueras	Director-General Manager
Pedro Viñolas Serra	Director
Miquel Roca i Junyent	Non–Director Secretary
Gonzalo Barettino Coloma	Non-Director Deputy Secretary

As at 31 December 2023, the Board of Directors was formed of fifteen members: its Chairman (in the capacity of Other External Director), ten Independent Directors, two Executive Directors, one Other External Director and one Proprietary Director. The Board's composition keeps an adequate balance between the different director categories that comprise it.

The Board of Directors has a diverse and efficient composition. It is of the appropriate size to perform its duties effectively by drawing on a depth and diversity of opinions, enabling it to operate with a good level of quality and effectiveness and in a participatory way. Its members are suitably diverse in terms of competencies, professional background, origin and gender, and they have extensive experience in banking, finance, anti-money laundering & counter-terrorist financing, digital transformation & IT, insurance, risk & auditing, in regulatory affairs and the law, in academia, human resources & consultancy, responsible business & sustainability, as well as in international business. The Board's Matrix of Competencies can be consulted on the website under "Internal Governance Framework of Banco Sabadell" (see the corporate website "Corporate governance and Remuneration Policy – Internal Governance Framework" section).

Banco Sabadell has had a competency and diversity matrix in place since 2019, which is reviewed annually by the Board of Directors, following a favourable report from the Board Appointments and Corporate Governance Committee, and which was last reviewed on 30 March 2023, as a result of the most recent appointment of Pedro Viñolas Serra as a new Board member and the change in Lead Independent Director.

As at 2023 year-end, there were five female Directors, including four female Independent Directors out of a total of ten Independent Directors and one female "Other External" Director. Women account for 33% of members on the Board of Directors, honouring the Bank's commitment expressed in Sabadell's Commitment to Sustainability for 2023. They also account for 40% of Independent Directors, in line with the

Directive of the European Parliament and of the Council on improving the gender balance among directors of listed companies and related measures.

It is necessary to point out that the Board Appointments and Corporate Governance Committee agreed to submit a proposal to the Board of Directors for submission at the 2024 Annual General Meeting regarding the appointment of a female Independent Director to replace Independent Director José Manuel Martínez Martínez, who resigned effective from the date of the Ordinary Annual General Meeting. This appointment will increase the percentage of female Board membership, reaching 40% in 2024, thus fulfilling the Bank's commitment stated in Sabadell's Commitment to Sustainability ahead of schedule.

In relation to knowledge, skills and expertise, the following areas have been bolstered: corporate banking, accounting and auditing, risk management, anti-money laundering and counter-terrorist financing, responsible business practices and sustainability, and academic skills.

Banco Sabadell's Director Selection Policy of 25 February 2016 (amended on 29 September 2022 and reviewed with no amendment required on 28 September 2023) establishes the principles and criteria that should be taken into account in selection processes and also, therefore, in the initial fit and proper assessment and ongoing assessments of the members of the Board of Directors, as well as in the re-election of members of the management body in order to ensure their smooth succession, the continuity of the Board of Directors and the suitability of all its members.

The process for selecting candidates to sit on the Board of Directors and for re-electing existing directors is governed, among others, by the diversity principle, fostering the diversity of the Board of Directors in order to promote a diverse pool of members, and ensuring that a broad set of qualities and competences is engaged when recruiting members, to achieve a variety of views and experiences and to facilitate independent opinions and sound decision-making within the Board of Directors.

The Board of Directors should ensure that the procedures for selecting its members apply the diversity principle and favour diversity in relation to areas such as age, gender, disability, geographical provenance and educational and professional background, as well as any other aspects deemed suitable to ensure the suitability and diversity of its pool of members. Furthermore, it should ensure that such procedures are free from implicit bias that may entail any degree of discrimination and, in particular, that they facilitate the selection of female directors in the number required to achieve a composition that is balanced between women and men.

The Board of Directors has a Lead Independent Director who, in accordance with the Articles of Association, may ask the Board of Directors to call a meeting, request the inclusion of new items on the meeting agenda, coordinate and convene Non-Executive Directors, voice the opinions of External Directors and lead, where applicable, the regular appraisal of the Chair of the Board of Directors. In addition, the Lead Independent Director coordinates the Succession Plan for the Chairman and Chief Executive Officer, approved in 2016 and reviewed in January 2023, and leads meetings with investors and proxy advisors.

To ensure better and more diligent performance of its general supervisory duties, the Board of Directors undertakes to directly perform the responsibilities provided by law. These include:

- those deriving from generally applicable rules on corporate governance;
- approving the company's general strategies;
- appointing and, where necessary, removing directors of subsidiaries;
- identifying the company's main risks and implementing and monitoring appropriate internal control and reporting systems;
- drawing up policies on the reporting and disclosure of information to shareholders, the markets and the general public;
- setting policy on treasury stock in accordance with any guidelines laid down at the Annual General Meeting;
- approving the Annual Corporate Governance Report;
- authorising the company's transactions with directors and significant shareholders that could potentially give rise to conflicts of interest; and
- generally deciding on business or financial transactions that are of particular importance for the company.

Board Committees

In accordance with the Articles of Association, the Board of Directors has established the following Board Committees:

- The Board Strategy and Sustainability Committee.
- The Delegated Credit Committee.
- The Board Audit and Control Committee.
- The Board Appointments and Corporate Governance Committee.
- The Board Remuneration Committee.
- The Board Risk Committee.

The organisation and structure of the Board Committees are set out in the Articles of Association and in their respective Regulations, which establish the rules governing their composition, operation and responsibilities (see the section of the corporate website "Corporate Governance and Remuneration Policy – Regulations of the Committees"), and which develop and supplement the rules of operation and basic functions set out in the Articles of Association and in the Regulation of the Board of Directors.

The Board Committees have sufficient resources to perform their duties and they may seek external professional advice and information on any aspect of the Institution, having unrestricted access both to Senior Management and Group executives and to all information and documentation, of any kind, held by the Institution on matters within their remit.

On 23 March 2023, the Lead Independent Director, Anthony Frank Elliott Ball, resigned as member of the Board Appointments and Corporate Governance Committee and as member of the Board Remuneration Committee following his resignation from the role of Director.

At its meeting of 30 June 2023, the Board of Directors agreed, following a report from the Board Appointments and Corporate Governance Committee, to change the composition of the Board Committees. The changes were made after Pedro Viñolas Serra joined the Board of Directors as Independent Director of Banco Sabadell and after the analysis carried out by the Board Appointments and Corporate Governance Committee of the composition of the Board Committees in order to continuously improve the Institution's corporate governance.

The length of time in the role of Chair of the Board Remuneration Committee (since 2015) was analysed, concluding that a rotation of the Chair was appropriate, but also praising the excellent work carried out by Aurora Catá Sala in performing her duties. Independent Director Aurora Catá Sala was substituted by Independent Director Mireya Giné Torrens. The new Chair of the Board Remuneration Committee, with expertise in human resources, talent, culture and remuneration, is deemed the right person to succeed Aurora Catá Sala and occupy this role. The presence of women, as the under-represented sex, thus remains intact and increases the age diversity of those occupying the roles.

Independent Director Manuel Valls Morató was appointed Chair of the Board Audit and Control Committee, replacing Independent Director Mireya Giné Torrens. Manuel Valls Morató has expertise and knowledge in the Committee's duties and experience in the role, having held it previously.

In addition, the Lead Independent Director and Chair of the Board Risk Committee, George Donald Johnston III, was appointed as a member of the Board Strategy and Sustainability Committee, substituting Lead Independent Director José Manuel Martínez Martínez. Independent Director Pedro Viñolas Serra was appointed as a member of the Delegated Credit Committee, replacing Other External Director María José García Beato, and as a member of the Board Audit and Control Committee. Other External Director María José García Beato was appointed as a member of the Board Appointments and Corporate Governance Committee. Lastly, Independent Director and Chair of the Board Appointments and Corporate Governance Committee José Manuel Martínez Martínez was appointed a member of the Board Remuneration Committee, replacing Lead Independent Director and Chair of the Board Risk Committee George Donald Johnston III.

The composition and number of meetings of these Board Committees as at 31 December 2023 are shown in the table below:

Composition of the Board Committees

Position	Strategy and Sustainability	Delegated Credit	Audit and Control	Appointments & Corporate Governance	Remuneration	Risk
Chair	Josep Oliu Creus	Pedro Fontana García	Manuel Valls Morató	José Manuel Martínez Martínez	Mireya Giné Torrens	George Donald Johnston III
Voting member	Luis Deulofeu Fuguet	Luis Deulofeu Fuguet	Pedro Fontana García	Aurora Catá Sala	Laura González Molero	Aurora Catá Sala
Voting member	Pedro Fontana García	César González-Bueno Mayer	Laura González Molero	María José García Beato	José Manuel Martínez Martínez	Alicia Reyes Revuelta
Voting member	María José García Beato	Alicia Reyes Revuelta	Pedro Viñolas Serra	Mireya Giné Torrens		Manuel Valls Morató
Voting member	César González-Bueno Mayer (*)	Pedro Viñolas Serra				
Voting member	George Donald Johnston III					
Secretary Non-voting member	Miquel Roca i Junyent	Gonzalo Barettino Coloma	Miquel Roca i Junyent	Miquel Roca i Junyent	Gonzalo Barettino Coloma	Gonzalo Barettino Coloma
Number of meetings in 2023	12	36	12	13	10	15

(*) Member for matters of strategy only.

Board Strategy and Sustainability Committee

The Board Strategy and Sustainability Committee was set up in 2021 and is formed of five Directors: three Independent, one Other External and its Chair (in the capacity of Other External Director), who is the Chairman of the Board of Directors. On matters of strategy, the Chief Executive Officer will take part in the meetings, with full voting and speaking privileges, meaning that on such matters the Committee will have six members.

With regard to strategy, the Board Committee's main responsibilities are to evaluate and propose strategies to the Board of Directors for the company's business growth, development, diversification or transformation, and to report to and advise the Board of Directors on matters related to the company's long-term strategy, identifying new opportunities to create value and bringing corporate strategy proposals to the Board's attention in relation to new investment or divestment opportunities, financial transactions with a material accounting impact, and significant technological transformations. It is also responsible for studying and putting forward recommendations and improvements to the strategic plans and their updates which may be brought before the Board at any time, and for issuing and submitting to the Board an annual report containing the proposals, assessments, studies and work carried out during the year.

With regard to sustainability, the Board Committee has the following responsibilities: review the Institution's sustainability and environmental policies; report to the Board of Directors on potential modifications and regular updates of the sustainability strategy; review the definition and modification of the policies on diversity and inclusion, human rights, equal opportunities and work-life balance and periodically evaluate the level of compliance therewith; review the Bank's strategy for social action and its sponsorship and patronage plans; review and report on the Institution's Non-Financial Disclosures Report, prior to its review and related reporting by the Board Audit and Control Committee and before its subsequent submission to the Board of Directors; and receive information related to reports, documents or communications from external supervisory bodies with regard to the responsibilities of this Board Committee.

Delegated Credit Committee

The Delegated Credit Committee is formed of five Directors: one Executive and four Independent Directors. Its main duties are to analyse and, where appropriate, resolve credit operations, in accordance with the assumptions and limits established by express delegation of the Board of Directors, and to prepare reports on matters within its area of activity that may be required of it by the Board of Directors. Furthermore, it shall have the responsibilities ascribed to it by Law, the Articles of Association and the Regulation of the Board of Directors.

Board Audit and Control Committee

The Board Audit and Control Committee is formed of four Independent Directors, its Chair being an audit expert. It meets at least once every quarter and aims to oversee the effectiveness of the Bank's internal control, internal audit and risk management systems, supervise the process for preparing and disclosing regulated financial information, report on the Bank's annual and interim accounts, manage relations with statutory auditors, and ensure that appropriate measures are taken in the event of any improper conduct or methods. It also ensures that the measures, policies and strategies defined by the Board of Directors are duly implemented.

Board Appointments and Corporate Governance Committee

The Board Appointments and Corporate Governance Committee is formed of three Independent Directors and one Other External Director. Its main duties are to exercise vigilance to ensure a compliant qualitative composition of the Board of Directors, evaluating the suitability and necessary skills and experience of the members of the Board of Directors, escalate proposals for the appointment of Independent Directors, report on proposals for the appointment of the remaining Directors, report on proposals for the appointment and removal of senior executives and members of the Identified Staff, report on the basic terms of the contracts of Executive Directors and senior executives, examine and organise the succession of the Bank's Chair of the Board and Chief Executive Officer and, where appropriate, put forward proposals to the Board so that the aforesaid succession may take place in an orderly and planned manner. It should also set a target for representation of the under-represented sex on the Board and produce guidelines on how to achieve that target.

In matters related to Corporate Governance, it is responsible for informing the Board of Directors of the company's corporate policies and internal regulations, unless they fall within the remit of other Board Committees; supervising compliance with the company's corporate governance rules, except for those that fall within the remit of other Board Committees; submitting the Annual Corporate Governance Report to the Board of Directors for its approval and annual publication; supervising, within its sphere of competence, the company's communications with shareholders and investors, proxy advisors and other stakeholders and reporting to the Board of Directors on these communications; and any other actions that may be necessary to ensure good corporate governance in all of the company's activities.

Board Remuneration Committee

The Board Remuneration Committee is formed of three Independent Directors. Its main responsibilities are to put forward proposals to the Board of Directors on the remuneration policy for Directors and General Managers, as well as on individual remuneration and other contractual terms of Executive Directors, and to ensure compliance therewith. Additionally, it provides information about the Annual Report on Director Remuneration and reviews the general principles concerning remuneration and the remuneration schemes applicable to all employees, ensuring transparency in remuneration matters.

Board Risk Committee

The Board Risk Committee is formed of four Independent Directors. Its main duties are to supervise and ensure that all risks of the Institution and its consolidated Group are appropriately taken, controlled and managed, and to report to the full Board on the performance of its duties, in accordance with the law, the Articles of Association, the Regulations of the Board of Directors and of the Board Committee itself.

Chairman of the Bank

Article 55 of the Articles of Association stipulates that the Chair shall perform their duties as a non-executive director. The Chair is the most senior representative of the Bank and has the rights and obligations inherent in that position. The Chairman, through the performance of his duties, is ultimately responsible for the effective operation of the Board of Directors and, as such, he will represent the Bank in all matters and sign on its behalf, convene and preside over meetings of the Board of Directors, setting the meeting agenda, lead discussions and deliberations during Board meetings and ensure the fulfilment of the resolutions adopted by the Board of Directors.

Chief Executive Officer

Pursuant to Article 56 of the Articles of Association, the Chief Executive Officer is ultimately responsible for managing and directing the business, representing the Bank in the absence of the Chair. The Board of Directors shall also delegate to the Chief Executive Officer, on a permanent basis, all the powers that it sees fit from among those that may be legally delegated.

Control units

The Internal Audit Division and the Risk Control and Regulation Division have access and report directly to the Board of Directors and its Committees, specifically, to the Board Audit and Control Committee and the Board Risk Committee, respectively.

The Bank publishes the Annual Corporate Governance Report, which includes detailed information on the Bank's corporate governance, the Annual Report on Director Remuneration and the Non-Financial Disclosures Report, which form part of this Directors' Report, on the website of the Spanish National Securities Market Commission and on Banco Sabadell's corporate website www.grupbancsabadell.com.

1.5 Customers

In recent years, Spain has been able to recover from the unprecedented economic recession caused by the Covid-19 crisis, but in 2023 the country was weighed down by inflation, the low confidence of economic agents and an uncertain geopolitical environment. As a result of these factors, as a society we have changed the way we work, how we relate to each other and how we consume, evolving customer expectations at all levels.

That is why Banco Sabadell is even more committed to improving customer experience as a strategic lever to meet the primary expectations of customers as it also provides a sustainable competitive advantage over time.

To that end, the Bank works to offer products and services that can be adapted to customers' needs, thus adopting a customer-centric approach, offering a wide range of products for each type of customer and combining this with an omnichannel experience between physical and digital channels.

Knowing customers at every stage of their relationship with Banco Sabadell is crucial, which is why new methodologies have been developed that allow the Bank to listen to what customers are saying, to measure and determine the main reasons for customer satisfaction and dissatisfaction and how near or far it is from meeting customers' expectations. The ultimate goal is to implement courses of action that make it possible not only to improve customers' experience but also to try to surpass their expectations.

These methodologies make it possible to transform and adapt processes by making them more customer-centric in order to improve the experience of customers.

Measuring customer experience

Understanding the behaviours and needs of customers through customer insights is key for Banco Sabadell.

Measuring customer experience involves understanding the market, consumers and customers, using a number of different qualitative and quantitative analytical methodologies to that end.

Qualitative analysis

In order to better understand the environment and the customers within it, different qualitative studies and research projects are undertaken using different methodologies. The aims include:

- Listening carefully, actively and constantly to what customers have to say, so as to ascertain how they experience their relationship with the Bank at different touchpoints.
- Understanding the concerns, worries and attitudes of consumers and their current and future needs.
- Identifying the more emotional and least explicit part of consumer decision-making.
- Defining ad hoc value propositions for each type of customer.

A variety of techniques are used, ranging from conventional in-depth interviews and segment-specific focus groups to more innovative methodologies based on behavioural economics and the detection of the deepest emotions and motivations of consumers. All of them help the Bank to identify the needs of its customers and to innovate by offering them products and services that meet their current expectations.

During 2023, Banco Sabadell has expanded the product offering aimed at its customers, such as the Personal Online Account, aimed at new retail customers, with no established relationship or minimum commitment requirements, and with a factor that truly sets it apart from competitors, namely, that customers of the Bank can enjoy indefinite returns on their balances. In addition, the Personal Online Account is an account with zero issue and maintenance fees and a free debit and credit card.

With regard to Business Banking, Banco Sabadell is committed to supporting its self-employed customers by offering a specialised relationship manager and team of experts to help them find tailored solutions, irrespective of their size or business sector. That is why they can now open a Self-Employed Online Account with the same terms and conditions of the personal account but with free online transfers (within the EU).

Both products have been developed after listening to the Bank’s customers through various studies that have helped to market products adapted to the needs of each customer.

Quantitative analysis

Banco Sabadell also analyses the experience of its customers through quantitative studies. Some of these are more closely related to the traditional concept of customer satisfaction, while others incorporate more emotional aspects of customers, to make the organisation more aware of the importance of considering customers in decision-making, so as to make meaningful improvements.

1. Net Promoter Score (NPS)

Net Promoter Score (NPS), considered to be the benchmark indicator in the market used to measure customer experience, allows us to compare ourselves against peers and even against companies in other sectors, at both the domestic and international levels.

Banco Sabadell Spain's position in the ranking

Retail	SMEs	Corporate
5th	2nd	2nd

Source: Accenture benchmarking of major Spanish financial institutions (2023 data).

In light of the digital transformation, the measurement of customer satisfaction in digital channels has become more important. The NPS of the mobile app for the retail segment is 44% (+4p.p YoY) and that of the telephony channel is 9% (+14p.p YoY).

TSB data

- Bank NPS: +9.4
- Mobile NPS: +60.1
- Branch NPS: +62.4
- Contact centre NPS: +47.9
- Internet banking NPS: +21.3

Source: Internal NPS tracking studies, December 2023 13-Week Rolling score.

The results obtained during 2023 confirm that Banco Sabadell is on the right track. With regard to Banco Sabadell Spain, the results show a change in the trend of customer satisfaction. In terms of the Corporates NPS, the positive trend has continued, achieving the established targets.

Stemming from the focus on always offering the best possible experience to each customer group, one of the Bank’s objectives is to continuously improve its NPS, both in terms of key performance indicators (KPIs) and in terms of the position compared to other banks.

2. Satisfaction surveys

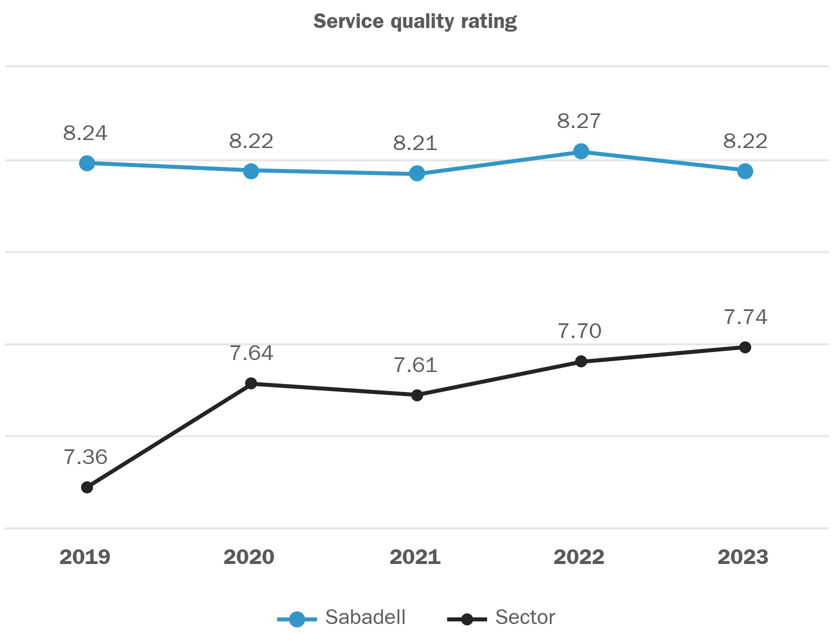
The overall customer experience measurement and management model of Banco Sabadell Spain is based on different indicators obtained from over 800,000 surveys and at more than 20 touchpoints. The results of the various surveys enable the Bank to ascertain the level of satisfaction of its customers and to identify areas where specific processes and contact channels could be improved. For each of these surveys and studies, the Bank sets itself improvement targets and continuously monitors the results.

In a multi-channel environment, the surveys related to specialised customer service, both in branches and in the digital sphere, are becoming increasingly relevant. For Banco Sabadell, the use of digital channels is a moment of truth, which is why it has focused its efforts on measuring customer satisfaction and improving their experience with online banking for individuals (BSOnline Particulares) and for businesses (BSOnline Empresas), with the mobile app, etc. In particular, it is worth noting the outstanding results of the call centre, which has seen an improvement of 2% in its rating over the last year, bringing the rating for customer care from relationship managers to over 9.1.

3. Branch quality surveys

In addition to analysing customer perceptions, Banco Sabadell also carries out objective studies using approaches such as the mystery shopping technique, where an independent consultant poses as a buyer to assess the quality of service and the commercial approach to potential customers followed by the sales team.

EQUOS RCB (Stiga) is the market benchmark survey that evaluates the quality of service offered by Spanish financial institutions through the mystery shopping technique. Banco Sabadell ranks among the leading players and continues to maintain a quality differential with respect to the sector.



Customer Care Service (SAC)

The Customer Care Service of Banco de Sabadell, S.A. conforms to the provisions of Ministry of the Economy Order 734/2004 of 11 March, the guidelines issued by the European Banking Authority (EBA) and the European Securities Market Authority (ESMA), and the Banco Sabadell regulation on the protection of customers and users of financial services. The most recent amendment to those regulations was approved by the Bank of Spain in June 2021.

In accordance with its terms of reference, Banco Sabadell's SAC handles and resolves complaints and claims received from customers and users of Banco Sabadell's financial services and those of the institutions associated with it: 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.

The SAC is independent of the Bank's operations and business lines in order to ensure its decision-making autonomy, and it has the necessary resources to appropriately deal with complaints and claims, guided by the principles of transparency, independence, effectiveness, coordination, speed and security. The SAC also has sufficient authority to access all the necessary information and documentation in order to analyse each case, and the operational and business units are obliged to cooperate diligently in this regard. Banco Sabadell's regulation on the protection of customers and users of financial services ensures compliance with the above-mentioned requirements.

In 2023, 54,884 complaints and claims were received: 51,175 in the SAC, 2,952 through the Customer Ombudsman, 720 through the Bank of Spain and 37 through the CNMV. A total of 34,930 complaints were accepted and resolved; a further 18,914 were not accepted for processing as they did not meet the requirements set forth in the regulations.

See Note 38 to the 2023 annual financial statements for further details.

Multi-channel strategy

During the year, new capabilities were rolled out to consolidate a fully-fledged multi-channel strategy. The process to acquire self-employed customers for business purposes was fully digital, and various improvements were made to the digital customer acquisition process for retail customers, enabling the Bank to meet the ambitious customer acquisition targets that it had initially set itself.

At the same time, actions to activate and engage digital customers were strengthened through activation routes heavily focused on meeting the initial needs of customers in respect of the Bank and with powerful campaigns to capture salary and pension payments, which enabled the Bank to substantially increase the ratio of salary direct deposits, through both the digital channel and the branch network.

All this has been supported by the deployment of specialists in savings & investment and mortgages & insurance to help and advise customers in all those matters that may require greater specialisation and knowledge, so that customers can make the best decisions in each of these areas.

Branch network

The Group ended 2023 with a network of 1,420 branches, representing a net reduction of 41 branches with respect to 31 December 2022.

Of the total number of branches and offices of Banco Sabadell and its Group, 879 operate under the Sabadell brand (including 30 business banking branches and 2 corporate banking branches), 62 operate as SabadellGallego (3 business banking branches), 86 as SabadellHerrero in Asturias and Leon (3 business banking branches), 61 as SabadellGuipuzcoano (5 business banking branches) and 7 as SabadellUrquijo, with a further 83 branches operating under the Solbank brand. The other 242 branches and offices make up the international network, of which 211 correspond to TSB and 15 to Mexico.

Autonomous community	Branches and offices	Autonomous community	Branches and offices
Andalusia	102	Valencia	212
Aragon	24	Extremadura	5
Asturias	69	Galicia	62
Balearic Islands	36	La Rioja	6
Canary Islands	24	Madrid	105
Cantabria	4	Murcia	69
Castilla-La Mancha	17	Navarra	8
Castilla y Leon	37	Basque Country	48
Catalonia	348	Ceuta and Melilla	2

Country	Branches	Representative Offices	Subsidiaries & Investees
Europe			
France	•		
Portugal	•		
United Kingdom	•		•
Turkey		•	
Americas			
Colombia		•	
United States	•	•	
Mexico			•
Peru		•	
Dominican Republic		•	
Asia			
China		•	
United Arab Emirates		•	
India		•	
Singapore		•	
Africa			
Algeria		•	
Morocco	•		

ATM network

Banco Sabadell ended the year with a fleet of 2,488 ATMs in Spain, including 1,663 in-branch and 825 out-of-branch ATMs. Compared to 2022, the number of ATMs decreased by 3%, mainly due to branch closures.

In terms of ATM transactions carried out in 2023, the downward trend observed during the previous year continued, with more than 78 million transactions carried out, which is a 6% decrease in the total number of transactions.

Deposits and withdrawals were the most commonly used types of transactions and, in both cases, there was a slight decrease compared to the previous year.

The main goal for 2023 was to continuously improve the overall availability of the ATM fleet, enhance the customer experience and above all focus efforts on overhauling the look and feel of the ATMs and their cleanliness.

Direct Branch

During 2023, Direct Branch contacts increased by 7% compared to those recorded in 2022 and numbered 5 million, mainly as a result of the transfer of the centralised branch service (options 3 and 4 of the centralised branch service's menu, managed by the Retail Segment Direct Branch) to Direct Branch (380,000 calls).

However, all the channels saw a reduction in contacts compared to the previous year. Telephone consultations accounted for 81% of total contacts across all channels, followed by email, chat and social media. The graph below shows the contacts recorded, by channel.

As regards service levels, the Service Level Agreement (SLA) percentage for telephone enquiries was above 94%, followed by the SLA for chat at 97% and the SLA for the email channel at 85%. Banco Sabadell received over 137,000 mentions on social media, and the SLA was 98%.

Highlights of 2023:

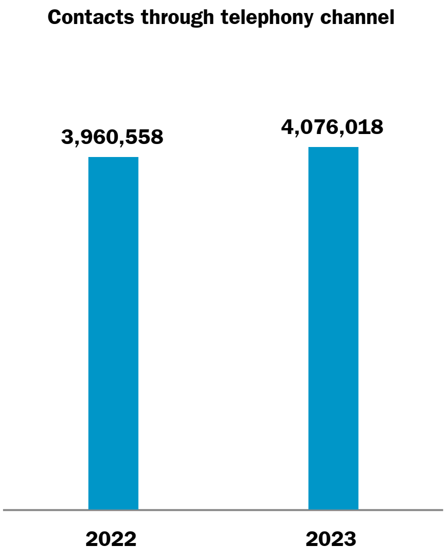
- The servicing plan has been in place since the beginning of 2023. This plan has different levers, such as the reduction in the number of calls, first contact resolution and process automation.

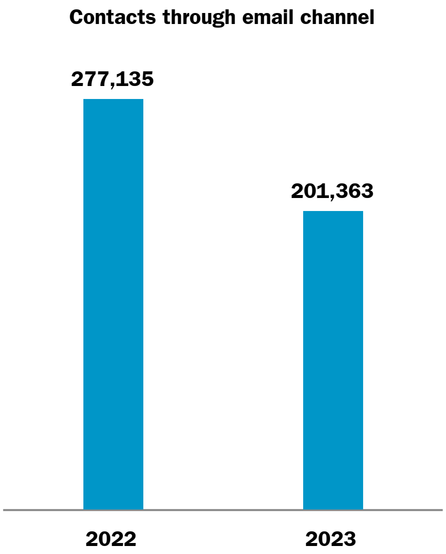
- The introduction and development of the virtual assistant, which has led to reduced use of the telephone channel and has boosted the use of the chat feature in self-service.

