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. and Subsidiaries

(Together with the consolidated annual financial statements and consolidated directors' report of Banco de Sabadell, S.A. and subsidiaries 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 Consolidated 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 CONSOLIDATED FINANCIAL ANNUAL STATEMENTS

Opinion

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

In our opinion, the accompanying consolidated annual financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

We conducted our audit in accordance with prevailing legislation regulating the audit of accounts in Spain. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Annual Financial Statements* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those regarding independence, that are relevant to our audit of the consolidated 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.

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

Key Audit Matters

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

<table>
<tr><th colspan="2">Impairment of loans and advances to customers
See notes 1.3.4.1, 4.4.2 and 11 to the consolidated annual financial statements</th></tr>
<tr><td>Key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td>The Group's portfolio of loans and advances to customers classified as financial assets at amortised cost reflects a net balance of Euros 152,260 million at 31 December 2023, while allowances and provisions recognised at that date for impairment total Euros 3,199 million.

For the purposes of estimating impairment, financial assets measured at amortised cost are classified into three categories (Stage 1, 2 or 3) according to whether a significant increase in credit risk since their initial recognition has been identified (Stage 2), whether the financial assets are credit-impaired (Stage 3) or whether neither of the foregoing circumstances apply (Stage 1). For the Group, establishing this classification is a relevant process inasmuch as the calculation of allowances and provisions for credit risk varies depending on the category in which the financial asset has been included.

Impairment is calculated based on models for estimating expected losses, which the Group estimates on both an individual and a collective basis. This calculation entails a considerable level of judgement as this is a significant and complex estimate.

Allowances and provisions for credit risk determined individually consider estimates of future business performance and the market value of collateral provided for credit transactions.</td><td>Our audit approach in relation to the Group's estimate of impairment of loans and advances to customers due to credit risk mainly consisted of assessing the methodology applied to calculate expected losses, particularly as regards the methods and assumptions used to estimate exposure at default, probability of default and loss given default; 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 Group'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 Group, particularly the criteria for identifying and classifying refinancing and restructuring transactions.

– Assessing the relevant controls relating to the monitoring of transactions.

– Evaluating whether the internal models for estimating both individual and collective allowances and provisions for credit risk, and for the management and valuation of collateral, are functioning correctly.

– 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.</td></tr>
</table>

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

Impairment of loans and advances to customers See notes 1.3.4.1, 4.4.2 and 11 to the consolidated annual financial statements	
Key audit matter	*How the matter was addressed in our audit*
In the case of allowances and provisions calculated collectively, expected losses are estimated using internal models that use large databases, different macroeconomic scenarios, parameters to estimate provisions, segmentation criteria and automated processes, which are complex in their design and implementation and require past and present information and future forecasts to be considered. The Group 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 Group 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 Group'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.	– We assessed the process of reviewing the updates of the additional temporary adjustments to the expected loss models recognised by the Group. 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 Group. 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 Group, 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 Group. – Regarding whether the loans and advances to customers portfolio has been appropriately classified based on credit risk, in accordance with the criteria defined by the Group, we selected a sample and assessed the appropriateness of accounting classification for credit risk. – 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 Group 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. – We evaluated the additional adjustments to the internal models used to estimate the expected losses recognised by the Group at 31 December 2023. Likewise, we analysed whether the disclosures in the notes to the consolidated annual financial statements were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Group.

Risks associated with information technology	
Key audit matter	*How the matter was addressed in our audit*
The Group operates in a complex technological environment that is constantly evolving and which must efficiently and reliably meet business requirements. The high level of dependence on these systems with regard to the processing of the Group's financial and accounting information make it necessary to ensure that these systems function correctly. In this context, it is critical to ensure that management of the technological risks that could affect information systems is adequately coordinated and harmonised, in relevant areas such as data and program security, 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 assistance of our specialists in information systems, we carried out tests, at each of the Group entities that are considered relevant for the purpose of the audit, relating to the internal control over the processes and systems involved in generating 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: Consolidated Directors' Report

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

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

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

a) Determine, solely, whether the consolidated non-financial information statement and certain information included in the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration, as specified in the Spanish Audit Law, have been provided in the manner stipulated in the applicable legislation, and if not, to report on this matter.

b) Assess and report on the consistency of the rest of the information included in the consolidated directors' report with the consolidated annual financial statements, based on knowledge of the Group obtained during the audit of the aforementioned consolidated annual financial statements. Also, assess and report on whether the content and presentation of this part of the consolidated directors' report are in accordance with applicable legislation. If, based on the work we have performed, we conclude that there are material misstatements, we are required to report them.

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual 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 Consolidated Annual Financial Statements

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

In preparing the consolidated annual financial statements, the Bank's Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Bank's Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Bank's Audit and Control Committee is responsible for overseeing the preparation and presentation of the consolidated annual financial statements.

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Bank’s Directors.

– Conclude on the appropriateness of the Bank's Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

(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 consolidated 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 files of Banco de Sabadell, S.A. and its subsidiaries for 2023 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated annual financial statements for the aforementioned year and the XBRL files tagged by the Bank, which will form part of the annual financial report.

The Directors of Banco de Sabadell, S.A. are responsible for the presentation of the 2023 annual report in accordance with the format and mark-up requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation"). 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 consolidated directors' report.

Our responsibility consists of examining the digital files prepared by the Directors of the Bank, in accordance with prevailing legislation regulating the audit of accounts in Spain. This legislation requires that we plan and perform our audit procedures to determine whether the content of the consolidated annual financial statements included in the aforementioned digital files fully corresponds to the consolidated annual financial statements we have audited, and whether the consolidated annual financial statements and the aforementioned files have been formatted and marked up, in all material respects, in accordance with the requirements of the ESEF Regulation.

In our opinion, the digital files examined fully correspond to the audited consolidated annual financial statements, and these are presented and marked up, 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. AND COMPANIES FORMING BANCO SABADELL GROUP

Consolidated annual financial statements and
consolidated Directors' Report
for the year ended 31 December 2023

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

Contents: Banco Sabadell Group consolidated annual financial statements and consolidated Directors' Report for the year ended 31 December 2023

Consolidated annual financial statements for the year ended 31 December 2023

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2023 and 2022

Thousand euro

Assets	Note	2023	2022 (*)
Cash, cash balances at central banks and other demand deposits (**)	**7**	**29,985,853**	**41,260,395**
Financial assets held for trading		**2,706,489**	**4,017,253**
Derivatives	10	2,563,994	3,600,122
Equity instruments		—	—
Debt securities	8	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		**153,178**	**77,421**
Equity instruments	9	52,336	23,145
Debt securities	8	65,744	54,276
Loans and advances	11	35,098	—
Central banks		—	—
Credit institutions		—	—
Customers		35,098	—
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		**6,269,297**	**5,802,264**
Equity instruments	9	183,938	179,572
Debt securities	8	6,085,359	5,622,692
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		*557,303*	*1,977,469*
Financial assets at amortised cost		**180,913,793**	**185,045,452**
Debt securities	8	21,500,927	21,452,820
Loans and advances	11	159,412,866	163,592,632
Central banks		156,516	162,664
Credit institutions		6,995,951	4,700,287
Customers		152,260,399	158,729,681
Memorandum item: loaned or pledged as security with sale or pledging rights		*5,996,602*	*6,542,504*
Derivatives – Hedge accounting	**12**	**2,424,598**	**3,072,091**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**12**	**(567,608)**	**(1,545,607)**
Investments in joint ventures and associates	**14**	**462,756**	**376,940**
Joint ventures		—	—
Associates		462,756	376,940
Assets under insurance or reinsurance contracts		**—**	**—**
Tangible assets	**15**	**2,296,704**	**2,581,791**
Property, plant and equipment		2,067,106	2,282,049
For own use		2,058,058	2,272,705
Leased out under operating leases		9,048	9,344
Investment properties		229,598	299,742
Of which: leased out under operating leases		*229,598*	*281,707*
Memorandum item: acquired through finance leases		*872,305*	*897,903*
Intangible assets	**16**	**2,483,074**	**2,484,162**
Goodwill		1,018,311	1,026,810
Other intangible assets		1,464,763	1,457,352
Tax assets		**6,837,820**	**6,851,068**
Current tax assets		452,289	206,561
Deferred tax assets	39	6,385,531	6,644,507
Other assets	**17**	**436,123**	**479,680**
Insurance contracts linked to pensions		80,693	89,729
Inventories		62,344	93,835
Rest of other assets		293,086	296,116
Non-current assets and disposal groups classified as held for sale	**13**	**770,878**	**738,313**
TOTAL ASSETS		**235,172,955**	**251,241,223**

(*) Shown for comparative purposes only (see Note 1.4).

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

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated balance sheet as at 31 December 2023.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2023 and 2022

Thousand euro

Liabilities	Note	2023	2022 (*)
Financial liabilities held for trading		**2,867,459**	**3,598,483**
Derivatives	10	2,530,086	3,374,036
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		**216,071,766**	**232,529,932**
Deposits		183,947,196	203,293,522
Central banks	18	9,776,360	27,843,687
Credit institutions	18	13,840,183	11,373,390
Customers	19	160,330,653	164,076,445
Debt securities issued	20	25,791,284	22,577,549
Other financial liabilities	21	6,333,286	6,658,861
Memorandum item: subordinated liabilities		*3,607,858*	*3,477,976*
Derivatives – Hedge accounting	**12**	**1,171,957**	**1,242,470**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**12**	**(422,347)**	**(959,106)**
Liabilities under insurance or reinsurance contracts		**—**	**—**
Provisions	**22**	**536,092**	**644,509**
Pensions and other post employment defined benefit obligations		58,308	63,384
Other long term employee benefits		69	170
Pending legal issues and tax litigation		60,550	89,850
Commitments and guarantees given		165,376	176,823
Other provisions		251,789	314,282
Tax liabilities		**332,951**	**226,711**
Current tax liabilities		217,981	112,994
Deferred tax liabilities	39	114,970	113,717
Share capital repayable on demand		**—**	**—**
Other liabilities	**17**	**722,524**	**872,108**
Liabilities included in disposal groups classified as held for sale	**13**	**13,347**	**—**
TOTAL LIABILITIES		**221,293,749**	**238,155,107**

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated balance sheet as at 31 December 2023.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2023 and 2022

Thousand euro

Equity	Note	2023	2022 (*)
Shareholders' equity	**23**	**14,343,946**	**13,635,172**
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		21,268	21,548
Retained earnings		6,401,782	5,859,520
Revaluation reserves		—	—
Other reserves		(1,584,816)	(1,602,079)
Reserves or accumulated losses of investments in joint ventures and associates		54,836	(72,449)
Other		(1,639,652)	(1,529,630)
(-) Treasury shares		(39,621)	(23,767)
Profit or loss attributable to owners of the parent		1,332,181	889,392
(-) Interim dividends		(162,103)	(112,040)
Accumulated other comprehensive income	**24**	**(498,953)**	**(583,400)**
Items that will not be reclassified to profit or loss		(30,596)	(29,125)
Actuarial gains or (-) losses on defined benefit pension plans		(3,313)	(1,969)
Non-current assets and disposal groups classified as held for sale		—	—
Share of other recognised income and expense of investments in joint ventures and associates		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income		(27,283)	(27,156)
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		(468,357)	(554,275)
Hedge of net investments in foreign operations [effective portion]		77,997	119,348
Foreign currency translation		(384,086)	(476,030)
Hedging derivatives. Cash flow hedges reserve [effective portion]		(49,215)	(64,224)
Fair value changes of debt instruments measured at fair value through other comprehensive income		(145,732)	(180,199)
Hedging instruments [not designated elements]		—	—
Non-current assets and disposal groups classified as held for sale		—	—
Share of other recognised income and expense of investments in joint ventures and associates		32,679	46,830
Minority interests [Non-controlling interests]	**25**	**34,213**	**34,344**
Accumulated other comprehensive income		—	—
Other items		34,213	34,344
TOTAL EQUITY		**13,879,206**	**13,086,116**
TOTAL EQUITY AND TOTAL LIABILITIES		**235,172,955**	**251,241,223**
Memorandum item: off-balance sheet exposures			
Loan commitments given	**26**	**27,035,812**	**27,460,615**
Financial guarantees given	**26**	**2,064,396**	**2,086,993**
Other commitments given	**26**	**7,942,724**	**9,674,382**

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated balance sheet as at 31 December 2023.

Consolidated income statements of Banco Sabadell Group

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
Interest income	28	8,658,756	4,988,603
Financial assets at fair value through other comprehensive income		134,309	68,608
Financial assets at amortised cost		7,771,231	4,499,843
Other interest income		753,216	420,152
(Interest expenses)	28	(3,935,538)	(1,189,877)
(Expenses on share capital repayable on demand)		—	—
Net interest income	**28**	**4,723,218**	**3,798,726**
Dividend income		8,413	2,609
Profit or loss of entities accounted for using the equity method	14	122,807	152,917
Fee and commission income	29	1,671,213	1,742,311
(Fee and commission expenses)	29	(285,055)	(252,103)
Gains or (-) losses on financial assets and liabilities, net	30	169,473	231,612
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		23,250	13,227
Financial assets at amortised cost		15,939	(9,190)
Other financial assets and liabilities		7,311	22,417
Gains or (-) losses on financial assets and liabilities held for trading, net		122,249	204,691
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		122,249	204,691
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		11,781	(4,157)
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		11,781	(4,157)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		—	—
Gains or (-) losses from hedge accounting, net		12,193	17,851
Exchange differences [gain or (-) loss], net	30	(101,093)	(127,971)
Other operating income	31	91,184	121,554
(Other operating expenses)	32	(538,228)	(458,867)
Income from assets under insurance or reinsurance contracts		—	—
(Expenses on liabilities under insurance or reinsurance contracts)		—	—
Gross income		**5,861,932**	**5,210,788**

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated income statement for 2023.

Consolidated income statements of Banco Sabadell Group

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
(Administrative expenses)		(2,496,362)	(2,337,415)
(Staff expenses)	33	(1,494,644)	(1,391,608)
(Other administrative expenses)	33	(1,001,718)	(945,807)
(Depreciation and amortisation)	15, 16	(518,965)	(545,091)
(Provisions or (-) reversal of provisions)	22	(6,290)	(96,821)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	34	(824,393)	(839,579)
(Financial assets at fair value through other comprehensive income)		852	(182)
(Financial assets at amortised cost)		(825,245)	(839,397)
Profit/(loss) on operating activities		**2,015,922**	**1,391,882**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		—	(12,200)
(Impairment or (-) reversal of impairment on non-financial assets)	35	(25,845)	(61,116)
(Tangible assets)		(11,526)	(37,098)
(Intangible assets)		—	—
(Other)		(14,319)	(24,018)
Gains or (-) losses on derecognition of non-financial assets, net	36	(39,344)	(17,369)
Negative goodwill recognised in profit or loss		—	—
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	37	(59,955)	(27,801)
Profit or (-) loss before tax from continuing operations		**1,890,778**	**1,273,396**
(Tax expense or (-) income related to profit or loss from continuing operations)	39	(557,175)	(373,256)
Profit or (-) loss after tax from continuing operations		**1,333,603**	**900,140**
Profit or (-) loss after tax from discontinued operations		—	—
PROFIT OR (-) LOSS FOR THE YEAR		**1,333,603**	**900,140**
Attributable to minority interest [non-controlling interests]	25	1,422	10,748
Attributable to owners of the parent		1,332,181	889,392
Earnings (or loss) per share (euros)	**3**	**0.23**	**0.14**
Basic (euros)		0.23	0.14
Diluted (euros)		0.23	0.14

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated income statement for 2023.

Consolidated statements of recognised income and expenses of Banco Sabadell Group

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
Profit or loss for the year		**1,333,603**	**900,140**
Other comprehensive income	**24**	**84,447**	**(305,826)**
Items that will not be reclassified to profit or loss		(1,471)	12,633
Actuarial gains or (-) losses on defined benefit pension plans		(1,919)	(4,123)
Non-current assets and disposal groups held for sale		—	—
Share of other recognised income and expense of investments in joint ventures and associates		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income		1,250	17,114
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		—	—
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		—	—
Income tax relating to items that will not be reclassified		(802)	(358)
Items that may be reclassified to profit or loss		85,918	(318,459)
Hedge of net investments in foreign operations [effective portion]		(41,351)	(38,393)
Valuation gains or (-) losses taken to equity		(41,351)	(38,393)
Transferred to profit or loss			—
Other reclassifications			—
Foreign currency translation		91,944	5,238
Translation gains or (-) losses taken to equity		91,944	5,238
Transferred to profit or loss		—	—
Other reclassifications		—	—
Cash flow hedges [effective portion]		22,291	(52,125)
Valuation gains or (-) losses taken to equity		(74,571)	(26,671)
Transferred to profit or loss		95,129	(25,493)
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		48,733	(230,451)
Valuation gains or (-) losses taken to equity		53,041	(207,699)
Transferred to profit or loss		(4,308)	(22,752)
Other reclassifications		—	—
Non-current assets and disposal groups held for sale		—	
Valuation gains or (-) losses taken to equity		—	—
Transferred to profit or loss		—	—
Other reclassifications		—	—
Share of other recognised income and expense of investments in joint ventures and associates		(14,151)	(82,768)
Income tax relating to items that may be reclassified to profit or (-) loss		(21,548)	80,040
Total comprehensive income for the year		**1,418,050**	**594,314**
Attributable to minority interest [non-controlling interests]		1,422	10,748
Attributable to owners of the parent		1,416,628	583,566

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated statement of recognised income and expenses for 2023.

Consolidated statements of total changes in equity of Banco Sabadell Group

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 attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Closing balance 31/12/2022 (*)	**703,371**	**7,899,227**	**—**	**21,548**	**5,859,520**	**—**	**(1,365,777)**	**(23,767)**	**858,642**	**(112,040)**	**(650,647)**	**—**	**34,344**	**13,224,421**
Effects of corrections of errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of changes in accounting policies (see Note 1.4)	—	—	—	—	—	—	(236,302)	—	30,750	—	67,247	—	—	(138,305)
Opening balance 01/01/2023	**703,371**	**7,899,227**	**—**	**21,548**	**5,859,520**	**—**	**(1,602,079)**	**(23,767)**	**889,392**	**(112,040)**	**(583,400)**	**—**	**34,344**	**13,086,116**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,332,181**	**—**	**84,447**	**—**	**1,422**	**1,418,050**
Other equity changes	**(23,343)**	**(204,000)**	**—**	**(280)**	**542,262**	**—**	**17,263**	**(15,854)**	**(889,392)**	**(50,063)**	**—**	**—**	**(1,553)**	**(624,960)**
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 23)	(23,343)	(204,000)	—	—	—	—	23,343	204,000	—	—	—	—	—	—
Dividends (or shareholder remuneration)	—	—	—	—	(111,645)	—	—	—	—	(162,103)	—	—	—	(273,748)
Purchase of treasury shares	—	—	—	—	—	—	—	(276,200)	—	—	—	—	—	(276,200)
Sale or cancellation of treasury shares	—	—	—	—	—	—	3,477	56,346	—	—	—	—	—	59,823
Reclassification of financial instruments from equity to liability	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reclassification of financial instruments from liability to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers among components of equity	—	—	—	—	777,352	—	—	—	(889,392)	112,040	—	—	—	—
Equity increase or (-) decrease resulting from business combinations	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share based payments	—	—	—	(280)	—	—	—	—	—	—	—	—	—	(280)
Other increase or (-) decrease in equity	—	—	—	—	(123,445)	—	(9,557)	—	—	—	—	—	(1,553)	(134,555)
Closing balance 31/12/2023	**680,028**	**7,695,227**	**—**	**21,268**	**6,401,782**	**—**	**(1,584,816)**	**(39,621)**	**1,332,181**	**(162,103)**	**(498,953)**	**—**	**34,213**	**13,879,206**

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated statement of total changes in equity for 2023.

(*) Correspond to balances included in the Consolidated annual financial statements for 2022 signed off by the directors of Banco de Sabadell, S.A.

Consolidated statements of total changes in equity of Banco Sabadell Group

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 attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Closing balance 31/12/2021 (*)	**703,371**	**7,899,227**	**—**	**19,108**	**5,441,185**	**—**	**(1,201,701)**	**(34,523)**	**530,238**	**—**	**(385,604)**	**—**	**24,980**	**12,996,281**
Effects of corrections of errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of changes in accounting policies (see Note 1.4)	—	—	—	—	—	—	(236,302)	—	—	—	108,030	—	—	(128,272)
Opening balance 01/01/2022	**703,371**	**7,899,227**	**—**	**19,108**	**5,441,185**	**—**	**(1,438,003)**	**(34,523)**	**530,238**	**—**	**(277,574)**	**—**	**24,980**	**12,868,009**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**889,392**	**—**	**(305,826)**	**—**	**10,748**	**594,314**
Other equity changes	**—**	**—**	**—**	**2,440**	**418,335**	**—**	**(164,076)**	**10,756**	**(530,238)**	**(112,040)**	**—**	**—**	**(1,384)**	**(376,207)**
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	—	—	—	—	—	—	4,537	97,213	—	—	—	—	—	101,750
Reclassification of financial instruments from equity to liability	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reclassification of financial instruments from liability to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers among components of equity				—	530,238	—	—	—	(530,238)	—	—	—	—	—
Equity increase or (-) decrease resulting from business combinations	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share based payments	—	—	—	2,440	—	—	—	—	—	—	—	—	—	2,440
Other increase or (-) decrease in equity	—	—	—	—	56,906	—	(168,613)	—	—	—	—	—	(1,384)	(113,091)
Closing balance 31/12/2022	**703,371**	**7,899,227**	**—**	**21,548**	**5,859,520**	**—**	**(1,602,079)**	**(23,767)**	**889,392**	**(112,040)**	**(583,400)**	**—**	**34,344**	**13,086,116**

Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated statement of total changes in equity for 2023.

(*) Correspond to balances included in the Consolidated annual financial statements for 2021 signed off by the directors of Banco de Sabadell, S.A.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
Cash flows from operating activities		**(10,523,303)**	**(6,627,920)**
Profit or loss for the year		1,333,603	900,140
Adjustments to obtain cash flows from operating activities		1,912,593	1,823,371
Depreciation and amortisation		518,965	545,091
Other adjustments		1,393,628	1,278,280
Net increase/decrease in operating assets		3,764,543	(8,795,849)
Financial assets held for trading		1,310,764	(2,045,624)
Non-trading financial assets mandatorily at fair value through profit or loss		(75,756)	2,137
Financial assets designated at fair value through profit or loss		—	—
Financial assets at fair value through other comprehensive income		(431,840)	914,235
Financial assets at amortised cost		3,146,531	(7,063,285)
Other operating assets		(185,156)	(603,312)
Net increase/decrease in operating liabilities		(17,125,186)	(488,059)
Financial liabilities held for trading		(731,024)	2,218,585
Financial liabilities designated at fair value through profit or loss		—	—
Financial liabilities at amortised cost		(16,558,167)	(1,899,289)
Other operating liabilities		164,005	(807,355)
Cash payments or refunds of income taxes		(408,856)	(67,523)
Cash flows from investing activities		**(163,020)**	**(64,796)**
Payments		(533,861)	(435,324)
Tangible assets	15	(236,420)	(238,939)
Intangible assets	16	(296,085)	(194,638)
Investments in joint ventures and associates	14	(1,356)	(1,747)
Subsidiaries and other business units		—	—
Non-current assets and liabilities classified as held for sale		—	—
Other payments related to investing activities		—	—
Collections		370,841	370,528
Tangible assets		122,648	96,547
Intangible assets		—	—
Investments in joint ventures and associates	14	28,669	210,300
Subsidiaries and other business units		—	—
Non-current assets and liabilities classified as held for sale		219,524	63,681
Other collections related to investing activities		—	—

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated cash flow statement for 2023.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
Cash flows from financing activities		**(617,001)**	**(1,236,880)**
Payments		(1,676,824)	(1,338,630)
Dividends		(273,748)	(280,849)
Subordinated liabilities	4	(900,000)	(750,000)
Redemption of own equity instruments		—	—
Acquisition of own equity instruments		(276,200)	(86,457)
Other payments related to financing activities		(226,876)	(221,324)
Collections		1,059,823	101,750
Subordinated liabilities		1,000,000	—
Issuance of own equity instruments		—	—
Disposal of own equity instruments		59,823	101,750
Other collections related to financing activities		—	—
Effect of changes in foreign exchange rates		**28,782**	**(23,205)**
Net increase (decrease) in cash and cash equivalents		**(11,274,542)**	**(7,952,801)**
Cash and cash equivalents at the beginning of the year	**7**	**41,260,395**	**49,213,196**
Cash and cash equivalents at the end of the year	**7**	**29,985,853**	**41,260,395**

Memorandum item			
CASH FLOWS CORRESPONDING TO:			
Interest received		6,082,345	4,869,638
Interest paid		1,943,749	1,029,597
Dividends received		8,413	2,609
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Cash on hand	7	726,122	686,258
Cash equivalents in central banks	7	28,566,694	39,236,780
Other demand deposits	7	693,037	1,337,357
Other financial assets		—	—
Less: bank overdrafts repayable on demand		—	—
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**29,985,853**	**41,260,395**
Of which: held by Group entities but not available for the Group		—	—

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated cash flow statement for 2023.

Consolidated report of Banco Sabadell Group 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 2 and Schedule I) whose activity it controls directly or indirectly and which comprise, together with the Bank, Banco Sabadell Group (hereinafter, the Group).

1.2 Basis of presentation and changes in accounting regulations

The Group's consolidated annual financial statements for 2023 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU-IFRS) applicable at the end of 2023, taking into account Bank of Spain (BoS) Circular 4/2017 of 27 November as well as other provisions of the financial reporting regulations applicable to the Group and considering the formatting and mark-up requirements established in Commission Delegated Regulation EU 2019/815, in order to fairly present the Group's equity and consolidated financial situation as at 31 December 2023 and the results of its operations, recognised income and expenses, changes in equity and cash flows (all consolidated) in 2023.

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

The information included in these consolidated annual financial statements is the responsibility of the directors of the Group's parent company. The Group's consolidated annual financial statements for 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 consolidated annual financial statements are expressed in thousands of euros. In order to show the amounts in thousands of euros, the accounting balances have been subject to rounding; for this reason, some of the amounts appearing in certain tables may not be the exact arithmetic sum of the preceding figures.

Standards and interpretations issued by the International Accounting Standards Board (IASB) that entered into force in 2023

In 2023, the standards and interpretations adopted by the European Union, together with their amendments, which have been applied by the Group due to their entry into force or their early application, are the following:

Standards	Titles
IFRS 17	Insurance contracts
Amendment to IFRS 17	Initial application of IFRS 17 and IFRS 9: Comparative information
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies
Amendments to IAS 8	Definition of accounting estimates
Amendments to IAS 12	- Deferred tax related to assets and liabilities arising from a single transaction
	- International tax reform – Pillar Two Model Rules

Except for the impact arising from the adoption of IFRS 17 (see section on Adoption of IFRS 17 "Insurance contracts" in this note and Note 1.4), the application of the aforesaid standards has had no significant effects on these consolidated annual financial statements.

Adoption of IFRS 17 "Insurance contracts"

IFRS 17 came into effect on 1 January 2023, replacing IFRS 4, and modified the set of accounting requirements for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that entities provide relevant information that faithfully represents those contracts.

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

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

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

The initial application of this standard basically affects the amount at which insurance undertakings associated with the Group that are controlled by Zürich Seguros (i.e. BanSabadell Vida, S.A. de Seguros y Reaseguros, BanSabadell Seguros Generales and S.A. de Seguros y Reaseguros) are recognised.

The application of IFRS 17 requires restatement of comparative information, the transition date for this standard being 1 January 2022. In this respect, the initial application of IFRS 17 has produced a reduction of the Group's equity of 128 million euros as at 1 January 2022 and of 138 million euros as at 31 December 2022.

The main quantitative impacts of the initial application of IFRS 17 on the information set out in the financial statements for the financial year 2022 are set out below:

– The reconciliation between the Group's consolidated balance sheet as at 31 December 2021 published in the consolidated annual financial statements for the financial year 2021 and the opening consolidated balance sheet as at 1 January 2022 restated under IFRS 17 criteria is as follows:

Million euro

	Published balance 31/12/2021	IFRS 17 impact	Restated balance 01/01/2023
Total assets	**251,947**	**(128)**	**251,819**
Of which:			
Investments in joint ventures and associates	*639*	*(128)*	*511*
Total liabilities	**238,951**	**—**	**238,951**
Total equity	**12,996**	**(128)**	**12,868**
Of which:			
Other reserves	*(1,202)*	*(236)*	*(1,438)*
Accumulated other comprehensive income	*(386)*	*108*	*(278)*

– The reconciliation between the Group's consolidated balance sheet as at 31 December 2022 published in the consolidated annual financial statements for the financial year 2022 and the Group's consolidated balance sheet as at 31 December 2022 restated under IFRS 17 criteria is as follows:

Million euro

	Published balance 31/12/2022	IFRS 17 impact	Restated balance 31/12/2022
Total assets	**251,379**	**(138)**	**251,241**
Of which:			
Investments in joint ventures and associates	*515*	*(138)*	*377*
Total liabilities	**238,155**	**—**	**238,155**
Total equity	**13,224**	**(138)**	**13,086**
Of which:			
Other reserves	*(1,366)*	*(236)*	*(1,602)*
Profit or loss attributable to owners of the parent	*859*	*31*	*890*
Accumulated other comprehensive income	*(651)*	*67*	*(584)*

– The reconciliation between the Group's consolidated recognised income and expenses as at 31 December 2022 published in the consolidated annual financial statements for the financial year 2022 and the Group's consolidated recognised income and expenses as at 31 December 2022 restated under IFRS 17 criteria is as follows:

Million euro

	Published balance 31/12/2022	IFRS 17 impact	Restated balance 31/12/2022
Profit or loss for the year	**869**	**31**	**900**
Of which:			
Profit or loss of entities accounted for using the equity method	*122*	*31*	*153*
Other comprehensive income	**(265)**	**(41)**	**(306)**
Of which:			
Share of other recognised income and expense of investments in joint ventures and associates	*(42)*	*(41)*	*(83)*

The entry into force of IFRS 17 has not had any significant impact on the classification and recognition of the Group's other assets and liabilities.

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

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

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

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

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

Amendments to IAS 8 "Definition of accounting estimates"

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

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

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

Amendments to IAS 12 "International tax reform – Pillar Two Model Rules"

These amendments aim to respond the concerns raised by various stakeholders regarding the potential implications for the accounting of deferred taxes arising from the international tax reform of the Organisation for Economic Co-operation and Development (OECD). The OECD published the Pillar Two Model Rules in December 2021 to ensure that large multinational enterprises would be subject to a minimum tax rate of 15%.

Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union establishes a top-up tax through a system of two interlocked rules, together referred to as the GloBE or Pillar Two rules, promoted by the OECD and designed to ensure that where the effective tax rate of a multinational enterprise in a given jurisdiction is below 15%, an additional top-up tax will be collected. Member States should bring into force the laws, regulations and administrative provisions necessary to comply with this Directive. As at 31 December 2023, Spain had not approved applicable legislation in this regard, the United Kingdom being the only material region to have passed substantial legislation in relation to the OECD's tax reform.

The amendments to IAS 12 introduce a mandatory temporary exception to the accounting for deferred taxes arising from jurisdictions implementing the global tax rules to ensure consistency in the financial statements while easing into the implementation of the rules. This mandatory exception has been applied by the Group. In addition, these amendments introduce disclosure requirements to help investors better understand the exposure to income taxes arising from the Pillar Two rules before the regulations in each jurisdiction come into effect.

An analysis was carried out based on the information available and it is estimated that the impact on the Group of the international tax reform will not be significant.

Standards and interpretations issued by the IASB not yet in force

As at 31 December 2023, the most significant standards and interpretations that have been published by the IASB but which have not been applied when preparing these consolidated annual financial statements, either because their effective date is subsequent to the date thereof or because they have not yet been endorsed by the European Union, are as follows:

Standards and Interpretations	Title	Mandatory for years beginning:
Approved for application in the EU		
Amendments to IFRS 16	Lease liabilities in sale and leaseback transactions	1 January 2024
Amendments to IAS 1	Presentation of financial statements: - Classification of liabilities as current or non-current - Non-current liabilities with covenants	1 January 2024
Not approved for application in the EU		
Amendments to IAS 7 and IFRS 7	Supplier finance arrangements	1 January 2024
Amendments to IAS 21	Lack of exchangeability	1 January 2025

The Group has carried out an assessment of the impacts resulting from these standards and decided not to exercise its option to adopt early, where possible. It is also estimated that the adoption of the amendments issued by the IASB not yet in effect will not have a significant impact for the Group.

Approved for application in the EU

Amendments to IFRS 16 "Lease liabilities in sale and leaseback transactions"

These amendments specify the requirements that a seller-lessee must use to measure the lease liability arising from a sale and leaseback transaction to ensure that the seller-lessee does not recognise any gain or loss related to the right of use that it retains.

The amendments to IFRS 16 will be applied retrospectively, with early application permitted.

Amendments to IAS 1 "Presentation of financial statements"

Classification of liabilities as current or non-current

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

Non-current liabilities with covenants

The purpose of these amendments is to clarify how the conditions agreed in a loan (the "covenants") affect the classification of that loan as either a current or a non-current liability according to whether those conditions must be complied with before or after the date of the financial statements. These amendments change the "Classification of liabilities as current or non-current" and defer their effective date to 1 January 2024. Earlier application of these amendments is permitted.

Not approved for application in the EU

Amendments to IAS 7 and IFRS 7 "Supplier finance arrangements"

The purpose of these amendments is to require institutions to provide additional breakdowns of their supplier finance arrangements. To that end, new requirements have been developed to ensure that information is provided to users of financial statements that allows them to assess how supplier finance arrangements affect the Institution's cash flows and liabilities, and to understand the impact of those supplier finance arrangements on the Institution's exposure to liquidity risk and how it might be affected if the arrangements were no longer in effect.

Earlier application of these amendments is permitted. If they are applied to a period prior to the date of mandatory application, the Institution must indicate this.

Amendments to IAS 21 "Lack of exchangeability"

These amendments aim to require institutions to apply a consistent approach in assessing whether a currency can be exchanged into another currency and, when it cannot, in determining the exchange rate to use and the disclosures to provide.

Earlier application of these amendments is permitted. If they are applied to a period prior to the date of mandatory application, the Institution must indicate this.

Judgements and estimates

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

The main judgements and estimates relate to the following:

- The accounting classification of financial assets according to their credit risk (see Notes 1.3.4, 8 and 11).
- Impairment losses on certain financial assets and off-balance sheet exposures (see Notes 1.3.4, 8, 11 and 26).
- The assumptions used in actuarial calculations of liabilities and post-employment obligations (see Notes 1.3.17 and 22).
- The measurement of consolidated goodwill (see Notes 1.3.12 and 16).
- The useful life and impairment losses of tangible assets and other intangible assets (see Notes 1.3.10, 1.3.11, 1.3.12, 15 and 16).
- The provisions and consideration of contingent liabilities (see Notes 1.3.16 and 22).
- The fair value of certain unquoted financial assets (see Notes 1.3.3 and 6).
- The fair value of real estate assets held on the balance sheet (see Notes 1.3.9, 1.3.10, 1.3.13 and 6).
- The recoverability of non-monetisable deferred tax assets and tax credits (see Notes 1.3.20 and 39).

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 consolidated annual financial statements, are described below. There are no cases in which accounting principles or measurement criteria have not been applied because of a significant effect on the Group's consolidated annual financial statements for 2023.

1.3.1 Consolidation principles

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

Subsidiaries

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

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

- Power: an investor has power over an investee when that investor has existing rights which give them with the ability to direct the significant activities, i.e. those that significantly affect the investee's returns.
- Returns: an investor is exposed, or has rights, to variable returns due to their involvement with the investee when the returns obtained from such involvement have the potential to vary as a result of the investee's economic performance. The investor's returns can be only positive, only negative, or both positive and negative.
- Relationship between power and returns: an investor controls an investee if the investor not only has power over the investee and is exposed, or has rights, to variable returns due to their involvement with the investee, but also has the ability to use that power to influence the returns obtained due to their involvement with the investee.

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

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

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

Joint ventures

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

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

The Group has not held investments in joint ventures in 2023 and 2022.

Associates

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

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

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

Structured entities

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

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

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

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

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

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

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

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

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

1.3.2 Business combinations

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

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

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

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

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

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

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

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

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

1.3.3 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 6) which, unless evidence to the contrary is available, coincides with the transaction price. For financial instruments not recognised at fair value through profit or loss, the fair value is adjusted 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 consolidated income statement. As a general rule, conventional purchases and sales of financial assets are recognised at the settlement date.

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

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

Changes in measurements occurring subsequent to initial recognition for reasons other than those mentioned above are treated according to the classification of financial assets and financial liabilities for the purposes of their measurement. 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 Group's intentions for an individual instrument, rather, it is determined for a group of instruments.

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

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

- Business model whose objective is to sell financial assets.

- Business model that combines the two objectives above (hold financial assets in order to collect contractual cash flows and sell financial assets): this business model typically involves greater frequency and value of sales because such sales are integral to achieving the business model's objective.

Contractual cash flow characteristics of 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:

Financial assets at amortised cost

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

- They are managed with a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- Their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

Financial assets at fair value through other comprehensive income

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

- They are managed with a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets primarily correspond to debt securities.

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

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

- Interest accrued or, where applicable, dividends accrued are recognised in the consolidated income statement.
- Exchange differences are recognised in the consolidated income statement when they relate to monetary financial assets, or through other comprehensive income when they relate to non-monetary financial assets.
- Losses due to impairment of debt instruments, or gains due to their subsequent recovery, are recognised in the consolidated income statement.
- Other changes in value are recognised through other comprehensive income.

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

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

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

This portfolio is in turn subdivided into:

– *Financial assets held for trading*

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

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

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

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

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

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

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

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

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

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

Hybrid financial instruments

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

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

When the host contract of a hybrid financial instrument is a financial liability, the embedded derivatives of that contract are accounted for separately if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, if a 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 Group are instruments whose payments of principal and/or interest are indexed to specific equity instruments (generally, shares of listed companies), to a basket of shares, to stock market indices (such as IBEX and NYSE), or to a basket of stock market indices.

The fair value of the Group's financial instruments as at 31 December 2023 and 2022 is indicated in Note 6.

1.3.4 Impairment of financial assets

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

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

1.3.4.1 Debt instruments and off-balance sheet exposures

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

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

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

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

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

1.3.4.1.1 Accounting classification on the basis of credit risk attributable to insolvency

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

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

Definition of classification categories

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

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

– Stage 2: standard exposures under special monitoring, i.e. transactions which, although they do not meet the criteria to be classified individually as stage 3 or write-offs, show significant increases in credit risk (SICR) since initial recognition. 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.

– 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 Group's credit risk management activities.

– Write-off:

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

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

In the above situations, Banco Sabadell Group derecognises write-offs along with their associated provisions from the consolidated 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 Group bases materiality thresholds and the counting of days past due on regulatory technical standard EBA/RTS/2016/06 and all other conditions on guidelines EBA/GL/2016/07.

In general, 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 Group 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 Group 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", respectively. In particular, non-significant borrowers are assessed by means of a process which aims to identify any significant increase in credit risk since the transaction was first approved and which could result in losses greater than those incurred on other similar transactions classified as stage 1. For significant borrowers, on the other hand, there is an automated system of triggers in place that generates a series of alerts, which serve to indicate, during a borrower's assessment, that a decision needs to be made with regard to their classification.

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

Individual assessment

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

The thresholds at the customer level used to classify borrowers as significant have been set at 10 million euros for customers classified in stage 1 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 Group carries out an annual review of the reasonableness of its thresholds and of the credit risk captured in the individual assessments carried out using these thresholds.

Collective assessment

For borrowers who have been classed below the significant borrower threshold and who, in addition, have not been classified as 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 Group has a statistical model that applies to all geographies except for the UK (TSB) and which 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.

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, 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.

In the case of TSB, the methodology for classification to stage 2 uses the multiplier of lifetime PD upon approval relative to current lifetime PD as an input, complemented with an absolute increase in PD calculated specifically for each portfolio. Both of these thresholds must be reached in order for an exposure to be reclassified to stage 2. In 2023 and 2022, the threshold for the multiplier of current PD relative to PD upon approval ranges from 1 (there is no increase of PD upon approval relative to current PD) to 3 (an increase of two times the PD upon approval), while absolute thresholds have ranged from 10 to 770 basis points in both years, with the exception of overdrafts, which only use an absolute threshold of 400 basis points.

Refinancing and restructuring transactions

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

– Refinancing transaction: 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 Group 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 that would be applied in the market, on the date of such modification, to transactions 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: they may be based on an inadequate business plan, they may have certain clauses such as long grace periods, or they may have amounts 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.

<u>1.3.4.1.2 Credit loss allowances</u>

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

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

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

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

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

  In this context, the Group reviews the quality and stability of the scoring and rating tools that are currently in use on an annual basis.

  The tools used to assess debtors' probability of default in the case of companies are the ratings and early warning tool (known as HAT) described below:

  – Credit ratings (for companies): 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: the tools designed to assess the probability of default of debtors who are natural persons are 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 management process.

If no credit rating or 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 Bank 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%). In the case of TSB, the probability of the adverse scenario is reduced to 20%, assigning a 10% probability to a more adverse scenario characterised by interest rate hikes. 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 as in 2023.

  Baseline scenario

  - 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 and the United Kingdom are those shown below:

%

	31/12/2023									
	Spain					United Kingdom				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	Year 5
GDP growth										
Baseline scenario	1.6	1.9	1.8	1.6	1.6	0.6	1.2	1.3	1.4	1.4
Alternative scenario 1	4.1	3.5	2.2	2.0	2.0	1.3	2.7	1.7	1.6	1.6
Alternative scenario 2	-0.2	-1.0	1.0	1.2	1.2	-0.6	-1.1	1.2	1.4	1.2
Unemployment rate										
Baseline scenario	11.4	11.2	10.9	10.7	10.5	4.5	4.7	4.6	4.3	4.3
Alternative scenario 1	10.3	9.0	8.4	8.1	8.0	4.0	3.6	3.5	3.5	3.5
Alternative scenario 2	15.3	16.0	14.5	13.0	11.5	5.2	6.6	6.2	5.6	5.0
House price growth (*)										
Baseline scenario	0.5	1.7	1.8	1.9	1.9	-6.5	-2.4	1.9	2.5	2.5
Alternative scenario 1	5.6	4.6	3.5	3.5	3.5	-2.5	0.5	1.0	1.6	3.4
Alternative scenario 2	-3.6	-2.1	0.0	1.9	1.9	-7.8	-9.5	-0.4	0.0	1.6

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

%

	31/12/2022									
	Spain					United Kingdom				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	Year 5
GDP growth										
Baseline scenario	1.3	2.0	2.0	1.8	1.7	-1.3	-0.2	1.0	1.3	1.4
Alternative scenario 1	4.4	4.4	2.5	2.0	2.0	-0.4	0.8	1.3	1.3	1.4
Alternative scenario 2	-1.1	0.1	1.6	1.8	1.7	-2.5	-1.4	1.0	1.3	1.4
Unemployment rate										
Baseline scenario	12.7	12.4	12.1	11.9	11.7	4.4	5.2	5.0	4.6	4.2
Alternative scenario 1	11.6	10.2	9.0	8.6	8.4	3.8	3.8	3.8	3.8	3.8
Alternative scenario 2	15.6	16.7	15.8	14.9	14.2	5.4	6.3	5.7	5.0	4.5
House price growth (*)										
Baseline scenario	1.0	1.6	2.0	2.0	2.0	-3.3	-5.1	0.7	1.9	2.5
Alternative scenario 1	3.0	3.6	3.8	3.6	3.6	-0.9	-2.3	0.7	2.9	3.7
Alternative scenario 2	-2.6	-1.6	2.0	2.0	2.0	-3.4	-11.1	-0.5	4.3	4.3

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

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

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

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

- 12-month expected credit losses, when the risk of a default event materialising has not significantly increased since initial recognition (assets classified as stage 1).
- Lifetime expected credit losses, if the risk of a default event materialising has increased significantly since initial recognition (assets classified as stage 2).
- Expected credit losses, when a default event has materialised (assets classified as stage 3).

12-month expected credit losses are defined as:

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

Where:

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

Lifetime expected credit losses are defined as:

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

Where:

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

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

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

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

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

Individual allowance estimates

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

The Group has developed a methodology to estimate these allowances, calculating the difference between the gross carrying amount of the transaction and the present value of the estimated cash flows it expects to receive, discounted using the effective interest rate. To this end, effective guarantees received are taken into account (see 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 Group, in accordance with IFRS 9, mainly takes the following aspects into account:

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

– 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 the models are adjusted in the event any significant deviations are detected. The models are also reviewed regularly in order to incorporate the most recent information available and to ensure that they perform adequately and that they are suitably representative when applied to the current portfolio for the calculation of impairment loss allowances.

Segmentation of models

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

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

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

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

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>

Guarantees

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

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

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

- Real estate guarantees applied as first mortgage liens:
    - Completed buildings and completed component parts:
        - Housing units.
        - Offices, commercial premises and multi-purpose industrial buildings.
        - Other buildings, such as non-multi-purpose industrial buildings and hotels.
    - Urban land and regulated building land.
    - Other real estate.
- Collateral in the form of pledged financial instruments:
    - Cash deposits.
    - Equity instruments in listed entities and debt securities issued by creditworthy issuers.
- Other collateral:
    - Personal property received as collateral.
    - Subsequent mortgages on properties.
- Personal guarantees such that direct liability to the customer falls to the new guarantors, who are persons or entities whose solvency is sufficiently verified to ensure the full redemption of the transaction under the terms set forth.

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

Real estate guarantees for loan transactions are valued on the date 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, if any, will be appraised using the method approved by the RICS (Royal Institution of Chartered Surveyors), through prudent and independent appraisals carried out by authorised experts in the country where the property is located or, where appropriate, by appraisal firms or services accredited in Spain, and in accordance with the appraisal rules applicable in that country insofar as these are compatible with generally accepted appraisal practices.

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

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

Overall comparison between financial asset and real estate asset impairment allowances

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

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

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

1.3.4.2 Investments in joint ventures and associates

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

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

- Significant financial difficulties.
- Disappearance of an active market for the instrument in question due to financial difficulties.
- Significant changes in 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 associates included under the heading of "Investments in joint ventures and associates" is estimated by comparing their recoverable amount against their carrying amount. The carrying amount is the higher of the fair value, less selling costs, and the value in use.

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

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

1.3.5 Hedging transactions

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

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

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

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

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

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

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

Changes that take place after the designation of the hedge, changes in the 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 consolidated income statement, with a balancing entry under the headings of the consolidated balance sheet in which the hedged item is included, or under the heading "Derivatives – Hedge accounting", as appropriate.

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

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

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

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

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

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

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

1.3.6 Financial guarantees

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

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

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

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

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

1.3.7 Transfers and derecognition of financial instruments from the balance sheet

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

Note 4 provides details of asset transfers in effect at the end of 2023 and 2022, indicating those that did not involve the derecognition of the asset from the consolidated balance sheet.

1.3.8 Offsetting of financial instruments

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

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

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

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

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

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

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

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

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

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

Discontinued operations are components of the Institution that have been disposed of or classified as held for sale and which (i) represent a business line or geographical 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 consolidated income statement, regardless of whether the business has been derecognised from or remains on the asset side of the balance sheet as at year-end. This heading also includes the profit or loss obtained from their sale or disposal.

1.3.10 Tangible assets

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

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

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

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

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

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

In particular, certain items of property, plant and equipment are assigned to cash-generating units in the banking business. Impairment tests are conducted on these units to verify whether sufficient cash flows are generated to support the assets’ value. To that end, the Group (i) calculates the recurring net cash flow of each branch based on the cumulative contribution margin less the allocated recurring cost of risk, and (ii) 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 Group (see Note 16).

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

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

1.3.11 Leases

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

Leases in which the Group acts as lessee

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

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

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

The lease liability is initially recognised in the heading “Financial liabilities at amortised cost – Other financial liabilities” of the consolidated balance sheet (see Note 21), at a value equal to the present value of 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, 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 Group 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 consolidated 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 1.3.10).

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

<u>Sale and leaseback</u>

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

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

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

Leases in which the Group acts as lessor

Finance leases

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

Operating leases

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

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

1.3.12 Intangible assets

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

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

Goodwill

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

Each goodwill item is assigned to one or more cash-generating units (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 Group, 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 Group calculates their value in use using mainly the distributed profit discount method, in which the following parameters are taken into account:

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

– Estimates of macroeconomic variables and other financial parameters.

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

– Discount rate (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 Group 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 have a finite useful life and are amortised based on their useful lives, applying similar criteria to those used for tangible assets. The useful life of brands and contractual rights arising from relationships with customers of the acquired businesses varies between 5 and 15 years, while for computer software the useful life ranges from 3 to 15 years. In particular, the 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 base platform implemented in 2018 that TSB uses to carry out its activity has a useful life of 15 years.

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

1.3.13 Inventories

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

As a general rule, inventories are measured at the lower of cost and net realisable value. Net realisable value means the estimated selling price net of the estimated production and marketing costs to carry out the sale.

Decreases in net realisable value and, where applicable, any subsequent recoveries in value are recognised under the heading "Impairment or (-) reversal of impairment on non-financial assets – Other" of the consolidated income statement for the year in which they materialise.

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

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

1.3.14 Own equity instruments

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

- They do not involve any contractual obligation for the issuer that entails: delivering cash or another financial asset to a third party, or exchanging financial assets or financial liabilities with a third party under terms that are potentially unfavourable to the issuer.
- In the case of a contract that will or may be settled with the issuer's own equity instruments: if it is a non-derivative financial instrument, it does not entail an obligation to deliver a variable number of its own equity instruments; or, if it is a derivative instrument, it is settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the issuer's own equity instruments.

All transactions involving own equity instruments, including their issuance or redemption, are recognised directly with a balancing entry in consolidated equity.

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

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

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

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

1.3.15 Remuneration in equity instruments

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

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

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

1.3.16 Provisions, contingent assets and contingent liabilities

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

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

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

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

1.3.17 Provisions for pensions

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

Defined contribution plans

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

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

Defined benefit plans

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

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

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

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 as at 31 December 2023 and 2022 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).

1.3.18 Foreign currency transactions and exchange differences

The Group'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 of each investee:

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

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

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

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

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

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

1.3.19 Recognition of income and expenses

Interest income and expenses and other similar items

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

Commissions, fees and similar items

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

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

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

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

Non-financial income and expenses

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

Deferred payments and collections

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

Levies

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

Deposit guarantee schemes

The Bank is a member of the Deposit Guarantee Fund. In 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 32).

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

- TSB Bank plc makes contributions to the Financial Services Compensation Scheme.
- Banco Sabadell, S.A. Institución de Banca Múltiple makes contributions to the deposit guarantee scheme established by the Instituto para la Protección del Ahorro Bancario.

Single Resolution Fund

Law 11/2015 of 18 June, together with its implementing regulation through Royal Decree 1012/2015, entailed the transposition into Spanish law of Directive 2014/59/EU. This Directive established a new framework for the resolution of credit institutions and investment firms, and it is also one of the standards that have contributed to the establishment of the Single Resolution Mechanism, created through Regulation (EU) 806/2014. This Regulation sets out standard rules and procedures for the resolution of credit institutions and investment firms within the framework of a Single 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 Commission Delegated Regulation (EU) 2015/63, is based on the proportion that each entity represents with respect to the aggregate total liabilities of the Fund's member entities, after deducting own funds and the guaranteed amount of the deposits. The latter is then adjusted to the Institution's risk profile (see Note 32).

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 32).

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.

1.3.20 Income tax

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.3.21 Consolidated statement of recognised income and expenses

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

1.3.22 Consolidated statement of total changes in equity

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

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

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

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

1.3.23 Consolidated cash flow statement

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

1.4 Comparability

The information presented in these consolidated 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 Group's consolidated annual financial statements for 2022.

As indicated in the section on Adoption of IFRS 17 "Insurance contracts" of Note 1.2, the comparative information set out in these consolidated annual financial statements has been restated to reflect the application of IFRS 17.

Note 2 – Banco Sabadell Group

Subsidiaries and associates as at 31 December 2023 and 2022 are listed in Schedule I, along with their registered offices, primary activities, the percentage shareholding in each, key financial data and the consolidation method used (full consolidation or equity method) in each case.

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

A description is provided hereafter of the business combinations, acquisitions and sales or liquidations which are most representative of investments in the capital of other entities (subsidiaries and/or investments in associates) made by the Group during 2023 and 2022. Schedule I also includes details of changes in the scope of consolidation in each financial year and the results obtained by the Group on the disposal of its subsidiaries and associates.

Changes in the scope of consolidation in 2023

Additions to the scope of consolidation:

There were no significant additions to the scope of consolidation in 2023.

Exclusions from the scope of consolidation:

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 Sabadell, S.A. (as the absorbing company) and Bansabadell Financiación, E.F.C., S.A.U. (as the absorbed company). Having obtained the relevant authorisations, the deed of the merger by absorption of Bansabadell Financiación E.F.C., S.A. by Banco de Sabadell, S.A. was entered in the Alicante Companies Register on 10 October 2023. As Bansabadell Financiación, E.F.C., S.A.U. was a company directly and fully owned by the Bank (see Schedule I – Changes in the scope of consolidation in 2023), this transaction had no significant impact on the Group's consolidated financial statements.

With the exception of the transaction described above, there were no significant exclusions from the scope of consolidation in 2023.

Changes in the scope of consolidation in 2022

Additions to the scope of consolidation:

There were no significant additions to the scope of consolidation in 2022.

Exclusions from the scope of consolidation:

There were no significant exclusions from the scope of consolidation in 2022.

Other significant transactions in 2023

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. Banco Sabadell will retain a 20% stake for at least three years, whilst aligning interests with its new industrial partner. Following this period, Banco Sabadell will have the option to sell that 20%.

The total transaction amount is fixed at 350 million euros (280 million euros due to the 80% subject to sale), which may be increased depending on the achievement of targets. As at the sign-off date of these consolidated annual financial statements, the closing of this transaction was pending.

Other significant transactions in 2022

The Group made no other significant transactions worth mentioning in 2022. That said, on 22 September 2022, the Bank announced that it was in the process of analysing a possible strategic agreement with an industrial partner specialising in its merchant acquiring business which, as indicated above, was signed in February 2023.

Note 3 – Shareholder remuneration and earnings per share

Set out below is the proposed distribution of the profits earned by Banco de Sabadell, S.A. in 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 23).

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.

(**) 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.

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

Note 4 – 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.

4.1. 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 5,500 million 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 3,500 million 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

<u>Measures to ease the mortgage burden and strengthening of financial inclusion</u>

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 the preventive framework to provide relief to at-risk mortgage holders was extended.

In the United Kingdom, Banco Sabadell’s subsidiary, TSB, signed up to the Mortgage Charter which was launched at the end of June 2023. The aim of this initiative is to ease the burden of mortgage repayments for the most vulnerable customers through a series of commitments undertaken by the banking industry. The key measures agreed include offering tailored support for customers struggling to pay their mortgage, delaying property repossessions for at least 12 months following the first missed payment, and offering customers the option to switch to an interest-only mortgage for a six-month period, or to temporarily extend the term of the mortgage to reduce their monthly repayments.

4.2 Key milestones during the year

4.2.1 The Group's risk profile during the year

The following milestones have been achieved in relation to the Group's risk profile during 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, 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 target 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 was 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.

4.2.2 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

In terms of the ICO Covid lines, as at 31 December 2023, the amount of loans and credit granted was approximately 4.7 billion euros (7.4 billion euros as at 31 December 2022). As at year-end, there are very few unexpired grace periods remaining.

Performance of the main solutions offered in the United Kingdom

In the United Kingdom, the balance of Bounce Back Loans (BBLs), granted to help SMEs deal with the Covid-19 pandemic during 2020 and 2021, has been diminishing. At TSB, the exposure to these loans as at the end of 2023, amounted to 266 million pounds, which represents 57% of the business customer portfolio (the exposure was 379 million pounds at the end of 2022, representing 64% of the business customer portfolio). In response to the more recent cost-of-living crisis, the approach of regulators and financial Institutions in the country has focused more on establishing adequate communication channels, tools and training to support and proactively help their customers, in particular those in vulnerable situations. In June 2023, the government announced a new tool, the Mortgage Charter, to help mortgage borrowers. This measure, initially planned for a six-month period, was extended to 18 months, with only a very small number of TSB customers taking up the offer to date.

4.3 General principles of risk management

Global Risk Framework

The Global Risk Framework aims to establish the common basic principles relating to the risk management and control activity of Banco Sabadell Group including, 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.

4.3.1 Global Risk Framework Policy

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

4.3.2 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.

4.3.3 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.

4.3.4 Specific policies for the different material risks

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

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

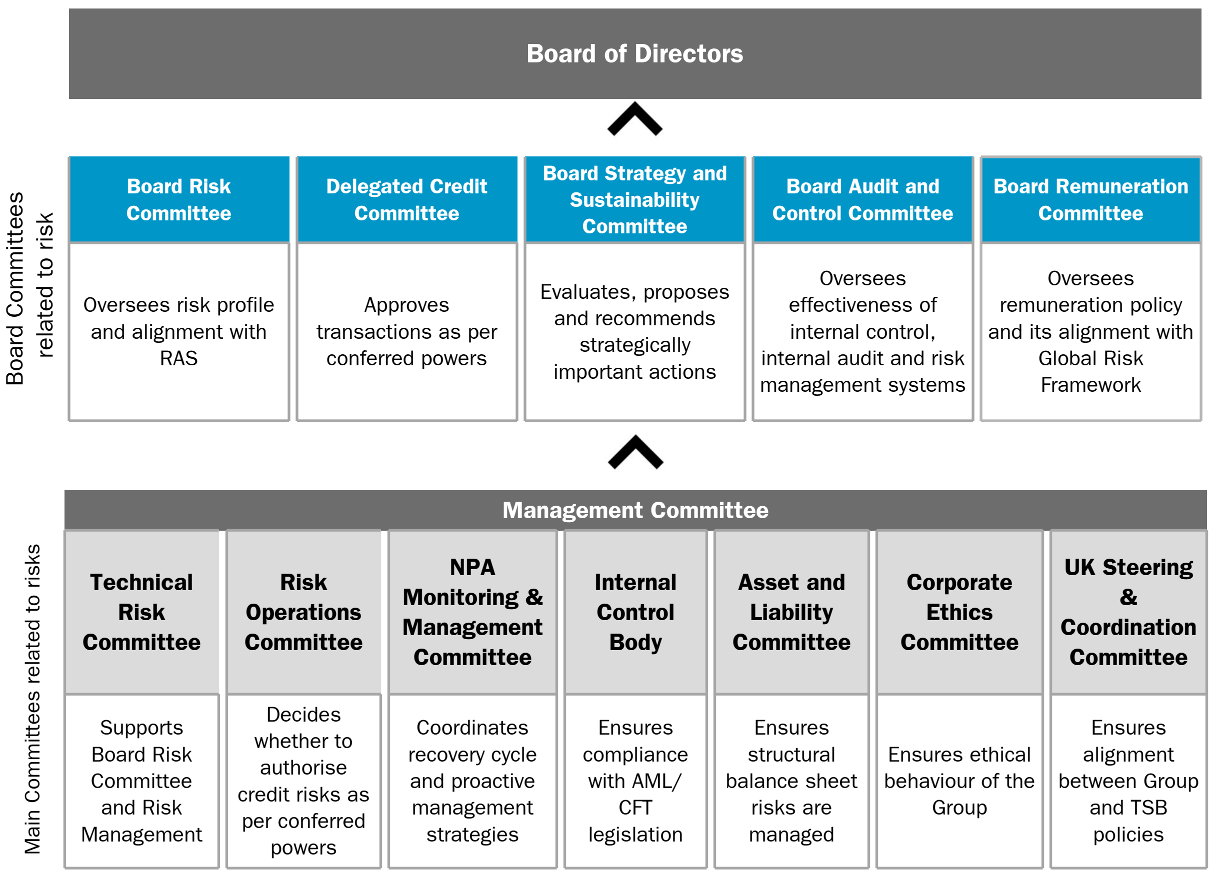
4.3.5 Overall organisation of the risk function

Governance structure

The Board of Directors of Banco de Sabadell, S.A. is the body responsible for establishing the general guidelines for the organisational distribution of the risk management and control functions, as well as determining the main strategies in this regard, 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.

4.4 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:

4.4.1 Strategic risk

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

The Group develops a Strategic Plan which sets out the Bank's strategy 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).

4.4.1.1 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 these consolidated annual financial statements.

4.4.1.2 Business risk

2023 has been affected by different macroeconomic and geopolitical events, including the following:

- The interest rate hikes implemented by the 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 has 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.

4.4.1.3 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.

4.4.1.4 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).

4.4.2. 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.

4.4.2.1 Credit risk management framework

Acceptance and monitoring

Credit risk exposures are rigorously managed and monitored through regular assessments of borrowers' solvency and their ability to honour their payment obligations undertaken with the Group, adjusting the exposure limits 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 consolidated 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 consolidated annual financial statements.

4.4.2.2. Risk management models

Credit ratings

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%	18.80%	28.88%	23.20%	13.11%	4.08%	0.62%	0.10%	**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.

4.4.2.3. Credit risk exposure

The table below shows the distribution, by headings of the consolidated balance sheet, of the Group'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**
Equity instruments	9	—	—
Debt securities	8	142,495	417,131
Non-trading financial assets mandatorily at fair value through profit or loss		**153,178**	**77,421**
Equity instruments	9	52,336	23,145
Debt securities	8	65,744	54,276
Loans and advances	11	35,098	—
Financial assets at fair value through other comprehensive income		**6,387,869**	**5,923,703**
Equity instruments	9	302,510	301,011
Debt securities	8	6,085,359	5,622,692
Financial assets at amortised cost		**184,116,175**	**188,068,718**
Debt securities	8	21,501,203	21,453,031
Loans and advances	11	162,614,972	166,615,687
Derivatives	10, 12	**4,988,592**	**6,672,213**
Total credit risk due to financial assets		**195,788,309**	**201,159,186**
Loan commitments given	26	27,035,812	27,460,615
Financial guarantees given	26	2,064,396	2,086,993
Other commitments given	26	7,942,724	9,674,382
Total off-balance sheet exposures		**37,042,932**	**39,221,990**
Total maximum credit risk exposure		**232,831,241**	**240,381,176**

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

4.4.2.4. Credit risk mitigation

Credit risk exposures are rigorously managed and monitored through regular assessments of borrowers' solvency and their ability to honour their payment obligations undertaken with the Group, adjusting the exposure limits 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 Group has not received any significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantees, except for those intrinsic in treasury activities, which are mostly reverse repos (see Note 6). 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 as at 31 December 2023 (417,982 thousand euros as at 31 December 2022) and are included by type under the repos heading in Notes 18 and 19.

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

	2023	2022
Value of collateral	94,323,862	97,340,958
Of which: securing stage 2 loans	*7,180,750*	*8,515,648*
Of which: securing stage 3 loans	*1,873,003*	*2,046,793*
Value of other guarantees	14,975,715	17,180,550
Of which: securing stage 2 loans	*1,881,539*	2,635,673
Of which: securing stage 3 loans	*1,054,019*	*1,080,167*
Total value of guarantees received	**109,299,577**	**114,521,508**

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 57.5% of total gross performing lending items granted to customers (57.2% 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 (see Note 5).

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

4.4.2.5. Credit quality of financial assets

As stated earlier, in general terms, the Group uses internal models to rate most borrowers (or transactions) through which credit risk is incurred. These models have been designed considering the best practices proposed by the New Basel Capital Accord (NBCA). However, not all portfolios in which credit risk is incurred have internal models, partly due to the fact that these models can only be reasonably designed if a minimum 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 total exposures rated according to the various internal rating levels, as at 31 December 2023 and 2022, is set out here below:

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		25,486	57	—	—	25,543
A		11,644	171	13	—	11,829
BBB		83,179	252	—	*1*	83,431
BB		31,376	522	3	*2*	31,902
B		17,102	3,105	6	*61*	20,212
Other		3,577	7,546	5,450	*45*	16,574
No rating/score assigned		1,675	19	—	—	1,694
Total gross amount	**11**	**174,039**	**11,672**	**5,473**	**109**	**191,185**
Impairment allowances	**11**	**(373)**	**(471)**	**(2,359)**	***(1)***	**(3,202)**
Total net amount		**173,666**	**11,202**	**3,114**	***108***	**187,982**

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		20,031	202	7	—	20,240
A		10,905	52	—	—	10,957
BBB		86,498	182	—	—	86,680
BB		30,428	474	1	*2*	30,903
B		20,728	3,843	4	*68*	24,575
Other		4,022	8,929	5,414	*54*	18,365
No rating/score assigned		3,531	20	35	—	3,586
Total gross amount	**11**	**176,143**	**13,702**	**5,461**	**124**	**195,306**
Impairment allowances	**11**	**(347)**	**(480)**	**(2,196)**	***(1)***	**(3,023)**
Total net amount		**175,796**	**13,222**	**3,265**	***123***	**192,283**

The breakdown of total off-balance sheet exposures rated based on the various internal rating levels, as at 31 December 2023 and 2022, is set out hereafter:

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		1,442	44	—	—	1,485
A		3,034	—	—	—	3,035
BBB		13,533	34	2	—	13,568
BB		8,611	101	3	*1*	8,716
B		8,246	724	6	*23*	8,977
Other		159	620	355	*153*	1,133
No rating/score assigned		128	1	—	—	129
Total gross amount	**26**	**35,154**	**1,524**	**365**	***178***	**37,043**
Provisions recognised on liabilities side of the balance sheet	**26**	**(48)**	**(30)**	**(86)**	**—**	**(165)**
Total net amount		**35,105**	**1,494**	**279**	**178**	**36,878**

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		1,433	64	—	—	1,497
A		1,235	—	—	—	1,235
BBB		11,866	40	1	—	11,907
BB		9,791	164	3	—	9,958
B		11,585	867	5	*24*	12,457
Other		693	959	397	—	2,049
No rating/score assigned		117	2	—	—	119
Total gross amount	**26**	**36,720**	**2,096**	**406**	***24***	**39,222**
Provisions recognised on liabilities side of the balance sheet	**26**	**(51)**	**(30)**	**(96)**	**—**	**(177)**
Total net amount		**36,669**	**2,066**	**310**	**24**	**39,045**

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

For 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.