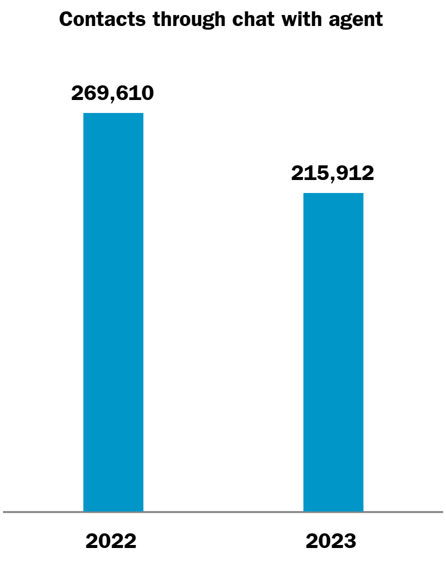
– Improvement of procedures to provide Direct Branch with greater autonomy, more capacity for remote resolution and improved quality, whilst reducing the number of referrals to a branch.

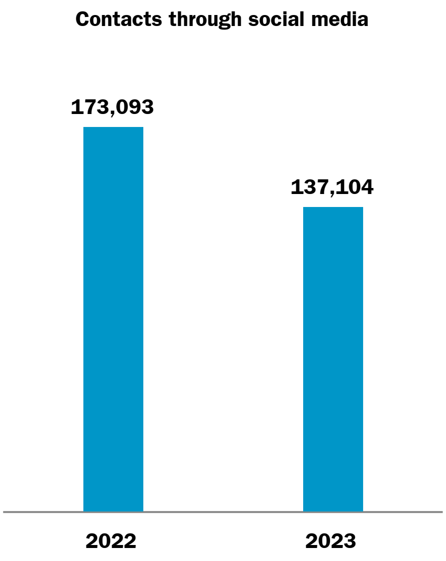
– The main milestones in enhancing the usability of this channel include its implementation in English and making the virtual assistant more visible and available on almost all transaction pages of the website, including the home page, as well as placing it more prominently on the app.

– On the other hand, the conversation flows and FAQs of the virtual assistant have been improved and the chat has been given more autonomy, substantially increasing first contact resolution in this channel, which is now 18% higher than the data recorded at the start of the year.









<u>Social media</u>

Through social media, Banco Sabadell aims to get to know digital customers and their needs, listen to their suggestions, and analyse how best to serve them. Banco Sabadell is currently active on five social media channels: X (formerly known as Twitter), Facebook, LinkedIn, YouTube and Instagram, with 20 different profiles at the national level, and it is one of the financial institutions with the best digital reputations.

Social media are among the main channels for engaging with customers 24/7, both for handling banking queries and for broadcasting institutional and business messages, marketing campaigns and general interest messages.

A key success factor is the continuous tracking and monitoring of interactions with followers and customers. One of the most noteworthy KPIs in reports on social media positioning is the response rate, in which Banco Sabadell has a very high score.

Continuing with the initial goals, this year the Bank has also worked on improving the way it handles reviews. A personalised customer service mailbox has been set up for all iOS and Android reviews that require follow-up. This is also aligned with the objective of detecting improvements in unassisted channels such as the app and website, which can boost the use of self-service.

Meanwhile, improvements have been made to first contact resolution, making outgoing calls for cases that cannot be processed through social media, thus supporting customers until they reach the end of their journey and providing the Bank with more tools to deal with any cases in which there is reputational risk.

Finally, the Bank has started to use new channels, such as the Helpmycash portal, where it replies to reviews and comments from users of the Sabadell Online Account. The Institution thus continues to expand its digital presence in fast-growing channels.

Digital transformation and customer experience

In banking, as in many other businesses, the digitalisation of consumer habits is leading to a profound digital transformation of the sector. Interactions that previously took place in person at branches are now increasingly taking place online. Banco Sabadell Group believes that it is necessary to offer its customers an optimal level of digital services for any transactions that they wish to do using their mobile device, while continuing to offer in-person services at any one of its more than 1,400 branches and through its network of specialists, at the times that really matter to customers.

During this past year, the Group has made considerable efforts to upgrade the technology infrastructure, resulting in a scalable and efficient platform with recognised levels of cybersecurity. These improvements have absorbed the growth in transactions as a result of customers' digitalisation. In just one year, the Group has doubled the transaction volume and has done so whilst reducing application access times by between 10% and 40%.

Digitalisation also opens new doors to process improvements, which will make it possible to offer a superb customer experience in processes that are currently seen as cumbersome. The Group already has good examples of this, such as its new 100% digital customer registration process. Today, this channel acquires more than half of retail customers, with figures that can reach 1,800 customers in a single day.

Sabadell Digital

Sabadell Digital is Banco Sabadell Group's IT subsidiary. Its mission is to develop the best technological solutions, so that the Bank can drive forward its digital transformation. Sabadell Digital's contribution to the Group is based on three principles:

- Focus on customers' needs through proximity and empathy. This makes it possible to deliver the best technological and digital solutions to meet customers' needs.
- Smart innovation, to innovate, adapt to change and challenge the status quo through experience-based decisions.
- Digital talent community as a source of knowledge shared between digital and technology experts, focusing especially on collaboration and mutual trust among the people that make up Sabadell Digital.

Since the creation of Sabadell Digital in 2023, the management of digital and technological talent has been one of the priorities. In order to make Sabadell Digital a leading employer in the tech/digital sector, new employee engagement improvement initiatives have been implemented and career plans have been overhauled to maximise internal talent and attract external talent. This has led to improvements, such as a 25% reduction in recruitment time for tech/digital profiles.

Main deliveries in 2023

Digital onboarding

Onboarding customers is a gateway to the sale of other Group products. This project aims to drive the digital registration of new customers and increase their engagement with Banco Sabadell from the outset. Up to 55% of new customers were registered through the digital process and 59% of those customers brought their salary payments or recurring income to the Bank.

During this year, the Group improved the process, broadening its scope and optimising the experience:

- Expansion of the potential target: dual account holders, residents without a foreigner's ID card (TIE), self-employed with business purposes.

- Optimisation of the signature process and provision of the option to resume the registration process if not completed.

- Reinforcement of the security of the process to protect against fraud, with improvements and optimisation of user identification through facial recognition.

- Support during initial engagement actions, for instance, helping customers to set up the direct deposit of their salary, enrol on Bizum and use their card the first few times they connect to the app after being registered as customers.

New Sabadell Online Account

This project seeks to implement Banco Sabadell's new digital offering exclusive to new customers and available through a 100% digital customer registration process. It is a multi-product solution comprising a current account, the Expansión savings account, mutual funds, securities and a debit card. The value proposition of the current account consists of a 2% interest rate on account balances and 3% cashback on gas and electricity direct debits.

Mortgage model transformation

In 2023, the Group started the digital transformation of its mortgage model, with two very clear focus areas:

- The customer: focus on optimising and improving the digital process, making it as convenient as possible for customers. The Group recorded a 33% increase in digital applications and a 52% increase in the number of users who use self-service to obtain a preliminary score without contacting the branch network directly.

- The support model: the Group improved efficiency to allow relationship managers to devote their time and effort to value-added tasks for customers.

This year marks the start of a digital transformation strategy, which will begin to bear fruit in 2024, with a focus on digitalisation and support from specialists as part of an omnichannel mortgage application process.

Servicing programme

The servicing programme aims to offer the best customer experience by giving customers the option to do their banking whenever and wherever they want. This programme has activated the following levers:

- Reduce the need for low-value transactions at branches, allowing the branch network to focus on value-added transactions.

- Decrease the number of transaction-related calls made to Direct Branch and those redirected to the branch network.

- Make the operational model more efficient by providing it with better and more efficient digital capabilities.

- Improve customer satisfaction in their remote interactions with Banco Sabadell. This year the mobile banking NPS (Banco Sabadell's mobile app) grew by 4 basis points (from 40% to 44%).

Marketing tools in digital processes

Content customisation according to the customer's profile in the digital channel is key to improving transaction conversion rates. This project promotes the integration of marketing tools in Banco Sabadell's mobile app, enabling the app to show content that is both personalised and geared towards customers' interests, thus improving marketing efficiency and user satisfaction.

The Group is also using marketing tools' capabilities for A/B testing and to optimise commercial and servicing processes, making continuous improvement the foundation of its digital platform development.

Design system evolution: Galatea

During 2023, thanks to the Group's design system and the reuse of common components, the Group was able to save 4 million euros in design execution and digital front-end development. 95% of the components used were already available and this facilitates visual consistency and helps speed up deliveries.

Growth of the companies panel

The companies panel is made up of companies from various segments and sectors, and the Group offers the possibility of validating and prioritising improvements in its website (BSOnline) and mobile app (BSMóvil) available to business customers, through a structured and scalable work methodology. The creation of this panel has made it possible to reduce project delivery times and, above all, to increase customer satisfaction. During 2023, the Group has doubled the number of participating companies, which now number 275.

Digital registration process for the self-employed

Thanks to the capabilities developed in digital onboarding and the new online account for retail customers, Banco Sabadell now offers self-employed persons the option to open an account for business purposes with a 100% digital process. This digital capability is supplemented by the support of specialised managers to better address the specific needs of the self-employed.

New file query system

The Group has implemented a new interface in its website for business customers (BSOnline Empresas) to boost digital transactionality and payments and collections. This new interface makes it easier to manage files, as it includes incident alerts, filters and a new design. As a result of the new features and performance improvements in file management, Banco Sabadell offers an improved digital experience to companies in order to boost transactions through digital channels.

BSMóvil Empresas redesign

Banco Sabadell has redesigned its mobile app for business customers (BSMóvil Empresas), introducing new browsing features, access to frequent transactions and a secure chat with centralised customer service teams. Thanks to this redesign, the number of users of BSMóvil Empresas grew by 10% to more than 340,000 unique monthly users in December 2023.

2 – ECONOMIC, SECTORAL AND REGULATORY ENVIRONMENT

Economic and financial environment

The main factors at play in 2023 were the interest rate hikes carried out by central banks and the progressive transfer of their impact to economic activity. The cycle of interest rate hikes only came to a halt in the final part of the year when the monetary authorities indicated that rates had already reached sufficiently restrictive levels. The progress seen over the year in the process to reverse inflation, which now demonstrates a clear downward path, was the main factor enabling the central banks to adopt a more relaxed position. In terms of economic activity, the Eurozone and UK economies suffered more in this environment and maintained a situation of virtual stagnation, while the United States proved to be more resilient and surprised to the upside. On the other hand, a number of specific episodes of uncertainty, of different kinds, emerged over the year, among them the collapse of certain US regional banks, the problems at Credit Suisse and the beginning of the armed conflict in the Middle East between Israel and Hamas. The economic repercussions of these events were mostly contained and short-lived. Lastly, in the financial markets, 2023 was a positive year for most financial assets, following 2022 when a large portion of assets recorded heavy losses.

Geopolitical environment

Geopolitical events continued to represent a vector of uncertainty across the global panorama. The outbreak of a new conflict between Israel and Hamas in the final part of 2023 rekindled instability in the Middle East. With the outbreak of the conflict, Arab countries that had normalised relations with Israel under the Abraham Accords paused the peace process and/or placed it under review. The greatest risk lies in a potential escalation of the conflict at a regional level, which could cause disruption to oil and gas supplies. The most recent developments in this conflict were the attacks by Yemen's pro-Palestine Houthi rebels on cargo ships in the Red Sea, disrupting maritime traffic in the region.

On the other hand, the conflict between Russia and Ukraine became deadlocked and Ukraine remains divided on its eastern side. In the Western world, sanctions against Russia continued and support for Ukraine, both military and economic, was maintained, although the "fatigue" evident among several Western States raises doubts about what may happen going forward.

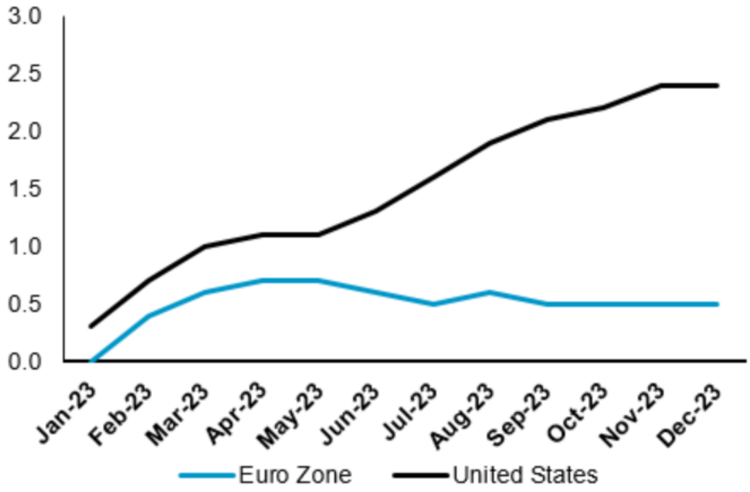
In the background, the geostrategic contention between China and the United States continued, and the emergence of the Global South as a player to be reckoned with in international relations took on new importance. The greater relevance of these countries at multilateral meetings, such as the G20, or in alternative groupings, such as BRICS (particularly after its forthcoming enlargement was announced), were at the centre of the geopolitical debate.

Economic activity and inflation

The evolution of the global economy showed a marked divergence between the dynamism of the US economy, which proved to be stronger than expected, and the European economies, which lagged and were practically stagnant throughout the year. Spain continued to outperform other Eurozone countries, while China was affected by the impacts of its real estate sector adjustment.

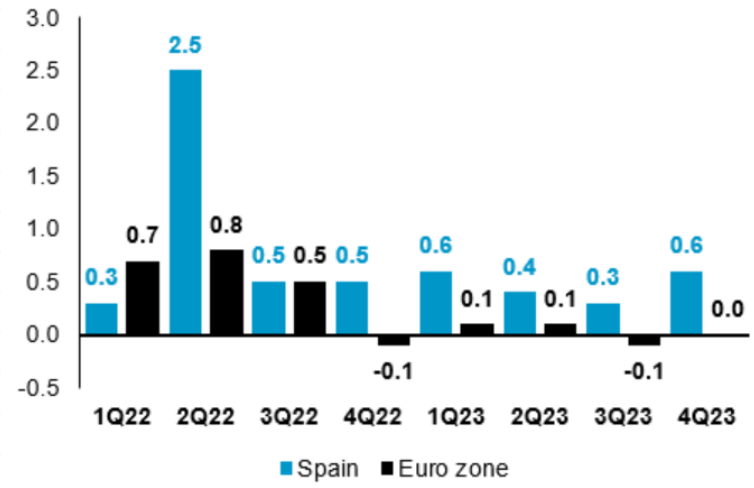
In the Eurozone, economic activity remained practically stagnant throughout the year. The economy was weighed down by monetary policy tightening, weak domestic demand and a sluggish industrial sector, particularly in Germany, which remains affected by the energy crisis. In fiscal matters, EU governments formally agreed on a proposal to reform the European bloc's tax framework at the end of 2023. This proposal will need to be negotiated with the European Parliament and is expected to come into force before the European elections scheduled to take place in June 2024. In the United Kingdom, economic activity remained weak for most of the year, with growth diminishing as the year progressed. Higher interest rates and inflation dampened domestic demand. In the real estate sector, prices fell with respect to the peak seen in 2022. In the United States, however, economic activity was more solid and the growth forecasts for 2023 were continually revised upwards. Domestic demand and, in particular, private consumption were the main levers for growth during the year. The labour market remained solid throughout the year and the unemployment rate stayed below 4%. Nevertheless, the cooling was more evident in the reduced number of vacancies, with job market tension easing.

The evolution of the economic growth forecast for 2023 revealed a significant gap between the Eurozone and the United States. Source: Consensus Economics.



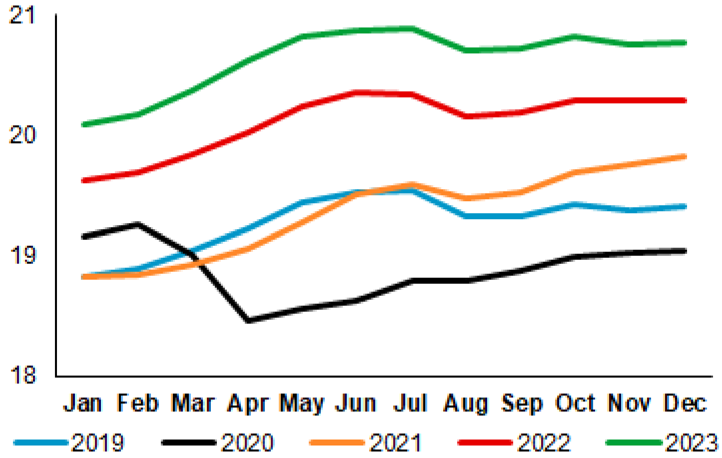
In Spain, the economy followed a similar growth pattern throughout the year, despite a backdrop of rising interest rates, weaker export market performance and a loss of momentum due to the post-pandemic reopening. Growth forecasts for 2023 improved as the year progressed, and the performance of the Spanish economy ended up being much more favourable than that of the Eurozone as a whole. This improved comparative performance was accompanied by greater weight of the service sector (in a context of weakness in industry), less exposure to China's economic slowdown, lower inflation during much of the year, and a better balance sheet position among private sector players.

GDP growth of Spain vs Eurozone (quarterly variation, %). Source: Eurostat.



In 2023, growth in Spain was driven by private consumption, in turn supported by revived purchasing power among households and good performance of the labour market. Consequently, unemployment reached its lowest rate since 2008 and the job occupancy rate hit a record high, with significant dynamism in high value-added sectors and a marked recovery of immigration, which boosted the labour force. On the other hand, investment in residential property, impacted by the fall in mortgage lending, remained far from its pre-pandemic levels, while business investment was also persistently sluggish.

Job occupancy in Spain is at a record high. Workers enrolled in Social Security (millions). Source: Ministry of Social Security.



With regard to economic policy in Spain, it is worth mentioning the approval, early in the year, of the second part of the pension reform, which aims to increase the income obtained through the system. In the second quarter, the government extended most of the measures to alleviate the impacts of the energy crisis until the end of the year. Subsequently, in December, the government approved a decree to further extend several of these tax breaks, as well as an extension of the scope of the Code of Good Practice to encompass mortgage borrowers and the extension of the bank levy during 2024. Lastly, the European Commission's approval of the addendum to the Spanish Recovery Plan, which will mobilise an additional 94 billion euros related to the NGEU funds, is also worthy of mention. With regard to the political landscape, snap general elections took place in July, after which a coalition government was formed between PSOE and Sumar, supported by various parties from the autonomous communities.

The emerging economies generally proved to be resilient, despite the high interest rate environment at a global level. The region benefited from the post-Covid reopening in China and from commodities prices, which remained at high levels. The industrial offshoring trend, arising from a more fragmented geopolitical environment, could also be an additional support for some emerging countries. In Mexico, for example, investment grew at historic double-digit rates, partly due to nearshoring with the United States. Also worth noting is the positive turnaround of the management of economic policy in Turkey, which developed a more orthodox approach. In this context, the process to reverse inflation in emerging economies progressed and some central banks (particularly in South America) were able to reduce their official interest rates.

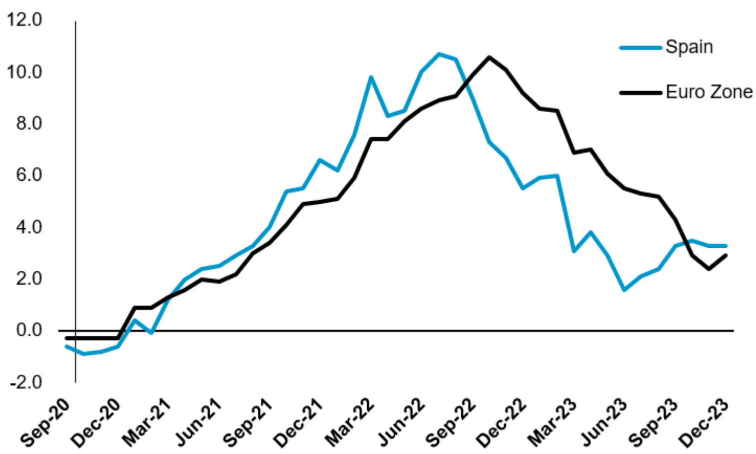
In China, the post-Covid reopening drove growth, although the recovery was slower than expected. A lack of household confidence in the real estate sector and delayed decision-making on household investments weighed on China's recovery. In this context, the adjustment of the real estate sector, already underway since 2021, intensified. The liquidity problems of real estate developers worsened and fears grew that defaults might become more widespread in the sector and could also spread to local governments. This problem was kept in check as public sector real estate developers, in a better position in terms of liquidity and leverage, were able to sustain the sector. In addition, lending flows to the industrial sector continued, and private investment in the manufacturing sector grew at robust rates.

In 2023, inflation in the main developed economies eased from the peaks observed in 2022. Once the energy crisis and supply chain issues were resolved, the correction of energy prices and industrial goods was, to a large extent, the force behind the moderation of headline inflation. The evolution of core inflation, which is more affected by the service sector and wage dynamics, was more subdued, although it also showed a clear downward trend.

In the Eurozone, inflation continued to ease, with the year-on-year rate falling below 3.0% for the first time since July 2021, due to the energy component in particular. Core inflation, which excludes energy and food, also eased, although it remained at historically high levels. In the United Kingdom, headline inflation fell from the peaks seen in 2022, but the pressure shifted to core inflation, which reached its highest levels since 1992. Pressure from the service sector combined with increased food prices drove inflation in the UK to levels worse than its peers. The sharp tightening of the labour market, where wages increased by more than 8% year-on-year, also contributed to the persistence of inflation. In the United States, inflation continued with its gradual slowdown, although it remained above the monetary policy target. Wages gradually moderated from the second half of the year onwards, which served to contain the pressure on the underlying index.

In Spain, inflation was influenced by the base effect of energy products, with the year-on-year rate presenting a downward trend and falling below 2.0% in June. After that, the base effect began to work in the opposite direction, raising the year-on-year rate of inflation once again. Core inflation, on the other hand, followed a gradual slowing trend, influenced in particular by slower price growth in the industrial sector which, unlike the service sector, was less affected by the increase in labour costs.

HICP for Spain vs Eurozone (year-on-year change in %). Source: Eurostat.

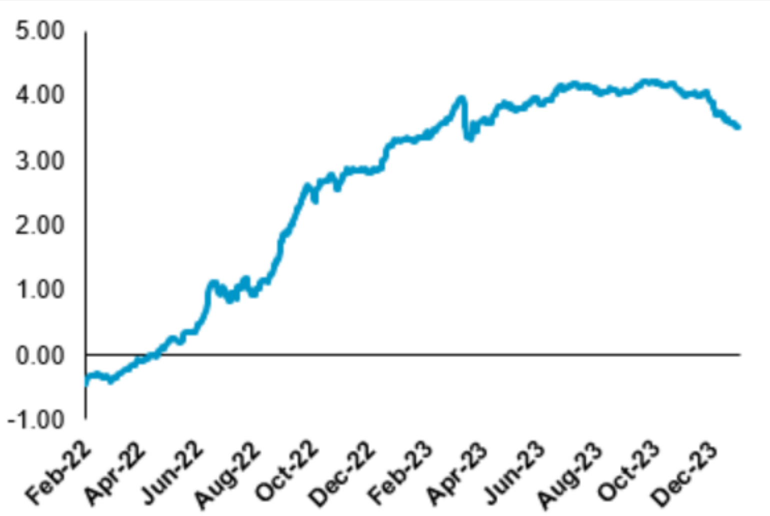


Monetary policy

During 2023, the central banks of developed countries continued their cycle of interest rate hikes, although the pace was somewhat less intense than in 2022. It was only towards the end of the year that they considered that rates had reached sufficiently restrictive levels to keep inflation under control, at which point they indicated that the rate hike cycle might have reached its end.

In the Eurozone, the European Central Bank (ECB) implemented an unprecedented tightening of its monetary policy. Thus, it continued with the rate hike cycle that had begun in 2022 and ended the year with the deposit facility rate standing at a record high of 4.00%. In addition, the size of its balance sheet continued to shrink, due to the maturity of TLTRO III funding transactions and the beginning of the process to reduce its holdings of assets bought under its APP. Additionally, it announced that it would stop reinvesting a portion of maturing securities purchased under the PEPP asset purchase programme in the second half of 2024. Meanwhile, the ECB stopped remunerating banking institutions' mandatory reserves.

12M Euribor (%). Source: Refinitiv.



In the United States, the Federal Reserve (Fed) continued to pursue its rake hike cycle, with official interest rates reaching a range of 5.25%-5.50% mid-year. At its last meeting of the year, the Fed signalled that the rate hike cycle had come to an end and that it would even begin discussions about future rate cuts, which provided additional support for the performance of various financial assets. In terms of balance sheet policy, its balance sheet reduction was interrupted following the financial instability triggered by the collapse of

Silicon Valley Bank, as a result of which the Fed established new extraordinary funding facilities for the banking system. Nevertheless, once the event was resolved, the Fed continued its balance sheet reduction by electing not to reinvest maturing debt.

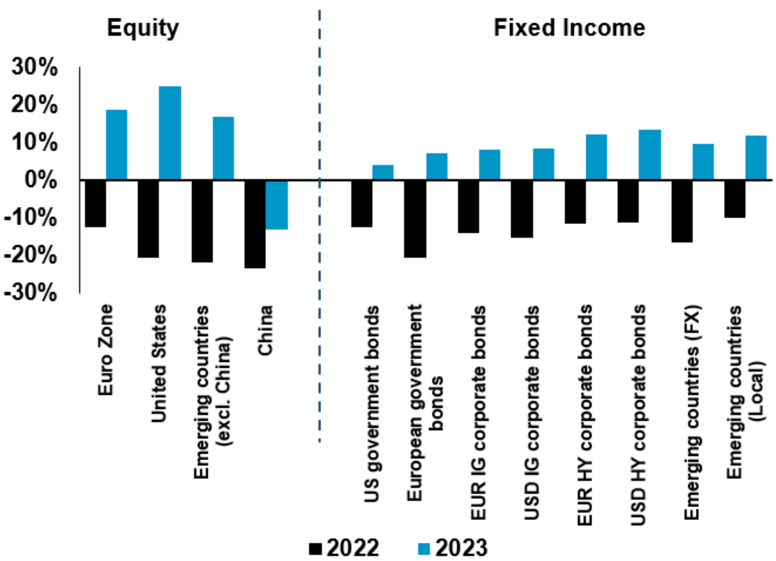
In the United Kingdom, the Bank of England (BoE) raised the base rate to 5.25%, after inflationary pressures intensified at the beginning of the year. In addition, it continued with the balance sheet reduction programme, unwinding practically all of its corporate bond holdings (around 18 billion pounds) and 93 billion pounds of government debt acquired under the Asset Purchase Facility (APF). In the same vein, the BoE announced that it would continue to downsize its balance sheet and estimated a further reduction of 100 billion pounds of government debt holdings in the next tax year (October 2023 - September 2024).

In Mexico, the central bank ended its rate hike cycle in the first half of the year with the official interest rate standing at 11.25% and kept it unchanged during the second half of 2023. Banxico has not yet begun to discuss possible rate cuts and continued to hold the opinion that inflation risks remained skewed to the upside. This stood in contrast with the situation of other Latin American countries, such as Brazil, Chile and Peru, where the central banks started to make rate cuts in the second half of the year. This was also the tone in China, where the authorities adopted monetary loosening measures, albeit cautiously, to support economic recovery. By contrast, benchmark interest rates were hiked sharply in Turkey, in a context of double-digit inflation.

Financial markets

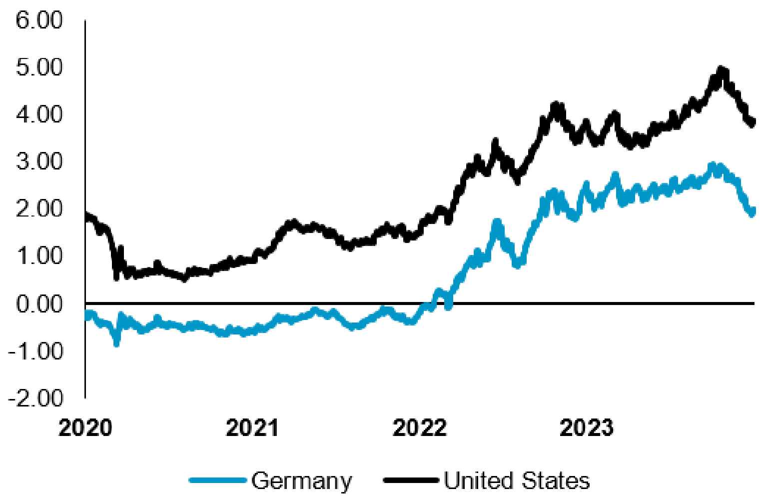
The financial markets performed better in 2023 than the previous year, when a large portion of financial assets posted heavy losses. The liquidity problems related to the US regional banking industry and the outbreak of the conflict between Israel and Hamas had an initial negative impact, but this was quickly and fully reversed. Government bond yields showed a rising trend for a good part of the year, but the trajectory was completely reversed towards the end of the year, in response to some downside surprises in inflation data and the Fed's monetary policy turnaround. The improved performance of risk assets was related to the end of the central banks' cycle of rate hikes, the forthcoming rate cuts priced in for 2024 and the boom in companies related to artificial intelligence. The risk premiums of European peripherals and corporates held up well. On the other hand, the euro exchange rate against the dollar displayed pronounced volatility, swinging back and forth according to the interest rate differential and the divergence of economic growth across regions.

Returns on various financial assets (in %, by year). Source: Refinitiv.



Long-term government bond yields showed a rising trend for much of the year. In the United States, the yield on 10-year bonds reached its highest level since 2007, while in Germany it reached levels not seen since 2011. Yields were driven upwards by pressure from monetary policy tightening, the resilience of the US economy and concerns regarding high levels of need for sovereign debt funding (exacerbated by the deterioration of US public accounts). The latter had a particularly marked impact on the financial markets due to the context of balance sheet reduction by central banks and the shift in demand for public debt towards more price-sensitive investors. In the last two months of the year, some unexpected falls in price data and a shift in the central banks' communication policy (particularly that of the Fed) led to a turnaround in yields, which completely reversed the upward trend seen over the year. The yield on US 10-year government bonds ended the year at the same level as 2022, while that of the German 10-year bund ended the year 50 basis points lower.

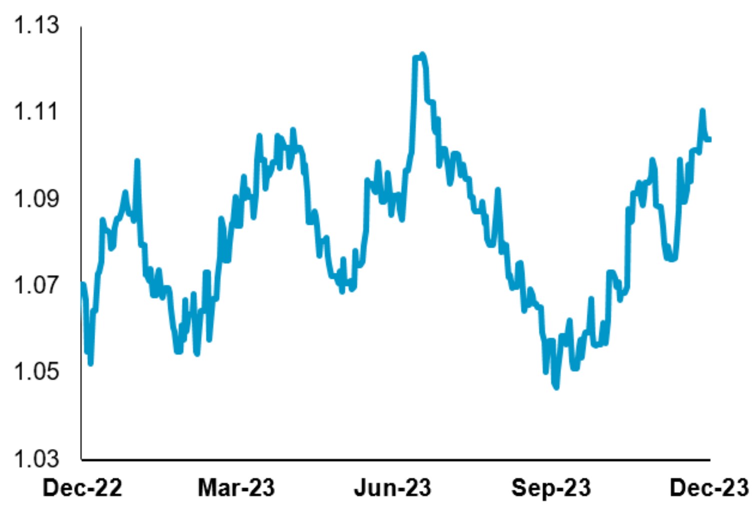
US and German 10-year government bond yields (%). Source: Refinitiv.



The risk premiums on peripheral sovereign debt were at lower levels than those seen at the end of 2022, supported by the ECB's emergency purchase programmes, the European Union's NGEU funds and some positive actions undertaken by the rating agencies. The Italian sovereign risk premium was pushed up towards the end of the year, due to poor performance of the public accounts and an upward revision of forecasts for the budget deficit in the coming years. Despite this, the main rating agencies kept Italy's credit rating unchanged and Moody's even improved its outlook from negative to stable (Moody's rated Italy's debt on the lowest notch of investment grade). On the positive side, Greece performed well, obtaining an investment grade rating for its public debt from rating agency Standard & Poor's for the first time since 2010. Furthermore, Fitch and Moody's raised Portugal's rating to A-.

With regard to developed countries' currencies, the US dollar posted numerous swings in its exchange rate against the euro, finishing the year at somewhat lower levels compared to the end of 2022 (EUR 1.00 = USD 1.10). The currency was mainly affected by the divergence between the Fed and the ECB's respective stances on monetary tightening, and concerns regarding global economic growth. The risk episodes related to liquidity problems in the US regional banking industry and the outbreak of the conflict between Israel and Hamas only gave piecemeal support to the US currency. The pound sterling appreciated slightly against the euro, due to greater interest rate tightening by the BoE.

USD/EUR. Source: Refinitiv.



The equity markets performed well, following significant corrections in the previous year. Most of the global stock market indices managed to post gains. For example, the Stoxx 600 advanced by more than 12% year-on-year, while the IBEX 35 managed to post a 20% gain. Stock market increases were also significant in the United States, above all in the case of tech companies (the Nasdaq managed to gain over 40%).

In emerging economies, sovereign risk premiums were slightly reduced over the year. The outbreak of the conflict between Israel and Hamas towards the end of the year had a limited impact on emerging markets. Yields on long-term domestic government bonds, in general, shifted downwards over the year, with the main exceptions of Mexico (where they were pushed up by US yields) and Turkey (due to the benchmark rate hikes). With regard to exchange rates, the high official interest rates in emerging countries continued to serve to support emerging market currencies. The Mexican peso performed particularly well in this respect. Conversely, it is worth highlighting the significant depreciation of the Turkish lira due to reduced currency intervention by the country's authorities, and the devaluation of the yuan, in a context of portfolio outflows and lower foreign direct investment in China.

On the other hand, the cryptoassets market registered a slow and partial recovery in 2023, following the significant correction that occurred in 2022 due to the collapse of numerous large crypto entities. This recovery was partially supported by expectations of United States approval of Exchange Traded Funds (ETFs) that invest in bitcoin for cash, which, according to analysts, could attract traditional investors to this market. Nevertheless, its valuation is still far from the historical peaks recorded at the end of 2021.

Financial sector environment

Banking sector

The global banking sector registered sporadic episodes of instability in the first half of 2023, which were confined to the collapse of the US regional banks Silicon Valley Bank (SVB) and Signature Bank in March, and the acquisition of First Republic Bank by JP Morgan in May. SVB faced a significant liquidity crisis, stemming from poor management of its balance sheet (asset side heavily invested in long-term public debt and mortgage-backed securities at a time when interest rates were low, and a high concentration of deposits in the hands of relatively few customers) and a lack of regulation and supervision of small and medium-sized banks in the United States. In the end, the FDIC (US deposit insurance fund), the Federal Reserve and Treasury intervened to protect all funds held by depositors at SVB and Signature Bank, which faced similar problems. As for Credit Suisse, in a deal brokered by the Swiss government, the bank was acquired by UBS. The agreement included writing off the investment of Credit Suisse AT1 bondholders, meaning that shareholders were not the first to fully absorb the losses; this had implications for the AT1 market. The monetary and regulatory authorities in the various jurisdictions took prompt action and introduced measures that were effective in containing the financial contagion. This, together with the existing differences between the banks concerned and the rest of the sector, meant that the consequences were limited.

These episodes led to a review of the regulatory and supervisory framework for regional banks in the United States. In the EU, attention shifted to the need to strengthen the supervisory framework. This had consequences for the European construction process, leading the European Commission to propose a reform of the bank crisis management and deposit insurance framework (CMDI) for medium-sized and smaller banks. Other debates that arose at global level concerned (i) how to stem the rapid outflow of deposits at times of stress, as these are carried out digitally and are therefore more difficult to control than physical withdrawals, and (ii) the need to review the level of coverage of the deposit guarantee scheme and increase the maximum threshold of guaranteed deposits in different jurisdictions. Elsewhere, in the United States and the United Kingdom, the entry into force of Basel III was postponed to June 2025.

Throughout 2023, several governments introduced a windfall tax on the banking sector and other unorthodox measures. The main objectives were to increase their tax contribution and mitigate the impact of interest rate hikes on other players in the economy. With regard to tax, the cases of Spain and Italy are worth mentioning in particular. In Spain, the tax on extraordinary profit of banks, applied to 2022 and 2023 earnings, was approved amidst the unfavourable opinion of the ECB and IMF because of its design and its impacts on the banking sector. Subsequently, the government extended the measure for a further year. In Italy, the government had to water down the design of the tax so that, ultimately, banks had the option of increasing provisions to avoid paying the tax. Other measures adopted by EU governments included greater pressure on banks to regulate their prices, compelling banks to sign mortgage moratorium agreements and establishing taxes on share buybacks carried out by banks.

In the year overall, the general situation of banks was one of adequate capital levels, with a CET1 capital ratio that, according to the authorities, would remain above the minimum required by regulations, even in an adverse scenario. The interest rate hikes implemented by central banks had a positive effect on banks' results, in spite of the fact that as interest income increased, funding costs also became more expensive.

European banks operated in a less liquid environment following the maturity of the bulk of TLTRO III borrowing, although this did not have a very significant impact on regulatory liquidity ratios, which remained comfortably above the regulatory minimum and market requirements. Asset quality did not appear to deteriorate, although concerns grew about the performance of the commercial real estate sector, above all in the United States. In general, the conditions applicable to bank loans in the main developed economies were compatible with tightening financial conditions.

With regard to the Spanish banking sector, the Bank of Spain (BoS) indicated that, in the scenario of heightened uncertainty and increased risk arising from geopolitical tensions, Spanish banks continued to present a favourable evolution in terms of profitability, solvency and default rates. Financing costs were gradually being adapted to the new interest rate regime. Banks replaced ECB funding with debt issues (mostly senior debt) and interbank market transactions (repos). Spanish banks maintained a relatively high liquidity coverage ratio (LCR) relative to comparable countries, although the ratio had fallen significantly since 2021 due to the reduction of surplus reserves deposited by banks with the ECB. The pass-through of monetary policy tightening to interest rates was more pronounced in loans than in deposits; this was partially due to the ample liquidity that banks were operating with at the time. Nevertheless, the Bank of Spain anticipated a gradual increase in costs associated with liabilities going forward. On the other hand, it continued to ask banks to increase their provisions.

Financial stability and macroprudential policy

Throughout 2023, the financial authorities maintained that the risks of financial instability at a global level were high and they appeared more concerned following the beginning of the conflict in the Middle East. Other focal points in the year included a potentially disorderly correction of prices in the commercial real estate sector (above all in the United States, but also in some European countries), the situation facing companies, the economic weakness of certain economies such as China, and the potential price adjustment of financial assets.

The authorities continued to warn about risks in the non-bank financial sector (NBFS), although little progress has been made with its regulation. In terms of risks, of particular note were the increase of synthetic and financial leverage, which can spread risks throughout the financial sector and trigger disruption; structural liquidity imbalances, with a potential to spread contagion to the rest of the financial sector; and counterparty credit risk produced by exposure of bank derivatives to the non-bank financial sector (NBFS). In Europe, the authorities showed concern about collateralised loan obligations (CLOs) as, up to now, they have only existed in a low interest rate environment.

The European authorities decided not to proceed with macroprudential policy reform, which they had planned to include in Basel III legislation, postponing it until the beginning of the new European legislature in 2024, at the earliest. European countries did not make progress with the accumulation of countercyclical capital buffers (CCyB), unlike in 2022, and the Bank of Spain kept Spain's at 0% due to the moderate evolution of lending and the real estate market. However, the European and global authorities called for the CCyB to be raised to positive levels when financial conditions return to normal, which began to put pressure on the national authorities to consider raising this buffer to around 2%.

Banking Union and Capital Markets Union

Progress made in terms of European reconstruction was affected by the banking sector episode of March 2023. In April, the European Commission proposed a reform of the bank crisis management and deposit insurance framework (CMDI) for medium-sized and smaller banks. The proposal maintained the limit of 100,000 euros for deposit guarantees. The proposed measures sought to incentivise resolution rather than liquidation in the event of a crisis in medium-sized and smaller banks, with the aim of limiting the use of taxpayer money in the event of a banking crisis and to protect depositors. To that end, if a bank went into resolution and if a point was reached where the depositors would be forced to assume losses, the deposit guarantee fund would absorb those losses first, rather than the depositors. In addition, the deposit guarantee framework was harmonised across different countries and its coverage was extended to also encompass public entities and money deposited by customers in certain non-bank financial institutions, and allowing a guarantee of more than 100,000 euros in specific cases such as house purchase transactions, receipt of insurance compensation and inheritances. The proposal has to be discussed by the European Parliament and the Council and, after that, the ECB will give its opinion, although both the central bank and the Single Resolution Board backed the measures.

Also related to bank resolution, the European Stability Mechanism (ESM) will not ultimately be the backstop for the Single Resolution Fund (SRF), due to Italian opposition, which limits the resources currently available to the European framework to cope with potential needs to resolve large banks or manage systemic events.

The European Deposit Insurance Scheme (EDIS) was maintained without improvements, despite the initial pressure to renew the debate following the episode in March. No progress was made with the Capital Markets Union either.

Challenges for the banking industry

Sustainability continued to feature on the supervisory agenda in 2023. The ECB published its second climate stress test (the first was published in 2021) for the economy as a whole, in which it was shown that the best way to achieve a net-zero economy is to accelerate transition, with more decisive policies. Additionally, the European Banking Authority (EBA) published its report on the incorporation of climate risks in the prudential framework for credit institutions and investment firms in which it recommends measures to accelerate the inclusion of environmental and social risks in Pillar 1. The report does not advocate the introduction of a green supporting factor nor that of a brown penalising factor, but it does adjust probabilities of default (PD) and loss given default (LGD) and proposes a series of measures to be adopted in the next three years. In addition, the European Green Bonds Standard was approved, which will foreseeably start to be applied at the end of 2024. The standard is voluntary and establishes uniform requirements for bond issuers that use the term “European green bond” or “EuGB”, thus facilitating consistency and comparability in the green bond market and reducing greenwashing risks. The Spanish Macroprudential Authority (AMCESFI by its Spanish acronym) published its first report examining the potential impact of climate change risks on the Spanish financial system under the scenarios used by the international authorities. The report indicates that drought events and severe heatwaves could have a negative impact on the solvency and profitability of banks, but considers that the exposure of banks’ mortgage portfolios to flood risk is limited. The European Commission published a new package of measures to strengthen the EU Sustainable Finance Framework and contribute to the European Green Deal objectives. In relation to the COP28 climate summit, various commitments were adopted, such as a greater contribution from developed countries to the loss and damage fund for climate events and the use of renewable energy, whilst recognising for the first time, in its final agreement, that countries must move away from fossil fuels and switch to alternative energy sources in a fair, orderly and equitable manner in the coming years. In relation to international initiatives: (i) the United Nations Environment Programme (UNEP) published its second biennial report on progress with the implementation of the United Nations Principles for Responsible Banking, which considers that considerable progress has been made with the publication of the social and environmental impacts on portfolios, (ii) the TNFD published its final recommendations for the management and disclosure of nature-related risks and a guide to implementation, the equivalent of the climate-related recommendations of the TCFD, and (iii) the NGFS published an initial version of its guidelines for the supervision of nature-related risks. Other focal points included the increase of litigation risk, above all in the United States, and the withdrawal of insurance coverage in certain areas.

Digitalisation processes continued at an increasingly fast pace, giving rise to several focus areas. On one hand, in spite of the continued advance of Bigtech in the financial services sector and the banking industry’s repeated calls for regulations that adhere to the principle of “same activity, same risk, same regulation”, the progress made in this regard was very limited. Another topic that continued to cause considerable concern was the proliferation of cyberattacks, which were becoming more frequent and more severe.

With regard to the regulation of digitalisation, following the crypto crashes of 2022 and in light of the evidence found that risks had not been transferred from the crypto ecosystem to the traditional financial system in this case, only because links between the two are, for the moment, limited, the authorities saw the urgent need to regulate these markets before those links could develop and pose a systemic risk to financial stability. Thus, the authorities proceeded with initiatives to strictly regulate the cryptoassets markets, particularly in the EU, where the Markets in Crypto Assets (MiCA) regulation was approved mid-year. The MiCA regulation will enter into force between 12 and 18 months following its approval and the European supervisory authorities began to publish proposals on the requirements to be established so that they may implement the supervisory responsibilities arising from MiCA.

The authorities in the United Kingdom also made progress in these matters, albeit rather more slowly. In the United States, legislative proposals to regulate these markets did not make any meaningful progress, but the federal agencies, particularly the Securities Exchange Commission (SEC), put increased regulatory pressure on the main cryptoasset exchanges and, in numerous cases, began legal proceedings against these entities. As for the Basel Committee, in June it published the final version of its corresponding standard on prudential treatment, which banks will be required to apply to their cryptoasset exposures as from 1 January 2025.

With regard to central banks’ digital currencies, these plans continue to develop. In particular, the digital euro project made progress in 2023. The ECB completed the research phase, which took two years, and began the preparatory phase, which is expected to take another two years. The ECB published a report with the findings of the research phase, which gave details of the characteristics that the digital euro would have if it were ultimately issued. The preparatory phase will include finalisation of the rules of operation and the selection of service providers that could develop the platform and infrastructure. For its part, the European Commission published a proposal for a regulatory framework for the digital euro; discussion of this framework is expected to be postponed until after the 2024 European elections.

China continued to progress with the digital yuan, extending its use to, among other things, specific stock market transactions, as well as cross-border payments. In February, the United Kingdom published a document on its digital pound project. Meanwhile, the United States kept its digital dollar plan at a more preliminary stage and, for the time being, has not seen clear reasons to move it forward. Significant progress continued to be made with research projects on the possibilities of interoperability between the digital currencies of the different central banks, in large part led by the Bank for International Settlements (BIS). In parallel, the BIS and the IMF began to jointly push for the development of public financial infrastructures in Distributed Ledger Technology (DLT), under rules to be established by the central banks, and the tokenisation of traditional financial assets.

Outlook for 2024

Global economic growth in 2024 is expected to be weak and below potential, affected by the impacts of tightened monetary policy. In terms of regions, the structural adjustments in China are expected to continue, while in the Eurozone, Germany's weaker performance will contrast with the periphery countries that benefit from NGEU funds. As for the United States, an economic slowdown is expected in 2024. By contrast, Mexico is expected to see a more pleasing growth dynamic than the United States, supported, to some extent, by nearshoring, a favourable labour market and the absence of financial imbalances.

It is expected that inflation will continue to gradually ease towards monetary policy targets, although these will not be achieved until the end of 2024 or beginning of 2025. Inflation dynamics will be largely determined by domestic factors, such as the job market, the real estate market and the fiscal policy of each country. Unstable supply conditions could generate new disruptions in production chains and new specific cost pressures.

In terms of economic policy, it is likely that central banks will cut interest rates as inflation moderates and gets closer to their targets, in order to avoid a further rebound of the real interest rate. Throughout this process, central banks could be forced to tolerate inflation rates somewhat higher than their targets, if that serves to avoid a potential financial crisis and significant recession.

In relation to the financial markets, it is expected that short-term government bond yields will gradually decline alongside official interest rate cuts. Long-term government bond yields are expected to remain relatively stable, despite weak economic growth and easing inflation, due to concerns about the fiscal situation, particularly in the United States. Corporate risk premiums could climb to levels higher than the average of the last few years. In relation to sovereign debt risk premiums in the European periphery, it is expected that these will remain at contained levels and in line with their respective ratings.

With regard to the currency market, it is anticipated that the US dollar will gradually depreciate once further weakness in the US economy becomes apparent and the Federal Reserve starts to cut interest rates in 2024.

Spain continues to outperform the rest of Europe in this environment. In this respect, the recovery of real household incomes stands out as a key tailwind, thanks to the favourable evolution of the labour market, higher wages and lower inflation. In addition, business investment has been supported by fewer supply chain issues, the NGEU funds and tenders for public works associated with them, and by liquidity on corporate balance sheets.

In the financial environment, profitability in the banking sector is expected to moderate, as net interest income will provide less support, and asset quality is expected to deteriorate slightly. On the other hand, further progress is expected on the global regulatory framework for activities linked to cryptoassets and on central banks' plans to issue digital currencies.

3 – FINANCIAL INFORMATION

3.1 Key figures in 2023

The Group's main figures, which include financial and non-financial indicators that are key to determine the direction in which the Group is moving, are set out here below:

		2023	2022	Year-on-year change (%)
Income statement (million euro)	**(A)**			
Net interest income		4,723	3,799	24.3
Gross income		5,862	5,211	12.5
Pre-provisions income		2,847	2,328	22.3
Profit attributable to the Group		1,332	889	49.8
Balance sheet (million euro)	**(B)**			
Total assets		235,173	251,241	(6.4)
Gross performing loans		149,798	156,130	(4.1)
Gross loans to customers		155,459	161,750	(3.9)
On-balance sheet customer funds		160,888	164,140	(2.0)
Off-balance sheet funds		40,561	38,492	5.4
Total customer funds		201,449	202,632	(0.6)
Funds under management and third-party funds		226,682	225,146	0.7
Equity		13,879	13,086	6.1
Shareholders' equity		14,344	13,635	5.2
Profitability and efficiency (%)	**(C)**			
ROA		0.54	0.35	
RORWA		1.70	1.12	
ROE		9.48	6.64	
ROTE		11.49	8.19	
Cost-to-income		42.59	44.86	
Risk management	**(D)**			
Stage 3 exposures (million euro)		5,777	5,814	(0.6)
Non-performing assets (million euro)		6,748	6,971	(3.2)
NPL ratio (%)		3.52	3.41	
Stage 3 coverage ratio, with total provisions (%)		58.3	55.0	
NPA coverage ratio (%)		55.6	52.3	
Capital management (*)	**(E)**			
Risk-weighted assets (RWAs) (million euro)		78,428	79,545	
Common Equity Tier 1 phase-in (%)	(1)	13.19	12.68	
Tier 1, phase-in (%)	(2)	15.42	14.75	
Total Capital ratio, phase-in (%)	(3)	17.76	17.08	
Leverage ratio, phase-in (%)		5.19	4.62	
Liquidity management	**(F)**			
Loan-to-deposit ratio (%)		94.0	95.6	
Shareholders and shares (as at reporting date)	**(G)**			
Number of shareholders		213,560	218,610	
Total number of shares outstanding (million) (**)		5,403	5,602	
Share price (euro)		1.113	0.881	
Market capitalisation (million euro)		6,014	4,934	
Earnings per share (EPS) (euro) (***)		0.23	0.14	
Book value per share (euro)		2.65	2.43	
P/TBV (price/tangible book value per share)		0.51	0.44	
Price/earnings ratio (P/E)		4.94	6.32	
Other data				
Branches and offices		1,420	1,461	
Employees		19,316	18,895	

(*) Information corresponding to the consolidated annual financial statements for the year ended 31 December 2022.

(**) Total number of shares minus final treasury stock position (including shares in the buyback programme).

(***) Calculated based on the average number of shares (total number of shares minus average treasury stock and minus average shares in the buyback programme).

(A) This section sets out the margins of the income statement that are thought to be the most significant over the last two years.

(B) These key figures are presented in order to provide a synthesised overview of the year-on-year changes in the main items of the Group's consolidated balance sheet, focusing particularly on items related to lending and customer funds.

(C) These ratios have been provided to give a meaningful picture of profitability and efficiency over the past two years.

(D) This section shows the key balances related to risk management in the Group, as well as the most significant ratios related to risk.

(E) These ratios have been provided to give a meaningful picture of solvency over the past two years.

(F) The aim of this section is to give a meaningful insight into liquidity over the past two years.

(G) The purpose is to present information regarding the share price and other indicators and ratios related to the stock market.

(1) Common equity capital / risk-weighted assets (RWAs).

(2) Tier one capital / risk-weighted assets (RWAs).

(3) Capital base / risk-weighted assets (RWAs).

3.2 Profit/(loss) for the year

Million euro

	2023	2022	Year-on-year change (%)
Interest and similar income	8,659	4,989	73.6
Interest and similar expenses	(3,936)	(1,190)	230.8
Net interest income	**4,723**	**3,799**	**24.3**
Fees and commissions, net	1,386	1,490	(7.0)
Core revenue	**6,109**	**5,289**	**15.5**
differences	68	104	(34.0)
Equity-accounted income and dividends	131	156	(15.6)
Other operating income and expenses	(447)	(337)	32.5
Gross income	**5,862**	**5,211**	**12.5**
Operating expenses	(2,496)	(2,337)	6.8
Staff expenses	(1,495)	(1,392)	7.4
Other general administrative expenses	(1,002)	(946)	5.9
Depreciation and amortisation	(519)	(545)	(4.8)
Total costs	(3,015)	(2,883)	4.6
Memorandum item:			
Recurrent costs	(2,982)	(2,883)	3.5
Non-recurrent costs	(33)	—	–
Pre-provisions income	**2,847**	**2,328**	**22.3**
Provisions for loan losses	(813)	(825)	(1.5)
Provisions for other financial assets	(18)	(111)	(84.1)
Other provisions and impairments	(80)	(96)	(17.0)
Capital gains on asset sales and other revenue	(46)	(23)	101.8
Profit/(loss) before tax	**1,891**	**1,273**	**48.5**
Corporation tax	(557)	(373)	49.3
Profit or loss attributed to minority interests	1	11	(86.8)
Profit attributable to the Group	**1,332**	**889**	**49.8**
Memorandum item:			
Average total assets	245,173	257,553	(4.8)
Earnings per share (euros)	0.23	0.14	

The average exchange rate used for the cumulative balance of TSB's income statement is 0.8706 (0.8532 in 2022).

Net interest income

Net interest income followed a positive trend, reaching 4,723 million euros as at the end of 2023, representing year-on-year growth of 24.3%, mainly due to a higher credit yield and improved revenue from the fixed-income portfolio, underpinned by higher interest rates, all of which served to offset higher costs of both funds and capital markets and the negative effect of the pound sterling's depreciation.

Consequently, the net interest margin as a percentage of average total assets stood at 1.93% in 2023 (1.47% in 2022).

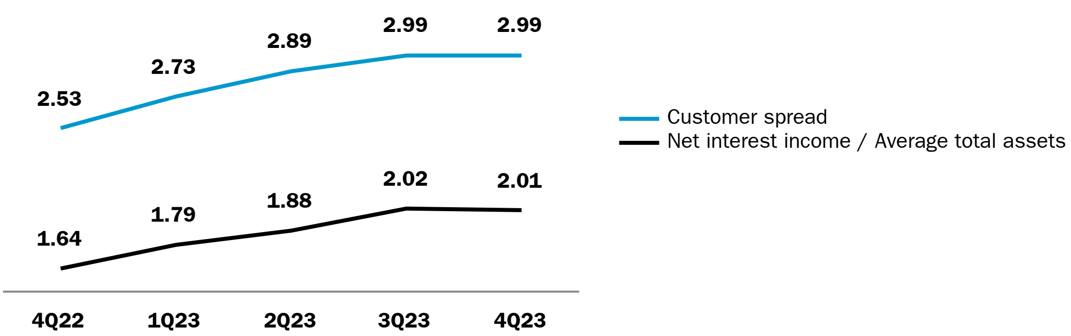
The breakdown of net interest income for the years 2023 and 2022, as well as the different components of total investment and funds, was as follows:

Thousand euro

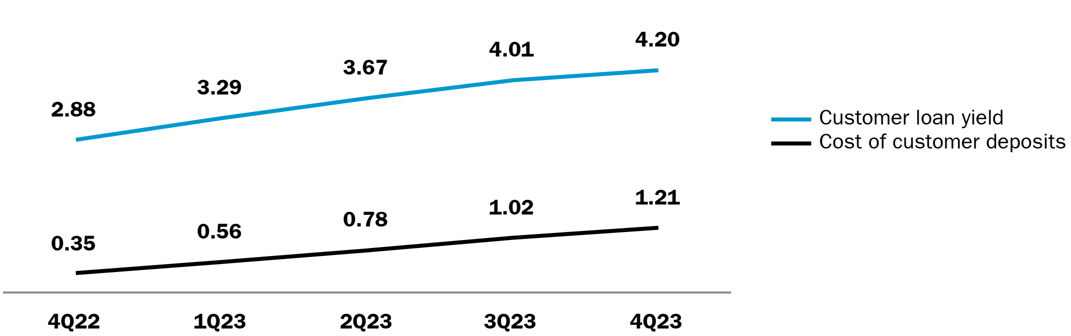
	2023			2022			Change		Effect	
	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Volume
Cash, central banks and credit institutions	42,117,993	1,476,738	3.51	53,538,412	208,485	0.39	(11,420,419)	1,268,253	1,473,389	(205,136)
Loans and advances to customers	153,978,221	5,839,767	3.79	157,870,419	3,965,858	2.51	(3,892,198)	1,873,909	1,892,904	(18,995)
Fixed-income portfolio	28,531,645	832,967	2.92	26,229,512	289,924	1.11	2,302,133	543,043	513,512	29,531
Subtotal	**224,627,859**	**8,149,472**	**3.63**	**237,638,343**	**4,464,267**	**1.88**	**(13,010,484)**	**3,685,205**	**3,879,805**	**(194,600)**
Equity portfolio	859,258	—	—	903,212	—	—	(43,954)	—	—	—
Tangible and intangible assets	4,576,149	—	—	4,820,868	—	—	(244,719)	—	—	—
Other assets	15,110,214	508,059	3.36	14,191,036	180,022	1.27	919,178	328,037	—	328,037
Total investment	**245,173,480**	**8,657,531**	**3.53**	**257,553,459**	**4,644,289**	**1.80**	**(12,379,979)**	**4,013,242**	**3,879,805**	**133,437**
Central banks and credit institutions	31,484,501	(1,064,832)	(3.38)	48,310,994	8,713	0.02	(16,826,493)	(1,073,545)	(1,366,466)	292,921
Customer deposits	160,564,046	(1,432,303)	(0.89)	162,393,140	(309,002)	(0.19)	(1,829,094)	(1,123,301)	(1,059,227)	(64,074)
Capital markets	26,379,723	(876,225)	(3.32)	22,304,397	(316,115)	(1.42)	4,075,326	(560,110)	(452,311)	(107,799)
Subtotal	**218,428,270**	**(3,373,360)**	**(1.54)**	**233,008,531**	**(616,404)**	**(0.26)**	**(14,580,261)**	**(2,756,956)**	**(2,878,004)**	**121,048**
Other liabilities	13,183,674	(560,954)	(4.25)	11,491,130	(229,160)	(1.99)	1,692,544	(331,794)	—	(331,794)
Own funds	13,561,536	—	—	13,053,798	—	—	507,738	—	—	—
Total funds	**245,173,480**	**(3,934,314)**	**(1.60)**	**257,553,459**	**(845,564)**	**(0.33)**	**(12,379,979)**	**(3,088,750)**	**(2,878,004)**	**(210,746)**
Average total assets	**245,173,480**	**4,723,217**	**1.93**	**257,553,459**	**3,798,725**	**1.47**	**(12,379,979)**	**924,492**	**1,001,801**	**(77,309)**

Financial income or expenses arising from the application of negative interest rates are recorded in line with the nature of the associated asset or liability. The credit institutions heading on the liabilities side includes negative interest rates applied to balances of credit institutions on the liabilities side, the most significant item being TLTRO III borrowing.