Details of the PD and LGD parameters for exposures in the business of the subsidiary TSB as at 31 December 2023 and 2022 are shown below:

%

	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**
Secured loans	0.26%	2.71%	7.88%	7.52%	100.00%	4.02%	1.53%	4.42%
Credit cards	1.38%	81.64%	9.19%	80.67%	100.00%	59.96%	5.01%	80.88%
Current accounts	0.46%	54.39%	8.71%	55.14%	100.00%	56.87%	3.56%	54.50%
Loans	3.89%	86.81%	12.75%	87.23%	100.00%	84.14%	7.63%	86.79%

%

	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**
Secured loans	0.58%	4.49%	7.88%	7.52%	100.00%	4.02%	0.58%	4.49%
Credit cards	1.38%	81.64%	9.19%	80.67%	100.00%	59.96%	5.01%	80.88%
Current accounts	0.46%	54.39%	8.71%	55.14%	100.00%	56.87%	3.56%	54.50%
Loans	3.89%	86.81%	12.75%	87.23%	100.00%	84.14%	7.63%	86.79%

%

	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**
Secured loans	0.34%	3.48%	3.50%	7.97%	100.00%	3.07%	1.44%	4.01%
Credit cards	0.89%	84.08%	5.47%	78.63%	100.00%	51.72%	3.71%	82.53%
Current accounts	0.50%	69.85%	8.76%	67.52%	100.00%	56.78%	3.58%	69.35%
Loans	1.36%	81.02%	5.96%	82.23%	100.00%	80.45%	3.99%	81.21%

%

	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**
Secured loans	0.83%	4.31%	0.00%	0.00%	0.00%	0.00%	0.83%	4.31%
Credit cards	0.89%	84.08%	5.47%	78.63%	100.00%	51.72%	3.71%	82.53%
Current accounts	0.50%	69.85%	8.76%	67.52%	100.00%	56.78%	3.58%	69.35%
Loans	1.36%	81.02%	5.96%	82.23%	100.00%	80.45%	3.99%	81.21%

As can be seen, in TSB the PDs show an increase compared to 2022, especially in credit cards and personal loans, as a result of higher inflation and interest rates and the worse macroeconomic situation in 2023.

Risks classified as stage 3 decreased by 37 million euros in 2023. However, this reduction was accompanied by a decrease in the risk base of 6,415 million euros, which 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.

The NPL ratio, broken down by lending segment as at 31 December 2023 and 2022, is set out below:

%

	2023	**Proforma 2023 (*)**	**2022**	**Proforma 2022 (*)**
Real estate development and construction	6.44	6.48	6.95	6.99
Non-real estate construction	5.25	5.25	7.06	7.07
Corporates	2.47	2.47	2.02	2.02
SMEs and self-employed	8.52	8.58	7.62	7.66
Individuals with 1st mortgage guarantee	2.29	3.12	2.08	2.86
Group NPL ratio	**3.52**	**4.22**	**3.41**	**4.13**

(*) Corresponds to the NPL ratio excluding TSB.

A more detailed quantitative breakdown of allowances and assets classified as stage 3 can be found in Note 11, and a more detailed breakdown of refinancing and restructuring transactions is included in Schedule IV.

4.4.2.6. 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.

Country risk: geographical exposure to credit risk

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

Country risk not only affects debts undertaken with a state or entities guaranteed by it, but also all private debtors that belong to that state and who, for reasons outside their control and not at their volition, are generally unable to satisfy their debts.

An exposure limit is set for each country which is applicable across the whole of Banco Sabadell Group. These limits are approved by the Board of Directors and the corresponding decision-making bodies, as per their conferred powers, and they are continuously monitored to ensure that any deterioration in the economic, political or social prospects of a country can be detected in good time.

The main component of the procedure for the acceptance of country risk and financial institution risk is the structure of limits for different metrics. This structure is used to monitor the various risks and it is also used by Senior Management and the delegated bodies to establish the Group's risk appetite.

Different indicators and tools are used to manage country risk: credit ratings, credit default swaps, macroeconomic indicators, etc.

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

Exposure to sovereign risk and exposure to the construction and real estate development sector

Schedule IV includes quantitative data relating to sovereign risk exposures and exposures to the construction and real estate development sector.

4.4.2.7. Counterparty credit risk

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

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

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

The following 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	188,207,641	183,975,718
Settled through clearing houses	*113,467,997*	*114,649,971*
Total	**189,713,377**	**184,955,251**

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 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				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee received		Net amount
			Cash	Securities	
Financial assets	**(a)**	**(b)**	**(c)**	**(d)**	**(a)-(b)-(c)-(d)**
Derivatives	4,827,407	2,903,168	1,822,777	124,929	(23,467)
Repos	5,146,361	—	45,522	5,207,911	(107,072)
Total	**9,973,768**	**2,903,168**	**1,868,299**	**5,332,840**	**(130,539)**

Thousand euro

	2023				
	Financial liabilities subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee given		Net amount
			Cash	Securities	
Financial liabilities	**(a)**	**(b)**	**(c)**	**(d)**	**(a)-(b)-(c)-(d)**
Derivatives	3,206,489	2,903,168	457,090	358,000	(511,769)
Reverse repos	11,065,324	—	144,461	11,608,411	(687,548)
Total	**14,271,813**	**2,903,168**	**601,551**	**11,966,411**	**(1,199,317)**

Thousand euro

	2022				
	Financial assets subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee received		Net amount
			Cash	Securities	
Financial assets	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	6,445,760	3,603,978	2,249,400	129,934	462,448
Repos	3,114,965	—	23,590	3,008,362	83,013
Total	**9,560,725**	**3,603,978**	**2,272,990**	**3,138,296**	**545,461**

Thousand euro

	2022				
	Financial liabilities subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee given		Net amount
			Cash	Securities	
Financial liabilities	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	4,090,024	3,603,978	574,218	489,144	(577,316)
Reverse repos	8,528,435	—	126,059	8,819,189	(416,813)
Total	**12,618,459**	**3,603,978**	**700,277**	**9,308,333**	**(994,129)**

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	4,012,659	5,367,736
Derivative financial liabilities settled through a clearing house	2,498,128	3,204,917

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.

4.4.2.8 Assets pledged in financing activities

As at 31 December 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, TSB covered bonds and long-term asset-backed securities (see Note 20 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 Group has used part of its portfolio of loans and similar credit in fixed-income securities by transferring assets to various securitisation funds created for this purpose. Under current regulations, securitisations in which there is no significant risk transfer cannot be derecognised from the balance sheet.

The balance of the financial assets securitised under these programmes by the Group, as well as other financial assets transferred, depending on whether they have been derecognised or retained in full on the consolidated balance sheet, as at 31 December 2023 and 2022, is as follows:

Thousand euro

	2023	2022
Fully derecognised from the balance sheet:	**568,975**	**693,853**
Securitised mortgage assets	111,624	116,868
Other securitised assets	228,671	319,468
Other financial assets transferred	228,680	257,517
Fully retained on the balance sheet:	**7,446,823**	**7,753,225**
Securitised mortgage assets	6,394,928	7,087,569
Other securitised assets	1,051,894	665,656
Total	**8,015,798**	**8,447,078**

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 consolidated balance sheet. As at 31 December 2023 and 2022, there was no significant financial aid from the Group for unconsolidated securitisations.

Schedule II to these consolidated annual financial statements includes certain information regarding the securitisation funds originated by the Group.

4.4.3. Financial risks

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

4.4.3.1 Liquidity risk

Liquidity risk refers to the possibility of losses being incurred as a result of the Institution being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets or 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.

Tools/metrics for monitoring and controlling liquidity risk management

Banco Sabadell Group has a system of metrics and thresholds which are provided in the RAS and which define the appetite for liquidity risk, 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 consolidated 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	2,879,139	26,518,399	575,341	1,972	64	1,630	206	—	9,102	**29,985,853**
Financial assets at fair value through other comprehensive income	—	28,056	69,236	791,454	560,553	518,426	302,223	1,132,974	2,682,438	**6,085,359**
Debt securities	—	28,056	69,236	791,454	560,553	518,426	302,223	1,132,974	2,682,438	**6,085,359**
Loans and advances	—	—	—	—	—	—	—	—	—	**—**
Customers	—	—	—	—	—	—	—	—	—	**—**
Financial assets at amortised cost	4,062,743	5,493,867	3,858,019	12,168,889	11,057,059	10,776,821	10,537,660	10,184,113	112,774,622	**180,913,793**
Debt securities	—	4,833	315,660	1,204,916	1,123,028	479,039	1,743,646	1,187,212	15,442,594	**21,500,927**
Loans and advances	4,062,743	5,489,034	3,542,359	10,963,974	9,934,031	10,297,782	8,794,014	8,996,901	97,332,028	**159,412,866**
Central banks	—	156,516	—	—	—	—	—	—	—	**156,516**
Credit institutions	1,411,422	445,014	732,541	2,114,438	1,666,642	573,056	56	9,210	43,572	**6,995,951**
Customers	2,651,321	4,887,504	2,809,818	8,988,540	8,267,389	9,724,726	8,793,958	8,987,691	97,149,452	**152,260,399**
Total assets	**6,941,882**	**32,040,322**	**4,502,596**	**12,962,315**	**11,617,676**	**11,296,876**	**10,840,089**	**11,317,087**	**115,466,162**	**216,985,005**
LIABILITIES										
Financial liabilities at amortised cost	107,548,804	43,256,136	11,499,120	15,574,656	15,126,695	6,730,104	4,632,257	5,160,504	6,543,490	**216,071,766**
Deposits	101,442,894	42,529,331	9,538,402	13,218,907	12,300,947	2,453,941	1,103,014	750,550	609,211	**183,947,196**
Central banks	60,915	—	5,106,963	5,753	3,926,127	—	676,601	—	—	**9,776,360**
Credit institutions	1,039,225	4,678,234	816,081	2,817,579	2,263,510	1,306,692	254,561	171,991	492,311	**13,840,183**
Customers	100,342,754	37,851,097	3,615,358	10,395,575	6,111,309	1,147,249	171,852	578,559	116,900	**160,330,653**
Debt securities issued	16,214	693,854	1,951,456	2,340,622	2,816,403	4,270,058	3,525,049	4,406,209	5,771,418	**25,791,284**
Other financial liabilities	6,089,696	32,951	9,262	15,127	9,345	6,105	4,194	3,745	162,861	**6,333,286**
Total liabilities	**107,548,804**	**43,256,136**	**11,499,120**	**15,574,656**	**15,126,695**	**6,730,104**	**4,632,257**	**5,160,504**	**6,543,490**	**216,071,766**
Trading and Hedging derivatives										
Receivable	—	50,823,146	11,328,791	28,452,907	14,570,051	10,892,738	7,921,211	9,074,442	33,210,726	**166,274,013**
Payable	—	30,233,517	10,838,943	29,856,672	20,222,682	11,930,292	8,979,495	7,146,036	40,908,171	**160,115,808**
Contingent risks										
Financial guarantees	17,922	66,449	66,038	414,294	259,415	92,562	68,818	34,938	1,043,960	**2,064,396**

(*) For details of maturities of issues aimed at institutional investors, see the section entitled “Funding strategy and evolution of liquidity in 2023” in this note.

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	3,681,237	37,009,112	563,743	18	1,043	51	1,206	—	3,986	**41,260,395**
Financial assets at fair value through other comprehensive income	—	124,536	86,954	855,454	777,596	582,648	196,407	244,104	2,754,993	**5,622,692**
Debt securities	—	124,536	86,954	855,454	777,596	582,648	196,407	244,104	2,754,993	**5,622,692**
Loans and advances	—	—	—	—	—	—	—	—	—	**—**
Customers	—	—	—	—	—	—	—	—	—	**—**
Financial assets at amortised cost	3,371,931	8,590,617	4,437,359	11,540,390	9,820,139	10,505,170	10,274,823	11,211,714	115,293,310	**185,045,452**
Debt securities	—	236,772	44,310	1,403,285	1,371,253	1,126,338	459,093	1,935,711	14,876,058	**21,452,820**
Loans and advances	3,371,932	8,353,845	4,393,049	10,137,104	8,448,886	9,378,833	9,815,730	9,276,002	100,417,252	**163,592,632**
Central banks	2,221	160,443	—	—	—	—	—	—	—	**162,664**
Credit institutions	978,063	2,341,986	428,487	753,460	131,473	83	175	34	66,525	**4,700,287**
Customers	2,391,648	5,851,416	3,964,561	9,383,645	8,317,413	9,378,751	9,815,555	9,275,968	100,350,726	**158,729,681**
Total assets	**7,053,167**	**45,724,266**	**5,088,056**	**12,395,862**	**10,598,777**	**11,087,869**	**10,472,437**	**11,455,817**	**118,052,289**	**231,928,539**
LIABILITIES										
Financial liabilities at amortised cost	119,453,858	47,461,256	4,223,087	24,152,729	12,151,025	9,370,909	3,903,867	4,233,378	7,579,822	**232,529,932**
Deposits	113,012,257	47,375,927	2,719,435	22,548,986	7,666,937	6,556,190	650,136	1,855,757	907,897	**203,293,522**
Central banks	43,223	—	—	17,223,750	4,939,290	4,974,464	—	662,961	—	**27,843,687**
Credit institutions	843,529	7,506,691	901,048	714,986	329,534	136,998	160,605	117,597	662,402	**11,373,390**
Customers	112,125,507	39,869,236	1,818,387	4,610,250	2,398,113	1,444,728	489,531	1,075,199	245,495	**164,076,445**
Debt securities issued	6,213	66,725	1,486,936	1,590,320	4,477,376	2,807,926	3,248,767	2,371,575	6,521,711	**22,577,549**
Other financial liabilities	6,435,388	18,605	16,717	13,422	6,712	6,793	4,964	6,046	150,214	**6,658,861**
Total liabilities	**119,453,858**	**47,461,256**	**4,223,087**	**24,152,729**	**12,151,025**	**9,370,909**	**3,903,867**	**4,233,378**	**7,579,822**	**232,529,932**
Trading and Hedging derivatives										
Receivable	—	46,863,268	9,509,600	24,047,648	22,014,057	9,609,213	9,828,147	7,123,277	33,292,235	**162,287,446**
Payable	—	34,864,873	10,226,762	22,347,484	25,943,323	10,464,426	9,068,820	7,440,695	40,138,871	**160,495,254**
Contingent risks										
Financial guarantees	33,551	39,680	102,916	389,668	188,159	163,372	58,470	50,582	1,060,594	**2,086,993**

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 they 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.

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 versus 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 Group had no instruments in addition to those regulated by master agreements associated with the arrangement of derivatives and repos/reverse repos.

- The Group 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.

<u>Funding strategy and evolution of liquidity in 2023</u>

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

On-balance sheet customer funds as at 31 December 2023 and 2022 are shown below by maturity:

Million euro / %

	Note	2023	3 months	6 months	12 months	>12 months	No maturity
Total on-balance sheet customer funds (*)		**160,888**	**5.6 %**	**2.4 %**	**4.3 %**	**4.3 %**	**83.4 %**
Term deposits and others		25,237	32.1 %	13.6 %	26.8 %	27.5 %	— %
Sight accounts	19	134,243	— %	— %	— %	— %	100.0 %
Retail issues		1,408	53.8 %	30.9 %	14.7 %	0.6 %	— %

(*) 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 maturity
Total on-balance sheet customer funds (*)		**164,140**	**3.9 %**	**1.1 %**	**1.9 %**	**3.2 %**	**89.9 %**
Term deposits and others		15,690	39.5 %	8.2 %	19.3 %	33.0 %	— %
Sight accounts	19	147,540	— %	— %	— %	— %	100.0 %
Retail issues		910	33.9 %	58.4 %	5.6 %	2.1 %	— %

(*) 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 Group and those sold but not under management are provided in Note 27 to these consolidated annual financial statements.

The Group's deposits are sold through the business units/companies of the Group (Banking Business Spain, TSB and Mexico). Details of the volumes of these business units are included in the "Business" section of the consolidated Directors' Report.

In 2023, the funding gap has widened, with 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 mortgage covered bonds being the item with the greatest net increase. Furthermore, 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), senior non-preferred debt has also increased. 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	**24,596**	**22,077**
Covered bonds	10,975	9,409
Of which: TSB Bank	*3,164*	*1,409*
Commercial paper and ECP	6	7
Senior debt	4,215	4,440
Senior non-preferred debt	4,425	3,505
Subordinated debt and preferred securities	3,565	3,465
Asset-backed securities	1,410	1,251
Of which: Sabadell Consumer Finance	494	—

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 (*)	2,425	836	1,390	2,251	2,423	950	700	10,975
Senior debt (**)	735	1,480	—	500	750	750	—	4,215
Senior non-preferred debt (**)	395	500	1,317	18	500	1,500	195	4,425
Subordinated debt and preferred securities (**)	—	—	500	—	—	—	3,065	3,565
Total	**3,555**	**2,816**	**3,207**	**2,769**	**3,673**	**3,200**	**3,960**	**23,180**

(*) Secured issues.

(**) Unsecured issues.

Million euro

	2023	2024	2025	2026	2027	2028	>2028	Balance outstanding
Mortgage bonds and covered bonds (*)	1,388	2,696	836	390	1,100	1,549	1,450	9,409
Senior debt (**)	975	735	1,480	—	500	750	—	4,440
Senior non-preferred debt (**)	—	975	500	1,317	18	500	195	3,505
Subordinated debt and preferred securities (**)	—	—	—	500	—	500	2,465	3,465
Total	**2,363**	**4,406**	**2,816**	**2,207**	**1,618**	**3,299**	**4,110**	**20,819**

(*) Secured issues.

(**) Unsecured issues.

The Group 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 there was 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	28/02/2023	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 of 419.6 million euros on this issue.

For its part, TSB Bank was active in the covered bonds market in 2023. On 14 February 2023, it issued covered bonds in the amount of 1 billion pounds with a floating rate coupon indexed at SONIA +60 basis points and with a 4-year maturity, and on 15 September, it executed another issue for 750 million pounds with a floating rate coupon at SONIA +65 basis points with a 5-year maturity. Together with this transaction, TSB Bank called 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.

In relation to traditional format asset securitisation:

– The Group is an active participant in this market and it takes part in various securitisation programmes, sometimes acting together with other institutions, granting mortgage loans, loans to small and medium-sized enterprises, consumer loans and vehicle purchase loans.

– There are currently 17 outstanding traditional asset securitisation transactions fully recognised on the Group's 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 Group's portfolio. Of the latter, the eligible securities can be used as collateral for the central bank's funding operations. The remaining securities are placed on the capital market. As at 31 December 2023, the nominal balance of asset-backed securities placed in the market was 1,410 million euros.

- On 29 September 2023, the traditional securitisation fund 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 loans granted by this subsidiary in the amount of 650 million euros. The issue consists of six classes of bonds that were placed in 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, S.A.U., 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).

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).

For its part, TSB had outstanding borrowings from the Bank of England in the amount of 4,005 million pounds as at the end of 2023, of which 4,000 million correspond to the Term Funding Scheme with additional incentives for SMEs (TFSME) and 5 million to the Indexed Long Term Repo (ILTR).

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 ECB eligible assets increased by 12,984 million euros and the available non-ECB eligible assets increased by 1,506 million euros in 2023, thus raising 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 12,155 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.

For the TSB LMU, this metric is calculated as the sum of the first line of liquidity and loans pre-positioned at the Bank of England to obtain funding. As at 31 December 2023, the second line of liquidity, considering the amount of loans pre-positioned with the Bank of England, amounted to 4,936 million euros (3,366 million euros as at 31 December 2022).

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 203% for the TSB LMU, 274% for Banco Sabadell Spain and 228% at Group level.

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 152% for the TSB LMU, 134% for Banco Sabadell Spain and 140% at Group level.

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).

4.4.3.2. 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 consolidated 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	**235,172,955**	**1,731,724**	**233,441,231**	
Cash, cash balances at central banks and other demand deposits	29,985,853	—	29,985,853	Interest rate
Financial assets held for trading	2,706,489	1,731,724	974,765	Interest rate; credit spread
Non-trading financial assets mandatorily at fair value through profit or loss	153,178	—	153,178	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	6,269,297	—	6,269,297	Interest rate; credit spread
Financial assets at amortised cost	180,913,793	—	180,913,793	Interest rate
Derivatives – Hedge accounting	2,424,598	—	2,424,598	Interest rate
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(567,608)	—	(567,608)	Interest rate
Investments in joint ventures and associates	462,756	—	462,756	Equity
Other assets	12,824,599	—	12,824,599	—
Liabilities subject to market risk	**221,293,749**	**1,689,953**	**219,603,796**	
Financial liabilities held for trading	2,867,459	1,689,953	1,177,506	Interest rate
Derivatives – Hedge accounting	1,171,957	—	1,171,957	Interest rate
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(422,347)	—	(422,347)	Interest rate
Financial liabilities at amortised cost	216,071,766	—	216,071,766	Interest rate
Other liabilities	1,604,914	—	1,604,914	—
Equity	**13,879,206**	**—**	**13,879,206**	

Thousand euro

31/12/2022	On-balance sheet balance	Trading activity	Other	Main market risk factor in "Other"
Assets subject to market risk	**251,241,223**	**2,670,824**	**248,570,399**	
Cash, cash balances at central banks and other demand deposits	41,260,395	—	41,260,395	Interest rate
Financial assets held for trading	4,017,253	2,670,824	1,346,429	Interest rate
Non-trading financial assets mandatorily at fair value through profit or loss	77,421	—	77,421	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	5,802,264	—	5,802,264	Interest rate; credit spread
Financial assets at amortised cost	185,045,452	—	185,045,452	Interest rate
Derivatives – Hedge accounting	3,072,091	—	3,072,091	Interest rate
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(1,545,607)	—	(1,545,607)	Interest rate
Investments in joint ventures and associates	376,940	—	376,940	Equity
Other assets	13,135,014	—	13,135,014	—
Liabilities subject to market risk	**238,155,107**	**2,149,776**	**236,005,331**	
Financial liabilities held for trading	3,598,483	2,149,776	1,448,707	Interest rate
Derivatives – Hedge accounting	1,242,470	—	1,242,470	Interest rate
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(959,106)	—	(959,106)	Interest rate
Financial liabilities at amortised cost	232,529,932	—	232,529,932	Interest rate
Other liabilities	1,743,328	—	1,743,328	—
Equity	**13,086,116**	**—**	**13,086,116**	

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.

<u>Trading activity</u>

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	1.81	1.30	2.42	0.90
Equity	—	—	—	0.13	1.24	—
Credit spread	0.27	0.72	0.09	0.25	0.57	0.11
Aggregate VaR	**4.51**	**5.94**	**3.25**	**2.75**	**4.81**	**2.10**

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 (for example, 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 stress test is complemented with reverse stress tests which aim to identify the scenarios capable of producing a particular impact within a pre-established range of values.

The following table gives details of the Group'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	29,298,908	664,785	1,818,033	1,648,692	571,125	287,671	—	—	34,289,214
Loans and advances	23,289,667	18,267,252	36,992,760	19,860,090	14,717,416	11,920,708	5,947,632	20,062,136	151,057,661
Debt securities	1,565,120	1,299,818	1,505,582	1,647,183	1,044,180	2,025,963	3,155,852	16,790,643	29,034,341
Other assets	—	—	—	—	—	—	—	—	—
Total assets	**54,153,695**	**20,231,855**	**40,316,375**	**23,155,965**	**16,332,721**	**14,234,342**	**9,103,484**	**36,852,779**	**214,381,216**
Money Market	17,450,615	1,108,877	2,058,721	1,726,558	445,470	287,671	679	9,706	23,088,297
Customer deposits	46,218,567	6,417,593	19,517,264	17,132,088	13,348,923	12,421,891	12,849,214	30,969,933	158,875,473
Issues of marketable securities	4,555,412	3,950,878	1,801,870	3,908,110	3,457,000	3,118,100	3,735,000	1,660,025	26,186,395
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	**68,273,255**	**11,610,605**	**23,610,197**	**22,919,529**	**17,390,313**	**15,949,561**	**16,695,096**	**33,254,736**	**209,703,292**
Hedging derivatives	**9,660,254**	**(2,755,498)**	**1,713,842**	**308,201**	**105,235**	**539,236**	**2,366,742**	**(11,938,012)**	**—**
Interest rate gap	**(4,459,305)**	**5,865,752**	**18,420,020**	**544,637**	**(952,357)**	**(1,175,983)**	**(5,224,870)**	**(8,339,969)**	**4,677,925**

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	41,797,003	920,472	1,438,829	125,651	—	—	—	—	44,281,955
Loans and advances	24,331,743	19,232,160	40,248,534	19,007,600	13,430,353	10,564,714	10,073,683	20,016,175	156,904,962
Debt securities	1,219,034	450,395	2,078,877	1,769,818	1,496,546	620,315	2,825,650	17,658,927	28,119,562
Other assets	—	—	—	—	—	—	—	—	—
Total assets	**67,347,780**	**20,603,027**	**43,766,240**	**20,903,069**	**14,926,899**	**11,185,029**	**12,899,333**	**37,675,102**	**229,306,479**
Money Market	36,299,672	352,799	2,153,181	133,675	2,964	8,256	—	10,096	38,960,643
Customer deposits	54,225,831	5,912,100	16,275,410	10,774,657	9,757,034	9,759,935	14,789,281	39,816,239	161,310,487
Issues of marketable securities	3,083,924	2,925,321	1,853,628	3,510,000	3,908,110	2,457,000	3,118,100	2,145,025	23,001,108
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	**93,664,442**	**9,312,757**	**20,559,919**	**14,636,044**	**13,813,016**	**12,355,526**	**18,020,553**	**42,641,637**	**225,003,894**
Hedging derivatives	**11,271,252**	**(6,214,446)**	**550,236**	**283,019**	**1,334,541**	**1,383,868**	**1,086,452**	**(9,694,922)**	**—**
Interest rate gap	**(15,045,410)**	**5,075,824**	**23,756,557**	**6,550,044**	**2,448,424**	**213,371**	**(4,034,768)**	**(14,661,458)**	**4,302,584**

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%	1.2%
GBP	1.4%	(0.9)%
USD	0.8%	(0.5)%
MXN	0.1%	0.0%

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

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

	Instant and parallel interest rate decrease	
	100 bp	**200 bp**
Interest rate sensitivity	**Impact on net interest margin (*)**	**Impact on economic value of equity (**)**
EUR	(1.0)%	(5.9)%
GBP	(1.0)%	0.5%
USD	(0.9)%	0.5%
MXN	(0.1)%	0.0%

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

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

In addition to the impact on the net interest income within the time horizon of one year shown in the previous tables, the Group calculates the impact on the margin over a time horizon of two and three years, the result of which is considerably more positive for all currencies.

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 both the duties of the different areas involved in the models and 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).

4.4.3.3. Structural foreign exchange risk

Structural foreign exchange risk occurs when changes in market exchange rates between different currencies generate losses on permanent investments in foreign branches and subsidiaries with functional currencies other than the euro.

The purpose of managing structural foreign exchange risk is to minimise the impact on the value of the Institution's portfolio/equity in the event of any adverse movements in currency markets. The foregoing takes into account the potential impacts on the capital (CET1) ratio and on the net interest margin, subject to the risk appetite defined in the RAS. Furthermore, the levels set for the established risk metrics must be complied with at all times.

Foreign exchange risk is monitored regularly and reports are sent to supervisory bodies on existing risk levels and on compliance with the limits set forth by the Board of Directors. The main monitoring metric is currency exposure, which measures the maximum potential loss that the open structural position could 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 1,278 million as at 31 December 2022 to 1,413 million as at 31 December 2023. In relation to this position, as at 31 December 2023, a buffer of 34% of total investment is maintained.

In terms of permanent investments in Mexican pesos, the capital buffer has gone from 9,253 million Mexican pesos as at 31 December 2022 (of a total exposure of 15,261 million Mexican pesos) to 8,553 million Mexican pesos as at 31 December 2023 (of a total exposure of 16,340 million Mexican pesos), representing 52% 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 gone from 1,998 million pounds sterling as at 31 December 2022 to 2,105 million pounds sterling as at 31 December 2023), representing 19% 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 Group 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:	**11,265,090**	**56,117,680**	**4,600,172**	**71,982,942**
Cash, cash balances at central banks and other demand deposits	481,860	6,819,973	553,349	7,855,182
Debt securities	1,559,704	2,855,459	680,098	5,095,261
Loans and advances	8,966,780	43,462,345	3,109,836	55,538,961
Central banks and Credit institutions	43,478	516,046	508,155	1,067,679
Customers	8,923,302	42,946,299	2,601,681	54,471,282
Other assets	256,746	2,979,903	256,889	3,493,538
Liabilities denominated in foreign currency:	**6,130,275**	**51,558,530**	**3,482,251**	**61,171,056**
Deposits	5,891,369	45,112,710	3,374,404	54,378,483
Central banks and Credit institutions	717,213	4,720,896	562,911	6,001,020
Customers	5,174,156	40,391,814	2,811,493	48,377,463
Other liabilities	238,906	6,445,820	107,847	6,792,573

Thousand euro				
	2022			
	USD	GBP	Other currencies	Total
Assets denominated in foreign currency:	**11,230,828**	**57,349,488**	**4,111,351**	**72,691,667**
Cash, cash balances at central banks and other demand deposits	606,605	5,963,971	1,044,938	7,615,514
Debt securities	1,136,840	2,775,734	423,855	4,336,429
Loans and advances	9,210,413	45,410,799	2,375,221	56,996,433
Central banks and Credit institutions	70,704	514,160	165,627	750,491
Customers	9,139,709	44,896,639	2,209,594	56,245,942
Other assets	276,970	3,198,984	267,337	3,743,291
Liabilities denominated in foreign currency:	**6,962,558**	**53,016,847**	**3,118,316**	**63,097,721**
Deposits	6,671,410	48,123,748	3,044,677	57,839,835
Central banks and Credit institutions	1,120,977	6,373,980	331,899	7,826,856
Customers	5,550,433	41,749,768	2,712,778	50,012,979
Other liabilities	291,148	4,893,099	73,639	5,257,886

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 3,278 million euros, of which 1,970 million euros corresponded to permanent equity holdings in pounds sterling, 844 million euros corresponded to permanent equity holdings in US dollars and 416 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 82 million euros, of which 60% corresponded to the pound sterling, 26% corresponded to the US dollar and 13% to the Mexican peso.

4.4.4. Operational risk

Operational risk is defined as the risk of incurring losses due to inadequacies or failures of processes, staff or internal systems or due to external events. This definition includes but is not limited to legal risk, model risk and information and 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 means for the regular, ongoing and stable performance over time of certain business processes of the subcontracting company, which in itself involves exposure to a series of inherent 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, 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:

4.4.4.1 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, the implementation of Project Dingle was particularly noteworthy, involving the outsourcing of application development and testing among 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 likelihood of experiencing cybersecurity incidents in area with input from the aforesaid outsourced 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.

4.4.4.2 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.

4.4.4.3 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 5 – Minimum own funds and capital management

Minimum own funds requirements

The Group calculates minimum capital requirements based on Directive 2013/36/EU, amended by Directive 2019/878/EU (hereinafter, CRD-V), and Regulation (EU) 575/2013, amended by Regulation (EU) 2019/876 (hereinafter, CRR-II).

The Covid-19 health crisis prompted competent institutions in Europe to temporarily lower liquidity, capital and operational requirements applicable to banks, to ensure that they could continue carrying out their role of providing funding to the real economy.

The European Commission, the European Central Bank and the EBA provided clarity regarding the application of the flexibility already embedded in Regulation (EU) 575/2013 by issuing interpretations and guidance on the application of the prudential framework in the context of Covid-19. These transitional provisions will end in December 2024, as established in Regulation (EU) 2020/873.

In accordance with the aforesaid regulatory framework, credit institutions must comply with a total capital ratio of 8% at all times. However, regulators may exercise their authority and require institutions to maintain additional capital.

On 14 December 2022, Banco Sabadell received the decision of the European Central Bank concerning the minimum prudential requirements that would be applicable to it from 1 January 2023, as a result of the Supervisory Review and Evaluation Process (SREP). The requirement, on a consolidated basis, was that Banco Sabadell should keep a phase-in Common Equity Tier 1 (CET1) ratio of at least 8.65% and a phase-in Total Capital ratio of at least 13.09%. These ratios include the minimum required by Pillar 1 (8%, of which 4.50% corresponds to CET1), the Pillar 2R (2.15%, of which 1.21% must be met with CET1), the capital conservation buffer (2.50%), the requirement applicable due to the Bank's status as an 'other systemically important institution' (0.25%), and the requirement stemming from the calculation of the specific countercyclical capital buffer (0.19%) as a result of the Bank of England's Financial Policy Committee (FPC) decision of 13 December 2021 to increase the countercyclical buffer from 0% to 1% from 13 December 2022.

On 30 November 2023, Banco Sabadell received the decision of the European Central Bank concerning the minimum prudential requirements applicable as from 1 January 2024, as a result of the SREP. The requirement, on a consolidated basis, is that Banco Sabadell should keep a phase-in Common Equity Tier 1 (CET1) ratio of at least 8.93% and a phase-in Total Capital ratio of at least 13.42%. These ratios include the minimum required by Pillar 1 (8%, of which 4.50% corresponds to CET1), the Pillar 2R (2.25%, of which 1.27% must be met with CET1), the capital conservation buffer (2.50%), the requirement applicable due to the Bank's status as an 'other systemically important institution' (0.25%), and the countercyclical buffer (0.42%) that stems from the Bank of England's Financial Policy Committee (FPC) decision to increase the countercyclical buffer from 1% to 2% from 5 July 2023.

As at 31 December 2023, the Group's phase-in CET1 capital ratio stood at 13.2% (12.68% as at 31 December 2022) and its phase-in total capital ratio was 17.76% (17.08% as at 31 December 2022); therefore, the capital requirements indicated in the preceding points are being comfortably met.

The following table sets out the minimum prudential requirements applicable to Banco Sabadell Group following the Supervisory Review and Evaluation Process (SREP) for the years 2022-2024:

	2024	2023	2022
Pillar 1 CET1	4.50%	4.50%	4.50%
Pillar 2 Requirement	1.27%	1.21%	1.21%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic buffer	0.25%	0.25%	0.25%
Countercyclical buffer	0.42%	0.19%	0.19%
Common Equity Tier 1 (CET1) ratio	**8.93%**	**8.65%**	**8.65%**
Dates of communication of the SREP outcome	30/11/2023	14/12/2022	23/11/2020

On a standalone basis, the requisite Common Equity Tier 1 (CET1) ratio to be attained as at 31 December 2023 is 7.29% and the required Total Capital ratio is 10.79%. This requirement includes the minimum required by Pillar 1 (8%, of which 4.50% corresponds to CET1), the capital conservation buffer (2.50%) and the requirement stemming from the calculation of the specific countercyclical capital buffer which, as at 31 December 2023, was 0.29%.

As at 31 December 2023, Banco Sabadell had a CET1 capital ratio of 13.65% (13.30% as at 31 December 2022) and a phase-in total capital ratio of 18.04% (17.59% as at 31 December 2022), both also well above the standalone capital requirements.

Requirements related to the restructuring and resolution of credit institutions

On 15 May 2014, Directive 2014/59/EU was published in the Official Journal of the European Union, which establishes a framework for the restructuring and resolution of credit institutions and investment firms, known by its acronym BRRD (Bank Recovery and Resolution Directive).

Through the publication of the Royal Decree 1012/2015 of 6 November 2015, implementing Law 11/2015 of 18 June 2015 on the recovery and resolution of credit institutions and investment firms, the BRRD was transposed into Spanish law.

The BRRD arises from the need to establish a framework that provides authorities with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the Institution's critical financial and economic functions, to avoid a significant adverse repercussions for financial stability, and to adequately protect public funds by minimising reliance on extraordinary public financial support. Likewise, covered depositors enjoy special treatment.

The framework proposed by the BRRD is based on the principle that traditional insolvency proceedings are not, in many cases, the best option to achieve the aforementioned objectives. That is why the BRRD introduces the resolution procedure, whereby competent resolution authorities obtain administrative powers to manage a failing institution.

The preamble of Law 11/2015 defines a resolution process as a unique administrative process to address the failure of credit institutions and investment firms, when an insolvency proceeding is not appropriate for reasons of public interest and financial stability. In order to achieve the aforementioned objectives, the BRRD envisages a series of instruments available to the competent resolution authority, including a bail-in tool. The BRRD introduces for this purpose a minimum requirement for own funds and eligible liabilities (MREL) that institutions must comply with at all times in order to ensure their loss-absorbing capacity is sufficient to guarantee the effective implementation of the resolution tools and that, in the current regulatory environment, would be the amount of own funds and eligible liabilities expressed as a percentage of the Institution's total liabilities and own funds.

Similarly, in 2015 the FSB defined the TLAC (Total Loss-Absorbing Capacity) requirement, also designed to ensure that institutions have sufficient capacity to absorb losses and execute a bail-in in the event of resolution. It should be noted that this requirement only applies to global systemically important banks (G-SIBs); therefore, it does not apply to Banco Sabadell Group.

In June 2019, after more than two and a half years of negotiations, a reform of the bank resolution framework was agreed with the approval of the new resolution directive, BRRD II (Directive 2019/879), which implements the international TLAC standard in the EU. BRRD II was transposed into Spanish law by Royal Decree-Law 7/2021 of 27 April 2021.

Responsibility for determining MREL falls to the Single Resolution Board (SRB), pursuant to that set forth in Regulation (EU) 806/2014, also revised in 2019 and substituted by Regulation (EU) 2019/877. Thus, the SRB, after consulting with the competent authorities, including the ECB, will establish the MREL for each bank, taking into consideration aspects such as the size, funding model, risk profile and the risk of contagion to the financial system, among others.

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, which has 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 decision does not introduce changes to the following interim requirements that must be met from 1 January 2022.

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 countercyclical 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. In 2023, the Institution issued 1.5 billion euros of MREL-eligible senior non-preferred debt and 750 million euros of senior preferred debt.

	MREL Requirement		Subordination Requirement	
	% TREA	% LRE	% TREA	% LRE
Requirement 1 January 2022	21.05%	6.22%	14.45%	6.06%
Requirement 1 January 2024	22.52%	6.35%	17.31%	6.35%
MREL 31 December 2023 (*)	24.73%	9.34%	20.13%	7.80%

(*) The MREL and Subordination ratios as a % of the TREA do not include capital used to meet the CBR, set at 3.13%.

Capital management

The management of capital resources is the result of an ongoing capital planning process. This process considers the evolution of the economic, regulatory and sectoral environment. It takes into account the expected capital consumption of different activities, under the various envisaged scenarios, and the market conditions that could determine the effectiveness of the different actions being considered for implementation. The process is enshrined within the Group's strategic objectives and aims to achieve an attractive return for shareholders, whilst also ensuring that its level of own funds is appropriate in terms of the risks inherent in banking activity.

As regards capital management, as a general policy, the Group aims to adjust its available capital to its overall level of risks incurred.

The Group follows the guidelines set out in CRD-V and associated regulations, as well as their successive updates, in order to establish own funds requirements that are inherent in the risks actually incurred by the Group, based on independently validated internal risk measurement models. To this end, the Group has been authorised by the supervisor to use the majority of its internal models to calculate regulatory capital requirements.

The Group carries out frequent backtesting exercises on its IRB models, at least once a year. These backtesting exercises are carried out independently by the Models and Internal Validation unit and reported for monitoring purposes to the established internal governing bodies, such as the Models Committee, the Technical Risk Committee and the Board Risk Committee (delegated Board committee). Additionally, the backtesting results that affect the risk parameters used to calculate regulatory capital and the main conclusions drawn from those results are included in the annual Pillar III Disclosures report, taking into account the criteria established by the EBA in its disclosure guidelines.

Banco Sabadell Group carries out an internal capital adequacy assessment process (ICAAP) on a consolidated and ongoing basis throughout the year in order to generate a relevant, up-to-date, fully comprehensive and forward-looking appraisal of the adequacy of its levels of capital, considering the Group's business model and the risks taken.

The ICAAP is carried out under a solid governance framework, with high levels of involvement from Senior Management. The ultimate responsibility for its review and approval lies with the Board of Directors.

The ICAAP is seen as a complementary tool to Basel Pillar 1 (regulatory capital), which first analyses the Group's business model within its economic, financial and regulatory context, and its short- and medium-term sustainability and viability. The Group's business model involves taking risks and a risk profile is therefore defined. As part of the ICAAP, an identification is made of the material risks and of the main threats and vulnerabilities derived from the Group's activity and a self-assessment is carried out of the inherent and residual risk that they entail, after considering the risk governance, management and control systems.

Based on the inventory of the Group's material risks and their management, a comprehensive quantitative assessment of the necessary capital based on internal approaches (economic capital) is established, the scope of which goes beyond the risks covered by Pillar 1, integrating the models used by the Group (e.g. borrower rating systems: credit ratings and credit scores) and other internal estimates appropriate to each type of risk.

In addition, the ICAAP includes forward-looking analyses with a three-year time horizon (or even a 30-year time horizon in the case of scenarios designed to forecast climate risk). These analyses are carried out under a baseline economic scenario, but also under plausible albeit unlikely adverse scenarios (stress tests), which are relevant to the Group and therefore reflect adverse situations that could have a particular impact on the Group. The baseline forecast includes the Group's business and financial plans. These forecasting exercises are carried out to verify whether the business performance, risk and income statement in possible adverse scenarios could pose a risk to the Group's solvency based on the available own funds, or affect the Group's compliance with its Risk Appetite Statement. As a result of these exercises, weaknesses can be detected and, if necessary, action plans can be proposed to mitigate the identified risks.

Forward-looking analyses under adverse scenarios are supplemented with reverse stress tests, which identify the Group's idiosyncratic aspects that could put its solvency at considerable risk if they were to materialise.

The combination of the various solvency measures (static or dynamic and regulatory or economic), taking into account the inventory of risks affecting the Group and the main vulnerabilities detected, enables the Board of Directors, as the body ultimately responsible for the ICAAP, to draw a conclusion regarding the Group's solvency position.

The Group has implemented a risk-adjusted return on capital (RaRoC) metric in segments where this is considered relevant, which is embedded in the pricing management system and therefore subject to the Institution's policies and procedures. In addition to being used in the pricing process, this metric can measure the return obtained on each transaction and customer and even by each business unit, which makes it possible to make like-for-like comparisons.

The level and quality of capital are Group RAS metrics and their management and control are governed by the Group's Risk Appetite Framework (RAF).

Eligible capital and capital ratios

As at 31 December 2023, the Group's eligible capital amounted to 13,926 million euros (13,588 million euros as at 31 December 2022), representing a surplus of 3,480 million euros (3,177 million euros as at 31 December 2022), as shown below:

Thousand euro

	2023	2022	Year-on-year change (%)
Capital	680,028	703,371	(3.32)
Reserves (includes profit attributable to the Group, net of dividends)	13,198,328	12,838,901	2.80
Valuation adjustments	(471,695)	(641,901)	(26.52)
Deductions and transitory effects	(3,059,900)	(2,817,620)	8.60
CET1 capital	**10,346,761**	**10,082,751**	**2.62**
CET1 (%)	13.19	12.68	4.02
Preference shares, convertible bonds and deductions	1,750,000	1,650,000	6.00
Additional Tier 1 capital	**1,750,000**	**1,650,000**	**6.00**
AT1 (%)	2.23	2.07	7.73
Tier 1 capital	**12,096,761**	**11,732,751**	**3.10**
Tier 1 (%)	15.42	14.75	4.54
Tier 2 capital	**1,829,460**	**1,855,001**	**(1.38)**
Tier 2 (%)	2.33	2.33	—
Capital base	**13,926,221**	**13,587,753**	**2.49**
Minimum capital requirement (*)	10,445,833	10,411,235	0.33
Capital surplus	**3,480,388**	**3,176,518**	**9.57**
Total capital ratio (%)	**17.76**	**17.08**	**3.98**
Risk weighted assets (RWAs)	**78,427,616**	**79,544,790**	**(1.40)**

(*) Minimum capital requirements have been calculated taking into account capital requirements in effect as at 2023 year-end for Pillar I (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%).

Common Equity Tier 1 (CET1) capital accounts for 74.30% of eligible capital. Deductions mainly comprise intangible assets, goodwill and deferred tax assets. The impact of applying Regulation 2020/873 from June 2020 onwards in the context of Covid-19 is deemed to be transitory. This regulation extends the transitional arrangements designed to mitigate the impact of IFRS 9 for two years, allowing institutions to fully add back to their Common Equity Tier 1 capital any increase in new expected credit loss provisions that they recognise after 1 January 2020 for their financial assets that are not credit-impaired. As at 31 December 2022, the impact of these transitional arrangements came to 98 million euros, while as at 31 December 2023 these transitional arrangements had no effect, mainly because of the loss of eligibility of the static component of IFRS 9.

Tier 1 comprises, in addition to CET1 funds, items that largely make up Additional Tier 1 capital (12.57% of own funds), which are capital items comprised of preferred securities. On 18 January 2023, a new issue, Preferred Securities 1/2023, was executed in the amount of 500 million euros, which replaced the Preferred Securities 2/2017 issue of 400 million euros, whose early call option envisaged in the issue's conditions was exercised on 23 February 2023.

Tier 2 capital provides 13.14% of the total capital ratio and is made up largely of subordinated debt. Regarding subordinated debt, it is worth noting the Subordinated Debt 1/2023 series issued on 16 February 2023, which increased Tier 2 capital by 500 million euros and replaced the Subordinated Debt 1/2018 series, in the amount of 500 million euros, after exercising the early redemption option on 12 December 2023, in accordance with that established in that issue's conditions.

In terms of risk-weighted assets (RWAs), two securitisations were carried out during the period: one synthetic securitisation of SME and business loans, 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 Banco Sabadell (excluding TSB), it is worth noting the reductions in RWAs due to the portfolio's improved density, as a result, among other factors, of the implementation of new models for mortgages and consumer loans granted to individuals, the reduction of lending volumes (although its impact on RWAs is limited as most of that reduction corresponds to ICO loans) and, lastly, the reduction of market risk requirements, especially for interest rate risk, due in large part to the portfolio's evolution. This reduction in credit RWAs and market RWAs is partially offset by the update of operational RWAs following the increase of the material risk indicator in 2023.

In fully-loaded terms, as at 31 December 2023, the Common Equity Tier 1 (CET1) ratio stood at 13.2% and the total capital ratio stood at 17.76%, both well above the regulatory minima.

The following table shows movements in the various regulatory capital components during 2023 and 2022:

Thousand euro

CET1 balance as at 31 December 2021	**10,079,533**
Reserves (includes profit attributable to the Group, net of dividends)	319,654
Valuation adjustments	(273,616)
Deductions and transitory effects	(42,819)
CET1 balance as at 31 December 2022	**10,082,751**
Capital	(23,343)
Reserves (includes profit attributable to the Group, net of dividends) (*)	359,427
Valuation adjustments	170,206
Deductions and transitory effects	(242,280)
CET1 balance as at 31 December 2023	**10,346,761**

(*) The movement in Reserves includes -204 million euros corresponding to the share buyback carried out in 2023.

Thousand euro

Additional Tier 1 balance as at 31 December 2021	**2,400,000**
Eligible instruments	(750,000)
Additional Tier 1 balance as at 31 December 2022	**1,650,000**
Eligible instruments	100,000
Additional Tier 1 balance as at 31 December 2023	**1,750,000**

Thousand euro

Tier 2 balance as at 31 December 2021	**2,021,270**
Eligible instruments	(99,745)
Credit risk adjustments	(10,193)
Deductions and transitory effects	(56,330)
Tier 2 balance as at 31 December 2022	**1,855,001**
Eligible instruments	(99,745)
Credit risk adjustments	17,874
Deductions and transitory effects	56,330
Tier 2 balance as at 31 December 2023	**1,829,460**

The table below shows the reconciliation of equity and regulatory capital as at 31 December 2023 and 2022:

Thousand euro

	2023	2022 (*)
Shareholders' equity	14,343,946	13,840,723
Accumulated other comprehensive income	(498,953)	(650,645)
Minority interests	34,213	34,344
Total equity	**13,879,206**	**13,224,422**
Goodwill and intangibles	(2,189,218)	(2,144,909)
Dividends (**)	(503,988)	(317,281)
TLCFs and thresholds for non-monetisable DTAs	(490,572)	(537,712)
Deductions	(257,415)	(124,898)
Other adjustments	(91,252)	(16,870)
Regulatory accounting adjustments	**(3,532,445)**	**(3,141,670)**
Common Equity Tier 1 capital	**10,346,761**	**10,082,751**
Additional Tier 1 capital	**1,750,000**	**1,650,000**
Tier 2 capital	**1,829,460**	**1,855,001**
Total regulatory capital	**13,926,221**	**13,587,753**

(*) Information corresponding to the consolidated annual financial statements for the year ended 31 December 2022.

(**) Does not consider interim dividend booked

As at 31 December 2023 and 2022, there was no significant difference between the accounting scope of consolidation and the regulatory scope of consolidation.

Risk-weighted assets amounted to 78,428 million euros as at 31 December 2023, representing a balance variation of -1.40% with respect to 31 December 2022. Details of the main components of that balance variation can be found in the previous paragraphs of this note.

The breakdown of risk-weighted assets by type of risk, as at 31 December 2023 and 2022, is shown below:

Thousand euro

	2023		2022	
	Amount	**%**	**Amount**	**%**
Credit risk (*)	68,970,951	87.94 %	70,387,473	88.48 %
Operational risk	9,008,555	11.49 %	8,160,674	10.26 %
Market risk	448,110	0.57 %	996,644	1.25 %
Total	**78,427,616**	**100.00 %**	**79,544,790**	**100.00 %**

(*) Includes counterparty credit risk, due to the contribution made to the default guarantee fund of CCPs and due to securitisation positions. Certain impacts linked mainly to the completion of the IRB Repair Programme, which the Institution has decided to frontload, are also included. Not including the aforementioned supplementary items, credit RWAs measured under the standardised approach and using advanced models (including deferred tax assets and the impact on RWAs after applying the prudential adjustments requested by the supervisor (SSM)) amounted to 66,119 million euros.

The following table shows the reasons for the variation in credit RWAs occurring during 2023 and 2022:

Thousand euro

	RWAs	Capital requirements (*)
Balance as at 31 December 2021	**69,543,133**	**5,563,451**
Change in business volume	(769,481)	(61,558)
Asset quality	(3,006,475)	(240,518)
Changes in models	951,398	76,112
Methodology, parameters and policies	1,017,559	81,405
Acquisitions and disposals	(446,665)	(35,733)
Exchange rate	(430,845)	(34,468)
Balance as at 31 December 2022	**66,858,624**	**5,348,690**
Change in business volume	(989,535)	(79,163)
Asset quality	(1,284,349)	(102,748)
Changes in models	326,000	26,080
Methodology, parameters and policies	294,000	23,520
Acquisitions and disposals	(60,000)	(4,800)
Exchange rate	287,882	23,031
Other (**)	686,000	54,880
Balance as at 31 December 2023	**66,118,622**	**5,289,490**

Excludes credit valuation adjustment (CVA) requirements and contributions to the default guarantee fund of CCPs. Also excludes “Other risk exposure amounts” and RWAs corresponding to securitisations.

(*) Calculated as 8% of RWAs.

(**) The increase in the “Other” category is essentially due to the assignment, at a granular level, of a series of add-ons at TSB, which as at December 2022 were reported as “Other risk exposure amounts”.

Details of risk-weighted assets for the risk with the largest volume (credit risk), broken down by geographical area as at 31 December 2023 and 2022, are included here below:

%

	2023	2022
Spain	63.47 %	64.95 %
Rest of European Union	4.74 %	4.97 %
United Kingdom	19.60 %	18.24 %
Americas	11.36 %	11.08 %
Rest of the world	0.83 %	0.77 %
Total	**100 %**	**100 %**

Includes counterparty credit risk.

The leverage ratio aims to reinforce capital requirements by providing a supplementary measure that is not linked to the level of risk. Article 92 of the CRR-II regulation establishes that a minimum leverage ratio of 3% is required as from June 2021; this percentage is comfortably exceeded by the Group as at 31 December 2023.

The phase-in leverage ratio as at 31 December 2023 and 2022 is shown below:

Thousand euro

	2023	2022
Tier 1 capital	12,096,761	11,732,751
Exposure	233,254,941	253,840,350
Leverage ratio	**5.19 %**	**4.62 %**

During 2023, the leverage ratio increased by 57 basis points compared to the leverage ratio as at 31 December 2022, mainly due to the decrease in the exposure with central banks linked in large part to TLTRO repayments and, to a lesser extent, the decline in lending volumes. Tier 1 capital also improved during the period, mainly due to the positive evolution of Common Equity Tier 1 (CET1) capital thanks to the profit earned during the year, combined with the positive impact of the net movement of new issues and redemptions of preferred securities during the year.

For more information about capital management, capital ratios and the leverage ratio, their composition, details of parameters and their management, see the Pillar III Disclosures report, which is published annually and is available on the Group's website (www.grupbancsabadell.com), in the section "Information for shareholders and investors - Financial information".

Note 6 – Fair value of assets and liabilities

Financial assets and financial liabilities

The fair value of a financial asset or financial liability at a given date is understood as the amount at which it could be sold or transferred, respectively, as at that date, between two independent and knowledgeable parties acting freely and prudently, under market conditions. The most objective and commonly used reference for the fair value of a financial asset or financial liability is the price that would be paid in an organised, transparent and deep market ('quoted price' or 'market price').

When there is no market price for a particular financial asset or financial liability, the fair value is estimated 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 Group's main financial assets and financial liabilities are recognised on the accompanying consolidated 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	7	29,985,853	29,985,853	41,260,395	41,260,395
Financial assets held for trading	8,9,10	2,706,489	2,706,489	4,017,253	4,017,253
Non-trading financial assets mandatorily at fair value through profit or loss	8,9,11	153,178	153,178	77,421	77,421
Financial assets designated at fair value through profit or loss		—	—	—	—
Financial assets at fair value through other comprehensive income	9	6,269,297	6,269,297	5,802,264	5,802,264
Financial assets at amortised cost	8	180,913,793	175,310,626	185,045,452	178,139,213
Derivatives – Hedge accounting	12	2,424,598	2,424,598	3,072,091	3,072,091
Total assets		**222,453,208**	**216,850,041**	**239,274,876**	**232,368,637**

Thousand euro

	Note	2023		2022	
		Carrying amount	Fair value	Carrying amount	Fair value
Liabilities:					
Financial liabilities held for trading	10	2,867,459	2,867,459	3,598,483	3,598,483
Financial liabilities designated at fair value through profit or loss		—	—	—	—
Financial liabilities at amortised cost	18, 19, 20, 21	216,071,766	215,397,464	232,529,932	230,522,957
Derivatives – Hedge accounting	12	1,171,957	1,171,957	1,242,470	1,242,470
Total liabilities		**220,111,182**	**219,436,880**	**237,370,885**	**235,363,910**

Financial instruments at fair value

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

Thousand euro

	Note	2023			
		Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		142,495	2,563,994	—	2,706,489
Derivatives	10	—	2,563,994	—	2,563,994
Debt securities	8	142,495	—	—	142,495
Loans and advances – Customers		—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss		31,255	15,974	105,949	153,178
Equity instruments	9	18,398	14,840	19,098	52,336
Debt securities	8	12,857	1,134	51,753	65,744
Loans and advances	11	—	—	35,098	35,098
Financial assets at fair value through other comprehensive income		4,656,989	1,522,988	89,320	6,269,297
Equity instruments	9	582	130,441	52,915	183,938
Debt securities	8	4,656,407	1,392,547	36,405	6,085,359
Derivatives – Hedge accounting	12	—	2,424,598	—	2,424,598
Total assets		**4,830,739**	**6,527,554**	**195,269**	**11,553,562**

Thousand euro

	Note	2023 Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		337,373	2,530,086	—	2,867,459
Derivatives	10	—	2,530,086	—	2,530,086
Short positions		337,373	—	—	337,373
Derivatives – Hedge accounting	12	—	1,171,957	—	1,171,957
Total liabilities		**337,373**	**3,702,043**	**—**	**4,039,416**

Thousand euro

	Note	2022 Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		417,131	3,597,627	2,495	4,017,253
Derivatives	10	—	3,597,627	2,495	3,600,122
Debt securities	8	417,131	—	—	417,131
Loans and advances – Customers		—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss		14,861	10,428	52,132	77,421
Equity instruments	9	1,945	9,286	11,914	23,145
Debt securities	8	12,916	1,142	40,218	54,276
Financial assets at fair value through other comprehensive income		5,557,280	142,327	102,657	5,802,264
Equity instruments	9	631	122,400	56,541	179,572
Debt securities	8	5,556,649	19,927	46,116	5,622,692
Derivatives – Hedge accounting	12	—	3,062,111	9,980	3,072,091
Total assets		**5,989,272**	**6,812,493**	**167,264**	**12,969,029**

Thousand euro

	Note	2022 Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		224,447	3,374,036	—	3,598,483
Derivatives	10	—	3,374,036	—	3,374,036
Short positions		224,447	—	—	224,447
Derivatives – Hedge accounting	12	—	1,242,470	—	1,242,470
Total liabilities		**224,447**	**4,616,506**	**—**	**4,840,953**

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 5.87% of the total, and their adjustment for credit and debit risks represents 4.12% of their fair value as at 31 December 2023 (5.31% and 17.30%, 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 consolidated balance sheets, are shown below:

Thousand euro

	Assets	Liabilities
Balance as at 31 December 2021	**201,081**	**—**
Valuation adjustments recognised in profit or loss (*)	3,662	—
Valuation adjustments not recognised in profit or loss	10,115	—
Purchases, sales and write-offs	(44,502)	—
Net additions/removals in Level 3	(4,957)	—
Exchange differences and other	1,865	—
Balance as at 31 December 2022	**167,264**	**—**
Valuation adjustments recognised in profit or loss (*)	7,104	—
Valuation adjustments not recognised in profit or loss	(11,318)	—
Purchases, sales and write-offs	(1,184)	—
Net additions/removals in Level 3	(980)	—
Exchange differences and other	34,383	—
Balance as at 31 December 2023	**195,269**	**—**

(*) 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	—	—	—	—	5,500	—
Financial assets at fair value through other comprehensive income	687,365	4,520	—	—	—	—
Derivatives	—	—	—	—	—	—
Liabilities:						
Financial liabilities held for trading	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	—	—	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Total	**687,365**	**4,520**	**—**	**—**	**5,500**	**—**

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	—	—	—	429	4,465	920
Derivatives	—	—	—	—	—	—
Liabilities:						
Financial liabilities held for trading	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	—	—	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Total	**—**	**—**	**—**	**429**	**4,465**	**920**

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 during the year 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 2023 correspond to equity instruments that began to be traded on an active market.

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 consolidated balance sheets:

Thousand euro

	2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets at amortised cost:				
Debt securities	18,563,516	1,575,850	303,590	20,442,956
Loans and advances	—	20,952,925	133,914,744	154,867,669
Total assets	**18,563,516**	**22,528,775**	**134,218,334**	**175,310,625**

Thousand euro

	2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities:				
Financial liabilities at amortised cost (*):				
Deposits (**)	—	183,661,142	—	183,661,142
Debt securities issued	20,405,507	4,966,959	—	25,372,466
Total liabilities	**20,405,507**	**188,628,101**	**—**	**209,033,608**

(*) As at 31 December 2023, the Group had other financial liabilities amounting to 6,333,286 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	19,264,376	778,098	207,034	20,249,508
Loans and advances	2,776,939	20,211,002	134,901,764	157,889,705
Total assets	**22,041,315**	**20,989,100**	**135,108,798**	**178,139,213**

Thousand euro

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Liabilities:				
Financial liabilities at amortised cost (*)				
Deposits (**)	—	197,569,465	3,772,522	201,341,987
Debt securities issued	18,674,324	3,847,785	—	22,522,109
Total liabilities	**18,674,324**	**201,417,250**	**3,772,522**	**223,864,096**

(*) As at 31 December 2022, the Group had other financial liabilities amounting to 6,658,861 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 13, 15 and 17).

The selection criteria for appraisers and the update of appraisals are defined in the section on “Guarantees”, in Note 1.3.4. to these consolidated annual financial statements.

Valuation techniques are generally used by all appraisal companies based on 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 Group’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	—	567,229	—	567,229
Branches and offices, retail establishments and other real estate	—	879,689	—	879,689
Land and building plots	—	5,295	20,833	26,128
Work in progress	—	—	1,225	1,225
Total assets	**—**	**1,452,213**	**22,058**	**1,474,271**

Thousand euro

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Housing	—	672,441	—	672,441
Branches and offices, retail establishments and other real estate	—	943,251	—	943,251
Land and building plots	—	5,351	25,031	30,382
Work in progress	—	—	2,585	2,585
Total assets	**—**	**1,621,043**	**27,616**	**1,648,659**

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 Group'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, building plots and work in progress**
Balance as at 31 December 2021	**—**	**—**	**34,406**
Purchases	—	—	329
Sales	—	—	(5,084)
Impairments recognised on income statement (*)	—	—	(1,796)
Net additions/removals in Level 3	—	—	(239)
Balance as at 31 December 2022	**—**	**—**	**27,616**
Purchases	—	—	1,474
Sales	—	—	(3,951)
Impairments recognised on income statement (*)	—	—	(2,496)
Net additions/removals in Level 3	—	—	(585)
Balance as at 31 December 2023	**—**	**—**	**22,058**

(*) Relates to assets retained on the balance sheet as at 31 December 2023 and 2022.

The following table shows a comparison between the value at which real estate assets are recognised under the headings “Investment properties”, “Inventories” 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	15	307,074	(77,476)	229,598	282,727	383,975	(84,233)	299,742	354,375
Inventories	17	130,437	(68,093)	62,344	100,962	170,942	(77,107)	93,835	145,728
Non-current assets held for sale	13	708,051	(180,911)	527,140	814,946	721,078	(183,927)	537,151	854,546
Total		**1,145,562**	**(326,480)**	**819,082**	**1,198,635**	**1,275,995**	**(345,267)**	**930,728**	**1,354,649**

(*) Cost less accumulated depreciation.

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

Thousand euro

Appraisal firm	Investment properties	Inventories	Non-current assets held for sale
Afes Técnicas de Tasación, S.A.	185	—	4,550
Alia Tasaciones, S.A.	16,842	3,587	23,419
Arco Valoraciones, S.A.	—	—	912
CBRE Valuation Advisory, S.A.	25,912	5,335	30,385
Col.lectiu d'Arquitectes Taxadors	—	—	720
Cushman & Wakefield	—	—	271
Eurovaloraciones, S.A.	6,593	1,961	29,363
Gestión de Valoraciones y Tasaciones, S.A.	14	—	2,095
Gloval Valuation, S.A.U.	5,918	9,544	91,948
Ibertasa, S.A.	—	—	165
Krata, S.A.	—	—	41
Sociedad de Tasación, S.A.	19,307	11,790	176,052
Tecnitasa Técnicos en Tasación, S.A	269	107	6,467
Tinsa Tasaciones Inmobiliarias, S.A.	6,876	2,809	32,295
UVE Valoraciones, S.A.	81,672	9,425	38,094
Valoraciones Mediterráneo, S.A.	66,010	17,651	90,201
Other	—	135	162
Total	**229,598**	**62,344**	**527,140**

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

Note 7 – Cash, cash balances at central banks and other demand deposits

The composition of this asset heading on the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
By nature:		
Cash	726,122	686,258
Cash balances at central banks	28,566,694	39,236,780
Other demand deposits	693,037	1,337,357
Total	**29,985,853**	**41,260,395**
By currency:		
In euro	22,130,671	33,644,881
In foreign currency	7,855,182	7,615,514
Total	**29,985,853**	**41,260,395**

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 8 – Debt securities

Debt securities reported in the consolidated 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	65,744	54,276
Financial assets at fair value through other comprehensive income	6,085,359	5,622,692
Financial assets at amortised cost	21,500,927	21,452,820
Total	**27,794,525**	**27,546,919**
By nature:		
Central banks	—	—
General governments	26,250,576	27,099,465
Credit institutions	2,072,205	1,271,290
Other sectors	424,261	486,731
Stage 3 assets	899	73
Impairment allowances	(276)	(211)
Other valuation adjustments (interest, fees and commissions, other)	(953,140)	(1,310,429)
Total	**27,794,525**	**27,546,919**
By currency:		
In euro	22,699,264	23,210,490
In foreign currency	5,095,261	4,336,429
Total	**27,794,525**	**27,546,919**

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 11.

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	6,282,291	5,867,885
Fair value (*)	6,085,359	5,622,692
Accumulated losses recognised in equity	(269,215)	(298,718)
Accumulated capital gains recognised in equity	72,777	54,864
Value adjustments made for credit risk	(494)	(1,339)

(*) Includes net impairment losses in the consolidated income statements for 2023 and 2022, in the amount of 852 and -182 thousand euros, of which, -192 and -742 thousand euros correspond to allowances, and 1,044 and 560 thousand euros correspond to provision reversals, respectively (see Note 34).

Details of exposures held in public debt instruments included under the "Financial assets at fair value through other comprehensive income" heading, as at 31 December 2023 and 2022, are as follows:

Thousand euro

	2023	2022
Amortised cost	5,470,805	5,472,721
Fair value	5,242,996	5,226,075
Accumulated losses recognised in equity	(266,112)	(291,636)
Accumulated capital gains recognised in equity	38,433	45,097
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	19,950,179	20,295,771
Credit institutions	1,380,685	970,492
Other sectors	170,340	186,768
Impairment allowances	(277)	(211)
Total	**21,500,927**	**21,452,820**

Note 9 – Equity instruments

The balance of equity instruments on the consolidated balance sheets 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	52,336	23,145
Financial assets at fair value through other comprehensive income	183,938	179,572
Total	**236,274**	**202,717**
By nature:		
Resident sector	200,584	176,474
Credit institutions	9,408	8,484
Other	191,176	167,990
Non-resident sector	18,007	15,034
Other	18,007	15,034
Participations in investment vehicles	17,683	11,209
Total	**236,274**	**202,717**
By currency:		
In euro	235,549	202,189
In foreign currency	725	528
Total	**236,274**	**202,717**

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 Group investments in equity instruments included in the portfolio of "Financial assets at fair value through other comprehensive income" considered to be individually significant.

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

Thousand euro

	2023	2022
Acquisition cost	243,197	241,468
Fair value	183,938	179,572
Accumulated capital losses recognised in equity at reporting date	(146,586)	(146,236)
Accumulated capital gains recognised in equity at reporting date	87,327	84,340
Transfers of gains or losses within equity during the year	(925)	(6,799)
Recognised dividends from investments held at the end of the year	8,413	2,609

Note 10 – 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	3,472	14,807	14,807
Interest rate risk	2,063,411	2,167,508	2,954,325	2,943,405
Foreign exchange risk	367,282	229,322	552,656	340,033
Other types of risk	129,829	129,784	78,334	75,791
Total	**2,563,994**	**2,530,086**	**3,600,122**	**3,374,036**
By currency:				
In euro	1,417,104	1,214,618	2,060,859	1,740,524
In foreign currency	1,146,890	1,315,468	1,539,263	1,633,512
Total	**2,563,994**	**2,530,086**	**3,600,122**	**3,374,036**

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 Swap	2,138,207	2,940,879
Currency options	62,626	126,794
Interest rate options	55,012	85,552
Index and securities options	3,472	14,807
Currency forwards	304,656	425,861
Fixed income forwards	21	6,229
Total derivatives on asset side held for trading	**2,563,994**	**3,600,122**
Liabilities		
Swaps, CCIRS, Call Money Swap	2,262,684	2,984,512
Currency options	62,745	126,486
Interest rate options	34,586	33,640
Index and securities options	3,472	14,807
Currency forwards	166,578	213,547
Fixed income forwards	21	1,044
Total derivatives on liability side held for trading	**2,530,086**	**3,374,036**

As at 31 December 2023, the Group holds embedded derivatives that have been separated from their host contracts and recognised under the heading "Financial liabilities held for trading – Derivatives" of the consolidated balance sheet in the amount of 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 11 – Loans and advances

Central banks and Credit institutions

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

Thousand euro

	2023	2022
By heading:		
Financial assets at amortised cost	7,152,467	4,862,951
Total	**7,152,467**	**4,862,951**
By nature:		
Deposits with agreed maturity	974,533	1,055,449
Repos	5,601,564	3,255,069
Other	537,709	546,896
Impairment allowances	(3,135)	(2,777)
Other valuation adjustments (interest, fees and commissions, other)	41,796	8,314
Total	**7,152,467**	**4,862,951**
By currency:		
In euro	6,084,788	4,112,460
In foreign currency	1,067,679	750,491
Total	**7,152,467**	**4,862,951**

Customers

The breakdown of the heading “Loans and advances – Customers” (General governments and Other sectors) of the consolidated balance sheets 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	35,098	—
Financial assets at amortised cost	152,260,399	158,729,681
Total	**152,295,497**	**158,729,681**
By nature:		
Overdrafts, etc.	2,769,073	3,369,675
Commercial loans	7,465,119	7,489,183
Finance leases	2,236,140	2,226,514
Secured loans	91,226,348	92,751,597
Repos	17,413	—
Other term loans	46,136,443	50,293,284
Stage 3 assets	5,472,296	5,460,665
Impairment allowances	(3,198,969)	(3,020,279)
Other valuation adjustments (interest, fees and commissions, other) (*)	171,634	159,042
Total	**152,295,497**	**158,729,681**
By sector:		
General governments	8,957,524	10,072,272
Other sectors	140,893,012	146,057,981
Stage 3 assets	5,472,296	5,460,665
Impairment allowances	(3,198,969)	(3,020,279)
Other valuation adjustments (interest, fees and commissions, other) (*)	171,634	159,042
Total	**152,295,497**	**158,729,681**
By currency:		
In euro	97,824,215	102,483,739
In foreign currency	54,471,282	56,245,942
Total	**152,295,497**	**158,729,681**
By geographical area:		
Spain	93,868,665	98,957,073
Rest of European Union	5,045,047	4,680,628
United Kingdom	44,254,530	46,088,800
Americas	10,991,155	10,556,298
Rest of the world	1,335,069	1,467,161
Impairment allowances	(3,198,969)	(3,020,279)
Total	**152,295,497**	**158,729,681**

(*) Other valuation adjustments of financial assets classified as stage 3 amount to 37,236 thousand euros as at 31 December 2023 and 29,922 thousand euros as at 31 December 2022.