Quarterly evolution of net interest income (%)



Quarterly evolution of customer margin (%)



Gross income

Net fees and commissions reached 1,386 million euros as at the end of 2023, representing a year-on-year reduction of 7.0%, which was mainly due to fewer service fees, as well as fewer asset management fees, particularly those charged on pension funds and insurance due to the change in the insurance product mix.

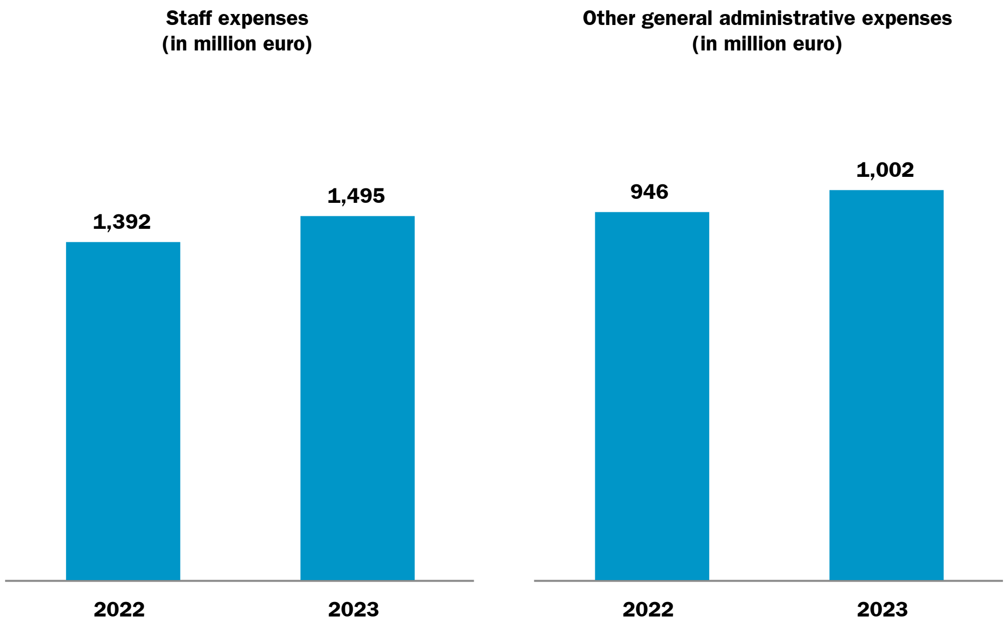
Gains/(losses) on financial assets and liabilities and exchange differences reached a total of 68 million euros, representing a reduction compared to the end of 2022, mainly due to reduced gains on trading derivatives.

Dividends received and earnings of companies consolidated under the equity method together amounted to 131 million euros, compared with 156 million euros in the previous year, as the latter included higher earnings from BSCapital investees.

Other operating income and expenses amounted to -447 million euros, compared with -337 million euros in 2022. This negative balance variation is mainly explained by the -156 million euros paid for the new bank levy, booked in the first quarter of 2023, and by a larger contribution made to Banco Sabadell's Deposit Guarantee Fund (-132 million euros in 2023 compared to -114 million euros in 2022), which was partially offset by the booking of a smaller contribution to the Single Resolution Fund (SRF) (-76 million euros in 2023 compared to -100 million euros in 2022), given the reduction of the target calculated by the Single Resolution Board (SRB). It is also worth mentioning that 2022 was impacted by the recognition of -57 million euros net, resulting from the agreement regarding the incidents that took place following the migration of TSB's IT platform, which were partially offset with a tax-payable amount of 45 million euros (32 million euros, net) due to insurance claim recoveries, with this item amounting to a total of -25 million euros net, while in 2023, an additional 16 million euros of insurance claims were recognised.

Pre-provisions income

Total costs stood at -3,015 million euros as at year-end 2023, impacted by -33 million euros of non-recurrent costs recorded in the fourth quarter related to TSB's restructuring, which included 26 million euros of allocated provisions. Not including this impact, recurrent costs increased by 3.5% year-on-year due to both higher staff expenses and higher general expenses, particularly marketing and technology expenses, which offset the reduction of amortisations/redemptions.



The cost-to-income ratio for 2023 improved, standing at 42.6% compared to 44.9% in 2022.

Core results (net interest income + fees and commissions – recurrent costs) improved in the year, standing at 3,127 million euros as at 2023 year-end, having grown by 29.9% year-on-year as a result of the good evolution of net interest income.

Total provisions and impairments amounted to -910 million euros as at the end of 2023, compared to -1,032 million euros at the end of the previous year, representing a reduction of 11.8% thanks to fewer provisions for credit items, financial assets and real estate.

Capital gains on asset sales and other revenue amounted to -46 million euros as at the end of 2023. The year-on-year change is due to the recognition of higher IT asset write-offs.

Profit attributable to the Group

After deducting corporation tax and minority interests, net profit attributable to the Group amounted to 1,332 million euros as at the end of 2023, representing strong year-on-year growth mainly due to improved net interest income.

3.3 Balance sheet

Million euro

	2023	2022	Year-on-year change (%)
Cash, cash balances at central banks and other demand deposits	29,986	41,260	(27.3)
Financial assets held for trading	2,706	4,017	(32.6)
Non-trading financial assets mandatorily at fair value through profit or loss	153	77	97.9
Financial assets at fair value through other comprehensive income	6,269	5,802	8.0
Financial assets at amortised cost	180,914	185,045	(2.2)
Debt securities	21,501	21,453	0.2
Loans and advances	159,413	163,593	(2.6)
Investments in joint ventures and associates	463	377	22.8
Tangible assets	2,297	2,582	(11.0)
Intangible assets	2,483	2,484	—
Other assets	9,902	9,596	3.2
Total assets	**235,173**	**251,241**	**(6.4)**
Financial liabilities held for trading	2,867	3,598	(20.3)
Financial liabilities at amortised cost	216,072	232,530	(7.1)
Deposits	183,947	203,294	(9.5)
Central banks	9,776	27,844	(64.9)
Credit institutions	13,840	11,373	21.7
Customers	160,331	164,076	(2.3)
Debt securities issued	25,791	22,578	14.2
Other financial liabilities	6,333	6,659	(4.9)
Provisions	536	645	(16.8)
Other liabilities	1,818	1,382	31.6
Total liabilities	**221,294**	**238,155**	**(7.1)**
Shareholders' equity	14,344	13,635	5.2
Accumulated other comprehensive income	(499)	(583)	(14.5)
Minority interests (non-controlling interests)	34	34	(0.4)
Equity	**13,879**	**13,086**	**6.1**
Total equity and total liabilities	**235,173**	**251,241**	**(6.4)**
Loan commitments given	27,036	27,461	(1.5)
Financial guarantees given	2,064	2,087	(1.1)
Other commitments given	7,943	9,674	(17.9)
Total memorandum accounts	**37,043**	**39,222**	**(5.6)**

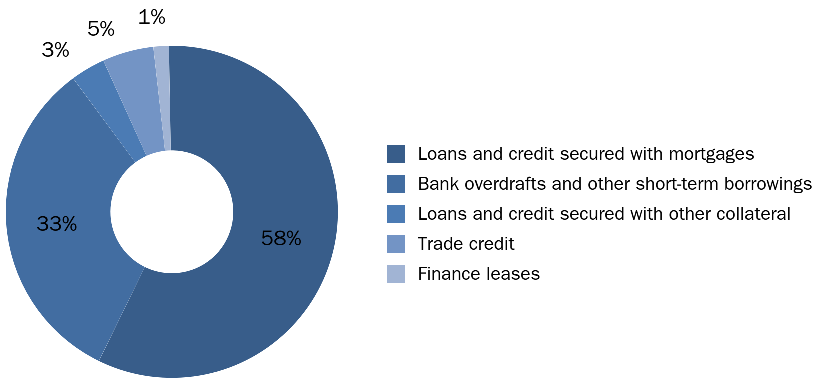
The EUR/GBP exchange rate used for the balance sheet is 0.8691 at 31 December 2023.

Gross performing loans to customers ended the year 2023 with a balance of 149,798 million euros, having decreased by 4.1% year-on-year, mainly due to the impact of reduced mortgage volumes in both Spain and the United Kingdom, lower volumes of loans granted to SMEs and corporates, and maturing Treasury loans in general governments. Home equity loans formed the largest single component of gross loans and receivables, amounting to 86,162 million euros as at 31 December 2023 and representing 58% of total gross performing loans to customers.

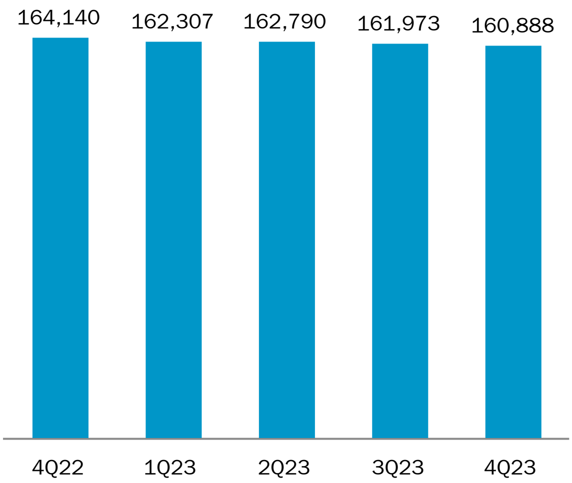
Million euro	2023	2022	Year-on-year change (%)
Loans and credit secured with mortgages	86,162	89,340	(3.6)
Loans and credit secured with other collateral	5,064	3,412	48.4
Trade credit	7,465	7,489	(0.3)
Finance leases	2,236	2,227	0.4
Bank overdrafts and other short-term borrowings	48,870	53,663	(8.9)
Gross performing loans to customers	**149,798**	**156,130**	**(4.1)**
Stage 3 assets (customers)	5,472	5,461	0.2
Accrual adjustments	172	159	7.9
Gross loans to customers, excluding reverse repos	**155,442**	**161,750**	**(3.9)**
Reverse repos	17	—	–
Gross loans to customers	**155,459**	**161,750**	**(3.9)**
Reserve for loan losses and country risk	(3,199)	(3,020)	5.9
Loans and advances to customers	**152,260**	**158,730**	**(4.1)**

The EUR/GBP exchange rate used for the balance sheet is 0.8691 at 31 December 2023.

The composition of loans and advances to customers by type of product is shown in the following chart (not including stage 3 assets or accrual adjustments):



On-balance sheet customer funds

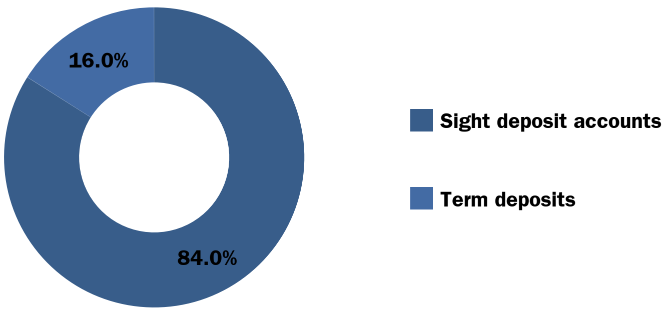


As at the end of 2023, on-balance sheet customer funds showed a balance of 160,888 million euros, compared to 164,140 million euros as at the end of 2022, representing a decrease of 2.0%, mainly due to a lower volume of demand deposit accounts, with customers seeking a higher return on their savings, which is partially reflected in the growth of off-balance sheet funds, as well as the increase of term deposits and retail issuances, particularly commercial paper.

Demand deposit account balances amounted to 134,243 million euros, representing a reduction of 9.0% compared to 2022.

Term deposits came to a total of 25,588 million euros, representing growth of 58.5% year-on-year.

The breakdown of customer deposits as at 2023 year-end is shown below:



Total off-balance sheet customer funds came to 40,561 million euros as at 2023 year-end, reflecting an increase of 5.4% in year-on-year terms, driven by growth across all segments and most notably by the good performance of mutual funds, in terms of both yields and net inflows.

Total funds under management as at 31 December 2023 amounted to 226,682 million euros, compared to 225,146 million euros as at 31 December 2022, representing a year-on-year increase of 0.7%, as the growth of off-balance sheet customer funds offset the aforesaid reduction of on-balance sheet funds.

Million euro

	2023	2022	Year-on-year change (%)
On-balance sheet customer funds (*)	**160,888**	**164,140**	**(2.0)**
Customer deposits	160,331	164,076	(2.3)
Current and savings accounts	134,243	147,540	(9.0)
Term deposits	25,588	16,141	58.5
Repos	200	405	–
Accrual adjustments and hedging derivatives	299	(9)	–
Borrowings and other marketable securities	22,198	19,100	16.2
Subordinated liabilities (**)	3,593	3,478	3.3
On-balance sheet funds	**186,122**	**186,654**	**(0.3)**
Mutual funds	24,093	22,581	6.7
Investment companies	589	703	(16.2)
UCITS sold but not managed	23,504	21,878	7.4
Assets under management	3,598	3,532	1.9
Pension funds	3,249	3,182	2.1
Personal schemes	2,103	2,065	1.8
Workplace schemes	1,141	1,112	2.6
Collective schemes	5	5	(8.1)
Insurance products sold	9,621	9,197	4.6
Off-balance sheet customer funds	**40,561**	**38,492**	**5.4**
Funds under management and third-party funds	**226,682**	**225,146**	**0.7**

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

(**) Refers to subordinated debt securities issued.

The EUR/GBP exchange rate used for the balance sheet is 0.8691 at 31 December 2023.

Non-performing assets have been reduced over the year 2023. The quarterly performance of these assets in 2023 and 2022 is shown below:

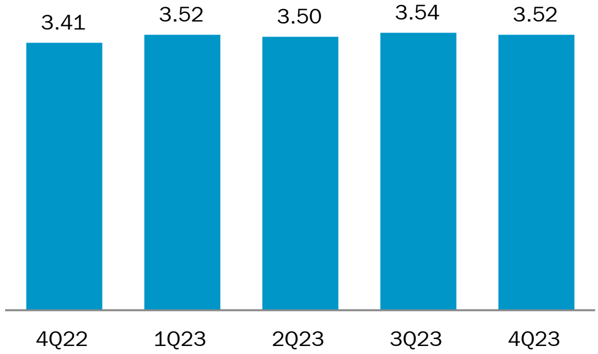
Million euro

	2023				2022			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Ordinary net increase in stage 3 loans	183	111	85	(35)	153	(421)	208	68
Real estate asset balance variation	(40)	(34)	(44)	(68)	(63)	(22)	(68)	(53)
Ordinary net increase in stage 3 loans + real estate	**143**	**77**	**41**	**(103)**	**89**	**(443)**	**140**	**15**
Write-offs	106	114	82	79	146	74	92	83
Ordinary QoQ change in balance of stage 3 loans and real estate	**37**	**(37)**	**(41)**	**(182)**	**(56)**	**(517)**	**48**	**(68)**

As a result of the reduction of exposures classified as stage 3, associated with a reduction of the risk base, the NPL ratio reached 3.52% as at 2023 year-end, compared to 3.41% as at 2022 year-end (increase of 11 basis points). The coverage ratio of exposures classified as stage 3 with total provisions as at 31 December 2023 was 58.3% compared to 55.04% one year earlier, while the coverage ratio of non-performing real estate assets stood at 39.6% as at 31 December 2023, compared to 38.34% at the end of the previous year.

As at 31 December 2023, the balance of exposures classified as stage 3 in the Group amounted to 5,777 million euros (including contingent exposures) and declined by 37 million euros in 2023.

NPL ratio (*) (%)



(*) Calculated including contingent exposures.

The trend followed by the Group's coverage ratios is shown in the table below:

Million euro

	2023				2022			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Exposures classified as stage 3	5,891	5,888	5,891	5,777	6,210	5,714	5,830	5,814
Total provisions	3,219	3,280	3,329	3,368	3,456	3,159	3,214	3,200
Stage 3 coverage ratio, with total provisions (%)	**54.6**	**55.7**	**56.5**	**58.3**	**55.7**	**55.3**	**55.1**	**55.0**
Stage 3 provisions	2,328	2,361	2,402	2,445	2,560	2,263	2,273	2,292
Stage 3 coverage ratio (%)	**39.5**	**40.1**	**40.8**	**42.3**	**41.2**	**39.6**	**39.0**	**39.4**
Non-performing real estate assets	1,117	1,083	1,039	971	1,299	1,277	1,209	1,157
Provisions for non-performing real estate assets	429	419	404	385	494	499	470	443
Non-performing real estate coverage ratio (%)	**38.4**	**38.7**	**38.9**	**39.6**	**38.0**	**39.1**	**38.9**	**38.3**
Total non-performing assets	7,008	6,971	6,930	6,748	7,508	6,991	7,039	6,971
Provisions for non-performing assets	3,648	3,699	3,733	3,752	3,950	3,658	3,684	3,644
NPA coverage ratio (%)	**52.1**	**53.1**	**53.9**	**55.6**	**52.6**	**52.3**	**52.3**	**52.3**

Includes contingent exposures.

3.4 Liquidity management

The funding gap increased during 2023, showing a greater decline in lending than in customer funds. Funding in capital markets increased, senior non-preferred debt being the item with the greatest net increase, in order to keep an adequate level of own funds and eligible liabilities above the applicable regulatory requirement or MREL (Minimum Requirement for own funds and Eligible Liabilities). The Group's loan-to-deposit (LTD) ratio as at 31 December 2023 was 94.0%.

The Institution has made the most of the different issuance windows to access the capital markets at different times in the year, taking advantage of the first quarter, in particular, when it managed to execute most of the Funding Plan, in a market environment with persisting inflationary pressures, which led central banks to continue tightening their monetary policies and, specifically, continue raising interest rates. Maturities and early repayments in capital markets over the year amounted to 4,158 million euros, of which 250 million pounds correspond to TSB Bank. On the other hand, Banco Sabadell carried out two issues under the current Fixed Income Programme amounting to a total of 1.2 billion euros, specifically the following: one issue of mortgage covered bonds on 28 February 2023 for a total of 1 billion euros with a 3.5-year maturity, and one issue of mortgage covered bonds on 22 December 2023 for 200 million euros with an 8-year maturity. Furthermore, under the EMTN Programme, Banco Sabadell carried out four issues for a total amount of 2,750 million euros, specifically the following: one senior non-preferred debt issue on 7 February 2023 for 750 million euros with a 6-year maturity and an early call option in favour of Banco Sabadell in the fifth year; one Tier 2 subordinated bonds issue on 16 February 2023 for 500 million euros with a 10.5-year maturity and an early call option in favour of Banco Sabadell in the second half of the fifth year; one green senior preferred debt issue on 7 June 2023 for 750 million euros with a 6-year maturity and an early call option in favour of Banco Sabadell in the fifth year; and one senior non-preferred debt issue on 8 September 2023 for 750 million euros with a 6-year maturity and an early call option in favour of Banco Sabadell in the fifth year. In addition, Banco Sabadell carried out one AT1 Preferred Securities issue amounting to 500 million euros on 18 January 2023. For its part, TSB Bank carried out one mortgage covered bonds issue for 1 billion pounds with a 4-year maturity on 14 February 2023, and on 15 September 2023, it carried out one mortgage covered bonds issue for 750 million pounds with a 5-year maturity.

Additionally in 2023, having obtained the corresponding authorisations, Banco Sabadell exercised the early redemption option on the AT1 2/2017 issue amounting to 400 million euros on 23 February 2023 and the early redemption option on the Subordinated Debt 1/2018 issue amounting to 500 million euros on 12 December 2023. Furthermore, on 8 September 2023, together with the Senior Non-Preferred Debt 2/2023 issue, Banco Sabadell exercised a call option on the Senior Non-Preferred Debt 1/2019 issue in the amount of 580.4 million euros, leaving an outstanding balance on this issue of 419.6 million euros. TSB Bank also exercised a call provision on 15 September on its Covered Floating Rate Notes 2019 issue, in the amount of 250 million pounds, leaving an outstanding balance on this issue of 500 million pounds.

With regard to securitisations, on 29 September 2023, the traditional securitisation fund SCF Autos 1, FT was disbursed. This inaugural securitisation carried out by the subsidiary Sabadell Consumer Finance, S.A.U. enabled the financing and transfer of credit risk of a portfolio of auto loans granted by this subsidiary in the amount of 650 million euros. The issue consists of six classes of securities that were placed on the market, with the exception of the first loss tranche of 9.5 million euros to fund the reserve fund and initial expenses, which was retained by Sabadell Consumer Finance, and 156 million euros from the senior series which was subscribed by Banco de Sabadell, S.A.

On 13 September 2023, the Management Company TdA (Titulización de Activos, Sociedad Gestora de Fondos de Titulización, S.A.) published an inside information notice through the National Securities Market Commission (CNMV) disclosing the fact that Banco Sabadell had exercised its pre-emptive right to buy back its portion of the portfolio sold to the multi-seller fund TDA 25 FTA (currently in the process of being liquidated by the Management Company).

The Institution has maintained a liquidity buffer in the form of liquid assets to meet potential liquidity needs.

In terms of the LCR, since 1 January 2018, the regulatory minimum requirement has been 100%, a level amply surpassed by all of the Institution's LMUs, with the ratio of the TSB LMU and Banco Sabadell Spain standing at 203% and 274%, respectively, as at 31 December 2023. At the Group level, the Institution's LCR remained well above 100% on a stable basis at all times throughout the year, ending 2023 at 228%. As for the Net Stable Funding Ratio (NSFR), which came into force on 28 June 2021, the Institution has also remained steadily above the minimum requirement of 100% in all LMUs. As at 31 December 2023, the NSFR was 152% for the TSB LMU, 134% for Banco Sabadell Spain and 140% for the Group.

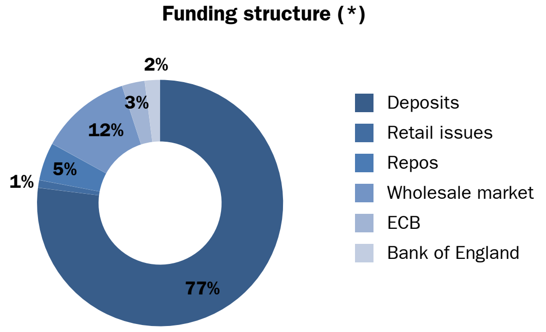
The key figures and basic liquidity ratios reached at the end of 2023 and 2022 are shown here below:

Million euro

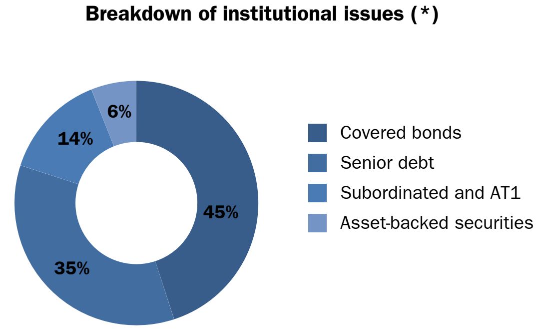
	2023	2022
Gross loans to customers, excluding reverse repos	155,442	161,750
Impairment allowances	(3,199)	(3,020)
Brokered loans	(953)	(1,806)
Net loans and advances excluding ATAs, adjusted for brokered loans	**151,290**	**156,924**
On-balance sheet customer funds	160,888	164,140
Loan-to-deposit ratio (%)	**94.0**	**95.6**

The EUR/GBP exchange rate used for the balance sheet is 0.8691 as at 31 December 2023 and 0.8869 as at 31 December 2022.

The main sources of funding as at the end of 2023, broken down by type of instrument and counterparty, are shown below (in percentage):



(*) Excluding accrual adjustments and hedging derivatives.



(*) Excluding accrual adjustments and hedging derivatives.

For further details about the Group's liquidity management, liquidity strategy and liquidity performance during the year, see Note 3 to the 2023 annual financial statements.

3.5 Capital management

Key capital figures and solvency ratios

Thousand euro

	31/12/2023		31/12/2022	
	Fully loaded	*Phase-in*	*Fully loaded*	*Phase-in*
Common Equity Tier 1 (CET1) capital	10,346,761	10,346,761	9,985,006	10,082,751
Tier 1 (T1) capital	12,096,761	12,096,761	11,635,006	11,732,751
Tier 2 (T2) capital	1,829,460	1,829,460	1,911,331	1,855,001
Total capital (Tier 1 + Tier 2)	13,926,221	13,926,221	13,546,337	13,587,753
Risk weighted assets	78,427,616	78,427,616	79,559,621	79,544,790
CET1 (%)	13.19%	13.19%	12.55%	12.68%
Tier 1 (%)	15.42%	15.42%	14.62%	14.75%
Tier 2 (%)	2.33%	2.33%	2.40%	2.33%
Total capital ratio (%)	17.76%	17.76%	17.02%	17.08%
Leverage ratio	5.19%	5.19%	4.59%	4.62%

In 2018, following the entry into force of IFRS 9, the Group opted to apply the transitional arrangements established in Regulation (EU) 2017/2395. As at 31 December 2022, the main difference between the phase-in and fully-loaded ratios was due to the static component of those transitional arrangements, which came to an end at the 2022 year-end closing. In 2023, the transitional arrangements arising as a result of IFRS 9 and still in effect had no impact on the Institution's solvency ratios.

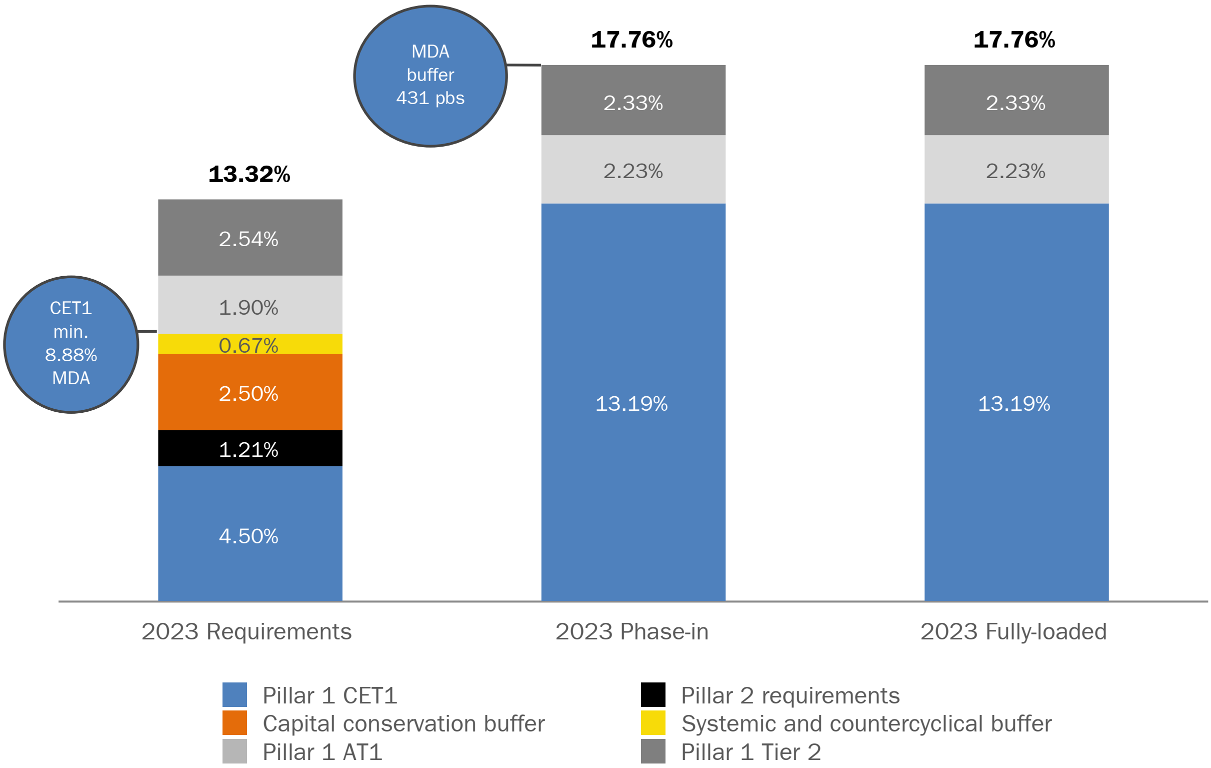
During 2023, the Group increased its capital base by 380 million euros in fully-loaded terms.

In 2023, a new issue of Preferred Securities 1/2023 was executed in the amount of 500 million euros, which replaced the Preferred Securities 2/2017 issue in the amount of 400 million euros. Regarding subordinated debt, it is worth noting the Subordinated Debt 1/2023 series, which increases Tier 2 capital by 500 million euros and replaces the Subordinated Debt 1/2018 series, in the amount of 500 million euros.

In terms of risk-weighted assets (RWAs), two securitisations were carried out during the period: one synthetic securitisation of business loans to SMEs and mid-corporates, disbursed on 27 September 2023 for an amount of 1,103 million euros, and one traditional securitisation carried out by the subsidiary Sabadell Consumer Finance, S.A.U. of loans intended for vehicle purchase, disbursed on 29 September 2023, which amounted to 650 million euros. In addition, in the Banco Sabadell ex-TSB perimeter, it is worth noting the reductions in RWAs as a result of the improved portfolio density due to, among other things, the implementation of new models for mortgages and consumer loans to individuals, reduced lending volumes (although the impact of this on RWAs is limited as most of that reduction is concentrated in ICO loans) and lastly, reduced requirements for market risk, especially interest rate risk, largely due to the portfolio's good evolution. This reduction in credit RWAs and market RWAs is partially offset by the update of operational RWAs, given the increase of the material risk indicator in 2023.

As a result, the fully-loaded CET1 ratio stood at 13.2% as at 2023 year-end.

As at 31 December 2023, the Group had a phase-in CET1 capital ratio of 13.2%, well above the requirement established in the Supervisory Review and Evaluation Process (SREP), which for 2023 was 8.88%, meaning that the aforesaid ratio is 431 basis points above the minimum requirement.



The minimum capital requirement has been calculated taking into account the own funds requirements in effect at the end of 2023 for Pillar 1 (8%) and Pillar 2R (2.15%), as well as the capital conservation buffer (2.5%), countercyclical buffer (0.42%) and the buffer for other systemically important institutions (0.25%).

In May 2021, the SRB published the MREL Policy under the Banking Package, which integrates the regulatory changes of the aforesaid resolution framework reform. The new SRB requirements are based on balance sheet data as at December 2021 and set two binding MREL targets: the final MREL target, which is binding from 1 January 2024, and an interim target to be met from 1 January 2022 onwards. The latter corresponded to an intermediate level that allowed for a linear build-up by institutions of their MREL capacity. Its calibration therefore depended on the Institution's MREL capacity at the time of calibration and its final target.

The interim requirements in effect since 1 January 2022 are:

- The MREL requirement is 21.05% of the TREA and 6.22% of the LRE.
- The subordination requirement is 14.45% of the TREA and 6.06% of the LRE.

On 19 December 2023, Banco Sabadell 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.

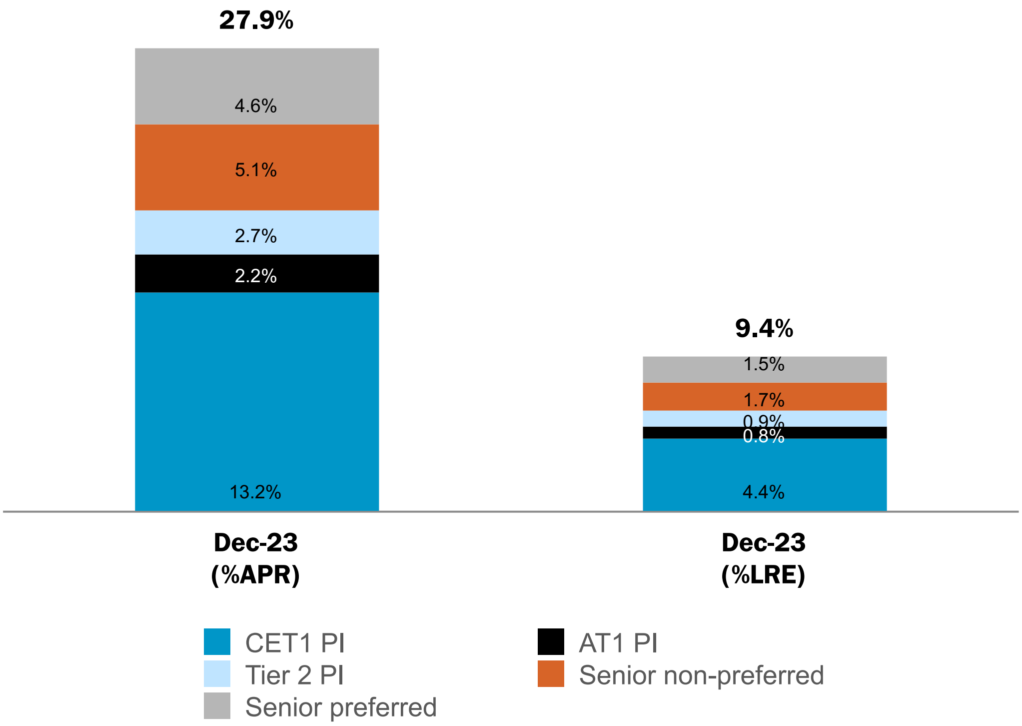
The requirements that must be met from 1 January 2024 are as follows:

- The minimum MREL is 22.52% of the total risk exposure amount (TREA) and 6.35% of the leverage ratio exposure (LRE).
- The subordination requirement is 17.31% of the TREA and 6.35% of the LRE.

The own funds used by the Institution 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 the MREL and subordination requirements expressed in terms of the TREA.

Banco Sabadell is already compliant with the requirements that it needs to meet from 1 January 2024 onwards, which coincide with Banco Sabadell's expectations and are in line with its funding plans.

Group MREL



The RWAs percentage includes the capital used to meet the Combined Buffer Requirement (CBR) (3.13% as at 31 December 2023 and estimated at 3.15% for 2024). This serves as a mechanism to accumulate capital to protect against cyclical and structural systemic risks, in order to build up own funds during periods of prosperity and thus be able to protect the regulatory minimum during periods of adverse economic conditions.

4 - BUSINESS

The key financial figures associated with the Group's largest business units are shown hereafter, in accordance with the segment information described in Note 38 to the consolidated annual financial statements for the financial year 2023.

4.1 Banking Business Spain

Key figures

Net profit as at the end of 2023 amounted to 1,093 million euros, representing a year-on-year increase of 41.8%, mainly driven by the good evolution of net interest income.

Net interest income amounted to 3,353 million euros as of the end of 2023, growing by 34.2% year-on-year, due to higher loan yields and improved fixed-income revenue, underpinned by higher interest rates, which offset the higher costs of funds and capital markets.

Net fees and commissions stood at 1,247 million euros, 7.2% less than at year-end 2022, mainly due to the drop in service fees and asset management fees, particularly fees on pension funds and insurance due to the change in the insurance product mix.

Gains/(losses) on financial assets and liabilities and exchange differences amounted to 45 million euros, which represents a reduction in year-on-year terms, mainly due to trading derivatives.

Other income and expenses were mainly impacted by the -156 million euro bank levy paid in 2023.

Total costs recorded a year-on-year increase of 4.2%, due to higher staff expenses, including salary management in the wake of inflationary pressures, and to the increase in general expenses, particularly marketing and technology expenses.

Provisions and impairments amounted to -816 million euros, down by 11.2% year-on-year, due to the booking of fewer provisions for both loan losses and financial assets, and also due to the impairment of real estate assets.

Million euro

	2023	2022	Year-on-year change (%)
Net interest income	**3,353**	**2,499**	**34**
Fees and commissions, net	1,247	1,344	(7.2)
Core revenue	**4,601**	**3,843**	**19.7**
differences	45	95	(52.8)
Equity-accounted income and dividends	131	156	(15.7)
Other operating income and expenses	(404)	(225)	79.7
Gross income	**4,372**	**3,869**	**13.0**
Operating expenses, depreciation and amortisation	(1,965)	(1,887)	4.2
Pre-provisions income	**2,407**	**1,982**	**21.5**
Provisions and impairments	(816)	(920)	(11.3)
Capital gains on asset sales and other revenue	(27)	(9)	198.1
Profit/(loss) before tax	**1,564**	**1,053**	**48.5**
Corporation tax	(469)	(270)	73.6
Profit or loss attributed to minority interests	1	11	(87.1)
Profit attributable to the Group	**1,093**	**772**	**41.7**
Cumulative ratios			
ROTE (net return on tangible equity)	12.0 %	9.3 %	
Cost-to-income (general administrative expenses / gross income)	37.2 %	39.9 %	
NPL ratio	4.3 %	4.2 %	
Stage 3 coverage ratio, with total provisions	59.9 %	56.2 %	

Gross performing loans decreased by 4.6% compared to the previous year, impacted by the higher interest rate environment, where particular note should be taken of the reduced balances of SMEs and corporates, the maturity of Public Treasury loans and the smaller volume of mortgages.

On-balance sheet customer funds fell by 1.9% year-on-year, due to the reduction of demand deposits, as customers searched for products that offer higher returns on savings, with that reduction being partially offset by an increase in term deposits and commercial paper. Off-balance sheet funds increased by 5.4%, mainly due to mutual funds.

Million euro

	2023	2022	Year-on-year change (%)
Assets	**173,648**	**189,545**	**(8.4)**
Gross performing loans to customers	103,830	108,889	(4.6)
Non-performing real estate assets, net	586	713	(17.8)
Liabilities	**162,767**	**179,402**	**(9.3)**
On-balance sheet customer funds	117,820	120,118	(1.9)
Wholesale funding in capital markets	19,949	19,444	2.6
Allocated equity	**10,880**	**10,005**	**8.7**
Off-balance sheet customer funds	**40,561**	**38,492**	**5.4**
Other indicators			
Employees	13,455	12,991	3.6
Branches and offices	1,194	1,226	(2.6)

Within Banking Business Spain, it is worth noting the main business lines, about which information is given here below:

Retail Banking

Business overview

Retail Banking is Banco Sabadell's business unit that offers financial products and services to individuals for personal use. The business is based on a banking model that combines processes typical of a digital bank for interactions that require the autonomy, immediacy and simplicity that only digital channels can offer with specialised and personalised commercial management for those interactions where expert support is needed, provided through the branch network, both in brick-and-mortar branches and remotely. Among the main products offered, it is worth noting investment and financing products in the short, medium and long term such as consumer loans, mortgages and leasing/rental services. As for funds, the main products on offer are customer term and demand deposits, savings insurance, mutual funds and pension plans. Additionally, the main services also include payment methods such as cards and various kinds of insurance products.

Management milestones in 2023

The efforts made in 2023 have focused on continuing to move forward with the strategic priorities that are allowing the Retail Banking business to be transformed. Those priorities are the following:

- Organisation according to products, which makes it possible to focus on customers' needs and to offer specialised and personalised products and services, enabling greater autonomy, immediacy, agility and simplicity.
- The development of digital capabilities in relation to servicing, the attraction of digital demand and the generation of digital sales in self-service and remote channels.
- The specialised sales force, supported by the branch network, allows a superior customer support model to be offered for products where customers require more advice or support from experts, such as mortgages, protection insurance and savings/investment.

In 2023, the Retail Banking business has continued with its transformation, moving forward in the following areas:

- Customer-focused growth, with more than half of new customers currently registered via the digital channel.
- Change of sales mix: increased level of digitalisation in accounts, cards and consumer credit, which in turn increases the volume of sales year-on-year.
- The specialised distribution model has been completed, supporting customers in mortgages, insurance and savings/investment products. Because the model has matured, the percentage of the specialists' contribution to the business has increased.
- Self-service: an increasing number of customers are choosing to do most of their banking remotely, with the mobile app recording considerably higher usage rates than branches. In addition, in 2023, customer satisfaction indices in relation to the services received has greatly improved.

Lastly, the Retail Banking business is firmly committed to achieving the Group's sustainability targets, fulfilling its ambition in terms of sustainability, whilst also contributing to the attainment of key business objectives.

Main products

The main Retail Banking products are described here below:

Mortgages

The evolution of the mortgage market in Spain in 2023 was characterised by a reduced volume of transactions and a lower average transaction amount, as a result of rising interest rates and inflation.

In this environment, Banco Sabadell has continued to make progress:

- By adapting its mortgage offer to the environment and to the perceived needs of its customers with the launch of the hybrid mortgage, which already accounts for 16% of total new mortgage lending since its launch.
- In the mortgage specialists' distribution model, with all branches included in the model, focusing on remote management (122 remote specialists covering 100% of branches).
- In the transformation of the mortgage process, outsourcing administrative tasks to focus on the commercial function of specialists and increase capacity to generate and manage demand, reduce processing lead times and improve the customer experience.
- By improving the digital experience in the mortgage application process, optimising mortgage switching and making efficiency gains. In particular, the focus has been upstream in the digital journey, where technological, intelligence and commercial systems capabilities have been rolled out to allow better prioritisation of commercial opportunities.

<u>Consumer loans</u>

In consumer loans, 2023 was characterised by volume growth, driven by various improvements introduced, among them, speeding up the loan application process and adapting the product offering to meet the end customer's needs.

These improvements also served to increase digital credit applications and pre-approved loans proportional to total new lending, ensuring adequate risk management and segmentation.

With regard to short-term financing solutions, the Sabadell Credit Line product (formerly the Expansion Line) continued to record very good usage and uptake levels among customers, and it was rated very highly due to its 100% online usability.

<u>Payment services</u>

2023 was a good year for growth of card transactions, with an 8% increase in purchases, which reached 19,576 million euros. In terms of card financing volume, the level of year-on-year growth prior to the pandemic (approximately 9%) was achieved, reaching 356 million euros.

On the other hand, the instant card issue process was consolidated, allowing customers to use their new card immediately in e-commerce and mobile payment transactions following application. The percentage of card activations executed via digital channels represented 47% of total activations, while mobile payments represented 24% of purchases.

With regard to the Bizum payment system, Banco Sabadell has more than 1.7 million registered users.

<u>Demand deposit accounts</u>

Banco Sabadell has a digital onboarding process that has allowed it to boost its acquisition of digital customers, improving productivity and the customer experience. In less than 10 minutes and with just one contract signing session, new retail customers can register with their mobile phone, quickly and simply, through an integrated onboarding process which, in addition to the Digital Account, also includes a package of products that meet the basic needs of customers (among them, a debit/credit card, the Sabadell Savings account for easy saving, the remote banking service to manage accounts, as well as the alerts and notifications service).

Following the launch of the digital onboarding process in 2022, the Sabadell Online Account was renewed in the second quarter of 2023, with the aim of continuing to acquire new customers and become their main bank, in order to drive profitable growth in the Retail Banking segment.

The main demand deposit accounts offered are the following:

- Sabadell Online Account: for new retail customers, opened digitally.
- Sabadell Account: for retail customers.
- Sabadell Premium Account: exclusively for Private Banking customers.

The main offering is supplemented with the offering aimed at customers with specific needs: non-residents, minors under the age of 18, and the basic payment account for those at risk of exclusion.

Savings and Investment

Market volatility and interest rates affected asset performance and, consequently, mutual fund returns.

In mutual funds, the main milestones during the year were the following:

- The mutual funds offering was adapted to the market situation and to customer demand by incorporating the following types of products:
    - Guaranteed products: during the year, guaranteed fund products were offered that combined fixed and variable return funds, with the launch of the mutual funds Sabadell Garantía Fija 20, FI, Sabadell Garantía Fija 21, FI, Sabadell Capital Extra No.1, FI and Sabadell Capital Extra No. 2.
    - Target return products: introduction of two mutual funds that feature a target, not guaranteed, to recover 100% of the initial investment plus a return on maturity, namely Sabadell Horizonte 10 2025 and Sabadell Horizonte 02 2026, launched in September and November, respectively.
- Improvements were made to information on digital channels and customer information in general.

With regard to guaranteed return insurance plans, the high-interest rate environment boosted customer interest in these products. Specifically, savings plans and life-contingent annuities saw a significant increase in premiums compared with previous years.

This growth was also seen in the unit-linked savings insurance product, which involves assets linked to structured deposits with a capital guarantee and fixed coupon. Specifically, two multi-asset investment issues with an 18-month maturity were carried out, in which the linked assets are deposits issued by Banco Sabadell.

With regard to the pensions business, as in the case of guaranteed return insurance plans, the rise in interest rates increased demand for Insured Retirement Plans (IRPs), particularly those with a payback period of 3 and 5 years. This led to the launch of issues of IRPs with these payback periods, mainly channelled towards transfers from pensions schemes or short-term IRPs, due to the higher return offered. However, growth in the pensions business is influenced by the application of a cap on the maximum annual contribution.

In addition, the new online deposit account was launched, a digital-only fixed-term deposit account, with an excellent customer take-up, due to the ease of the account opening process and the return offered. In the coming year, there are plans to gradually expand this online deposit facility.

It is worth highlighting that specialists continued to be deployed in 2023. As at the end of December 2023, the cumulative contribution to new business of in-branch specialists was 29% and that of branches whose employees included a specialist was 52%.

With regard to deposits, and in accordance with the digital transformation strategy, a new digital application process was introduced that enabled retail customer deposits to grow, improving productivity and the customer experience.

Lastly, the offering of structured deposits was maintained over the year.

Protection insurance

The Group's insurance business is based on a comprehensive offering that meets customers' personal needs and cash requirements. The subscription itself is carried out through insurers in which the Group holds a 50% stake through the agreement between Zurich Group, BanSabadell Vida and BanSabadell Seguros Generales. The first of these insurers, which has the largest business volume, occupies the top spots in insurance firm rankings, based on premiums issued.

The strategy for the insurance business in Retail Banking consists of offering the Bank's customers the best option for protection insurance. To that end, a product offering is proposed, adapted to the needs of each type of customer, to ensure customer satisfaction every time they interact with the Bank. Commercial actions are mainly carried out through the insurance specialist, providing services to the Institution's different customer segments.

In 2023, the business continued to grow in spite of the complicated and uncertain environment. The main products that contribute to the insurance business are life insurance, home insurance and health insurance products. Specifically, the strong growth experienced in premiums in the area of health insurance products (28%) was the result of the agreement with the company Sanitas reached at the end of 2020. It is also worth noting Banco Sabadell's promotion of Blink insurance products, specifically, home insurance and vehicle insurance, which are arranged remotely.

It should also be mentioned that since the end of 2022, BanSabadell Seguros Generales has sold a funeral insurance product, through an agreement with the company Meridiano, a leading institution in this field.

<u>Sabadell Consumer Finance</u>

Sabadell Consumer Finance is the Group's company specialising in consumer finance at the point of sale. It carries out its activity through various channels and lines of business, entering into cooperation agreements with different points of sale.

The company continues to develop its product offering, adapting it to the needs of the market and ensuring a rapid response to the needs of its customers.

Activity in 2023 benefited from the end of the supply chain issues that affected the automotive industry, maintaining a good performance from one month to the next, due to increased purchases of new cars by individuals, as well as the inclusion of agreements with large groups.

Work also continued in areas such as training, homeowners' associations and sustainability. With new transactions reaching a weight of 31% of the consumer finance line, Sabadell Consumer Finance has become a leading player in the sector.

With regard to digitalisation, the "Instant Credit" tool for e-commerce provided an efficient response to both referrers and customers, increasing the number of contracts by more than 150% in one year and generating new business.

In 2023, Sabadell Consumer Finance executed 205,962 new transactions through more than 12,000 points of sale located throughout Spain, which translated into an inflow of new investments amounting to 1,368 million euros, placing the total outstanding exposures of Sabadell Consumer Finance at 2,170 million euros.

<u>Business Banking</u>

Business overview

The Business Banking unit offers financial products and services to legal and natural persons engaging in business activities, serving all types of companies with a turnover of up to 200 million euros, as well as the institutional sector. The products and services offered to companies are based on short- and long-term funding solutions, solutions to manage cash surpluses, products and services to guarantee the processing of day-to-day payments and collections through any channel and in any geographical area, as well as risk hedging and bancassurance products.

Banco Sabadell has a clearly defined relationship model for each business segment, which is innovative and sets it apart from its peers, allowing it to be very close to customers, acquiring in-depth knowledge of its customer base whilst at the same time offering a level of full engagement.

Large enterprises with turnover in excess of 10 million euros are essentially managed by specialised branches. All other companies, which include SMEs, small businesses and self-employed professionals, are managed by standard branches. All of these companies have relationship managers who specialise in their respective segments, as well as access to expert advice from product and/or sector specialists.

This all enables Banco Sabadell to be a standard-bearer for all companies, as well as a leader in customer experience.

Management milestones in 2023 and priorities for 2024

In 2023, the Business Banking unit focused its management efforts on strengthening the strategic courses of action established for each segment, in accordance with the Strategic Plan (2021-2023). This approach is reflected in a significant improvement in the profitability and specialisation of the large enterprises and SMEs segments, through specialised solutions tailored to customers, and in the framework's enhancement and the risk function's rapid optimisation of the portfolio's credit profile. The branch network's specialisation has helped to evince improvements in this business line's cost of risk and return on equity (ROE).

Furthermore, the development and enhancement of the sector's commercial offering aimed at small businesses and self-employed professionals constituted another key management milestone during 2023, successfully consolidating the Bank's position as a leading specialist in the market for this segment. In its mission of maximising the value proposition and putting a wide range of products and services on offer for its customers, Banco Sabadell announced that it planned to close a strategic deal with Nexi, a European leader in digital payments. This strategic deal is scheduled to commence in 2024.

Following the structural change implemented in the past year, the new Private Banking model has been successfully implemented. This model has brought the Bank closer to its customers and allowed it to better understand their needs, providing operational capabilities to improve management and adjusting the value proposition with different products adapted to the preferences of high-value customers.

In 2024, Business Banking will face a series of key challenges that will set the course for its strategy in the coming years. Efforts will be made to boost the growth of the customer base and the profitability of the various segments, endeavouring to optimise operational efficiency and the offering of specialised products and services so as to meet the specific needs of each customer. Particular emphasis will be placed on improving cost of risk, implementing proactive measures to mitigate risks and make the portfolio more robust.

In addition, the Institution's commitment to excellence in customer experience will be a core pillar. Significant initiatives will be undertaken, designed to improve customer interactions and satisfaction across all segments, from large enterprises to self-employed persons.

Lastly, the Institution aims to consolidate and cement its position as the leading bank for its business customers. This goal will be achieved with high-quality financial solutions, the cornerstones of the approach being innovation, specialisation, and customer centricity and proximity.

The different segments, specialists and commercial products that fall within Business Banking are described here below.

Segments

Large enterprises

Banco Sabadell has been by the side of large enterprises, comprehensively managing its customers through relationship managers specialising in different sectors in order to help them make the best economic decisions and with a pool of specialists who have supported customers based on their business needs.

In an economic environment marked by the geopolitical situation, inflation and changing interest rates, this comprehensive management of customers has made it possible to support companies by adapting to the new circumstances. Banco Sabadell has offered customers with liquidity needs access to both basic financing solutions and complex solutions with 360° value propositions. In terms of customers undergoing economic growth, Banco Sabadell has remained by their side with specialised lending solutions typical of the middle market, acting either alone or in a pool with other credit institutions, adding solutions for cash surpluses.

Where sustainability is concerned, Banco Sabadell has participated in the market as a key player in the drive towards a more sustainable economy, providing finance for projects developed by its customers for purposes directly or indirectly linked to environmental, social or governance improvements.

In 2024, the sector-specific approach will be further enhanced, providing more knowledge to customers, with a greater level of professionalism, adding more value and supporting customers by acting as a key player.

Small and medium-sized enterprises

2023 was marked by an unstable context, with high rates of inflation, although these increased less sharply than in 2022, with interest rates rising during the first half of the year and stabilising in the second half, amidst a complex geopolitical situation due to the war in Ukraine and, more recently, the conflict in the Middle East.

Against this backdrop, Banco Sabadell remained by the side of SMEs, helping them and meeting their needs with its offer of value-added solutions for the basic management of their day-to-day operations and to finance their transformation and growth projects. Specifically, Banco Sabadell helped SMEs, ensuring the continued provision of basic payment and collection transactions and it also offered renewal options to deal with the increasing number of expiring ICO Covid guarantees. In addition, to meet SMEs' investment needs, Banco Sabadell launched several campaigns throughout the year to drive investment.

Within the framework of the Next Generation EU Funds, Banco Sabadell continued to hold briefing sessions among SMEs and actively provided all of them with information about the open calls published by the government that were best suited to each of them according to their characteristics.

For 2024, the challenge lies in helping SMEs benefit from the opportunities offered by the Next Generation EU Funds, activated with the Recovery Plan Addendum, a large part of which will go both towards strategic projects for economic recovery and transformation (*proyectos estratégicos para la recuperación y transformación económica*, or PERTEs) that have a significant sustainable component, and towards offering loans to help these companies in their decarbonisation processes.

In terms of sustainability, Banco Sabadell has continued to create and offer sustainable financing and investment solutions to SMEs. In 2023, the Bank increased its portfolio of green products, including green and social loans as well as sustainability-linked loans.

It is also worth noting that in 2023, Banco Sabadell continued to develop its specialisation model launched in previous years, concentrating the management of larger SMEs in branches specialising in that segment. In 2024, it will continue to develop the model, offering an even higher level of professional support based on its knowledge of the sectors and markets in which SMEs operate.

<u>Small businesses</u>

Banco Sabadell continued to support the daily activities and new projects of self-employed professionals, small retailers and businesses, focusing on the development of the customer value proposition and making a concerted effort, as it does every year, to strengthen the Bank's position as a specialist in the minds of customers of this segment, based on the promotion and consolidation of a business methodology whose key component is a differential offering specifically designed for each activity sector.

The aim is to gain an even deeper understanding of the factors that shape customers' day-to-day lives in order to offer each customer the solution that is best suited to them, building on the offering by actively listening to customers and relationship managers, professional groups and representatives from industry associations, ensuring that they actually meet the identified needs. At present, the catalogue of specific solutions considers 34 different activity sectors, prioritising those that offer the biggest opportunity in the current economic environment.

In accordance with this sector specialisation framework and in order to apply it to the market in a tangible way, the approach to both existing and potential customers was enhanced during 2023, with the launch of frequent sector campaigns that, on one hand, serve to galvanise the commercial activity of specialist managers and, on the other hand, help to give a much clearer and more powerful message about Banco Sabadell's value proposition by specifically targeting an audience with common needs and interests. Examples of this in 2023 include the "Health and Well-being" and "Bars and Restaurants" campaigns, which delivered significant year-on-year increases in customer acquisition in these sectors. Both conveyed the idea of proximity as a common denominator and were underpinned by an innovative product, the Smart PoS device, a smart payment terminal capable of adapting to each user by combining its various available applications, in addition to rewarding merchants' customers with free purchases during the campaign period as an additional incentive.

In addition, during 2023, relationship managers specialised in assisting self-employed workers, small retailers and businesses were once again the most numerous and representative management figure of the entire branch network, thus demonstrating the Bank's clear vocation for, and commitment to, a customer segment that attaches great value to proximity and personalised assistance from an expert manager. New features were added to the management support system available to these relationship managers, designed to help them better understand the key aspects of each sector, thus providing the best response to the specific needs of each one, including a university-accredited expert training programme on how to advise businesses and self-employed professionals.

In parallel and in line with the development and consolidation of new financial service consumption habits, Banco Sabadell continued to drive the digitalisation of customers during the year, responding to their needs for self-service transactions and enabling new products and services to be applied for and managed remotely. On this topic, it is worth mentioning, as the main achievement and flagship of new capabilities, the implementation during the fourth quarter of a digital channel for the acquisition and engagement of self-employed customers, allowing the Bank not only to significantly increase its sources of customer acquisition but also to fill a gap in the market with a 100% online process, becoming a pioneer in the sector, and with the support of a new specific online account for this segment, offering the best conditions in the market.

In 2024, the main challenges in relation to this segment relate to strengthening the specialisation of both the product offering and relationship managers, consolidating a digital model for the management and engagement of self-employed customers that can guarantee the best customer experience by combining it with the capillarity of the Bank's branch network, and promoting the sophistication of the value proposition in PoS (point of sale) terminals, which are a key product for this segment, by developing new devices and considerably expanding the range of solutions on offer to customers according to the needs of each business.

SabadellUrquijo Banca Privada

2023 saw the launch of the new Private Banking model. Banco Sabadell has set itself the target of growing in private banking and to that end it has redefined the type of customer that can access the most exclusive services based on business intelligence, allocating the necessary resources to support that growth.

The first phase of the process consisted of identifying which customers need and value bankers' advice. Thanks to this analytical process, a large number of customers were identified and added to Private Banking, joining other customers already categorised in that segment. This had a positive impact in terms of the volume of funds under management. To serve those customers, Banco Sabadell tripled the number of professionals working in that area.

One clear objective with regard to the network of bankers was that they should be physically close to the territory in question. To that end, many bankers were deployed across the more than 1,000 Sabadell branches located throughout Spain. Two subsegments were created (Affluents and Private) to which customers are assigned according to their financial assets.

The value proposition was revised, paying particular attention to products specific to Private Banking, such as alternative management. With regard to the investment funds on offer, there are Sabadell Asset Management funds, with exclusive products for Banco Sabadell customers, and also Amundi Group funds. Amundi is not only a key partner in terms of the mutual funds it offers, which it continuously updates and which are always competitive, but it is also an important technological partner for this business line. Banco Sabadell also offers a wide range of third-party products to all customers in this segment.

Regarding the transactional offer, products such as accounts and cards were revised. As for financing products, special prices were approved. In addition, specific risk management workflows were created, assigning staff specialised in Private Banking.

As for the UCITS management company, Urquijo Gestión, during 2023 it continued to support Private Banking through its management of customised mandates for customers in the Affluents segment.

In terms of asset diversification, Urquijo Gestión has balanced the positions of its customers between international equity and fixed-income assets, enabling the recovery of a large part of the losses sustained by markets in 2022, particularly fixed-income markets, which account for a significant portion of Banco Sabadell customers' savings.

Due to an environment of geopolitical uncertainty, financial restrictions and weak growth, in 2023 a cautious position was held in equities, prioritising companies that stand out due to their quality, dividends and thematic ideas. The Bank focused on governments and companies with investment grade ratings, which shielded customers from interest rate volatility, leaning on products that took fixed income to maturity.