The “Loans and advances” heading on the consolidated balance sheets includes certain assets pledged in funding operations, i.e. assets pledged as collateral or guarantees with respect to certain liabilities. For further information, see the “Credit risk” section of Note 4.

Finance leases

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

Thousand euro

	2023	2022
Finance leases		
Total gross investment	2,477,207	2,410,412
Impairment allowances	(96,444)	(98,827)
Interest income	71,932	51,607

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	2,318,548	2,255,402
Residual value	158,659	155,010
Gross investment in the lease	**2,477,207**	**2,410,412**
Unearned financial income	(241,067)	(183,898)
Net investment in the lease	**2,236,140**	**2,226,514**

The table below shows a breakdown, by term, of the minimum undiscounted future amounts receivable by the Group 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
Up to 1 year	596,371	502,389
1-2 years	549,969	528,719
2-3 years	388,839	398,780
3-4 years	258,360	264,057
4-5 years	168,571	171,803
More than 5 years	356,438	389,654
Total	**2,318,548**	**2,255,402**

Past-due financial assets

The balance of “Loans and advances – Customers” past-due and pending collection not classified as stage 3 amounted to 343,472 thousand euros as at 31 December 2023 (298,466 thousand euros as at 31 December 2022). Of this total, over 81% of the balance as at 31 December 2023 (74% 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 financial assets, not considering valuation adjustments, classified on the basis of their credit risk as at 31 December 2023 and 2022 is as follows:

Thousand euro

Stage 1	**31/12/2023**	**31/12/2022**
Debt securities	28,747,042	28,808,314
Loans and advances	145,291,906	147,334,819
Customers	138,178,496	142,483,973
Central banks and Credit institutions	7,113,410	4,850,846
Total stage 1	**174,038,948**	**176,143,133**
By sector:		
General governments	35,196,900	37,166,529
Central banks and Credit institutions	9,185,616	6,122,136
Other private sectors	129,656,433	132,854,468
Total stage 1	**174,038,948**	**176,143,133**
Stage 2		
Debt securities	—	49,173
Loans and advances	11,672,436	13,652,848
Customers	11,672,041	13,646,280
Central banks and Credit institutions	396	6,568
Total stage 2	**11,672,436**	**13,702,021**
By sector:		
General governments	11,200	5,207
Central banks and Credit institutions	396	6,568
Other private sectors	11,660,840	13,690,246
Total stage 2	**11,672,436**	**13,702,021**
Stage 3		
Debt securities	899	73
Loans and advances	5,472,297	5,460,665
Customers	5,472,296	5,460,665
Central banks and Credit institutions	—	—
Total stage 3	**5,473,196**	**5,460,738**
By sector:		
General governments	802	8,122
Central banks and Credit institutions	—	—
Other private sectors	5,472,394	5,452,615
Total stage 3	**5,473,196**	**5,460,738**
Total stages	**191,184,580**	**195,305,892**

Movements of gross values, not considering valuation adjustments, of assets subject to impairment by the Group 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	**171,339,270**	**12,326,943**	**5,698,151**	***159,766***	**189,364,364**
Transfers between stages	(5,077,901)	3,536,810	1,541,091	—	—
Stage 1	7,237,830	(7,067,385)	(170,445)	—	—
Stage 2	(11,912,792)	12,560,731	(647,939)	—	—
Stage 3	(402,939)	(1,956,536)	2,359,475	—	—
Increases	64,002,931	1,245,295	447,319	*9,473*	65,695,545
Decreases	(52,904,809)	(3,217,206)	(1,778,439)	*(39,602)*	(57,900,454)
Transfers to write-offs	(319)	(817)	(419,658)	*881*	(420,794)
Adjustments for exchange differences	(1,216,039)	(189,004)	(27,726)	*(7,334)*	(1,432,769)
Balance as at 31 December 2022	**176,143,133**	**13,702,021**	**5,460,738**	***123,184***	**195,305,892**
Transfers between stages	(1,511,186)	191,372	1,319,814	—	—
Stage 1	9,046,690	(8,772,531)	(274,159)	—	—
Stage 2	(10,249,989)	10,797,954	(547,965)	—	—
Stage 3	(307,887)	(1,834,051)	2,141,938	—	—
Increases	50,604,996	1,489,365	448,084	*5,389*	52,542,445
Decreases	(52,266,707)	(3,814,228)	(1,387,800)	*(21,945)*	(57,468,735)
Transfers to write-offs	—	—	(386,109)	—	(386,109)
Adjustments for exchange differences	1,068,712	103,906	18,469	*2,505*	1,191,087
Balance as at 31 December 2023	**174,038,948**	**11,672,436**	**5,473,196**	***109,133***	**191,184,580**

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

Thousand euro

	31/12/2023	**31/12/2022**
Secured with a mortgage (*)	2,215,559	2,347,550
Of which: Stage 3 financial assets with guarantees covering all of the risk	*1,429,856*	*1,571,003*
Other collateral (**)	276,082	339,516
Of which: Stage 3 financial assets with guarantees covering all of the risk	*114,222*	*166,371*
Other	2,981,555	2,773,672
Total	**5,473,196**	**5,460,738**

(*) 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

	31/12/2023	**31/12/2022**
Spain	4,141,559	4,216,505
Rest of European Union	450,006	456,072
United Kingdom	656,821	593,793
Americas	199,622	165,292
Rest of the world	25,188	29,076
Total	**5,473,196**	**5,460,738**

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	**5,929,842**
Additions	**579,122**
Use of accumulated impairment balance	399,682
Directly recognised on income statement	21,112
Contractually payable interests	155,795
Other items	2,533
Disposals	**(645,432)**
Collections of principal in cash from counterparties	(51,936)
Collections of interest in cash from counterparties	(2,188)
Debt forgiveness	(22,771)
Expiry of statute-of-limitations period	—
Forbearance	—
Sales	(468,369)
Foreclosure of tangible assets	(857)
Other items	(99,311)
Exchange differences	**(15,583)**
Balance as at 31 December 2022	**5,847,949**
Additions	**552,439**
Use of accumulated impairment balance	362,984
Directly recognised on income statement	23,125
Contractually payable interests	166,330
Other items	—
Disposals	**(193,768)**
Collections of principal in cash from counterparties	(47,446)
Collections of interest in cash from counterparties	(1,079)
Debt forgiveness	(55,234)
Expiry of statute-of-limitations period	—
Forbearance	—
Sales	(25,394)
Foreclosure of tangible assets	(694)
Other items	(63,921)
Exchange differences	**13,698**
Balance as at 31 December 2023	**6,220,318**

Allowances

Financial asset impairment allowances, broken down by consolidated balance sheet heading, classified according to their credit risk as at 31 December 2023 and 2022 were as follows:

Thousand euro

Stage 1	**2023**	**2022**
Debt securities	276	211
Loans and advances	372,373	347,269
Central banks and Credit institutions	2,752	2,773
Customers	369,621	344,496
Total stage 1	**372,649**	**347,480**
Stage 2		
Debt securities	—	—
Loans and advances	470,529	479,941
Central banks and Credit institutions	383	4
Customers	470,146	479,937
Total stage 2	**470,529**	**479,941**
Stage 3		
Debt securities	—	—
Loans and advances	2,359,203	2,195,845
Central banks and Credit institutions	—	—
Customers	2,359,202	2,195,845
Total stage 3	**2,359,203**	**2,195,845**
Total stages	**3,202,381**	**3,023,266**

The movement of impairment allowances allocated by the Group to cover credit risk during 2023 and 2022 was 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	**2,595**	**548,461**	**377,703**	**491,438**	**1,883,898**	**3,304,096**
Movements reflected in impairment gains/(losses) (*)	**2,256**	**65,735**	**42,051**	**136,575**	**512,023**	**758,640**
Increases due to origination	—	—	267,330	—	—	267,330
Changes due to credit risk variance	4,841	88,109	(68,080)	158,783	521,049	704,702
Changes in calculation approach	—	—	—	—	—	—
Other movements	(2,585)	(22,374)	(157,199)	(22,208)	(9,026)	(213,392)
Movements not reflected in impairment gains/(losses)	**4,830**	**(60,100)**	**(72,352)**	**(153,318)**	**(749,124)**	**(1,030,064)**
Transfers between stages	4,830	6,202	(57,503)	(142,731)	189,202	—
Stage 1	(171)	(246)	98,181	(80,660)	(17,104)	—
Stage 2	9,782	(5,805)	(139,268)	209,346	(74,055)	—
Stage 3	(4,781)	12,253	(16,416)	(271,417)	280,361	—
Utilisation of allocated provisions	—	(91,556)	(39)	(82)	(922,192)	(1,013,869)
Other movements (**)	—	25,254	(14,810)	(10,505)	(16,134)	(16,195)
Adjustments for exchange differences	**29**	**902**	**78**	**(4,463)**	**(5,951)**	**(9,405)**
Balance as at 31 December 2022	**9,710**	**554,998**	**347,480**	**470,232**	**1,640,846**	**3,023,266**
Scope additions / exclusions						
Movements reflected in impairment gains/(losses) (*)	**(1,840)**	**68,586**	**69,867**	**124,296**	**459,570**	**720,479**
Increases due to origination	—	—	358,591	—	—	358,591
Changes due to credit risk variance	(2,301)	70,273	(61,521)	118,121	407,292	531,864
Changes in calculation approach	—	—	—	—	—	—
Other movements	461	(1,687)	(227,203)	6,175	52,278	(169,976)
Movements not reflected in impairment gains/(losses)	**3,901**	**(124,279)**	**(48,729)**	**(139,818)**	**(244,663)**	**(553,588)**
Transfers between stages	3,901	4,850	(48,109)	(137,732)	177,087	—
Stage 1	(530)	158	71,895	(69,050)	(2,474)	—
Stage 2	9,255	(10,993)	(111,887)	173,776	(60,152)	—
Stage 3	(4,824)	15,685	(8,117)	(242,458)	239,713	—
Utilisation of allocated provisions	—	(113,894)	(81)	(1,845)	(397,770)	(513,590)
Other movements (**)	—	(15,235)	(539)	(241)	(23,980)	(39,995)
Adjustments for exchange differences	**15**	**778**	**4,032**	**4,033**	**3,366**	**12,224**
Balance as at 31 December 2023	**11,786**	**500,083**	**372,650**	**458,743**	**1,859,119**	**3,202,381**

(*) 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 or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains' (see Note 34).

(**) 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	2,566,179	2,489,789
Rest of European Union	171,176	121,016
United Kingdom	283,907	253,629
Americas	167,230	145,458
Rest of the world	13,889	13,374
Total	**3,202,381**	**3,023,266**

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:

Group			
	Change in the variable (*)	Impact on expected loss	
		Corporates	Individuals
GDP growth deviation	-100 pb	5.3%	2.1%
	+100 pb	(4.6)%	(1.9)%
Unemployment rate deviation	+100 pb	1.9%	2.9%
	-100 pb	(1.8)%	(2.2)%
House price growth deviation	-100 pb	0.7%	1.1%
	+100 pb	(0.6)%	(1.0)%

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)%

United Kingdom		
	Change in the variable (*)	Impact on expected loss
		Individuals
Unemployment rate deviation (**)	+100 pb	9.1%
	-100 pb	(6.4)%
House price growth deviation	-100 pb	0.4%
	+100 pb	(0.4)%

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

(**) Changes to macroeconomic variables are applied in absolute terms. In the scenario of a change to the UK unemployment rate, a deviation of +/- 100 bp represents the relative value of a deviation from the macroeconomic variable more than two times greater than in Spain.

Note 12 – Derivatives - hedge accounting

Hedging management

The main hedges arranged by the Group are described below:

Interest rate risk hedge

Based on the balance sheet position and the market situation and outlooks, interest rate risk mitigation strategies are proposed and agreed upon to adapt that position to the one desired by the Group. With this aim in mind, the Group 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 Group to evaluate its effectiveness.

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

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

  The main types of balance sheet items hedged are:

  - Fixed-rate loans included in the lending portfolio.
  - Debt securities included in the portfolio of “Financial assets at fair value through other comprehensive income” and the portfolio of “Financial assets at amortised cost”.
  - Fixed-rate liabilities, including fixed-term deposits and the Institution’s funding operations in capital markets.

  Banco Sabadell generally uses macro-hedging for balance sheet items, both assets and liabilities, while TSB uses macro-hedging for fixed-rate loans or deposits and micro-hedging for debt securities or the Bank’s funding operations in capital markets, for which derivative contracts are arranged, typically for a nominal amount identical to that of the hedged item and with the same financial characteristics.

  If the hedge relates to assets, the Group 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.

  Banco Sabadell generally uses macro-hedging for balance sheet items, both assets and liabilities, while TSB also uses micro-hedging for floating-rate issues of its own-name securities, for which derivative contracts are arranged, typically for a nominal amount identical to that of the hedged item and with the same financial characteristics.

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

Hedges of net investment in foreign operations

The positions of subsidiaries and foreign branches implicitly entail exposure to foreign exchange risk, which is managed by creating hedges through the use of forward contracts and options.

The maturities of these instruments are periodically renewed on the basis of prudential and forward-looking criteria.

2023 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	**11,305,664**	**812,117**	**246,705**	**8,353,601**	**831,005**	**207,837**
Foreign exchange risk	—	—	—	—	—	—
Of liability-side transactions	—	—	—	—	—	—
Of permanent investments	—	—	—	—	—	—
Of non-monetary items	—	—	—	—	—	—
Interest rate risk	3,131,379	764,450	27,988	4,121,267	790,860	32,908
Of liability-side transactions (A)	*686,434*	*912*	*23,990*	*65,304*	—	*5,532*
Of asset-side transactions (B)	*2,444,945*	*763,538*	*3,998*	*4,055,963*	*790,860*	*27,376*
Equity risk	8,174,285	47,667	218,717	4,232,334	40,145	174,929
Of liability-side transactions (A)	*8,174,285*	*47,667*	*218,717*	*4,232,334*	*40,145*	*174,929*
Cash flow hedges	**2,749,498**	**104,510**	**24,886**	**5,153,957**	**172,117**	**134,543**
Foreign exchange risk	—	—	—	—	—	—
Of non-monetary items	—	—	—	—	—	—
Interest rate risk	1,993,010	99,229	4,091	3,915,860	162,137	3,875
Of future transactions (C)	—	—	—	*332,674*	*11,466*	*1,733*
Of liability-side transactions (A)	*875,071*	*97,768*	*4,088*	*1,155,712*	*147,454*	*1,201*
Of securitisation transactions (D)	*1,117,939*	*1,461*	*3*	*2,427,474*	*3,217*	*941*
Other	—	—	—	—	—	—
Equity risk	31,380	258	9	63,980	—	640
Of liability-side transactions (E)	*31,380*	*258*	*9*	*63,980*	—	*640*
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 (C)	*108*	—	—	*117*	*9,980*	—
Hedge of net investment in foreign operations	**1,343,425**	**16,867**	**4,910**	**1,217,579**	**31,352**	**—**
Foreign exchange risk (G)	*1,343,425*	*16,867*	*4,910*	*1,217,579*	*31,352*	—
Macrohedges:						
Fair value hedges	**48,904,105**	**1,484,180**	**864,880**	**39,183,746**	**2,037,523**	**898,400**
Interest rate risk	48,904,105	1,484,180	864,880	39,183,746	2,037,523	898,400
For funding operations (H)	*19,619,340*	*138,287*	*581,242*	*15,428,947*	*14,607*	*882,905*
For lending operations (I)	*29,284,765*	*1,345,893*	*283,638*	*23,754,799*	*2,022,916*	*15,495*
Cash flow hedges	**9,800,000**	**6,924**	**30,576**	**2,050,000**	**94**	**1,690**
Interest rate risk	9,800,000	6,924	30,576	2,050,000	94	1,690
Of liability-side transactions	—	—	—	—	—	—
Of asset-side transactions (J)	*9,800,000*	*6,924*	*30,576*	*2,050,000*	*94*	*1,690*
Total	**74,102,692**	**2,424,598**	**1,171,957**	**55,958,883**	**3,072,091**	**1,242,470**
By currency:						
In euro	*40,869,593*	*872,897*	*831,600*	28,752,613	1,303,596	935,274
In foreign currency	*33,233,099*	*1,551,701*	*340,357*	27,206,270	1,768,495	307,196
Total	**74,102,692**	**2,424,598**	**1,171,957**	**55,958,883**	**3,072,091**	**1,242,470**

The types of hedges according to their composition that are identified in the table are as follows:

A. Micro-hedges of interest rate risk on the Institution's funding operations in capital markets and transactions involving structured term deposits opened by customers, recognised under the heading "Financial liabilities at amortised cost".

B. 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 headings "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost". As at 31 December 2023, the hedge of transactions involving loans granted to customers was no longer in effect.

C. Micro-hedges of 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.

D. Micro-hedging operations carried out by the Group's securitisation funds.

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 Group has arranged financial swaps to hedge future changes in cash flows that will be settled by inflation-linked bonds.

G. Hedges against foreign exchange risk on permanent investments currently cover 393 million pounds sterling and 8,553 million Mexican pesos corresponding to interests held in Group entities (333 million pounds sterling and 9,253 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). All of these hedges are arranged through currency forwards.

H. Macro-hedges of the Institution's funding operations in capital markets and transactions involving term deposits and demand deposits arranged by customers recognised under the heading "Financial liabilities at amortised cost".

I. 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".

J. 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 Group 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	22,435	—	—	**1,343,425**
Interest rate risk	586,848	3,898,997	14,262,726	28,693,797	16,386,126	**63,828,494**
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	**1,311,185**	**4,774,581**	**17,094,165**	**34,325,147**	**16,597,614**	**74,102,692**

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	20,141	—	—	**1,217,579**
Interest rate risk	1,114,907	1,535,196	6,092,608	22,276,713	18,251,449	**49,270,873**
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	**1,635,101**	**2,363,219**	**6,970,097**	**26,015,911**	**18,974,555**	**55,958,883**

In 2023 and 2022 there were no reclassifications from equity to the consolidated income statement due to cash flow hedges and hedges of net investments in foreign operations for transactions that were ultimately not executed.

The following table shows the accounting information of items covered by the fair value micro-hedges arranged by the Group:

Thousand euro

	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	—	—	—	—	—
Interest rate risk	2,277,611	344,500	(834,132)	(26,400)	(620)
Equity risk	—	4,052,256	—	(17,108)	—
Total	**2,277,611**	**4,396,756**	**(834,132)**	**(43,508)**	**(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	—	—	—	—	—
Interest rate risk	3,783,282	322,472	(538,313)	(40,517)	(76)
Equity risk	—	2,040,966	—	(92,318)	—
Total	**3,783,282**	**2,363,438**	**(538,313)**	**(132,835)**	**(76)**

In terms of fair value macro-hedges, the carrying amount of the hedged items recognised in assets and liabilities for 2023 amounted to 66,138,396 thousand euros and 44,657,503 thousand euros, respectively (78,804,701 thousand euros and 52,078,774 thousand euros in 2022, respectively). Similarly, fair value adjustments of the hedged asset and liability items in the portfolio hedge of interest rate risk amounted to -567,608 thousand euros and -422,347 thousand euros as at 31 December 2023, respectively (-1,545,607 thousand euros and -959,106 thousand euros as at 31 December 2022).

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
Micro-hedges	**(331,922)**	**64,566**	**596,080**	**(599,425)**
Fixed-rate assets	(352,997)	85,530	735,627	(739,915)
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
Macro-hedges	**(289,542)**	**575,855**	**1,126,218**	**(1,104,218)**
Capital markets and fixed-rate liabilities	535,919	(548,298)	(982,993)	990,659
Fixed-rate assets	(825,461)	1,124,153	2,109,211	(2,094,877)
Total	**(621,464)**	**640,421**	**1,722,298**	**(1,703,643)**

In cash flow hedges, the amounts recognised in the consolidated statement of equity during the year and the amounts derecognised from consolidated equity and included in profit and loss during the year are indicated in the consolidated statement of total changes in equity.

The ineffectiveness of cash flow hedges recognised in profit or loss for 2023 amounted to losses of 6,763 thousand euros (losses of 804 thousand euros in 2022).

As at 31 December 2023, the Group holds embedded derivatives that have been separated from their host contracts and recognised under the headings “Derivatives – Hedge accounting” on the asset side and on the liabilities side of the consolidated 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 13 – Non-current assets and disposal groups classified as held for sale

The composition of this heading in the consolidated balance sheets as at 31 December 2023 and 2022 was as follows:

Thousand euro

	2023	2022
Assets	**991,045**	**951,792**
Loans and advances	6,328	10,337
Customers	6,328	10,337
Equity instruments	159,748	159,748
Real estate exposure	708,051	777,108
Tangible assets for own use	49,432	56,030
Foreclosed assets	658,619	721,078
Other tangible assets	103,864	—
Rest of other assets	13,054	4,599
Impairment allowances	**(220,167)**	**(213,479)**
Non-current assets and disposal groups classified as held for sale	**770,878**	**738,313**
Liabilities	**13,347**	
Financial liabilities at amortised cost	12,682	—
Tax liabilities	665	—
Liabilities included in disposal groups classified as held for sale	**13,347**	**—**

Tangible assets for own use relate mainly to commercial premises.

Regarding real estate assets obtained through foreclosures, 94.37% of the balance corresponds to residential properties, 5.18% 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 (53 months in 2022). The policies on the sale or disposal by other means of these assets are described in Note 4.4.2.1.

The percentage of foreclosed assets sold with financing granted to the buyer 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).

This heading includes the amounts of assets linked to the strategic agreement signed with Nexi S.p.A. in relation to the merchant acquiring business. These assets have been reclassified as “Non-current assets and disposal groups classified as held for sale” and will remain so until the transaction is fully closed (see Note 2).

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:		
Balances as at 31 December 2021		**998,210**
Additions		63,908
Disposals		(114,227)
Transfer of credit losses (*)		(16,195)
Other transfers/reclassifications		20,096
Balances as at 31 December 2022		**951,792**
Additions		171,503
Disposals		(302,164)
Transfer of credit losses (*)		(11,620)
Other transfers/reclassifications		181,534
Balances as at 31 December 2023		**991,045**
Impairment allowances:		
Balances as at 31 December 2021		**220,175**
Impairment through profit or loss	37	48,966
Reversal of impairment through profit or loss	37	(45,542)
Utilisations		(26,170)
Other transfers/reclassifications		16,050
Balances as at 31 December 2022		**213,479**
Impairment through profit or loss	37	56,629
Reversal of impairment through profit or loss	37	(22,317)
Utilisations		(56,997)
Other transfers/reclassifications		29,373
Balances as at 31 December 2023		**220,167**
Net balances as at 31 December 2022		**738,313**
Net balances as at 31 December 2023		**770,878**

(*) 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	15	136,614	(5,941)
Intangible assets	16	8,499	—
Other assets		—	—
Inventories		—	—
Equity interests		—	—
Other		1,381	(166)
Total		**152,161**	**4,046**

Note 14 – Investments in joint ventures and associates

Movements in this heading of the consolidated balance sheets during the financial years 2023 and 2022 were as follows:

Thousand euro

Balance as at 31 December 2021	**638,782**
Profit/(loss) for the year	122,167
Acquisition or capital increase (*)	1,747
Sale or dissolution	(49,972)
Dividends	(151,818)
Impairment, allowances, translation differences and other	(45,661)
IFRS 17 restatement impact (**)	(138,305)
Balance as at 31 December 2022	**376,940**
Profit/(loss) for the year	122,807
Acquisition or capital increase (*)	1,356
Dividends	(28,669)
Impairment, allowances, translation differences and other	(9,678)
Balance as at 31 December 2023	**462,756**

(*) See consolidated cash flow statement.

(**) See Note 1.4.

The section of the cash flow statement entitled "Investing activities – Collections from investments in joint ventures and associates" shows an amount of 28,669 thousand euros, which corresponds to dividends received. On the other hand, the section "Investing activities – Payments for investments in joint ventures and associates" of that statement shows an amount of 1,356 thousand euros corresponding to the acquisitions and capital increases carried out in 2023.

The main investee companies included in the accounts for the first time and those no longer included in 2023 y 2022 are indicated in Schedule I.

As at 31 December 2023 and 2022, no support agreements or other type of significant contractual commitment had been provided by the Bank or its subsidiaries to associates.

The reconciliation between the Group's investment in investees and the balance recorded under the heading "Investments in joint ventures and associates" is as follows:

Thousand euro

	2023	2022 (*)
Group investment in associates (Schedule I)	219,544	220,505
Contributions due to retained earnings	239,000	143,636
Value adjustments and other	4,212	12,799
Total	**462,756**	**376,940**

(*) See Note 1.4.

Set out below are the most relevant financial data of the associate BanSabadell Vida, S.A. as at 31 December 2023 and 2022, through which the Bank extends its customer offer via the distribution of insurance products through its branch network:

Thousand euro

	BanSabadell Vida (*)	
	2023	**2022**
Total assets	9,556,627	8,808,926
Of which: financial investments	*8,510,475*	*7,802,671*
Total liabilities	8,837,988	8,209,481
Of which: technical provisions	*9,037,426*	*8,561,133*
Profit/(loss) of Vida's technical account	136,313	125,764
Of which: premiums earned during the year	*2,511,257*	*1,053,473*
Of which: claims paid during the year	*(1,963,876)*	*(1,276,160)*
Of which: technical financial yield	*211,763*	*155,337*

(*) Figures taken from BanSabadell Vida accounts without taking into consideration consolidation adjustments or the Group's percentage holding.

As at 31 December 2023 and 2022, the carrying amount of the investment in BanSabadell Vida, S.A. amounted to 210,941 thousand euros and 126,978 thousand euros, respectively. Furthermore, as at these dates, the aggregate carrying amount of investments in associates not considered individually significant was 251,815 thousand euros and 249,962 thousand euros, respectively.

Note 15 – Tangible assets

The composition of this heading in the consolidated 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	**3,930,317**	**(1,818,023)**	**(45,188)**	**2,067,106**	**4,082,057**	**(1,754,760)**	**(45,248)**	**2,282,049**
For own use:	3,907,505	(1,804,259)	(45,188)	2,058,058	4,061,108	(1,743,155)	(45,248)	2,272,705
Computer equipment and related facilities	587,570	(415,704)	—	171,866	727,049	(483,483)	—	243,566
Furniture, vehicles and other facilities	935,347	(590,146)	—	345,201	956,696	(572,885)	—	383,811
Buildings	2,329,727	(789,168)	(45,188)	1,495,371	2,258,790	(675,671)	(45,248)	1,537,871
Work in progress	19,011	—	—	19,011	31,501	—	—	31,501
Other	35,850	(9,241)	—	26,609	87,072	(11,116)	—	75,956
Leased out under operating leases	22,812	(13,764)	—	9,048	20,949	(11,605)	—	9,344
Investment properties	**369,376**	**(62,302)**	**(77,476)**	**229,598**	**438,398**	**(54,423)**	**(84,233)**	**299,742**
Buildings	369,376	(62,302)	(77,476)	229,598	438,004	(54,423)	(83,922)	299,659
Rural property, plots and sites	—	—	—	—	394	—	(311)	83
Total	**4,299,693**	**(1,880,325)**	**(122,664)**	**2,296,704**	**4,520,455**	**(1,809,183)**	**(129,481)**	**2,581,791**

Movements in the balance under this heading during 2023 and 2022 were as follows:

Thousand euro

	Note	Own use - Buildings, work in progress and other	Own use - Computer equipment, furniture and related facilities	Investment properties	Leased out under operating leases	Total
Cost:						
Balances as at 31 December 2021		**2,452,478**	**1,715,625**	**504,952**	**5,380**	**4,678,432**
Additions		99,878	123,020	190	15,852	238,940
Disposals		(79,904)	(156,271)	(111,219)	—	(347,394)
Transfers		(68,553)	6,077	44,477	—	(17,999)
Exchange rate		(26,536)	(4,704)	—	(283)	(31,523)
Balances as at 31 December 2022		**2,377,363**	**1,683,747**	**438,400**	**20,949**	**4,520,456**
Additions		113,393	121,534	62	1,431	236,420
Disposals		(86,630)	(61,866)	(61,062)	—	(209,558)
Transfers		(29,137)	(223,188)	(8,024)	—	(260,349)
Exchange rate		9,599	2,693	—	432	12,724
Balances as at 31 December 2023		**2,384,588**	**1,522,920**	**369,376**	**22,812**	**4,299,693**
Accumulated depreciation:						
Balances as at 31 December 2021		**633,494**	**1,070,034**	**54,308**	**2,587**	**1,760,423**
Additions		129,684	137,613	9,616	9,514	286,427
Disposals		(56,639)	(149,642)	(11,937)	—	(218,218)
Transfers		(10,436)	1,387	2,436	—	(6,613)
Exchange rate		(9,317)	(3,023)	—	(496)	(12,836)
Balances as at 31 December 2022		**686,786**	**1,056,369**	**54,423**	**11,605**	**1,809,183**
Additions		137,953	113,267	9,366	1,916	262,502
Disposals		(22,813)	(42,028)	(5,411)	—	(70,252)
Transfers		(7,075)	(123,090)	3,924	—	(126,241)
Exchange rate		3,558	1,332	—	243	5,133
Balances as at 31 December 2023		**798,409**	**1,005,850**	**62,302**	**13,764**	**1,880,325**
Impairment losses:						
Balances as at 31 December 2021		**69,877**	**—**	**71,375**	**—**	**141,251**
Impairment through profit or loss	35	2,078	—	58,163	—	60,241
Reversal of impairment through profit or loss	35	(162)	—	(22,981)	—	(23,143)
Utilisations		(4,596)	—	(34,407)	—	(39,003)
Transfers		(21,948)	—	12,084	—	(9,864)
Balances as at 31 December 2022		**45,249**	**—**	**84,234**	**—**	**129,482**
Impairment through profit or loss	35	3,319	—	17,053	—	20,372
Reversal of impairment through profit or loss	35	(1,389)	—	(7,457)	—	(8,846)
Utilisations		—	—	(20,271)	—	(20,271)
Transfers		(1,990)	—	3,917	—	1,927
Balances as at 31 December 2023		**45,189**	**—**	**77,476**	**—**	**122,664**
Net balances as at 31 December 2022		**1,645,329**	**627,378**	**299,742**	**9,344**	**2,581,791**
Net balances as at 31 December 2023		**1,540,991**	**517,070**	**229,597**	**9,048**	**2,296,704**

The net carrying amount of "Transfers" in 2023 was -136,035 thousand euros (-1,522 thousand euros in 2022), of which 579 thousand euros (-7,463 thousand euros in 2022) correspond to reclassifications from the heading "Inventories" (see Note 17) and -136,614 thousand euros (5,941 thousand euros in 2022) to reclassifications of assets from or to the heading "Non-current assets and disposal groups classified as held for sale" (see Note 13).

Specific information relating to tangible assets as at 31 December 2023 and 2022 is shown hereafter:

Thousand euro

	2023	2022
Gross value of tangible assets for own use in use and fully depreciated	572,004	440,137
Net carrying amount of tangible assets of foreign operations	302,192	369,759

Lease contracts in which the Group 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 Group acts as lessee, in the amount of 1,359,188 thousand euros, which have accumulated depreciation of 486,883 thousand euros and are impaired in the amount of 40,026 thousand euros as at the aforesaid date (1,293,944 thousand euros as at 31 December 2022, which had accumulated depreciation of 396,041 thousand euros and were impaired in the amount of 38,657 thousand euros as at that date).

The expense recognised in the consolidated income statement for 2023 for the depreciation and impairment of right-of-use assets corresponding to leased tangible assets in which the Group acts as lessee amounted to 94,454 thousand euros and 1,369 thousand euros, respectively (96,017 thousand euros and 1,991 thousand euros, respectively, in 2022).

Information is set out below concerning the lease contracts in which the Group acts as lessee:

Thousand euro

	2023	2022
Interest expense on lease liabilities	(16,910)	(15,347)
Expense related to short-term low-value leases (*)	(11,793)	(11,592)
Total lease payments in cash (**)	106,577	110,950

(*) Recognised in the "Administrative expenses" heading, in the item on "Of property, plant and equipment" (see Note 33).

(**) Payments of the principal and interest components of the lease liability are recognised as cash flows from financing activities in the Group's consolidated cash flow statement.

The future cash outflows to which the Group may potentially be exposed as lessee and which are not included under lease liabilities are not significant.

Minimum future payments over the non-cancellable period for lease contracts in effect as at 31 December 2023 and 2022 are indicated below:

Thousand euro

	2023	2022
Undiscounted lease payments receivable		
Up to 1 month	7,424	1,348
1 to 3 months	18,825	25,356
3 to 12 months	75,693	76,513
1 to 5 years	351,045	352,018
More than 5 years	516,939	511,547

Sale and leaseback transactions

Between 2009 and 2012, the Group completed transactions for the sale of properties and simultaneously entered into a lease contract, for the same properties, with the buyers (maintenance, insurance and taxes to be borne by the Bank). The main characteristics of the most significant lease contracts in effect as at the end of 2023 are as follows:

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.

Contracts in which the Group acts as lessor

The lease contracts entered into by the Group in which it acts as lessor are mainly operating leases.

The Group implements strategies to reduce risks related to the rights held over the underlying assets. For example, the lease contracts include clauses which stipulate a minimum non-cancellable lease term, a deposit which the lessor may retain as compensation if the asset sustains excessive wear during the lease term, and additional guarantees or sureties to limit losses in the event of non-payment.

As regards the investment properties item, the rental income from these investment properties and the direct costs associated with the investment properties that produced rental income during 2023 amounted to 22,850 thousand euros and 9,908 thousand euros, respectively (23,474 thousand euros and 9,768 thousand euros in 2022). Direct costs associated with investment properties that did not produce rental income were not significant in the context of the consolidated annual financial statements.

Note 16 – Intangible assets

The composition of this heading in the consolidated balance sheets as at 31 December 2023 and 2022 was as follows:

Thousand euro

	2023	2022
Goodwill:	**1,018,311**	**1,026,810**
Banco Urquijo	473,837	473,837
Grupo Banco Guipuzcoano	285,345	285,345
From acquisition of Banco BMN Penedés assets	245,364	245,364
Other	13,765	22,264
Other intangible assets:	**1,464,763**	**1,457,352**
With a finite useful life:	1,464,763	1,457,352
Private Banking Business, Miami	1,825	4,925
Contractual relations with TSB customers and brand	17,509	39,783
Computer software	1,444,408	1,411,516
Other	1,021	1,128
Total	**2,483,074**	**2,484,162**

Goodwill

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.

The main transactions that generated goodwill were the acquisition of Banco Urquijo in 2006, of Banco Guipuzcoano in 2010 and of certain assets of BMN-Penedès in 2013.

Banco Sabadell Group monitors the Group’s total goodwill across the ensemble of Cash-Generating Units (CGUs) that make up the Banking Business Spain operating segment. In addition, the Group considers that the United Kingdom operating segment is a CGU.

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 is no evidence 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.

Contractual relations with TSB customers and brand

Intangible assets associated with the acquisition of TSB include the value of the contractual rights arising from customer relationships taken over from TSB for core deposits, initially estimated at 353,620 thousand euros. This asset is amortised over a period of 8 years. These intangible assets were valued by calculating the value in use based on the income approach (discounted cash flows) with the multi-period excess earnings method. To determine whether there was any evidence of impairment, the balance of deposits currently in TSB linked to existing customers at the time of its acquisition by the Bank was compared against the estimated balance that those customers would have at the end of 2023, forecast at the time of the initial valuation. Based on this comparison, it was concluded that there was no evidence of any impairment. As at 31 December 2023, contractual relationships with TSB customers were fully amortised (as at 31 December 2022, the carrying amount came to 17,727 thousand euros).

The value of the right to the exclusive use of the TSB brand was also estimated at an initial amount of 73,328 thousand euros. The value attributable to this asset was determined through the replacement cost method, consisting of establishing the cost of rebuilding or acquiring an exact replica of the asset in question. This asset is amortised over a period of 12 years. The assessment of the recoverable amount of the TSB CGU included an implicit valuation of the brand, concluding that there was no impairment. The carrying amount of the TSB brand amounted to 17,509 thousand euros as at 31 December 2023 (22,056 thousand euros as at 31 December 2022).

Computer software

Computer software costs include mainly the capitalised costs of developing the Group's computer software and the cost of purchasing software licences.

R&D expenditure in 2023 and 2022 was not significant.

Movements

Movements in goodwill in 2023 and 2022 were as follows:

Thousand euro

	Goodwill	Impairment	Total
Balance as at 31 December 2021	**1,026,457**	**—**	**1,026,457**
Additions	353	—	353
Disposals	—	—	—
Balance as at 31 December 2022	**1,026,810**	**—**	**1,026,810**
Additions	—	—	—
Disposals	—	—	—
Transfers	(8,499)	—	(8,499)
Balance as at 31 December 2023	**1,018,311**	**—**	**1,018,311**

Movements in other intangible assets in 2023 and 2022 were as follows:

Thousand euro

	Cost			Amortisation			Impairment			Total
	Developed internally	Other	Total	Developed internally	Other	Total	Developed internally	Other	Total	
Balance as at 31 December 2021	**2,413,611**	**862,547**	**3,276,158**	**(1,065,540)**	**(655,654)**	**(1,721,194)**	**—**	**—**	**—**	**1,554,964**
Additions	187,533	7,105	194,638	(195,655)	(63,009)	(258,664)	—	—	—	(64,026)
Disposals	(27,296)	(83,657)	(110,953)	6,299	77,859	84,158	—	—	—	(26,795)
Other	(6,554)	5,168	(1,386)	(14,115)	(28)	(14,143)	—	—	—	(15,529)
Exchange differences	6,511	(16,611)	(10,100)	2,693	16,145	18,838	—	—	—	8,738
Balance as at 31 December 2022	**2,573,805**	**774,552**	**3,348,357**	**(1,266,318)**	**(624,687)**	**(1,891,005)**	**—**	**—**	**—**	**1,457,352**
Additions	235,489	60,596	296,085	(221,636)	(34,827)	(256,463)	—	—	—	39,622
Disposals	(103,691)	(5,612)	(109,303)	60,722	2,464	63,186	—	—	—	(46,117)
Other	438	(2,759)	(2,321)	(1,529)	3,536	2,007	—	—	—	(314)
Exchange differences	12,214	7,572	19,786	848	(6,414)	(5,566)	—	—	—	14,220
Balance as at 31 December 2023	**2,718,255**	**834,349**	**3,552,604**	**(1,427,913)**	**(659,928)**	**(2,087,841)**	**—**	**—**	**—**	**1,464,763**

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 1,367,070 thousand euros and 1,078,836 thousand euros, respectively.

Note 17 – Other assets and liabilities

The “Other assets” heading on the consolidated balance sheets as at 31 December 2023 and 2022 breaks down as follows:

Thousand euro

	Note	2023	2022
Insurance contracts linked to pensions	22	80,693	89,729
Inventories		62,344	93,835
Rest of other assets		293,086	296,116
Total		**436,123**	**479,680**

The “Rest of other assets” item includes mainly prepaid expenses, the accrual of customer fees and commissions and transactions in progress pending settlement.

Movements in inventories in 2023 and 2022 were as follows:

Thousand euro

	Note	Land	Buildings under construction	Completed buildings	Total
Balance as at 31 December 2021		**8,409**	**1,516**	**132,787**	**142,713**
Additions		802	3,661	8,946	13,409
Disposals		(2,279)	(558)	(42,895)	(45,732)
Impairment through profit or loss	35	(2,459)	(173)	(33,519)	(36,151)
Reversal of impairment through profit or loss	35	996	71	11,066	12,133
Other transfers	15	—	(3,645)	11,108	7,463
Balance as at 31 December 2022		**5,469**	**872**	**87,493**	**93,835**
Additions		422	39	4,978	5,439
Disposals		(1,268)	(50)	(20,714)	(22,032)
Impairment through profit or loss	35	(1,711)	(4,505)	(13,060)	(19,276)
Reversal of impairment through profit or loss	35	710	4,210	37	4,957
Other transfers	15	—	—	(579)	(579)
Balance as at 31 December 2023		**3,622**	**566**	**58,155**	**62,344**

As at 31 December 2023 and 2022, the amount of inventories associated with debt secured with mortgages was 10,292 thousand euros and 11,318 thousand euros, respectively.

The composition of the “Other liabilities” heading as at 31 December 2023 and 2022 was as follows:

Thousand euro

	31/12/2023	31/12/2022
Other accrual/deferral	574,997	577,298
Rest of other liabilities	147,527	294,810
Total	**722,524**	**872,108**

The “Rest of other liabilities” item mainly includes transactions in progress pending settlement.

Note 18 – Deposits in central banks and credit institutions

The breakdown of the balance of deposits in central banks and credit institutions in the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
By heading:		
Financial liabilities at amortised cost	23,616,543	39,217,078
Total	**23,616,543**	**39,217,078**
By nature:		
Demand deposits	222,195	378,442
Deposits with agreed maturity	12,274,576	30,936,695
Repurchase agreements	10,821,129	8,118,516
Other accounts	74,163	125,378
Valuation adjustments	224,480	(341,953)
Total	**23,616,543**	**39,217,078**
By currency:		
In euro	17,615,523	31,390,222
In foreign currency	6,001,020	7,826,856
Total	**23,616,543**	**39,217,078**

In 2023, Banco Sabadell prepaid 17 billion euros corresponding to TLTRO III maturing in March 2024. The closing balance of this liquidity facility as at the end of 2023 and 2022 was 5 billion euros and 22 billion euros, respectively (see Note 4.4.3.1).

Note 19 – Customer deposits

The balance of customer deposits on the consolidated balance sheets as at 31 December 2023 and 2022 breaks down as follows:

Thousand euro

	2023	2022
By heading:		
Financial liabilities at amortised cost	160,330,653	164,076,445
Total	**160,330,653**	**164,076,445**
By nature:		
Demand deposits	134,242,908	147,539,675
Deposits with agreed maturity	21,081,166	14,066,824
Fixed term	20,244,357	11,985,933
Non-marketable covered bonds and bonds issued	323,010	418,835
Other	513,799	1,662,056
Hybrid financial liabilities (see Notes 10 and 12)	4,507,056	2,074,477
Repurchase agreements	200,336	404,866
Other valuation adjustments (interest, fees and commissions, other)	299,187	(9,397)
Total	**160,330,653**	**164,076,445**
By sector:		
General governments	7,869,390	8,499,245
Other sectors	152,162,076	155,586,597
Other valuation adjustments (interest, fees and commissions, other)	299,187	(9,397)
Total	**160,330,653**	**164,076,445**
By currency:		
In euro	111,953,190	114,063,466
In foreign currency	48,377,463	50,012,979
Total	**160,330,653**	**164,076,445**

Due to rising interest rates in the financial markets, the weight of the term deposits making up customer deposits increased during 2023.

Note 20 – Debt securities in issue

The composition of this heading in the consolidated balance sheets as at 31 December 2023 and 2022, by type of issuance, is as follows:

Thousand euro

	2023	2022
Straight bonds/debentures	8,671,400	7,990,800
Straight bonds	8,630,100	7,949,500
Structured bonds	41,300	41,300
Commercial paper	1,382,828	871,896
Mortgage covered bonds	7,475,000	7,563,000
TSB covered bonds	3,164,376	1,409,356
Asset-backed securities	1,370,573	1,202,846
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	177,107	89,651
Total	**25,791,284**	**22,577,549**

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 consolidated equity.

Note 21 – Other financial liabilities

The composition of this heading in the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

Thousand euro	2023	2022
By heading:		
Financial liabilities at amortised cost	6,333,286	6,658,861
Total	**6,333,286**	**6,658,861**
By nature:		
Debentures payable	293,380	364,207
Guarantee deposits received	8,688	8,992
Clearing houses	1,138,627	1,032,869
Collection accounts	3,379,742	3,322,141
Lease liabilities	947,469	969,477
Other financial liabilities	565,380	961,175
Total	**6,333,286**	**6,658,861**
By currency:		
In euro	4,694,730	4,913,626
In foreign currency	1,638,556	1,745,235
Total	**6,333,286**	**6,658,861**

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	25.49	28.74
Ratio of transactions paid (*)	25.49	28.72
Ratio of transactions payable (**)	38.81	50.03
Payments made and pending at year-end (in thousand euro)		
Total payments made	1,194,239	1,131,038
Total payments outstanding	369	1,131
Payments made in < 60 days (in thousand euro) (***)		
Monetary volume of paid invoices	1,110,490	1,011,940
Percentage of total amount of payments to suppliers	93	89
Number of invoices paid in < 60 days (***)		
Number of invoices paid	133,690	141,339
Percentage of total number of invoices	92	92

The calculations above only take into account transactions undertaken by the Group's main Spanish entities, which represent 98.75% of total invoicing.

(*) 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 22 – 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	**86,020**	**650**	**76,848**	**190,591**	**532,029**	**886,138**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**—**	**—**
Interest and similar expenses - pension commitments	**1,958**	**4**	**—**	**—**	**—**	**1,962**
Allowances charged to income statement - staff expenses (*)	**1,152**	**5**	**—**	**—**	**(2,790)**	**(1,633)**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**228**	**(32)**	**45,211**	**(14,258)**	**65,672**	**96,821**
Allocation of provisions	84	—	47,619	191,058	65,672	304,433
Reversal of provisions	—	—	(2,408)	(205,316)	—	(207,724)
Actuarial losses / (gains)	144	(32)	—	—	—	112
Exchange differences	**688**	**—**	**—**	**(305)**	**(6,645)**	**(6,262)**
Utilisations:	**(7,562)**	**(457)**	**(32,209)**	**—**	**(172,876)**	**(213,104)**
Net contributions of plan assets by sponsor	612	—	—	—	—	612
Pension payments	(8,174)	(457)	—	—	—	(8,631)
Other	—	—	(32,209)	—	(172,876)	(205,085)
Other movements	**(19,100)**	**—**	**—**	**795**	**(101,108)**	**(119,413)**
Balance as at 31 December 2022	**63,384**	**170**	**89,850**	**176,823**	**314,282**	**644,509**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**—**	**—**
Interest and similar expenses - pension commitments	**1,755**	**4**	**—**	**—**	**—**	**1,759**
Allowances charged to income statement - staff expenses (*)	**3,171**	**4**	**—**	**—**	**26,595**	**29,770**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**1,260**	**(4)**	**(4,560)**	**(11,403)**	**20,997**	**6,290**
Allocation of provisions	1,260	—	1,209	211,347	26,872	240,688
Reversal of provisions	—	—	(5,769)	(222,750)	(5,875)	(234,394)
Actuarial losses / (gains)	—	(4)	—	—	—	(4)
Exchange differences	**648**	**—**	**—**	**1,295**	**2,488**	**4,431**
Utilisations:	**(9,139)**	**(105)**	**(24,740)**	**—**	**(114,583)**	**(148,567)**
Net contributions of plan assets by sponsor	233	—	—	—	—	233
Pension payments	(9,372)	(105)	—	—	—	(9,477)
Other	—	—	(24,740)	—	(114,583)	(139,323)
Other movements	**(2,771)**	**—**	**—**	**(1,339)**	**2,010**	**(2,100)**
Balance as at 31 December 2023	**58,308**	**69**	**60,550**	**165,376**	**251,789**	**536,092**

(*) See Note 33.

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 Group is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third-party experts where necessary and, where appropriate, provisions are recognised under the headings "Pending legal issues and tax litigation" and "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).

- Provisions to cover the anticipated costs relating to restructuring plans in Spain announced in previous years and pending final implementation amounting to 56 million euros as at 31 December 2023 and 2022.

- Provisions for legal contingencies deriving from claims filed by certain TSB customers. The estimated potential cost of compensation payable, which includes compensatory interest and associated operational costs, amounted to 19 million euros as at 31 December 2023 (86 million euros as at 31 December 2022). During 2023, utilisations linked to legal contingencies in TSB were recorded in the amount of 64 million euros.

- Provisions to cover the anticipated costs relating to restructuring in TSB and pending final implementation amounting to 35 million euros as at 31 December 2023 (13 million euros as at 31 December 2022), of which 26 million euros were allocated in 2023 (see Note 33).

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 application of 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 and relate to employees previously working for Banco Sabadell.

The origins of liabilities recognised in respect of post-employment benefits and other similar long-term obligations on the Group's balance sheet are shown below:

Thousand euro

	2023	2022	2021	2020	2019
Obligations arising from pension and similar commitments	509,946	565,046	739,456	819,789	803,905
Fair value of plan assets	(451,569)	(501,492)	(652,786)	(716,128)	(697,621)
Net liability recognised on balance sheet	**58,377**	**63,554**	**86,670**	**103,661**	**106,284**

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	**739,456**	**652,786**	**86,670**
Interest costs	12,800	—	12,800
Interest income	—	10,838	(10,838)
Normal cost in year	1,631	—	1,631
Past service cost	(474)	—	(474)
Benefits paid	(47,415)	(38,784)	(8,631)
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	(1,126)	—	(1,126)
Actuarial gains or losses from changes in financial assumptions	(143,190)	—	(143,190)
Actuarial gains or losses from experience	(4,208)	—	(4,208)
Return on plan assets excluding interest income	—	(131,322)	131,322
Other movements	10,715	12,594	(1,879)
Balance as at 31 December 2022	**565,046**	**501,492**	**63,554**
Interest costs	18,090	—	18,090
Interest income	—	15,693	(15,693)
Normal cost in year	1,876	—	1,876
Past service cost	1,063	—	1,063
Benefits paid	(46,726)	(37,250)	(9,476)
Settlements, curtailments and terminations	(470)	(1,300)	830
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	(23,195)	—	(23,195)
Actuarial gains or losses from experience	(11,004)	—	(11,004)
Return on plan assets excluding interest income	—	(31,391)	31,391
Other movements	4,618	4,558	60
Exchange differences	648	—	648
Balance as at 31 December 2023	**509,946**	**451,569**	**58,377**

The breakdown of the Group'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		**236,299**	
Insurance policies with related parties	Matched	22,709	3.75 %
Insurance policies with unrelated parties	Matched	213,590	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	**7,032**	3.75 %
Total obligations		**509,946**	

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	**5,712**	3.25 %
Total obligations		**565,046**	

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 98.62% of its commitments (98.99% as at 31 December 2022) there is no mortality risk (mortality tables) or profitability risk (interest rate) for the Group. 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 1.3.17 to these consolidated 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	8,220	8,140	7,709	7,643	7,574	8,679	8,371	8,055	7,733	7,406	**79,530**

The fair value of assets linked to pensions recognised on the consolidated balance sheet amounted to 80,693 thousand euros as at 31 December 2023 (89,729 thousand euros as at 31 December 2022); see Note 17.

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 23 – Shareholders' equity

The breakdown of the balance of shareholders' equity on the consolidated 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	21,268	21,548
Retained earnings	6,401,782	5,859,520
Other reserves	(1,584,816)	(1,602,079)
(-) Treasury shares	(39,621)	(23,767)
Profit or loss attributable to owners of the parent	1,332,181	889,392
(-) Interim dividends	(162,103)	(112,040)
Total	**14,343,946**	**13,635,172**

(*) See Note 1.4.

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 consolidated balance sheets as at 31 December 2023 and 2022 breaks down as follows:

Thousand euro

	2023	2022 (*)
Restricted reserves:	**228,033**	**222,820**
Statutory reserve (**)	140,674	140,674
Reserve for treasury shares pledged as security	50,061	68,470
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	**4,534,097**	**4,107,070**
Reserves of entities accounted for using the equity method	**54,836**	**(72,449)**
Total	**4,816,966**	**4,257,441**

(*) See Note 1.4.

(**) 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 in excess of 20% of the share capital resulting from the capital reduction carried out during 2023, that is, 4,668 thousand euros.

Information on the reserves of each of the consolidated companies is indicated in Schedule I.

Other equity

This heading includes share-based remuneration pending settlement which, as at 31 December 2023 and 2022, amounted to 21,268 thousand euros and 21,548 thousand euros, respectively.

Treasury shares

The movements of the parent company's shares acquired by the Bank are as follows:

	No. of shares	Nominal value *(in thousand euro)*	Average price *(in euro)*	% Shareholding
Balance as at 31 December 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 consolidated balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to the sale or cancellation of treasury shares.

As at 31 December 2023, TSB held 232 Banco Sabadell shares (60,517 as at 31 December 2022), with a cost of 255 euros (46 thousand euros as at 31 December 2022), recorded as treasury shares on the consolidated balance sheet.

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, respectively. Their nominal value as at the aforesaid dates amounted to 1,550 thousand euros and 383 thousand euros, respectively. In both years, 100% of the securities corresponded to Banco Sabadell shares.

Note 24 – Accumulated other comprehensive income

The composition of this heading of consolidated equity as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022 (*)
Items that will not be reclassified to profit or loss	(30,596)	(29,125)
Actuarial gains or (-) losses on defined benefit pension plans	(3,313)	(1,969)
Non-current assets and disposal groups classified as held for sale	—	—
Share of other recognised income and expense of investments in joint ventures and associates	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income	(27,283)	(27,156)
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	(468,357)	(554,275)
Hedge of net investments in foreign operations [effective portion] (**)	77,997	119,348
Foreign currency translation	(384,086)	(476,030)
Hedging derivatives. Cash flow hedges [effective portion] (***)	(49,215)	(64,224)
Amount deriving from outstanding operations	(71,464)	(93,562)
Amount deriving from discontinued operations	22,249	29,338
Fair value changes of debt instruments measured at fair value through other comprehensive income	(145,732)	(180,199)
Hedging instruments [not designated elements]	—	—
Non-current assets and disposal groups classified as held for sale	—	—
Share of other recognised income and expense of investments in joint ventures and associates	32,679	46,830
Total	**(498,953)**	**(583,400)**

(*) See Note 1.4.

(**) The value of the hedge of net investments in foreign operations is fully obtained from outstanding transactions (see Note 12).

(***) Cash flow hedges mainly mitigate interest rate risk and other risks (see Note 12).

The breakdown of the items in the statement of recognised income and 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	(669)	(802)	(1,471)	12,991	(358)	12,633
Actuarial gains or (-) losses on defined benefit pension plans	(1,919)	575	(1,344)	(4,123)	1,237	(2,886)
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Share of other recognised income and expense of investments in joint ventures and associates	—	—	—	—	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income	1,250	(1,377)	(127)	17,114	(1,595)	15,519
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	107,466	(21,548)	85,918	(398,499)	80,040	(318,459)
Hedge of net investments in foreign operations [effective portion]	(41,351)	—	(41,351)	(38,393)	—	(38,393)
Foreign currency translation	91,944	—	91,944	5,238	—	5,238
Hedging derivatives. Cash flow hedges reserve [effective portion]	22,291	(7,282)	15,009	(52,125)	18,064	(34,061)
Fair value changes of debt instruments measured at fair value through other comprehensive income	48,733	(14,266)	34,467	(230,451)	61,976	(168,475)
Hedging instruments [not designated elements]	—	—	—	—	—	—
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Share of other recognised income and expense of investments in joint ventures and associates	(14,151)	—	(14,151)	(82,768)	—	(82,768)
Total	**106,797**	**(22,350)**	**84,447**	**(385,508)**	**79,682**	**(305,826)**

(*) See Note 1.4.

Note 25 – Minority interests (non-controlling interests)

The companies comprising this heading of consolidated equity as at 31 December 2023 and 2022 are the following:

Thousand euro

	2023			2022		
	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*
Aurica Coinvestment, S.L.	38.24 %	33,433	1,498	38.24 %	33,553	10,009
Other	—	780	(76)	—	791	739
Total		**34,213**	**1,422**		**34,344**	**10,748**

Movements in the balance under this heading in 2023 and 2022 were as follows:

Thousand euro

Balances as at 31 December 2021	**24,980**
Valuation adjustments	—
Other	9,364
Scope additions / exclusions	—
Percentage shareholding and other	(1,384)
Profit or loss for the year	10,748
Balances as at 31 December 2022	**34,344**
Valuation adjustments	—
Other	(131)
Scope additions / exclusions	—
Percentage shareholding and other	(1,553)
Profit or loss for the year	1,422
Balances as at 31 December 2023	**34,213**

The dividends distributed to minority shareholders of Group entities in 2023 amounted to 1,618 thousand euros and were distributed by Aurica Coinvestment, S.L. (646 thousand euros in 2022).

Note 26 – Off-balance sheet exposures

The breakdown of this heading for the years ended 31 December 2023 and 2022 is the following:

Thousand euro

Commitments and guarantees given	Note	2023	2022
Loan commitments given		**27,035,812**	**27,460,615**
Of which, amount classified as stage 2		*986,368*	*1,407,538*
Of which, amount classified as stage 3		*97,219*	*82,078*
Drawable by third parties		27,035,812	27,460,615
By credit institutions		54	43
By general governments		910,744	1,019,180
By other resident sectors		15,565,366	15,815,706
By non-residents		10,559,648	10,625,686
Provisions recognised on liabilities side of the balance sheet	22	72,888	71,698
Financial guarantees given (*)		**2,064,396**	**2,086,993**
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 (**)	22	23,814	26,817
Other commitments given		**7,942,724**	**9,674,382**
Of which, amount classified as stage 2		*372,597*	*434,869*
Of which, amount classified as stage 3		*222,999*	*265,507*
Other guarantees given		6,832,086	6,916,058
Assets earmarked for third-party obligations		—	—
Irrevocable letters of credit		729,299	722,640
Additional settlement guarantee		25,000	25,000
Other guarantees and sureties given		6,077,787	6,168,418
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	22	68,674	78,308
Total		**37,042,932**	**39,221,990**

(*) 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 4,640,343 thousand euros (4,566,727 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 and 2022 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
Others	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 22.

Note 27 – Off-balance sheet customer funds

Off-balance sheet customer funds managed by the Group, those sold but not under management and the financial instruments deposited by third parties as at 31 December 2023 and 2022 are shown below:

Thousand euro	2023	2022
Managed by the Group:	**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 Group:	**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	**66,753,270**	**58,006,395**
Total	**107,313,826**	**96,498,755**

Note 28 – Interest income and expenses

These headings in the consolidated 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 the Group's 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	7,286,718	4,252,331
Central banks	1,215,497	252,274
Credit institutions	281,945	72,999
Customers	5,789,276	3,927,058
Debt securities (*)	589,033	288,540
Stage 3 assets	27,036	21,840
Correction of income from hedging operations	671,414	151,473
Other interest (**)	84,555	274,419
Total	**8,658,756**	**4,988,603**
Interest expense		
Deposits	(2,480,542)	(585,695)
Central banks	(532,310)	(99,658)
Credit institutions	(526,696)	(83,742)
Customers	(1,421,536)	(402,295)
Debt securities issued	(700,109)	(302,023)
Correction of expenses on hedging operations	(566,050)	(147,708)
Other interest (***)	(188,837)	(154,451)
Total	**(3,935,538)**	**(1,189,877)**
Net interest income	**4,723,218**	**3,798,726**

(*) Includes 69,956 thousand euro in 2023 and 20,903 thousand euro in 2022 corresponding to interest from financial assets recognised at fair value through profit and loss (trading portfolio).

(**) Includes positive returns from liability products.

(***) Includes negative returns on asset products.

The improvement in net interest income is mainly due to the higher yield of the loan book and improved income from the fixed-income portfolio, supported by the increase in interest rates, all of which offset the higher cost of customer funds and capital markets.

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	3.51	0.39
Debt securities	2.92	1.11
Loans and advances		
Customers	3.79	2.51
Liabilities		
Deposits		
Central banks and Credit institutions	(3.38)	0.02
Customers	(0.89)	(0.19)
Debt securities issued	(3.32)	(1.42)

Positive (negative) figures correspond to income (expenses) for the Group.

Note 29 – Fee and commission income and expenses

Income and expenses arising from fees and commissions on financial assets and liabilities and the provision of services are as follows:

Thousand euro

	2023	2022
Fees from risk transactions	**286,480**	**282,500**
Asset-side transactions	183,209	180,403
Sureties and other guarantees	103,271	102,097
Service fees	**796,822**	**869,794**
Payment cards	251,815	256,492
Payment orders	82,296	82,935
Securities	57,028	53,145
Sight accounts	277,111	286,471
Other	128,572	190,751
Asset management and marketing fees	**302,856**	**337,914**
Mutual funds	114,912	122,218
Sale of pension funds and insurance products	165,075	193,833
Asset management	22,869	21,863
Total	**1,386,158**	**1,490,208**
Memorandum item		
Fee and commission income	1,671,213	1,742,311
Fee and commission expenses	(285,055)	(252,103)
Fees and commissions (net)	**1,386,158**	**1,490,208**

Note 30 – Gains or (-) losses on financial assets and liabilities, net and exchange differences, net

"Gains or (-) losses on financial assets and liabilities, net" groups together a series of headings from the consolidated income statement for the years ended 31 December 2023 and 2022, which are shown below:

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	23,250	13,227
Financial assets at fair value through other comprehensive income	4,304	22,752
Financial assets at amortised cost	15,939	(9,190)
Financial liabilities at amortised cost	3,007	(335)
Gains or (-) losses on financial assets and liabilities held for trading, net	122,249	204,691
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	11,781	(4,157)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	—	—
Gains or (-) losses from hedge accounting, net	12,193	17,851
Total	**169,473**	**231,612**
By type of financial instrument:		
Net gain/(loss) on debt securities	10,193	16,131
Net gain/(loss) on other equity instruments	7,100	(877)
Net gain/(loss) on derivatives	140,199	225,548
Net gain/(loss) on other items (*)	11,981	(9,190)
Total	**169,473**	**231,612**

(*) Mainly includes gains/(losses) on the sale of various loan portfolios sold during the year.

The breakdown of the heading "Exchange differences [gain or (-) loss], net" of the consolidated income statement for the years ended 31 December 2023 and 2022 is shown below:

Thousand euro

	2023	2022
Exchange differences [gain or (-) loss], net	(101,093)	(127,971)

During 2023, the Group carried out sales of certain debt securities which it held in its portfolio of financial assets at fair value through other comprehensive income, generating profits of 4,304 thousand euros (22,752 thousand euros in 2022). Of those profits, 4,930 thousand euros (22,752 thousand euros in 2022) 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 143,569 thousand euros (138,796 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 consolidated income statement, while the exchange differences generated by debit and credit balances denominated in foreign currencies hedged with these derivatives are recognised under the heading "Exchange differences [gain or (-) loss], net" of the consolidated income statement.

Note 31 – Other operating income

The composition of this heading of the consolidated income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Income from use of investment properties (*)	22,850	23,474
Sales and other income from the provision of non-financial services	14,264	11,522
Other operating income	54,070	86,558
Total	**91,184**	**121,554**

(*) The amounts relate mainly to income from operating leases in which the Group acts as lessor.

The reduction in the balance recognised under "Other operating income" is mainly due to income in the amount of 45 million euros recognised in 2022 in connection with the insurance taken out by the Group to offset the payment made by TSB to UK regulators due to the incidents that took place following its IT migration in 2018 (see Note 32).

Note 32 – Other operating expenses

The composition of this heading of the consolidated income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Contribution to deposit guarantee schemes	(150,784)	(129,157)
Banco Sabadell	(132,209)	(113,832)
TSB	(280)	(540)
BS IBM Mexico	(18,295)	(14,785)
Contribution to resolution fund	(76,485)	(100,151)
Other items	(310,959)	(229,559)
Of which: temporary levy of credit institutions and financial credit establishments (*)	*(156,182)*	—
Total	**(538,228)**	**(458,867)**

(*) See Note 1.3.19.

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.

Similarly, in 2022, expenses in the amount of approximately 57 million euros were recognised in relation to the agreement between the subsidiary TSB and UK regulators regarding the conclusions of the investigation into the causes and circumstances of the incidents that took place following its IT migration in 2018. However, in 2023 and 2022, income amounting to 16 and 45 million euros, respectively, corresponding to compensation obtained through the arranged insurance policies was recognised under the heading "Other operating income" of the consolidated income statements for 2023 and 2022 (see Note 31).

Note 33 – Administrative expenses

This heading of the consolidated income statement includes expenses incurred by the Group corresponding to staff and other general administrative expenses.

Staff expenses

The staff expenses recognised in the consolidated income statement for the years ended 31 December 2023 and 2022 were as follows:

Thousand euro

	Note	2023	2022
Payrolls and bonuses for active staff		(1,095,399)	(1,050,441)
Social Security payments		(231,124)	(212,576)
Contributions to defined benefit pension plans	22	(3,175)	(1,157)
Contributions to defined contribution pension plans		(65,452)	(61,560)
Other staff expenses		(99,494)	(65,874)
Of which: restructuring plan in United Kingdom	22	*(26,409)*	—
Total		**(1,494,644)**	**(1,391,608)**

As at 31 December 2023 and 2022, the breakdown of the average workforce for all companies within the Group by category and sex is as follows:

Average number of employees

	2023			2022		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Senior management	514	245	759	479	208	687
Middle management	2,011	1,477	3,488	1,947	1,381	3,328
Specialist staff	5,379	7,248	12,627	5,307	7,222	12,529
Administrative staff	706	1,733	2,439	707	1,817	2,524
Total	**8,610**	**10,703**	**19,313**	**8,440**	**10,628**	**19,068**

The breakdown of the Group's average workforce with 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	9	10
Middle management	22	27
Specialist staff	210	207
Administrative staff	64	78
Total	**305**	**322**

As at 31 December 2023 and 2022, the breakdown of the Group's workforce by category and sex is as follows:

Number of employees

	2023			2022		
	Men	Women	Total	Men	Women	Total
Senior management	529	262	791	460	208	668
Middle management	2,091	1,632	3,723	1,944	1,381	3,325
Specialist staff	5,341	7,077	12,418	5,298	7,194	12,492
Administrative staff	680	1,704	2,384	683	1,727	2,410
Total	**8,641**	**10,675**	**19,316**	**8,385**	**10,510**	**18,895**

Of the total workforce as at 31 December 2023, 300 had some form of recognised disability (309 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:

Share-based complementary incentive scheme

TSB's Share Incentive Plan (SIP) provides its employees with the opportunity to own shares in Banco Sabadell and grants shares, where applicable, to certain senior employees as part of their hiring arrangements.