In order to remain close to customers, supporting them and increasing the level of their business engagement with SabadellUrquijo Banca Privada, Banco Sabadell increased the number of conferences, meetings and events with customers in this unit. Participants included Amundi, the Banco Sabadell Foundation and international mutual fund managers, in addition to other brands linked to the world of sport, motor vehicles, watches and aviation, as well as cultural institutions such as the theatre organisations Teatro Real de Madrid and Gran Teatre del Liceo de Barcelona.

The commercial strategy implemented in 2023 generated very positive data in relation to business. Evidence of this lies in the large number of new customers registered in the Private Banking segment, thus contributing to a considerable increase in volume, which will ultimately have a positive impact on Banco Sabadell Group's results and create value for its shareholders.

The Private Banking unit proved to be a driver for Banco Sabadell's growth, helping to position it as a leading institution in Spain when it comes to Private Banking.

Institutional business

The goal of the Institutional Business division is to develop and enhance the business with public and private institutions, placing Banco Sabadell as a leading institution in this line of business.

Managing this line of business requires the specialisation of products and services in order to offer a comprehensive value proposition to public authorities, financial institutions, insurance firms and mutual insurance companies, as well as religious and third-sector organisations.

2023 was a very busy year for all institutional businesses. Activity in terms of asset management was very dynamic, with continuously rising interest rates, which saw agents in the financial sector actively engaged in fierce competition to gather funds. To respond to this new panorama in which the spotlight was on business profitability, Banco Sabadell strengthened its position in these segments, with increased commercial activity, more proximity and a wider range of solutions, all of which resulted in an increase in customer acquisition, turnover and in the margin generated with its offering of products with more added value for customers and for the Institution.

Public institutions

Public institutions' economic activity in 2023 was marked by the slowdown of borrowing activity, due in large part to elections and the increase in cash surpluses among the various public authorities.

The result was a decline in asset volumes, as a result of reduced borrowing activity and a large amount of ordinary repayments, as well as a reduction in liabilities, due to high levels of competition for customer funds in the market.

During 2023, due to higher interest rates, autonomous communities that had been restructuring government debt with financial institutions stopped requesting those transactions, there being no way to further improve the cost of funds. This circumstance is reflected in smaller volumes of long-term loans granted to autonomous communities that are members of the Autonomous Liquidity Fund, these being limited to short-term borrowing only.

Financial institutions and insurers

In terms of investments, 2023 continued to be affected by an environment of high rates of inflation with high interest rates, driving investments in fixed income and prioritising these over alternative investments. Investors turned their attention to more liquid and less complex assets, which are currently producing attractive yields. In this respect, investors showed preference for positions in government debt from both periphery and European countries, as well as emerging countries, opting above all for short-dated positions.

The Financial Institutions and Insurers unit continued to roll out the value-added proposition for these institutions, focusing especially on adapting the offering to plain vanilla products. With the new context of positive interest rates, the interest offered on accounts in this segment was adapted on a discretionary basis and according to the level of customer engagement, particularly their transactionality. On the other hand, for fixed-income products, the Bank took advantage of investors' interest in issues of public debt and sustainability bonds. At the same time, both the CRISAE senior debt fund and the AURICA IV private equity fund (marketed by Banco Sabadell) took positions in interesting operations. Lastly, it is worth noting the infrastructure operations brought to market in relation to renewables with customers in this segment.

Religious institutions and the third sector

The Religious Institutions and Third Sector Division offers customers a range of products and services adapted to the unique characteristics of these groups. They cover everything from transactions to specialist advice on financial assets.

2023 saw the completion of the second and third editions of the university-level qualification of Financial Advisor to Religious Institutions and Third-Sector Organisations, offered to employees and customers of both these groups. These two new editions culminated with a total of 244 enrolled students (75 of whom were Banco Sabadell employees, with the remainder being customers and employees of religious institutions and the third sector as well as other sectors), a total of 188 of whom received a certificate of completion from Francisco de Vitoria University. For the first time, the course was open to professionals from all sectors, with a wide range of grants available covering up to 80% of the enrolment fee.

Uptake of the DONE system for collecting charity donations, which works with contactless technology, continued to grow throughout the territory, helping non-profit organisations to raise funds for their projects.

The Religious Institutions and Third Sector Division coordinated the delivery of financial aid for the charitable causes supported by the fund Sabadell Inversión Ética y Solidaria, FI, managed by Sabadell Asset Management, and it also managed the payments made together with the branches and beneficiary entities. This year, for the 27 charitable projects of the 27 entities selected by the Ethics Committee in 2022, almost 280 thousand euros were delivered, bringing the cumulative figure since 2006 to over 3.3 million euros. Furthermore, in 2023, the Ethics Committee selected a total of 24 humanitarian projects primarily focused on addressing risks of social and labour exclusion, improving the living conditions of people with disabilities and meeting their basic needs in terms of food, healthcare and education. Sabadell Asset Management will distribute the aid to these projects in 2024.

Segment specialists

Franchising

Banco Sabadell was the first financial institution in Spain to adopt the franchising system. For 27 years, its Franchising Division has supported both franchising brands and their franchisees, becoming a leader and standard-bearer in the sector. It is a consolidated and professionalised sector that has been increasing its turnover, job creation and the number of franchising brands. Banco Sabadell has 9,000 franchised customers and has signed partnership agreements with most brands, over 1,100 in total. It offers them products and services, with advantageous conditions to access funding, as well as transactionality and protection, through its branch network and with the support of franchise directors specialising in different sectors.

Banco Sabadell works closely with the Spanish Franchisors' Association (Asociación Española de la Franquicia, or AEF) and was the first bank to secure a partnership with that association and, together, they drive this business model. During 2023, Sabadell Franquicias took part once again in the annual Expofranquicias Madrid fair, with its own stand, travelling to the various locations where the Franquishop and Franquinorte events took place. Reports were also commissioned, including *El Informe de la franquicia en Madrid* (Franchising in Madrid), *Observatorio de la Jurisprudencia de la Franquicia* (Franchise Case Law Observatory), and *La Mujer en la Franquicia* (Women in Franchising). Articles were published in the press and in magazines, and it partnered up with various consultancy firms specialising in franchising. Countless other activities were covered by social media, reinforcing the Bank's renown and leadership in this business model.

Agriculture segment

In 2023, Banco Sabadell's Agriculture Segment, which includes the agriculture, livestock, fishing and forestry production subsectors and has more than 300 specialised branches, increased its customer base, as well as the portfolio of specific financial products and services with features tailored to the demands of customers in the sector.

Banco Sabadell's firm commitment to this sector, in particular thanks to its personalised customer support, led to a significant increase in business compared to 2022, with customers continuing to put their trust in the Bank, translating into an increase in the customer base compared to the previous year.

During 2023, Banco Sabadell's Agriculture Segment participated in nine fairs of the agrifood sector and sponsored 38 events throughout the nation.

Banco Sabadell's Agriculture Segment has the clear objective of being by the side of customers in this sector in their digitalisation and sustainability activities, taking advantage of the efficient lever that will be the contribution of the Next Generation EU funds.

Hotel and tourism business

Banco Sabadell was the first financial institution to specialise in Tourism Business in order to adapt to the top contributing sector to Spain's GDP. It has consolidated itself as one of the top banks, a leader in the sector, offering expert advice with the highest standards of quality.

The value proposition for this segment mainly consists of offering specialised financial solutions to a diverse and highly fragmented group of customers, based on three core pillars: expert advice, a catalogue of specialised products, and rapid response.

Within the value proposition especially designed to provide a specific solution to each customer, and mindful that activity in the sector came to a complete standstill as a result of the health crisis triggered by Covid-19, which saw all establishments forced to close by decree. Both 2022 and 2023 were very successful years for the sector, with full recovery of visitor numbers, tourist expenditure, overnight stays and occupancy rates. Banco Sabadell continues and will continue to support projects, to build new hotels and also to improve and reposition existing ones.

The Tourism Business Division also has the institutional recognition and participation of leading entities in the industry, such as Spain's Tourism Council (Consejo Español de Turismo, or Conestur), the Tourism Commission of the Spanish Confederation of Business Organisations (Confederación Española de Organizaciones Empresariales, or CEOE) and the Tourism Commission of the Spanish Chamber of Commerce.

As it does every year, Banco Sabadell was present at the main international tourism fair (FITUR) with its own stand. The fair ended with an almost record-breaking number of 222,000 visitors and 8,500 participating companies.

Sabadell Professional

Banco Sabadell is a leader in the management of agreements with professional and business associations and bodies throughout the country. Its differentiation lies in the close relationship it has with these groups, which starts with the support provided by the directors of Sabadell Professional. The mission of this specialised segment is to cater to the needs of schools, associations and their members with an offering of specific and unparalleled financial products and services. In 2023, the Bank participated in over 400 events and conferences organised by these professional associations and bodies.

In addition, given its prominent position in this customer segment, specific actions were taken during the year to boost the various sector-specific products on offer for the different groups, focusing heavily on self-employed persons and small businesses. The opportunity offered by the Next Generation EU Funds also continued to be leveraged, using them for the rehabilitation of private housing, as part of the sustainability strategy, given the close relationship with associations of licenced property managers in Spain, substantially increasing the amount of funds channelled towards home rehabilitations.

Another aspect worth highlighting is the creation of the first simplified occupational pension plan for self-employed professionals in Banco Sabadell, promoted by Spain's Consejo General de Economistas (General Council of Economists), which was first offered to self-employed persons in November 2023.

Associate Banking continues to strengthen the link with customers who are SMEs and small businesses, based on a differential range of products and services for their executives and employees, as an important remote channel for acquiring individual customers at Banco Sabadell.

Retirement planning

Through its Retirement Planning unit, Banco Sabadell Group offers solutions and responses to customers to help them better implement, manage and develop their retirement planning systems through pension plans and group insurance policies.

In 2023, the demand for workplace retirement planning systems continued to grow, particularly demand for collective retirement insurance and joint pension plans among small and medium-sized enterprises. Part of the business comes from tender processes and bids through consultants, with demand and business generated through this channel having increased.

Both in collective retirement insurance and in pension plans, it is worth noting, as an innovative and unique solution in the market, the life cycle-based investment policies that complement profiled investment funds.

Also worth mentioning in the pension plans business line are the new simplified occupational pension plans for the self-employed, under Law 12/2022 of 30 June on regulations to boost occupational pension plans. These plans can be promoted by any association, federation, syndicate or trade union representing sole traders or self-employed workers, or by any professional body or mutual insurance society, and they allow self-employed professionals to make contributions above the limit of 1,500 euros applicable to individual pension plans. The Bank reached an agreement to market these plans, promoted by the General Council of Economists (Consejo General de Economistas) and the Professional Union of Self-Employed Workers (Unión Profesional de Trabajadores Autónomos, or UPTA), both of which are leading institutions among the self-employed segment, first bringing them to market in November 2023.

It is also worth calling attention to the Sabadell Flex Empresa product, available across the branch network since February 2023. This product consists of a fully digital platform for cafeteria plans that allows companies to optimise their remuneration model, at very competitive prices. It is a solution that enables managers and employees to maximise their savings and increase their net disposable income by optimising their taxation.

Real estate business

The Real Estate Division focuses on comprehensively handling the residential real estate development business through a specialised and well-consolidated management model.

Banco Sabadell's commitment to this sector has allowed it to continue consolidating, year after year, its developer mortgage loans, guarantees and reverse factoring facilities, with a growing associated margin.

2022 was marked by increasingly expensive commodities (steel, cement, aluminium) that continued to have an effect in 2023, which saw a slight decrease in lending volumes, although to date the target margin remains unchanged.

The Investment Property Division focuses its efforts on generating new business and consolidating the completion of residential properties so as to minimise any potential negative impact, as well as monitoring sales in progress.

The main strategy is to maintain the Bank's leading position in the sector, consolidating its market share, prioritising the best business opportunities by pinpointing the most noteworthy projects and the most solid customers, all the while minimising risk and maximising profit for Banco Sabadell.

<u>BStartup</u>

In 2023, Banco Sabadell celebrated 10 years since the creation of this pioneering financial service for startups and scaleups, the first of its kind among Spanish banks. The enormous growth of this segment and of many of its customers validates the belief upon which the service was launched in 2013: that the great companies of the future will emerge from among those companies.

It is a project unique to Banco Sabadell that offers a 360° service of specialised banking and equity investment and which plays a very active role in the country's innovative entrepreneurial ecosystem.

Banking specialisation has been the key pillar of BStartup from the very beginning. It is fundamentally based on a team of relationship managers dedicated exclusively to startups and scaleups in the Territorial Divisions with the highest concentration of this type of companies, with their own risk management process, specific products and a team of specialists that drive the business throughout Spain.

As at 2023 year-end, BStartup had 5,128 startup customers. These customers have a strong level of engagement, they are very international and their activities are often complex.

Equity investment is mainly aimed at early-stage tech companies with strong growth potential and scalable, innovative business models. This year, 1,050,000 euros were invested in ten startups. BStartup invests in all types of sectors, above all in digital companies, and it also maintains its two specific verticals. In 2023, it launched the third call for proposals under BStartup Green for startups that use technology or digitalisation to facilitate the transition to a more sustainable world (from the point of view of the energy transition, industry 4.0, smart cities and the circular economy). 154 companies have been analysed in this vertical. The year also saw the launch of the sixth call for proposals under BStartup Health, already a firm leader in investments in healthcare industry startups in the early stages of bringing science to market in Spain. This year, proposals for 108 projects were submitted. With the ten new companies that received investments, there are now 71 investees in the portfolio of BStartup10, which is regarded very highly and has already delivered significant returns. During the year, three companies went fully public, one of them with substantial capital gains, and one went partially public, also with gains.

This year, to mark BStartup's tenth anniversary, the Bank was present at all the key events of the entrepreneurial ecosystem. BStartup's team organised or actively participated in 110 entrepreneurship events throughout Spain. This, together with all the activity mentioned above, continues to reinforce Banco Sabadell's reputation and position as a leading bank for startups and scaleups. As proof of this, BStartup was mentioned 1,289 times in various media (offline and online press), it amassed 13,871 followers on Twitter and BStartup was one of the trending topics in connection with the Bank on social media every month, always with a positive sentiment.

<u>Companies Hub (*Hub Empresa*)</u>

The Companies Hub is Banco Sabadell's centre for business connections, an initiative that contributes to positioning the Bank as the financial institution that best understands the challenges of growth and transformation faced by companies and the one that can best help them on that journey. It is an instrument used by the Institution to communicate with SMEs, small businesses and the self-employed, based on valuable business content that is of great use to them and that at the same time highlights Banco Sabadell's specialisation in companies, as well as its proximity to customers. The Companies Hub combines:

– A digital space where companies can connect with everything that interests them through webinars led by the Bank's experts and leading external figures. These are inspiring and engaging sessions in which business experiences and relevant and current content are shared. This year, 103 activities took place (60 webinars, 42 in-person events live-streamed from the Companies Hub in Valencia, and 1 in-person event streamed from the auditorium in Serrano, Madrid), in which a total of 16,937 companies and self-employed professionals took part (online).

– A physical space for companies located in the heart of Valencia, where they can connect with other companies, receive knowledge and business advice from experts, attend training events and workshops and access work spaces and meeting rooms for their business meetings. In 2023, 144 activities were held (in-house, co-hosted and third-party events), which a total of 5,914 people attended in person. To this figure should be added the 2,232 people who used the meeting rooms of the Companies Hub in Valencia (553 bookings for the meeting room were made by business customers), in addition to the more than 857 people from outside the Bank who took part in various activities organised by companies and organisations that are customers of the Bank in the physical premises of the Companies Hub in Valencia (signing of agreements, visits and other non-internal meetings).

This brings the total number of participants to 25,940, with the total number of organised in-house activities being 144.

The events' reviews continued to reflect great reception and wide acceptance of their content by participating companies, with an overall rating of 8.99 out of 10.

The impact of all the activities generated by the Companies Hub was amplified through other media, such as articles, news and videos that can be accessed through the press and social media. 87 summary videos of the events were made and released on the Bank's social media, and more than 67 articles and news items were featured in different spaces in print and online media about the Companies Hub and its support for companies, as well as the topics covered by the webinars. All this generated 1,127 mentions in social networks and offline and online media, reaching a total audience of 9.3 million users.

The main thematic areas are established and agreed by the Editorial Committee, following the lines of the Strategic Plan. This year, the events included the following:

– The "Inspiring Stories" series of conferences, with success stories from large customers interviewed by employees of Banco Sabadell, Naeco, Istobal, Herbolario Navarro, Grefusa and Destinia.

– The regular cycle of conferences on various practical and topical aspects concerning the Next Generation EU Funds and the opportunity they represent for the transformation of Spain's economy.

– The cycle of conferences on enterprise digitalisation, which for the first time this year included a large number of conferences on artificial intelligence, its application in business and the opportunities it offers, attracting a lot of interest and participation.

– The cycle of conferences on sustainability aimed to make SMEs aware of the need to have a sustainability strategy in place, providing them with information and tools to get started.

– The cycle of conferences on internationalisation, with solutions and the latest information of interest for the Bank's customers, organised by the Internationalisation Division.

– As well as many other events addressing a variety of current topics, such as business contingencies and insurance, occupational pension plans, trends in human resources and the latest news about tax-related matters, the macroeconomic environment and leadership

<u>Sabadell Partners</u>

Sabadell Partners is a lever used to attract customers to the network of commercial banking and private banking branches and which helps the network, through partnership agreements with introducers, by bringing new customers and business in exchange for commissions, in addition to improving customer satisfaction.

It is particularly worth mentioning the growth of the Sabadell Partners Division and its significant contribution to the Bank's good results in 2023. This contribution already accounts for a key portion of the mortgage business generated over the year, generating 42.6% of the Bank's total new mortgage lending. The contribution and management by Sabadell Partners' top branches deserves to be seen as equally important. These are specialised branches that manage the relationship with the main mortgage partners.

Commercial products

Business services

Payment services

As at the end of 2023, the business volume of Payment Services was continuing with its upward trend, driven by the growth of domestic consumption and the surge of international tourism. In Banco Sabadell, payments collected through PoS terminals reached double-digit year-on-year growth, in terms of both the volume processed and the income generated. The Bank was also able to increase its PoS terminal count thanks to the good uptake levels of its most innovative product launched in May 2022 – the Smart PoS terminal – which remains one of the most advanced payment devices in the market and which recorded excellent year-on-year growth in sales.

The Institution has maintained its policy of offering an advanced and personalised service to small retailers and, to that end, it has strengthened its network of PoS and e-commerce specialists. In addition, in February 2023, the Bank signed a strategic agreement with Nexi, a leading European paytech company, ratifying the commitment of continuing to improve its value proposition and customer experience with a broader and more innovative product offering.

Corporate credit cards

The use of corporate credit cards continued to grow in 2023, recording an annual increase of +10.3% in purchases and +4.1% in turnover. As the use of cards becomes more widespread among its business customers, Banco Sabadell continues to work to offer a value proposition that is competitive in the market and which meets its customers' needs.

Company insurance

To maintain its position as a leading provider of risk insurance for companies, in 2023 Banco Sabadell worked to provide a comprehensive and competitive product offering with high-quality service. It developed the value proposition for its self-employed customers and small businesses, enhancing its specialisation in each sector and adjusting the offering to the specific needs of each industry. In particular, the specialised product offering for companies in the agricultural sector was expanded, adding new multi-risk insurance and livestock protection products. It also worked to make its multi-risk protection products for small retailers and businesses more competitive. The team of directors specialising in Company Insurance, distributed throughout Spain, continued to be consolidated during the year and was also strengthened with product and support training for the existing insurance policies service.

During the year, the focus was placed on personal protection products, with life insurance and health insurance products aimed at management staff and employees of the Bank's business customers, offered in the form of both fringe benefits and flexible benefit cafeteria plans. Equity protection products (multi-risk, civil liability and specialised products) continue to be the core products for Banco Sabadell customers, essential to protect the various material risks that may materialise in a company.

Company finance

Working capital credit experienced very significant growth, especially in the case of credit facilities. In 2023, a number of facilities covered by the ICO Covid guarantees signed during the pandemic expired. The renewal of these transactions drove the growth of new lending to double-digit figures.

As for the rest of the working capital credit products, the significant growth recorded in 2022 slowed down in 2023. As companies need to finance their day-to-day payments and collections, they increasingly turn to specialised lending solutions such as factoring, and above all reverse factoring, which account for an increasingly large proportion of the different lines of credit used by companies.

It is also worth taking note of the good uptake of a novel product launched one year ago: the Online Payments Line. This is a digital product that helps self-employed workers and businesses to fund their regular payments such as payrolls, taxes and supplier invoicing.

As for medium- and long-term products, new lending decreased in 2023, particularly in relation to miscellaneous loan transactions granted to large enterprises and the public sector. There was less bankruptcy-related activity in autonomous communities than in 2022, while large corporates, faced with higher interest rates, opted for short-term funding solutions. Fewer transactions are taking place, and those that are carried out are done so for smaller amounts.

In 2023, the Bank increased its portfolio of green products, both green and social loans and sustainability-linked loans.

Leasing and rental of capital goods

There was less demand for the leasing and rental of capital goods in 2023 compared to the previous year, reflected in a reduction of both the number of new contracts and the volume, as a result of the uncertain environment.

In relation to sustainability, a high percentage of the investment arranged through the leasing and rental of capital goods qualified as sustainable lending.

Vehicle leasing

The year continued to be affected by a shortage of stock, although things began to improve in June 2023.

Inflation also increased not only vehicle purchase costs but also the cost of all services included in this product. Despite the headwinds, there was a considerable increase in new business compared to the same period in the previous year, which also improved the product's margins.

In the second half of the year, the focus was placed on acquiring company fleets of vehicles, with very satisfactory results, allowing plans to be made for what looks to be a more normal year in 2024, resuming the trend followed prior to the pandemic.

Official agreements and guarantees

The Official Agreements and Guarantees Division continues to manage agreements with various public bodies with which the Bank maintains a relationship. The Bank has signed new partnership agreements that enable it to meet the financing needs of its customers.

These agreements include both national bodies (Spain's official credit institute (ICO), mutual guarantee societies and/or autonomous community entities) and supranational institutions such as the European Investment Bank (EIB) and the European Investment Fund (EIF).

The Bank opted in once again this year to the ICO's second-floor facilities and to the new home rehabilitation facility currently being developed for homeowners' associations, which will be brought to market in January 2024, through the Council of Ministers agreement, which allows ICO Covid transactions to be extended to customers struggling to fulfil their payment obligations, 2,261 transactions were arranged.

360 transactions were also arranged under the ICO Ukraine line.

The Bank's agreements with Mutual Guarantee Societies (MGSs) operating in Spain were also revised. On this topic, it is worth noting the good uptake of the Industrialisation Support Programme whereby, through the support of the Next Generation EU funds, customers can obtain funding, with discounted interest rates and fees. This makes the cost of this funding much lower than the standard conditions offered by mutual guarantee societies and institutions. Of the total amount of funding requested through this programme, the second largest amount was applied for through Banco Sabadell, and the Bank's customers benefited from substantial direct subsidies.

In 2023, a very large number of applications for the various EIB facilities made available to customers was submitted. In October 2023, a new special agreement was signed between the EIB, the EIF and the ICO to offer 936 million euros of new finance to SMEs and ecological projects in Spain.

The aim for 2024 continues to be the launch of new lines and agreements with public bodies, in order to offer customers products with the best conditions to support their project finance.

<u>International</u>

As it has done in recent years, and in line with international geopolitical changes, Banco Sabadell has remained firmly by the side of companies to help them navigate the difficulties encountered in the different markets, attempting to provide them with the best financial solutions at all times:

– Management of ongoing transactions in Russia and neighbouring countries in order to charge for exports and manage imports in a way that is duly compliant with international sanctions.

– Change of activity in Egypt, due to the country's monetary difficulties, recommending the most suitable financial tools to avoid future problems for customers and actively promoting the use of letters of credit due to the added security that they offer to companies.

This year, efforts centred on providing training, both to teams of relationship managers and to heads of International Business, with the following initiatives:

- Training session on changes in export customs procedures, aimed mostly at specialists from the branch network and heads of International Business.
- Specific training on international matters, aimed at enterprise managers and other relationship managers in the branch network, in order to explain Banco Sabadell's value proposition in the area of international business and the criteria that should be followed to support companies.
- Launch of the Expert in International Business programme, imparted by ESIC and aimed at heads of International Business, who learned how to create an International Business Plan for companies.

A new (sixth) cycle of the course aimed at Banco Sabadell's business customers called the "International Business Program" was held, where companies receive training on how to develop an international plan in an efficient and well-organised way. It is a course that takes place annually and which sees good levels of participation.

At the business level, the Bank supported Spanish companies during this financial year, during which there have been notable increases in foreign trade, maintaining its position in Spain as leader in export letters of credit (34.5% market share) and export remittances (43.4% market share), and ensuring customers' continued confidence in the teams of International Business managers as a support lever to increase their business abroad.

On the topic of communication, the following are worth mentioning:

- The creation of Country Factsheets, containing useful information about the various markets preferred by companies, such as Mexico and Saudi Arabia. This new type of communication will be gradually expanded to eventually cover all of the markets that attract the most interest.
- Various talks were held about international markets through Banco Sabadell's Companies Hub, holding 11 talks about topics of interest among companies, with more than 4,000 companies enrolled in these activities.

In terms of products, a new internal workflow was set in motion to improve the way in which working capital credit options and international guarantees covered by CESCE were made available to business customers engaging in foreign trade, improving and speeding up internal processes to allow specialist teams to improve the way in which they market these products, reaching a larger number of customers with highly specialised activity.

Corporate & Investment Banking

Business overview

Through its presence in Spain and in a further 15 countries, Corporate & Investment Banking offers financial and advisory solutions to large Spanish and international corporations and financial institutions.

It structures its activity around two pillars, the first of which is the customer. It aims to serve its customers who are natural persons to meet the full range of their financial needs. This pillar is determined by the nature of those customers and includes large corporations classed under the Corporate Banking umbrella, financial institutions, Private Banking customers in the USA and the venture capital business carried out through BSCapital. The second pillar is Specialised Business, which encompasses the activities of Structured Finance, Treasury and Markets, Investment Banking, and Trading, Custody and Research. Its goal is to advise, design and execute custom operations that anticipate the specific financial needs of its customers, be they companies or individuals, with its scope of activity ranging from large corporations to smaller companies and customers, insofar as its solutions are the best way to meet their increasingly complex financial needs.

Management milestones in 2023 and priorities for 2024

Corporate & Investment Banking continues to pursue its goal of prioritising the creation of value for its customers, thus contributing to their growth and future earnings. To do this, it has continued to innovate and promote its specialist capabilities, fundamentally in the areas of Investment Banking and Structured Finance, which are currently able to meet 100% of customers' financial needs. In the same way, the international coverage of the teams is constantly being improved, always serving the markets in which their customers invest or where they have business interests.

The key areas in which it works to create value for its customers are the following:

- Knowledge: the Corporate Banking teams, located in the different countries in which the Bank operates, have not only specialisation in the large corporations segment but also knowledge and penetration differentiated by activity sectors in order to better understand and serve customers according to their own and their sector's singular characteristics.

- Coordination: unique and specialised solutions are required to meet the needs of large corporations, and these can be provided as a result of the participation and collaboration of several areas within the Bank (specialist teams and even teams operating in different geographies). Coordination between all these teams is crucial for providing and bringing value to customers.

- Specialisation: there are units that develop custom products for large corporations and financial institutions (Corporate Finance, Project Finance, Project Bonds, Syndication, Commercial Paper Programmes, Debt Issuance, M&A, Asset Finance, Derivatives, Risk Hedging, etc.). The units responsible for developing this entire range of products do so for the entire Banco Sabadell Group, extending their capabilities to the Corporate and Institutional Banking segment.

- Innovation: transitioning from idea to action is vital to grow in such a dynamic and demanding market as that of specialised lending and large corporations. The necessary spaces and mechanisms are created to allow teams to dedicate part of their time to innovation, understood in its broadest sense: innovation in products, in operations and also in the way of collaborating and interacting with others.

- Sustainability: customers are offered support and advice to move towards a more sustainable economy, generating solutions through specialised products and services.

As regards the measurement of the key figures regarding the performance of Corporate & Investment Banking, the focus is placed on monitoring the income statement (monitoring net profit in general and the main revenue items in particular), return on capital (RAROC), strict risk tracking and monitoring, as well as proactive action when faced with early signs of potential impairment.

Customer pillar

Corporate Banking Europe

Corporate Banking is the customer unit, within Corporate & Investment Banking, responsible for the management of the segment of large corporations which, given their size, uniqueness and complexity, require a tailored service, complementing the range of the more traditional financial products and transaction banking products with services provided by specialised units, thereby offering an end-to-end solution to their needs. The business model is based on a close and strategic relationship with customers, providing them with end-to-end solutions adapted to their needs and requirements, to that end taking into account the specific aspects of their economic activity sector and the markets in which they operate.

This unit also covers various foreign branches and offices, notably including the London, Paris, Casablanca and Lisbon foreign branches, which support and cater for the international activity of domestic customers and where the international Corporate Banking business is carried out.

2023 was characterised by the active support provided to customers, focusing on the search for optimal solutions to restore stability to their financial profiles, adapting them to the needs, demands and requirements arising as a result of the changes in the economy that began in the second half of 2022 and continued during 2023, with an environment of high inflation and as a result of higher interest rates in the different markets in which customers operate.

Lending volumes in Corporate Banking Spain have been maintained despite higher interest rates, standing at 8,034 million euros. On the international plane, after the exercise that took place the previous year to optimise the consumption of capital, lending positions remained broadly steady versus December.