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 of 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
2019-2021 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 1.3.15), the balancing entry for such expenses is recognised in equity in the case of stock options settled with shares (see consolidated statement of total changes in equity – share based payments), while those settled with cash are recognised in the "Other liabilities" heading of the consolidated balance sheet.

Expenditure recognised in relation to incentive schemes and long-term remuneration granted to employees in 2023 and 2022 is shown below:

Thousand euro

	2023	2022
Settled in shares	6,191	4,923
Settled in cash	1,330	693
Total	**7,521**	**5,616**

Other administrative expenses

The composition of this heading in the consolidated income statement for the years 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Property, plant and equipment	(68,908)	(70,614)
Information technology	(416,313)	(391,562)
Communication	(25,862)	(30,231)
Publicity	(96,682)	(71,601)
Subcontracted administrative services	(118,383)	(112,898)
Contributions and taxes	(116,542)	(114,185)
Technical reports	(26,948)	(26,094)
Security services and fund transfers	(17,429)	(18,375)
Entertainment expenses and staff travel expenses	(15,077)	(9,600)
Membership fees	(6,771)	(5,602)
Other expenses	(92,803)	(95,045)
Total	**(1,001,718)**	**(945,807)**

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 (*)	**2,921**	**2,540**
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
Of which: Audit of the annual accounts of subsidiaries	423	413
Audit-related services	**292**	**281**
Total	**3,213**	**2,821**

(*) Including fees corresponding to the year's audit, irrespective of the date on which that audit was completed. The annual financial statements of Banco Sabadell and the consolidated Banco Sabadell Group for the financial years 2023, 2022, 2021 and 2020 were audited by the external audit firm KPMG Auditores, S.L. (KPMG), holder of company tax number (CIF) B-78510153 and with registered office in Madrid, Torre de Cristal, Paseo de la Castellana, no. 259 C, 28046 Madrid, entered in the Madrid Companies Register in Volume 11,961, Folio 90, Section 8, Sheet M-188,007, entry 9 and entered in the Official Record of Statutory Auditors under number S0702. KPMG Auditores, S.L. neither gave up nor was relieved of its responsibilities as auditor of Banco Sabadell and the consolidated Banco Sabadell Group during 2023, 2022, 2021 and 2020, nor up to the date on which these annual financial statements were signed off.

(**) 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 (*)	**6,848**	**6,861**
Of which: Audit of the annual accounts of foreign branches	341	343
Of which: Audit of the annual accounts of Group subsidiaries	6,507	6,518
Audit-related services	**213**	**192**
Other services	**474**	**383**
Of which: Other	474	383
Total	**7,535**	**7,436**

(*) 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, the Group engaged auditors other than KPMG to carry out the audits of foreign branches and other Group subsidiaries. Audit and other services provided to those branches and subsidiaries amounted to 62 thousand euros and 0 thousand euros in the year ended 31 December 2023, respectively (51 and 9 thousand euros in the year ended 31 December 2022).

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.

Other information

The cost-to-income ratio as at 2023 year-end (staff and general expenses/gross income) stood at 42.59% (44.86% in 2022).

Information about the Group's branches and offices is given below:

Number of branches and offices

	2023	2022
Branches and offices	**1,420**	**1,461**
Spain	1,178	1,210
Outside Spain	242	251

Note 34 – 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 consolidated 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	8	852	(182)
Other equity instruments		—	—
Financial assets at amortised cost	11	(825,245)	(839,397)
Debt securities		(40)	(190)
Loans and advances		(825,205)	(839,207)
Total		**(824,393)**	**(839,579)**

Note 35 – Impairment or (-) reversal of impairment on non-financial assets

The composition of this heading of the consolidated income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	Note	2023	2022
Property, plant and equipment for own use	15	(1,930)	(1,916)
Investment properties	15	(9,596)	(35,182)
Goodwill and other intangible assets		—	—
Inventories	17	(14,319)	(24,018)
Total		**(25,845)**	**(61,116)**

The total allowance for the impairment of investment properties in 2023 and 2022 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 225,641 thousand euros and 293,226 thousand euros in 2023 and 2022, respectively.

Of the total inventory impairment allowances for 2023 and 2022, 1,295 thousand euros and 1,564 thousand euros were allocated based on Level 2 valuations, respectively, and 13,024 thousand euros and 22,454 thousand euros based on Level 3 valuations, respectively. The fair value of impaired assets amounted to 61,561 thousand euros and 90,614 thousand euros at 2023 and 2022 year-end, respectively.

Note 36 – Gains or (-) losses on derecognition of non-financial assets, net

The composition of this heading of the consolidated income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Property, plant and equipment	(657)	3,261
Investment properties	4,274	3,072
Intangible assets	(50,750)	(35,132)
Interests (*)	7,799	11,449
Other items	(10)	(19)
Total	**(39,344)**	**(17,369)**

(*) See Schedule I – Exclusions from the scope of consolidation

The sale of tangible assets under finance leases in which the Group acted as lessor did not have a material impact on the 2023 and 2022 consolidated income statements.

The "intangible assets" heading mainly includes the impact of certain computer software assets derecognised due to obsolescence.

Note 37 – 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 consolidated 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		(58,067)	(25,693)
Gains/losses on sales		(23,755)	(22,269)
Impairment/Reversal	13	(34,312)	(3,424)
Investment properties		—	—
Interests (*)		396	(1,829)
Other items		(2,284)	(279)
Total		**(59,955)**	**(27,801)**

(*) See Schedule I - Companies no longer consolidated.

In 2023, the heading “Plant and equipment for own use and foreclosed - Impairment/reversal” mainly includes the impact of the reduced fair value of tangible assets to be disposed of as part of the sale of the merchant acquiring business as a result of their regular use (see Note 2).

The impairment of non-current assets 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 6). The fair value of impaired assets amounted to 554,978 thousand euros and 585,758 thousand euros as at 2023 and 2022 year-end, respectively.

Note 38 – Segment reporting

Segmentation criteria

This section gives information regarding earnings and other indicators of the Group’s business units.

In 2023, the criteria that Banco Sabadell Group uses to report on results for each segment are those established in 2022, specifically:

- Three geographical areas: Banking Business in Spain, United Kingdom and Mexico. Banking Business Spain includes foreign branches and representative offices.

- Each business unit is allocated capital equivalent to 12% of its risk-weighted assets, assigning all deductions corresponding to each business unit, and the surplus of own funds is allocated to Banking Business Spain.

In terms of the other criteria applied, segment information is first structured with a breakdown by geographical area and then broken down according to the customers at which each segment is aimed.

The information presented herein is based on the standalone accounting records of each Group company, after all consolidation disposals and adjustments have been made.

Each business unit bears its own direct costs, calculated on the basis of general accounting.

Details of profit attributable to the Group and other key figures of each business unit for the years 2023 and 2022 are shown in the table below, along with a reconciliation of the totals shown in the table with those shown in the consolidated accounts:

Million euro

	2023 (*)			
	Banking Business Spain	**Banking Business UK**	**Banking Business Mexico**	**Total Group**
Net interest income	**3,353**	**1,174**	**196**	**4,723**
Fees and commissions (net)	1,247	124	15	1,386
Core revenue	**4,601**	**1,298**	**211**	**6,109**
Net trading income and exchange differences	45	16	8	68
Equity-accounted income and dividends	131	—	—	131
Other operating income/expense	(404)	(23)	(20)	(447)
Gross income	**4,372**	**1,291**	**198**	**5,862**
Operating expenses and depreciation and amortisation	(1,965)	(941)	(108)	(3,015)
Pre-provisions income	**2,407**	**350**	**90**	**2,847**
Provisions and impairments	(816)	(75)	(19)	(910)
Capital gains on asset sales and other revenue	(27)	—	(19)	(46)
Profit/(loss) before tax	**1,564**	**274**	**53**	**1,891**
Corporation tax	(469)	(80)	(9)	(557)
Profit or loss attributed to minority interests	1	—	—	1
Profit attributable to the Group	**1,093**	**195**	**44**	**1,332**
ROTE (net profit attributable to Group / average shareholders' equity excluding intangible assets)	12.0%	10.0%	8.9%	11.5%
Cost-to-income (general administrative expenses / gross income)	37.2%	62.1%	45.7%	42.6%
NPL ratio	4.3%	1.5%	2.4%	3.5%
Stage 3 exposure coverage ratio (**)	59.9%	41.8%	74.3%	58.3%
Employees	13,455	5,426	435	19,316
Domestic and foreign branches and offices	1,194	211	15	1,420

(*) Exchange rates applied in the income statement: GBP 0.8706 (average), MXN 19.1120 (average), USD 1.0798 (average) and MAD 10.9543 (average).

(**) Considering total provisions for losses on transactions in stage 3.

Million euro

	2023 (*)			
	Banking Business Spain	**Banking Business UK**	**Banking Business Mexico**	**Total Group**
Assets	**173,648**	**54,855**	**6,670**	**235,173**
Gross performing loans to customers	103,830	41,381	4,587	149,798
Non-performing real estate assets (net)	586	—	—	586
Liabilities	**162,767**	**52,487**	**6,039**	**221,294**
On-balance sheet customer funds	117,820	39,864	3,205	160,888
Wholesale funding in capital markets	19,949	4,545	—	24,494
Allocated equity	**10,880**	**2,368**	**631**	**13,879**
Off-balance sheet customer funds	**40,561**	**—**	**—**	**40,561**

(*) Exchange rates applied in the balance sheet: GBP 0.8691, MXN 18.7231, USD 1.1050 and MAD 10.9116.

Million euro

	2022 (*)			
	Banking Business Spain (**)	**Banking Business UK**	**Banking Business Mexico**	**Total Group (**)**
Net interest income	**2,499**	**1,151**	**149**	**3,799**
Fees and commissions (net)	1,344	134	12	1,490
Core revenue	**3,843**	**1,284**	**162**	**5,289**
Net trading income and exchange differences	95	6	3	104
Equity-accounted income and dividends	156	—	—	156
Other operating income/expense	(225)	(95)	(17)	(337)
Gross income	**3,869**	**1,195**	**148**	**5,211**
Operating expenses and depreciation and amortisation	(1,887)	(909)	(86)	(2,883)
Pre-provisions income	**1,982**	**285**	**62**	**2,328**
Provisions and impairments	(920)	(104)	(9)	(1,032)
Capital gains on asset sales and other revenue	(9)	1	(14)	(23)
Profit/(loss) before tax	**1,053**	**182**	**39**	**1,273**
Corporation tax	(270)	(95)	(8)	(373)
Profit or loss attributed to minority interests	11	—	—	11
Profit attributable to the Group	**772**	**87**	**31**	**889**
ROTE (net profit attributable to Group / average shareholders' equity excluding intangible assets)	9.3%	4.2%	6.6%	8.2%
Cost-to-income (general administrative expenses / gross	39.9%	63.0%	48.7%	44.9%
NPL ratio	4.2%	1.3%	2.3%	3.4%
Stage 3 exposure coverage ratio (***)	56.2%	42.3%	70.1%	55.0%
Employees	12,991	5,482	422	18,895
Domestic and foreign branches and offices	1,226	220	15	1,461

(*) Exchange rates used in the income statement: GBP 0.8532 (average), MXN 21.0739 (average), USD 1.0538 (average) and MAD 11.1232 (average).

(**) See Note 1.4.

(***) Considering total provisions for losses on transactions in stage 3.

Million euro

	2022 (*)			
	Banking Business Spain (**)	**Banking Business UK**	**Banking Business Mexico**	**Total Group (**)**
Assets	**189,545**	**55,810**	**6,025**	**251,380**
Gross performing loans to customers	108,889	43,110	4,131	156,130
Non-performing real estate assets (net)	713	—	—	713
Liabilities	**179,402**	**53,316**	**5,437**	**238,155**
On-balance sheet customer funds	120,118	40,931	3,090	164,140
Wholesale funding in capital markets	19,444	2,537	—	21,981
Allocated equity	**10,005**	**2,494**	**587**	**13,086**
Off-balance sheet customer funds	**38,492**	**—**	**—**	**38,492**

(*) Exchange rates used in the balance sheet: GBP 0.8869, MXN 20.856, USD 1.066 and MAD 11.1558.

(**) See Note 1.4.

The Group’s average total assets as at 31 December 2023 amounted to 245,173,480 thousand euros (257,553,459 thousand euros as at 31 December 2021).

The types of products and services from which revenue is derived are described below for each business unit:

- 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: offers specialised lending services together with a comprehensive offering of solutions, ranging from transaction banking services to more complex and tailored solutions relating to the fields of finance and cash management, as well as import and export activities, among others.
- 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.

Details of income from ordinary activities and the pre-tax profit/(loss) generated by each business unit are set out below for the years 2023 and 2022:

Thousand euro

	Consolidated			
	Income from ordinary activities (*)		Profit/(loss) before tax	
SEGMENTS	**2023**	**2022**	**2023**	**2022 (**)**
Banking Business Spain	7,395,289	5,036,309	1,563,668	1,052,145
Banking Business UK	2,486,036	1,627,943	274,397	182,452
Banking Business Mexico	717,713	422,437	52,713	38,799
Total	**10,599,038**	**7,086,689**	**1,890,778**	**1,273,396**

(*) Includes the following headings from the consolidated income statements: "Interest income", "Dividend income", "Fee and commission income", "Gains or (-) losses on financial assets and liabilities, net" and "Other operating income".

(**) See Note 1.4.

The table below shows the deposits, net interest income and net fees and commissions generated by each business unit as a percentage of the total for 2023 and 2022:

%

	2023				
	Breakdown net interest income and net fees and commissions				
	Customer loans		Customer deposits		Income from services (*)
	% of average balance	% of total yield	% of average balance	% of total cost	% of total balance
SEGMENTS					
Banking Business Spain	69.3 %	65.5 %	73.2 %	61.1 %	91.7 %
Banking Business UK	27.6 %	26.6 %	24.8 %	28.7 %	7.4 %
Banking Business Mexico	3.1 %	7.9 %	2.0 %	10.2 %	0.9 %
Total	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**

(*) Segment percentage of total net fees and commissions.

%

	2022				
	Breakdown net interest income and net fees and commissions				
	Customer loans		Customer deposits		Income from services (*)
	% of average balance	% of total yield	% of average balance	% of total cost	% of total balance
SEGMENTS					
Banking Business Spain	69.7 %	63.0 %	73.2 %	54.2 %	90.2 %
Banking Business UK	27.6 %	28.9 %	24.9 %	24.6 %	9.0 %
Banking Business Mexico	2.7 %	8.0 %	1.9 %	21.2 %	0.8 %
Total	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**

(*) Segment percentage of total net fees and commissions.

Furthermore, a breakdown by geographical area of the "Interest income" heading of the 2023 and 2022 income statements is shown below:

Thousand euro

	Breakdown of interest income by geographical area			
Geographical area	**Standalone**		**Consolidated**	
	2023	**2022**	**2023**	**2022**
Domestic market	5,212,561	2,874,905	5,040,658	2,869,020
International market	619,846	268,772	3,618,098	2,119,583
European Union	92,376	44,755	92,376	44,755
Eurozone	92,376	44,755	92,376	44,755
Non-Eurozone	—	—	—	—
Other	527,470	224,017	3,525,722	2,074,828
Total	**5,832,407**	**3,143,677**	**8,658,756**	**4,988,603**

Section 4 of the consolidated Directors' Report gives a more detailed assessment of each of these business units.

Note 39 – Tax situation (income tax relating to continuing operations)

Consolidated tax group

Banco de Sabadell, S.A. is the parent company of a consolidated tax group for corporation tax purposes, in Spain, comprising, as subsidiaries, all the Spanish companies in which the Bank holds an interest that meet the requirements of the Spanish Corporation Tax Law.

The other companies in the accounting group, both those that are Spanish and those not resident in Spain, are taxed in accordance with the tax regulations applicable to them.

Reconciliation

The reconciliation between the Group's corporation tax expense calculated by applying the general tax rate and the expense recognised for that corporation tax in the consolidated income statements is as follows:

Thousand euro

	2023	2022
Profit or loss before tax	**1,890,778**	**1,273,396**
Corporation tax, applying national tax rate (30%)	**(567,234)**	**(382,019)**
Reconciliation:		
Gains/(losses) on sale of equity instruments (exempt)	2,049	(1,239)
Remuneration of preferred securities	34,617	33,112
Profit/(loss) of entities accounted for using the equity method	37,893	47,350
Difference in effective tax rate on companies outside Spain (*) (**)	22,678	(15,447)
Generated deductions/Non-deductible expenses	(66,157)	(22,640)
Other	(21,021)	(32,373)
(Tax expense or (-) income related to profit from continuing operations)	**(557,175)**	**(373,256)**

(*) Calculated applying the difference between the current tax rate for the Group in Spain (30%) and the effective tax rate applied to the Group's profit/(loss) in each jurisdiction.

(**) In 2022, the corporation tax surcharge on the banking sector in the United Kingdom was reduced from 8% to 3%, which resulted in a deferred tax asset reduction of 14.8 million euros, recognised with a balancing entry in higher Corporation Tax expense.

The effective tax rate, calculated as tax expenses related to profit divided by profit or loss before tax, came to 29.47% and 30.04% 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	320,184	205,979
Generated deductions/Non-deductible expenses	156,504	181,566
Temporary levy to credit institutions	156,182	—
Other	7,498	24,413
Timing difference arising during the year	191,808	298,710
Timing difference arising in previous years	15,192	33,704
Increases	**527,184**	**538,393**
Permanent difference	(353,708)	(328,741)
Gains/(losses) on sale of equity instruments (exempt) and equity method	(140,638)	(134,582)
Difference in effective tax rate of permanent establishments and foreign subsidiaries	(75,591)	(35,716)
Generated deductions/Non-deductible expenses	(115,391)	(110,374)
Other	(22,088)	(48,069)
Timing difference arising during the year	(12,123)	—
Timing difference arising in previous years	(269,009)	(177,698)
Decreases	**(634,840)**	**(506,439)**

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. To retain the State guarantee, and to keep their status as monetisable tax assets, deferred tax assets generated before 2016 are subject to an annual capital contribution of 1.5% of the deferred tax assets that meet the legal requirements.

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	**5,042,392**	**1,156,067**	**478,826**	**30,242**	**6,707,527**
(Debit) or credit recorded in the income statement	(47,661)	6,607	(87,366)	(16,385)	(144,805)
(Debit) or credit recorded in equity	—	85,337	—	—	85,337
Exchange differences and other movements	1,147	(5,096)	(771)	1,168	(3,552)
Balances as at 31 December 2022	**4,995,878**	**1,242,915**	**390,689**	**15,025**	**6,644,507**
(Debit) or credit recorded in the income statement	(93,090)	53,010	(104,319)	(14,999)	(159,398)
(Debit) or credit recorded in equity	—	(29,777)	—	—	(29,777)
Exchange differences and other movements	(159,445)	50,532	39,112	—	(69,802)
Balances as at 31 December 2023	**4,743,343**	**1,316,680**	**325,482**	**26**	**6,385,531**

Thousand euro

Deferred tax liabilities	Total
Balances as at 31 December 2021	**123,765**
(Debit) or credit recorded in the income statement	(10,914)
(Debit) or credit recorded in equity	—
Exchange differences and other movements	866
Balances as at 31 December 2022	**113,717**
(Debit) or credit recorded in the income statement	(490)
(Debit) or credit recorded in equity	(502)
Exchange differences and other movements	2,245
Balances as at 31 December 2023	**114,970**

The sources of the deferred tax assets and liabilities recognised in the consolidated balance sheets as at 31 December 2023 and 2022 are as follows:

Thousand euro

Deferred tax assets	**2023**	**2022**
Monetisable	**4,743,343**	**4,995,878**
Due to credit impairment	3,369,993	3,323,114
Due to real estate asset impairment	1,248,285	1,547,338
Due to pension funds	125,065	125,426
Non-monetisable	**1,316,680**	**1,242,915**
Tax credits for losses carried forward	**325,482**	**390,689**
Deductions not applied	**26**	**15,025**
Total	**6,385,531**	**6,644,507**

Deferred tax liabilities	**2023**	**2022**
Property restatements	53,092	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	56,201	50,593
Total	**114,970**	**113,717**

The breakdown by country of deferred tax assets and liabilities is as follows:

Thousand euro

	2023		**2022**	
Country	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Spain	6,174,220	104,364	6,417,930	104,530
United Kingdom	58,037	10,606	82,955	9,187
United States	63,492	—	62,754	—
Mexico	82,608	—	70,198	—
Other	7,174	—	10,670	—
Total	**6,385,531**	**114,970**	**6,644,507**	**113,717**

As indicated in Note 1.3.20, according to the information available as at year-end and the projections taken from the Group's business plan for the coming years, the Group estimates that it will be able to generate sufficient taxable income to offset tax loss carry-forwards 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 16). 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 Group.

The Group has 61,078 thousand euros of tax credits corresponding to research, development and technological innovation activities, deducted in the years 2016 to 2022, and 9,068 thousand euros of tax credits corresponding to the reinvestment of extraordinary profits, deducted in 2010 and not recognised on the consolidated balance sheet as at 31 December 2023. Tax credits for research, development and technological innovation activities expire 18 years after origination, while tax credits for reinvestments of extraordinary profits expire 15 years after origination.

On 29 December 2021, the government published Law 22/2021, which sets forth the minimum tax rate for corporation tax in Spain, calculated for financial institutions, as 18% of the taxable base (provided this is positive), as from 2022. The change introduced by this tax regulation does not modify the recoverability period for the Group's deferred tax assets.

Monetisable tax assets are guaranteed by the State; therefore, their recoverability does not depend on the generation of future tax benefits.

As at 31 December 2023, the Group had deferred tax assets for tax loss carry-forwards pending application amounting to 39.5 million euros not recognised in the balance sheet (generated in financial years prior to the integration of their originating company into the Spanish tax group). The tax-loss carry-forwards do not need to be used before any particular date.

Years subject to tax inspection

As at 31 December 2023, corporation tax for the consolidated tax group in Spain 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.

The review of all taxes not verified and not required in accordance with the corresponding tax regulations is still pending for other Group entities that are not taxed within the consolidated tax group or the VAT group in Spain.

Proceedings

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 verification and investigation proceedings in relation to the main taxes affecting the Group and three of its subsidiaries[1]. 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 97 thousand euros correspond to late-payment interest).

[1] Sabadell Digital, S.A.U., Sabadell Real Estate Development, S.L.U and Tenedora de Inversiones y Participaciones, S.L.

Furthermore, the verification proceeding opened by the Mexican tax authorities (Servicio de Administración Tributaria, or SAT) in relation to the income tax (*Impuesto Sobre la Renta*, or ISR) corresponding to 2018 of the Mexican subsidiary Banco Sabadell, S.A., Institución de Banca Múltiple came to an end in June 2023, resulting in a reduction of the tax loss carry-forwards obtained during the year of approximately 10 million euros.

As at 31 December 2023, the Group had arranged sufficient provisions to cover the matters raised during the tax inspections carried out.

Ongoing disputes

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 1,831 thousand euros (2,337 thousand 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 Group has, in any event, made suitable provisions for any contingencies that it is thought could arise in relation to these proceedings.

In relation to items for which the statute of limitations is unexpired, due to potential differences in the interpretation of tax regulations, the results of the tax authority inspections for the years subject to review may give rise to contingent tax liabilities, which it is not possible to quantify objectively. However, the Group considers that the possibility of such liabilities materialising is remote and, if they did materialise, the resulting tax charge would not be such as to have any significant impact on these consolidated annual financial statements.

Note 40 – Related party transactions

In accordance with the provisions of Chapter VII bis. Related Party Transactions, of the Capital Companies Act, introduced by Law 5/2021 of 12 April, amending the restated text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010 of 2 July and other financial regulations, with regard to the promotion of long-term shareholder involvement in listed companies, there are no transactions with officers and directors of the company that could be considered 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 amount recorded on the consolidated income statements for 2023 and 2022 for related party transactions, are shown below:

Thousand euro

	2023				
	Joint control or signif. influence (in B.Sab)	**Associates**	**Key personnel**	**Other related parties (*)**	**TOTAL**
Assets:					
Customer lending and other financial assets	—	99,652	3,757	829,620	**933,029**
Liabilities:					
Customer deposits and other financial liabilities	—	463,292	5,452	218,477	**687,221**
Off-balance sheet exposures:					
Financial guarantees given	—	294	—	29,136	**29,430**
Loan commitments given	—	54	378	261,702	**262,134**
Other commitments given	—	6,491	—	84,726	**91,217**
Income statement:					
Interest and similar income	—	4,170	50	18,110	**22,330**
Interest and similar expenses	—	(4,010)	(75)	(915)	**(5,000)**
Return on capital instruments					**—**
Fees and commissions (net)	—	106,253	13	1,452	**107,718**
Other operating income/expense	—	5,655	3	4	**5,662**

(*) Includes employee pension plans.

Thousand euro

	2022				
	Joint control or signif. influence (in B.Sab)	Associates	Key personnel	Other related parties (*)	TOTAL
Assets:					
Customer lending and other financial assets	—	139,981	3,917	515,006	**658,904**
Liabilities:					
Customer deposits and other financial liabilities	—	227,023	5,718	75,107	**307,848**
Off-balance sheet exposures:					
Financial guarantees given	—	294	—	15,067	**15,361**
Loan commitments given	—	47	395	296,880	**297,322**
Other commitments given	—	6,499	—	82,913	**89,412**
Income statement:					
Interest and similar income	—	3,467	36	5,646	**9,149**
Interest and similar expenses	—	(18)	(5)	(643)	**(666)**
Return on capital instruments	—	—	—	—	**—**
Fees and commissions (net)	—	137,175	25	(64)	**137,136**
Other operating income/expense	—	5,704	—	1	**5,705**

(*) Includes employee pension plans.

Note 41 – Remuneration of members of the Board of Directors and Senior Management and their respective balances

The following table shows, for the years ended 31 December 2023 and 2022, the remuneration paid to directors for services provided by them in that capacity:

Thousand euro

	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 33).

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 consolidated 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 33), 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 consolidated 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[2], 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:

- 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 42 – 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.

[2] Related-party transactions are governed by their own special regime.

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.

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, Banco Sabadell's Customer Care Service (SAC) received 54,884 complaints and 54,048 complaints were handled 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 %**

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 43 – 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)

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			
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)
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)
Sydinia, S.L.	Power generation	Albacete - Spain	—	50.00	226	(40)	1	—	1	113	—	(20)
SBD Creixent, S.A.	Real estate	Sabadell - Spain	23.05	—	5,965	(891)	256	—	6,030	3,524	(2,299)	4
Enerlan Solutions, S.L.	Power generation	Biscay-Spain	—	19.00	3	142	80	—	559	274	—	—
Ingubide, S.L.	Power generation	Biscay-Spain	—	19.00	3	43	139	—	520	152	—	—
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. The key figures as at 2023 year-end for BanSabadell Vida, S.A. are included in Note 14 of the consolidated annual financial statements.

Changes in the scope of consolidation in 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.
(c) Removed from the scope due to sale.

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			
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. en Liquidación	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. in liquidation	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)
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

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			
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. in liquidation	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		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Acquisition cost	Fair value of equity instruments issued for the acquisition					
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 liquidation	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	Banco 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	Banco 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	ICO-FTVPO 1, F.T.H (CP)	BMN- Penedés	736	—	736
2017	TDA SABADELL RMBS 4, F.T	Banco Sabadell	3,383,327	3,380,614	—
2022	SABADELL CONSUMO 2, FT	Banco Sabadell	438,863	—	—
2022	DUNCAN FUNDING 2022 PLC	TSB Bank	1,495,200	—	—
2023	SCF AUTOS 1, FT	Sabadell Consumer Finance	587,473	—	—
Total			**7,446,823**	**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 of the Group

Debt securities in issue

The breakdown of the Group's issues as at 31 December 2023 and 2022 is as follows:

Thousand euro

Issuer	Issue date	Amount 31/12/2023	Amount 31/12/2022	Interest rate ruling as at 31/12/2023	Maturity / termination date	Issue currency	Target of offering
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
TSB Banking Group Plc (*) (**)	13/6/2022	517,807	507,368	SONIA + 2.45%	13/06/2026	Pounds sterling	Institutional
Banco de Sabadell, S.A. (*)	8/9/2022	500,000	500,000	5.375%	08/09/2025	Euro	Institutional
Banco de Sabadell, S.A.	2/11/2022	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
TSB Banking Group Plc (*)(**)	9/12/2022	287,670	281,871	SONIA + 3.40%	09/12/2025	Pounds sterling	Institutional
Banco de Sabadell, S.A. (*)	7/2/2023	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%	08/09/2028	Euro	Institutional
TSB Banking Group Plc (*) (**)	05/12/2023	230,136	—	SONIA + 3.28%	05/12/2027	Pounds sterling	Institutional
Subscribed by Group companies		(1,095,613)	(874,239)				
Total straight bonds		**8,630,100**	**7,949,500**				

(*) "Maturity/call date" refers to the first call option.

(**) Equivalent amount in euros as at the end of December 2023.

Thousand euro

Issuer	Issue date	Amount 31/12/2023	Amount 31/12/2022	Interest rate ruling as at 31/12/2023	Maturity date	Issue currency	Target of offering
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	Institutional
Banco de Sabadell, S.A.	12/11/2018	3,200	3,200	Underlying benchmark	01/04/2025	Euro	Institutional
Banco de Sabadell, S.A.	03/06/2022	8,900	8,900	MAX (EURIBOR 12M;2.75%)	03/06/2027	Euro	
Banco de Sabadell, S.A.	01/08/2022	9,200	9,200	MAX (EURIBOR 12M;4%)	02/08/2027	Euro	
Total structured bonds		**41,300**	**41,300**				

Thousand euro

Issuer	Issue date	Amount 31/12/2023	Amount 31/12/2022	Average interest rate 31/12/2023	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A. (*)	10/05/2022	2,125,763	1,445,701	0.00%	Various	Euro	Institutional
Subscribed by Group companies		(742,935)	(573,805)				
Total commercial paper		**1,382,828**	**871,896**				

(*) 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 3M + 0.13	04/05/2023	Euro	Institutional
Banco de Sabadell, S.A.	03/07/2015	—	50,000	EURIBOR 3M + 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	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.	22/12/2023	200,000	—	EURIBOR 3M + 0.77	22/12/2031	Euro	Institutional
Subscribed by Group companies		(8,065,000)	(8,115,000)				
Total mortgage covered bonds		**7,475,000**	**7,563,000**				

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				
TSB Banking Group Plc	15/2/2019	575,342	845,614	SONIA + 0.870	15/2/2024	Pounds sterling	Institutional
TSB Banking Group Plc	22/6/2021	575,341	563,742	SONIA + 0.370	22/6/2028	Pounds sterling	Institutional
TSB Banking Group Plc	14/2/2023	1,150,682	—	SONIA + 0.60	14/2/2027	Pounds sterling	Institutional
TSB Banking Group Plc	15/9/2023	863,011	—	SONIA + 0.65	15/9/2028	Pounds sterling	Institutional
TSB Banking Group Plc	11/10/2023	575,341	—	SONIA + 0.63	10/11/2027	Pounds sterling	Institutional
Subscribed by Group companies		(575,341)	—				
Total Covered Bonds		**3,164,376**	**1,409,356**				

Securitisations

The following table shows the securities issued by asset securitisation funds outstanding as at 31 December 2023 and 2022, respectively:

Thousand euro

Year	Name of fund (*)	Types of issue	Issue		Outstanding balance of liabilities		Yield
			Number of securities	Amount	2023	2022	
2005	TDA CAM 4, F.T.A	RMBS	20,000	2,000,000	25,714	47,009	EURIBOR 3M + (between 0.09% and 0.24%)
2005	TDA CAM 5, F.T.A	RMBS	20,000	2,000,000	85,251	105,476	EURIBOR 3M + (between 0.12% and 0.35%)
2006	TDA CAM 6, F.T.A	RMBS	13,000	1,300,000	55,923	68,970	EURIBOR 3M + (between 0.13% and 0.27%)
2006	TDA CAM 7, F.T.A	RMBS	15,000	1,500,000	65,853	82,944	EURIBOR 3M + (between 0.14% and 0.3%)
2006	CAIXA PENEDES 1 TDA, F.T.A	RMBS	10,000	1,000,000	26,025	31,725	EURIBOR 3M + 0.14%
2006	FTPYME TDA CAM 4, F.T.A	SMEs	15,293	1,529,300	21,662	27,614	EURIBOR 3M + 0.61%
2007	TDA CAM 8, F.T.A	RMBS	17,128	1,712,800	62,769	75,165	EURIBOR 3M + (between 0.13% and 0.47%)
2007	CAIXA PENEDES PYMES 1 TDA, F.T.A	SMEs	7,900	790,000	225	300	EURIBOR 3M + 0.8%
2007	TDA CAM 9, F.T.A	RMBS	15,150	1,515,000	92,011	108,025	EURIBOR 3M + (between 0.19% and 0.75%)
2022	SABADELL CONSUMO 2, F.T.	CONSUMER	7,591	759,100	441,140	655,618	EURIBOR 1M + (between 0.87% and 13.25%)
2023	SCF AUTOS 1, F.T.	VEHICLES	6,595	659,500	494,000	—	EURIBOR 1M + (betweeen 0.69% and 9.23%)
Total securitisation funds					**1,370,573**	**1,202,846**	

(*) The bonds issued by securitisation funds are listed in the AIAF market.

Subordinated liabilities

Subordinated liabilities issued by the Group 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	5.63%	6/5/2026	Euro	Institutional
Banco de Sabadell, S.A. (*)	12/12/2018	—	500,000	5.38%	12/12/2023	Euro	Institutional
Banco de Sabadell, S.A. (*)	17/01/2020	300,000	300,000	2.00%	17/01/2025	Euro	Institutional
Banco de Sabadell, S.A. (*)	15/01/2021	500,000	500,000	2.50%	15/04/2026	Euro	Institutional
TSB Banking Group Plc	30/03/2021	345,205	338,245	3.45%	30/03/2026	Pounds sterling	Institutional
Banco de Sabadell, S.A.	16/02/2023	500,000	—	6.00%	16/05/2028	Euro	Institutional
Subscribed by Group companies		(345,205)	(338,245)				
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	6.13%	23/02/2023	Euro	Institutional
Banco de Sabadell, S.A. (*)	15/03/2021	500,000	500,000	5.75%	15/09/2026	Euro	Institutional
Banco de Sabadell, S.A. (*)	19/11/2021	750,000	750,000	5.00%	19/11/2027	Euro	Institutional
Banco de Sabadell, S.A. (*)	18/01/2023	500,000	—	9.375%	18/07/2028	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.

The issues included in subordinated liabilities, for the purposes of credit priority, are ranked below all of the Group's regular creditors.

For the purpose of complying with the requirements of IAS 7, the table below shows the reconciliation of liabilities derived from financing activities, identifying the components of their movements:

Thousand euro

Total subordinated liabilities as at 31 December 2021	**4,200,000**
Newly issued	—
Amortised	(750,000)
Capitalisation	—
Exchange rate	—
Change in subordinated liabilities subscribed by Group companies	—
Total subordinated liabilities as at 31 December 2022	**3,450,000**
Newly issued	1,000,000
Amortised	(900,000)
Capitalisation	—
Exchange rate	—
Change in subordinated liabilities subscribed by Group companies	—
Total subordinated liabilities as at 31 December 2023	**3,550,000**

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	**8,980,558**	**23,776**	**393,229**	**18,369**	**6,621**	**42**	**857**	**391,116**
Other financial corporations and individual entrepreneurs (financial business activity)	**1,315,339**	**206,658**	**238,726**	**233,252**	**161,757**	**5,918**	**9,410**	**35,047**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**57,417,407**	**11,029,211**	**5,800,333**	**5,758,968**	**4,352,419**	**1,840,235**	**1,384,038**	**3,493,884**
Construction and real estate development (including land)	2,253,778	1,262,384	257,299	520,929	516,954	174,633	121,393	185,774
Civil engineering construction	1,007,464	26,668	45,518	39,612	8,729	2,981	7,501	13,363
Other purposes	54,156,165	9,740,159	5,497,516	5,198,427	3,826,736	1,662,621	1,255,144	3,294,747
Large enterprises	29,971,252	2,574,879	2,095,603	1,216,378	914,663	385,915	395,883	1,757,643
SMEs and individual entrepreneurs	24,184,913	7,165,280	3,401,913	3,982,049	2,912,073	1,276,706	859,261	1,537,104
Other households	**84,202,656**	**76,182,679**	**1,200,701**	**17,259,349**	**23,402,095**	**26,631,313**	**7,886,433**	**2,204,190**
Home loans	75,264,075	74,941,780	250,150	16,421,911	22,741,620	26,263,113	7,729,403	2,035,883
Consumer loans	5,774,897	40,182	749,578	204,415	294,636	137,011	68,708	84,990
Other purposes	3,163,684	1,200,717	200,973	633,023	365,839	231,189	88,322	83,317
TOTAL	**151,915,960**	**87,442,324**	**7,632,989**	**23,269,938**	**27,922,892**	**28,477,508**	**9,280,738**	**6,124,237**
MEMORANDUM ITEM Refinancing, refinanced and restructured transactions	**3,866,784**	**2,217,794**	**159,301**	**807,197**	**623,992**	**486,425**	**204,765**	**254,716**

Thousand euro

	2022							
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Secured loans. Carrying amount based on last available valuation. Loan to value				
				Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**10,112,875**	**27,806**	**404,416**	**21,478**	**8,006**	**—**	**906**	**401,832**
Other financial corporations and individual entrepreneurs (financial business activity)	**1,053,004**	**302,774**	**362,324**	**433,339**	**194,881**	**21,854**	**6,451**	**8,573**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**60,962,804**	**13,324,354**	**5,961,022**	**7,596,497**	**4,652,265**	**2,200,628**	**1,546,495**	**3,289,491**
Construction and real estate development (including land)	2,558,107	1,490,609	316,320	756,742	534,819	153,846	147,140	214,382
Civil engineering construction	968,875	25,767	151,094	140,083	11,224	2,729	3,783	19,042
Other purposes	57,435,822	11,807,978	5,493,608	6,699,672	4,106,222	2,044,053	1,395,572	3,056,067
Large enterprises	25,586,942	2,161,488	2,006,076	1,773,688	443,347	276,123	372,204	1,302,202
SMEs and individual entrepreneurs	31,848,880	9,646,490	3,487,532	4,925,984	3,662,875	1,767,930	1,023,368	1,753,865
Other households	**85,544,442**	**77,898,980**	**1,384,690**	**17,922,933**	**24,711,578**	**26,895,158**	**6,936,913**	**2,817,088**
Home loans	77,075,115	76,728,550	296,420	17,006,740	24,088,867	26,531,341	6,779,029	2,618,993
Consumer loans	5,440,517	41,627	672,238	126,801	262,036	149,721	74,613	100,694
Other purposes	3,028,810	1,128,803	416,032	789,392	360,675	214,096	83,271	97,401
TOTAL	**157,673,125**	**91,553,914**	**8,112,452**	**25,974,247**	**29,566,730**	**29,117,640**	**8,490,765**	**6,516,984**
MEMORANDUM ITEM **Refinancing, refinanced and restructured transactions**	**4,512,316**	**2,911,059**	**272,013**	**961,790**	**840,122**	**534,705**	**248,379**	**598,076**

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.

Refinancing and restructuring transactions

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**
TOTAL							
Not secured with collateral							
Number of transactions	—	12	66	28,834	*798*	59,191	**88,103**
Gross carrying amount	—	6,338	17,563	1,913,078	*131,181*	254,385	**2,191,364**
Secured with collateral							
Number of transactions	—	1	8	5,522	*276*	15,644	**21,175**
Gross carrying amount	—	75	179	1,464,647	*108,041*	1,310,756	**2,775,657**
Impairment allowances	—	429	15,006	726,639	*71,333*	358,162	**1,100,236**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	—	2	32	18,946	*554*	45,576	***64,556***
Gross carrying amount	—	630	16,250	1,030,015	*75,717*	175,898	***1,222,793***
Secured with collateral							
Number of transactions		1	4	3,210	*197*	8,232	***11,447***
Gross carrying amount	—	75	150	621,211	*67,899*	845,735	***1,467,171***
Impairment allowances	—	429	14,970	660,589	*69,559*	332,799	***1,008,787***
TOTAL							
Number of transactions	—	13	74	34,356	*1,074*	74,835	**109,278**
Gross value	—	6,413	17,742	3,377,725	*239,222*	1,565,141	**4,967,021**
Impairment allowances	—	429	15,006	726,639	*71,333*	358,162	**1,100,236**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	—	—	—	3,627	352	3,222	6,849

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
TOTAL							
Not secured with collateral							
Number of transactions	—	13	77	29,290	*807*	59,586	**88,966**
Gross carrying amount	—	8,115	24,424	1,910,336	*76,455*	245,991	**2,188,866**
Secured with collateral							
Number of transactions	—	1	11	7,936	*1,238*	14,654	**22,602**
Gross carrying amount	—	100	1,688	2,079,054	*180,451*	1,323,929	**3,404,771**
Impairment allowances	—	1,049	15,313	776,751	*79,589*	288,210	**1,081,323**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	—	*10*	*35*	*14,428*	*478*	*43,708*	***58,181***
Gross carrying amount	—	*6,938*	*16,529*	*891,441*	*60,892*	*173,526*	***1,088,434***
Secured with collateral							
Number of transactions	—	*1*	*5*	*4,539*	*1,128*	*7,202*	***11,747***
Gross carrying amount	—	*100*	*218*	*895,810*	*75,145*	*759,672*	***1,655,800***
Impairment allowances	—	*864*	*15,176*	*702,017*	*74,597*	*262,845*	***980,902***
TOTAL							
Number of transactions	—	14	88	37,226	*2,045*	74,240	**111,568**
Gross value	—	8,215	26,112	3,989,390	*256,906*	1,569,920	**5,593,637**
Impairment allowances	—	1,049	15,313	776,751	*79,589*	288,210	**1,081,323**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—	**—**

The value of the guarantees received to ensure collection associated with 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	2,374,930	2,893,373
Of which: securing stage 3 loans	*1,151,958*	*1,310,560*
Value of other guarantees	942,367	1,061,177
Of which: securing stage 3 loans	*427,369*	*376,624*
Total value of guarantees received	**3,317,297**	**3,954,550**

Detailed movements in the balance of refinancing and restructuring transactions during 2023 and 2022 are as follows:

Thousand euro

	2023	**2022**
Opening balance	**5,593,638**	**6,834,437**
(+) Forbearance (refinancing and restructuring) in the period	1,381,276	933,461
Memorandum item: impact recognised on the income statement for the period	*146,794*	*116,365*
(-) Debt repayments	(686,252)	(919,789)
(-) Foreclosures	(5,086)	(8,044)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(114,835)	(105,546)
(+)/(-) Other changes (*)	(1,201,720)	(1,140,882)
Year-end balance	**4,967,021**	**5,593,637**

(*) Includes transactions no longer classified as refinancing, refinanced or restructured due to meeting the requirements for reclassification from stage 2 to stage 1 exposures (see Note 1.3.4).

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	**249,593**	**374,135**
Of which: Lending for construction and real estate development	*25,064*	*20,280*
Other natural persons	**153,883**	**90,171**
Total	**403,476**	**464,306**

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.

The change of PD observed in natural persons is due to the update and improvement of the IRB model carried out in 2023. The PDs are now more aligned with those of the companies segment. The previous model had an adjustment to make the estimate more through-the-cycle or long-term, which has been removed in the new version.

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	**40,818,131**	**24,396,259**	**5,901,206**	**2,413,890**	**8,106,776**
General governments	**34,319,129**	**25,077,209**	**4,812,170**	**2,377,517**	**2,052,233**
Central governments	23,338,073	15,730,694	4,563,364	991,796	2,052,219
Other	10,981,056	9,346,515	248,806	1,385,721	14
Other financial corporations and individual entrepreneurs	**4,514,495**	**1,051,126**	**201,741**	**647,539**	**2,614,089**
Non-financial corporations and individual entrepreneurs	**60,294,112**	**44,591,755**	**3,639,175**	**9,830,688**	**2,232,494**
Construction and real estate development	2,364,448	1,873,580	74,974	325,046	90,848
Civil engineering construction	1,098,655	766,428	14,205	240,774	77,248
Other purposes	56,831,009	41,951,747	3,549,996	9,264,868	2,064,398
Large enterprises	32,091,522	19,952,554	2,871,965	7,856,577	1,410,426
SMEs and individual entrepreneurs	24,739,487	21,999,193	678,031	1,408,291	653,972
Other households	**84,308,370**	**39,585,977**	**1,324,896**	**623,225**	**42,774,272**
Home loans	75,264,075	32,888,290	1,306,620	337,152	40,732,013
Consumer loans	5,774,897	3,907,018	7,319	6,024	1,854,536
Other purposes	3,269,398	2,790,669	10,957	280,049	187,723
TOTAL	**224,254,237**	**134,702,326**	**15,879,188**	**15,892,859**	**57,779,864**

Thousand euro

	2022				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**47,918,906**	**34,158,121**	**3,778,817**	**2,613,583**	**7,368,385**
General governments	**36,026,312**	**27,319,509**	**4,865,464**	**1,685,660**	**2,155,679**
Central governments	25,682,763	18,162,012	4,671,930	693,142	2,155,679
Other	10,343,549	9,157,497	193,534	992,518	—
Other financial corporations and individual entrepreneurs	**7,416,023**	**1,367,666**	**2,502,161**	**485,170**	**3,061,026**
Non-financial corporations and individual entrepreneurs	**63,587,639**	**48,156,329**	**3,400,613**	**9,597,141**	**2,433,556**
Construction and real estate development	2,680,945	2,205,881	54,640	286,390	134,034
Civil engineering construction	1,043,510	767,633	14,266	236,171	25,440
Other purposes	59,863,184	45,182,815	3,331,707	9,074,580	2,274,082
Large enterprises	27,398,039	16,773,028	1,859,562	7,549,562	1,215,887
SMEs and individual entrepreneurs	32,465,145	28,409,787	1,472,145	1,525,018	1,058,195
Other households	**86,241,976**	**39,850,415**	**1,193,792**	**612,502**	**44,585,267**
Home loans	77,672,228	33,741,442	1,170,817	282,090	42,477,879
Consumer loans	5,440,517	3,488,618	8,853	6,998	1,936,048
Other purposes	3,129,231	2,620,355	14,122	323,414	171,340
TOTAL	**241,190,856**	**150,852,040**	**15,740,847**	**14,994,056**	**59,603,913**

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									
		AUTONOMOUS COMMUNITIES								
	TOTAL	Andalusia	Aragon	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**24,396,259**	**5,410**	**—**	**—**	**—**	**—**	**698,942**	**—**	**—**	**430,307**
General governments	**25,077,209**	**578,710**	**241,671**	**431,346**	**343,768**	**664,383**	**3,215**	**135,071**	**1,043,140**	**760,577**
Central governments	15,730,694	—	—	—	—	—	—	—	—	—
Other	9,346,515	578,710	241,671	431,346	343,768	664,383	3,215	135,071	1,043,140	760,577
Other financial corporations and individual entrepreneurs	**1,051,126**	**3,681**	**1,772**	**1,996**	**1,312**	**850**	**156**	**627**	**32,962**	**108,516**
Non-financial corporations and individual entrepreneurs	**44,591,755**	**2,343,177**	**963,467**	**1,178,938**	**2,121,692**	**1,076,886**	**187,623**	**654,351**	**1,066,855**	**12,397,422**
Construction and real estate development	1,873,580	84,243	32,392	34,190	70,540	25,438	5,298	17,468	24,539	447,318
Civil engineering construction	766,428	24,615	12,107	18,725	5,653	4,146	2,883	8,684	12,627	136,796
Other purposes	41,951,747	2,234,319	918,968	1,126,023	2,045,499	1,047,302	179,442	628,199	1,029,689	11,813,308
Large enterprises	19,952,554	737,726	414,435	376,522	1,250,346	396,396	79,599	210,930	255,722	4,981,149
SMEs and individual entrepreneurs	21,999,193	1,496,593	504,533	749,501	795,153	650,906	99,843	417,269	773,967	6,832,159
Other households	**39,585,977**	**2,846,721**	**563,894**	**1,131,953**	**1,478,250**	**625,737**	**116,920**	**519,921**	**752,937**	**15,228,142**
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	3,907,018	445,359	46,353	100,552	100,212	164,035	13,001	87,486	97,486	1,135,004
Other purposes	2,790,669	140,543	37,480	140,805	75,710	28,194	6,932	28,508	61,090	1,014,875
TOTAL	**134,702,326**	**5,777,699**	**1,770,804**	**2,744,233**	**3,945,022**	**2,367,856**	**1,006,856**	**1,309,970**	**2,895,894**	**28,924,964**

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**	**22,079,828**	**1**	**—**	**85,085**	**1,091,702**	**—**	**—**
General governments	**39,126**	**760,893**	**2,676,261**	**60,696**	**266,743**	**586,724**	**682,970**	**52,617**	**18,604**
Central governments	—	—	—	—	—	—	—	—	—
Other	39,126	760,893	2,676,261	60,696	266,743	586,724	682,970	52,617	18,604
Other financial corporations and individual entrepreneurs	**21,180**	**2,603**	**282,444**	**2,130**	**2,738**	**537,554**	**32,564**	**18,031**	**10**
Non-financial corporations and individual entrepreneurs	**121,904**	**2,007,256**	**12,716,367**	**993,898**	**493,121**	**4,113,260**	**1,985,073**	**153,674**	**16,791**
Construction and real estate development	2,139	89,728	813,387	26,778	9,548	139,160	42,655	7,811	948
Civil engineering construction	1,719	34,342	378,929	14,495	2,295	59,305	46,768	1,044	1,295
Other purposes	118,046	1,883,186	11,524,051	952,625	481,278	3,914,795	1,895,650	144,819	14,548
Large enterprises	21,484	613,494	7,409,234	287,277	249,810	1,624,341	990,456	53,476	157
SMEs and individual entrepreneurs	96,562	1,269,692	4,114,817	665,348	231,468	2,290,454	905,194	91,343	14,391
Other households	**149,504**	**1,002,659**	**5,347,812**	**2,089,573**	**161,017**	**6,110,308**	**1,307,172**	**68,368**	**85,089**
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	28,303	174,860	625,842	201,006	8,536	600,720	69,838	5,371	3,054
Other purposes	8,143	88,619	391,630	172,917	19,676	496,959	70,101	5,547	2,940
TOTAL	**331,714**	**3,778,395**	**43,102,712**	**3,146,298**	**923,619**	**11,432,931**	**5,099,481**	**292,690**	**120,494**

Thousand euro

	2022									
		AUTONOMOUS COMMUNITIES								
	TOTAL	Andalusia	Aragon	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**34,158,121**	**5,145**	**1**	**13**	**8**	**2**	**349,943**	**—**	**—**	**350,636**
General governments	**27,319,509**	**548,524**	**282,965**	**377,523**	**413,874**	**614,807**	**5,646**	**177,985**	**886,455**	**806,616**
Central governments	18,162,012	—	—	—	—	—	—	—	—	—
Other	9,157,497	548,524	282,965	377,523	413,874	614,807	5,646	177,985	886,455	806,616
Other financial corporations and individual entrepreneurs	**1,367,666**	**4,751**	**1,754**	**3,187**	**1,433**	**941**	**247**	**705**	**11,318**	**496,126**
Non-financial corporations and individual entrepreneurs	**48,156,329**	**2,461,160**	**1,077,323**	**1,355,755**	**2,131,431**	**1,162,785**	**203,928**	**677,576**	**1,191,791**	**13,643,536**
Construction and real estate development	2,205,881	97,474	38,811	43,796	73,749	25,553	7,609	16,082	33,632	519,457
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	45,182,815	2,331,649	1,027,230	1,290,091	2,052,458	1,132,372	192,173	654,820	1,143,603	12,967,560
Large enterprises	16,773,028	631,451	380,888	383,933	956,528	295,167	73,266	186,787	235,303	4,383,584
SMEs and individual entrepreneurs	28,409,787	1,700,198	646,342	906,158	1,095,930	837,205	118,907	468,033	908,300	8,583,976
Other households	**39,850,415**	**2,814,410**	**562,841**	**1,168,698**	**1,467,079**	**615,733**	**116,407**	**510,091**	**781,608**	**15,385,484**
For house purchase	33,741,442	2,305,080	487,577	937,797	1,305,843	436,697	99,189	408,621	626,088	13,366,915
Consumer loans	3,488,618	381,060	41,462	93,342	89,192	154,546	10,152	73,193	91,257	1,049,933
Other purposes	2,620,355	128,270	33,802	137,559	72,044	24,490	7,066	28,277	64,263	968,636
TOTAL	**150,852,040**	**5,833,990**	**1,924,884**	**2,905,176**	**4,013,825**	**2,394,268**	**676,171**	**1,366,357**	**2,871,172**	**30,682,398**

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**	**32,841,524**	**2**	**—**	**100,128**	**499,374**	**—**	**—**
General governments	**73,251**	**660,025**	**2,464,005**	**53,136**	**308,543**	**693,533**	**709,949**	**56,001**	**24,659**
Central governments	—	—	—	—	—	—	—	—	—
Other	73,251	660,025	2,464,005	53,136	308,543	693,533	709,949	56,001	24,659
Other financial corporations and individual entrepreneurs	**93**	**3,729**	**778,585**	**3,310**	**488**	**24,084**	**29,769**	**7,130**	**16**
Non-financial corporations and individual entrepreneurs	**197,915**	**2,404,086**	**12,870,370**	**1,122,284**	**608,933**	**4,755,150**	**2,080,952**	**191,396**	**19,958**
Construction and real estate development	1,948	94,226	969,667	31,131	11,134	151,009	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	193,793	2,266,532	11,564,683	1,076,520	594,793	4,543,899	1,952,604	179,506	18,529
Large enterprises	51,207	756,107	5,625,249	236,223	236,299	1,469,595	812,271	58,931	239
SMEs and individual entrepreneurs	142,586	1,510,425	5,939,434	840,297	358,494	3,074,304	1,140,333	120,575	18,290
Other households	**151,499**	**975,804**	**5,433,400**	**2,050,394**	**168,933**	**6,116,889**	**1,375,881**	**71,251**	**84,013**
For house purchase	116,510	734,267	4,494,023	1,734,407	139,664	5,177,257	1,233,510	59,076	78,921
Consumer loans	27,443	146,638	567,330	174,643	9,796	502,475	67,443	6,017	2,696
Other purposes	7,546	94,899	372,047	141,344	19,473	437,157	74,928	6,158	2,396
TOTAL	**422,758**	**4,054,989**	**54,387,884**	**3,229,126**	**1,086,897**	**11,689,784**	**4,695,925**	**325,778**	**128,646**

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	1,079,949	(55,420)
Mining and quarrying	437,183	(7,619)
Manufacturing	8,926,171	(282,974)
Electricity, gas, steam and air-conditioning supply	4,615,623	(51,549)
Water supply	330,722	(2,431)
Construction	3,982,666	(168,404)
Wholesale and retail trade	8,715,123	(305,582)
Transportation and storage	3,718,878	(76,819)
Hotel and catering	4,423,217	(134,623)
Information and communication	2,063,748	(30,525)
Financial and insurance activities	4,761,296	(157,430)
Real estate activities	6,388,897	(163,617)
Professional, scientific and technical activities	2,290,929	(89,641)
Administrative and auxiliary services	1,594,423	(37,410)
Public administration and defence; mandatory social security	452,396	(506)
Education	304,439	(10,184)
Healthcare and social services	1,036,992	(20,020)
Artistic, leisure and entertainment activities	431,773	(22,864)
Other services	315,642	(160,511)
Total	**55,870,067**	**(1,778,129)**

Thousand euro

	2022	
	Gross carrying amount	**Allowances**
Agriculture, livestock farming, forestry and fisheries	1,076,502	(42,865)
Mining and quarrying	369,936	(7,452)
Manufacturing	9,868,505	(256,971)
Electricity, gas, steam and air-conditioning supply	4,785,320	(86,295)
Water supply	352,310	(3,257)
Construction	4,233,888	(173,834)
Wholesale and retail trade	8,944,060	(256,582)
Transportation and storage	3,794,633	(79,969)
Hotel and catering	4,592,388	(143,964)
Information and communication	1,836,754	(25,602)
Financial and insurance activities	4,595,168	(83,165)
Real estate activities	6,779,311	(162,317)
Professional, scientific and technical activities	2,358,265	(95,985)
Administrative and auxiliary services	1,670,244	(36,732)
Public administration and defence; mandatory social security	378,164	(664)
Education	321,192	(10,179)
Healthcare and social services	937,181	(12,758)
Artistic, leisure and entertainment activities	511,259	(78,890)
Other services	1,043,584	(126,549)
Total	**58,448,664**	**(1,684,030)**

Sovereign risk exposure

Sovereign risk exposure, broken down by type of financial instrument and applying the criteria required by the EBA, 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 (**)	*Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value through equity*	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	16,760	(158,175)	—	2,846,230	13,305,462	9,837,310	—	2,860	(6,040)	25,844,407	—	74.0%
Italy	62,269	(9,798)	—	95,074	3,399,329	—	—	—	—	3,546,874	—	10.2%
United States	—	—	12,191	1,105,010	338,484	161	—	—	—	1,455,845	—	4.2%
United Kingdom	—	—	—	411,132	1,628,549	9,053	—	—	—	2,048,734	—	5.9%
Portugal	—	(27,347)	—	—	734,133	—	—	—	—	706,786	—	2.0%
Mexico	—	—	—	713,467	100,411	101,362	—	—	—	915,240	—	2.6%
Rest of the world	6,891	(134,321)	—	72,081	443,811	8,511	—	—	—	396,974	—	1.1%
Total	**85,920**	**(329,641)**	**12,191**	**5,242,994**	**19,950,179**	**9,956,397**	**—**	**2,860**	**(6,040)**	**34,914,860**	**—**	**100%**

(*) 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 (**)	*Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value through equity*	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	6,434	(135,382)	—	3,196,334	14,028,933	11,113,371	—	1,903	(9,021)	28,202,572	—	76.6%
Italy	20,284	(79,404)	—	—	3,057,287	—	—	—	—	2,998,168	—	8.1%
United States	—	—	11,851	833,134	257,520	233	—	—	—	1,102,737	—	3.0%
United Kingdom	—	—	—	575,289	1,524,614	24,077	—	—	—	2,123,980	—	5.8%
Portugal	—	—	—	—	740,688	3,042	—	—	—	743,730	—	2.0%
Mexico	—	—	—	428,712	100,303	43,904	—	—	—	572,919	—	1.6%
Rest of the world	293,320	—	—	192,611	586,427	13,508	—	—	—	1,085,866	—	2.9%
Total	**320,038**	**(214,786)**	**11,851**	**5,226,080**	**20,295,772**	**11,198,135**	**—**	**1,903**	**(9,021)**	**36,829,972**	**—**	**100%**

(*) Sovereign risk positions shown in accordance with EBA criteria.

(**) Includes those available under 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)	**2,208**	**562**	**111**
Of which: risks classified as stage 3	*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)	**2,527**	**578**	**123**
Of which: risks classified as stage 3	*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)	87,451	91,064
Total assets (total business) (carrying amount)	235,173	251,241
Allowances and provisions for exposures classified as stage 2 or stage 1 (total operations)	922	908

(*) 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	**910**	**969**
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	**2,208**	**2,527**

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	1,285	1,506
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	**1,600**	**1,853**

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	**35,934**	**780**
Not secured with real estate	596	*29*
Secured with real estate	35,338	*751*

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: stage 3 exposures***
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: stage 3 exposures***
LTV ranges	**35,338**	**751**
LTV <= 40%	6,679	*118*
40% < LTV <= 60%	9,573	*153*
60% < LTV <= 80%	12,608	*193*
80% < LTV <= 100%	4,096	*130*
LTV > 100%	2,382	*157*

Lastly, the table below gives details of assets foreclosed or received in lieu of debt by the consolidated Group’s entities, for transactions recorded by credit institutions within Spain, as at 31 December 2023 and 2022:

Million euro

	2023			
	Gross carrying amount	**Allowances**	***Gross amount (*)***	***Allowances (*)***
Real estate assets acquired through lending for construction and real estate development	**358**	**122**	***407***	***176***
Completed buildings	325	107	*366*	*152*
Housing	182	47	*201*	*69*
Other	144	60	*165*	*83*
Buildings under construction	2	1	*2*	*1*
Housing	2	1	*2*	*1*
Other	—	—	—	—
Land	30	14	*38*	*23*
Developed land	16	7	*20*	*11*
Other land	14	7	*18*	*11*
Real estate assets acquired through mortgage lending to households for home purchase	**467**	**123**	***540***	***198***
Other real estate assets foreclosed or received in lieu of debt	**18**	**5**	***25***	***11***
Capital instruments foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
Financing to institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
TOTAL	**843**	**249**	**971**	**385**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

Million euro

	2022			
	Gross carrying amount	Allowances	*Gross amount (*)*	*Allowances (*)*
Real estate assets acquired through lending for construction and real estate development	**487**	**158**	***531***	***215***
Completed buildings	448	140	*485*	*188*
Housing	269	71	*286*	*95*
Other	179	69	*199*	*93*
Buildings under construction	4	1	*5*	*3*
Housing	3	1	*5*	*3*
Other	—	—	—	—
Land	35	16	*41*	*24*
Developed land	19	8	*22*	*12*
Other land	16	8	*19*	*12*
Real estate assets acquired through mortgage lending to households for home purchase	**522**	**136**	***598***	***218***
Other real estate assets foreclosed or received in lieu of debt	**24**	**5**	***27***	***10***
Capital instruments foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
Financing to institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
TOTAL	**1,032**	**299**	**1,157**	**443**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

The table below sets out the reconciliation between assets foreclosed or received in lieu of debt and real estate assets considered non-performing by the Group as at 31 December 2023 and 2022:

Million euro

	2023		
	Gross value	Allowances	Net book value
Total real estate portfolio in the national territory (in books)	**843**	**249**	**594**
Total operations outside the national territory and others	1	1	1
Provision allocated in original loan	147	147	—
Credit risk transferred in portfolio sales	(21)	(13)	(8)
Total non-performing real estate	**971**	**385**	**586**

Million euro

	2022		
	Gross value	Allowances	Net book value
Total real estate portfolio in the national territory (in books)	**1,032**	**299**	**734**
Total operations outside the national territory and others	1	1	1
Provision allocated in original loan	174	174	—
Credit risk transferred in portfolio sales	(51)	(30)	(21)
Total non-performing real estate	**1,157**	**443**	**713**

Schedule V – Annual banking report

INFORMATION REQUIRED UNDER ARTICLE 89 OF DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 26 JUNE 2013

This information has been prepared pursuant to Article 89 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and the transposition thereof into Spanish national legislation in accordance with Article 87 and Transitional Provision 12 of Law 10/2014 of 26 June on the regulation, supervision and solvency of credit institutions, published in the Official State Gazette of 27 June 2014.

In accordance with the above regulations, the following information is presented on a consolidated basis and corresponds to the end of the 2023 financial year:

Thousand euro

	Turnover	No. of employees on a full time equivalent basis	Profit or loss before tax	Corporation tax
Spain	4,101,120	13,013	1,331,993	(412,217)
United Kingdom	1,279,175	5,088	304,732	(84,715)
Mexico	196,767	445	62,862	(12,006)
United States	235,577	236	155,442	(40,016)
Other	49,293	88	35,749	(8,221)
Total	**5,861,932**	**18,870**	**1,890,778**	**(557,175)**

As at 31 December 2023, the return on Group assets, calculated by dividing consolidated profit or loss for the year by total assets on the consolidated balance sheet, amounts to 0.57%.

The name, geographical location and nature of the business activity of the companies operating in each jurisdiction are set out in Schedule I to these consolidated annual financial statements.

As can be seen in Schedule I, the main activity carried out by the Group in the different jurisdictions in which it operates is banking, and fundamentally commercial banking through a wide range of products and services for large and medium-sized enterprises, SMEs, small retailers and self-employed workers, professional groups, other individuals and bancassurance.

For the purposes of this information, business turnover is regarded as the gross income recognised on the consolidated income statement as at 2023 year-end. Data on full-time equivalent employees have been obtained from the workforce of each company/country as at the end of 2023.

The amount of public subsidies and aid received is not significant.

Consolidated 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.

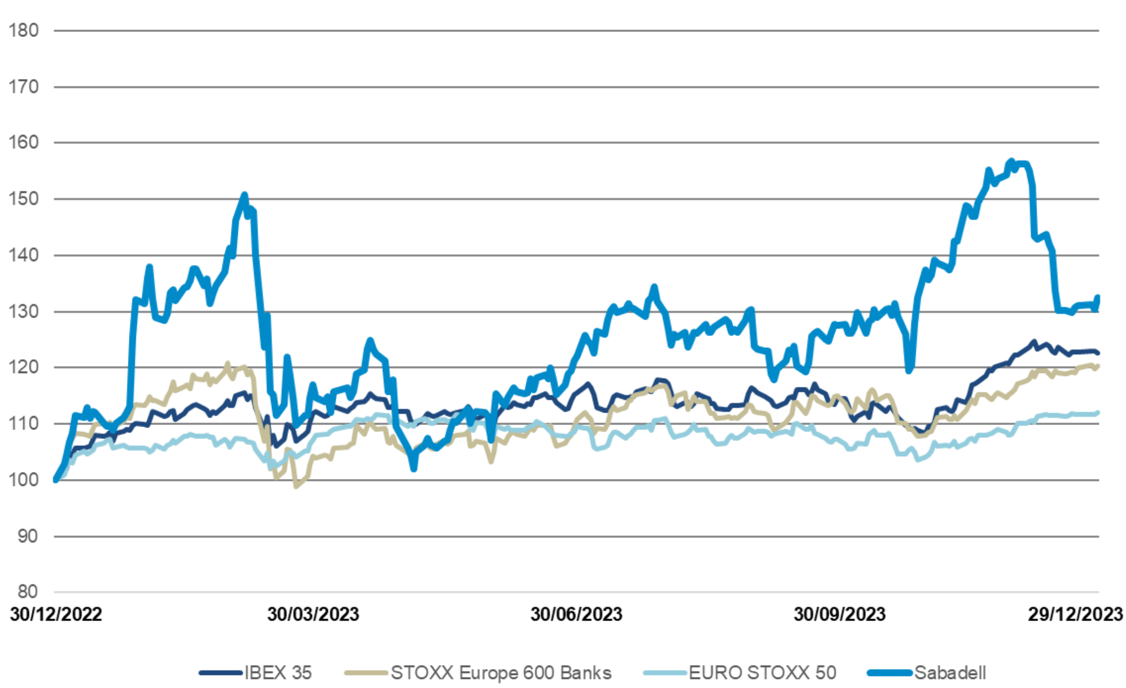
As regards Banco Sabadell’s share price performance, it has kept the good tone of recent years, with a revaluation of +33% in the year. On a like-for-like basis, the market revaluation has been above the European banking industry benchmark (STOXX Europe 600 Banks), which rose by +20%, and also above 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.