As for profitability, measured in terms of ROTE, Corporate Banking Europe ended December 2023 with a ROTE of 16.59% (+336 basis points versus December 2022).

2024 poses a series of challenges, among which are the interest rate hikes that had already been taking place at the end of 2022 and which are estimated to be more moderate in 2024, and the inflationary environment that directly affects consumption and production. Corporate Banking is tackling these challenges by supporting its customers at both the national and international levels, with a product offering that covers 100% of their financing requirements, in both the short and long term, to deal with this new macroeconomic situation.

The contribution of value to customers in the large corporations segment and the improved profitability for shareholders are the two fundamental management pillars of this unit, which over the coming year will also focus on optimising capital consumption, with the aim of increasing the return on capital employed.

Corporate Banking and Private Banking USA

2023 marked Banco Sabadell's thirtieth year operating in the United States through an international full branch in Miami and Sabadell Securities USA, which was set up in 2008 and has been operational ever since. These units manage the financial business activities of corporate banking and international private banking in the United States and Latin America.

The Banco Sabadell Miami Branch is the largest international branch in Florida. It is one of the few financial institutions in the area with the experience and capability to provide all types of banking and financial services, from the most complex and specialised services for large corporations to international private banking products, including the products and services required by professionals and businesses of all sizes. As a way of complementing its structure in Miami, through this branch the Bank manages representative offices in New York as well as in Peru, Colombia and the Dominican Republic.

Sabadell Securities USA, for its part, is a stockbroker and investment advisor in the securities market that complements and strengthens the business strategy aimed at private banking customers residing in the United States, meeting their needs by providing advice on investments in capital markets.

2023 unfolded against a backdrop characterised by sharply rising interest rates and an uncertain macroeconomic environment.

With a balance of interest rate sensitive assets and unwavering discipline in controlling deposit prices, the branch continued to increase its net interest margin during the first half of the year. In the second half, the higher rates of interest paid in the banking market and the competitive rates of US treasury bills triggered a migration of balances from non-interest-bearing deposits to term deposits and to investments in securities with higher rates. This process resulted in a higher average cost of deposits, reducing part of the net interest margin during the second half of 2023. In addition, the composition of customers' investment portfolios was adjusted to become more heavily weighted in funds with exposure to US treasury bonds, causing a slight reduction in the average fees received on these portfolios.

The process of operational improvements continued during 2023, with completion of the second stage of the project to update the IT platform (Project Aspire) in order to improve the features available to customers and to business and support units. The third and final stage of this process will take place in 2024.

Turning to key financial figures, in an environment of considerable uncertainty over the projected performance of the US economy, the volume of business managed closed the year at almost 14.9 billion US dollars, representing an increase of 5%. In this environment, the balance of loans ended at over 6.4 billion US dollars, an increase of 1%, while total deposits ended at 3.7 billion US dollars, down 2% compared to the end of the previous year.

The private banking business was a mixed bag, with a slight reduction in deposits and a 16% increase in portfolios of investments in securities, which ended with a balance of close to 4.8 billion US dollars.

As a result of higher interest rates, the corporate banking business was impacted by the larger volume of loan prepayments, making it harder for overall lending volumes to grow in spite of the commercial efforts made to grow in the target segments and with adequate returns. In any case, net interest income followed a very positive trend, mainly on the strength of higher market interest rates. As for net fees and commissions, these remained at similar levels to the previous year. All of this benefited gross income which, with moderate growth in administrative and amortisation/depreciation expenses, had a positive impact on net profit compared to the previous year.

Specialised businesses

Structured finance

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

Structured Finance's activity focuses on the study, design and origination of corporate finance products and transactions, leveraged buyouts (LBOs), project & asset finance, global trade finance and commercial real estate, with the capacity to underwrite and syndicate transactions at the national and international levels, as well as being active in the primary and secondary syndicated loan markets.

The Global Financial Institutions unit manages the commercial and operational relationship with the international banks with which Banco Sabadell has collaboration and correspondent agreements (some 3,000 correspondent banks around the world), thus guaranteeing maximum coverage for Banco Sabadell Group customers in their international transactions. In this way, it ensures that it provides customers with optimal support during their internationalisation processes, in coordination with the Group's international network of branches, subsidiaries and investees.

In 2023, Banco Sabadell, thanks to its policy of supporting customers and adapting to their needs so as to seek the best way to meet their credit requirements within the possibilities offered by the credit markets in the specific macroeconomic environment, maintained its leading position in Spain. This positive activity is being exported to other geographies.

The Bank's top priority continues to be to support customers by designing long-term financing structures for new projects, acquisitions, internationalisation, etc., as well as syndicated transactions that guarantee stable and complete debt that can be restructured where appropriate, assessing the positive potential of possible solutions combined with investment banking products.

<u>BSCapital</u>

BSCapital carries out the Group's venture capital and private equity activities, managing industrial (non-real estate) investees. Its activity involves acquiring temporary stakes in companies in order to maximise the return on its investments. In addition, it offers support to companies through alternative financing (senior debt fund, venture debt and mezzanine loans).

BSCapital actively managed its portfolio, engaging in its traditional capital and debt-related activities, with the materialisation of investment and disinvestment operations and portfolio revaluations.

It continued to invest in private equity funds with a strategic approach and it also made a new co-investment. The fund Aurica IV, of which Banco Sabadell is anchor investor, continues to make new investments.

BSCapital executed the first transactions guaranteed under the InvestEU programme for renewable loans, venture debt and mezzanine facilities granted by the European Investment Fund (EIF). It is also making use of the co-investment framework with the European Investment Bank (EIB) to grant venture debt to scaleups.

The Bank has invested heavily in renewables, as part of its action framework for Spain, while certain asset divestitures have also materialised in Latin America. In addition, Greening, a company included in Sinia Renovables' portfolio of investees, debuted on BME Growth, with Sinia Renovables taking part in the capital increase.

The debt fund Crisae continues to originate and execute transactions to offer funding to companies in the Spanish midmarket, with participation by Banco Sabadell Group and institutional investors.

In 2024, BSCapital will continue to invest in capital and debt, with the support of international bodies such as the EIF and the EIB, and it will continue to focus on optimising capital consumption. It will also continue to manage the current portfolio to generate long-term value.

Funding opportunities will continue to be sought, in accordance with the frameworks of investment in mezzanine debt and renewable energies, with the expansion of the latter.

Focus will be placed on venture debt activity and the rotation of the venture capital portfolio through divestments with capital gains.

Crisae will continue with the origination and execution of transactions and a new fundraising process will take place to increase the investment capability of this strategy.

<u>Treasury and Markets</u>

Treasury and Markets is responsible, on one hand, for structuring and selling Treasury products to the Group's customers, through the Group's units assigned for this purpose, both from commercial networks and through specialists and, on the other hand, for managing the Bank's short-term liquidity, as well as managing its regulatory ratios to ensure compliance therewith. It also manages the risk associated with the trading of interest-rate, forex and fixed-income products, which mainly arises due to flows of transactions originated by the activity of structuring and distribution units with both internal and external customers and by activities carried out in connection with short-term liquidity management.

In 2023, the Treasury and Markets Division continued to work on the digitalisation and optimisation of its transactions with customers, seeking to expand its range of services and improving customer experience.

Furthermore, the division continued to expand the range of products and solutions it has on offer, adapting it to new customer needs arising from a changing market. In terms of trading, the capacity to take on and control various risk factors such as currency, fixed income and interest rates was enhanced.

As for distribution activity in 2024, activity related to foreign currency products is expected to continue being a core pillar of the strategy, although work will continue to increase the range of other available underlying products so that customers may manage their risks more efficiently. As regards the institutional customer segment, efforts will continue to be made to expand the international investor base for capital market products. In trading activity, the aim is to continue to build up the capacity to manage risk in the Bank's own books, reducing hedging transactions with other institutions, and to continue to improve collateral management in order to obtain the highest possible returns.

Investment Banking

Investment Banking is a division within Corporate & Investment Banking which, following the restructuring of activities that took place in 2023, is currently organised into three units:

The first of these, which stands out due to the shift in its approach, is the new Corporate Finance unit, which encompasses the activity of (i) M&A (Mergers & Acquisitions), (ii) ECM (Equity Capital Markets) and (iii) Alternative Financing.

- The activity of Mergers & Acquisitions consists of offering advice on company acquisitions and disposals, corporate mergers and the incorporation of new shareholders. Noteworthy operations in 2023 include the advisory services provided to shareholders of Virospack, a specialist company within the cosmetics industry, for the sale of a controlling interest to Investindustrial.

- The priority activity of Equity Capital Markets is companies' stock market flotation. Activities in 2023 notably include the participation as bookrunner in Greening's flotation in the first half of the year, through a placement of shares on the Spanish stock market operator (Bolsas y Mercados Españoles, or BME) amounting to 24 million euros.

- Alternative Financing coordinates the channelling of liquidity of institutional investors wishing to take on risk in situations where banking institutions typically do not. Investment Banking continues to focus on offering tailor-made financing solutions, in bond or loan format, in various sectors, from real estate to infrastructure, focusing particularly on renewable energy projects and corporate finance in the domestic segment of mid-corporates. In this branch of activity we highlight the brokerage service provided to obtain 22.5 million euros for COPASA; the financing obtained for IDEO to build an extension in an educational establishment, amounting to 15 million euros; in the field of renewable energies, the bridge loan obtained for Forestalia amounting to 65 million euros; the negotiation of a project finance framework for industrial photovoltaic self-consumption projects on behalf of Greening; and the alternative finance obtained for Greenalia amounting to 90 million euros.

All the above activities were merged into a single division to offer Banco Sabadell customers all of the value-added solutions available according to their corporate needs, in terms of both capital and debt.

The second, Debt Capital Markets (DCM), encompasses activities involving the origination and structuring of public instruments in trading markets. In terms of transactions involving corporates, the Bank considers public sector and financial issuers, both long-term and short-term transactions to be noteworthy. One of the markets in which the Bank is most active is that of commercial paper programmes, participating in programmes of 50 different issuers. Another of the core pillars of this activity is the closing of niche transactions, such as securitisations, with a view to becoming a leader in the ESG segment. Worthy of note in 2023 is the participation in public issues executed by the Community of Madrid and the inaugural issue of sustainability bonds executed by Castilla y Leon. Both had an ESG rating. As for debt issues for corporates, it is worth noting the inaugural issuance linked to sustainability executed by Ferrovial and a hybrid green bond for Telefónica.

Lastly, the third unit, Syndicate and Sales (S&S), encompasses the distribution of private debt originated by Structured Finance teams among banking and institutional investors, both domestic and international, following the originate-to-distribute philosophy. In this branch of activity, it is worth noting the syndication of a 132.89 million euro loan granted to Solaria for the development, construction and operation of a 290MW fully-merchant structure consisting of four photovoltaic plants. What makes this hybrid syndication noteworthy is that it marked the first contribution by an international renewables insurance firm in Spain, as well as the first debt underwriting transaction aimed at institutional investors (Term Loan B) for the acquisition of Palex by Apax and Fremman Capital.

Lastly, Investment Banking's strategy in 2024 consists of consolidating the various subdivisions, seeking to offer end-to-end solutions with the highest standards of quality and efficiency to customers in different customer segments, particularly to small and medium-sized enterprises in Spain.

Trading, Custody and Research

Trading, Custody and Research (TCR) is the unit responsible, as product manager, for the Group's equities, performing equity execution tasks through the trading desk, both in domestic markets, where it acts as a member, and in international markets, acting merely as a broker.

It has a research department whose aim is to offer customers guidance and recommendations regarding investments in equity and credit markets. To this end, it produces podcasts, webinars, videos, daily reports, sector reports, company reports, etc.

Online platforms continued to be upgraded and enhanced throughout 2023, in line with the new strategic objectives of Banco Sabadell Group, based on the pillars of sustainability, digitalisation and customer centricity. These enhancements will considerably increase the level of service offered to customers, providing them with more information both during and after transactions, as well as greater decision-making support.

2023 saw a sharp decline in the volume traded on the Spanish stock market (BME). In spite of the negative impact of that decline, Banco Sabadell's share in that market actually increased from 5.71% in 2022 to 8.22% in 2023.

It was confirmed that a very high percentage of equity execution transactions were carried out through self-service channels, with 92% of orders channelled directly by customers using the tools that Banco Sabadell makes available to them, the mobile app being the preferred channel for these transactions (61%).

A new commercial action was launched in 2023 with private banking customers frequently trading in securities in order to boost the exclusive direct access service through our equity trading desk, for both execution services and recommendations. There was also an increase in the number of business customers applying for services linked to their capacity as issuers, such as liquidity agreements and treasury buyback transactions, not only in Spanish stock markets but also in other international markets.

In the second half of 2023, the new structure of equity trading fees applied by BME was implemented.

The main objective for 2024 is to increase brokerage volumes in equity markets, both Spanish and international, through the following action levers: optimise the online customer experience by redesigning the Sabadell Broker platform, integrating more information from Research with improved and more sophisticated brokerage capabilities and services; bring new services/products to market; launch campaigns to activate inactive customers; review the pricing of some of the services offered; and step up relations with issuers through collaboration with Business and Corporate Banking.

4.2 Banking Business United Kingdom

Business overview

TSB (TSB Banking Group plc) offers a range of retail banking services and products to individuals and small business banking customers in the UK. TSB has a multi-channel model, including fully digital (internet and mobile), telephone and national branch banking services.

The multi-channel offer creates an opportunity for TSB to serve customers better. Customers want a bank that gives them access to both skilled people and simple digital tools to meet their banking needs and this, in turn, improves their confidence in managing their money. TSB continues to invest in the development of digital products and services that meet current and future customer needs. To that end, the Institution combines the best that digital banking has to offer with a revitalised high-street presence, alongside telephone and video banking. This will allow TSB to serve its customers with that all-important human touch when it matters most to customers, ensuring it lives up to its purpose of "Money Confidence. For everyone. Every day".

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

Management team priorities in 2023

TSB's focus on its customers and delivering its Money Confidence purpose has been instrumental in its continued response to the cost-of-living crisis. The momentum gained in recent years has been maintained through 2023 and has enabled TSB to continue on its trajectory to being an even stronger and better bank.

Despite the uncertain economic environment, the business has continued to perform strongly. In 2023, TSB continued to meet more of its customer's needs and improve the service offered to customers across all channels which, in turn, has supported further growth in the Bank's profitability. A sustained focus on cost control has also helped to ensure that TSB's financial performance has continued to improve. TSB is putting in place strong foundations for the future and is well placed to continue to adapt and grow as it meets the evolving needs and demands of its customers.

Executing the strategy

TSB's customer service continues to improve and customers have more ways of engaging with the bank than ever before. TSB is a simpler, more efficient and more resilient bank and has become more streamlined in how customers are supported with both modern digital services and reassuring personal support in branch or over the phone when life events demand it. The growth of video banking has provided customers with even greater convenience and choice in how they engage with the Bank. This is reflected in how customers rate the service they receive, with the bank's overall Net Promoter Score ending the year at its highest rate in two years.

In 2023 TSB:

- Remained the only bank with a Fraud Refund Guarantee, refunding 97% of customers who are innocent victims of fraud, compared to an industry average of 64%. TSB's campaigning on this issue has also helped bring about a step-change in fraud protection for consumers, with new regulations coming into force in 2024 requiring all banks to reimburse fraud victims.
- Opened more than 1.27 million new products for customers across core product lines – up 20% compared to 2022. Over 260,000 new personal current accounts were opened and customers opened more than 289,000 new Savings Pots. More than 84% of new product openings were through the TSB Mobile Banking app.
- Gave more than 2.5 million pounds in cashback payments to customers.
- Helped more than 7,800 first-time buyers get onto the property ladder, through its award-winning mortgage intermediary and operations team.
- Further strengthened its digital banking offer. More than 400,000 customers have visited the new card controls hub every month, over 13,000 customers use the mortgage hub every month, and 93,000 cheques have been paid in through the app since the mobile cheque deposit function was introduced in April.

- Expanded video banking support and opening hours over the weekend. TSB has held more than 21,000 mortgage video appointments in 2023, with all TSB mortgage advisers trained to use video. The Bank also held over 23,000 general banking appointments over video, with almost one-third out of hours.

- TSB retains the seventh largest network in the country, with 211 high-street branches, complemented by over 40 pop-up branches, and three Pods serving communities across Great Britain.

TSB's ambitious three-year plan, of which 2023 was the first full year, is centred around service excellence, customer focus, simplification and efficiency and doing what matters for people and the planet.

The strategy is set against an economic backdrop that remains uncertain. Inflation has been significantly higher than the Bank of England's 2% target throughout 2023, and interest rates remain markedly higher than they have been in recent years. This continues to have an impact on TSB's customers and on wider economic performance, with the potential for downside risks for the bank as a result. The regulatory landscape for financial services is also undergoing important changes with the introduction of the FCA's new Consumer Duty in July 2023 and the continued process of embedding that across the Bank's operations.

Against this challenging environment, TSB remains well placed to support its customers and continue on a path of sustainable growth. The business has a robust capital and liquidity position, and a strong focus on serving its customers and delivering its ever more relevant Money Confidence purpose. TSB's customer focus, high standards of governance and commitment to responsible business practice mean that it is well-placed to deliver on this to continue to improve outcomes for customers.

Key figures

Net profit amounted to 195 million euros as at 2023 year-end, representing strong year-on-year growth, mainly on the strength of improved net interest income and reduced provisions. In addition, 16 million euros were recognised in 2023 for the collection of insurance compensation in connection with the IT migration, while 2022 included the recognition of -57 million euros, net, derived from the migration-related incidents.

Net interest income came to a total of 1,174 million euros, 2.0% more than in the previous year, mainly on the strength of a higher-yielding loan book due to higher interest rates and also due to the fixed-income portfolio, which offset the increased cost of funds and capital markets. At constant exchange rates, net interest income increased by 4.1%.

Net fees and commissions amounted to 124 million euros as at the end of 2023, representing a year-on-year reduction of 7.4%, due to a reduction in demand deposit fees. Total costs came to -941 million euros, 3.5% higher year-on-year, impacted by the depreciation of the pound sterling. At constant exchange rates, costs increased by 5.6%, due to the booking of -33 million euros of non-recurrent restructuring costs, the increase of recurrent costs being 1.9%, due both to higher staff expenses and to higher general expenses, mainly technology and marketing costs, which offset the reduction of amortisations/depreciations.

Provisions and impairments amounted to -75 million euros, falling by 278% year-on-year, mainly due to the reduced provisions for financial assets (conduct) in 2023.

Million euro

	2023	2022	Year-on-year change (%)
Net interest income	**1,174**	**1,151**	**2.0**
Fees and commissions, net	124	134	(7.4)
Core revenue	**1,298**	**1,284**	**1.1**
Gains or (-) losses on financial assets and liabilities and exchange differences	16	6	166.4
Equity-accounted income and dividends	—	—	-
Other operating income and expenses	(23)	(95)	(75.9)
Gross income	**1,291**	**1,195**	**8.0**
Operating expenses, depreciation and amortisation	(941)	(909)	3.6
Pre-provisions income	**350**	**285**	**22.7**
Provisions and impairments	(75)	(104)	(27.8)
Capital gains on asset sales and other revenue	—	1	(113.2)
Profit/(loss) before tax	**274**	**182**	**50.8**
Corporation tax	(80)	(95)	(16.2)
Profit or loss attributed to minority interests	—	—	—
Profit attributable to the Group	**195**	**87**	**123.9**
ROTE (net return on tangible equity)	10.0 %	4.2 %	
Cost-to-income (general administrative expenses / gross income)	62.1 %	63.0 %	
NPL ratio	1.5 %	1.3 %	
Stage 3 coverage ratio, with total provisions	41.8 %	42.3 %	

(*) The exchange rates applied to the income statement are GBP 0.8706 (average) in 2023 and 0.8532 (average) in 2022.

Gross performing loans dropped by 4.0% year-on-year, benefitting from the appreciation of the pound sterling, as considering a constant exchange rate they fell by 5.9% due to a smaller mortgage book.

On-balance sheet customer funds fell by 2.6% year-on-year, underpinned by the appreciation of the pound. At a constant exchange rate, they fell by 4.6%, due to a reduction of demand deposit accounts, which was partially offset by the increase in term deposits.

Million euro

	2023	2022	Year-on-year change (%)
Assets	**54,855**	**55,810**	**(1.7)**
Gross performing loans to customers	41,381	43,110	(4.0)
Liabilities	**52,487**	**53,316**	**(1.6)**
On-balance sheet customer funds	39,864	40,931	(2.6)
Wholesale funding in capital markets	4,545	2,537	79.2
Allocated equity	**2,368**	**2,494**	**(5.1)**
Off-balance sheet customer funds	**—**	**—**	**—**
Other indicators			
Employees	5,426	5,482	(1.0)
Branches and offices	211	220	(4.1)

(*) The EUR/GBP exchange rate used for the balance sheet was 0.8691 as at 31 December 2023 and 0.8869 as at 31 December 2022.

4.3 Banking Business Mexico

Business overview

In the internationalisation process envisaged within its previous strategic framework, the Bank decided to focus on Mexico, a geography that presents a clear opportunity, as it is an attractive market for the banking business and in which Banco Sabadell has been present since 1991, firstly through the opening of a representative office and then through its stake in Banco del Bajío, which it held for 14 years (from 1998 to 2012).

Its operations in Mexico materialised through an organic project with the launch of two financial vehicles: firstly, a SOFOM (multi-purpose financial institution), which began operating in 2014, and subsequently a bank. The banking licence was obtained in 2015 and the Bank began operating in Mexico in early 2016.

Both vehicles operate under a customer-centric model, with agile processes, digital channels and without branches. The rollout of business capabilities considers the vehicles mentioned above, present in 10 banks across Mexico, and the following business lines:

- Corporate Banking, aimed at corporations and large enterprises, with specialisation in different sectors.
- Business Banking, which mimics the Group's original business banking relationship model and which has been consolidated since its launch in 2016.

Management priorities in 2023

The Mexican subsidiaries (Banco de Sabadell S.A., I.B.M. and Sabcapital S.A. de C.V., SOFOM, E.R.) performed well, in spite of one-off events, including the recognition of the IT platform's impairment due to underused assets and the increase in administrative and promotional expenses associated with a new source of funds acquired from individuals.

During 2023, the Mexican subsidiaries continued to focus on growth, financial self-sufficiency and profitability. It is worth noting the following initiatives implemented during the year:

- In Corporate Banking, Banco Sabadell's Fiduciary Division was bolstered, as was activity involving derivative financial instruments and the rollout of currency forward transactions in 2024, leading to a more comprehensive service for structured finance transactions, strengthening the link with customers.
- In Business Banking, the improvement in transactional capabilities was consolidated, offering an excellent service, a quality that has set it apart since the segment was first launched.
- During 2023, work was undertaken to create a Retail Banking business unit that will be rolled out in 2024, with a digital product aimed at gathering customer funds, offering attractive interest rates and the convenience of being able to withdraw funds at any time. The acquisition levels estimated for the end of 2024 are considerable, and commensurate human and marketing resources will be allocated to that end, which is expected to have a positive impact on the corporate and business banking segments, contributing to the diversification of funds while in turn reducing their concentration.

In 2023, a financial planning exercise in line with that of the Group was carried out to determine the main strategic courses of action for Banco Sabadell in Mexico, which will allow more value to be generated for the Group's Mexican franchise. These are summarised below:

- Roll out and enhance Retail Banking, in order to help further improve the cost of funding.
- Generate more income without capital consumption (by generating more fee income and enhancing new products, such as derivatives, currency trading, fiduciary business, etc.).

On 17 July 2023, HR Ratings upgraded the ratings for Banco de Sabadell S.A., I.B.M. and Sabcapital S.A. de C.V., SOFOM, E.R. Since that date, Banco de Sabadell S.A., I.B.M. has had a long-term rating of HR AAA and a short-term rating of HR+1, as a result of the assessment of five key pillars for this institution: (i) adequate capital position, (ii) continuous generation of earnings, (iii) improved profitability in the face of higher operating income, (iv) financial and operational backing from its parent company in Spain, and (v) sustainability and good corporate practices, demonstrated by its Superior label assigned in terms of the management of its ESG (Environmental, Social and Governance) strategy.

In addition, on 20 December 2023, S&P ratified its credit ratings for Banco de Sabadell S.A., I.B.M. and Sabcapital S.A. de C.V., SOFOM, E.R. in Mexican national scale at mxAAA (BBB-) for the long-term rating and MxA-1+ for the short-term rating, given the expectation that operating income would continue to increase and that profitability would remain stable and due to the consolidation of its market position within Mexico's banking system.

Key figures

Net profit as at 2023 year-end amounted to 44 million euros, representing year-on-year growth of 40.6%, supported by the appreciation of the Mexican peso. At constant exchange rates, this growth was 29.0%, mainly due to the good performance of net interest income.

Net interest income came to 196 million euros, growing by 31.2% year-on-year, or 19.0% at constant exchange rates, underpinned by higher yields on the loan book and higher revenue from fixed-income items.

Net fees and commissions amounted to 15 million euros as at the end of 2023, increasing by 3 million euros compared to the previous year due to increased commercial activity. Total costs stood at -108 million euros, representing growth of 25.8% compared to the previous year, affected by the appreciation of the Mexican peso. At constant exchange rates, costs increased by 14.1%, mainly due to higher general expenses, particularly marketing costs.

Provisions and impairments stood above the 2022 year-end figure, which included releases of several borrowers' provisions.

Capital gains on asset sales and other revenue were more negative due to an increase in IT asset write-offs.

Million euro

	2023	2022	Year-on-year change (%)
Net interest income	**196**	**149**	**31.5**
Fees and commissions, net	15	12	23.2
Core revenue	**211**	**162**	**30.1**
Gains or (-) losses on financial assets and liabilities and exchange differences	8	3	152.6
Equity-accounted income and dividends	—	—	—
Other operating income and expenses	(20)	(17)	—
Gross income	**198**	**148**	**34.1**
Operating expenses, depreciation and amortisation	(108)	(86)	26.1
Pre-provisions income	**90**	**62**	**45.1**
Provisions and impairments	(19)	(9)	108.1
Capital gains on asset sales and other revenue	(19)	(14)	—
Profit/(loss) before tax	**53**	**39**	**35.2**
Corporation tax	(9)	(8)	9.4
Profit or loss attributed to minority interests	—	—	—
Profit attributable to the Group	**44**	**31**	**41.8**
ROTE (net return on tangible equity)	8.9 %	6.6 %	
Cost-to-income (general administrative expenses / gross income)	45.7 %	48.7 %	
NPL ratio	2.4 %	2.3 %	
Stage 3 coverage ratio, with total provisions	74.3 %	70.1 %	

(*) The exchange rates applied to the income statement are MXN 19.1120 (average) in 2023 and 21.0739 (average) in 2022.

Performing loans grew by 11.0% year-on-year, impacted by the appreciation of the Mexican peso. At constant exchange rates, this increase was 7.1%.

On-balance sheet customer funds increased by 3.7% year-on-year, supported by the appreciation of the Mexican peso, given that at constant exchange rates they declined by -4.8%.

Million euro

	2023	2022	Year-on-year change (%)
Assets	**6,670**	**6,025**	**10.7**
Gross performing loans to customers	4,587	4,131	11.0
Real estate exposure, net	—	—	—
Liabilities	**6,039**	**5,437**	**11.1**
On-balance sheet customer funds	3,205	3,090	3.7
Allocated equity	**631**	**587**	**7.5**
Off-balance sheet customer funds	**—**	**—**	**—**
Other indicators			
Employees	435	422	3.1
Branches and offices	15	15	—

(*) The EUR/MXN exchange rate used for the balance sheet was 18.7231 as at 31 December 2023 and 20.856 as at 31 December 2022.

5 - RISKS

During 2023, Banco Sabadell Group has continued to strengthen its Global Risk Framework by making improvements to bring it in line with best practice in the financial sector.

The Group continues to have a medium-low risk profile, in accordance with the risk appetite defined by the Board of Directors.

The Group's risk strategy is fully implemented and linked to the Strategic Plan and the Group's risk-taking capacity, articulated through the Risk Appetite Statement (RAS), under which all material risks are monitored, tracked and reported, and the necessary control and remediation systems are in place to ensure compliance therewith.

Strategic risk management and control processes

Main milestones achieved in 2023 in relation to risk management and control

The most salient aspects concerning the management of the first-tier risks identified in Banco Sabadell Group's risk taxonomy and concerning the actions taken in this regard in 2023 are set out below:

Strategic risk

Definition: the risk of losses (or negative impacts in general) materialising as a result of making strategic decisions or of their subsequent implementation. It also includes the inability to adapt the Group's business model to changes in the environment in which it operates.

Key milestones in 2023:

(i) Strategy and reputation

– The support of customers in the transition to a more digital model and the adoption of good practices and initiatives to provide greater consumer protection.

– Although certain macroeconomic factors have been at play during 2023 that could have had a negative impact on the Bank's profitability depending on how they developed, that risk ultimately did not materialise as (i) inflation rates in Spain have been falling in recent months and (ii) borrowers have exhibited a good payment capacity, meaning that delinquency has remained contained. Similarly, the good delivery on the Strategic Plan, the stronger credit profile and the delivery of record-breaking results are all reflected in several reputational indicators, for example, (i) the improved outlooks of investors and rating agencies with regard to the Institution and (ii) a solid share price performance, recording a share revaluation of 33% over the year.

(ii) Improved capital position

– The CET1 ratio improved to 13.2% in fully-loaded terms as at 2023 year-end, particularly driven by organic capital generation. Regulatory requirements in relation to capital are generally being met.