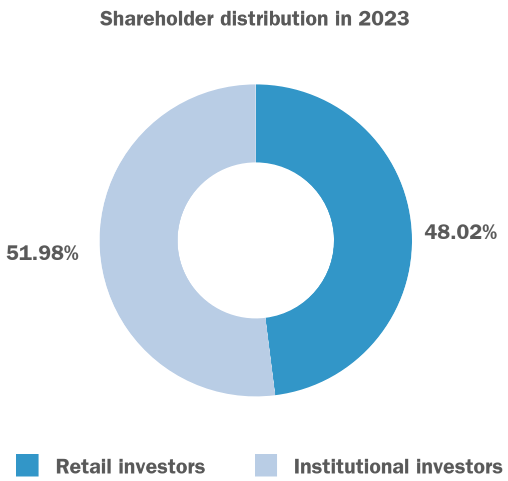
At the end of 2023, 92% of equity analysts covering Banco Sabadell had a Buy or Hold recommendation on the stock.

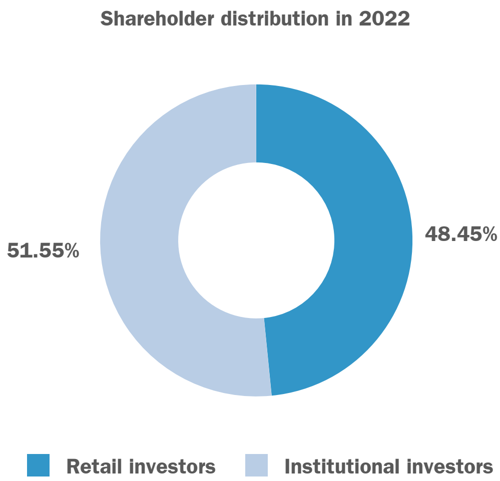
The shareholding structure in 2023 is balanced among institutional and retail shareholders, the former representing 52% and the latter 48%. Within the Bank’s shareholding structure, as at year-end 2023, three investor groups reported a holding of more than 3% according to figures reported to the CNMV. 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:







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 3 to the consolidated 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 consolidated 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.

<u>2. Satisfaction surveys</u>

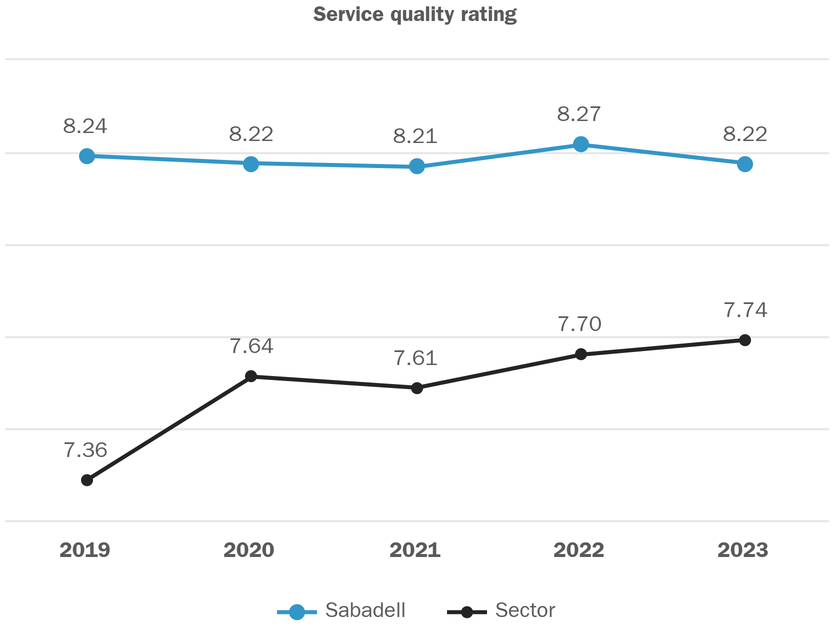
The overall customer experience measurement and management model of Banco Sabadell Spain is based on different indicators obtained from over 800,000 surveys and at more than 20 touchpoints. The results of the various surveys enable the Bank to ascertain the level of satisfaction of its customers and 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.

<u>3. Branch quality surveys</u>

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 42 to the 2023 consolidated 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).

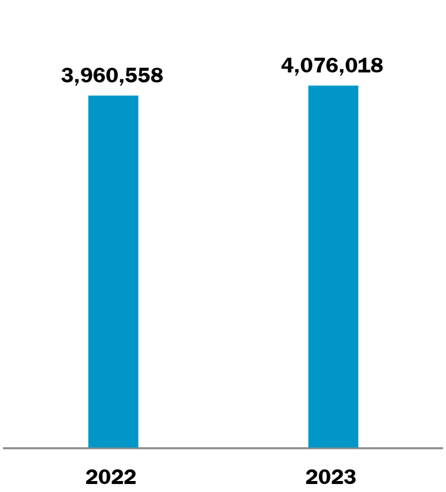
However, all the channels saw a reduction in contacts compared to the previous year. Telephone consultations accounted for 81% of total contacts across all channels, followed by email, chat and social media. The graph below shows the contacts recorded, by channel.

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%.

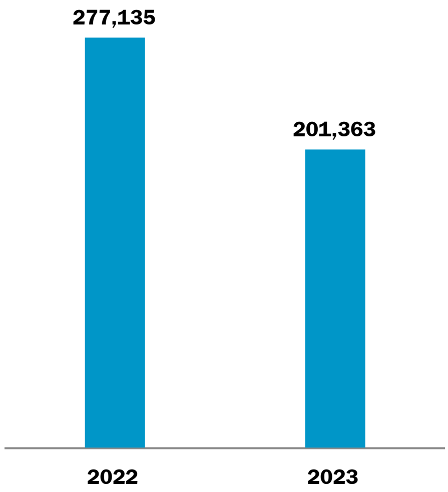
Highlights of 2023:

- 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.

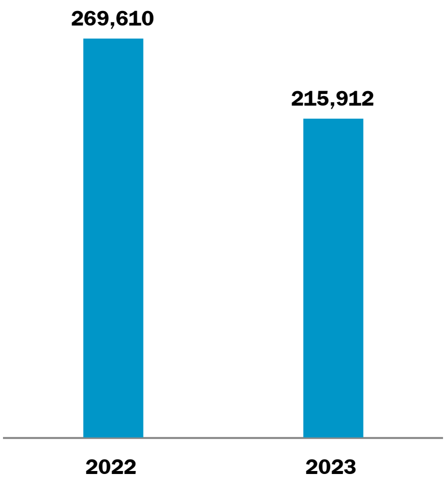
Contacts through telephony channel



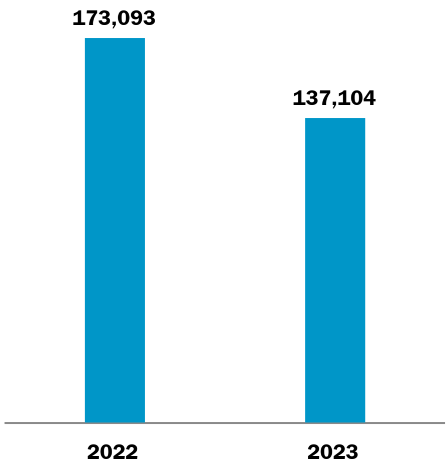
Contacts through email channel



Contacts through chat with agent



Contacts through social media



Social media

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.

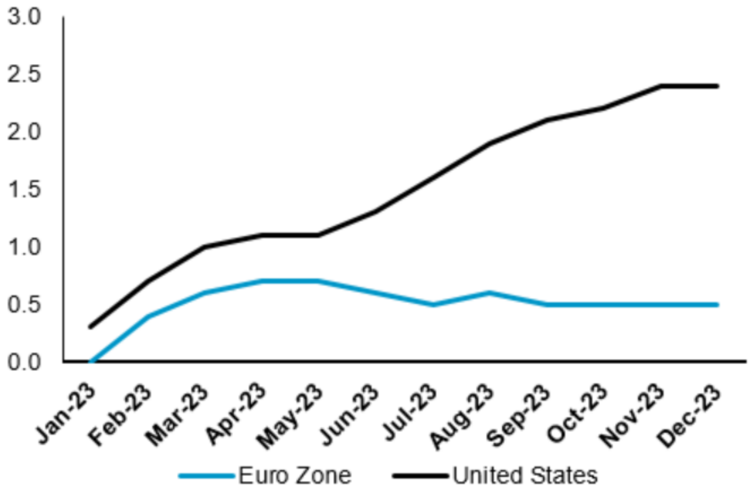
In the background, the geostrategic contention between China and the United States continued, and the emergence of the Global South as a player to be reckoned with in international relations took on new importance. The greater relevance of these countries at multilateral meetings, such as the G20, or 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.

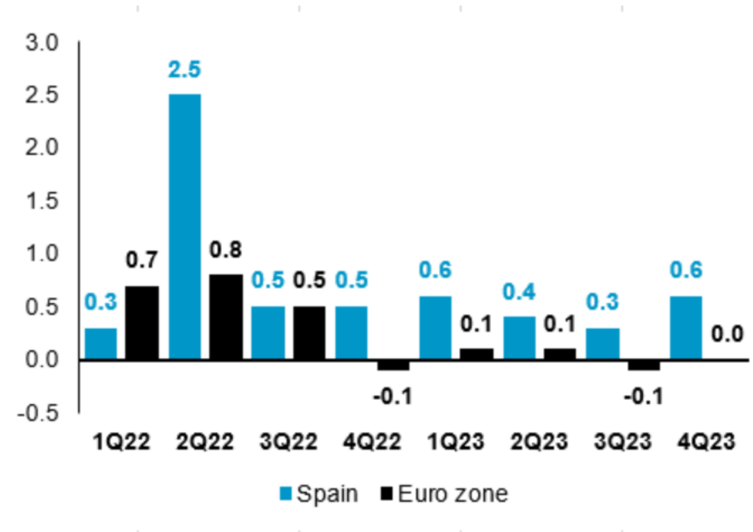
In the Eurozone, economic activity remained practically stagnant throughout the year. The economy was weighed down by monetary policy tightening, weak domestic demand and a sluggish industrial sector, particularly in Germany, which remains affected by the energy crisis. In fiscal matters, EU governments 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.



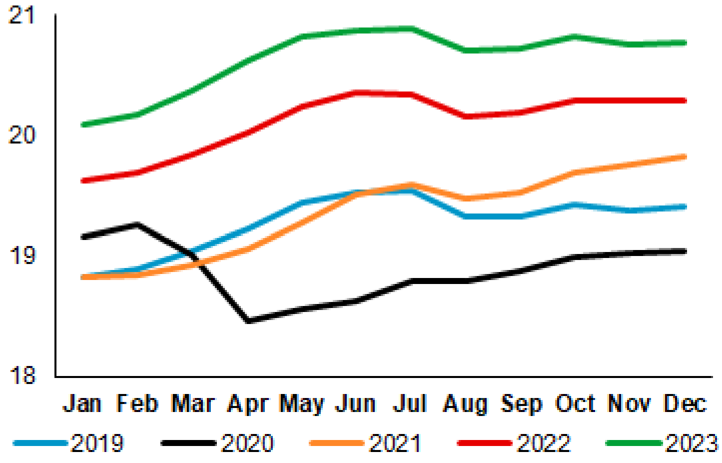
In Spain, the economy followed a similar growth pattern throughout the year, despite a backdrop of rising interest rates, weaker export market performance and a loss of momentum due to the post-pandemic reopening. Growth forecasts for 2023 improved as the year progressed, and the performance of the Spanish 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.

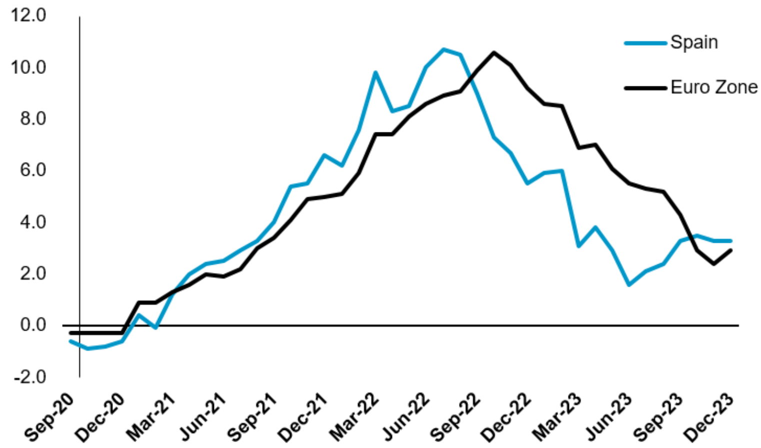
In China, the post-Covid reopening drove growth, although the recovery was slower than expected. A lack of household confidence in the real estate sector and delayed decision-making on household investments weighed on China's recovery. In this context, the adjustment of the real estate sector, already 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.

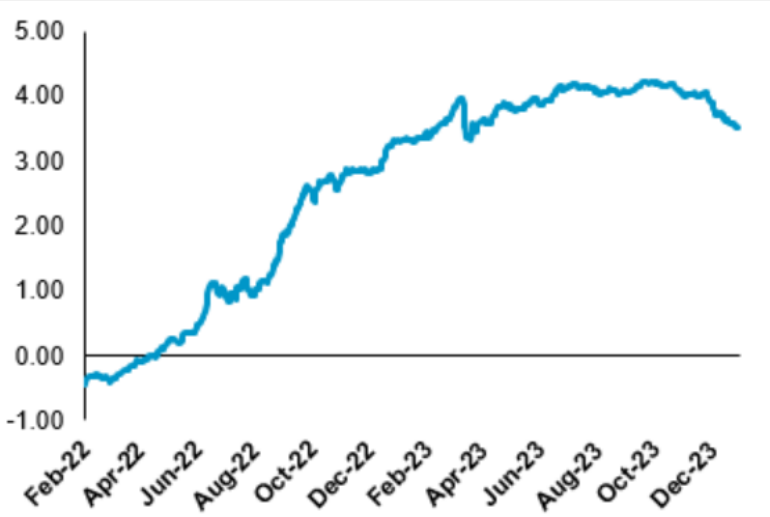


Monetary policy

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.

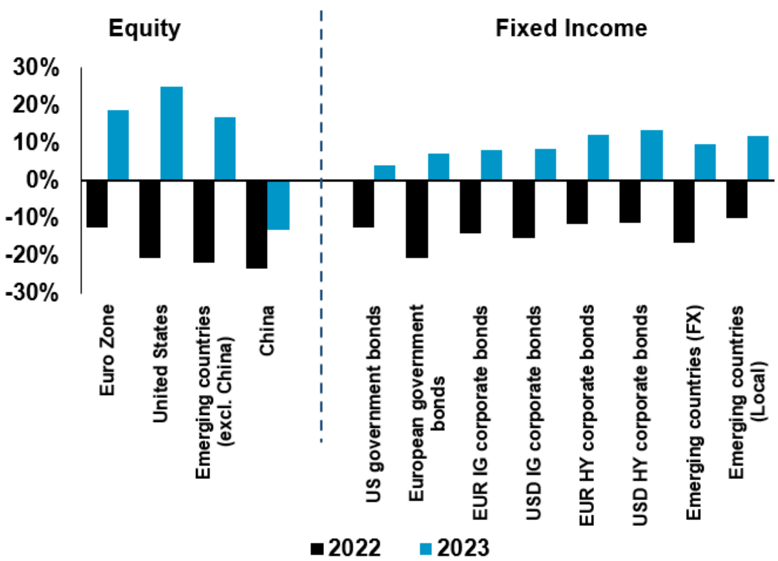
In the United Kingdom, the Bank of England (BoE) raised the base rate to 5.25%, after inflationary pressures intensified at the beginning of the year. In addition, it continued with the balance sheet reduction programme, unwinding practically all of its corporate bond holdings (around 18 billion pounds) 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

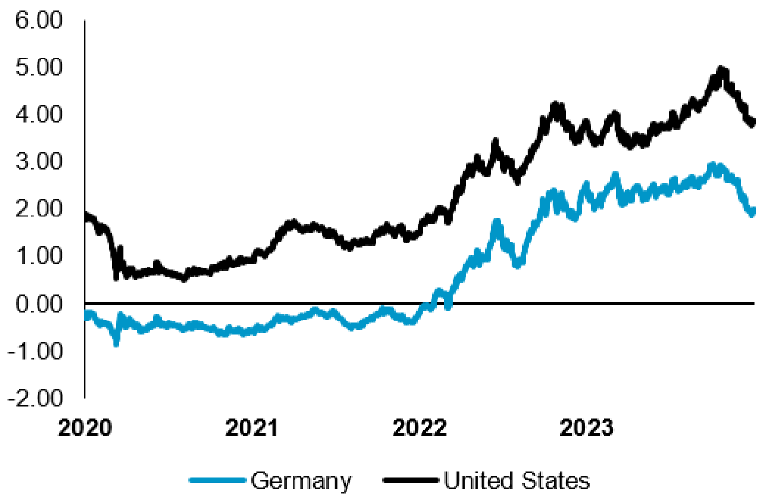
The financial markets performed better in 2023 than the previous year, when a large portion of financial assets posted heavy losses. The liquidity problems related to the US regional banking industry and the outbreak of the conflict between Israel and Hamas had an initial negative impact, but this was 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.

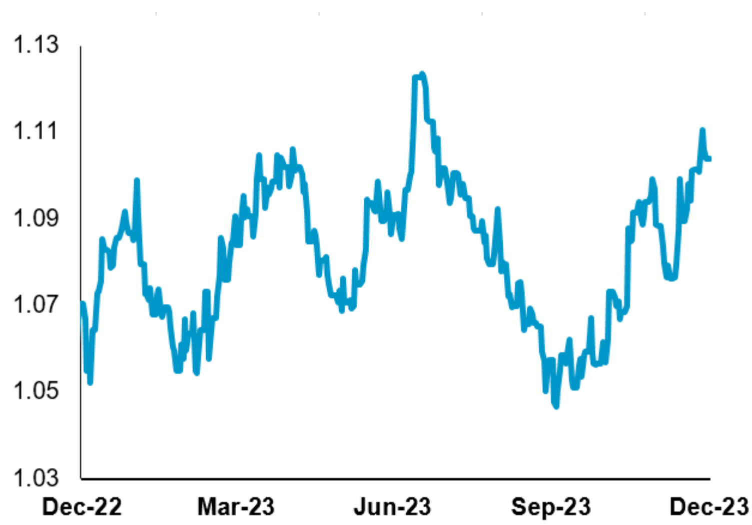
US and German 10-year government bond yields (%). Source: Refinitiv.



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[1]

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).

[1] The data contained in sections 3 and 4 of this consolidated Directors' Report as at 31 December 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).

(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).

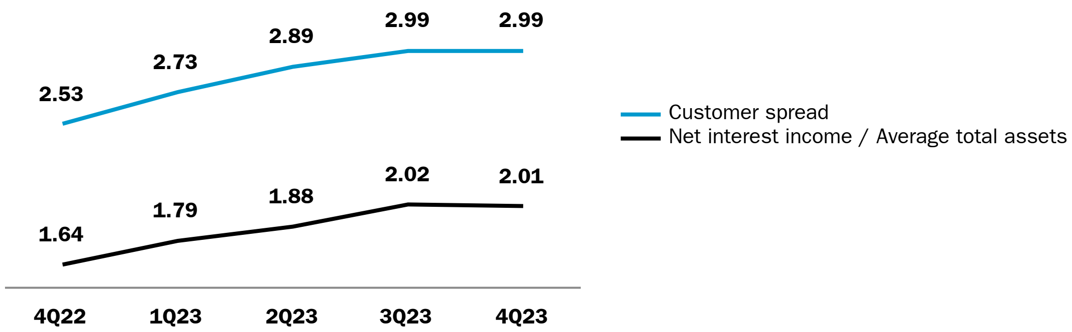
The breakdown of net interest income for the years 2023 and 2022, as well as the different components of total investment and funds, was as follows:

Thousand euro

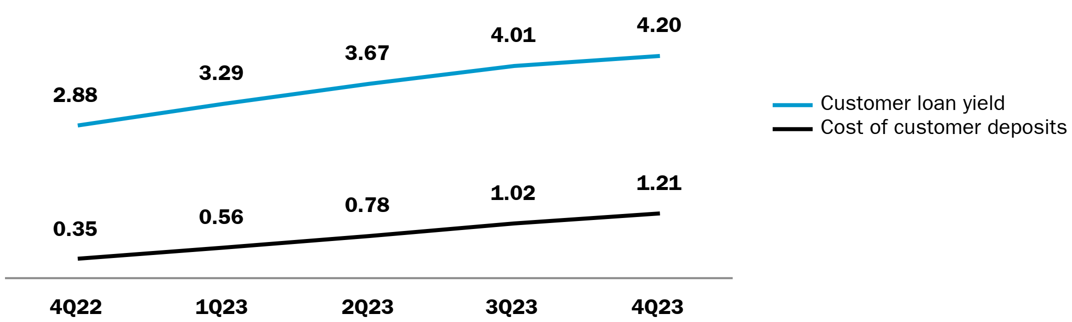
	2023			2022			Change		Effect	
	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Volume
Cash, central banks and credit institutions	42,117,993	1,476,738	3.51	53,538,412	208,485	0.39	(11,420,419)	1,268,253	1,473,389	(205,136)
Loans and advances 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.

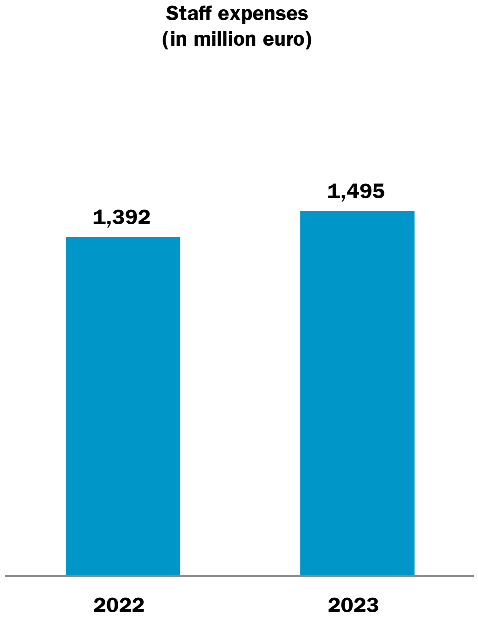
Gains/(losses) on financial assets and liabilities and exchange differences reached a total of 68 million euros, representing a reduction compared to the end of 2022, mainly due to reduced gains on trading derivatives.

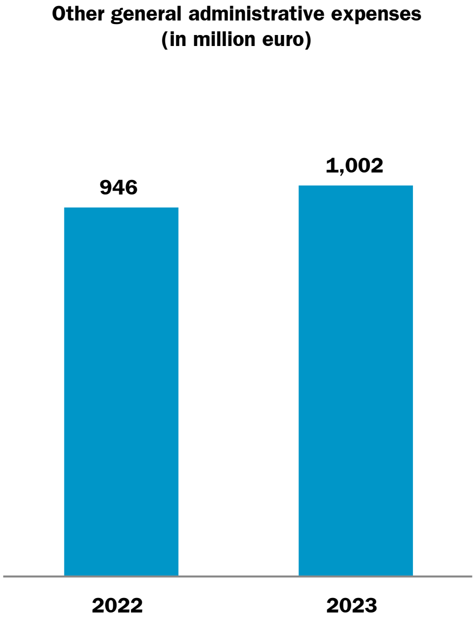
Dividends received and earnings of companies consolidated under the equity method together amounted to 131 million euros, compared with 156 million euros in the previous year, as the latter included higher earnings from BSCapital investees.

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)**

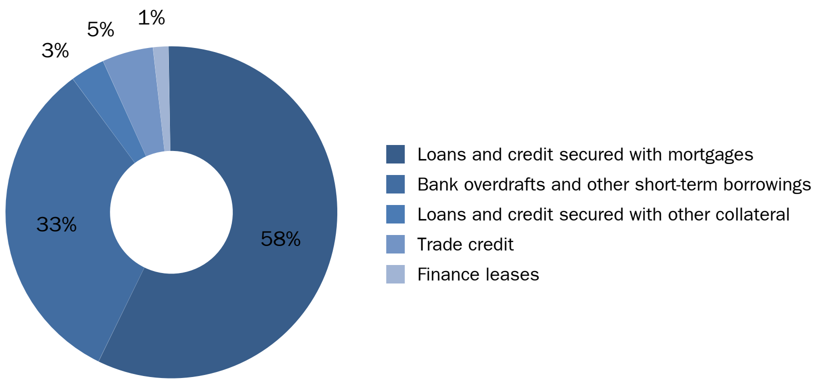
The EUR/GBP exchange rate used for the balance sheet is 0.8691 at 31 December 2023.

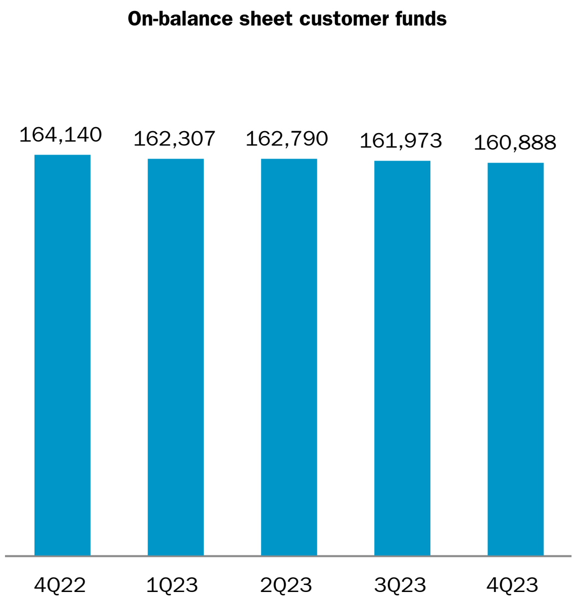
Gross performing loans to customers ended the year 2023 with a balance of 149,798 million euros, having decreased by 4.1% year-on-year, mainly due to the impact of reduced mortgage volumes in both Spain and the United Kingdom, lower volumes of loans granted to SMEs and corporates, and maturing Treasury 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):



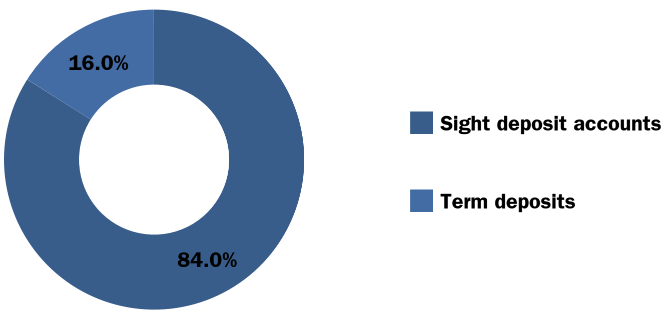


As at the end of 2023, on-balance sheet customer funds showed a balance of 160,888 million euros, compared to 164,140 million euros as at the end of 2022, representing a decrease of 2.0%, mainly due to a lower volume of demand deposit accounts, with customers seeking a higher return on their savings, 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:

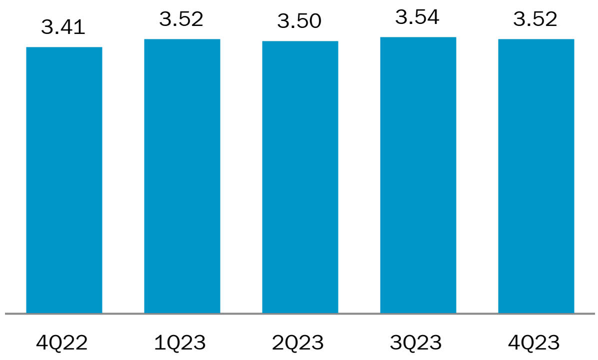
Million euro

	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.

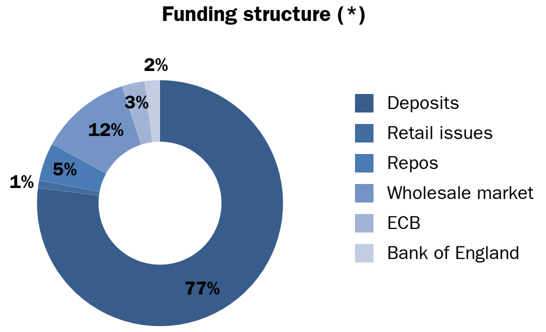
The key figures and basic liquidity ratios reached at the end of 2023 and 2022 are shown here below:

Million euro

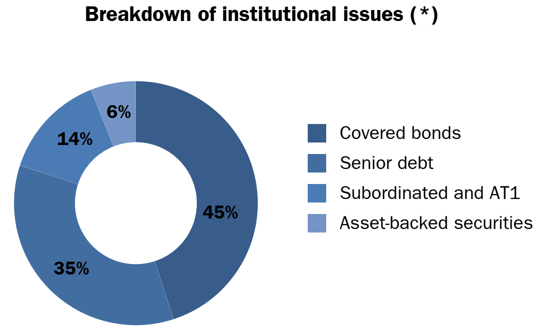
	2023	2022
Gross loans to customers, excluding reverse repos	155,442	161,750
Impairment allowances	(3,199)	(3,020)
Brokered loans	(953)	(1,806)
Net loans and advances excluding ATAs, adjusted for brokered loans	**151,290**	**156,924**
On-balance sheet customer funds	160,888	164,140
Loan-to-deposit ratio (%)	**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 4 to the 2023 consolidated 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.

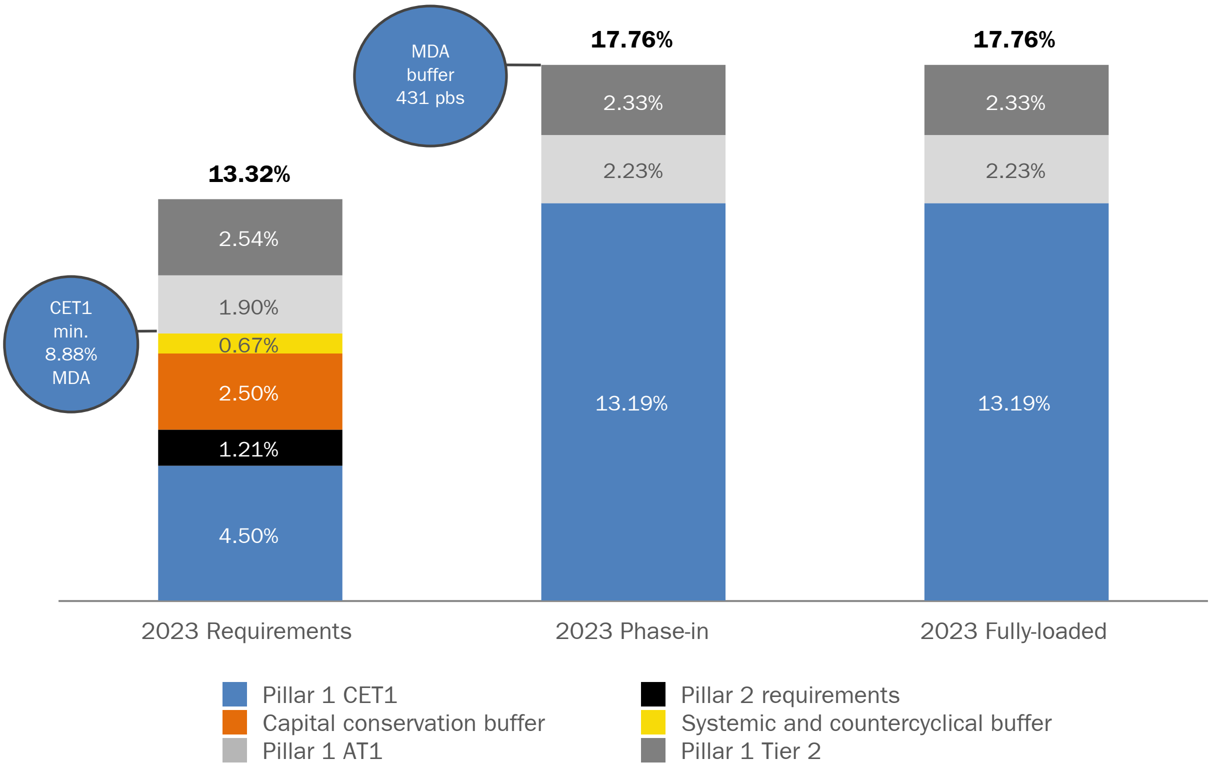
During 2023, the Group increased its capital base by 380 million euros in fully-loaded terms.

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:

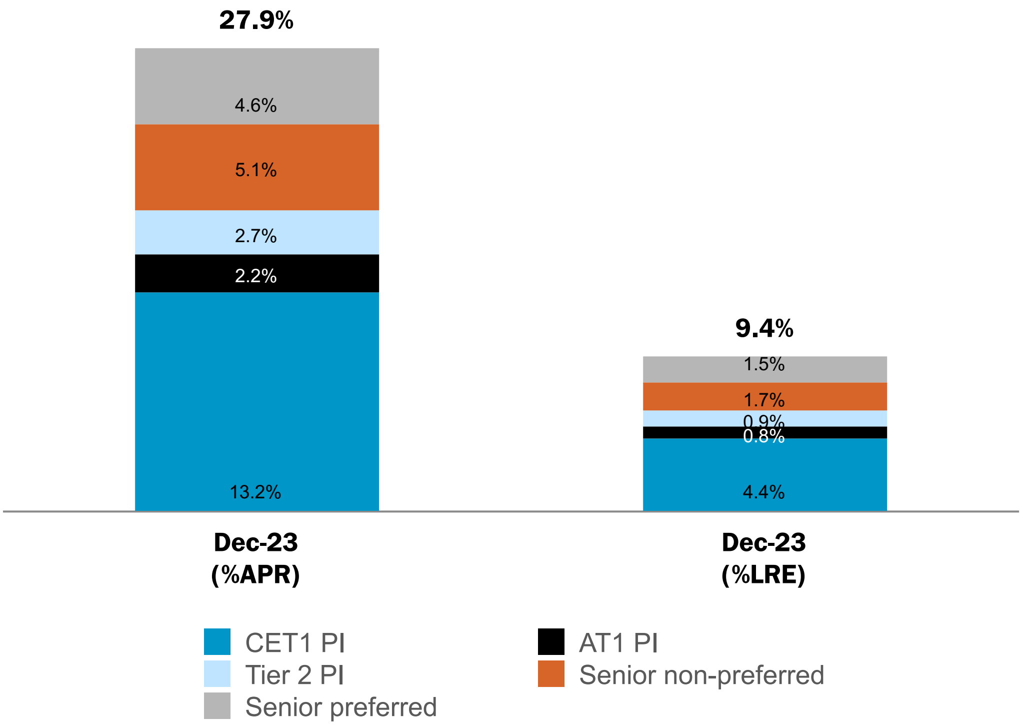
– The minimum MREL is 22.52% of the total risk exposure amount (TREA) and 6.35% of the leverage ratio exposure (LRE).

– 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.

Consumer loans

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.

Payment services

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.

Demand deposit accounts

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.

Sabadell Consumer Finance

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.

Business Banking

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

<u>Large enterprises</u>

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.

<u>Small and medium-sized enterprises</u>

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.

Small businesses

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.

BStartup

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.

Companies Hub (*Hub Empresa*)

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.

International

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 Law 11/2018 of 28 December on non-financial and diversity disclosures, Banco Sabadell Group has drawn up the Non-Financial Disclosures Report for 2023, which forms part, as established in Article 44 of Spain’s Commercial Code, of this report and is included as a separate accompanying document.

Annual Corporate Governance Report

The Annual Corporate Governance Report (ACGR) corresponding to the 2023 financial year forms an integral part of the consolidated 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 consolidated annual financial statements and the consolidated Directors’ Report and is sent separately to the CNMV. From the date of publication of the consolidated annual financial statements and the consolidated 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 consolidated 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 consolidated annual financial statements and the consolidated Directors’ Report and is sent separately to the CNMV. From the date of publication of the consolidated annual financial statements and the consolidated 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).[2]

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.

[2] The comparative data with respect to 31 December 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).

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**

Non-Financial Disclosures Report for the year ended 31 December 2023

Table of contents

1. Introduction

The Non-Financial Disclosures Report[1] for Banco de Sabadell, S.A. (hereinafter, "Banco Sabadell", "the Bank" or "the Institution"), which includes information on a consolidated and standalone basis of Banco Sabadell Group (hereinafter, "the Group"), is set out below. Banco Sabadell Group's banking business operates under the following brands:

- Banco Sabadell is the Group's main brand. This is the leading brand in the Spanish market providing services to individuals and corporates.
- TSB is the Group's leading brand in the United Kingdom. It became part of the Group in 2015 to provide greater competitiveness and serve an increasing number of customer needs, thus improving the banking experience in this country.
- Banco Sabadell Mexico is the brand under which the Bank operates in Mexico, where the Group opened its first representative office in 1991.

Furthermore, Banco Sabadell Group carries out part of its social action through Sogeviso, a subsidiary dedicated to managing some of the complexities of social housing, and the Banco Sabadell Private Foundation, whose mission is to promote outreach, training and research activities in the educational, scientific and cultural fields, and to foster and support young talent.

Information on the company, its business model, organisation, markets, objectives and strategies, as well as the main factors and trends which may impact on the Group's business performance, is set out in the consolidated Directors' Report.

The perimeter covered by the Non-Financial Disclosures Report is the entire Banco Sabadell Group. When the reported information does not cover the entire perimeter, this is specifically indicated.

This report has been prepared according to the general provisions published in Law 11/2018 of 28 December, using the Global Reporting Initiative (GRI)[2] Standards as reference. In addition, this report includes information relating to Taxonomy-eligible exposures and/or exposures aligned with the Taxonomy Regulation (Regulation (EU) 2021/2178), which entered into force in January 2022.

For information purposes, with the entry into force of the Corporate Sustainability Reporting Directive (CSRD) in January 2023, the Bank will need to draft its Sustainability Report in accordance with the European Sustainability Reporting Standards (ESRS) from the 2024 financial year onwards. In this regard, the Bank is working to align its reports to this new regulatory framework for the next financial year. A new materiality analysis and an assessment of the extent of alignment with these standards is underway.

With regard to this report, the main new aspects include, among others:

- The section on decarbonisation pathways has been expanded, in line with the Institution's commitment to the Net-Zero Banking Alliance for 4 to 8 intensive sectors.
- More information on emissions of the financed portfolio and other transition risk metrics has been included.
- Alignment with Articles 7 and 8 and Annexes V, VI, XI and XII of the Delegated Regulation on Taxonomy-related disclosures (Regulation (EU) 2021/2178) is included for the first time.
- In line with the above, the Bank discloses an estimation of eligibility under the four new non-climate objectives and the new activities listed for climate objectives (mitigation and adaptation) in the last update to Regulation (EU) 2020/852.

Furthermore, this report seeks to specify the actions carried out and the progress made in accordance with the disclosure standards established by:

[1] Part of the Consolidated Directors' Report 2023.
[2] These requirements are listed in Annex 2 - Table of contents Law 11/2018.

- The Principles for Responsible Banking[3] of the United Nations Environment Programme Finance Initiative (UNEP FI).
- Task Force on Climate-related Financial Disclosures (TCFD).
- Non-binding guidelines published by the European Commission in its Guidelines on Non-Financial Reporting (2017/C 215/01) and its supplementary document on climate change-related information (2019/C 209/01).

This report may refer to or include full or partial data or information contained in other Group reports.

[3] The UNEP FI's Impact Analysis Tool has been used for the first time to measure the impact of the Institution and its environment from a 'double materiality' perspective.

2. Governance

The governance system and the organisation of the different decision-making levels are both being continuously improved and adapted to the needs that are emerging from the new sustainability environment.

Board of Directors

With the exception of matters reserved to the Annual General Meeting, the Board of Directors of Banco Sabadell is the most senior decision-making body of the company as it is responsible, by law and pursuant to 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. To ensure better and more diligent performance of its general supervisory duties, the Board is directly responsible for approving the Institution's general strategies. It also approves its policies and is therefore responsible for establishing principles, commitments and targets in the area of sustainability, and for including them into the Institution's strategy.

Sustainability played an important role within Banco Sabadell's business purpose and strategy in 2023. When defining the general strategy, the business objectives and the risk management framework of the Institution, the Board of Directors considers environmental aspects, including climate-related, environmental, social and governance risks, and it also effectively oversees them.

In April 2023, the Board of Directors updated its Sustainability Policy, which aims to provide a framework for all of the Institution's activity and organisation within the ESG[4]parameters. The Policy incorporates environmental, social and governance factors into decision-making processes and ensures that the needs and concerns of all its stakeholders are addressed taking these factors into account. The Sustainability Policy sets out the core principles on which Banco Sabadell Group bases its approach to tackling the challenges of sustainability, and defines the corresponding management parameters, as well as the organisation and governance structure required for their optimal implementation.

Board Committees

The Board Strategy and Sustainability Committee was set up in 2021 and is chaired by the Chairman of the Board of Directors, in the capacity of Other External Director. It is formed of five Directors: three Independent, one Other External and its Chair. This Board Committee met 12 times in 2023.

On matters of strategy, the Chief Executive Officer takes part in the meetings, with full voting and speaking privileges, meaning that on such matters this Board Committee is deemed to have six members.

With regard to sustainability, the Board Committee has the following duties:

- Analyse and inform the Board of Directors about the Institution's sustainability and environmental policies.
- Inform the Board of Directors of any modifications or regular updates of the sustainability strategy.
- Analyse the definition and, where applicable, amendment of policies on diversity and integration, human rights, equal opportunities and work-life balance and evaluate the level of compliance therewith on a regular basis.
- Review the Bank's social action strategy and its sponsorship and patronage plans.
- Review and update the Institution's Non-Financial Disclosures Report prior to its review and update by the Board Audit and Control Committee and its subsequent sign-off by the Board of Directors.
- Receive information in connection with reports, documents or communications from external supervisory bodies within the scope of responsibility of this Board Committee.

Other Board Committees are involved to various degrees in the sustainability governance arrangements.

In 2021 the Board Appointments and Corporate Governance Committee also took on duties in relation to the disclosure of internal corporate policies and rules, the oversight of rules on corporate governance, and relations with shareholders and investors, proxy advisers and other stakeholders..

[4] Environmental, Social and Governance.

The Board Audit and Control Committee oversees the process for preparing and submitting regulated financial and non-financial information and gives recommendations or proposals to the Board of Directors, aimed at safeguarding its integrity, and reports to the Board of Directors, prior to its publication, on the financial information and the directors' report, which include mandatory non-financial information that the Institution must regularly disclose. When necessary and in coordination with the Board Risk Committee, it oversees and assesses the effectiveness of policies and internal risk management and control systems as a whole, covering the Institution's financial and non-financial risks, including operational, IT, legal, social, environmental, political and reputational risks or those related to corruption, and supervises that the main direct or indirect risks are reasonably identified, measured and controlled.

The Board Risk Committee monitors the implementation of the Global Risk Framework Policy of the Institution and is responsible for advising and supporting the Board of Directors in overseeing the Bank's risk appetite and overall strategy, taking into account all kinds of risks to ensure that they are in line with the Institution's business strategy, objectives, corporate culture and values.

Internal Committees

The Management Committee regularly monitors the Sustainable Finance Plan and updates to the regulatory framework and it is also in charge of overseeing the aforesaid plan and resolving any incidents.

In addition, the Sustainability Committee, created in 2020 and chaired since 2021 by the General Manager and Director of the Sustainability and Efficiency Division, is the body responsible for establishing the Bank's Sustainable Finance Plan and for monitoring its execution, for defining and disclosing the general action principles in the area of sustainability and for promoting the development of projects and initiatives, as well as managing any alerts that may arise in relation to ongoing initiatives or any developments in the regulatory, supervisory or other environments. It is made up of 12 members (ensuring the representation of several areas, including Sustainability, Risk, Finance, Business, Communication, Research Service and Regulation) and it meets once a month. This composition of the Sustainability Committee covers all functional areas, which enables the cross-cutting establishment and implementation of the Sustainable Finance Plan and, therefore, the execution of the Institution's ESG strategy. The Sustainability Committee met 11 times in 2023.

Organisation

The Sustainability and Efficiency Division was created in 2021 and is the unit responsible for defining and managing Banco Sabadell Group's responsible banking strategy, including the implementation of ESG criteria in such a way as to ensure that they are applied in all of the Bank's business units, affiliates and international subsidiaries. The Sustainability and Efficiency Director is also a General Manager, a member of the Institution's Management Committee, and reports directly to the Chief Executive Officer.

Since 2022, the organisation has been focused on embedding the ESG risk strategy in its day-to-day operations, in its control arrangements and in the development of models and scenarios that consider these risks.

As new sustainability functions are added and expanded, the Institution's structure is being adapted to include the necessary knowledge and skills in all the divisions that are responsible for ESG matters.

The Sustainability Division is a cross-cutting top-level structure that has an overall view of all the new initiatives to be implemented in the Bank and collaborates in their definition, execution and monitoring.

The Bank is organised according to the system of the three lines of defence, and there are teams dedicated to sustainability matters in the three lines.

- With regard to the first line of defence, the business areas have been reinforced by setting up specific units that coordinate with the commercial teams sustainable financing solutions for customers, identifying trends and new social and environmental products and services. The risk teams have also been expanded to perform their own ESG functions in portfolio risk management.

In order to meet the growing regulatory and supervisory demands, the Research and Models teams have also been strengthened. These are the teams that add climate scenarios to the stress testing models and the ICAAP (Internal Capital Adequacy Assessment Process).

- Similarly, new members were onboarded to the Compliance, Credit Risk Control, Internal Control and Models Validation teams to reinforce the second line of defence and guarantee the quality of the first line of defence's systems in relation to risk management and governance of sustainability processes.
- Teams of the third line of defence were also enlarged to incorporate audit functions in relation to governance processes, risk management activities and internal control in the area of sustainability.

This year, the Group has continued to promote its commitment to sustainability by aligning its business targets with the Sustainable Development Goals (SDGs) and by establishing levers for transformation and promotion actions. To that end, all of the Institution's bodies and each of the general divisions are involved with specific targets that promote sustainability both internally and in society.

3. Sabadell's Commitment to Sustainability

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.

3.1 ESG framework

As a financial institution, Banco Sabadell plays a fundamental role in building an inclusive and decarbonised economy. On one hand, mobilising resources, identifying technologies and creating opportunities and, on the other, incorporating new capabilities and an in-house transformation to embed sustainability into all agendas, managing the risk of its customer portfolio, minimising the impact of ESG risks and funding a large part of the investments needed to accomplish the Paris Agreement, the European Green Pact and the 2030 Agenda.

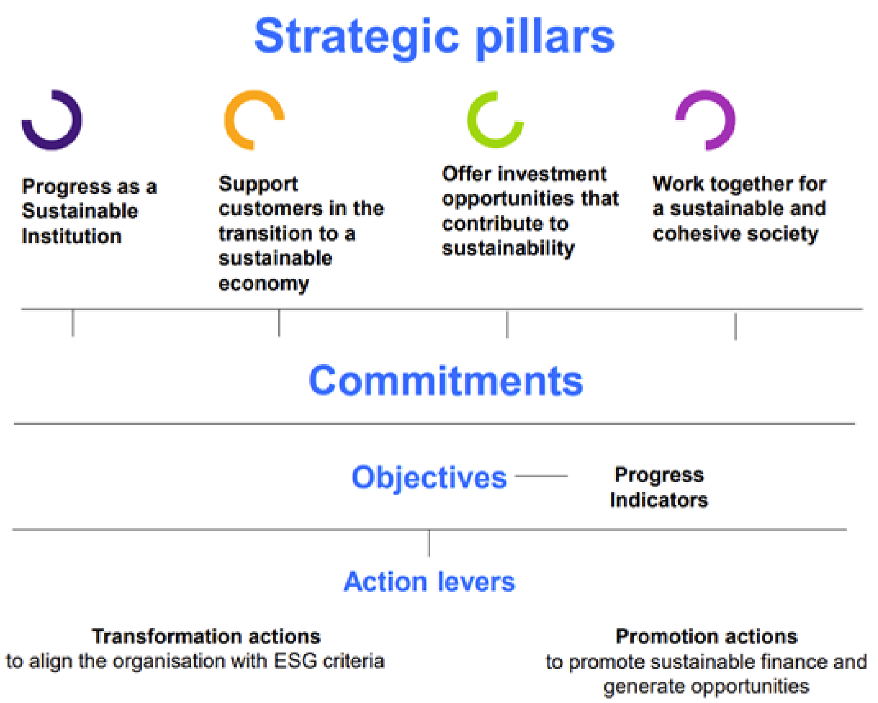
In this context, and to continue making progress with its goal of accelerating economic and social transformations that contribute to sustainable development, the Bank already reinforced the ESG dimensions applicable to its strategy, governance and business model with the launch in 2022 of its ESG framework, 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 the Sustainable Development Goals (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, promoting diversity, safeguarding talent, and continuing to incorporate ESG criteria in its governance, as well as participating in the most relevant ESG alliances.

- Support customers in the transition to a sustainable economy: to do so, the Bank is making progress by setting decarbonisation pathways, supporting customers in their transition to specialised solutions in renewable energies, energy efficiency and sustainable mobility, and setting sectoral standards that limit controversial activities and/or those 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 opportunities for savings and investment 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 Bank believes that it is essential to take an active role to improve financial education, move forward inclusion, reduce social vulnerability to the minimum, and ensure security in transactions and exchanges of information.



Furthermore, 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 changes in the regulatory and supervisory environment, which have implications for the strategy and the business model, as well as for governance, risk management and reporting arrangements. 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 and training.

All of these actions and goals set out in Sabadell's Commitment to Sustainability shape the Bank's ESG roadmap.

Remuneration linked to Sustainability

The commitment to sustainability and the involvement of the Bank's staff in the Institution's ESG performance are reflected in the attainment of the Group's targets. Through the synthetic sustainability indicator (SSI) established in 2020, Key Performance Indicators (KPIs) for ESG matters are included and linked to the variable remuneration of employees, making them part of the Group targets with a weight of 10%. In addition, in 2023, the commitment of the Group's Senior Management and its Identified Staff has been further reinforced by adding this synthetic sustainability indicator to the multi-year targets, weighted at 20% and linked directly to their long-term remuneration. Further details provided in section "6.5 Remuneration policy".

Banco Sabadell's ESG frameworks in other geographies

It is also worth noting that TSB and Banco Sabadell Mexico have continued to develop their own commitments to sustainability in line with those of Banco Sabadell:

TSB's Do What Matters Plan[5]

The Do What Matters 2025 plan is an integral part of TSB's business strategy. It brings together their social and environmental commitments to deliver long-lasting and meaningful impact for customers, colleagues, suppliers and communities.

[5] https://www.tsb.co.uk/do-what-matters/

The plan is simple and focused on three key areas: essentials, people, and planet, and is aligned to TSB's purpose – Money Confidence. For everyone. Every day.

The plan has eight long-term goals centred around the themes of social and financial inclusion, fair business practices, and supporting a just transition to a greener planet.

Let's do what's right for people

Customers
Nurture financial resilience and support for tough times

Colleagues
Continue building a representative workforce where colleagues can thrive

Communities
Work to improve money confidence in local communities

Suppliers
Promote fair business and shared values

Let's do what's right for the planet

Customers
Help customers play their part in tackling climate change

Colleagues
Empower workforce to improve sustainability

Communities
Support local activity to drive sustainability

Suppliers
Partner to drive sustainability through the supply chain

The Do What Matters Plan 2025, outlines TSB's ESG governance, the transparency of its reporting, its compliance with both regulatory and voluntary codes of practice, and how it aims to be a trusted employer. TSB also works in partnership with a variety of credible third parties to ensure that its actions comply with recognized, independent standards and commitments, such as the Good Business Charter, the United Nations Global Compact and The Prince's Responsible Business Network. Similarly, to support the attainment of the planet's goals, TSB has also been a signatory of the Net-Zero Banking Alliance (NZBA) since 2021.

This all enables TSB to focus on key initiatives that reflect its role in society and are linked to its business purpose. More information on the Do What Matters Plan can be found in TSB's annual report[6].

Banco Sabadell Mexico

As part of Banco Sabadell Group, Banco Sabadell Mexico has developed its business ethically and responsibly, gearing its commitment towards the environment and society so that its activities have a positive impact on people and prevent the degradation of the natural environment. This is why it has had an Environmental and Social Policy, a Sustainability Committee and a Sustainability Division in place since 2021.

In 2023, Banco Sabadell Mexico continued to make progress with its commitment to sustainability through the implementation of its Environmental and Social Policy, which has been adapted to align it with the Banco Sabadell Group Sustainability Policy. It has also made progress in terms of sustainable financing and climate risk management.

In terms of ESG milestones, Banco Sabadell Mexico has been applying the Group's Eligibility Guide as its own since 2022, as a tool to determine which activities facilitate the transition of its portfolio towards a more environmentally and/or socially sustainable economy. In 2023, actions were also taken to reduce the volume of finance granted to sectors that could potentially have a negative impact on the environment. In this sense, it continues to build on the implementation of the Environmental and Social Risk Management System (known as SARAS, by its Spanish acronym), which seeks to identify and manage the aforesaid risks associated with its customers' activities. Further details provided in section "5.5 Green loans and lines of credit with multilateral development banks in Mexico".

[6] https://www.tsb.co.uk/investors/results-reports/

3.2 Initiatives and alliances

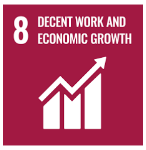
In a cross-cutting way and in line with its commitment to sustainability, Banco Sabadell continues to forge alliances with other sectors and is part of major international initiatives designed to fight climate change and improve social development:

- Signatory of the corporate responsibility initiative of the United Nations Global Compact and the ten principles in the areas of human rights, labour, environment and anti-corruption, since 2005.
- Signatory of the Carbon Disclosure Project (CDP) for action against climate change since 2009.
- The signature of the Equator Principles, since 2011, which incorporate social and environmental criteria in the funding of large-scale project finance and corporate loans.
- Since 2019, it has adhered to the United Nations Principles for Responsible Banking, the first global framework of reference that defines the role and responsibilities of the banking industry in ensuring a sustainable future, to that end reinforcing the alignment with the SDGs in relation to the Paris Agreement.
- In 2019, it ratified the Collective Commitment to Climate Action, whose goals serve to further reduce the carbon footprint of balance sheets.
- Since 2020, it became a member of the Task Force on Climate-related Financial Disclosures (TCFD) for the disclosure of risks and opportunities related to climate change.
- Since 2021, it became a member of the Net-Zero Banking Alliance (NZBA), an international alliance convened by the United Nations Environment Programme Finance Initiative (UNEPFI), through which the Bank is committed to aligning its lending portfolios with net-zero emissions by 2050 at the latest, in line with the targets of the Paris Agreement.
- Adherence in 2022 to the Partnership for Carbon Accounting Financials (PCAF[7]), in order to measure and disclose emissions financed through loans and investments in a standardised way.

[7] The Partnership for Carbon Accounting Financials (PCAF) is a collaboration among financial institutions from all over the world, launched in 2019, to measure and disclose the CO_2 emissions of their credit and investment portfolios using a standardised approach. PCAF participants work together to develop the Global Greenhouse Gas (GHG) Accounting and Reporting Standard for the financial industry. Futher details provided in https://carbonaccountingfinancials.com/Industries.

In addition to the above alliances, all of which are implicit in the ESG framework Sabadell's Commitment to Sustainability, other transformation and promotion actions are included, both those implemented by the Group and those planned for the future, which aim to accelerate ecological transition, reinforce the fight against climate change and support social development, reinforcing and in turn addressing priority matters arising in that respect. This framework is aligned with the UN SDGs[8] and focuses on those where it has the greatest capacity to influence due to systemic interrelationships, type of activity and capacity to make an impact. In this respect, although the Institution's goal also involves contributing to all SDGs, the following ones have been given priority:

Affordable and clean energy.



Decent work and economic growth.

Industry, innovation and infrastructure.

Climate action.

Peace, justice and strong institutions.

3.3 Materiality

In 2022, a review was carried out of the materiality analysis performed in 2021, which established a list of material topics for the Group. This review was carried out in order to update the Group's perspective in the materiality matrix and to adapt to the increasingly demanding regulatory requirements and market environment in this respect. Similarly, the method of prioritising material topics based on their importance was replaced with a method based on the impact they generate, in line with the requirements of "GRI 3: Material Topics 2021", published in October 2021.

In addition, during the second half of 2023, work got underway to update Banco Sabadell Group's materiality analysis according to the guidelines of the European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG).

The objective of this analysis is to identify and prioritise the material topics[9] of relevance to the Group and its stakeholders, with three aims:

- Ascertain the ESG priorities on which Banco Sabadell Group should focus its attention, taking into consideration risks, opportunities, impacts and trends.
- Strengthen the relationship with the various stakeholders when identifying and outlining the impacts and expectations with regard to ESG.
- Address the disclosure needs arising from legal requirements and from analysts and indices, as well as the demands of shareholders, investors, rating agencies and other stakeholders, with a language that is easy to understand.

Methodology

The materiality analysis was carried out based on the GRI disclosure standards and regulators' recommendations, incorporating the double materiality perspective in that analysis:

[8] Further details on the contribution to all SDGs, provided in Annex 5 - SDG alignment.
[9] Relevant aspects: those that can reasonably be considered important when it comes to reflecting organisations' economic, environmental, and social impacts, or that influence the decisions of stakeholders. (GRI Standards).

- Non-Financial Reporting Directive (NFRD) and its transposition to Spanish law (Law 11/2018 on Non-Financial Information and Diversity).

- Report on CNMV oversight of the annual financial statements for 2020 and main areas for review in the financial statements for the following year, published by the Spanish National Securities Market Commission (Comisión Nacional del Mercado de Valores or CNMV).

- Considerations of materiality in financial reporting, published by the European Securities and Markets Authority (ESMA) in October 2022.

- The requirements of European Union Directive 2022/2464, known as the Corporate Sustainability Reporting Directive (CSRD), were also taken into account.

To that end, in 2021 priority stakeholders, whose demands and requirements were included in the materiality analysis, were identified, namely: employees, suppliers, customers, investors, rating agencies, society, regulators and supervisory authorities, and economic operators. Following this interaction with the various stakeholders, the materiality of all topics related to ESG was analysed, from the perspective of both internal and external stakeholders. The material topics and their definitions are set out in section 3.3.1. of this document.

In a second phase of the materiality analysis process, carried out in 2021 and updated in 2022, Banco Sabadell combined the analysis of stakeholder expectations with the identification of impacts from a double materiality perspective. The double materiality process aims to identify the impacts of the environmental and social environment on the Group, and of the Group on its stakeholders, assessing these to obtain a holistic view of the extent to which sustainability issues are impacted by each material topic.

To that end, the Bank identified the actual and potential impacts to which it contributes through its activities. Details about the identification of impacts for each material topic are provided in section 3.3.2. of this document.

Based on these identified impacts, and with the aim of prioritising them, the Group carried out a quantitative assessment in which it sent questionnaires to different areas of the Bank to consult them on these impacts, determining their extent using pre-defined scales.

Potentially positive and actually positive impacts were evaluated based on the following attributes:

- Probability: understood as the probability of the impact materialising.

- Scale and extent: the scale of an impact refers to how beneficial it is or could be, while the extent refers to how far-reaching it is or could be.

On the other hand, potentially negative and actually negative impacts were evaluated based on the following attributes:

- Probability: understood as the probability of the impact materialising.

- Severity: determined by the level of severity of the impact, the extent of the impact and the degree of difficulty involved in counteracting or repairing the resulting damage.

The results of the analysis made it possible to complete the double materiality approach, which is explained in section “3.3.2 Double materiality”, and to update the materiality matrix, which is set out in section “3.3.3. Materiality matrix”. Concerning the results, three levels of priority were established, level 1 representing the greatest impact for the Group and in which the following material topics were included: (i) Corporate governance, (ii) Value creation and solvency, (iii) Ethics and integrity, (iv) Climate-related and environmental risks, and (v) Sustainable finance and investment.

3.3.1 Definition of Material Topics

The topics that the Bank deemed material in its analysis are defined below:

Material topics		Definition
Governance		
1.	Corporate governance	Compliance with best practice in Good Corporate Governance and ESG Governance. This includes, among other aspects: structure and diversity of governing bodies, their evaluation and remuneration, functions in terms of ESG (setting non-financial targets, performing oversight activities, establishing commitments, etc.).
2.	Transparency and data management	Mechanisms to ensure effective and transparent communication with stakeholders in order to manage expectations and to identify and address their requirements through established dialogue mechanisms, as well as reporting of financial and non-financial information.
3.	Risk management and cybersecurity	Identification, assessment and management of the operational risks to which the Group is exposed. Includes financial risks (credit, market, liquidity and structural) and non-financial risks (cybersecurity, reputation, health and safety, among others).
4.	Customer satisfaction and digitalisation	Actions taken by the Institution in order to excel in the provision of services of the highest quality (meeting customer expectations) and to improve the customer experience (digitalisation, special and adapted advisory measures, etc.), based on responsible and transparent marketing.
5.	Corporate culture	Corporate principles and actions aimed at improving Banco Sabadell's image and business trajectory, which is reflected in its employees' pride of belonging and in the corporate reputation as perceived by stakeholders.
6.	Ethics and integrity	Compliance with national and international legislation in force in all countries in which the Group operates, as well as the specific commitments undertaken on a voluntary basis by the organisation in its corporate policies and in its code of conduct.
7.	Responsible supply chain	Extension to the supply chain of the Group's own commitment to socially responsible practices and of commitments to uphold workers' rights, freedom of association and environmental rights.
8.	Value creation and solvency	Maintain good economic performance to ensure profitability and the creation of value for shareholders and investors.
Environmental		
9.	Sustainable finance and investment[10]	Identification and development of a range of financial products and services that consider ESG aspects in their design, management and marketing.
10.	Climate and environment: risks	Identification and management of risks associated with climate change and the environment, complying with best practice, the regulations in force and supervisory expectations.
11.	Internal environmental footprint	Impact on the environment stemming from Banco Sabadell's activity, as well initiatives for eco-efficiency and own emissions management that the company has implemented to reduce it.
12.	Commitments and partnerships in environmental	Initiatives, certifications and commitments adopted by Banco Sabadell with the aim of improving its environmental management. Includes activities carried out by the Institution to raise awareness and impart training in relation to environmental matters.
Social		
13.	Diversity, inclusion and equality	Actions and initiatives proposed to eliminate discrimination in the workplace on the basis of gender, race, age, ethnicity, religion, disability or for any other reason. These include: reducing the pay gap, producing plans and protocols to foster diversity and equality (work-life balance, flexibility of working hours, working from home and the right to disconnect), and the inclusion of vulnerable groups in the workplace, among other things.
14.	Quality employment and talent management	Promotion of quality employment, fostering of professional development and attraction and retention of talent. This topic includes: training plans, promotion of wellbeing, employee health and safety and all initiatives designed in pursuit of these aims (performance appraisal, promotion and pay, internal mobility, etc.).
15.	Social commitment and human rights	Commitment to the development of local communities through corporate volunteering activities, collaboration with charity projects and/or direct donations. This aspect includes Banco Sabadell Group's commitments and actions related to protecting human rights.

[10] Topic with environmental and social impacts.

3.3.2 Double Materiality

With the aim of ensuring that the materiality analysis is comprehensive, the proposed identification of the main impacts of the environment on the Group and that of the Group on its stakeholders was updated in 2022, according to the double materiality perspective, in line with the guidelines of the main regulatory bodies governing this topic (i.e. EU, CNMV and ESMA). The 2022 update included a list of impacts for all material topics.

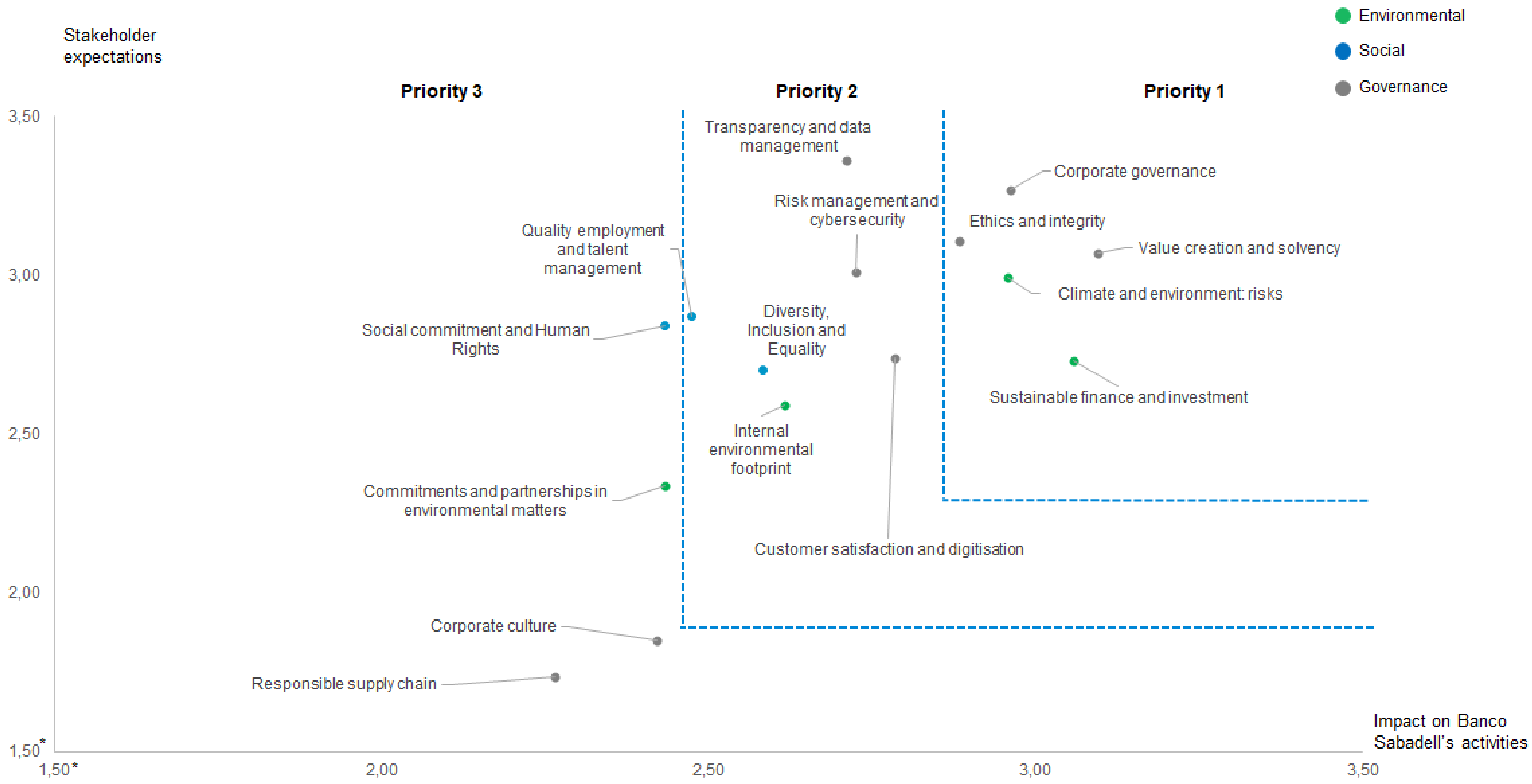
Double materiality approach			
Material topics		**Social and environmental impact on Banco Sabadell**	**Impact of Banco Sabadell on its Stakeholders**
Governance			
1.	Corporate governance	Appropriate management of this topic enables the promotion of diversity and heterogeneity of skills in the governing bodies. It also enables alignment with the requirements of supervisors and regulators in terms of corporate governance. Managing this topic requires greater internal control and a higher level of reporting	This topic makes it possible to generate value and more reliability in business management for shareholders and investors, in addition to generating a perception of greater strength and resilience before the regulators.
2.	Transparency and data management	Management of this topic reduces future exposure to risks and possible economic sanctions related to transparency and data management. More stringent demands have been placed on the management of this topic, requiring the continuous improvement of systems, communication channels and internal data control and verification, as well as continuous investment in security and good data management.	The management of this topic reduces the risk of failing to comply with regulations and enables a relationship of trust to be built with the supervisory authorities. On the other hand, it involves increasing the data requirements for customers, suppliers and other stakeholders.
3.	Risk management and cybersecurity	Correct management of this topic allows the Institution to meet its business objectives, maintain its position in terms of solvency, liquidity, profitability and asset quality, and to generate trust among regulators, investors, customers and society. The management of this topic requires continuous investment by the Group in employee training, and directly affects financial performance. .	The correct management of this topic allows capital to be protected, generating trust and security among stakeholders. Inadequate management of this topic directly affects the right to privacy of customers, suppliers and other stakeholders, and generates financial impacts.
4.	Customer satisfaction and digitisation	Correct management of this topic allows the Institution to build the loyalty of existing customers and attract new ones, which encourages long-lasting relationships built on trust, which in turn increases Group profits. The digitalisation process also enables the Group to be more efficient and to reduce the environmental impact of its activities. Managing this topic requires continuous investment in innovation, the development of new solutions based on employee training, new technology and the digitalisation of services that meet customer expectations.	The management of this topic has a direct impact on customers, meeting their demands for financial products and services with an accessible and specialised service. In addition, digital solutions offer them tailored and personalised services, with greater availability. However, groups that are not familiar with the digital environment might struggle to access these, or there may be an increase in the level of customer demand or in the required level of specialisation of employees and suppliers.

Double materiality approach			
Material topics		**Social and environmental impact on Banco Sabadell**	**Impact of Banco Sabadell on its Stakeholders**
5.	Corporate culture	This topic allows the Institution to protect itself from possible conduct risks or conflicts of interest, and in turn reduces loss of human and intellectual capital. This topic requires policies and internal codes of conduct to be continuously updated in order to align them with market expectations and those of society.	The corporate culture generates a feeling of belonging and increased job satisfaction among employees, as well as a better customer experience and greater confidence among society.
6.	Ethics and integrity	Ensuring ethical conduct and compliance with regulations has an impact on the Group's reputation and on its stakeholder relationships, underpinned by an ethical and fair approach to business that is also respectful of legal considerations.	Correct management of this aspect generates a feeling of pride and belonging among employees and customers. This improves the reputation of Banco Sabadell Group and builds trust among regulators, investors and society.
7.	Responsible supply chain	The management of this topic improves supply chain management and control. It requires, in turn, a more demanding approach to supplier monitoring and accreditation processes, which could potentially result in a price increase, as supply would be confined to sustainable suppliers.	A responsible supply chain generates greater confidence among society and among customers. On the other hand, tougher terms of engagement could lead to a loss of suppliers.
8.	Value creation and solvency	The attainment of solvency objectives has an impact on the Group's market positioning, allowing it to attract and retain capital. It also reduces its vulnerability to risks that could affect Banco Sabadell and generates confidence among stakeholders.	Proper management of this aspect has a positive impact on all stakeholders, as it generates wealth, social value, security and confidence in capital protection, for both investors and customers.
Environmental			
9.	Sustainable finance and investment	This topic makes it possible to identify business and investment opportunities in new markets and to develop a range of new products and services and, by doing so, create a new source of income. In addition, it allows the Bank to position itself in relation to competitors that include sustainability in their business model and strategy. This topic may give rise to more demanding ESG requirements for funding or investment in certain sectors and activities. It also requires new plans to promote products and services in the medium-to-long term	This topic allows the Institution to increase the range of sustainable financial products and services, as well as products and services that contribute to a positive social impact through financial inclusion, among other things, thereby offering support to customers, shareholders and investors who have a greater appetite for ESG aspects. Supporting customers in this respect has a positive effect on the Group's reputation, setting the Institution apart in the marketplace as a more sustainable business that is more firmly committed to the environment and to society. On the other hand, it could make it more difficult for customers in carbon-intensive sectors to transition, and could increase customer information needs.

Double materiality approach			
Material topics		**Social and environmental impact on Banco Sabadell**	**Impact of Banco Sabadell on its Stakeholders**
10.	Climate and environment: risks	Correct management of this topic allows the Group to reduce its future exposure to climate-related and environmental risks, improving the Group's reputation and its relationship with stakeholders, and allowing it to remain aligned with regulatory requirements in this regard. Management of this topic requires continuous investment by the Group to attain a high level of market monitoring, with improvements to information systems, designs for ongoing specialised training plans for employees and the hiring of qualified personnel.	This topic incentivises investment in sectors and products aligned with the green transition, generating greater confidence among investors and society. The management of risks related to climate change and the environment could require more control and result in tougher financing conditions for those activities that pose a greater risk.
11.	Internal environmental footprint	The reduction of the internal environmental footprint through appropriate management and control reduces future exposure to risks related to GHG emissions caps, and improves energy efficiency by reducing the associated resources.	This topic allows the Institution to earn the confidence of an increasingly climate-aware society, and generate a positive environmental impact by reducing the Group's emissions.
12.	Commitments and partnerships in environmental matters	The Group's adhesion to and implementation of environmental commitments and partnerships enables it to gain greater knowledge about best practices in the market, improving its management of environmental matters and generating a competitive advantage to set it apart in the marketplace. This topic requires more resources, both to monitor and meet environmental goals and to fulfil reporting requirements.	This topic allows the Group to create value for investors and shareholders through partnerships and by meeting environmental goals, while generating confidence and visibility among customers and society through a more sustainable and transparent business.
Social			
13.	Diversity, Inclusion and Equality	The achievement of diversity targets has a positive impact when it comes to attracting and retaining human and intellectual capital, generating value within the Institution and improving productivity. Managing this topic requires more resources to update internal standards and policies, draft regulations, develop control and training models, and to carry out more meticulous monitoring so as to ensure that the targets related to diversity, inclusion and equality are met.	Appropriate management of this topic reduces inequality, generating a feeling of pride and belonging among employees.

Double materiality approach			
Material topics		**Social and environmental impact on Banco Sabadell**	**Impact of Banco Sabadell on its Stakeholders**
14.	Quality employment and talent management	Ensuring high-quality employment makes it possible to attract and retain human capital, improve employee productivity and, in addition, allows the Institution to better align employees' capabilities with its objectives and strategies. Management of this topic requires training to be imparted, standards and internal policies to be updated and made more flexible, and it also requires more human resources in order to position the Institution as a benchmark among its competitors.	This topic allows employees to further their professional career with adapted plans, giving them more stability and adding to their professional wellbeing. It also enables the Institution to improve its image and reputation and to earn society's trust.
15.	Social commitment and Human Rights	Proper management of this topic makes it possible to identify new investment opportunities to meet the needs of vulnerable groups. It is also a way of differentiating retail banking through financial inclusion. It makes it possible to ensure alignment with international conventions on the protection of human rights. On the other hand, this topic requires more in-depth monitoring of specific products and services to meet the needs of vulnerable groups. It also requires further development of corporate volunteering programmes and the promotion of social action activities.	This topic allows new products and services to be developed that contribute to generating a positive impact through financial education and inclusion for vulnerable groups. In addition, it allows for the implementation of social programmes that support the development of certain communities. This topic may limit access to suppliers due to more stringent requirements placed upon suppliers in this regard.

3.3.3 Materiality Matrix



*The range of permitted values in both axes is from 0 to 4. In this graph, only figures of 1.5 up to 3.5 are shown, for better display.

3.3.4 Engagement with Principles for Responsible Banking

In 2022, Banco Sabadell carried out an analysis to identify the positive and negative impacts arising from its financing activities, in line with the requirements of the Principles for Responsible Banking of the United Nations Environment Programme Finance Initiative (UNEP FI). This analysis enabled the Institution to identify the environmental, social and economic impacts (positive and negative) associated with the Retail Banking, Business Banking and Corporate Banking loan books.

The results of this analysis prompted Banco Sabadell to prioritise two areas of impact on account of their materiality rating assigned in both analyses: Climate and Environment, and Financial Inclusion and Education.

Both areas of impact that were prioritised are aligned with the results obtained in this materiality analysis. In this respect, the areas prioritised in the impact analysis in relation to Climate and Environment, and Financial Inclusion and Education relate directly to at least three of the material topics for which positive and negative impacts were identified according to the double materiality perspective (impacts of the environment on the Institution and of the Institution on stakeholders). The area of impact in relation to Climate and Environment is closely related to the material topics of Climate and Environment, Sustainable Finance and Investment, and to commitments and partnerships in environmental matters. On the other hand, the area of impact relating to Financial Inclusion and Education is directly related to the material topics of Social Commitment and Human Rights, Sustainable Finance and Investment, and Customer Satisfaction and Digitalisation.

4. Commitment to climate and the environment

The transition to a sustainable economy is a global calling that encompasses environmental, social and governance challenges and requires a transformation of the economic model that will affect all economic players. Its main goals include social development and the achievement of climate commitments, such as the Paris Agreement, the European Green Pact and the 2030 Agenda. Under this same precept, Banco Sabadell is steering its activity by channelling resources, supporting companies and individuals with specialist advice, and activating different action levers according to the transition needs of each sector.

To that end, Banco Sabadell has an ESG action framework (section 3. Sabadell's Commitment to Sustainability), which is aligned with the SDGs and in which climate action (SDG 13) is one of the priority SDGs of its corporate strategy.

4.1 Environmental risk governance

The framework of environmental risks (understood to be those stemming from climate change and environmental degradation) is defined by the Sustainability Policy and the Environmental Risk Policy. On one hand, the Sustainability Policy aims to provide a framework for all of the Institution's organisation and activities within ESG parameters, which incorporate environmental, social and governance factors in decision-making. Based on those parameters, it aims to respond to the needs and concerns of all of its stakeholders. On the other hand, the aim of the Environmental Risk Policy is to define guidelines for managing and controlling the risks associated with climate change and environmental degradation, specifying the principles and critical parameters applicable to significant aspects.

As a result of this framework, a governance scheme has been defined, formed of the Board of Directors and the Bank's Board Committees and Internal Committees indicated here below, which are responsible for approving and supervising, with a pre-established frequency, the most significant aspects with regard to risks associated with climate and environmental degradation:

- Board of Directors: in relation to the management and control of environmental risk management, the Board is ultimately responsible for embedding it into the general strategy and for establishing the necessary mechanisms for its review. Its duties range from monitoring environmental risk to approving and reviewing the organisational and functional framework for managing, controlling and reporting on this risk, approving the associated policies and reviewing them on an annual basis. Lastly, it is worth noting that the Board of Directors has received specific training on climate risk management, the impact deriving from climate risks, policies and rules on the topic, as well as measurement metrics such as the carbon footprint and decarbonisation pathways.

- Board Risk Committee: responsible for supervising and ensuring that all of the Group's risks are properly taken, controlled and managed, in accordance with the Group's Risk Appetite Statement, and for reporting to the Board of Directors on the performance of its duties.

- Board Strategy and Sustainability Committee: responsible for analysing and reporting to the Board of Directors on environmental risk policies and for reporting to the Board of Directors on any amendments or periodic updates of the environmental risk strategy. It is also responsible for supervising the model for identifying, controlling and managing risks and opportunities in relation to sustainability including, where applicable, environmental risks.

- Board Audit and Control Committee: its main duty is to supervise the effectiveness of the Group's internal control, internal audit and risk management systems, coordinating with the Board Risk Committee as necessary. Environmental risks, among other aspects, are included.

- Management Committee: this is the most senior management body of the Institution and it is responsible, among other things, for all matters related to the development of the business in the various geographies, as well as matters arising from financial planning and financial activity, those relating to organisation and human resources, technology and all other aspects related to day-to-day business management.

- Sustainability Committee: this management body is responsible for establishing the Bank's Sustainable Finance Plan and monitoring its execution, as well as defining and disclosing the general action principles related to sustainability and promoting the development of related projects and initiatives. Its duties include reporting on a regular basis to the Management Committee and reporting, at least once a year, to the Board Strategy and Sustainability Committee on the progress made with the Sustainability Plan and its initiatives. It meets on a monthly basis to monitor the most salient topics in relation to ESG. On a regular basis, the Corporate Sustainability Report is submitted to the Sustainability Committee and then subsequently to different bodies within the Bank.

– Technical Risk Committee: this is the management body responsible for supervising the management and control of the Institution's risks and which supports the Board Risk Committee in performing its duties. Every month, a Credit Risk Dashboard is submitted, which includes, among other things, the evolution of the Institution's existing stock of loans and new loans granted for activities classified as carbon-related, carbon-intensive, green and social, as well as the carbon footprint in terms of financed emissions, the evolution of the established decarbonisation pathways and the quantification of physical and transition risks in the credit book.

4.2 Climate-related and environmental strategy

In 2023, the Institution has taken one step further towards its goal of fighting climate change and it has disclosed its second set of decarbonisation targets for 2030 (subsection on Portfolio Alignment in this very same chapter) and its ambition to provide support, advice and sustainable finance to individuals and above all to companies, focusing specifically on those in sectors that are the most CO2 emissions-intensive, as they are the ones that need to make substantial sustainable investments.

In consistency to with its ESG action framework and its role as a financial institution, the Group addresses climate-related and environmental matters from a two-fold perspective (internal and external), considering in its climate-related and environmental strategy:

1) The potential impacts of climate-related and environmental risk on financial activity. In this sense, its strategy is based on:

   a. Identifying, measuring and managing the risks related to climate change and environmental degradation (section 4.3 Environmental risk management).

      ◦ With regard to the identification of climate-related risks (section 4.3.1 Risk identification), the Bank conducts a quantitative analysis of the impacts stemming from climate risks on its credit portfolio (physical, transition and environmental degradation risks). In addition, every year the assessment of the materiality of environmental risks' impact on the main risks included in the Global Risk Framework is reviewed.

      • With regard to measurement and quantification (section 4.3.2. Assessment and measurement), the Bank evaluates the impact of its credit book with two different analyses. The first consists of measuring the credit book's climate-related and environmental risk, while the second focuses on measuring the portfolio's carbon footprint. In terms of the first analysis, the Bank measures climate-related and environmental risk of borrowers under two approaches: (i) a bottom-up approach for large enterprises, using the Climate-related and Environmental Risk Indicator (IRCA, in its Spanish acronyms) and (ii) a top-down approach for smaller-sized companies and retailers. With the second analysis, the Bank measures the emissions of its financed credit portfolio, using the methodology of the Partnership for Carbon Account Financials (PCAF) to that end.

      • In relation to the management of climate-related and environmental risk (section 4.3.3 Integration into management arrangement), the Bank has various policies, procedures and tools to ensure climate risks are effectively embedded into transaction approval and portfolio monitoring processes.

   b. Identifying and leveraging opportunities related to the transition to a sustainable economy (section 5. Commitment to sustainable finance):

      • Increasing exposure to green financial assets, as they are one of the key factors in achieving decarbonisation targets. In this regard, progress continues to be made on the implementation of financing solutions in the different businesses through Green and Social Loans (GSLs), Sustainability-Linked Loans (SLLs).

- Offering specialised advice and responding to the transition challenges of all customers (large enterprises and corporations, SMEs and individuals) by:

    1. Offering strategic advise, identifying the most appropriate sustainable finance solutions.

    2. Promoting the energy transition with solutions and agreements with partners from different sectors.

    3. Offering ESG investment opportunities.

- Engaging in management activities with larger knowledge and specialisation, levering the internal training of teams specialised in sustainability through the certification in sustainable finance attended by the Carlos III University in Madrid, along with other internal training schemes.

2) The way in which the Group's facilities and its use of resources directly impact the environment in which it operates (section 4.4. Environmental management and impact). Its strategy in this regard consists of:

    a. Reducing greenhouse gas (GHG) emissions and other sources of pollution, through

        - Environmental management of its facilities

        - Reduction of own consumption

        - Actions related to the circular economy and waste management

    b. Offsetting its own emissions.

In 2023, Banco Sabadell renewed its commitment to offsetting, including all Scope 1, 2 and 3[11] emissions in Spain, Mexico and the USA, through the purchase of credits.

TSB, for its part, has offset its Scope 1 and 2 emissions in 2023 through reforestation projects in Bolivia and it has invested in forests, peatlands and woodlands in the United Kingdom to offset its future emissions.

Portfolio Alignment

Banco Sabadell Group considers that aligning the portfolio and decarbonisation targets offers a valuable input for risk management, on an ex-ante basis, as a portfolio that is aligned with a particular transition pathway and decarbonisation targets will tend to produce a smaller impact than one that is not aligned and with no targets (assuming the selected reference scenarios remain close to the actual trajectory).

In 2021, Banco Sabadell Group joined the Net-Zero Banking Alliance (NZBA), thus reinforcing the strategy to fight against climate change, undertaking to align its lending and investment portfolios with net-zero emissions of greenhouse gases (GHGs) by 2050, in line with the targets of the Paris Agreement.

At the same time, these commitments involve setting targets for 2030, as well as interim targets from that date onwards 5-year intervals for the most GHG-intensive sectors based on the analysis of customers' carbon footprints and on sectoral decarbonisation pathways, which are in turn based on scientific criteria defined by recognised international bodies.

To reach these climate targets, the Group is committed to supporting and financing the transition of companies that invest in adapting to a low-carbon economy and whose ESG performance is in line with the Bank's expectations for each sector.

In this respect, the Bank has a decarbonisation strategy that is present in all of its activity, through its strategic action framework, the support it provides to customers to transition, and its risk management arrangements, using cross-cutting and sector-specific levers to that end.

- Strategic action framework: the Bank believes it is important to ensure that its portfolio is aligned with its decarbonisation targets and, to that end, it has introduced elements linked to decarbonisation in its risk appetite framework and in its policies and sectoral planning processes, and it has set decarbonisation pathways to achieve those targets.

[11] The Scope 3 emissions that will be offset include supplies (water, paper and plastic), waste, business travel and employee commuting. This offsetting does not include emissions associated with the financed portfolio (category 15).

- Business activity and support for customers in the transition: further action is being taken to raise awareness and offer advice across all sectors of the business fabric, offering solutions to finance the investments required for this transition. To that end, the Bank offers all of its capabilities available to them through specialised teams and a Sustainable Financing Framework. To complement this, the Bank supports large corporations in their decarbonisation plans and it offers specialist advisory services and finance, with brokered solutions, to SMEs and individuals.

- Risk management: the Bank has added decarbonisation levers to its risk management guidelines, specifically for its credit approval and portfolio monitoring processes, which are included in its customer performance analysis and in its commitments and transition plans. It also estimates how its operations might potentially impact the achievement of the decarbonisation targets for 2030 and it monitors decarbonisation pathways on an ongoing basis.

Decarbonisation targets

In line with the commitments established by the NZBA, in December 2023, Banco Sabadell continued to move forward with its strategy to fight against climate change, setting decarbonisation targets for the following three new sectors: iron & steel, automotive and aviation.

The new targets are additional to the first four decarbonisation targets published in December 2022 for the following sectors: electricity, oil & gas, cement and coal mining.

The activities covered by the aforesaid targets centre on the stage of each sector's production chain where transition is most likely to reduce the overall volume of greenhouse gas emissions.

With this goal in mind, commitments have been determined taking into account the Net Zero Emissions by 2050 (NZE2050) Scenario published by the International Energy Agency (IEA), which establishes decarbonisation pathways for different sectors that are consistent with limiting the global temperature rise to 1.5°C above pre-industrial levels.

Targets published as at December 2023:

Sector	Value chain stage	Emissions scope	Reference scenario	Metric	Base year	Base year metric	2030 target	% reduction
Electricity	Electricity generation	1 and 2	IEA Net Zero 2050	Physical intensity Kg CO2e / MWh	2020	61	85-45	-
Oil & Gas	Upstream & Downstream [1]	1, 2 and 3	IEA Net Zero 2050	Absolute emissions Kt CO2e	2020	6,300	4,851	-23% vs 2020
Cement	Production	1 and 2	IEA Net Zero 2050	Physical intensity Kg CO2e / tonne cement	2020	660	510	-23% vs 2020
Coal	Mining activity	Not applicable	IEA Net Zero 2050	Exposure in Million euros	2020	3	~0	-100% vs 2020
Iron & Steel	Manufacturing	1 and 2	IEA Net Zero 2050	Physical intensity KgCO2e / tonne steel	2022	1,593	1,172	-26% vs 2022
Automotive	Manufacture / OEMs [2]	3	IEA Net Zero 2050	Physical intensity gCO2e / vkm [3]	2022	211	124	-41% vs 2022
Aviation	Airlines	1 and 2	IEA Net Zero 2050 [4]	Physical intensity gCO2e / rpk [5]	2022	94	65	-31% vs 2022

Notes about methodology applied: Base year (2020) data and 2030 targets are based on the large corporations segment. To determine industry commitments based on the reduction of emissions intensity (electricity and cement), average emissions intensity has been calculated based on emissions and attributed output according to the amount of financing granted. The commitments have been determined based on the methodology of the Science-Based Targets initiative (SBTi) and the pathway indicated in the reference scenario for the oil & gas, cement and coal industries.
Note 1: Includes refining.
Note 2: OEM: Original Equipment Manufacturer. Scope 3 emissions are those linked to the use of sold vehicles (category 11 - Use of sold products).
Note 3: vkm: vehicle kilometre.
Note 4: A correction factor has been added to the scenario to remove the distortion caused by Covid-19 in the forecast data for the 2019-2030 period, due to the reduced aircraft occupancy rate during the pandemic.
Note 5: rpk: revenue passenger kilometre.

In August 2023, the UK subsidiary, TSB, published specific targets for its residential mortgage book.

TSB identified that it has an opportunity to achieve a reduction from its current carbon dioxide emission levels from 20.14 kgCO2/m2 to 16.11 – 14.97 kgCO2/m2. This brings TSB significantly closer to its target reduction of 42%, established in accordance with the NZBA. However, to reach the required emissions level of 11.75 kgCO2/m2, significant engagement from government and other entities will be needed to create the environment for consumers to improve the energy efficiency of their properties.

Sector	Value chain stage	Scope of emissions	Reference scenario	Metric	Base year	Base year metric	2030 target	% reduction vs base year
Residential mortgages (TSB)	Owners	1 and 2	IEA ETP B2DS [1]	Emission intensity $kgCO_2e$ / m^2	2022	20,14	11,75	-42 % vs 2022

Note 1: International Energy Agency's Below 2 Degrees Scenario.

Monitoring of decarbonisation targets

Sector	Value chain stage	Emissions scope	Metric	Base year 2020 metric	2021	2022	Evolution 2020 - 2022	2030 target	% reduction 2020 - 2030
Electricity	Electricity generation	1 and 2	Physical intensity Kg CO2e / MW	61	77	68	Remains in range	85-45	-
Oil & Gas	Upstream & Downstream [1]	1, 2 and 3	Absolute emissions Kt CO2e	6,300	5,466	4,923	-21.9%	4,851	-23%
Cement	Production	1 and 2	Physical intensity Kg CO2e / tonne cement	660	651	645	-3.6%	510	-23%
Coal	Mining activity	N/A	Exposure Million euro	2.9	2.2	3.3	Remains at values close to target	~0	-100%

Notes about methodology applied: Pathway evolution calculated based on customer exposure as at year-end and on counterparties' most recent data available in the first quarter of 2023.
Note 1: Includes refining.

In relation to the achievement of the targets set in 2022, the Bank applies its decarbonisation strategy ensuring various levers depending on the circumstances of the sector and of the customers themselves. Specifically it focuses on:

- Electricity: maintaining a leading position in renewable project finance and promoting the development of new technologies as an alternative to the use of fossil fuels.
- Oil & Gas: taking actions to help customers reduce their emissions, offering finance for investment plans linked, for example, to the development of synthetic fuels or to the transformation of the production model.
- Cement: the main decarbonisation focus area is helping customers reduce their emission intensity, driving the transformation of their production models.
- Coal: although the Bank's portfolio is residual, it remains firmly committed to phasing out its exposure to companies in this sector, applying restrictions to the approval of new transactions.

For further details about the sector-specific decarbonisation levers and the methodology used to set targets, see the Decarbonisation Targets Report included on the corporate website, in the section on sustainability, available at https://www.grupbancsabadell.com/corp/en/sustainability/commitment-to-sustainability.html

4.3 Environmental risk management

The Group understands the environmental risk as the risk to incur in 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. These risks have the potential to generate significant impacts for the real economy (institutions and households) through various socioeconomic variables, including mortality, migration, job availability and productivity (by extension affecting GDP). Therefore, it is thought that environmental risk could ultimately result in borrowers failing to fulfil their payment obligations as a result of not using assets or of companies experiencing disruptions in their manufacture and supply activities that generate the income used to fulfil payment obligations.

Environmental risks can generate impacts through two ‘risk drivers’: ‘physical factors’ and ‘transition factors’. There is a trade-off between physical risks and transition risks depending on how and when policies are implemented to facilitate the transition towards a sustainable economy. In particular, where actions to transition are delayed or weak, it is assumed that physical risks will increase. In the same way, where the transition actions and policies are ambitious and premature, transition risk will increase but physical risk can be expected to fall.

Environmental risks are an additional factor included in the Group’s global risk management framework, using the identification and measurement of these risks as a basis for their subsequent integration into management arrangements. The type of environmental risk in which the most progress has been made in terms of analysis and recognition is climate change risk. However, the risk associated with climate change is intricately connected to the risk associated with environmental degradation and both feed into each other.

In this respect, the Group identifies environmental risks (those related to the climate and environmental degradation) according to whether they are transition risks or physical risks. Specifically, climate-related risks are measured and broken down by transition and physical drivers, while risks associated with environmental degradation (other non-climate-related factors) are measured in aggregate form, without distinguishing between the nature of the driver in question (transition or physical).

4.3.1 Risk identification

Physical climate risks

Physical climate risks are those that emerge as a result of climate events. They can be categorised as either acute risks or chronic risks. Physical risks can lead to a number of consequences, among them the destruction or disuse of physical assets and business disruption, which in turn can lead to a risk of collateral losing value due to the impeachment for waste of the commercial or residential properties securing the loans. The following physical factors or ‘physical risks’ have been identified (this list is non-exhaustive):

Environmental physical drivers		**Description**
Acute	Greater severity of extreme weather phenomena, such as (i) heat waves (ii) cold snaps, (iii) forest fires, (iv) cyclones / hurricanes / typhoons / storms / tornadoes, (v) droughts, (vi) heavy rainfall, (vii) flooding, and (viii) landslides and subsidence.	Reduction of income due to reduced production capability (e.g. standstills in production, in the supply chain or transportation difficulties). Direct losses due to damage to assets.
Chronic	Changes in rain patterns and extreme climate variability. Impacts on exposures with sensitivity to (i) changing average temperatures, (ii) heat stress and thawing of permafrost, (iii) changing wind patterns, (iv) changing patterns and amounts of rainfall, (v) water stress, (vi) land and coastal erosion, (vii) land degradation and (viii) rising sea levels.	Loss of value of customers’ assets serving as guarantees due to their being located in areas affected by these risks (desertification, rising temperatures, rising sea levels, among others).
	Gradual loss of ecosystem services (water and food production, climate control and disease prevention, support for the pollination of crops and cultural benefits).	Decline of production and/or profitability of customers who depend on ecosystem services.

Following this definition, Banco Sabadell Group conducted a top-down estimation of the impacts arising from these climate events on its loan portfolio taking into account:

- The probability of occurrence of physical risks: using risk maps to assign a probability of occurrence. For each of these events, the probability of occurrence is estimated for each postcode, based on historical data collected from public sources (AEMET, MITECO, etc). This makes it possible to assess the probability of occurrence of those events that could have a more significant impact on the portfolio, based on the location and activity of customers. Using this data, the Group identified a total of 16 events (8 acute and 8 chronic) that could affect the loan portfolio. The probability of occurrence was calculated for 11 of them in the Spanish portfolio: Floods, Fires, Rising sea levels, Droughts, Hot spots, Landslides, Maximum temperatures, Minimum temperatures, Rainfall and thaws, Fog and dust, Storms, winds and gales.

- The severity of those risks should they occur, understood as the impact that would arise if physical risk were to materialise, estimated according to expert criteria at a sectoral level for the business lending portfolio and in terms of the location of the collateral for the mortgage portfolio. The final conclusion is based on the aggregate impact of the four events (coastal and riverine flooding, wildfires and droughts) to which the Institution has, for now, applied a severity calculation given their more severe potential consequences. In physical business risk, the severity of events represents the loss of income, calculated as a percentage, that a company could suffer if that event was to occur, due to its business coming to a standstill. Therefore, depending on the type of activity in which the company engages, different events can have different effects on borrowers, which is why the severity is defined based on the event and the activity according to the European classification of economic activities (NACE). In the case of physical collateral risk, the severity is the percentage of the collateral value that could be lost if the event took place. In this case, the severity does not depend on the activity of the borrower, so all mortgage contracts secured with property have been treated the same way, regardless of the type of property securing the loan.

The probability of occurrence of each event is multiplied by its severity and these figures are added together to give the expected impacts, which are the basis for creating physical risk indicators:

$$\text{Expected impact} = \sum(\text{Event probability of occurrence} \times \text{Event severity})$$

This way, for each loan granted to businesses with a Spanish postcode and for each mortgage contract secured with a property, the physical risk can be classified as either ‘No risk’, ‘Low’, ‘Moderate’, ‘High’ or ‘Very High’.

The Group has also internally developed a methodology that distinguishes between acute and chronic events in line with the three scenarios (Orderly Transition, Disorderly Transition and Hot House World) of the NGFS (Network for Greening the Financial System)[12] and adapted to a time horizon of 30 years. These risks are being monitored regularly and meticulously under the Orderly Transition scenario, as this is considered the most likely scenario, although these monitoring exercises do also include the overall impact under the worst-case scenario (Hot House World). This analysis measures the risk inherent in the portfolio and not the residual risk, as it does not consider the existence of cover, such as home insurance and/or the existence of the Spanish Insurance Compensation Consortium (*Consorcio de Compensación de Seguros*), among other things.

In addition, significant progress has been made in the measurement of physical risk and its integration in management arrangements, as a bottom-up analytical methodology has been defined for the main counterparties at the level of large enterprises, as these are thought to be more complex and deserving of a complementary specific analysis. This way, the Bank conducts a more in-depth expert analysis in cases where this is considered necessary, and can provide more information to the Bank’s top-down model. This analysis is carried out using public information about the customer, the internal physical risks model and the expertise of the Bank’s ESG analysts, taking into consideration, among other things, the counterparty’s reliance on physical assets, the geographical diversification of their production centres and their activities, and the controls currently in place to mitigate and/or reduce these risks.

Lastly, to effectively integrate these results into management arrangements, this methodology has been defined in line with the top-down model, so that the results can be integrated in a coherent way and feed into each other.

Physical risk has also been evaluated in the other geographies in which the Bank operates, through task forces with teams at the various foreign branches. First, based on companies’ activities, those likely to be more severely affected should any of the events occur were selected before proceeding to evaluate the probability of occurrence of the events, thanks to the expert knowledge about the location and the climate reality of each country. In Mexico and Miami (United States), information about hurricanes and tornadoes was added.

Taking all of the above into consideration, the most prominent physical risks in Spain’s portfolio are forest fires, droughts, floods resulting from severe storms, as well as coastal floods and/or rising sea levels, to which were added hurricanes in the case of Mexico and Miami (United States). As for the subsidiary TSB, located in the United Kingdom, taking into account that the credit book mainly comprises mortgage assets, and also considering the specific characteristics of that geography, the main physical risks are thought to be flooding, subsidence and coastal erosion.

[12] For more information about the scenarios used, see section “Climate scenarios and stress test” of chapter 4.3.1.

The Bank has also continued to work on:

- The measurement and systematisation of the regular collection of data about physical risk and its associated events in the various geographies in which the Bank is present, through task forces.

- The review of the physical risks model. Specifically, the forest fire event was reviewed in order to bring the sources of information used to calculate this event's probabilities of occurrence in alignment with those recommended by the European Central Bank and with the Bank's stress tests. For this reason, these probabilities of occurrence have been updated using information provided by EFFIS (European Forest Fire Information System), which uses the European satellite Copernicus.

- Improvement of information about the locations of financed companies' assets, where specific ESG analyses of large borrowers conducted by ESG analysts were used to collect information about their locations and to assess the physical risk to which they were exposed.

Using the aforesaid methodology, of the Bank's exposure[13] to physical risk in the corporates portfolio, 2% is rated 'Very High' and 9% as 'High'. Although the 'Very High' risk exposure has not changed from the previous year, the 'High' risk exposure increased by 2.6% due to the methodological change associated with forest fires, explained earlier. In the case of the collateral portfolio, 13% of the portfolio's exposure is rated as having 'High' physical risk, with no exposure to 'Very High' risk being identified. This case was also impacted, with an increase of 5.5%, due to the methodological change associated with forest fires. Therefore, the 'Very High' physical risk category was the same as last year, in both business risk and collateral risk, while the 'High' risk category increased, mainly due to the change in methodology applied for forest fires, as explained previously.

In addition, physical risk also changes depending on the sector, as mentioned in the description of the severity in the event a risk materialises. The Bank has found that the sectors most sensitive to this risk are production sectors such as the manufacturing industry and the energy sector, followed by the agriculture, livestock farming, forestry and fishing sector and the real estate sector.

To ensure physical risks are supervised, they are monitored on a quarterly basis and reported to the Bank's Sustainability Committee and to its Technical Risk Committee.

Example of integration of physical risk:

DROUGHT IN SPAIN

The sectoral analysis is further complemented with a deep-dive analysis into certain events with a high associated impact. In 2023, following the droughts that occurred in Spain, an analysis of how that event was dealt with and of its potential impact on the loan book was carried out. The sectors found to be the worst affected were agriculture and livestock farming, as they use 82% of water to irrigate 22.9% of the arable area, which is used to grow 50% of all crops.

The evaluation of the impact of water shortages is a complex matter, as it depends on how the drought has impacted each geographical area and also on how each area has been able to adapt its irrigation techniques and crops to water shortages. During the analysis, it was found that the regions that had historically been hit the hardest by water shortages currently have more efficient irrigation systems (drip and sprinkler) and have been adapting their crops.

In this context, the loan book was analysed to determine the quality of the Bank's exposure in this sector and to take a closer look at additional mitigating techniques (e.g. agricultural insurance taken out by companies) and, using all this information, an action and monitoring plan was devised for these companies by the Bank.

Specifically, two main focus areas were defined:

a. Monitoring of companies identified as being more likely to be affected and with lower credit quality (higher levels of debt or margin), to anticipate any potential credit risk situation.

b. Identification of business opportunities to help customers secure finance for their water efficiency plans.

[13] Exposure means the amount drawn down and contingent risks in the credit book.

Climate transition 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 economy. This process can be affected by four ‘drivers’:

Transition drivers		**Description**
Legal and regulatory	Increase in the cost of emissions or the use of natural resources.	Risk of borrowers failing to fulfil their payment obligations, particularly those with non-performing assets or belonging to sectors particularly exposed to transition risks.
	Increase in requirements concerning the monitoring, control and reporting of climate-related and environmental disclosures.	Increase in resources dedicated to the analysis, reporting and integration of transition and environmental protection plans in companies’ activity. Potential increase in regulatory capital requirements for risks associated with climate change.
	Change in regulations of existing products and services.	Forecast increase in environmental demands going forward and lack of preparation in some sectors.
Technology	Substitution of existing products and services with other more efficient or less polluting ones.	Risk of companies being pushed out of their respective activities due to a lack of innovation or a failure to adopt technologies that promote the green transition compared to competitors.
	Failure to invest in new technologies. Costs of transitioning to low-emissions technologies.	Technological changes depend on the availability of technology, in turn associated with investment in R&D, meaning that this aspect will determine the survival of some companies, especially those smaller in size.
Market	Changes in consumer preferences and/or tastes in relation to the transition towards a more	Risk of losing market share as a result of failing to offer sustainable products or due to poor ESG performance.
	Increased cost of commodities.	Reduction of income due to increased costs of commodities in certain carbon-intensive industries.
Reputational	Stigmatisation of a sector, company or product.	Loss of customers’ solvency due to poor reputation as a result of the lack of a sustainable strategy or due to an incident or poor ESG ratings by a third party.
	Exclusions from investing in certain sectors due to market	Loss of confidence among the general public.

Analysis of climate transition risk in the business portfolio

Following this definition, Banco Sabadell Group has internally developed heat maps at a subsector level, aligned with the three scenarios (Orderly Transition, Disorderly Transition and Hot House World) of the Network for Greening the Financial System (NGFS)[14] and the recommendations of UNEP-FI and adapted to a time horizon spanning 30 years. These risks are being monitored regularly and meticulously under the Orderly Transition scenario, which is considered the most likely scenario. However, these monitoring exercises do also include the overall impact under the worst-case scenario (Hot House World).

Based on this, all the activities of the loan portfolio have been classified according to their sensitivity to climate transition risk under a top-down analytical approach and taking into account the impacts envisaged in each scenario in terms of income, expenses and low-carbon capex.

It is worth noting that the heat maps are continuously updated in order to obtain the impacts stemming from transition risk with a greater level of granularity. Thus, the Bank currently has the capacity to identify the transition risk of each separate activity within a single sector. This is important for sectors involving a variety of activities that differ considerably where emissions are concerned. One example of this is cattle rearing and rice growing, which both form part of the agriculture and livestock farming sector, as they are associated with higher levels of emissions intensity than the other activities within that same sector.

In the case of transition risk, the total impact factors in the impact broken down by income, costs and low-carbon capex. Impacts are classified as ‘Positive’ for activities in which the transition may indeed have a

[14] For more information about the scenarios used, see section “Climate scenarios and stress test” of chapter 4.3.1.

positive effect on one or more parameters, or as ‘No risk’, ‘Low’, ‘Moderately low’, ‘Moderate’, ‘Moderately high’, or ‘High’, which includes, for instance, the activities most affected by transition risk such as coking plants. This impact analysis measures the inherent risk of the portfolio and not the residual risk, as the controls that each counterparty currently has in place to mitigate it are not considered.

Example of integration of transition risk into management arrangements:

BOTTOM-UP ANALYSIS OF LARGE BORROWERS

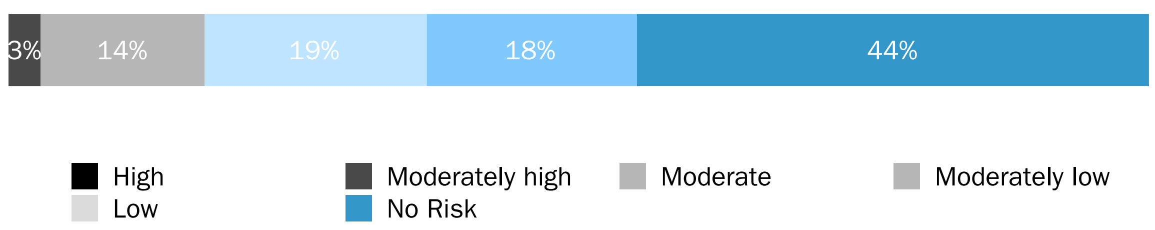
Significant progress has been made with the measurement of transition risk and its integration into management arrangements, updating the model used for the batch measurement of these risks to include the bottom-up analyses conducted when evaluating the Climate-related and Environmental Risk Indicator (IRCA) (see section on “Climate-related and environmental performance of the loan book”).

The IRCA is an internal standardised approach used to measure climate-related and environmental risk for counterparties that are large enterprises, as it is thought that their increased complexity merits a complementary specific analysis. This analysis can be broken down into each of its constituent parts, one of which is the measurement of transition risk. This way, the Bank conducts a more in-depth expert analysis in cases where this is considered necessary, and can provide more information to the Bank’s top-down model.

This transition risk assessment is conducted using publicly available information about the customer, the internal transition risk model, and the expertise of the Bank’s ESG analysts taking into consideration the IRCA methodology.

To effectively integrate these results into management arrangements, this methodology has been defined in line with the top-down model, so that its outputs can be integrated in a coherent way and feed into each other.

Distribution of the transition risk on the companies portfolio (%)



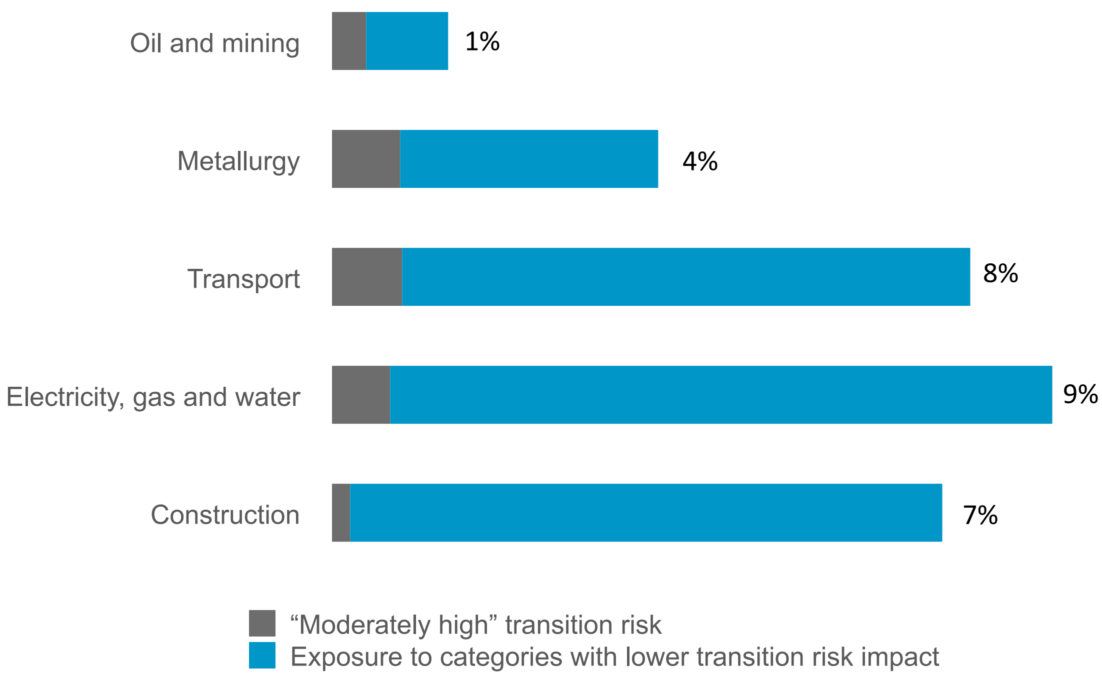
Based on everything mentioned thus far, the Group’s most affected portfolio is its portfolio of companies, although as shown in the graph[15], it is currently thought that the Bank has minimal exposure (around 0.01%) to the segment with the highest transition risk (‘High’).

As can be seen, transition risk in 2023 remained largely stable, with minor fluctuations, and it is particularly worth calling attention to the 3% reduction of ‘Moderately High’ risk, the 2% increase in ‘Moderate’ risk and the 3% growth of ‘Moderately Low’ risk. Although it is thought that changes in the exposure to transition risk are largely immaterial and partly inherent in banking business, it should be noted that the integration of the data obtained through the IRCA within the top-down model helps to position customers in intermediate exposure levels when their ESG performance management is evaluated (see text box included in this section for more information).

This exercise has also cast light on the limited weight of sectors with higher transition risk (aviation, shipbuilding, mining, automotive and oil & extractive industries), which play a secondary role in terms of exposure within the Institution’s portfolio.

[15] Exposure means the amount drawn down and contingent risks in the credit book.

Specifically, the five industries that account for the majority of the transition risk in the business portfolio are shown below, along with the proportion of the transition risk exposure rated 'Moderately High' relative to the total for each sector ('exposure to categories with lower transition risk'). At the same time, the percentage indicates the weight of the sector[16] in the Bank's credit book:



As can be seen in the figure, the Bank's level of exposure to sectors with 'Moderately High' transition risk is limited. It is also worth noting the high percentage of the exposure classified as green within the electricity generation sector, due to the Institution's ability to spearhead the financing of renewables, which allows it to have a portfolio with a lower transition risk than one would expect for a carbon-intensive industry.

<u>Analysis of climate transition risks in the collateral portfolio:</u>

The transition risk associated with real estate properties financed by the Bank (mortgage loans) is measured differently from business risk. Specifically, it is evaluated based on the properties' energy efficiency, which is measured using energy performance certificates (EPCs).

For this reason, the Bank is continuously working to collect the largest amount of data possible about the EPC ratings of real estate properties, both commercial real estate for residential use and residential real estate, included in its mortgage book as collateral and also about foreclosed assets. It should be mentioned that, depending on the type of property, the issuance of an EPC may not be mandatory, as is the case with garages, storage rooms and sheds, building plots and warehouses, for which no energy-related data is available.

The Bank has an EPC rating for almost all the properties in its portfolio, as a result of the efforts made to obtain the actual certificates, where they exist, and to estimate the ratings through a reputable third party where no EPC rating exists due to the characteristics of the practical application of the regulation.

In this respect, the Bank prioritises the collection of actual EPCs for financed properties, based on data provided by the customer or taken from public databases (such as those of Autonomous Communities in Spain). To identify or, where necessary, estimate the energy rating of properties located in Spain, four mechanisms have been established to obtain this data (the first being the one with the highest quality):

a. First mechanism: obtain data based on the Energy Performance Certificate (EPC).

[16] The percentage is calculated taking into account the amount drawn down, including contingent risks, in the sector in relation to the total amount drawn down in the portfolio.

b. Second mechanism: obtain data by directly looking up the property in question on public databases of Energy Performance Certificates (EPCs) of Autonomous Communities.

c. Third mechanism: this is applicable to residential properties, where it has not been possible to obtain data using the first mechanism, and it consists of obtaining data for the property based on its similarity to other properties that do have an EPC rating located in the same building.

d. Fourth mechanism: also applies to residential properties where none of the previous mechanisms have yielded the requisite data. It consists of estimating the data using the supplier's own model. The estimation model was built based on information of the more than four million EPC ratings included in the records of Autonomous Communities. It is a model that assigns a rating to properties, considering the information included in land registers (type, age, building regulations, construction quality, surface area and relative height), as well as the climate zone in which they are located. It is not a statistical or regressive model, but instead an expert replica of accredited programmes used to calculate EPC ratings, which pools data for each item included in EPC certificates and estimates the rating using the limited information available about properties.

The supplier's model was supervised by an external auditor with the primary aim of verifying that the model allows requirements to be met. The report concluded, generally speaking and based on the tests carried out, that the information used and the procedure developed to obtain and estimate EPC ratings is adequate.

Since 2022, the Institution has continued to work on improving the collection of EPC data (real, estimated and inferred), as a result of the various initiatives considered to strengthen and improve operational and control processes in relation to data completeness and quality.

Outside of Spain:

- In the United Kingdom, EPC ratings are estimated based on average estimated ratings of postcodes, where available. Where such data is not available, they are estimated using the outputs of a regression model.
- In Mexico, a model for estimating EPC ratings and energy consumption (KWh/m2) provided by an external supplier has been used.

In the case of TSB, its portfolio is almost entirely made up of mortgages, with an average energy performance. Given that practically all of TSB's credit book is made up of mortgages, almost all of TSB's transition risks come from the energy performance of the properties used to secure mortgage loans and from the cost of improving their energy efficiency rating (in the short, medium and long term).

It is worth noting that EPC ratings are regulated by European Directives and are not mandatory outside of Europe. In addition, the Directives are general frameworks used to define EPCs, but each country is responsible for specifying and defining its own associated technical requirements according to the particularities of each region in their domestic regulations. This is why, although the same classification system is used, the same EPC rating in two separate European countries does not reflect the same impact in terms of energy consumption and emissions and this data is therefore not thought to be comparable.

To ensure transition risks are monitored, they are tracked on a quarterly basis and reports are sent to the Bank's Sustainability Committee and to its Technical Risk Committee.

Environmental degradation risk

The Bank has conducted an assessment of its exposure[17] to the risk associated with environmental degradation of the business risk portfolio, based on the UNEP-FI methodology. This methodology assigns an environmental impact to each NACE code, obtained by consolidating these five non-climate-related environmental factors:

- Management of water resources: risk of water resources becoming contaminated, and their management.
- Impact on biodiversity: negative effects on species and natural spaces.

[17] Exposure means the amount drawn down and contingent risks in the business loan book.

- Pollution and use of land: risk of land becoming contaminated or degraded, as well as the use associated therewith.
- Air quality: risk of air being polluted with gases other than greenhouse gases (GHG), which could potentially affect ecosystems and people's health.
- Management of resources and waste: generation of waste (hazardous or otherwise) in large quantities and with intensive use of natural resources.

This methodology has been gradually improved, creating an additional category for this risk. Instead of having just three risk categories ('Low', 'Medium' and 'High'), there are now four, having created a fourth 'Very High' risk category. The business portfolio is therefore now classified into four levels.

It is worth noting that an exhaustive review of the environmental degradation risk associated with each NACE code has been carried out, to obtain more granular data for each activity and to standardise the risk of certain similar activities (e.g. manufacturing activities, transport activities, etc.).

The overall environmental degradation risk score consolidates the risk associated with each of these factors. It is worth noting that at present environmental degradation risk (as well as the five factors) is not broken down by drivers (transition and physical).

1.2% of the business exposure is classified as having 'Very High' environmental degradation risk and 10% as 'High' risk[18]. The increase with respect to 2022 in the 'High' risk category is partly due to the revision, under conservative criteria, of the environmental degradation risk heatmap associated with each NACE code. At a sectoral level, environmental degradation risk is concentrated in certain sectors, such as Electricity and gas, Transport, Chemical, Oil and Extractive industries.

Lastly, to ensure that the measurement of the evolution of these risks is supervised, the portfolio's exposure to climate-related and environmental risk is monitored on a quarterly basis and reported to the Bank's Sustainability Committee and to the Technical Risk Committee.

Biodiversity risk

Biodiversity risk affects the financial sector in a similar way as climate risk does, as both have associated ecosystem services that can be translated as an economic value for society. The potential deterioration of these services could affect the economy's productive capabilities.

The World Economic Forum estimates that over half of the world's GDP, 44 trillion dollars, is potentially at risk as a result of companies' reliance on nature and its services. At the same time, the Living Planet Report 2022, a comprehensive study of trends in global biodiversity and the health of the planet, published by the World Wide Forum (WWF), revealed an average decline of 69% in species populations since 1970. While conservation efforts are helping, urgent action is required if we are to reverse nature loss.

Banco Sabadell's regulatory framework includes different guidelines for the protection of biodiversity. At the top level of this framework is the Group's Sustainability Policy, which includes the main guidelines for social, environmental and governance (ESG) actions. This document sets out the principle of 'environmental protection', which includes the management of biodiversity.

Based on this policy principle, the Bank defined the Environmental and Social Risk Framework, which also lays down measures to protect biodiversity, either through restrictions of certain activities or through general restrictions.

As the management of climate change and the management of biodiversity are intricately linked, most of these restrictions help to mitigate both risks. However, there are certain exclusions where the Bank has established that it will not take credit risk if it finds sufficient evidence that one or more of the following circumstances associated with biodiversity exist:

General exclusions:

- Companies that pose a threat to UNESCO World Heritage Sites, to any of the wetlands included in the Ramsar list, locations appearing on the map of the Alliance for Zero Extinction, and Category I-IV areas of the International Union for Conservation of Nature.

[18] Part of the portfolio could in turn also be affected by climate transition risk, therefore the percentages of each one cannot be added together directly.

- Companies for which Banco Sabadell has sufficient reasons to believe that they are in material breach of applicable laws and regulations in relation to human rights and the environment, even if the circumstances in question do not constitute a breach of the local legislation of each country.

Sector-specific exclusions:

- Farms involved in scandals related to the production or trade of products regulated by the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
- Farming projects that involve the burning of natural ecosystems in order to clear land for agricultural activities.
- Farming projects that involve the destruction of High Conservation Value Forests.
- Vessels operating with drift nets of more than 2.5 km in USA or EU waters, or those which use drift nets to capture any of the species listed in Annex VIII of EU Regulation (EC) 1239/98 or those listed in the Mexican National Fishing Charter and Official Standard NOM059-SEMARNAT-2010.
- Bottom trawling in USA or EU waters more than 800 metres below sea level.
- Mountain Top Removal (MTR)[19] mining methods.
- Mines that fail to produce evidence of a closure and site recovery plan.
- Mines with tailing dams that are not managed according to the best practices of the industry.
- Mining projects that involve the discharge of tailings into river systems or shallow waters.
- Desalination plants that lack adequate measures to mitigate the impact of the disposal of brine and/or the extraction of seawater.

In addition to establishing restrictions on activities with a high impact on biodiversity, the Bank monitors the impact generated by companies' activities within its loan book. Although these are companies that fulfil the Environmental and Social Risk Framework, due to their activity, they could inherently have an impact on biodiversity. This aspect is considered from two points of view:

1. The quarterly monitoring of environmental degradation risk: this risk includes biodiversity risk, where it is clear that the sectors to which the Bank has exposure and which have the greatest impact are Electricity, Road transportation, Maritime transportation, Agriculture and fishing, and Oil and gas.
2. The classification of borrowers according to the Climate-related and Environmental Risk Indicator (IRCA). This indicator (see heading Climate-related and environmental performance of the loan book) rates all large companies in the loan book. Companies with a 'High' or 'Very High' environmental degradation risk, which includes biodiversity risk, are given a worse score.

Qualitative materiality analysis

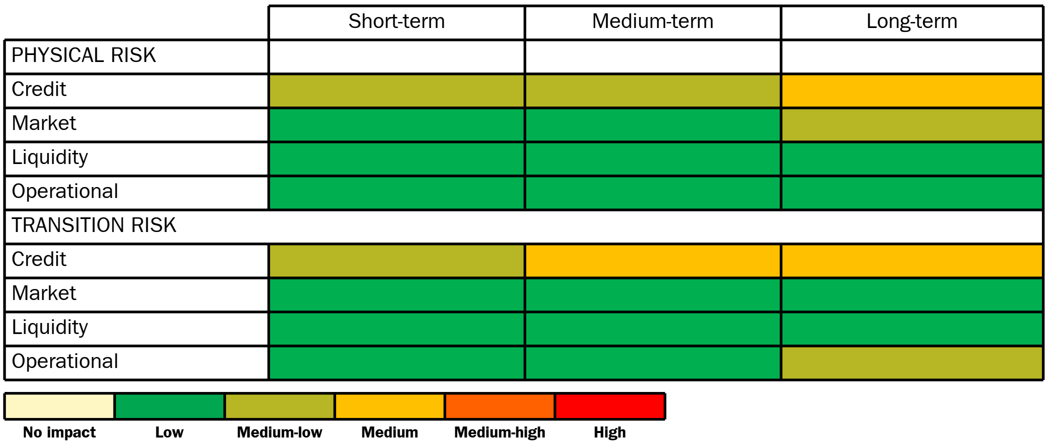
Every year, the Institution reviews the materiality assessment of the impact of environmental risks (physical and transition risks stemming from climate change and environmental degradation), identifying all possible factors that can transmit these risks, evaluating them according to a scale of impact intensity and taking different time horizons into account (based on the criteria and expectations established by the supervisory body). This exercise takes place for all of the main risks included in the Global Risk Framework considered to be directly impacted by environmental risk. Specifically, credit, market, liquidity and operational risks are considered, as it is thought that in other risks (such as those related to the Institution's reputation or business model), the effect is indirect as it stems from the impact and management of the four risks mentioned.

The exercise creates a 'climate overview' that includes recent trends and developments that emerged during 2023 and which could evolve or consolidate further, with a potential impact for the Institution looking ahead. Consistent with this overview, indicators are used that allow the intensity of the impact of physical and transition risks on both customers/counterparties and on the Bank to be measured according to an

[19] On an exceptional basis, the Institution may grant them finance where they are located in countries with high energy dependence (more than 65% of imported energy) on coal or where they have no other viable alternative energy sources.

impact intensity scale that goes from ‘low’ to ‘high’ and taking into account different time horizons (short-term: 1-3 years; medium-term: 4-5 years; long-term: >5 years).

The results of the qualitative materiality assessment, by type of risk, conducted in Q4 2023, showed that, throughout the time horizon considered, the risk with the most impact was credit risk, followed by operational risk. In relation to credit risk, the impact has been revised upwards (from ‘medium-low’ to ‘medium’) and to the medium term (4-5 years), in the case of both acute physical risks and transition risks due to technological factors.



These are the results of a preliminary risk assessment, without considering the controls implemented or the application of the mitigating factors that the Institution has in place or are being developed and implemented under the Sustainable Finance Plan (SFP). Examples of these mitigating factors are the measurement, improvement and monitoring of physical and transition risks in credit portfolios, the sufficiency of existing liquidity buffers, the Institution’s operational continuity plans. More generally, the Institution has at its disposal a full range of internal policies aimed at ensuring the correct identification, prevention and remediation of each risk in the event of its materialisation through multiple management and control procedures assigned to those designated as being responsible for each of the policies.

4.3.2. Assessment and measurement

The Bank evaluates the impact of its credit book with two different assessments. The first consists of measuring the credit book’s climate-related and environmental risk, while the second focuses on measuring the portfolio’s carbon footprint.

The first type of assessment focuses on measuring the climate-related and environmental risk of the borrowers receiving finance. There are two approaches to this measurement:

a. The measurement of climate-related and environmental risk in the credit portfolio is a bottom-up approach, used for large enterprises, using the Climate-related and Environmental Indicator (IRCA). The IRCA is a numerical indicator that allows the Bank to rank borrowers according to their impact associated with climate-related and environmental risk, taking into account the management efforts made by each borrower. This score is supplemented with the analysis of disputes or scandals associated with the borrower.

b. The second approach, applied to smaller companies and retailers and which is outside the scope of the IRCA, is based on large-scale measurements made by the Bank using climate risk and environmental degradation risk models with a top-down methodology. In addition, to ascertain the impact of the portfolio under stress in different scenarios, various stress tests are conducted.

The second type of assessment carried out by the Bank consists of measuring the emissions of the financed credit portfolio. This measurement is vital when it comes to managing ESG risk, as it is a quantitative metric for which a standardised methodology exists, which makes it comparable. Furthermore, this measurement is carried out for the entire credit book, in other words, not only for companies, but instead also measuring emissions of other portfolios such as that of mortgages, sovereign bonds, auto loans and project finance.

Climate-related and environmental performance of the loan book

All transactions, companies and corporate groups submitted to or revised by the Delegated Credit Committee have an advanced ESG analysis.

Efforts have been made to translate this advanced analysis of large firms into a quantitative Climate-related and Environmental Risk Indicator (IRCA). The IRCA gives an integrated evaluation of borrowers' exposure to climate-related physical and transition risks, taking into account the level of maturity of their management of these ESG aspects, the environmental degradation risk and any disputes that it is thought could affect compliance with sectoral rules or the Bank's reputation.

This indicator makes it possible to improve the discrimination of borrowers according to climate-related and environmental risks, as although the risks inherent in each borrower's activity are taken into account, these are adjusted based on the ESG management maturity analysis, which evaluates different factors such as the decarbonisation strategy, changes in the volume of emissions, ESG risk management and commitments to reduce emissions.

Measurement of borrowers' climate-related and environmental risk

The IRCA indicator objectively ranks large enterprises with sustainability information, based on their exposure to climate risk and environmental degradation risk, as well as their management maturity in relation to those risks. In line with this description, three main modules can be identified:

1. Climate risk: each borrower is assigned a transition risk score and a physical risk score inherent in their activity. To separate different borrowers within a given sector according to their management maturity level, ESG analysts evaluate the efforts made to transition and to mitigate physical risks, applying an internal methodology that has been standardised in order to make the results comparable. This way, the climate risk associated with a given activity by default can be adjusted based on each analysed borrower's level of maturity in managing those aspects. Looking at the evaluation in further detail:

    a. Transition efforts are measured using a methodology that measures the management maturity of these aspects, in line with the recommendations of the Task Force on Climate Financial Disclosures (TCFD), meaning that this part of the assessment evaluates topics aligned with the four thematic areas defined in the recommendations: Governance, Risk management, Strategy, and Metrics and targets.

    b. The efforts made to mitigate physical risks are also measured following the TCFD recommendations, requesting details of any physical events experienced by the borrower and of the measures taken to mitigate risks and adapt to physical events (e.g. insurance). A big step forward has been taken in relation to this measurement (as mentioned in the heading "Physical climate risks"), defining a bottom-up analytical methodology for large enterprises, to be conducted by the pool of ESG analysts.

1. Environmental degradation risk: a module has been introduced to adjust borrowers' climate risk according to the impact inherent in the other environmental factors, other than climate factors, of the activities they perform. The adjustment stemming from this risk can be broken down to ascertain the impact associated with each vector (air quality, water quality, land quality, waste and biodiversity).

2. Controversies: lastly, the counterparty's score based on environmental modules (climate and environmental degradation) is subject to a second adjustment to determine the presence of any significant disputes or scandals in connection with counterparties relating to the environment but also relating to social or governance aspects.

This methodology results in a numerical indicator that can be used to rank companies according to their ESG score in a uniform, objective and comparable way.

The lowest scores correspond to higher climate-related and environmental risk, while higher scores are assigned to companies engaging in activities with a low (or even positive) impact on climate and the environment, as well as those with high ESG performance and/or management maturity levels.

It is also worth noting that the IRCA's modular structure also allows scores to be obtained separately for each module (climate, environmental degradation and disputes), so as to compare specific aspects of borrowers.

It is further worth mentioning that the IRCA is integrated in an internal portal. This tool allows ESG analysts to work in a centralised way and in a robust environment that improves the traceability and usability of the aforesaid information.

At present, the IRCA has been calculated for large enterprises in the case of almost half of the portfolio of loans granted to large enterprises, and it is worth calling attention to the strong presence of borrowers with the top ESG performance in their sector.

Lastly, to ensure that the IRCA measurement is supervised, IRCA scores are monitored, with reports submitted on a quarterly basis to the Bank's Sustainability Committee.

Collection of information through a pool of ESG analysts

The pool in question is a centralised team of analysts specialising in ESG. The information collected mainly comes from public sources and is preferably checked and verified by a third party. In addition, where the ESG pool considers it necessary to do so, it instructs the basic management team to contact companies to obtain additional information.

This process takes place annually for existing customers and during the origination process in the case of new customers.

Lastly, as mentioned briefly in the introduction to this section, the Bank complements the quantification of climate-related and environmental risks for borrowers outside the scope of the IRCA (mainly due to them being smaller-sized companies or retailers) with the top-down analyses that it conducts on a massive scale for physical climate risk, climate transition risk and environmental degradation risk. These analysis have been explained previously in section "4.3.1 Risk identification".

Climate scenarios and stress test

All activities of the loan portfolio have been classified according to their sensitivity to transition risk and physical risk, taking into account the impacts envisaged in the three long-term scenarios used to forecast them:

- Orderly transition: In the Orderly Transition scenario (compatible with RCP[20] scenario 2.6), early and decisive action is taken to attain CO2 emissions neutrality by 2050, so that the average temperature of the planet is no more than 1.5°C higher than in the pre-industrial era. To that end, the Net Zero 2050 climate scenario of the NGFS (Network for Greening the Financial System) is considered for transition risk, forecast using the Remind and Magpie models.

- Disorderly transition: In the Disorderly Transition scenario (also compatible with RCP scenario 2.6), action to combat climate change is delayed until 2030. This means that sharper action needs to be taken between 2030 and 2050 in order to achieve CO2 emissions neutrality by around 2050. To that end, the Delayed Transition climate scenario of the NGFS is considered for transition risk, forecast using the Remind and Magpie models.

- Hot House World: In the Hot House World scenario (compatible with RCP scenario 6.0), only currently implemented policies designed to fight climate change are preserved. Emissions continue to rise at the current pace and the target warming of <= 2ºC before 2100 is not met. The impact stemming from transition risk is non-existent (NGFS Current Policies scenario).

This has enabled the Institution to make progress on its first bottom-up quantitative estimation with a 30-year time horizon using a structural model that can be used to carry out a quantitative calculation of expected impairment loss on the portfolio.

The characteristics of the stress scenarios used internally by the Bank are the same as those presented by the European Central Bank in its climate stress test of 2022[21], with the exception of the 1-year physical risk flood scenario. This has been replaced with a 1-year physical risk scenario based on severe forest fires, in

[20] Representative Concentration Pathways.

[21] In addition to the scenarios described above, two short-term physical risk scenarios and one short-term disorderly transition scenario are used for the ECB stress test.

an attempt to include a more damaging systemic scenario for the Spanish economy and for the Group than the flooding scenario envisaged by the ECB.

The main sources used to develop the climate scenarios are the scenarios published by the NGFS in November 2023 and the forecasts made by the ECB in its 2022 climate stress test. Similarly, the forest fire scenario has been developed based on the forest fire risk index created by the European Forest Fire Information System (EFFIS, a body of the European Commission) and academic literature on this topic.

Banco Sabadell has its own stress testing framework for climate risk, which lays down the key characteristics of the tests, including their integration in the internal capital adequacy assessment process (ICAAP).

During these stress tests, forecasts are made of climate risk in order to measure the sensitivity of the Group’s credit risk to transition and/or physical risks linked to climate change and to possible transition pathways towards a decarbonised economy. The impact of physical and transition risks on the Group’s solvency position is limited, from both a regulatory perspective and an internal perspective. Environmental degradation risk has a limited impact on internal capital requirements due mainly to the time horizon over which it materialises.

Emissions of the financed portfolio

Emissions of the financed portfolio account for the largest proportion of the Group’s emissions. Therefore, since 2021, Banco Sabadell Group has calculated the carbon footprint of its financed portfolio using the Partnership for Carbon Accounting Financials (PCAF) methodology. PCAF is a global alliance of financial institutions that work together to develop and implement a harmonised and global approach to measure and report emissions associated with their loans and investments.

As part of this alliance, 16 institutions established the design of the Global GHG Accounting and Reporting Standard for the Financial Industry, which aims to harmonise the accounting of greenhouse gas emissions. Banco Sabadell became a member of the PCAF in June 2022. The measurement of emissions of the financed portfolio using this standard is a key step for financial institutions to assess the transition risks associated with climate change, set objectives aligned with the Paris Agreement and develop effective strategies to decarbonise the economy.

As regards the PCAF methodology, Banco Sabadell Group has applied the methodology envisaged in the Standard mentioned above, which has been devised mainly for financial institutions that want to measure and share their GHG emissions financed through their loans and investments, and which allows the following asset classes to be measured:

- Business loans and unlisted stocks.
- Project finance.
- Commercial real estate (CRE) mortgages.
- Residential mortgages.
- Consumer loans for vehicle purchase.
- Sovereign bonds (new category in 2023).

It is worth mentioning that the PCAF has two methodological approaches for listed stocks and corporate bonds. In this case, the Bank uses the same methodology that it does for business loans and unlisted stocks, in which values are attributed considering counterparties’ balance sheet data. The other approach, based on companies’ stock market valuations, is not applied in this case given the volatility generated by the attribution factor.

Based on this methodology, the Group has calculated its carbon footprint (Scope 1 and 2) for approximately 96% of its financed portfolio[22]. The portfolios not calculated are those for which no calculation or estimation standards or methodologies exist, such as portfolios of consumer loans for purposes other than vehicle purchase, and private banking, among others.