– The total capital ratio has also improved, ending 2023 at 17.76% in fully-loaded terms.

– During 2023, the leverage ratio rose by 56 basis points compared to the corresponding ratio as at 31 December 2022, ending the year at 5.18%. This development is mainly due to a decrease in the exposure with central banks linked in large part to TLTRO repayments and, to a lesser extent, the decline in lending volumes.

(iii) Profitability

– Profit attributable to owners of the parent amounted to 1,332 million euros as at the end of 2023. It is worth calling attention to the good performance of core results (net interest income plus fees and commissions less costs), which improved due to both the increase in net interest income and the efforts made to contain costs. Specifically, net interest income grew by 24.3% year-on-year, mainly due to the credit yield and improved revenue from the fixed-income portfolio, underpinned by higher interest rates, all of which served to offset higher funding and capital market costs and the negative effect of the depreciation of sterling and the Mexican peso.

– It is also worth highlighting the improvement in the Group's credit quality, which has made it possible to reduce provisions and place the total cost of risk substantially below the levels recorded in 2022.

– All these aspects are clearly reflected in the Group's improved profitability, shown by an improvement of its ROTE, which increased from 8.19% as at 31 December 2022 to 11.49% as at 31 December 2023.

Credit risk

Definition: risk of incurring losses as a result of borrowers failing to fulfil their payment obligations, or of losses in value materialising due simply to the deterioration of borrowers' credit quality.

Key milestones in 2023:

(I) Non-performing assets

– During 2023, non-performing assets were reduced by 223 million euros. The NPL ratio for the year stands at 3.52%.

(II) Concentration:

– From a sectoral point of view, the loan portfolio is diversified and has limited exposure to the sectors most sensitive to the current environment.

– Similarly, in terms of individual concentration, the metrics relating to concentration of large exposures show a slight downward trend and remain within the appetite level. The credit rating of the largest exposures has also improved over the year.

– Geographically speaking, the portfolio is positioned in the most dynamic regions, both in Spain and worldwide. International exposures account for 37% of the loan book.

(III) Lending performance:

– Not including the foreign currency effect, performing loans fell by 4.6% in Spain and by 5.9% in TSB but increased by 7.1% year-on-year in Mexico.

– In Spain, the year-on-year decline is mainly due to the reduced volume of the portfolio of business loans and mortgages.

(IV) TSB lending performance

– In TSB, at constant exchange rates, gross performing loans fell by 5.9% year-on-year, due to the reduced volume of the mortgage portfolio.

Financial risk

Definition: possibility of obtaining inadequate returns or having insufficient levels of liquidity that prevent an institution from meeting future requirements and expectations.

Key milestones in 2023:

(I) Sound liquidity position

– Sound liquidity position, with the LCR (Liquidity Coverage Ratio) standing at 228% at the Group level (203% in the TSB LMU and 274% in Banco Sabadell Spain) and the NSFR (Net Stable Funding Ratio) standing at 140% at the Group level (152% in the TSB LMU and 134% in Banco Sabadell Spain), both figures as at 2023 year-end, after having optimised the funding sources with access to long-term finance, having borrowed 5 billion euros from the ECB and 4,608 million euros from the Bank of England, as well as generating a funding gap in 2023.

– The loan-to-deposit ratio as at the end of 2023 was 94.0%, with a balanced retail funding structure.

– Moreover, Banco Sabadell has fulfilled the capital markets issuance plan that it had set itself for 2023, with strong investor appetite, allowing it to optimise the associated funding costs.

(II) Structural interest rate risk

– The Institution continued to accommodate higher levels of new fixed-rate lending in an environment of higher interest rates in all relevant currencies. The variable-rate loan book reflected the ongoing revaluation of interest rate benchmarks (mainly the 12-month Euribor). As for liabilities, there was an increase in the balance of interest-bearing demand deposits and term deposits, mostly of wholesale customers, contrasting with the reduction of the balance of non-interest-bearing demand deposits, keeping costs at low levels relative to the upward trend followed by interest rates throughout the year.

Operational risk

Definition: 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 compliance risk, model risk and information and communications technology (ICT) risk and excludes strategic risk and reputational risk.

Key milestones in 2023:

– Operational risk remains a material risk for the Group, recording impacts that, though acceptable, have gradually increased in recent years due to the problems associated with conduct risk.

– The current situation of high awareness and increased regulatory pressure, aimed especially at providing greater protection for consumers and vulnerable customers, requires conduct risks to be the main focus of attention. The current materiality and the expectation that this situation will likely continue requires the focus to remain fixed on these risks, tracking their evolution and adequately monitoring the planned mitigation measures.

– The focus remains on complaints related to floor clauses, mortgage application and arrangement fees, high rates of interest charged in connection with revolving credit cards and appropriate assistance for vulnerable customers, especially in the UK, given the demanding regulatory environment.

- The possible creation of the new financial customer protection authority could have an impact on the complaints received, as it facilitates this process. The materialisation of conduct risks involves a potential reputational risk for the Institution, although it remains in line with the sector.

Compliance risk

Definition: risk of incurring legal or regulatory sanctions, material financial loss or loss to reputation as a result of failing to comply with laws, regulations, self-regulating rules and codes of conduct applicable to the Group's activity.

In accordance with Banco Sabadell's Compliance Policy and observing the EBA's Guidelines on Internal Governance, an Annual Programme is drawn up, applying the principle of proportionality according to the nature, volume an complexity of activities, containing a detailed schedule of activities, including the review of policies and procedures, the risk assessment, control plans and staff training in relation to compliance. This programme covers all services provided and activities carried out by Compliance and defines its priorities based on the risk assessment, in coordination with the Risk Control function. Monitoring exercises are conducted and regular reports on them are made to the Group's governing bodies in order to identify any deviations and resolve them quickly and effectively.

In 2023, efforts continued to be made to promote a culture of ethics and compliance among employees, interacting on an ongoing basis with the main supervisory authorities in connection with the Bank's compliance activity.

Main priorities in 2023:

(I) Evolution of supervisory model

- Evolution of the model for supervising subsidiaries and foreign branches.
- Adaptation of the current model to the increasingly demanding levels of supervision carried out by the parent company over the compliance activity of its various subsidiaries and foreign branches, allowing more in-depth knowledge to be obtained about the management of local risks and enabling more uniform compliance risk assessments to be made at the Group level.

(II) Accelerated pace of digitalisation

- Accelerated pace of digitalisation in the Anti-Money Laundering and Counter-Terrorist Financing function.
- A digital transformation agenda was launched with the aim of increasing the effectiveness of preventive assessments, systematising and improving the experience of relationship mangers and customers, and reinforcing the culture of sustainability in relation to compliance.

(III) Management of competition risk

- Incorporation of competition risk management into the annual Compliance Programme.
- Development of the main pillars from which to implement a competition risk management model to reinforce the prevention of possible misconduct in this regard.

6 – OTHER MATERIAL DISCLOSURES

6.1 R&D and innovation

Activities within the Group in relation to technology have met the particular needs of each of the geographies in which it operates. For Spain, it is worth mentioning the acceleration that took place in the digital transformation, as well as the rollout of its catalogue of digital products, in addition to the creation of a new mobile app based on the latest market standards. It is also worth mentioning the improved resilience of the IT platform, with a new data centre for disaster recovery with cloud-native capabilities. In TSB, efforts continued to focus on improving business capabilities. In Mexico, a new workplace model was put in place, based on the latest technology, improving productivity and efficiency.

In the domestic context

In 2023, the introduction of new products and processes that are digital from start to finish was key, as were the new capabilities made available for managers in the branch network. In addition, the IT platform was further developed, adapting it to the latest market trends and improving its resilience in the event of a disaster.

Within Retail Banking, the expansion of the catalogue of digital products was a priority, notably new products and features associated with unsecured loans, mortgages and cards. As for Business Banking, it is particularly worth noting the general boost given to digitalisation efforts in order to bring it closer to the Retail Banking segment.

Also noteworthy is the ongoing development of a new mobile app that uses the latest market standards in order to improve user experience and which will enable a faster rollout of new functionality and reduce the time to market, scheduled for 2024.

In addition, several processes have continued to be enhanced, such as digital onboarding, which in 2023 was the main channel through which the Institution acquired new customers.

In relation to branches, new capabilities were introduced for network managers, allowing them to offer more personalised, flexible and efficient management, thanks to a new suite of applications and tools. It is also worth noting the launch of various functionalities based on Artificial Intelligence, which allow for easier and improved decision-making processes.

In addition, the IT platform was further developed in 2023, introducing various programmes that make it possible to continue developing the platform in line with the latest market standards whilst at the same time improving its resilience. These initiatives include Journey to Cloud, which provides holistic coverage (infrastructure, data and systems architecture) to the transition to the cloud, as well as the migration from the current disaster recovery data centre to a new cloud-native data centre, so as to strengthen and improve the platform's resilience capabilities and to simplify its management.

The amount of these technology investments at a domestic level during 2023 (entered in the accounts under "Other intangible assets") came to 191,522 thousand euros, invested in the company Sabadell Digital S.A. (of which 9,112 thousand euros were invested in projects involving the IT platform that serves TSB).

In the international context

In TSB, a large proportion of its activities focused on expanding the digital catalogue and introducing new features for the mobile app. Initiatives were also implemented to improve the quality and resilience of the IT platform.

Similarly, Sabadell Mexico focused on developing programmes to improve the workplace whilst continuing to develop the personal banking segment.

Technology investments on an international scale during 2023 (booked in the accounts under "Other intangible assets") amounted to 2,009 thousand euros in the company Sabadell Information Systems, S.A. UK, 27,942 thousand pounds sterling in TSB bank plc, and 405,998 Mexican pesos were invested by the company Institución Banca Múltiple (IBM) to support its various local IT platforms.

6.2 Acquisition and sale of treasury shares

See Note 23 to the consolidated annual financial statements.

6.3 Days payable outstanding

The average time taken to pay suppliers (days payable outstanding) by consolidated entities located in Spain was 25.49 days (10.15 days in the case of the Bank).

6.4 Material post-closing events

No significant events meriting disclosure have occurred since 31 December 2023.

6.5 Other reports related to the Directors' Report

Non-Financial Disclosures Report

In accordance with the provisions of Act 11/2018, of 28 December, on non-financial and diversity disclosures, Banco Sabadell Group has drawn up the consolidated Non-Financial Disclosures Report for 2023, which, in accordance with article 44 of the Commercial Code, is attached as a separate document to the 2023 consolidated directors' report. The separate information corresponding to Banco Sabadell, S.A. is contained in that separate document attached to the consolidated directors' report, which will be filed with the Alicante Mercantile Registry.

Annual Corporate Governance Report

The Annual Corporate Governance Report (ACGR) corresponding to the 2023 financial year forms an integral part of the Directors' Report in accordance with the provisions of the Spanish Capital Companies Act. This report is signed off by the Board of Directors on the same date as the annual financial statements and the Directors' Report and is sent separately to the CNMV. From the date of publication of the annual financial statements and the Directors' Report, the ACGR is available on the CNMV's website (www.cnmv.es) and on the corporate website of Banco Sabadell Group (www.grupbancsabadell.com).

Annual Report on Director Remuneration

The Annual Report on Director Remuneration (ARDR) corresponding to the 2023 financial year forms an integral part of the Directors' Report in accordance with the provisions of the Spanish Capital Companies Act. This report is signed off by the Board of Directors on the same date as the annual financial statements and the Directors' Report and is sent separately to the CNMV. From the date of publication of the annual financial statements and the Directors' Report, the ARDR is available on the CNMV's website (www.cnmv.es) and on the corporate website of Banco Sabadell Group (www.grupbancsabadell.com).

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 industry (Alternative Performance Measures, or APMs) as monitoring indicators for the management of assets and liabilities, and the financial and economic situation of the Group, which facilitates its comparison with other institutions.

Following the ESMA guidelines on APMs (ESMA/2015/1415 of October 2015), the purpose of which is to promote the use and transparency of information for the protection of investors in the European Union, the Group presents in this section the definition, calculation and reconciliation for each APM.

Performance measure	Definition and calculation	Use or purpose
Gross performing loans to customers	Includes gross customer loans and advances, excluding repos, accrual adjustments and stage 3 assets.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Gross loans to customers	Includes loans and advances to customers excluding impairment allowances.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
On-balance sheet customer	Includes customer deposits (excl. repos) and other liabilities placed 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 issued (borrowings, other marketable securities and subordinated liabilities).	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Off-balance sheet customer funds	Includes mutual funds, asset management, pension funds and insurance products sold.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Funds under management and third-party funds	The sum of on-balance sheet funds and off-balance sheet customer funds.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Customer spread	Difference between yield and costs of customer-related assets and liabilities, i.e. the contribution of exclusively customer-related transactions to net interest income. Calculated as the difference between the average rate that the Bank charges its customers for loans and the average rate that the Bank pays its customers for deposits. The average rate on customer loans and advances is the annualised ratio, in percentage terms, between financial revenues booked on customer loans and advances and the average daily balance of customer loans and advances. The average rate on customer funds is the annualised ratio, in percentage terms, between the financial cost booked on customer funds and the average daily balance of customer funds.	It reflects the profitability of purely banking activity.
Other assets	Comprises the following accounting items: derivatives - hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax assets, other assets, assets under insurance or reinsurance contracts and non-current assets and disposal groups classified as held for sale.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Other liabilities	Comprises the following accounting items: derivatives - hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax liabilities, other liabilities and liabilities included in disposal groups classified as held for sale.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Other operating income and expenses	Comprises the following accounting items: other operating income and other operating expenses as well as income from assets and expenses from liabilities under insurance or reinsurance contracts.	Grouping of items used to explain part of the performance of the Group's consolidated results.
Pre-provisions income	Comprises the following accounting items: gross income plus administrative expenses and depreciation/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) profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding gains or losses on the sale of equity holdings and other items), and (vi) gains or losses on derecognition of non-financial assets, net (including only gains or losses on the sale of investment properties).	Grouping of items used to explain part of the performance of the Group's consolidated results.
Capital gains on asset sales and other revenue	Comprises the following accounting items: (i) gains or (-) losses on derecognition of non-financial assets, net (excluding gains or (-) losses on the sale of investment properties), and (ii) profit or (-) loss from 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 and other items).	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 considers 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), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), 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 considers 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), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), 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 considers 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), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), 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 return on the Group's shareholders' equity.

ROTE	Profit attributable to the Group / average shareholders' equity. The numerator considers 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), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), 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 return on shareholders' equity, but excluding goodwill from its calculation.
Cost-to-income ratio	Administrative expenses / adjusted gross income. The denominator includes the accrual on a straight-line basis of contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end.	Main indicator of efficiency or productivity of banking activity.
Cost-to-income ratio with amortisation/ depreciation	Administrative expenses, amortisations and depreciations / adjusted gross income. The denominator includes the accrual on a straight-line basis of contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end.	One of the main indicators of efficiency or productivity of banking activity.
Stage 3 exposures	These include: (i) assets classified as stage 3 including other valuation adjustments (accrued interests, fees and commissions, and other) classified as stage 3 of loans and advances not classified as non-current assets held for sale and (ii) financial guarantees and other guarantees given classified as stage 3.	It is one of the main indicators used in the banking industry to monitor the status and evolution of the quality of credit risk undertaken with customers and to assess its management.
Stage 3 coverage ratio, with total provisions	Percentage of stage 3 exposures that is covered by total provisions or impairment allowances. Calculated as impairment of loans and advances to customers (including provisions for off-balance sheet exposures) / total exposures classified as stage 3 (including financial guarantees and other 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.
Stage 3 coverage ratio	Percentage of stage 3 exposures that is covered by total provisions or stage 3 impairment allowances. Calculated as impairment of stage 3 loans and advances to customers (including provisions for off-balance sheet exposures in stage 3) / total exposures in stage 3 (including financial guarantees and other guarantees given classified as stage 3).	It is one of the main indicators used in the banking industry 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.
Non-performing assets	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 industry 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 ratio considers impairment allowances for customer loans and advances (including allowances for the impairment of off-balance sheet exposures) plus provisions associated with non-performing real estate in the numerator, while the denominator considers total non-performing assets.	It is one of the main indicators used in the banking industry 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	Calculated as a ratio, whose numerator includes: (i) assets classified as stage 3 including other valuation adjustments (accrued interests, fees and commissions, and other) classified as stage 3 of loans and advances not classified as non-current assets held for sale, and (ii) financial guarantees and other guarantees given classified as stage 3. The denominator includes: (i) gross loans to customers, excluding repos or loans and advances to customers, excluding ATAs and without impairment allowances, and (ii) financial guarantees and other guarantees given.	It is one of the main indicators used in the banking industry to monitor the status and evolution of the quality of credit risk undertaken with customers and to assess its management.
Credit cost of risk (bps)	Calculated as credit loss provisions / gross loans to customers, excluding reverse repos and including financial guarantees and other guarantees given. The numerator considers the straight-line annualisation of loan loss provisions. It is also adjusted to account for costs associated with managing assets classified as stage 3.	A relative measure of risk, being one of the main indicators used in the banking industry 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.
Total cost of risk (bps)	This gives the ratio of total credit loss provisions and impairments to gross loans to customers, excluding reverse repos and including financial guarantees and other guarantees given and non-performing real estate assets. The numerator considers the straight-line annualisation of total provisions and impairments.	A relative measure of risk, being one of the main indicators used in the banking industry 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 deposits ratio	Net loans and receivables / retail funding. Brokered loans are subtracted from the numerator to calculate this ratio. The denominator considers retail funding or customer funds, defined in this table.	Measures a Bank's liquidity as the ratio of the funds at its disposal relative to the volume of lending items granted to customers. Liquidity is one of the key aspects that define the structure of an institution.
Market capitalisation	Calculated by multiplying the share price by the number of shares outstanding (number of total shares minus closing treasury stock position) 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 per share (EPS)	This gives the ratio of earnings (or loss), net, attributable to the Group divided by the average number of shares outstanding (average number of total shares minus average treasury stock and minus average number of shares subject to a buyback programme). The numerator considers the annualisation of profit (or loss) earned to date adjusted by the amount of the Additional Tier 1 coupon recognised in shareholders' equity. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), 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	Calculated as book value / number of shares outstanding (number of total shares minus closing treasury stock position) as at the reporting date. The book value is the sum of shareholders' equity, adjusted to account for the accrual to date of contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end.	It is an economic market measurement or market ratio that indicates the book value per share.
TBV per share	This gives the ratio of the tangible book value of shares outstanding / (number of total shares minus closing treasury stock position) as at the reporting date. The tangible book value is the sum of shareholders' equity adjusted to account for intangible assets and goodwill of investees, as well as the accrual to date of contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end.	It is an economic market measurement or market ratio that indicates the tangible book value per share.
P/TBV (price/ tangible book value per share)	Share price or value / tangible 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 (share price / EPS)	Share price or value / net earnings 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 Note 38 on "Segment information" and in the Directors' Report with those of the consolidated income statement (*)

Net fees and commissions:

- Fee and commission income.
- (Fee and commission expenses).

Core revenue:

- Net interest income.
- Fee and commission income.
- (Fee and commission expenses).

Other operating income and expenses:

- Other operating income.
- (Other operating expenses).

Operating expenses, depreciation and amortisation:

- (Administrative expenses).
- (Depreciation and amortisation).

Pre-provisions income:

- Gross income.
- (Administrative expenses).
- (Depreciation and amortisation).

Provisions and impairments:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains).
- (Provisions or (-) reversal of provisions).
- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding gains or (-) losses on the sale of equity holdings and other items).
- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (including only gains or losses on sale of investment properties).

Provisions for loan losses:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains).
- (Provisions or (-) reversal of provisions) (including only commitments and guarantees given).

Provisions for other financial assets:

- (Provisions or (-) reversal of provisions) (excluding commitments and guarantees given).

Other provisions and impairments:

- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding gains or (-) losses on the sale of equity holdings and other items).
- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (including only gains or losses on sale of investment properties).

Capital gains on asset sales and other revenue:

- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (excluding gains or losses on sale of investment properties).
- Profit or (-) loss from 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 and other items).

(*) 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	31/12/2023	31/12/2022
Gross loans to customers / Gross performing loans to customers		
Loans and credit secured with mortgages	86,162	89,340
Loans and credit secured with other collateral	5,064	3,412
Trade credit	7,465	7,489
Finance leases	2,236	2,227
Bank overdrafts and other short-term borrowings	48,870	53,663
Gross performing loans to customers	**149,798**	**156,130**
Stage 3 assets (customers)	5,472	5,461
Accrual adjustments	172	159
Gross loans to customers, excluding reverse repos	**155,442**	**161,750**
Reverse repos	17	—
Gross loans to customers	**155,459**	**161,750**
Impairment allowances	(3,199)	(3,020)
Loans and advances to customers	**152,260**	**158,730**
On-balance sheet customer funds		
Financial liabilities at amortised cost	216,072	232,530
Non-retail financial liabilities	55,184	68,390
Deposits - central banks	9,776	27,844
Deposits from credit institutions	13,840	11,373
Institutional issues	25,234	22,514
Other financial liabilities	6,333	6,659
On-balance sheet customer funds	**160,888**	**164,140**
On-balance sheet funds		
Customer deposits	160,331	164,076
Demand deposits	134,243	147,540
Deposits with agreed maturity including deposits redeemable at notice and hybrid financial liabilities	25,588	16,141
Repos	200	405
Accrual adjustments and hedging derivatives	299	(9)
Borrowings and other marketable securities	22,198	19,100
Subordinated liabilities (*)	3,593	3,478
On-balance sheet funds	**186,122**	**186,654**
Off-balance sheet customer funds		
Mutual funds	24,093	22,581
Assets under management	3,598	3,532
Pension funds	3,249	3,182
Insurance products sold	9,621	9,197
Off-balance sheet customer funds	**40,561**	**38,492**
Funds under management and third-party funds		
On-balance sheet funds	186,122	186,654
Off-balance sheet customer funds	40,561	38,492
Funds under management and third-party funds	**226,682**	**225,146**

(*) Subordinated liabilities in connection with debt securities.

BALANCE SHEET	**31/12/2023**	**31/12/2022**
Other assets		
Derivatives – Hedge accounting	2,425	3,072
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(568)	(1,546)
Tax assets	6,838	6,851
Other assets	436	480
Non-current assets and disposal groups classified as held for sale	771	738
Other assets	**9,902**	**9,596**
Other liabilities		
Derivatives – Hedge accounting	1,172	1,242
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(422)	(959)
Tax liabilities	333	227
Other liabilities	723	872
Liabilities included in disposal groups classified as held for sale	13	—
Other liabilities	**1,818**	**1,382**

INCOME STATEMENT	**31/12/2023**	**31/12/2022**
Customer spread		
Loans and advances to customers (net)		
Average balance	153,978	157,870
Profit/(loss)	5,840	3,966
Rate (%)	3.79	2.51
Customer deposits		
Average balance	160,564	162,393
Profit/(loss)	(1,432)	(309)
Rate (%)	(0.89)	(0.19)
Customer spread	**2.90**	**2.32**
Other operating income and expenses		
Other operating income	91	122
Other operating expenses	(538)	(459)
Income from assets under insurance or reinsurance contracts	—	—
Expenses on liabilities under insurance or reinsurance contracts	—	—
Other operating income and expenses	**(447)**	**(337)**

	31/12/2023	31/12/2022
Pre-provisions income		
Gross income	5,862	5,211
Administrative expenses	(2,496)	(2,337)
Staff expenses	(1,495)	(1,392)
Other general administrative expenses	(1,002)	(946)
Depreciation and amortisation	(519)	(545)
Pre-provisions income	**2,847**	**2,328**
Total provisions and impairments		
Impairment or reversal of impairment on investments in joint ventures and associates	—	(12)
Impairment or reversal of impairment on non-financial assets, adjusted	(22)	(58)
Impairment or reversal of impairment on non-financial assets	(26)	(61)
Gains or losses on sale of investment properties	4	3
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, adjusted	(58)	(26)
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(60)	(28)
Gains or losses on the sale of equity holdings and other items	2	2
Other provisions and impairments	**(80)**	**(96)**
Provisions or reversal of provisions	(6)	(97)
Impairment or reversal of impairment and gains or losses on changes in cash flows from financial assets not measured at fair value through profit or loss and net modification losses or gains	(824)	(840)
Provisions for loan losses and other financial assets	**(831)**	**(936)**
Total provisions and impairments	**(910)**	**(1,032)**
Capital gains on asset sales and other revenue		
Gains or losses on derecognition of non-financial assets, net	(39)	(17)
Gains or losses on the sale of equity holdings and other items	(2)	(2)
Gains or losses on sale of investment properties	(4)	(3)
Capital gains on asset sales and other revenue	**(46)**	**(23)**

PROFITABILITY AND EFFICIENCY	**31/12/2023**	**31/12/2022**
ROA		
Average total assets	245,173	257,553
Consolidated profit or loss for the year	1,334	900
ROA (%)	**0.54**	**0.35**
RORWA		
Risk-weighted assets (RWAs)	78,428	79,545
Net profit attributable to the Group	1,332	889
RORWA (%)	**1.70**	**1.12**
ROE		
Average shareholders’ equity	14,053	13,392
Net profit attributable to the Group	1,332	889
ROE (%)	**9.48**	**6.64**
ROTE		
Average shareholders’ equity (excluding intangible assets)	11,594	10,855
Net profit attributable to the Group	1,332	889
ROTE (%)	**11.49**	**8.19**
Cost-to-income ratio		
Gross income	5,862	5,211
Administrative expenses	(2,496)	(2,337)
Cost-to-income ratio (%)	**42.59**	**44.86**
Depreciation and amortisation	(519)	(545)
Cost-to-income ratio with amortisation/depreciation (%)	**51.44**	**55.32**

RISK MANAGEMENT	31/12/2023	31/12/2022
Stage 3 exposures		
Assets classified as stage 3 (including other valuation adjustments)	5,510	5,491
Financial guarantees and other guarantees given classified as stage 3 (off-balance sheet)	268	324
Stage 3 exposures	**5,777**	**5,814**
Stage 3 coverage ratio, with total provisions		
Provisions for loan losses	3,368	3,200
Stage 3 exposures	5,777	5,814
Stage 3 coverage ratio, with total provisions (%)	**58.3 %**	**55.0 %**
Stage 3 coverage ratio		
Provisions for stage 3 loan losses	2,445	2,292
Stage 3 exposures	5,777	5,814
Stage 3 coverage ratio (%)	**42.3 %**	**39.4 %**
Non-performing assets		
Stage 3 exposures	5,777	5,814
Non-performing real estate assets	971	1,157
Non-performing assets	**6,748**	**6,971**
NPA coverage ratio		
Provisions for non-performing assets	3,752	3,644
Non-performing assets	6,748	6,971
NPA coverage ratio (%)	**55.6 %**	**52.3 %**
Non-performing real estate coverage ratio		
Provisions for non-performing real estate assets	385	443
Non-performing real estate assets	971	1,157
Non-performing real estate coverage ratio (%)	**39.6 %**	**38.3 %**
NPL ratio		
Stage 3 exposures	5,777	5,814
Gross loans to customers, excluding reverse repos	155,442	161,750
Financial guarantees and other guarantees given (off-balance sheet)	8,896	9,003
NPL ratio (%)	**3.5 %**	**3.4 %**
Credit cost of risk		
Gross loans to customers, excluding reverse repos	155,442	161,750
Financial guarantees and other guarantees given (off-balance sheet)	8,896	9,003
Provisions for loan losses	(813)	(825)
NPL expenses	(106)	(82)
Credit cost of risk (bps)	**43**	**44**
Total cost of risk		
Gross loans to customers, excluding reverse repos	155,442	161,750
Financial guarantees and other guarantees given (off-balance sheet)	8,896	9,003
Non-performing real estate assets	971	1,157
Total provisions and impairments	(910)	(1,032)
Total cost of risk (bps)	**55**	**60**

LIQUIDITY MANAGEMENT	31/12/2023	31/12/2022
Loan-to-deposit ratio		
Net loans and advances excluding ATAs, adjusted for brokered loans	151,290	156,924
On-balance sheet customer funds	160,888	164,140
Loan-to-deposit ratio (%)	**94.0 %**	**95.6 %**

SHAREHOLDERS AND SHARES	31/12/2023	31/12/2022
Market capitalisation		
Total number of shares in circulation (million)	5,403	5,602
Listed price	1.113	0.881
Market capitalisation (million euro)	**6,014**	**4,934**
Earnings per share (EPS)		
Profit attributable to the Group, adjusted	1,217	779
Profit attributable to the Group	1,332	889
Adjustment for accrued AT1	(115)	(110)
Average number of shares outstanding (average number of total shares minus average treasury stock and minus average number of shares subject to a buyback programme) (million).	5,401	5,594
Earnings per share (euros)	**0.23**	**0.14**
Book value per share		
Shareholders' equity	14,344	13,635
Total number of shares in circulation (million)	5,403	5,602
Book value per share (euro)	**2.65**	**2.43**
Book value per share		
Shareholders' equity	14,344	13,635
Intangible assets	2,483	2,484
Tangible book value (shareholders' equity, adjusted)	11,861	11,151
Total number of shares in circulation (million)	5,403	5,602
TBV per share (euros)	**2.20**	**1.99**
P/TBV		
Listed price	1.113	0.881
TBV per share (euros)	2.20	1.99
P/TBV (price/tangible book value per share)	**0.51**	**0.44**
PER		
Listed price	1.113	0.881
Earnings per share (euros)	0.23	0.14
Price/earnings ratio (share price / EPS)	**4.94**	**6.32**