[22] The calculation includes the mainstream, buy to let an Whistletree business of the subsidiary TSB, which represents 99.6% of its portfolio. TSB data estimated by applying emission intensity and the estimated percentage of its Mainstream Balance Portfolio using data as at the end of 2022 to the exposure at the end of 2023.

It is worth noting that, in 2023, the Group has continued to improve its calculation model to obtain more reliable and complete results, which have been submitted to the Sustainability Committee. The main improvements are the following:

- Calculation of the new Sovereign Bonds segment of the portfolio within the model used to calculate the carbon footprint, following the new methodology published in the guidance to banks for calculating financed emissions issued by the PCAF. In line with the PCAF recommendations, the calculation of Scope 1 financed emissions is available, both including the emissions factors of countries' Land Use, Land-Use Change and Forestry (LULUCF[23]) and without them.

- Inclusion of the PCAF's new emission factors in the calculation of emissions deriving from the financed business portfolio, amending the Bank's reports, both public and internal, from 2024 onwards. In 2023, the PCAF updated the emission factors that it recommends for use when calculating the carbon footprint of the financed portfolio. The new factors provided are at a regional and sectoral level (understood as two-digit NACE codes), the latter of the two being the recommended option. This change will produce less granular emission factors than the previous version, as before emissions factors were available at the activity level (four-digit NACE codes).

- Inclusion of fixed-income contracts for corporate bonds in the business segment.

- Incorporation of actual emissions data with regard to business risk, floor area and energy certificates, both real and estimated by appraisal firms, and of the value and type of vehicles, leading to an improved data quality (DQ[24]) estimate.

The absolute emissions of the Group's financed portfolio in terms of Scope 1 and 2 as at the end of 2023 are 14.96 million tCO2eq, entailing an emission intensity of 82.63 tCO2eq with an average DQ of 3.31. The segment that contributes the most to the footprint is the business portfolio (approximately 60%), which represents 36% of the credit exposure in the portfolio, followed by sovereign bonds. Emissions were higher than at the end of 2022, while the intensity remained constant and the average DQ improved, thanks to a 30% increase in actual emissions (DQ1) in the business lending segment. Absolute emissions increased mainly due to the methodological change in the calculation of emissions associated with sovereign bonds, according to the PCAF, as now a conservative criterion is followed that considers all emissions released within issuing countries, generating a double-count effect with the financed emissions of other segments in the portfolio located in countries where sovereign debt is financed. In addition to this reason, the substitution of the former PCAF emission factors with those published in 2023 is also considered to be key.

The sectors that contribute the most are Agriculture, livestock farming and fishing, Construction materials, the Steel industry and Maritime transportation. It is worth mentioning that the second most contributing segment in 2023 is that of Sovereign bonds, included for the first time in the carbon footprint report with the LULUCF factor. Details of the emissions of each PCAF segment are provided below:

SEGMENT	INTENSITY (tCO_2/€m)	DQ
Corporate loans and unlisted stocks	134	3.72
Project finance	101	3.94
Commercial real estate (CRE) mortgages	44	3.97
Residential mortgages (includes TSB)	18	3.45
Consumer loans for vehicle purchase	185	3.57
Sovereign bonds (new category in 2023)	150	1

The Bank is focusing its efforts on establishing decarbonisation targets for the most emissions-intensive sectors of its business portfolio (see section "Portfolio Alignment"). Each sector's emissions for 2023 are included in the Bank's latest Pillar III Disclosures report[25].

[23] These are emissions factors that include GHG emissions/absorptions resulting from land use (which do not entail any change) and changes in land use (which do entail changes in the use of land).
[24] The PCAF methodology provides scores for rating the quality of the data used (Data Quality, DQ), which go from 1 (highest data quality) to 5 (lowest data quality).
[25] For more details about the emissions of the financed portfolio, refer to the latest Pillar III Disclosures report, which contains the emissions breakdown of each carbon-intensive industry, publicly available on Banco Sabadell's corporate website.

On the other hand, the Bank is focusing its efforts on project finance for renewable energies, in order to promote the transition to a sustainable economy. These efforts are also reflected in the 1.67 million tCO2eq of emissions prevented as a result of financing these types of projects.

To ensure that the carbon footprint of the financed portfolio is supervised, it is monitored on a quarterly basis and reported to the Bank's Sustainability Committee and to the Technical Risk Committee. In addition, the calculation of the financed portfolio's carbon footprint was audited in 2022, with the participation of an independent third party, obtaining favourables results.

4.3.3 Integration in management arrangements

Effective integration of environmental risks into management arrangements requires a strategy and set of regulations that establish the action guidelines, targets and limits required at different points of the credit approval workflow.

The Bank has created the ESG Guidelines, which are the framework that consolidates the ESG commitments and standards currently applied when authorising the Bank's credit transactions. Specifically, the ESG Guidelines comprise the Environmental and Social Risk Framework, the IRCA and decarbonisation pathways. The verification of ESG Guidelines has been embedded into the IRCA evaluation process, meaning that, when ESG analysts receive a loan application from a customer who is subject to the IRCA, they conduct an additional evaluation of their fulfilment of the Environmental and Social Risk Framework, which includes the sectorial rules, and of their decarbonisation pathways.

The Group has an Environmental and Social Risk Framework that establishes the Group's position, designed to restrict 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), aligned with Banco Sabadell's Eligibility Guide, 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, as part of the financial sector, the Group measures ESG performance using the IRCA to promote the transition of companies and businesses, steering the financing according to the nature of the activities and helping agents in polluting industries who work to improve their ESG performance to transition to a more sustainable model, or limiting its exposure in the case of those not transitioning.

At the same time, the Bank has a decarbonisation strategy for the four first sectors (Electricity, Oil & Gas, Cement and Coal) and it has published its commitment in a second phase for three new sectors (Iron & Steel, Car manufacture and Air transport). The assessments of the level of fulfilment of pathways is currently embedded into day-to-day management arrangements, meaning that all significant transactions affected by them are assessed in order to ensure attainment of targets.

The Bank has also been continuously working on an eligibility guide, which includes the description of activities considered to be green according to the Eligibility Guide. This is a key aspect when it comes to integrating ESG aspects into the Group's ordinary activity, as well as being a strategic aspect.

Lastly, it is worth pointing out that the Bank, in parallel to all of the initiatives intended to integrate environmental risks into management arrangements, has a series of initiatives underway to improve the quality of the information on which it bases its decisions (databases, specific projects to gather customer information, among others).

ESG risk management guidelines

As planned, work has been undertaken to create a single framework to manage ESG credit risk that incorporates all standards on this topic that are currently applied when authorising the Bank's credit transactions. For this reason, the ESG risk management guidelines were created, which include:

- Environmental and Social Risk Framework at the customer level, to identify from the outset whether a new transaction could be associated with any of the restricted activities.

Banco Sabadell Group has a public framework of environmental and social risks that is applicable to new loan transactions granted to groups or companies with turnover in excess of 40 million euros[26], which

[26] At the customer level, restrictions will be considered whenever customers apply for finance of over €25m. In the case of projects, restrictions will be considered for transaction amounts of over €5m.

represents a very considerable portion of the Bank's portfolio. This framework consolidates the set of applicable criteria that aim to limit the financing of customers or projects that the Institution considers to be contrary to the transition to a sustainable economy or to lack alignment with international regulations or best practices in the industry.

This framework lays down general criteria and specific criteria applicable at either the customer or project level:

- General applicable criteria, which have a cross-cutting impact on all sectors, follow international standards such as the Global Compact and the principles of the International Labour Organisation (ILO), among others.

- Specific applicable criteria affect businesses or projects in particular sectors due to their potentially negative impact on the environment and/or society, in which the Group provides services and/or offers financial products.

The standards that incorporate the current framework are all approved and implemented in the Bank's systems, with those effectively applied being the integration of these standards' analysis into the usual processes for customer onboarding, transaction origination, and approval of new products. To ensure this correct implementation, the Bank has included in its onboarding process (the risk management record process) the automatic identification of transactions subject to the framework and which require a compliance analysis. The ESG analysts in charge of conducting those analyses have a specialised tool for analysing ('screening') any disputes associated with the counterparties, which is backed by the services provided by a reputable third-party supplier[27].

The Environmental and Social Risk Framework is developed in phases in order to adapt the applicable criteria to the trends of the various sectors, the regulatory and economic environment and the Bank's performance. This framework has been rolled out in two phases:

- During the first phase of sectoral rules, the Group started to focus on project finance[28] transactions for the Energy, Infrastructure and Mining sectors, which were validated by the Sustainability Committee in 2020. These rules were approved by the Group's Risk Operations Committee and implemented in the Institution's systems in 2021.

- The second phase of sectoral rules saw the introduction, for the first time, of rules applicable at the customer level, both in general terms without being linked to a particular sector, and in specific terms where they were associated with one or more given sectors. New rules were also included at the project level for new sectors (specifically Agroindustry and Defence). With this phase, a total of 40 new rules were introduced. The rules in the second phase were approved by the Group's Operational Risk Committee in December 2021.

The full content of the framework, as well as its phased implementation, was approved by the Management Committee in January 2023 after having been submitted to the Sustainability Committee for information in January of that same year.

In the specific case of Banco Sabadell Mexico, as part of the Environmental and Social Policy, the Institution has developed the Environmental and Social Risk Management System *(Sistema de Administración de Riesgos Ambientales y Sociales*, or SARAS), which serves as a guide to promote sustainable economic growth through the identification, assessment and management of environmental and social risks arising from the activities and projects financed by the Bank. This system is fully aligned with the operational and credit processes of Banco Sabadell Group, national laws and international standards. The SARAS process is mandatory for infrastructure projects of the various sectors financed by Banco Sabadell Mexico with traditional loans, syndicated loans and financial intermediaries amounting to 5 million US dollars or more.

- IRCA: indicator that allows the Institution to screen the ESG risk of the companies to which it provides finance whilst at the same time considering their performance in relation to the management of climate-related and environmental risks. It is used to define credit risk

[27] An external tool has been acquired for research, rating and data collection concerning performance in environmental, social and governance (ESG) factors for companies.
[28] In addition to the activities impacting the environmental transition, the Group refrains from establishing trade relations with links to 'controversial weapons' and/or with 'countries subject to arms embargoes', with the aim of avoiding the potential use of these weapons for the commission of crimes or serious human rights violations. This point is described in section "9. Commitment to human rights".

management policies and to identify potential opportunities for investment to support emissions-intensive companies in their transition towards more sustainable activities.

- Decarbonisation pathways: for borrowers operating in sectors affected by the decarbonisation pathways defined by the Group (see section on "Portfolio Alignment"), the Bank evaluates everything about significant transactions to which pathways are applied, from their origination to their suitability. At present, a specific workflow has been established in order to identify, evaluate and monitor transactions subject to pathways.

So that the application of the ESG risk management guidelines may be effective, the Bank has a centralised team of specialised ESG analysts, who are responsible for conducting the IRCA evaluation of borrowers and for determining their level of compliance with the ESG Guidelines. This way, the complete ESG analyses include a IRCA evaluation, an assessment of the compliance with the Environmental and Social Risk Framework, as well as a specific analysis of decarbonisation pathways in the case of transactions subject to sectoral pathways.

This analysis is carried out centrally through the Bank's internal portal, where the full analysis of borrowers is added, along with any relevant supporting documents, so as to ensure the correct traceability of opinions related to ESG criteria for credit risk decisions.

EU Taxonomy

The European Union took a further step as promoter of the energy transformation and the decarbonisation of the economy. In line with the objectives of the fight against climate change, it established the Taxonomy Regulation (Regulation (EU) 2020/852), which was the first step towards obliging firms to disclose the proportion of their activities that are considered green or social, according to this regulation.

This regulation, which establishes requirements for the classification and reporting of sustainable activities, is a key aspect for the integration of ESG aspects into the Group's ordinary activity, as well as being a strategic aspect for the Institution. For this reason, it is regularly monitored by the Technical Risk Committee and the Sustainability Committee.

This is why, since 2020, Banco Sabadell Group has been working on its own Eligibility Guide, 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. Given that this is a key strategic aspect for the Bank, work has been underway since 2020 to keep the Eligibility Guide in line with regulatory updates and to implement it in operating systems through different phases:

- Phase one: this phase, started in 2020, consisted of implementing the internal eligibility guide to identify eligible activities based on the Taxonomy, as well as those that contribute substantially to the Taxonomy, according to the targets set at that time: Mitigation of and Adaptation to Climate Change. Efforts were also made to correctly tag these products in the systems.

- Phase two: this phase consisted of updating the Eligibility Guide according to the latest Delegated Act in relation to the taxonomy, of July 2021 and according to the first draft of the social taxonomy. In parallel, in June 2021, a new feature was introduced in the corporate systems to allow transactions to be tagged as sustainable, so that they can be not only identified, but also duly justified in accordance with the Bank's Eligibility Guide. It is worth noting that this implementation went hand in hand with a specific training course that focused on promoting the identification and documentation of transactions that meet the criteria of the Bank's Eligibility Guide.

- Phase three: this phase took place in January 2022 and involved updating the guide to include energy activities related to natural gas and nuclear energy, set out in the Complementary Climate Delegated Act of the European Commission.

- Phase four: in the second half of 2023 the activities of the current Eligibility Guide were updated in an effort to include the amendments contained in the Delegated Act of June 2023 for climate targets, as well as the new activities defined in the new Delegated Act for the four non-climate-related targets. However, these developments still need to be submitted to and approved by the Institution's corresponding governing bodies and introduced in the Bank's systems for transaction tagging upon origination.

As a result of this work, the Group's systems currently include a process for tagging priority green products, which allows the entire management cycle of those products to be traced and ensures their alignment with the requirements of the Bank's Eligibility Guide. As indicated, this tagging process is currently being updated to include the new aspects introduced in phase four.

Thanks to this work, in accordance with the disclosure requirements established by Delegated Regulation (EU) 2021/2178 of the European Commission of 6 July 2021, disclosures for 2023 are set out below.

Among the obligations of the aforesaid regulation is that of reporting, within the Non-Financial Disclosures Report of financial institutions, the proportion in their total assets of exposures to Taxonomy-eligible and Taxonomy non-eligible economic activities, broken down by the six targets, as well as the proportion of financed assets that are aligned with the climate targets of the EU Taxonomy (Green Asset Ratio, or GAR).

In this respect, based on the current EU Taxonomy, Banco Sabadell Group has a portfolio with a green asset ratio (GAR) of 4.41% in terms of turnover. It is worth pointing out that the GAR has certain limitations when it comes to its interpretation, given its definition and the need for information from counterparties. One example is the non-inclusion of SMEs and micro-enterprises and the non-inclusion of counterparties based outside of the EU in this ratio's numerator. Methodological details of this ratio are included in Annex 4 - Taxonomy indicators.

In order to identify and segment exposures deemed 'eligible' within the Group's exposures, the following eligibility criteria are applied to loans in the business and retail portfolio:

- Business risk: Exposures to companies with (NACE) activities included in the Banco Sabadell Eligibility Guide (activities for which there are technical criteria defined in the EU Taxonomy to determine whether they can be considered sustainable) are deemed eligible. There are two criteria whereby a NACE code is included in the Banco Sabadell Eligibility Guide, the main one being the inclusion of the same in the NACE list proposed by the European Commission in its "EU Taxonomy Compass". In addition, there is an additional criterion which is an activity that is not listed by the European Commission, but that is included in Annex 1 of the Climate Delegated Act, in Annexes 1 and 2 of the Complementary Climate Delegated Act and in Annexes 1, 2, 3 and 4 of the Environment Delegated Act.

- Retail mortgage risk: All exposures to individuals secured with a first or second property are deemed eligible, as the purpose of these loans is included within the EU Taxonomy. By the same token, exposures to individuals secured with other types of assets (garages, storage rooms/sheds, etc.) are not included.

- Vehicle financing risk: All vehicle financing exposures are deemed eligible, as this purpose is included within the EU Taxonomy.

Compliance with any of the three criteria described above results in the classification of the exposure as 'eligible'. On a complementary basis, the remaining exposures that do not meet any of the above criteria are considered 'non-eligible'.

In addition, the remaining information to be disclosed is included in Annex 4:Taxonomy indicators.

Initiatives to improve the quality of environmental information

Given the limited ESG information reported and disclosed by companies, as well as the lack of historical records and lack of uniformity between the information reported on those risks and their monitoring metrics, it is vital to have access to better ESG data in order to identify, manage, classify and monitor risks associated with climate change.

For this reason, Banco Sabadell Group has been working on various actions to increase the quantity and quality of ESG data about customers. There are two particular areas that are worth mentioning:

Real estate collateral: with the support of a third-party supplier, batch uploads of the energy ratings of residential real estate and commercial real estate (CRE) of the portfolio are carried out. The Group captures this data for its newly originated mortgage loans. On the other hand, to calculate the carbon footprint of the Bank's residential and commercial real estate portfolio, the Bank has been working to gather information about actual useful surface areas of the assets it has financed (necessary to estimate the emissions attributable to each property).

Business risk: a task force was put together to gather environmental data from customers, as the first pilot project for the CO_2 emissions-intensive portfolio, which included, among other things, the capture of actual emissions data (Scope 1, 2 and 3) as well as additional data such as energy consumption, the percentage of renewables consumption, emissions prevented (where applicable), external ESG ratings, environmental targets and sectoral emission intensity KRIs (Key Risk Indicators). Subsequently, efforts to improve information have continued. On one hand, the calculation of the carbon footprint of the financed business portfolio involved gathering actual data of borrowers' emissions, as well as the information needed to calculate the attribution factor. On the other hand, for the 2024 climate stress test, data was gathered in relation to emissions (Scope 1, 2 and 3) and decarbonisation targets of the Group's priority emissions-intensive customers.

In addition, using the IRCA created by ESG analysts, the task of collecting customers' ESG data got underway. However, at the start of the project and in order to start collecting information, a third-party supplier was hired to do the batch upload of ESG data about the main borrowers.

Similarly, due to the definition of the Bank's decarbonisation strategy, work was carried out to capture data regarding the emissions, production and transition plans of the main borrowers affected by the pathways. First, attempts were made to obtain this information from public sources and, where that was not possible, customers were contacted to request that information.

Lastly, in the second half of the year, the Bank took part in a sectoral project between AEB (Spanish Banking Association), *CECA* (Spanish Confederation of Savings Banks) and UNACC (Spanish National Union of Credit Cooperatives) to collect information related to the taxonomy from borrowers. Specifically, it worked with an external consultant to put together the eligibility and alignment indicators of borrowers that have this information publicly available. Furthermore, a methodology was defined on a sector-wide basis to process that data in order to ensure uniform reporting.

To complement this work to gather external information from customers, the Bank also works internally to centralise ESG information through a thematic sustainability datamart in order to provide a single point of access to all those who require it. In order to ensure the internal control of the information managed, a person is assigned to be directly responsible for the information, and users of the information are also defined. Based on the assigned responsibilities, a series of tasks are established to ensure the quality and uniformity of the information.

Control, supervision and monitoring of the sustainable portfolio

The Bank has different policies and procedures in place and takes various actions to foster sustainable financing. To ensure the aforesaid policies, procedures and actions are implemented correctly, one key tool it uses is the monitoring of the sustainable portfolio.

To consolidate the information that is to be monitored, the Bank continuously works to tag green and social transactions and to identify them as soon as they are originated. As of today's date, all green activities have been tagged, both those compliant with the Institution's Eligibility Guide and those linked to sustainability. With regard to the social portfolio, tagging is either done by the account manager or, alternatively, specific products are tagged. At present, work is still underway to update the systems with the requirements of the internal Eligibility Guide for social activities. This all makes it possible to trace green and social activities throughout their entire life cycle, for the purpose of their monitoring and reporting.

In the same way, other variables are monitored on a monthly basis that are key to the transition of the Bank's portfolio, such as:

- The exposure of the Bank's portfolio to carbon-intensive or carbon-related sectors.
- New lending for green activities, carbon-intensive activities or carbon-related activities.

At the same time, the Institution establishes and develops specific RAS[29] metrics and indicators in the different risk management and control frameworks at the portfolio level, thus making it possible to adapt environmental KRIs to the types of risks and assets that are financed in each one.

With regard to monitoring, the Credit Risk Dashboard is submitted on a regular basis to the Technical Risk Committee including, among other things, information regarding the evolution of the exposures classified as carbon-related, emissions-intensive, green and social, in addition to indicators for monitoring new lending

[29] Risk Appetite Statement

items. This information is also submitted to the Sustainability Committee, along with other additional information such as compliance with pathways, IRCA analyses and carbon footprint data, among others.

For details about performance on this topic, see section 5. Commitment to sustainable finance.

Credit rating models

Currently, the credit rating model for large enterprises and groups[30] already includes an environmental risk factor. The project finance rating model also collects information on environmental risk.

4.3.4 Equator Principles

Since 2011, the Group has adhered to the Equator Principles, an international voluntary framework of policies, standards and guidelines coordinated by the International Finance Corporation (IFC), a sister organisation of the World Bank, which aims to identify, assess and manage environmental and social risks relating to project finance of 10 million US dollars or more and corporate loans related to projects of more than 50 million US dollars. Through the standards of the Equator Principles, a social and environmental assessment of the potential impacts of each project is carried out by an independent expert.

During 2023, a total of 23 new structured finance projects incorporating the Equator Principles were signed, 83% of which are renewable energy projects.

Sector	Number of projects	Category [31]	Country	Region	Designated country	Independent review
Renewable energies	19	B	Spain	Europe	Yes	Yes
Gas	1	A	USA	Americas	Yes	Yes
Infrastructures	2	B	USA	Americas	Yes	Yes
	1	B	UK	Europe	Yes	Yes

4.4. Environmental management and impact

Banco Sabadell Group has embedded its environmental, social and governance commitments into its strategy. This change of approach to activity, organisation and processes is based on the transition towards a sustainable economy and sustainable development, on the basis of the 2030 Agenda, the Sustainable Development Goals, the 2015 Paris Agreement against climate change and the European Green Pact, to move towards an emissions-neutral economy.

The integration of environmental commitments puts the Institution in a stronger position from which take on the new challenge of sustainability, on which the Bank has designed its governance model and organisational structure. The Bank fosters responsible policies and practices among its staff, to stimulate environmental protection and build a fairer and more respectful society. Once again, Banco Sabadell's Annual General Meeting, held on 23 March 2023, was certified as sustainable by the company Econep Consultores S.L. (Eventsost), as it was considered that sustainability criteria were met throughout the entire life cycle of the Annual General Meeting.

The organisation has aligned its business objectives with the SDGs, setting different key courses of action. In particular, the commitment to good environmental management requires, among other things, actions to move towards neutrality in terms of the greenhouse gas emissions released into the atmosphere. In this transition towards emissions neutrality, Banco Sabadell has renewed the ISO 14001 certification of its Environmental Management System in its five corporate buildings in Spain, where 24.61% of the workforce worked as at the end of 2023, which fundamentally includes corporate buildings and excludes commercial branches.

It also requires decisive action to be taken to reduce the Institution's carbon footprint, through activities aimed at reducing its own consumption. Of these, particular note should be taken of the technological advances made to achieve digital interconnection between employees, achieving a substantial reduction of

[30] Enterprises whose standalone balance sheet shows sales of more than 200 million euros and consolidating groups with sales of more than 200 million euros and which have been granted loans by Banco Sabadell of more than 25 million euros.
[31] The social and environmental categorisation system of the Equator Principles reflects the magnitude of the impacts of projects. The categories are C, B or A, with category C being for projects with minimal or no social or environmental impact, category B for projects with potential limited adverse social or environmental impacts that are few in number, generally site-specific, largely reversible and easily addressed through mitigation measures, and category A for projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented.

business travel, in addition the actions taken to improve the maintenance of HVAC systems in the Group, to reduce fluorinated gas leaks, which are highly intensive in terms of greenhouse gas emissions released into the atmosphere.

With regard to training activities on ESG for employees, the Group has undertaken the commitment to continue developing its specific training on ESG. Through the Carlos III University of Madrid, a certification in sustainable finance is issued, which includes materials about the environment and the fight against climate change, among other materials on financial and social matters. In 2023, the certification in sustainable finance was obtained by 430 employees. In addition, during 2023, specific on-site training sessions took place, to convey the vision of sustainability applied to the business to managers in the branch network and to other specialist roles in corporate buildings.

It is worth highlighting the fact that, since 2023, employees at the subsidiaries in Mexico and the USA (Miami) have also had the opportunity to obtain the certification in sustainable finance issued by the Carlos III University in Madrid.

In Campus, the online training space for Group employees, in addition to the certification in sustainable finance programme, there is a specific space for Sustainability, with a wide range of training modules available in relation to environmental matters, which also connects with web tools for use by relationship managers (the internal Sustainability site), which includes content related to business activity, the ESG vision and the trade narrative. In addition, the available training modules are supplemented with webinars held by Sabadell's Companies Hub. Training-related aspects are detailed in section 6.3 Training.

In the United Kingdom, TSB sets out its environmental management targets in its Do What Matters Plan 2025. The Plan outlines TSB's social and environmental commitments to generate a long-lasting and significant impact for customers, employees, suppliers and communities, focusing on three key areas: business essentials, people and the planet, with long-term objectives focusing on areas of social and financial inclusion, fair business practices and support for a fair transition to a greener planet.

4.4.1 Carbon footprint

The Group's CO2 emissions in its geographies (Spain, UK, Mexico and USA) amounted to 10,408 tonnes (market-based data). If one considers like-for-like perimeters[32], the Group's emissions (ex-Mexico and ex-USA, of which no past emissions data is available), there was an increase of 6.80% compared to 2022 and a reduction of 55.11% compared to 2019.

In 2023, the CO2e emissions associated with employee travel between their home and the workplace (commuting) were included in Scope 3, calculated for the corporate buildings with the largest number of employees in Spain. The total emissions calculated in this category came to 2,163 tonnes of CO2e.

	Group (all geographies) [33]		Group (ex-Mexico and ex-USA)		
CO2 emissions in tonnes (t.CO2) [34,35]	**2,023**	**2,022**	**2,023**	**2,022**	**2,019**
Scope 1: Direct activities	3,243	3,912	3,178	3,854	4,912
Scope 2: Indirect activities					
Market-based [36]	—	526	—	7	3,350
Location-based [37]	16,798	14,689	16,351	14,170	19,990
Scope 3: Other indirect activities [38]	7,165	3,702	6,481	3,158	8,438
Total emissions generated					
Total market-based	10,408	8,139	9,659	7,019	16,700
Total location-based	27,207	22,302	26,011	21,182	33,340
Total emissions generated per employee (market-based)	**0.54**	**0.43**	**0.52**	**0.39**	**0.86**

4.4.2 Offsetting

In 2023, Banco Sabadell renewed its commitment to offsetting the carbon footprint, including all Scope 1, 2 and 3 emissions[39] in Spain, Mexico and the USA, through the purchase of credits in various reforestation projects. Two of these involved native conifers, one located in Comunidad de Montes Vecinales en Mano Común de Carballedo[40] and the other in Borela[41], both part of Concello de Cerdedo-Cotobade located in the city of Pontevedra (Galicia). The third project, located in Mexico[42], specifically in the states of Tabasco, Chiapas and Campeche, is a reforestation project for teak trees (Tectona grandis). Total CO2 emissions to be offset amount to 7,669 tCO2 equivalent.

TSB, for its part, has offset its Scope 1 and 2 emissions carried out in 2023, which amounted to 1,410 tCO2 equivalent, through Forest Carbon's ArBolivia[43] reforestation/afforestation project (Plan Vivo), through which TSB has planted more than 52,000 trees and invested in forests, peatlands and woodlands in the United Kingdom to offset its future emissions.

32 Including commuting journeys in 2023, which makes the perimeters not comparable in like-for-like terms with previous years, the increase was 37.6% compared to 2022 and a reduction of 42.2% compared to 2019.

33 Comparisons with previous years do not include data for Mexico and USA, as the Bank does not have historical data for their carbon footprints.

34 In some cases, consumption has been estimated as that information was not available as at year-end.

35 In accordance with TSB's internal policy on recalculating previous years' emissions, aligned with the UK's SECR regulation, TSB has recalculated emissions between 2019 and 2022 to consider the effect of branch closures and staff restructuring during 2023. The firm Ernst & Young LLP (EY) provides independent limited assurance of TSB's emissions data.

36 Emissions associated with energy supplies calculated based on the emissions certificates of energy resellers.

37 Emissions associated with electrical power supplies calculated by applying the country's energy mix as the emissions rate. In the case of Spain, for 2023, this data corresponds to the emission factor of the mix assigned the electricity label of the CNMC (Spanish National Commission on Markets and Competition) in effect as at the date of producing this document (273 g/kWh).

38 In 2023 the calculation of the CO2e footprint generated by customer travel between their homes and the workplace (commuting) has been included for the corporate buildings with the largest workforces in Spain, amounting to a total of 2,163 tCO2.

39 The Scope 3 emissions that will be offset include supplies (water, paper and plastic), waste and business travel. This offsetting does not include emissions associated with the financed portfolio (category 15).

40 Project certified by MITECO code: 2022-b108 (https://www.miteco.gob.es/content/dam/miteco/images/es/2022-b108_tcm30-551212.pdf).

41 Project certified by MITECO code: 2021-b158 (https://www.miteco.gob.es/content/dam/miteco/es/cambio-climatico/temas/registro-huella/informes/2021-b158.pdf).

42 Project "Reforestation with Teak CO2 TEAKMEX" verified and registered by VERRA identifier: 1740 (https://registry.verra.org/app/projectDetail/VCS/1740).

43 ArBolivia Project (https://mer.markit.com/br-reg/public/index.jsp?name=tsb%20bank&entity=retirement&entity_domain=Markit&srd=false&additionalCertificationId=&acronym=PV&standardId=100000000000004&categoryId=100000000000001&unitClass=) with identifier: 100000000000695.

The Group maintains its commitment to fighting against climate change, embodied in its aim of achieving carbon emissions neutrality in its operations, which it undertook upon becoming a member of the Net-Zero Banking Alliance in 2021.

4.4.3 Details of emissions and sustainable use of resources

Details of the CO2 emissions of each geography in which the Group operates are given below, along with details about the resource management actions carried out:

Report on Banco Sabadell Spain's greenhouse gases (t.CO2) [44]	2023	2022	2019
Scope 1 emissions:	**1,768**	**2,312**	**3,113**
Consumption of gases	441	754	872
Leaks of refrigerated gases	1,265	1,514	2,091
Fleet of company vehicles	62	43	150
Scope 2 emissions:			
Electricity - market-based	—	7	18
Electricity - location-based	13,650	11,661	15,436
Scope 1 and 2, market-based	**1,768**	**2,319**	**3,131**
Scope 1 and 2, location-based	**15,418**	**13,973**	**18,549**
Scope 3 emissions:	**5,152**	**2,103**	**5,607**
Water	93	105	157
Paper	463	451	818
Plastic	9	11	221
Waste	75	63	81
Business travel	2,348	1,473	4,330
Travel by aeroplane	*1,299*	*655*	*2,150*
Travel by train	*75*	*35*	*249*
Travel by car	*974*	*782*	*1,931*
Whilst commuting [45]	**2,163**	**—**	**—**
Total emissions (Scope 1, 2 & 3) - market-based	**6,920**	**4,422**	**8,738**
Total emissions (Scope 1, 2 & 3) - location-based	**20,570**	**16,076**	**24,156**

In Spain, as at the end of 2023, the reduction of CO2 emissions compared to 2019 was 43.5% for Scope 1 and 2 and 46.7% for Scope 3 (including travel whilst commuting, whose emissions were not calculated in 2019 meaning that the perimeter would not be comparable, the reduction is 8.1%). With regard to Scope 1, the most significant impact on the reduction of carbon emissions came from fluorinated gas leaks, with a -39.5% change in emissions, mainly due to the process involving the restructuring the branches in the branch network and improvements in the HVAC systems. Although Scope 3 includes the carbon footprint of travel whilst commuting in 2023, the reduction is due to the reduced use of paper and reduced travel by employees, with a change of -43.4% and -45.8%, respectively. These figures largely reflect the success of the initiatives rolled out to reduce the use of materials in the office, as well as plans to regulate business travel.

With a firm resolve to support and accelerate economic and environmental transformations, in 2021 Banco Sabadell undertook the commitment to reduce its carbon footprint for 2025, taking 2019[46] as the base year, by 14.2% for its Scope 1 and 2 emissions, and by 48.3% for its Scope 3 emissions (except category 15). The following table shows the targets and changes recorded between the base year and 2023:

CO_2 emissions reduction targets	Scope 1+2	Scope 3	Total emissions
Spain (targets 2019-2025)	-14.2%	-48.3%	-36.1%
Spain (recorded change 2019-2023)	-43.5%	-46.7%[47]	-45.6%

Total CO2 emissions in Spain in 2023 were 56.4% higher than in 2022, due to the increase in business travel, as business activity gradually returned to normal following the pandemic. Consequently, the CO2

[44] In some cases, consumption has been estimated as that information was not available as at year-end.
[45] In 2023 the calculation of the CO2e footprint generated by customer travel between their homes and the workplace (commuting) has been included for the corporate buildings with the largest workforces in Spain.
[46] 2019 is considered the base year because it is the last year without Covid-19 restrictions.
[47] For comparability reasons, the calculation does not include emissions generated by employee travel to the workplace (travel whilst commuting), as these were not calculated in 2019.

emissions reduction targets established for 2025 continue to adequately reflect the efforts made to reduce the Institution's emissions, acting on its commitment to the environment.

Report on TSB's greenhouse gases (t.CO_2) [48]	**2023**	**2022**	**2019**
Scope 1 emissions:	**1,410**	**1,542**	**1,799**
Consumption of gases	1,236	1,367	1,559
Leaks of refrigerated gases	162	156	76
Fleet of company vehicles	12	19	164
Scope 2 emissions:			
Electricity - market-based	0	0	3,332
Electricity - location-based	2,701	2,509	4,554
Scope 1 and 2, market-based	**1,410**	**1,542**	**5,131**
Scope 1 and 2, location-based	**4,111**	**4,051**	**6,353**
Scope 3 emissions:	**1,329**	**1,055**	**2,831**
Water	14	15	60
Paper	447	417	1,318
Plastic	0	0	0
Waste	13	19	29
Business travel	855	604	1,424
Travel by aeroplane	*554*	*309*	*654.4*
Travel by train	*85*	*53*	*162*
Travel by car	*216*	*242*	*607*
Total emissions (Scope 1, 2 & 3) - market-based	**2,739**	**2,597**	**7,962**
Total emissions (Scope 1, 2 & 3) - location-based	**5,441**	**5,106**	**9,184**

Since 2021, TSB has been keeping detailed information about its Scope 3 water consumption, paper consumption and waste. Scope 2 emissions (for SECR[49]) include only direct commercial electricity supplies[50].

In accordance with the internal policy on recalculating previous years' emissions, aligned with the UK's SECR regulation, TSB has recalculated emissions between 2019 and 2022 to consider the effect of branch closures and staff restructuring during 2023. The firm Ernst & Young LLP (EY) provides independent limited assurance of TSB's emissions data for 2023.

TSB's reduction of its emissions in 2023 compared to its emissions in 2019 was 65.6% after recalculating previous year's emissions applying the SECR methodology. This reduction is due to various factors, notably including the launch of the energy efficiency programme, paperless processes and the continuation of blended work arrangements following the Covid-19 pandemic.

TSB continues to acquire 100% renewable energy, which has contributed to a general reduction of its market-based Scope 1 and 2 emissions of 72.5% in 2023 compared to 2019. TSB is committed to continuing to purchase renewable energy and has plans to explore other biofuels and to reduce its total energy consumption.

In 2023, CO2 emissions decreased both in the USA (Miami) and in Banco Sabadell Mexico, with changes of -31.1% and -34.7%, respectively, mainly because, since 2023, renewable origin certificates of the indirect Scope 2 emissions have been available for both geographies. However, in the USA, the upward shift of Scope 3 emissions is due mainly to the increase in business travel as business activities were gradually resumed. No carbon footprint data prior to 2022 is available, therefore these geographies will not be taken into account in the Group's comparisons of its carbon footprint in relation to previous periods.

[48] In some cases, consumption has been estimated as that information was not available as at year-end.
[49] Streamlined Energy and Carbon Reporting (SECR) is a regulation in the United Kingdom for large unlisted organisations related to the reporting of greenhouse gas emissions.
[50] Calculated based on direct electrical power supplies for business activity, including consumption by the owner, where that information is available.

Report on the USA's greenhouse gases (t.CO_2) [51]	2023	2022
Scope 1 emissions:	**2**	**3**
Gases	0	3
Fluorinated gases	2	0
Scope 2 emissions:		
Electricity - market-based	0	282
Electricity - location-based	265	282
Scope 1 and 2, market-based	2	285
Scope 1 and 2, location-based	267	285
Scope 3 emissions:	**345**	**219**
Water	0	0
Paper	0	1
Business travel	345	217
Travel by aeroplane	*345*	*217*
Total emissions (Scope 1, 2 & 3) - market-based	**347**	**504**
Total emissions (Scope 1, 2 & 3) - location-based	**612**	**504**

Report on Mexico's greenhouse gases (t.CO_2) [52]	2023	2022
Scope 1 emissions:	**63**	**55**
Fleet of company vehicles	63	55
Scope 2 emissions:		
Electricity - market-based	0	237
Electricity - location-based	182	237
Scope 1 and 2 - market-based	63	291
Scope 1 and 2 - location-based	245	291
Scope 3 emissions:	**339**	**325**
Water	2	5
Paper	0	1
Business travel	337	319
Travel by aeroplane	*313*	*291*
Travel by car	*24*	*27*
Total emissions (Scope 1, 2 & 3) - market-based	**402**	**616**
Total emissions (Scope 1, 2 & 3) - location-based	**584**	**616**

Similarly, to date, it has not been possible to measure waste generated in facilities in Mexico and the USA. The Group is working to find a robust solution to conduct that measurement with full data quality guarantees.

Details of the Group's emissions, by scope

Scope 1 - Direct activities:

This scope includes emissions generated by facilities through the use of fuel such as diesel (including that used by mobile branches in Spain), propane gas, natural gas, as well as leaks of fluorinated greenhouse gases and the fleet of company vehicles (excluding employee travel between home and the work centre).

Acting on its commitment to sustainability, Banco Sabadell Group is making progress with its sustained reduction of proprietary emissions. As at the end of 2023, Banco Sabadell had managed to reduce its overall Scope 1[53] emissions by -35% (cumulative) compared to 2019.

[51] In some cases, consumption has been estimated as that information was not available as at year-end. The conversion factors have been calculated based on DEFRA (Department of Environment, Food and Rural Affairs), except for Scope 2, where the country's official data has been used. Version according to year.
[52] In some cases, consumption has been estimated as that information was not available as at year-end. The conversion factors have been calculated based on DEFRA, except for Scope 2, where they have been calculated using the country's official data. Version according to year.
[53] Reduction calculated for Spain and the United Kingdom. Mexico and USA are not included, as no historical data is available.

Gases

Data relating to gases correspond to the use of fuel such as propane gas, natural gas and diesel (including that used by mobile branches in Spain).

In 2023, propane gas consumption in Spain amounted to 970 m^3, compared to 844 m^3 in 2022 and 486 m^3 in 2019, an increase of 15% compared to 2022 and of 99% compared to 2019. Propane gas is only used to provide additional heating in one branch, which is located in a mountainous region where low temperatures in winter require it to be used in order to prevent the gas from freezing.

In the UK, Mexico and the USA, propane gas is not used in any of the branches or corporate buildings.

On the other hand, the consumption of natural gas in Spain is limited to three of the corporate buildings, and used to reinforce the HVAC system, both to provide heat and for dehumidification purposes, while in the United Kingdom it is used in winter across practically all branches and corporate buildings. In 2023, consumption in Spain amounted to 175,569 m^3, compared to 229,312 m^3 in 2022 and 257,920 m^3 in 2019, a reduction of -23% compared to 2022 and of -32% compared to 2019.

In the United Kingdom, consumption amounted to 599,959 $m^{3,}$ compared to 662,554 m^3 in 2022 and 753,942 m^3 in 2019, a reduction of -9% compared to 2022 and of -20% compared to 2019.

TSB also completed the second phase of its Energy Optimisation Scheme, which helped to reduce the energy consumption of natural gas, diesel and electricity by 3.1 million kWh compared to 2022.

No natural gas is consumed in Mexico or the USA, as their HVAC systems run entirely on electricity.

Finally, consumption of diesel in Spain amounted to 5,534 litres, compared to 5,418 litres in 2022 and 14,246 litres in 2019, an increase of 2% compared to 2022 and a reduction of -61% compared to 2019. Between the end of 2020 and early 2021, a large-scale top-up of diesel tanks took place to prevent potential supply shortages in the future, which reduced the need for diesel refuelling during 2022. In 2024, it is expected that consumption will be reduced, as the Bank's data servers will be physically moved from its own facilities to the facilities of the IT infrastructure supplier.

In the UK, diesel consumption amounted to 5,670 litres in 2023 compared to 8,004 litres in 2022 and 6,350 litres in 2019, a reduction of -29% and -11%, respectively.

In the UK, diesel is mainly used for generators in corporate buildings, as well as in heating systems in some remote island locations. In 2022, TSB launched the Energy Optimisation Scheme, with training provided by an Energy Management team from the company managing the facilities. This scheme involved a review of all possible ways in which energy can be reduced, in order to implement improvements in all facilities over the coming years.

During 2023, no diesel consumption was recorded in either Mexico or the USA, although in the USA consumption in 2022 was 1,140 litres due to the use of a genset in one of its corporate buildings (Miami Lakes Operating Center).

Fluorinated gases

The figures relating to fluorinated gases correspond to leaks of F-gases due to breakdowns of HVAC systems in corporate buildings and branches. In Mexico, no fluorinated gas leaks in HVAC equipment were recorded, as the refrigeration system uses water circuits. In the case of the USA, one fluorinated gas leak was recorded in 2023, amounting to 1kg, in the HVAC machinery of its facilities.

In 2023, fluorinated gas leaks in Spain amounted to 748 kg, compared to 860 kg in 2022 and 1,144 kg in 2019, a reduction of -13% and -35%, respectively. In the UK, on the other hand, fluorinated gas leaks amounted to 84 kg in 2023 compared to 82 kg in 2022 and 53 kg in 2019, an increase of 3% and 59%, respectively.

To reduce these leaks, every year the Bank upgrades its air conditioning systems, introducing more efficient equipment (thus also reducing Scope 2 emissions) that uses gas with a lower environmental impact. Furthermore, the 24% reduction in the branch network that occurred between 2021 and 2022 also had an impact on the reduction of emissions due to fluorinated gas leaks.

The Bank is firmly committed to reducing its direct carbon footprint; therefore, in the coming years, it will continue to periodically review its facilities, both machines and other fixtures (pipes, connections, shut-off valves). Similarly, the machines with the most breakdowns will continue to be identified and included in the replacement project. This analysis will also make it possible to detect the most efficient models in order to adjust the policy for the purchase of new equipment accordingly.

Company vehicles

In Spain, business journeys in 2023 amounted to a total of 375 thousand kilometres compared to 249 thousand kilometres in 2022 and 832 thousand kilometres in 2019, an increase of 51% and a reduction of -55%, respectively.

In the UK, business journeys in 2023 amounted to a total of 641 thousand kilometres compared to 702 thousand kilometres in 2022 and 1,587 thousand kilometres in 2019, a reduction of -9% and -60%, respectively. For 2024, TSB aims to continue promoting sustainable business travel options, offering only electric vehicles in its company car plan.

In Mexico, records of CO2 emissions from company vehicles are not kept in kilometres but rather in terms of petrol consumption. In 2023, total petrol consumption in vehicles controlled by the Bank amounted to 28,460 litres, compared to 17,196 litres in 2022, an increase of 66%.

In the USA, there is no fleet of company vehicles under the criteria applicable to Scope 1 GHG emissions.

Scope 2 - Indirect activities:

This scope includes emissions generated by the consumption of electricity.

Electricity consumption

Consumption of electricity in Spain in 2023 amounted to 50,615 MWh, compared to 59,398 MWh in 2022 and 77,842 MWh in 2019, a reduction of -15% and -35%, respectively. As at the end of 2023, 100% of the energy consumed came from 100% renewable sources. In the UK, on the other hand, electricity consumption amounted to 13,045 MWh in 2023 compared to 12,975 MWh in 2022 and 5,473 MWh in 2019, an increase of 1% and 138%, respectively.

In Spain, throughout 2023, 98.79% (50,000 MWh) of the electricity consumed was acquired from a single reseller (CEPSA GAS Y ELECTRICIDAD, S.A.U.). The energy consumed has a certificate of renewable origin.

1.21% of the total electric power consumed in Spain was self-generated through the photovoltaic panels installed in the corporate buildings at Sant Cugat del Vallès.

	2023	**2022**	**2019**
Consumption of electricity provided by Cepsa and Nexus Renovables, 100% REGO (% supplied out of total electricity in Spain)	98.79%	98.96%	99.95%
Consumption of electricity provided by other resellers without REGO (% supplied out of total electricity in Spain)	0.00%	0.05%	0.05%
Self-consumption (% of total electricity) in Spain	1.21%	1.00%	0.00%

Thanks to these photovoltaic panels, 614,618 kWh did not have to be purchased from resellers and was instead generated by the Institution’s systems for own use in the corporate buildings at Sant Cugat del Vallès. With this electricity generation, Banco Sabadell has reduced its energy dependence on third parties as it is able to use its own systems to generate 10% of the energy needed for this building to operate.

In addition, in order to reduce its energy consumption, Banco Sabadell continues with its ongoing consumption assessment programme at its branches and corporate buildings to detect changes and actions that help improve consumption efficiency:

- As indicated in relation to Scope 1, every year a programme takes place to replace air-conditioning equipment with more energy-efficient models where appropriate.

- The project to replace the lighting at branches with LED (Light Emitting Diode) technology is still in progress, to ensure that all branches are equipped with LED lighting and thus reduce consumption (all corporate buildings are already 100% equipped with LED lighting).
- The majority of the branch network is equipped with a centralised low energy consumption HVAC and lighting system, as well as light activation systems for billboard advertising adapted to daylight hours.
- Corporate buildings are equipped with motion-sensitive lighting systems and LED lights. In these corporate buildings and larger branches, HVAC installations are equipped with energy recovery systems.

In the UK, the supply of electricity continues to be 100% from renewable sources, thus contributing significantly to the strategy for attaining carbon neutrality by not generating market-based Scope 2 emissions.

In Mexico, electricity consumption in 2023 was 417 MWh, compared to 595 MWh in 2022, a reduction of -30%, whilst in the USA, consumption reached 698 MWh, compared to 737 MWh in 2022, a reduction of -5%. These two geographies have had a renewable origin certification for their electricity production since 2023.

	Group (all geographies)		Group (ex-Mexico and ex-USA)		
Total electricity consumption	**2023**	**2022**	**2023**	**2022**	**2019**
Total electricity consumption (MWh)	64,775	76,028	63,660	74,695	83,315

Scope 3 - Other indirect activities:

This scope includes other indirect activities in which emissions from the consumption of water, paper, plastic and waste management are quantified, as are those from travel by aeroplane, train and car (except company vehicles) and from employee commuting between the home and the workplace.

Water

Water consumption includes water for sanitary use, irrigation and catering in corporate buildings. In 2023, water consumption in Spain amounted to 240,016 m^3, compared to 265,892 m^3 in 2022 and 396,260 m^3 in 2019, a reduction of -10% and -39%, respectively.

As for the UK, water consumption amounted to 37,759 m^3, compared to 39,164 m^3 in 2022 and 57,094 m^3 in 2019, a reduction of -4% and -34%, respectively.

In Mexico[54], water consumption in 2023 was 10,562 m^3, compared to 11,688 m^3 in 2022, a reduction of -10%, whilst in the USA, consumption reached 2,540 m^3, compared to 3,826 m^3 in 2022, a reduction of -34%.

The process to reduce the number of branches in the branch network has had a significant impact on the reduction of consumption in Spain.

100% of the water used comes from the supply network. The Group's headquarters are located in urban areas where the water collected and discharged is done so through the urban network.

With regard to eco-efficiency measures, bathroom facilities and taps are fitted with water-saving mechanisms. The headquarters in Sant Cugat have a deposit that collects rainwater and greywater to reuse it as irrigation water. At the same time, the landscaped areas are comprised of native plants with low irrigation needs.

During the 2022-2025 period, the WC discharge system is being gradually replaced with dual flush toilets to reduce the consumption of water for sanitary use. An annual 1% reduction in emissions is estimated by 2025, associated with this initiative.

[54] Consumption on a pro-rata basis according to number of floors occupied by the Bank in the respective buildings.

Paper

The Group's daily activities require the regular use of paper. Paper consumption in Spain in 2023 amounted to 627 tonnes, compared to 610 tonnes in 2022 and 1,030 tonnes in 2019, an increase of 3% and a reduction of -39%, respectively. In the UK, paper consumption amounted to 491 tonnes in 2023 compared to 453 tonnes in 2022 and 1,439 tonnes in 2019, an increase of 8% and a reduction of -66%, respectively.

In order to keep paper consumption down, a series of measures have been implemented, such as (i) the set-up of a 24-hour service for customers through remote channels and digital platforms, (ii) the use of tablets and digital systems in branches, which allow customers to sign documents digitally and thus eliminate the use of pre-printed documents, and (iii) the introduction of default printing settings in the Institution's printers for double-sided printing.

	2023	2022	2019
Recycled paper used in branches and corporate buildings in relation to total paper consumption (white and recycled) in Spain (%)	100.00%	100.00%	99.98%

The Group has also continued with the programme to reduce correspondence and simplify contractual documentation, helping to reduce paper consumption. This programme started in 2019, gradually digitalising the profile of its customers and consolidating the model under which a single monthly account statement is sent to them. Among the initiatives with the greatest impact that have been carried out, it is worth highlighting the following:

- Simplification of pre-contractual and contractual documents about the Bank's products.
- Further development of digital solutions in relation to signing for transactions, issuing certificates and customer correspondence.
- Greater digitisation of internal operating processes.

The conventional paper used by the Bank is certified to international standards ISO 9001 and ISO 14001 on quality and environmental management systems, and its production is chlorine-free under the criteria of the FSC (Forest Stewardship Council), with a Blue Angel certification and an EU Ecolabel.

In the UK, as at the end of 2023 TSB has managed to reduce its paper consumption by 66% with respect to 2019, compared to a reduction target of 65%. To that end, several initiatives have been launched to digitalise processes and leaflets, reduce the use of postal mail for customer correspondence and reduce printing.

	Group (all geographies)		Group (ex-Mexico and ex-USA)		
Paper consumption	**2023**	**2022**	**2023**	**2022**	**2019**
Paper consumption (DIN A4 format) during the year (tonnes)	1,119	1,058	1,118	1,055	2,469

During 2023, the Zero Paper project continued to be promoted. This project enhances the digitalisation of all of the Bank's processes to reduce its paper consumption to 0. An annual 2% reduction in emissions is estimated by 2025.

In Mexico, paper consumption in 2023 was 0.4 tonnes, compared to 1.4 tonnes in 2022, a reduction of -71%, whilst in the USA, consumption reached 0.1 tonnes, compared to 1.4 tonnes in 2022, a reduction of -90%.

Plastic

Plastic consumption is attributable to the materials purchased for various uses. Plastic consumption in Spain in 2023 amounted to 2.9 tonnes, compared to 3.4 tonnes in 2022 and 71.1 tonnes in 2019, a reduction of -16% and -96%, respectively.

To reduce plastic consumption, the Bank has been applying a series of measures since 2020 designed to eliminate plastic in the products it purchases for various uses:

- Elimination of plastic in certain desk and/or common use materials.

- Elimination of coin blister packs.
- Elimination of blue bag for documents requiring urgent digitisation.
- Elimination of passbook covers.
- Replacement of the plastic film in blue event bags with brown kraft paper.
- Replacement of plastic coffee spoons with wooden spoons.
- Replacement of the plastic window in envelopes with a transparent paper window.
- Manufacture of cash transfer bags with a mixture of recycled (80%) and virgin (20%) plastic.
- Manufacture of shrink film from 56% sugar cane (bio-based material).
- Replacement of corporate pens (100% plastic) with an alternative manufactured with kraft paper and wheatpaste.

During the 2022-2025 period, the various materials used by the Bank that contain plastic will be gradually analysed and replaced with sustainable materials. In Spain, an annual 2% reduction in emissions is estimated.

In the UK, 67.0 tonnes of plastic waste were generated, compared to 112.4 tonnes in 2022, a reduction of -40%, mainly due to the closure of premises, which reduced the generation of waste.

The Group is working to explore and, if necessary, implement the necessary capabilities to measure the plastic consumption of its subsidiaries in Mexico and the USA.

<u>Waste management</u>

Waste can be classified as either non-hazardous waste or hazardous waste. Non-hazardous waste includes: scrap metal, inert plastic, bulky general waste, incandescent light bulbs, paper and cardboard, glass, organic waste, grease trap and wood. Hazardous waste includes: chemical containers, absorbents (filters), lead batteries, oils, fluorescent lamps, electronic equipment, batteries and aerosols.

In 2023, in Spain, general waste was reduced by -6% and -40% compared to 2022 and 2019, respectively, due mainly to the reduced travel to workstations in the corporate buildings as a result of telecommuting, and also due to the Bank's restructuring process. In the UK, waste in 2023 was reduced by -34% and -57% compared to 2022 and 2019, respectively, also mainly due to the situation mentioned for Spain.

To date, it has not been possible to measure waste generated by facilities in Mexico and the USA. The Group is working to analyse the resources necessary to record, with full assurance, the volume of waste generated in Mexico and the USA, in order to obtain data on the tonnes of waste and CO_2 emissions for subsequent disclosure.

Section 4.4.4 Circular economy and waste management includes more details on waste management and emissions.

<u>Business travel</u>

Business travel includes journeys by aeroplane, train and motor vehicles.

In Spain, business journeys in 2023 amounted to a total of 20,962 thousand kilometres compared to 11,940 thousand kilometres in 2022 and 34,586 thousand kilometres in 2019, representing an increase of 76% and a reduction of -39%, respectively.

At the start of 2020, before the State of Emergency was declared in Spain, the Bank reviewed its business travel policy, laying down new guidelines to limit travel to only journeys strictly necessary due to business needs and to prevent travel for internal meetings, encouraging the use of the remote and electronic solutions available.

It is for this reason that, compared to 2019, as a pre-pandemic reference year, the data for 2023 in Spain reflected the positive effect that the review of the Group's business travel policy has had on the reduction of the Institution's carbon emissions.

For the 2022-2025 period, an annual 5% reduction in emissions from business travel is expected in Spain by 2025 with the implementation of new measures every year that enable the Bank to establish and achieve ongoing emissions reduction targets.

In the UK, in line with the Group's reporting criteria, the relative emissions during hotel stays that TSB reports in its standalone accounts are not included. In terms of other items, business journeys in 2023 amounted to a total of 5,764 thousand kilometres in TSB compared to 4,194 thousand kilometres in 2022 and 15,261 thousand kilometres in 2019, an increase of 37% and a reduction of -62%, respectively. The target had been to reduce business travel by 50% compared to 2019.

Furthermore, this year TSB has switched travel supplier for its employees and this will, among other improvements, enable users to consult the carbon emissions data of their journeys more easily, in addition to providing alternative and more sustainable means of transportation where possible.

In addition, TSB has undertaken to promote new alternative means of transport, such as the inclusion in company benefits of an additional grant for the purchase of electric bicycles, as well as new ways of working to keep reducing emissions.

In 2023, in Mexico and the USA, business travel came to a total of 1,904 and 1,961 thousand kilometres, respectively, an increase of 10% in Mexico and an increase of 66% in the USA.

The Group is working to set emissions reduction targets in Mexico and the USA (Miami) aligned with the targets of the rest of the Group.

Employee Commuting

Since 2023, the Bank has been calculating the emissions generated during commutes to the corporate buildings with the largest number of employees in Spain. The total emissions calculated came to 2,163 tonnes of CO_2e.

As regards these journeys, a sustainable mobility model will continue to be promoted with various schemes, such as the creation of new parking spaces at corporate buildings for private electric vehicles.

Other actions

In Spain, during 2023 the Bank has continued to certify its main corporate buildings with ISO 14001:2015.

Moreover, to mitigate the environmental impact of its suppliers, the Bank continues to encourage the use of electric vehicles for the various logistics services and the use of ecological ink among the printing companies that collaborate with the Bank.

In the UK, during 2024, TSB will continue to promote its goal of using fewer resources and to select more sustainable options to conduct its activity. This entails continuing to reduce the overall energy consumption, through phase 3 of its Energy Optimisation Scheme, whose initiatives notably include:

- Exploring the phase-out of its fossil fuels;
- Reducing waste generated by its activity;
- Testing out new water saving technology;
- Finding ways of eliminating paper usage in its process; and
- Eliminating any non-FSC/PEFC paper products that remains in its operations.

4.4.4 Circular economy and waste management

Waste generation in Spain in 2023 amounted to 814 tonnes, compared to 865 tonnes in 2022 and 1,353 tonnes in 2019, a reduction of -6% and -40%, respectively.

In the UK, waste generation amounted to 557 tonnes in 2023 compared to 839 tonnes in 2022 and 1,283 tonnes in 2019, a reduction of -34% and -57%, respectively. Recycling continues to be a key aspect for TSB, which is why it has renewed its commitment to attaining a 90% recycling target in its Do What Matters Plan 2025. In 2023, the general recycling rate at TSB was 79.18%.

Banco Sabadell Group has internal procedures in place to ensure that 100% of paper and plastic is removed and recycled by authorised waste management firms. Corporate buildings and branches are equipped with facilities for the separation and collection of packaging, organic matter and batteries.

Specific control mechanisms exist for waste management in branches due to be closed or merged. Surplus computer equipment and furniture in good condition at branches or work centres due to be closed or merged are donated by the Bank to NGOs and local charities.

Among the actions taken by the Bank to reduce the waste that it generates, it is worth noting the programmes to reduce paper consumption and the associated waste (which accounts for the largest volume of waste).

Breakdown of waste (W) in Spain and UK [55]	2023		2022		2019	
	Waste t.	Emissions t.CO_2	Waste t.	Emissions t.CO_2	Waste t.	Emissions t.CO_2
Total non-hazardous waste [56]	1,356	87.8	1,634	82.0	2,633	110.1
Total hazardous waste [57]	15	0.29	11	0.19	2	0.05
Total waste	**1,371**	**88.0**	**1,646**	**82.0**	**2,635**	**110.0**

In line with the rest of the targets to reduce the carbon footprint by 2025, the Bank will continue to reduce paper waste by reducing its usage.

In addition, there are plans, expected to be completed by 2025, to create a new centralised waste room to reduce waste generation and to install an organic matter composting plant at the main Sant Cugat del Vallès headquarters, in order to reduce all organic waste. A 9% reduction is estimated for 2025, compared to 2019.

As for the UK, TSB determined that, by 2023, non-recyclable waste would be reduced by 10% compared to 2022 and, at the end of the year, it had achieved a reduction of 21%.

In addition, in April 2023, TSB launched an online training module called Reducing Waste Matters, to supplement the current training for employees on energy and environmental efficiency.

[55] Conversion factors used for waste based on DEFRA 2021 (Waste Disposal), with the exception of paper, glass and organic waste in Spain, which are based on OECC (Spain's Climate Change Office). Calculation of GHG emissions generated by the management of municipal waste. In the UK, a breakdown of hazardous and non-hazardous waste for 2019 and 2020 is not available and thus data only includes total waste. The Group is analysing the resources needed to keep records of the volume of waste generated in Mexico and the USA, so that it may soon have data available for disclosure in relation to tonnes of waste and CO2 emissions.
[56] The three largest sources of waste in 2023 were paper and cardboard, at 565,902 kg (31.92 t.CO2), organic waste, at 119,756 kg (41.89 t.CO2) and bulky general waste, at 77,281 kg. (0.69 t.CO2).
[57] The two largest sources of waste were electronic equipment, at 1,244 kg (0.011 t.CO2) and absorbents (filters), at 465.5 kg (0.004 t.CO2).

5. Commitment to sustainable finance

The Group promotes sustainable financing and investment to drive forward the transition towards a more sustainable model and a low-carbon economy, offering customers and investors the best possible solutions. In 2021, the Bank committed to mobilise 65 billion euros in sustainable finance by 2025. As at December 2023, and following a review of the criteria relating to consideration as sustainable mobilisation, more than 38.6 billion euros[58] have been mobilised, including over 15 billion euros in 2023.

To fulfil this commitment and in order to promote social and financial inclusion, contribute to environmental preservation and climate change mitigation, the Bank is strengthening its outreach and advisory activities in all business sectors, facilitating solutions to fund green transition-related investments. To that end, all of its capabilities are being made available

I. Sustainable Finance Solutions

- Financing solutions in the various business lines:

  To adapt loan approval processes, portfolio management and reporting tasks in line with international standards on sustainable financing (the Green Loan Principles and Sustainability-Linked Loan Principles issued by the Loan Market Association and the Green Bond Principles and Sustainability-Linked Bond Principles issued by the International Capital Market Association, ICMA), in 2020 the following types of financing were defined, according to the intended use of the funds:

  - Green and Social Loans (GSLs), in which the use of the funds is the main criteria for determining the green, social or sustainable nature. In general, this type of financing is preferable as it generates a positive direct impact on the environment and/or society. This type of financing is closely related to Banco Sabadell's Eligibility Guide, whose main references are the EU Taxonomy and the best practices in the market such as the Green Loan Principles, and to the green bonds issued by the Bank in recent years under the SDG Bond Framework.

To promote GSL transactions, the Bank has approved discounts that allow it to offer better prices to customers.

The rollout of the Next Generation EU Recovery Funds is expected to significantly boost this type of financing (section "5.1.4 Next Generation" EU provides more details on the actions that the Bank is taking in relation to the aforesaid funds).

  - Sustainability-Linked Loans (SLLs), relating to the type of financing that incentivises the achievement of sustainability targets, linking the transaction price to the evolution of one or more KPIs. This category does not require the funds to be used for any specific purpose. It is considered essential for the selected indicators to be relevant and central for customers, as this enables their sustainability strategy to gain more traction.

- Investment in renewable energies through Sinia Renovables subsidiary (further details provided in section "5.2 Sinia Renovables").
- Issuance of own sustainability bonds (more details in section "5.3 Issuance of sustainability bonds").
- Sustainable savings and responsible investment solutions (more details in section "5.4 Sustainable savings and responsible investment solutions").

[58] The cumulative mobilisation up to 2022 under the new criteria amounted to more than 23.4 billion euros compared to 25 billion euros in the previous year.

II. Specialist advice

- Specialised teams: trained and certified on sustainability, they have a cross-sectoral perspective on sustainability to identify the most suitable solutions according to each customer's needs; they are distributed across the entire branch network.

- Expertise hubs: cross-cutting units specialising in sustainability that support customers in the areas of Structured Finance and Corporate & Investment Banking, in addition to helping them to find and apply for subsidies for the Next Generation funds.

- Specialist advice: a personalised support service is offered on an individual basis to corporate customers, through regular visits to identify the progress made in implementing ESG criteria, to delve into future challenges and to identify the most appropriate solutions through sustainable finance according to each customer's needs.

- Ongoing advisory service: ongoing advisory programme with outreach and awareness-raising initiatives, through the Bank's own channels, such as the Companies Hub and its series of conferences (further details can be found on section "7.1. Commitment to education – Companies Hub (Hub Empresa))".

5.1 Commitment to sustainable financing solutions for the CIB business, Companies and Individuals

5.1.1 Sustainable financing solutions for the Corporate & Investment Banking business

As at year-end 2023, the Bank has participated in 65 sustainable financing and investment transactions, with a total value of 27 billion euros, in the area of Corporate & Investment Banking (CIB), which includes corporate business and investment banking transactions. A significant part of this activity was carried out in Spain, complemented by work carried out in other geographies in which the Institution operates.

	No. of Transactions	Total Volume	Bank Participation
Corporate Banking	55	22,996	2,038
Investment Banking	10	4,219[59]	n.a.
Total CIB	**65**	**27,215**	**2,038**

The information shown in the table above is explained here below:

Corporate Banking

Corporate Banking closed 55 transactions, including the use of working capital and guarantee facilities, for a total of 2,038 million euros. Of these, 19 transactions amounting to 571 million euros are considered green and social loans (GSLs) because they are aligned with the Eligibility Guide. It is important to note that of the 19 transactions considered GSLs, 10 transactions, amounting to 256 million euros, are linked to photovoltaic energy and wind power generation projects, while the remaining 9 transactions for 315 million euros are linked to activities in other sectors, such as real estate or transport. These transactions do not take into account the Renewable Project Finance transactions, which are described individually in section 5.1.2. In addition, 5 transactions for 123 million euros associated with the Sustainable Financing Framework are considered, which are potentially linked to energy efficiency and ESG certification in the real estate sector. Lastly, 31 sustainability-linked loans (SLLs) were carried out, amounting to 1,344 million euros.

In any event, the transactions are the subject of continuous monitoring, jointly with the customers involved and with sustainability agencies, through the KPIs defined in the loan agreement in each case. This allows the Bank to better understand the positive impacts of its lending and to identify potential new sustainable financing needs that may arise for its customers.

The slowdown in the market, mainly due to the interest rate environment, generated a significant decline in the arrangement of new loans and credit or refinancing facilities with ESG criteria in the Corporate Banking

[59] Includes 750 million euros of own green bond issuances.

segment. Similarly, some companies have decided to revise their sustainability-related strategic objectives, thus delaying their inclusion and, consequently, the linkage of these loans to these objectives.

In addition to the negative consequences generated by customers' production processes, special attention must be paid to the other sources of negative impact of their value chains, both upstream (suppliers) and downstream (customers). The Bank has continued to support customers with short-term sustainable financing solutions, which directly or indirectly involve their customers and suppliers. This entire category represented more than 250 million euros.

In terms of guarantees, the focus was particularly placed on the issuance of guarantees directly or indirectly related to a specific green purpose, most notably a number of guarantees issued in relation to the connected electric vehicle 'PERTE' project (a strategic project for economic recovery and transformation).

Sustainable financing is prioritised as a way of supporting customers. To that end, custom proposals are being developed according to the needs of customers, their sustainability strategy and factors specific to their industries.

Investment Banking

In 2023, Banco Sabadell participated in the placement of green and sustainability bonds in the capital markets, as Joint Lead Manager, in the following public issuances for customers:

- Comunidad de Madrid: sustainability bond for 1 billion euros, with a 10-year maturity and 3.596% coupon, issued in February.
- Xunta de Galicia: a sustainability bond for 500 million euros, with a 6-year maturity and 3.711% coupon, issued in February.
- Comunidad de Castilla y León: a sustainability bond for 500 million euros, with a 10-year maturity and 3.500% coupon, issued in June.
- Telefónica: a green hybrid bond for 750 million euros with perpetual maturity and 6.750% coupon, issued in August.
- Ferrovial: an inaugural issuance of an SLL for 500 million euros, with a 7-year maturity and 4.375% coupon, issued in September.

The Bank also participated in four sustainable transactions, including mergers and acquisitions, IPOs and alternative finance, for a total volume north of 200 million euros.

Furthermore, during 2023, it participated in the following Banco Sabadell green bond issue:

- As Joint Lead Manager in Banco Sabadell's green public issue of senior preferred debt for 750 million euros with 5.000% coupon, issued in May.

5.1.2 Project Finance

2023 was characterised by a considerable volume of transactions in the Iberian peninsula as a result of governments' ambitious decarbonisation plans and the support given to the private sector amid energy markets that were stabilising after reaching historic peaks. That said, the high prices seen in recent years compared to the historical average have helped to mitigate the effect of rising interest rates when it comes to developers' business plans. Banco Sabadell has continued to offer finance for renewable projects, being one of the main banks in Spain to demonstrate its commitment to the "Fit for 55" measures introduced by the European Union and to Spain's Integrated National Energy and Climate Plan.

After energy prices spiked in 2022 and inflation rose considerably, prices stabilised but remained above the historical average. In 2022, the average daily price in Spain was €167.5/MWh, dropping to €87.1/MWh in 2023. This price drop also carried over to electricity price expectations and, at present, advisors estimate that these could come down in the next two to three years.

Forecasts of high electricity prices over the next two or three years have helped to mitigate the effects of higher interest rates in 2023, which is an important factor for this type of long-term project. It is also important to mention that inflation did not have any significant impact on the cost/MW for investment in photovoltaic plants, which maintained a similar level of costs to the two previous years. In wind farms, however, there was an increase in investment costs.

Banco Sabadell's total finance granted for renewable energy projects came to €1,109m, 69.4% higher than in the previous year. The high number of new transactions is due to the large volume of projects completed in previous years, as multiple licences and permits were granted in 2022 and 2023, and also to the Bank's resources used to capitalise on its experience in this sector, allowing it to maximise its financing opportunities. It is worth highlighting the considerable volume of projects that are still awaiting licences and permits, which should come through over the next two years.

Over the year, 36 transactions were executed, mobilising 1,109 million euros. In terms of projects executed in the geographies in which the Institution operates, in 2023 there was one in the United States (45 million euros), one renewables project in Portugal (125 million euros) and 34 renewables projects in Spain (939 million euros).

Country	# Transactions	Amount	%
Spain	34	939	85%
Portugal	1	125	11%
USA	1	45	4%
TOTAL	**36**	**1,109**	100%

Data in millions of euros.

With regard to the types of technology financed, the number of photovoltaic projects is particularly noteworthy compared with other technologies; this is a trend that had already been observed the year before. Photovoltaic plants represented 71% of total financing at 791 million euros. With regard to wind energy plants, these represented 29% of total financing at 319 million euros.

Technology	# Transactions	Amount	%
Wind	13	319	29%
Photovoltaic	23	791	71%
Thermosolar	0	0	—%
TOTAL	**36**	**1,109**	100%

Data in millions of euros.

Lastly, in relation to transactions in Spain and Portugal, Banco Sabadell has continued to be a leader in the sector in terms of the execution of Project Finance transactions. It is worth noting that in 2023, all projects executed were greenfield projects, providing additional capacity for the production of clean energy in the Spanish energy system. Also of note in the year was the interest among developers to finance projects whose revenues come from sales to the market without a Power Purchase Agreement (PPA[60]) In terms of their breakdown, financing was provided for three feed-in tariff projects (projects in which the government guarantees payment for a certain period of time, 12% of the total amount financed on the Iberian peninsula), twelve projects whose income structure includes PPAs (36% of the total), one construction loan project (5% of total) and nineteen projects whose income is obtained exclusively through the wholesale market (47% of the total).

Type	# Transactions	Amount	%
FIT Peninsula	3	126	12%
Spanish Government PPA	0	0	—%
Merchant with PPA	12	379	36%
Merchant without PPA	19	504	47%
Construction loan	1	55	5%
TOTAL	**35**	**1,064**	**100%**

Data in millions of euros.

5.1.3 Sustainable financing solutions for retail customers and businesses

Sustainable financing is one of the main levers to facilitate energy transition, specifically, to mitigate global warming by promoting an economic model that helps to protect the environment.

[60] Power Purchase Agreement (PPA)

Where individual retail customers and SMEs are concerned, Banco Sabadell remains firm in its resolve to support and accelerate the important economic and social transformations that contribute to sustainable development and the fight against climate change.

The actions and solutions offered to customers are described below:

Support and financing solutions for individuals

Support for individuals

Banco Sabadell supports customers in the transition to a more sustainable economy, by offering a range of solutions with products and services for home purchases and renovations, sustainable mobility or the installation of renewable energies and wastewater treatments. In addition, the Bank offers investment opportunities that contribute to sustainability.

In payment systems, Banco Sabadell continues working on its objective of reducing its environmental impact, encouraging customers' use of digital payments through virtual cards, which are included in all in the main payment systems (X-Pay, Google Pay, Apple Pay, Samsung Pay, etc). In addition, for customers who use physical cards, these are made with degradable recycled PVC, thereby minimising the generation of plastic waste and offering customers the opportunity to be part of tackling this challenge.

Sabadell Consumer Finance, the consumer finance institution wholly owned by Banco Sabadell, has signed prescriptive collaboration agreements with companies that are highly focused on providing sustainable solutions for their customers. Mindful of the need for a more sustainable world, household savings and subsidies, whether through the Next Generation funds or directly through taxes, have accelerated decision-making on accomplishing sustainable improvements. Given the increased installation of photovoltaic panels in 2022, which continued on an upward trend during 2023, other complementary products are expected to take hold in 2024, such as aero thermal systems, thermal insulation, recharging points and batteries. In this context, specialist companies are stocking up with equipment and expanding their product range to meet this new consumer demand.

In financing, other initiatives in line with the Bank's objective of achieving a more efficient and responsible domestic economy are commercial actions to promote renovation projects that improve energy efficiency in customers' households, proactively offering access to financing with more advantageous conditions.

In terms of the Bank's commercial relationship with the consumer finance segment, both environmental and social approaches are considered when originating financial transactions. On one hand, and with regard to the environmental factor, the ecological aspect of assets in which customers intend to invest is taken into account. The Bank is primarily focused on ecological mortgages, considering homes with the highest energy efficiency ratings as "green assets". In addition, "green assets" are considered as those that are aligned with the activities defined in the Institution's Eligibility Guide and that are, simultaneously, the subject of personal loans. The type of assets included in this category are, mainly, electric vehicles and photovoltaic panels, among others.

On the other hand, a social housing condition is taken into account when assessing the social factor of financed housing.

Furthermore, the ESG dimension is integrated throughout the entire commercial and risk assessment process, evaluating transactions accordingly from the outset. This means that account managers proactively offer sustainable financing options when they perceive that the customer has an opportunity to invest in "green assets", such as energy efficient housing or electric vehicles. There is also an option to apply a positive price adjustment to transactions which ultimately concern "green assets". In this way, there is a greater incentive for the customer or account manager to better negotiate sustainable transactions.

Green financing solutions for individuals

In the case of products designed to finance the development of sustainable projects or initiatives, the following solutions offered to customers by Banco Sabadell should be mentioned:

Green mortgages

Banco Sabadell currently offers a reduced price across its entire mortgage range to incentivise the purchase, construction or renovation of homes with high-category energy certification, in accordance with the national certification system and in line with the Institution's Eligibility Guide.

In 2023, the volume of mortgages with sustainable certification was more than 437 million euros.

Sabadell green renovation loans

The aim of the Sabadell green renovation loan is to encourage home renovations and/or purchases that improve the sustainability and energy saving capacity of a primary or secondary residence. The Bank offers financing, with attractive conditions, for improvements of openings (windows and doors), upgrades of heating or cooling systems to make them more efficient, and purchases of energy efficient household appliances, specifically, those rated A or higher.

'Préstamo Coche ECO' (ECO car loan)

The Bank offers the *'Préstamo Coche ECO*' (ECO car loan), aimed at retail customers, which enables the purchase of 'zero emissions' or 'ECO' labelled vehicles with very attractive conditions, contributing to the adoption of cleaner vehicles that are suited to the new low-emissions zones in Spain's largest cities.

Social financing solutions for individuals

In the area of social financing, and due to the economic impact of higher interest rates, Banco Sabadell continues to proactively offer solutions to customers with variable-rate mortgages who may be experiencing difficulties, in addition to customers who meet the vulnerability criteria in accordance with the Code of Good Practice (CGP), with the aim of helping these customers to meet their obligations, relieve their financial burden and avoid default situations.

With regard to vulnerable customers, it should also be noted that:

- Customers at risk of financial exclusion, who have refugee status (holders of red or white asylum seeker's card) or who have scant resources, may register free of charge for a Banco Sabadell Basic Payment Account and access free services, such as: cash withdrawals, national transfers and transfer to EU countries, direct debits, or the use of electronic banking, among other things. During 2023, 906 Basic Payment Accounts were opened, including 145 opened by vulnerable customers. In terms of account holders, there were 946 Basic Payment Account holders, of which 153 belong to the vulnerable customer group.

- Specific benefits aimed at customers aged 65 or over, such as the issue and renewal of a commission-free passbook and free transfers throughout Spain and the European Economic Area carried out at a branch. Furthermore, if the customer is a pensioner and has income of less than 10,000 euros per year, they may access certain additional subsidies and benefits.

- A customer service model that is sensitive to the needs of vulnerable customers (due to their age, reduced mobility or other restrictive factors) and/or non-digital customers (with no access to remote banking), with specific protocols in place for these groups, to address specific situations, such as branch closures, changes to the usual services offered, or certain transactions that may be risky for them, such as cash withdrawals at branches, offering them a differentiated service that is adapted to their specific abilities and needs.

- Application of the Code of Good Practice when granting financing which protects the interests of customers by ensuring that they select the product that best suits their needs and financial capacity, paying special attention to vulnerable customers (people who, due to their physical or mental abilities, their personal needs or their economic, educational or social circumstances, find themselves unable to work or unable to function on equal terms with other consumers due to being in a helpless or vulnerable situation).

- Lastly, the application of the Code of Good Practice to restructure mortgage loans for vulnerable customers (RDL 6/2012 and RDL 19/2022), updated and made more flexible to address the needs of low income mortgage customers. Customers with complex financial needs who do not meet the CGP requirements are offered other solutions appropriate to their current situation.

Support and sustainable financing solutions for businesses

Support for businesses

In order to help businesses achieve a better understanding of sustainability, a series of webinars were organised through the Bank's Business Hub which, drawing on examples of good practice implemented by customers and experts, dealt with aspects related to the carbon footprint, renewable energies, energy efficiency and the UN Sustainable Development Goals.

The annual visit to companies now includes a conversation about sustainability, providing customers with the necessary background information and explaining the benefits of moving towards sustainability, and proposing financing solutions for projects that enable greater energy efficiency and a reduction in their carbon footprint.

Green loans

In 2023, more than 2.5 billion euros were mobilised to fund companies engaged in green operations or projects, mainly through loans, leasing and rentals. These do not include Renewable Energies Project Finance transactions, which are described individually in section 5.1.2.

With the aim of helping companies to execute their sustainable projects more efficiently, Banco Sabadell has entered into a number of agreements with partners in a variety of sectors so as to offer turnkey solutions:

- Photovoltaic self-consumption: The Bank has partnerships in place with Iberdrola and EDP Solar to provide a comprehensive offering that includes both photovoltaic systems and maintenance & upgrade services, with the aim of ensuring that the installation is optimally suited to the customer's requirements.

- Building renovations: The Bank has an agreement in place with Agentia R+ as renovation agent, in which it leads the entire project, including the management of government subsidies.

With regard to financing for leasing and rental of capital goods, 510 transactions were arranged in 2023 amounting to 211.7 million euros in sustainable transactions for our customers related to projects, installations and capital goods intended to minimise their carbon footprint and improve energy efficiency. These included, in particular, 374 transactions for sustainable industrial and commercial vehicles amounting to a total of 69.1 million euros. In addition, the Spanish Leasing and Renting Association (AELR by its Spanish acronym) granted Banco Sabadell the sustainable transaction of the month award in November, for a capital goods rental for a water treatment plant.

Sustainability-linked loans

Banco Sabadell has been offering sustainability-linked loans (ESG loans) to Corporate Banking customers for some years, with great success.

As at the end of 2023, the Bank had also mobilised more than 1.6 billion euros in sustainability-linked loans for businesses and SMEs to fund green purposes only, primarily focused on the reduction of their CO2 emissions.

Mobility solutions

Despite the difficulties experienced in the sector throughout 2022 and 2023, such as the semiconductor crisis and shortages of raw materials, Sabadell Renting managed to improve its ECO vehicle offering, by focusing its business activity on sustainable mobility.

By the end of 2023, the ECO vehicle offering (hybrid and electric vehicles with an "ECO" or "0 emissions" environmental label from the DGT) formed 68% of the total range compared with 43% in the previous year, thereby exceeding the target set for 2023.

On the other hand, the percentage of new ECO vehicle contracts stood at 30% at the end of 2023, achieving the target set for the year (30%), although the pace of ECO vehicle leasing in the year did not surpass the figure at the end of 2022, which was 36%.

Sabadell Renting continues to increase the visibility of sustainable mobility solutions through direct marketing campaigns aimed at customers of Banco Sabadell throughout the year, by increasing the promotion of ECO vehicles and, above all, by placing a sharp focus on the electric offering with specific campaigns for Banco Sabadell Group staff.

During 2023, there has been a continued emphasis on growing the digital offer for customers, both through Banco Sabadell's own channels and through external distribution and dissemination channels. This involves strengthening the remote sales circuit so that customers can arrange leasing services through a fully digital process, without having to travel to do so.

With regard to the volume of used vehicle sales, the company is seeing a significant increase in sales of used vehicles up to four years old. This sales volume also contributes to the renewal of the vehicle fleet and, in parallel, to the improvement of urban environments with more efficient vehicles and much lower CO2 emissions.

A target has been set for 2024 to continue increasing our offer of ECO models, both in terms of supply and contract volume, for our customers and for all staff of Banco Sabadell, with a view to actively contributing to the transition towards sustainable mobility.

Social loans

In the area of social loans, it is worth highlighting those granted to micro-entities for the purpose of promoting and maintaining employment.

During 2023, the criteria related to the mobilisation of funds for social purposes were changed, keeping the focus on financing activities that promote employment and the development and progression of the business and industrial fabric of each territory. With this change of criteria, funding for micro-enterprises in 2023, mainly through loans and credits, reached more than 3 billion euros, compared with 2.9 and 2.75 billion euros in 2021 and 2022, respectively.

5.1.4 Next Generation EU

Financial institutions have the responsibility to complement the funds made available by European institutions in order to repair the damage caused by the pandemic as much as possible and progress towards a more sustainable economy. It is also essential to provide the maximum possible capillarity to the programme of European funds in order to ensure that it is rolled out to the entire business world, including SMEs.

To that end, various specific products are made available to businesses in order to advance subsidies, supplement them if they do not cover the entire investment, or to provide the authorities with any guarantees they may require.

At Banco Sabadell, the aim is to support businesses on this journey and, to do so, several campaigns have been launched to disseminate information about subsidies and to offer turnkey solutions that include a value proposition from the main market partners in each of the key areas involved in subsidies and financing or involved with the guarantee that may be needed to develop the related projects.

- **Business digitisation:** Following the opening of calls for applications for KIT Digital grants in March 2022, several further calls have taken place aimed at companies of different sizes. In July 2023, the most recent call was launched, aimed at joint ownership undertakings, partnerships regulated by the civil code and agricultural holdings, with between 0 and 50 employees.

  With the aim of helping customers to take advantage of these support measures, an agreement has been reached with Masmóvil to provide digitalisation solutions for those businesses.

- **Photovoltaic self-consumption:** This involves a package of government aid amounting to 1,320 million euros, which is intended to promote self-consumption and energy storage, and renewable power systems. This provides an opportunity for businesses to carry out investment projects aimed at self-consumption, and they are able to benefit from the complementary financing offered by Banco Sabadell.

  In this respect, the agreements with key market players, such as Iberdrola and EDP Solar, allow us to offer customers turnkey solutions, which are complemented by the financing that customers may need.

- **Home renovations:** The Next Generation EU funds offer grants for home or office renovations linked to energy efficiency and renewable energy projects. The main beneficiaries of these grants are homeowners' associations. The amount of the grant will vary depending on the savings achieved by the renovation.

Participation in 'PERTE' projects[61]:

PERTE projects are a new feature, conceived as a way of promoting and coordinating high-priority projects that are strategic in nature due to their impact on economic growth, employment or the competitiveness of a given sector. They are intended to serve as a connecting node between public and private initiatives by providing a predictable legal framework with which to develop innovative and collaborative solutions.

The Addendum to the Spanish Recovery Plan, approved in October 2023, anticipates a significant increase in funds allocated to investments in PERTE projects, with an amount totalling 41,287 million euros. Significant progress has been made throughout 2023 with calls for tenders for various PERTE projects, including those involving Electric Vehicles (second call), the Shipbuilding Industry, Water Cycle operators and the Agri-food industry.

In July 2023, the Bank signed an agreement with PYMAR, a body representing small and medium-sized shipyards, to offer guarantees under enhanced conditions to companies participating in the shipbuilding PERTE. The Institution continues to hold talks with the companies that lead the main projects and with participating SMEs, to offer them financing and the guarantees they may need to carry out their projects.

5.2 Sinia Renovables

As at 2023 year-end, Sinia Renovables, Banco Sabadell's division for investment in renewable energies and sustainability, has investments in operation, construction and development projects with an overall installed capacity of 1368,2 MW, equivalent to the electricity consumption of about 979,742 households.Of this capacity, the portion attributable to Sinia through its direct shareholding is 246.3 MW, equivalent to the generation of 516.1 GWh of sustainable electricity every year. This power generation, assuming all projects are in operation, would be equivalent to the average annual consumption of approximately 157,738 households.

Renewable electricity attributable to Sinia, based on the entirety of its portfolio in operation, in which it holds a direct equity interest, is 262,7 GWh/year. a 67% increase in production compared to 2022. This renewable energy prevents the emission of around 36,778 tonnes of CO2 equivalent per year, equivalent to the average annual consumption of approximately 80,287 households[62].

In 2022, Sinia launched the Alternative Green Equity Solution, a hybrid financial product that provides a solution for many small developers who currently have renewable energy projects at the ready-to-build stage but are unable to build them, operate them, and eventually become Independent Power Producers (IPPs), due to a lack of financial resources and unavailability of funding. In 2023, Sinia Renovables mobilised more than 50.5 million euros, between invested capital and funding.

These figures position the Group as one of the financial sector's top investors in renewable energy projects.

Furthermore, the main portfolio projects as at year-end are detailed below:

- Sinia currently holds investments in wind energy projects in operation in Mexico equivalent to 216,9 MWinstalled capacity, in the Tamaulipas region:
- With regard to assets in operation in the Spanish market, Sinia has maintained its investment in wind farms in Navarre with a combined 93.6 MW capacity, a 10.7 MW wind farm in Tarragona, and an additional 27.25 MW as a result of the capital injection to the group Soluciones y Desarrollos de Ingeniería y Servicios (Sydis), as well as 6.60 MW of photovoltaic self-consumption facilities scattered around various autonomous communities.
- With regard to assets under development at 2023 year-end, Sinia has increased investments in assets located throughout practically all of Spain, with total installed capacity of 824,23 MW by 55%, and in both photovoltaic and PV-battery hybrid projects and wind farms by an additional 55%.
- In terms of construction, Sinia has investments in a total 106.6 MW distributed throughout Catalonia, Aragon, Galicia, Valencia and Castilla La Mancha, among other regions.

[61] Strategic Projects for Economic Recovery and Transformation (*Proyectos Estratégicos para la Recuperación y Transformación Económica* or PERTE).
[62] The conversion factor for this calculation is based on data from the Spanish Office for National Statistics (*Instituto Nacional de Estadística* or INE).

- It continues to hold 25% of the first franchiser of engineering firms engaging in photovoltaic self-consumption and electric vehicle charging points in Spain, called Doctor Energy, in order to help the company accelerate its growth.

- In 2023, Sinia consolidated other lines of action in environmental sustainability through the completion of biomethane production projects from food sector waste, such as its investment of 7.75 million euros in Catalana de Biogás.

- The capital injection to Soluciones y Desarrollos de Ingeniería y Servicios (Sydis) at the end of the year has indirectly increased Sinia's portfolio by almost 127MW distributed across 39 projects in Spain.

5.3 Issuance of sustainability bonds

In July 2020, Banco Sabadell published the Framework for the issuance of bonds linked to Sustainable Development Goals (SDGs), which serves as the reference document for the issuance of green, social and sustainability bonds. The Framework applies the criteria proposed in the EU Taxonomy for the defined categories of green eligible projects and meets the voluntary guidelines of the ICMA (International Capital Market Association).

- **Green bonds** are intended to finance eligible green project categories, focusing on projects with environmental benefits, such as reduction of greenhouse gas emissions, pollution prevention and climate change adaptation.

- **Social bonds** are designed to finance eligible social project categories, focusing on the generation of social benefits by providing access to essential services, facilitating social inclusion and promoting the creation and maintenance of employment.

- **Sustainability bonds** are aimed at providing finance for a combination of green and social projects as described above.

All of the proceeds obtained by issuing these types of bonds are used to fully or partially finance or re-finance new, existing or future loans or projects that meet the eligibility criteria established in the Framework.

In May 2023, Banco Sabadell issued a green senior preferred bond for 750 million euros with a 5% coupon and 6-year maturity and an early call option in the fifth year. Including the bond issued in 2023, Banco Sabadell has accumulated 3,565 million euros in green issuances, of which 3,445 million euros remain outstanding.

Based on the provisions of the Framework for the issuance of bonds linked to Sustainable Development Goals (SDGs), a report has been prepared, for the green bonds issued in 2022, on the allocation of proceeds to eligible projects and the impact generated by those projects. This report has been reviewed by an independent expert. The report is available on the corporate website under the heading Green Bonds Report 2023", alongside the reports for previous years.

5.4 Sustainable savings and responsible investment solutions

In the area of investment, both pension fund manager BanSabadell Pensiones EGFP S.A. in 2012 and, since 2016, Aurica Capital, a venture capital enterprise that invests in Spanish companies with plans to expand in foreign markets, have adopted the United Nations Principles for Responsible Investment (PRI) in the investment manager category. Pension funds individually subscribed to the PRIs by BanSabadell Pensiones EGFP S.A. include BanSabadell Pentapensión Empresa FP, the Banco Sabadell Employees' Pension Fund MF2000, the Banco Sabadell Employees' Pension Fund GM, BanSabadell 18 FP, and the Pension Fund of Compañía de Servicios de Bebidas Refrescantes, a soft drinks company in Spain.

In mutual funds, Banco Sabadell maintains its strategic partnership with Amundi, Europe's leading asset manager, committed to sustainable investment since its creation. Amundi has been a signatory of the United Nations Principles for Responsible Investment (PRI) since 2006.

As at the end of 2023, 22 Sabadell Asset Management mutual funds (7,721 million euros) promote environmental or social characteristics, meaning that they are classified as Article 8 funds[63] under the European SFDR (Sustainable Finance Disclosure Regulation). When combined with the Amundi mutual funds distributed by Banco Sabadell (3,648.4 million euros), it means that 11,369 million euros, or 85.4% of Banco Sabadell customer assets invested in non-guaranteed Sabam/Amundi mutual funds, promote environmental or social characteristics or have environmental or social objectives (Article 8 or Article 9 of SFDR[64]).

The process of expanding the range of investment and savings products that comply with sustainability criteria continued in 2023 with the addition of two new funds, bringing the total number of Sabam funds that comply with Article 8 of SFDR to 22. Mutual funds will continue to be the focus of attention, as they are the investment product most frequently chosen and acquired by customers. As at 2023 year-end, customer assets in mutual funds meeting ESG criteria stood at 85.4%, remaining above the target set for 2025 of 80%, although slightly below the 2022 figure as a result of market developments and customers' strong preference for guaranteed or target yield products, which are mainly structured with government bonds of EU Member States that have no sustainability rating. During the last quarter of 2023, the Institution launched the first guaranteed variable yield fund that complies with Article 8 to offer customers a sustainable alternative in line with the current interest rate environment.

The training on ESG investment aimed at all commercial team members that could provide advisory service to customers remained in place.

The Banco Sabadell Policy on Integrating ESG Risks in Savings/Investment Products was updated in 2023 with the latest progress made in this regard, presenting initial evidence of its application, as defined in 2021. This policy is enshrined within Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. The process consists of four stages. The first stage corresponds to the analysis of evidence submitted by the companies or partners to which the Institution has delegated tasks related to the management of products of which the Institution is a Financial Market Participant, or to the selection of products that it offers in its capacity as Financial Advisor. The second stage involves reviewing the offering defined for the different segments, including sustainability risks within the decision-making variables, to be submitted to the Working Group of the Advisory Offering. In a third stage the decisions taken by the Technical Product Committee are ratified. Lastly, the fourth stage involves monitoring the information to be disclosed in accordance with Regulation 2019/2088. In 2023, the work started during the previous year of incorporating customers' preferences on sustainability into the discretionary portfolio management and advisory models continued, which are being adapted in light of the new suitability guides published in March 2023. Lastly, the Institution's first Statement on principal adverse impacts was published in 2023. This report shows whether investment decisions have had an impact on the environment, society and good corporate governance, according to various regulatory indicators. This report is available (in Spanish) to both customers and non-customers of the Bank.

With regard to BanSabadell Pensiones, in recent years various actions have been carried out to encourage the development of socially responsible investment among its pension plans, and it was one of the first institutions to offer an ethical and charitable pension plan which, in addition to investing according to socially responsible criteria, also made a donation to fund selected projects. In 2018, BanSabadell Pensiones, together with Banco Sabadell and Spanish trade union *Comisiones Obreras* (CCOO), signed an agreement on a socially responsible investment (SRI) clause for inclusion in the statements of investment policy principles of workplace pension funds. BanSabadell Pensiones currently manages nine pension funds that explicitly incorporate a socially responsible investment (SRI) mandate in their investment policy, with assets of 992.2 million euros as at year-end 2023.

In terms of the integration of sustainability risks in investment-related decisions at Sabadell Seguros, the asset management process integrates quantitative and qualitative ESG criteria. To this end, ESG ratings issued by specialised ESG rating agencies are used. These allow the risks and opportunities associated with short- and long-term investments to be identified. Certain tools are also used in the process that detect reputational alerts related to the companies and assets that form part of its investments. It is also worth noting that exclusion policies are applied, which dictate that no investments should be made in

[63] Article 8 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (known as SFDR), which governs transparency of the promotion of environmental or social characteristics in pre-contractual disclosures and transparency of sustainable investments in pre-contractual disclosures, respectively.
[64] Articles 8 and 9 of Regulation (EU) 2019/2088 of the European Parliament and of the Council.

controversial sectors (weapons, thermal coal, etc.). To analyse sustainability risk controls in investment portfolios, the ESG Footprint Committee was created, which is responsible for supervising sustainability risks and verifying the correct implementation of the sustainability risk policy by each investment manager.

Similarly, Sabadell Seguros has been a participant of the Q-Impact fund since July 2021, in order to contribute to the global challenge of energy transition and create professional opportunities for vulnerable groups.

Q-Impact invests in companies in growth and expansion stages that mitigate problems of both social inclusion and ecological transition in Spain. In the social sphere, the fund primarily focuses on companies which promote the employability of young people and reduce youth unemployment, work towards the inclusion of those with different abilities and vulnerable groups, and which improve the lives of people with different abilities and the elderly through adapted products and remote assistance services. With regard to ecological transition, the fund focuses on catalysing investment in underserved markets, as well as on organic agriculture, sustainable technology and related sectors: renewable generation on islands and financing of self-consumption and energy efficiency.

As at September 2023, the Q-Impact fund had obtained the following results: In its financial valuation, it had reached an Internal Rate of Return (IRR) of 18.9%. With regard to its social and environmental impact, 54% of the impact target had been reached, which means the impact of companies has increased since the Bank’s entry in the fund.

In terms of protection insurance, the aim of companies is to promote the development of products and services that create social value and foster environmental protection.

Similarly, the Bank wants to offer insurance products that help it honour its commitment and fulfil its responsibility to the environment. To this end, a number of its products include services and benefits that promote the fight against climate change.

Travel has become less frequent, consequently reducing greenhouse gas emissions, thanks to video valuations in Vehicle Protection and Home Protection insurance and 24-hour video consultations in Health Protection provided by Sanitas.

Home Insurance also takes into account the needs of customers concerned about climate change, offering coverage for accidental breakages of the sheets of glass of any solar panels that they have installed and which are fixed to the fabric of the building of their homes and for their exclusive use. Any charging points for electric vehicles installed and fixed in their (owned) garage are also considered part of the fabric of the building.

On the other hand, Motor Insurance offers special coverage for electric vehicles, such as roadside assistance in the event of a breakdown, accident or low battery; coverage for the theft of the charging cable or plug; as well as coverage for damage to third parties caused by faults when charging the vehicle (with the Civil Liability coverage).

5.5 Green loans and lines of credit with multilateral development banks in Mexico

Green loans in Mexico

In 2023, Banco Sabadell granted green loans in Mexico amounting to approximately 112 million euros, which were mainly put towards:

- Renewable energy projects;
- Production of renewable energy technology;
- Construction projects using energy efficient materials;
- Installation and maintenance of renewable energy technologies (photovoltaic panels) in the sector;
- Construction and installation of infrastructure for the management of wastewater;
- Recycling and construction of industrial buildings with sustainable certification.

During 2023, 15 environmental and social evaluations were carried out of transactions that were identified as having a potentially negative environmental and/or social impact. These transactions were selected to evaluate their level of compliance with Mexican environmental legislation and with the International Finance Corporation's (IFC) Performance Standards on Environmental and Social Sustainability. As a result, an Action Plan was developed to mitigate the identified environmental and social risks associated with the activities of the companies concerned.

In addition, actions have begun this year to reduce financing to the following sectors that have a particularly negative impact on the environment:

- Mining.
- Energy.
- Agro-industry.
- Infrastructure.
- Defence.

The scope of the transactions in these sectors affected by these actions are Companies or Groups with revenue >€40m or a transaction amount >€5m. Transactions falling within that scope are subject to analysis of environmental, social and labour issues.

Lines of credit with multilateral development banks

Since 2019, Banco Sabadell Mexico has had access to a 10-year line of credit of 100 million US dollars granted by the International Finance Corporation (IFC), a member of the World Bank Group, to promote the development of sustainable tourism and construction in Mexico. These funds are granted to customers seeking to promote the development of sustainable projects.

Banco Sabadell Mexico also has an 8-year credit facility in the amount of 50 million dollars with the German Development Finance Institution (DEG by its German acronym).

As part of the agreements with the IFC and the DEG, Banco Sabadell Mexico prepares and submits to them an Annual Report on Environmental and Social Performance (IADAS by its Spanish acronym), a comprehensive written account of the implementation and operation of its Environmental and Social Risk Management System (SARAS by its Spanish acronym), and the environmental and social performance of customers to whom this system has been applied in the previous tax year.

This report includes the following relevant information:

a. A general description and, if applicable, an update on implementation of the SARAS system.

b. A report on financial transactions that were evaluated using the SARAS system.

c. The main environmental and social risks and/or impacts associated with the activities of customers identified during an Environmental and Social Due Diligence review required by the SARAS system.

d. Main actions agreed with the customers concerned and included in an Environmental and Social Action Plan to avoid or mitigate environmental and social risks identified in the Environmental and Social Due Diligence review.

Since July 2021, all infrastructure projects (new constructions and enlargements) and any hotel-related transactions receiving financing of 5 million US dollars or more are evaluated by Banco Sabadell Mexico's SARAS system, which identifies the environmental and social impacts and risks associated with the customers' activities. At the end of these evaluations, an Action Plan is drawn up designed to help mitigate the identified impacts and risks, which the customer undertakes to carry out.

During 2023, 18 transactions were evaluated using the SARAS system, encompassing the following sectors:

a. Electricity, Gas and Water.h

b. Agro-industry.

c. Hotels.

d. Construction.

e. Transport, delivery services and warehousing.

Of a total of 18 transactions, 17 were approved by the BSM Risk Committee and 1 was rejected as it did not have the applicable environmental permits required under Mexican environmental regulations and requested by Banco Sabadell.

The main positive actions agreed with the customers and included in the Environmental and Social Action Plan stemming from the Environmental and Social Due Diligence review include the following:

a. Adoption and implementation of an Environmental Policy in their companies.

b. Implementation of an Environmental and Social Management System, which includes procedures and programmes to help reduce environmental and occupational risks.

c. Attainment of the applicable environmental permits required under Mexican regulations.

d. Implementation of an Environmental Oversight Programme dealing with the most relevant ecosystems.

e. Implementation of External Communication Mechanisms.

f. Provision of training in health & safety and the environment.

g. Rescue and conservation of mangrove swamps (coastal marine wetlands).

6. Commitment to people

Banco Sabadell has a committed and professional workforce that focuses on helping people and companies make the best economic decisions. Banco Sabadell has policies and procedures in place aimed at acquiring and developing talent, fostering the commitment of its workforce and encouraging diversity and inclusion.

The culture hinges on the watchword "Being Sabadell", encapsulating a way of doing things and of being that is unique to Banco Sabadell, and it forms the basis of our Talent Management model and our corporate culture. It is summarised in three pillars: thinking, putting the customer and the Bank at the centre of what we do; delivering, with commitment and efficiency; and engaging, with a positive and collaborative attitude. The "Being Sabadell" formula is already being applied by our finest professionals. It is what makes us genuine and what differentiates us from other banks.

6.1 Workforce information

As at the end of December 2023, Banco Sabadell Group's workforce consists of 19,316 employees distributed across the various regions in which it operates, practically all of whom have permanent contracts (99.1%). The average age of the workforce is 44 years, with an average length of service in the organisation of 16 years. This workforce is diverse in terms of both geographical distribution (32.2% are in international locations) and gender (55.3% are women).

In 2023, the Group's workforce grew by 2.2%, increasing from 18,895 employees to the current 19,316 employees. The Bank continues to engage in a process to adapt to the transformation of the environment (customer digitalisation, new ways of working, disruptive technology, etc.) in order to build the best possible future for the workforce, customers and other stakeholders.

Banco Sabadell Group employees: Breakdown by professional category, age, country and nationality

	2023			2022		
Professional category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Senior management	529	262	791	460	208	668
Middle management	2,091	1,632	3,723	1,944	1,381	3,325
Specialist staff	5,341	7,077	12,418	5,298	7,194	12,492
Administrative staff	680	1,704	2,384	683	1,727	2,410
Total	8,641	10,675	19,316	8,385	10,510	18,895

Group data as at 31/12/2023. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

	2023			2022		
Age range	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Under 31	1,154	1,195	2,349	1,080	1,209	2,289
Between 31 and 49	4,591	6,124	10,715	4,682	6,290	10,972
Over 49	2,896	3,356	6,252	2,623	3,011	5,634
Total	8,641	10,675	19,316	8,385	10,510	18,895

Group data as at 31/12/2023.

	2023			2022		
Country	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Spain	6,041	7,049	13,090	5,796	6,828	12,624
United Kingdom	2,176	3,281	5,457	2,168	3,343	5,511
Mexico	267	178	445	266	166	432
Other regions	157	167	324	155	173	328
Total	8,641	10,675	19,316	8,385	10,510	18,895

Group data as at 31/12/2023. Workforce in the United Kingdom includes employees at TSB and at Banco Sabadell's London branch.

Nationality	**2023**	**2022**
Spanish	66.8%	66.0%
British	26.1%	27.3%
Mexican	2.3%	2.2%
United States	1.1%	1.1%
Other nationalities	3.7%	3.3%
Total	**100%**	**100%**

Group data as at 31/12/2023.

Breakdown of staff departures from the Group due to dismissal

As at the end of December 2023, there were 147 staff departures in the year, 88% fewer than in 2022 when they numbered 1,228. This data includes staff departures related to the redundancy scheme carried out by Banco Sabadell in the previous financial year and completed in June 2022:

	2023			**2022**		
Professional category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Senior management	8	3	11	33	8	41
Middle management	22	14	36	136	34	170
Specialist staff	43	35	78	357	621	978
Administrative staff	15	7	22	20	19	39
Total	**88**	**59**	**147**	**546**	**682**	**1,228**

Group data as at 31/12/2023. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

	2023			**2022**		
Age range	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Under 31	24	4	28	26	12	38
Between 31 and 49	36	26	62	176	457	633
Over 49	28	29	57	344	213	557
Total	**88**	**59**	**147**	**546**	**682**	**1,228**

Group data as at 31/12/2023.

Voluntary turnover

The voluntary turnover rate (VTR[65]) of the Group (ex-TSB)in 2023 was 1.8%. In Spain, voluntary turnover is 1.3%, having decreased by 0.4 percentage points. This was mainly due to the talent management effort that has produced greater staff loyalty and engagement, but also to saturation of the employment market with fewer opportunities to change jobs. The turnover rate fell by 5.5 percentage points at international level, due to a lower volume of voluntary departures in Mexico and Miami.

[65] Rate that measures those leaving the Group (ex-TSB) on a voluntary basis.

	2023		2022	
Age range	**National**	**International**	**National**	**International**
Under 31	8.7%	13.0%	13.9%	21.8%
Between 31 and 49	1.1%	11.4%	1.3%	17.2%
Over 49	0.3%	2.0%	0.2%	4.2%
Total	**1.3%**	**9.2%**	**1.7%**	**14.7%**

Voluntary turnover rate = ((annual voluntary departures) / (average staff)) * 100. Group (ex-TSB) data as at 31/12/2023. 'International' includes Mexico, foreign branches and representative offices.

	2023		2022	
Gender	**National**	**International**	**National**	**International**
Men	1.8%	10.3%	2.4%	14.9%
Women	0.9%	7.8%	1.1%	14.4%
Total	**1.3%**	**9.2%**	**1.7%**	**14.7%**

Voluntary turnover rate = ((annual voluntary departures) / (average staff)) * 100.

Involuntary turnover

The involuntary turnover rate (ITR[66]) of the Group (ex-TSB) was 1.6%. In Spain, the involuntary turnover rate was 1.3%. At international level the rate increased by 2.3 percentage points, mainly due to staff departures in Mexico.

	2023		2022	
Age range	**National**	**International**	**National**	**International**
Under 31	2.6%	6.0%	2.4%	3.8%
Between 31 and 49	0.8%	5.9%	0.5%	2.7%
Over 49	2.0%	6.4%	1.7%	6.3%
Total	**1.3%**	**6.0%**	**1.0%**	**3.7%**

Involuntary turnover rate = ((annual involuntary departures) / (average staff)) * 100. Group (ex-TSB) data as at 31/12/2023. 'International' includes Mexico, foreign branches and Representative Offices. Includes those leaving due to dismissal and other involuntary reasons. Does not include those leaving due to restructuring processes.

	2023		2022	
Gender	National	International	National	International
Men	1.5%	6.7%	1.3%	4.1%
Women	1.2%	5.3%	0.8%	3.3%
Total	1.3%	6.0%	1.0%	3.7%

Involuntary turnover rate = ((annual involuntary departures) / (average staff)) * 100. Group (ex-TSB) data as at 31/12/2023. 'International' includes Mexico, foreign branches and Representative Offices. Includes those leaving due to dismissal and other involuntary reasons. Does not include those leaving due to restructuring processes.

[66] Rate that measures those leaving the Group (ex-TSB) on an involuntary basis.

Types of contracts in the Group

Practically all Group employment contracts (99.1%) are permanent contracts, and only 168 are temporary.

Number of contracts, by type:		**2023**			**2022**	
Type of contract and gender	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Permanent	8,555	10,593	19,148	8,304	10,409	18,713
Temporary	86	82	168	81	101	182
Total	**8,641**	**10,675**	**19,316**	**8,385**	**10,510**	**18,895**

Group data as at 31/12/2023.

Number of contracts, by type:		**2023**			**2022**	
Type of contract and professional category	**Permanent**	**Temporary**	**Total**	**Permanent**	**Temporary**	**Total**
Senior management	788	3	791	666	2	668
Middle management	3,719	4	3,723	3,319	6	3,325
Specialist staff	12,276	142	12,418	12,405	87	12,492
Administrative staff	2,365	19	2,384	2,323	87	2,410
Total	**19,148**	**168**	**19,316**	**18,713**	**182**	**18,895**

Group data as at 31/12/2023. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

Number of contracts, by type:		**2023**			**2022**	
Type of contract and age range	**Permanent**	**Temporary**	**Total**	**Permanent**	**Temporary**	**Total**
Under 31	2,251	98	2,349	2,178	111	2,289
Between 31 and 49	10,657	58	10,715	10,911	61	10,972
Over 49	6,240	12	6,252	5,624	10	5,634
Total	**19,148**	**168**	**19,316**	**18,713**	**182**	**18,895**

Group data as at 31/12/2023.

6.2 Commitment to talent

Banco Sabadell Group aspires to provide its employees with an ideal place in which to develop their careers. To make this possible, the Group has a solid talent management model, a framework of professional opportunities within the Group (internal recruitment, promotions and training) and the ability to attract the best external talent for profiles that cannot be find within the Group.

6.2.1 Talent management model

Banco Sabadell's talent management model seeks to manage and develop talent and foster employee loyalty, applying the principles of meritocracy, development of internal potential and diversity. It means having the suitable mechanisms in place to identify people's talent and potential, offering them career progression opportunities at Banco Sabadell Group.

During 2023, the 'Being Sabadell' motto was created to enhance the definition of the company's culture, which is the result of merging the way we are and the way we do things at Banco Sabadell, this means thinking, delivering and interacting in a specific way:

– Thinking by putting the customer and the Bank at the centre, working with professionalism and being approachable. Knowing when to be non-conformist. Anticipating and developing better solutions.

– Delivering with commitment and efficiency. Keeping our word and bettering ourselves each day. Focusing and speeding up deliveries.

– Interacting with others with a positive and collaborative mindset, creating a constructive environment. Working in unison to achieve the Group's goals.

Talent management processes are underpinned by the 'Being Sabadell' motto, giving more coherence, consistency and clarity to the way we are.

Sabadell Talent Appraisal: is the starting point for talent management, a key process to identify people's talent and potential, give individual feedback and make decisions on career progression during processes such as internal recruitment, training or wages.

Aligning the talent appraisal process with 'Being Sabadell' is fundamental to being consistent in how the Bank's defines the way we aspire to be and how we identify, assess and develop these aspects. Therefore, it was structured around three components (thinking, delivering and interacting), assessing contribution and performance, skills and potential and getting to know the professional aspirations of each employee. The process ends with an individual development plan for the entire workforce. This appraisal counts as 20% of the individual targets of employees receiving variable remuneration.

Furthermore, significant improvements were made this year to the Talent Appraisal Model by combining the two appraisal processes used thus far: the Annual Appraisal of Performance and Potential (AAPP) (for employees not receiving variable remuneration) and the Individual Qualitative Appraisal (IQA) (for employees receiving variable remuneration). As a result, the process workflow was improved to make them more efficient and to include the information necessary to make decisions.

It is important to note that many actors take part in this appraisal, where managers give their opinion and rationale for the appraisal and where feedback from functional or additional managers (for example, from other managers of the employee during the year) is also included. Finally, the management's perspective supplements and validates the calibration.

The appraisal components are broken down according to the three main aspects of 'Being Sabadell':

– How does the employee think: do they always think while working at the Bank with expert judgement, creativity and non-conformism?

– How does the employee deliver: do they deliver exceptional work with focus and a sense of urgency? The quality of delivery and the need for regulatory compliance are taken into account.

– How does the employee interact with others: do they have a positive attitude that creates a constructive environment and fosters collaboration?

The conversation between the manager and the employee is key to personal and career development through feedback. The result is an individual development plan to action on what is necessary to improve, develop and train. The main processes used to identify and unlock the potential talent of each employee are the following:

- Management appraisal (180º): every year, employees give an appraisal of their managers. As a new feature this year, this process has been aligned to the 'Being Sabadell' core ideas. It is visible to the line manager and considered in their appraisal. The line manager is also given feedback about the results obtained, while the people manager keeps track of them.

- Employee Appraisal Committees (EACs): these are held annually within the talent workflow and are the main forum in which objective, meritocratic and collective decisions are made about the employees in each general/territorial division. It is the place where the calibration of the Sabadell Talent Appraisal is finalised to ensure meritocracy with an all-encompassing perspective. The resulting talent maps are key components of internal talent management, which are based on strategic needs and meritocracy. The Employee Appraisal Committees make decisions on appointments, people and talent within senior management.

In Banco Sabadell, meritocracy is key to developing talent in a sustainable way in the long term. The talent management model prioritises the promotion of employees who achieve the expected results whilst putting the Bank's values into practice on a daily basis. Promotions to roles with greater responsibility are validated by internal bodies, with the support of the People Division. In the case of appointments to management positions, following the Employee Appraisal Committees, proposals are submitted to the Managerial Performance Evaluation Committee and the Appointments Committee.

- Managerial Performance Evaluation Committee (MPEC): this Committee meets on an annual basis with the Bank's Management Committee in order to decide on changes to senior management staff, approving proposals for promotions to, or demotions from, that group. Promotions to senior management take place taking into account as fundamental criteria both the assessment of positions and the assessment of talent, as well as the size of this group, which should be in keeping with the structure and the established targets and commitments in relation to diversity.
- Key Function Holder Substitute Map: the 'key roles' identified to date are reviewed every year, as a result of changes in the organisational structure, and the pool of substitutes is updated, ensuring talent in key functions is managed proactively.

Other regions:

TSB continues to actively identify and develop the entity's talent, by building strong and diverse talent channels that guarantee long-term stability.

In 2023 the entity continued to implement the **Leadership Expectations** programme (launched during 2022), which describes the type of conduct that is expected of all employees discharging a leadership position within the bank, in order to speed up the delivery of strategic plans. Leadership Expectations is embedded in the core processes of the subsidiary's Human Resources department, including 360º feedback and the assessment of the recruitment of senior leaders, as well as a new training plan for all aspiring senior managers through **Hive Learning** campaigns launched this year.

Hive Learning uses social learning digital campaigns lasting six or seven weeks, so that leaders within the organisation learn and deepen their development skills in line with the entity's strategic challenges (simplification and efficiency, service excellence, customer focus, etc.). 65% of TSB leaders have enrolled in at least one of the campaigns.

TSB continues to further the skills and specific expertise that managers of blended teams need, boosting the wellbeing of the workforce, most notably the launch of the online seminars 'People First, Performance Follows', electronic learning modules and a hub designed in association with psychologists to support the change of habits.

In Mexico, the talent management processes described above for Spain also apply to the subsidiary, which carries out an Annual Appraisal of Performance and Potential and where the meetings of the Employee Appraisal Committee and the Managerial Performance Evaluation Committee take place every year, as does the review of the Key Function Holder Substitute Map, to align it to the Group's talent management model.

6.2.2 Attracting talent

The Bank's talent recruitment model furnishes the Institution with the profiles necessary for its operation and target achievement. One of the main aspects, as stated in the Bank's selection criteria, is to encourage the professional development of employees. To that end, it prioritises internal rather than external recruitment, equal opportunities, process quality and is committed to the promotion of employees with potential, offering opportunities for internal growth, thus creating a network of professional careers whose path will be completed thanks to encouragement and employees' initiative to grow and develop.

The recruitment criteria are based on the principles of transparency and confidentiality to ensure that decisions are fair and equitable, as well as guarantee professional development, efficiency and quality. These criteria apply to all areas of the Institution, in Spain and abroad.

With regard to the attraction of external talent, new employees were hired in Spain, with the following profiles: financial/quantitative/regulatory analysts (26%), data specialists (23%), business specialists (21%), technology and digital specialists (26%) and other profiles (4%).

Similarly, in relation to attracting talent, 734 vacancies have been filled internally. The mix of internal vacancies is varied, with 10% of vacancies in the area of data, digital and technology, 49% in business development and branch network, 27% in finance and compliance and the remaining 14% in cross-cutting and multipurpose technical roles.

New permanent hires in Banco Sabadell Group: Breakdown by professional category, age and gender:

	2023		2022	
Professional category	**National**	**International**	**National**	**International**
Senior management	6	0	2	0
Middle management	84	16	39	13
Specialist staff	615	111	423	89
Administrative staff	19	0	5	0
Total	**724**	**127**	**469**	**102**

Group (ex-TSB) data as at 31/12/2023. 'International' includes Mexico, foreign branches and representative offices. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

	2023		2022	
Age range	**National**	**International**	**National**	**International**
Under 31	376	42	305	47
Between 31 and 49	308	73	159	50
Over 49	40	12	5	5
Total	**724**	**127**	**469**	**102**

Group (ex-TSB) data as at 31/12/2023. 'International' includes Mexico, foreign branches and representative offices. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

	2023		2022	
Gender	**National**	**International**	**National**	**International**
Men	403	73	261	60
Women	321	54	208	42
Total	**724**	**127**	**469**	**102**

Group (ex-TSB) data as at 31/12/2023. 'International' includes Mexico, foreign branches and representative offices. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

Talent incubators

Young talent programmes are a key way of incorporating the skills and knowledge necessary to achieve business goals and to ensure the sustainability of the Institution.

Three scholarship programmes have been launched in 2023: the Internship Programme at corporate centres, the Branch Network Internship Programme and the CIB Internship Programme, taken up by 50, 90 and 5 students, respectively. These programmes aim to give students their first experience in the banking business by providing practical knowledge in a real working environment.

The Group carried out the second edition of the Banking Sales Graduate Programme ('*Plan Cantera*'), with 115 students joining the Bank in April to become business specialists. The aim is to offer preliminary training with basic content for commercial roles (business managers) and to provide essential training for regulatory certifications. Furthermore, the training programme for commercial skills for the correct marketing of financial products started successfully.

All the programmes have specific proposals and pathways for training and development, and they also aim to create networking opportunities to generate a sense of belonging and community within the Institution.

These talent programmes contribute to increasing gender diversity and they strengthen the Institution's commitment to young employees as they develop their talent and professional careers. They also help to convey an image of a pioneering bank with a clear course of action going forward.

Other regions:

In 2023, the Group's UK subsidiary, TSB, continued its processes to actively identify and develop talent, building a strong and diverse pool of human resources.

- TSB has focused particularly on reskilling its workforce, where at least 10% of employees have changed roles internally in 2023.
- 296 employees joined TSB's mentorship programmes in 2023, as both mentors and mentees, to further their professional careers at the subsidiary. TSB was preselected for the Scottish Financial Services Awards in the Skills and Inclusion category in recognition to its investment in talent upskilling and reskilling.

In 2023, TSB held a networking event mainly focusing on black leaders in the technology field, with the main goal of strengthening diversity and the organisation's talent pools.

6.2.3 Leadership programmes

Managers are the backbone of the Group's development and they play a fundamental role. They guide people, generating environments of collaboration and agility, developing the business with the customer in mind. The Bank is evolving its culture and ways of working to be more agile and exciting and for this to happen it leans on managers as a lever of change.

<u>Corporate Management Programme (CMP)</u>: this programme is mainly aimed at people promoted to the role of director or unit head with direct reports and who have held that role for 1.5 years or less, and contributes to managers' training on skills, collaboration and values. The programme focuses on the culture of the Bank and on a development pathway for the manager in question, based on a meritocratic model that places the best people as leaders and drivers of change and innovation. It is a blended programme that combines on-site and online content and which lasts 15 weeks in total, with an estimated 60 hours dedicated to in-person sessions, online courses and hours assigned to the project. This year 172 managers took part in the programme (47.1% of whom were women).

The approach of the project has been changed to align it with the *Eres Manager* project, improving the networking sessions with the People Division. The key ideas to be conveyed during the programme relate to both a cross-sectoral approach and to the nature of their experiences. At the same time, it creates greater self-awareness, the development of skills and abilities to manage people.

<u>Career Acceleration Programme (CAP)</u>: its goal is to prepare the leaders who will tackle the challenges of the future. In 2023, the second edition of the CAP started in 2022 was held, with a total of 103 participants (56% of whom were women), all upcoming senior managers of the Bank, which lasted 18 months.

The programme was designed with the aim of accelerating the career development of upcoming senior managers considered to have great potential and who represent the values and attitudes that the Bank seeks to promote, making it easier to attain the necessary diversity that it is seeking to achieve among senior managers.

Participants focused on five different areas: self-awareness (360° questionnaire), training (by completing four leadership development modules with the partner ESADE), Banco Sabadell's perspective, mentorship and new challenges.

<u>Management Development Programme (MDP):</u> programmes for senior managers continued in 2023, including the Senior Manager Development Programme (SMDP), for those who attain the role of Top Manager, in order to support them as they transition to their new role and to prepare them for the changing business environment, focusing particularly on the specific challenges of their new position.

The programme follows a 'learning by doing' approach and aims to build networks within senior management, offering networking opportunities and visibility. Participants are required to take on more leadership than their current role requires them to, conveying the vision and values of the Institution. To that end, the key challenges of the programme focus on how participants approach managing their team as a leader of managers and as the main person responsible for the environment within the team and their commitment to their work, on the creation of spaces of trust within their area of responsibility, offering teams feedback and working on team development and, lastly, they focus on contextualising decision-making from the broadest possible perspective, understanding and establishing relationships with other corporate areas.

It includes a 360º appraisal process and various group coaching sessions, with groups of 5/6 people, to complement the training sessions. The 360º processes are carried out based on the skills previously identified by Banco Sabadell as being necessary for the performance of the managerial role. Depending on the specific skills in question, a self-assessment takes place, along with evaluations by managers, peers and other assessors. All of these evaluations culminate in an individual report, shared with each participant, so that they may put together their individual development plan based on the skills that need to be developed. The partner working on the 360º tool is Korn Ferry International, a leading global partner for management solutions, while the provider of the overall programme is CCL (Center for Creative Leadership), a standard-bearer for leadership on an international scale.

Similarly, programme participants take part in the ISI (Influence Style Indicator), so that they are aware of their preferred leadership styles. It is a tool for self-awareness that enables them to become better leaders. In 2023, a new edition of the programme took place in 100% on-site format, in which 101 senior managers (33% of whom were women) took part and rated the programme 4.8 out of 5.

Executive Leadership Programme (ELP): the programme was carried out from September to November, with the participation of 62 corporate directors (43% of whom were women). It took place at the IESE facilities in Madrid and Barcelona, where they focused on aspects related to the strategy, digital transformation, and leadership and management, ending their experience with an executive challenge for each participant.

Corporate Mentoring Programme: during 2023 it was implemented in various divisions of the Bank (CIB, Retail, Business and Branch Network and the SWING group) for upcoming female senior managers with the aim of boosting their careers. This programme runs for 10 months and has the European Coaching School as partner. In total, 58 upcoming female senior managers participated in this edition as mentees and many other senior managers as mentors.

I am Remarkable: 52 two-hour workshops for upcoming female senior managers from all divisions of the Bank (around 1,050 women) were run in 2023 to reflect on the social perception of self-promotion, glass ceilings and to promote the careers of women in pre-senior management roles. This initiative has the support of 26 internal facilitators that voluntarily and after receiving training ran the programme.

Eres Manager: this programme is a growth and development programme designed to recognise managers, supporting them as they enhance their capabilities, gearing these towards promoting a more agile, exciting and connected bank, and also to ensure that managers are aligned with the corporate purpose of the Institution and embody its values. It is a cross-cutting programme that encompasses all the divisions within the Bank, from unit heads to general managers. The focus is on the role of manager and on how to reach systemic agreements to ensure that all divisions and managers are committed to seeing them through. In 2023, 43% of employees trained for managerial roles were women.

Other regions:

In 2023, TSB made progress on a proposal based on the development of core skills:

- TSB Manager: training for team managers focusing on the fundamentals of management and a greater emphasis on decision-making, as well as on reducing unconscious biases and managing the mental wellbeing of teams. More than 50% of TSB managers have completed this programme in online format.

- Talking Performance online training: focused on performance management and furnished with tools and information to develop a growth mindset with the ultimate goal of enabling TSB employees to master performance conversations and catapult their teams to perform at their best.

- Senior Leader as Coach programme: it is a four-month programme that aims to build on coaching skills through a blended programme, in collaboration with the International Coaching Federation. More than half of the managers that completed the programme have increased their confidence levels by 35% and commitment to performance by +10 percentage points on average. This programme has been identified as the most significant programme for developing the skills of tomorrow's leaders and will be at the heart of skill development in the coming years.

Banco Sabadell Mexico aims to boost leadership, seeking to align its culture and the skills of leaders. To that end, the following programmes were implemented:

- Leaders Forum, launched in 2022 and ran annually. It is a space that has been created to improve the relationship between the management team and their teams, seeking to enhance team integration and transparent communication.

- Management Development Programme with IPADE, the leading business school in Latin America, which with its In-Company Business Management programme has designed a tailor-made executive training programme for the entity, that aims to, in addition to aligning the culture and skills of its leaders at a global level, enhance and accelerate the development of key leaders in the bank and strengthen their skills for proper decision making, addressing five main thematic areas: business model transformation, profitability, processes, risk management and people in transformation process.

- Training for new leaders, aimed at new leaders and employees who changed roles with direct reports, with the aim of providing them with key information about their role and, consequently, becoming proficient in the entity's internal operating processes.

6.3 Training

Banco Sabadell Group training model is built on the following pillars:

- Offer training aligned with the business and needs, both the regulatory needs in the market and the needs of staff members of Banco Sabadell Group.

- Improve the development of employees, as drivers of change and transformation.

- Streamline the Institution's training budget so that more employees can receive training and to achieve greater transformation.

- Be a standard-bearer within the financial sector in terms of innovation in staff training.

- Be leaders in terms of adjusting training schemes to the digital transformation of business lines.

Key Group training-related data in 2023:

In 2023, the Group has continued to support the business in the challenges and targets that it has set itself, offering new specific training resources for strategic projects that are a matter of priority for Banco Sabadell Group, focusing on aspects such as specialisation programmes for commercial roles, financial current affairs and sustainability. During 2023, the Bank continued to provide the entire training catalogue for different business specialists.

Some of these training activities include:

- Commercial skills programme, aimed at branch insurance managers.

- Training courses on transport, international logistics, customs processing and international taxation.

- Training plan for new business managers as part of the *Plan Cantera* 2023.

It is worth mentioning the high-level training programmes that are carried out with renowned institutions, such as:

- Higher Business Specialisation Programme (*Programa Superior de Especialización en Empresas*), aimed at enterprise managers, delivered by BESPOKE Business School and certified by Universidad San Pablo CEU.

- Advanced International Business Programme (*Programa Experto en Negocios Internacionales*), aimed at international business managers, delivered by ESIC Business School.

- Advanced Wealth Banking Consultancy Programme (*Programa de Asesoramiento Experto en Banca Patrimonios*), aimed at wealth banking directors and delivered by ESADE Business School.

On the other hand, regulatory training in Spain has continued to be very intensive. Indeed, 70% of the total training hours related to regulatory training.

Some of the new courses developed this year include:

- Sustainability preferences. Aimed at professionals advising on investment products.
- Financial inclusion and vulnerability. Aimed at all Banco Sabadell Spain employees.
- AML/CTF (Anti-Money Laundering and Countering the Financing of Terrorism): Prior abstention from executing transactions.

In addition to this mandatory training, annual ongoing training courses are also taught in relation to the three certifications required to sell banking products, i.e. MiFID, IDD and LCCI, which are mandatory for most employees of the Bank's branch network. The time dedicated to accumulating training hours required for certification renewal represented more than 84% of the total regulatory training.

96.7% of employees received training in 2023, with 862,752 total hours of training completed at the Group level (equivalent to an average of 46 hours per employee). In Spain, 30% of the training received was voluntary and 74% took place online.

Training received	**2023**	**2022**
Employees who received training (%)	96.7%	97.8%

Active employees as at 31/12/2023. Training data refers to the entire Group.

Average training expense	**2023**	**2022**
Average training expense per employee	€547.00	€496.00

Active employees as at 31/12/2023. Training data refers to the entire Group.

Total hours of training and average of each professional category	**2023**		**2022**	
	Hours of training	**Average hours**	**Hours of training**	**Average hours**
Senior management	40,390	52.7	23,752	36.7
Middle management	210,029	57.7	137,963	42.3
Specialist staff	541,051	44.8	431,629	35.5
Administrative staff	71,282	30.2	41,255	17.2
Total	**862,752**	**45.8**	**634,599**	**34.3**

Active employees as at 31/12/2023. Training data refers to the entire Group. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

Total hours of training and average of each age range	**2023**		**2022**	
	Hours of training	**Average hours**	**Hours of training**	**Average hours**
Under 31	131,693	57.5	83,968	37.3
Between 31 and 49	473,755	45.1	382,359	35.5
Over 49	257,304	42.4	168,272	30.8
Total	862,752	45.8	634,599	34.3

Active employees as at 31/12/2023. Training data refers to the entire Group.

Total hours of training and average for each gender	2023		2022	
	Hours of training	Average hours	Hours of training	Average hours
Men	401,088	47.5	292,632	35.6
Women	461,664	44.3	341,968	33.3
Total	862,752	45.8	634,599	34.3

Active employees as at 31/12/2023. Training data refers to the entire Group.

The increase in hours of training compared to 2022 has been significant due to the training programmes detailed below: Higher Business Specialisation Programme (30 hours), over 450 enterprise managers have taken part in the programme; Advanced Consultancy Programme for Businesses and the Self-Employed (30 hours), over 500 people have been trained as business managers; Advanced Wealth Banking Consultancy Programme (30 hours), aimed at wealth banking directors with 100 people trained; and finally, the ‘Boosting the productivity of insurance specialists’ programme (14 hours), through which 200 people were trained as insurance managers.

Sabadell Campus: the Bank’s training platform used in Spain. The schools, as the spaces designed to enable training and development in relation to a particular topic, are the mainstay of the Campus. They provide the Bank’s employees with access to certification pathways, participatory forums, self-guided training content and content to use as reference.

In 2023, the most noteworthy training projects delivered by Sabadell Campus are: training of specialist skills at the Commercial School; development of the online space for continuous education; launch of the ‘specialist in default prevention’ room; creation of the DISC methodology area in the Management School; updates to the training catalogues (Management School and Digital School); initiatives in the Regulatory School; creation of a new private Pro-T (professional trainer) group; and updates to the Equality and Diversity section.

The area of sustainability continues to have its own place on Campus, with self-guided training content. Introductory content is still featured on the platform, such as the Introduction to Sustainability course, the Sustainable Borrowing course and the Sustainable Finance Certification. The new courses in this area focus on sustainability preferences, environmental management, energy crisis and other continuing education courses in the area of sustainability.

Other regions:

At TSB, training continued to focus on improving relationship with customers. In 2023, 84% of TSB employees completed some form of training, including training on consumer duty and cost-of-living to support them during their financial conversations with customers.

The ‘TSB Future Skills’ strategy was developed, backed by the Financial Services Skills Commission Framework, focused on the analysis of the skills to develop in the future. The first phase of two training programmes to tackle these skills were carried out in 2023:

- Key digital skills for all employees in 2023. 70% of TSB has completed at least one module, and a third of employees has completed the programme accredited by the Chartered Institute for IT.
- 107 employees participated in digital and technology data training programmes.
- SAS training bootcamp that ended with 8 employees receiving official certification.
- ‘Immersive Labs’ to develop the skills of the cyber team.

Mexico has an annual training plan that includes all of the regulatory courses required by the regulator, which apply to all employees and in some cases include specialist courses for selected employees on the management and administration of the different systems; the main goal is to achieve compliance and alignment in all of the Bank’s internal processes.

This plan’s training sessions were the same as those of 2022. During the first quarter of 2023, the first Products & Services learning forum was held, a programme concerning the development, operation, use and marketing of available products and services, designed to increase the level of specialisation and to enhance holistic knowledge on the different processes, as well as to engage teams and brainstorm ideas that contribute to process upgrading and improvement.

It also includes training on the topic of sustainability which, together with the Environmental and Social Risks unit, teach courses on the Environmental and Social Risk Management System (*Sistema de Administración de Riesgos Ambientales y Sociales*, or *SARAS*) in order to strengthen technical aspects and identify opportunities for improvement in processes, as well as to clarify doubts of the participants.

The learning management platform will be launched in 2024, a platform that will enable the design of tailor-made training programmes, using technological resources to facilitate content, and which adds value for career development and motivates employees to be more proactive in their supplementary and regulatory training.

6.4 Diversity

The Group views diversity as a valuable source of corporate wealth and promotes actions to cultivate it. To that end, Banco Sabadell is committed to fostering workplace environments in which people are treated with respect and dignity, seeking to further the professional development of its workforce and ensuring equal opportunities in its candidate selection, staff training and promotion processes, offering a workplace environment that is free from any form of discrimination based on gender, age, sexual orientation, religion, ethnicity or any other personal or social circumstance.

As part of its commitment to diversity, Banco Sabadell has had an Equality Plan in place since 2010, which was updated in 2016 and renewed in 2022, adapting it to new legislation and with the agreement of 100% of workers' legal representatives.

This plan aims to:

- Integrate the principle of equality between women and men in the workplace; prevent, rectify and penalise behaviours that are discriminatory on gender grounds; reduce the gender gap both in functional aspects and in terms of remuneration.
- Disseminate a business culture based on equal treatment and opportunities, prioritising the underrepresented sex in candidate selection processes and fostering internal promotion to fill vacancies.
- Facilitate shared responsibility and a balance between employees' personal life, family and work.
- Ensure a balanced presence of women and men in all professional areas and levels.
- Prevent and penalise sexual harassment, harassment on grounds of sex and workplace discrimination and/or harassment.

The main goal of the Equality Plan is to integrate the principle of equality between women and men in the workplace and, to that end, it envisages a series of actions, such as:

- Creating the role of Workplace Equality Officer who works alongside the work-life balance consultant to promote the correct implementation of the Equality Plan.
- Ensuring compliance with the principle of equality, both internally and externally.
- Identifying female talent among upcoming senior managers within more male-dominated areas.
- Improving the representation of female senior managers and managers.

Banco Sabadell maintains since 2020 the diversity indicator in the sustainability goal that is part of the Group's corporate objectives (in the short and long term), as a testament to its firm commitment to inclusion.

Furthermore, in addition to signing the Equality Plan, a protocol was drawn up for the prevention of sexual harassment, harassment on grounds of sex and workplace harassment, the purpose of which is to articulate the necessary measures to prevent and combat any type of harassment at the workplace, establishing a confidential, quick and accessible channel for handling complaints or reports within the company.

This protocol addresses the need to preclude, raise awareness of and, where appropriate, robustly tackle these forms of violence and discrimination in the workplace. The protocol also serves as an essential tool to raise awareness among staff and ensure a confidential and rapid internal channel to resolve, eradicate or address any incident of sexual harassment or gender-based bullying that may occur in the company.

The protocol also provides for the creation of the Harassment Prevention Committee with equal representation, tasked with ensuring compliance with, and the full effectiveness, of the protocol, with investigating, immediately and thoroughly, any report, communication or complaint regarding behaviour that could be considered sexual harassment, harassment on grounds of sex or workplace harassment, acting in due confidence and proposing the necessary precautionary and corrective measures.

During 2023, the Harassment Prevention Committee processed a total of six reports on these issues, which were resolved during the year.

6.4.1 Gender

The Bank’s workforce is diverse in terms of gender, with women making up 55.3% of its total staff. In the senior management group, women represent 33.1%, increasing by 2 percentage points in 2023 and thus continuing with the steady trend of improvement of recent years. Nevertheless, the commitment to continue increasing diversity at the management levels remains in place. It is therefore vital to drive forward the diversity agenda in middle management roles, over 43.8% of which were held by women in 2023, representing an improvement of 2.3 percentage points compared to 2022.

In Spain, the proportion of women in management positions has increased from 30.3% to 32.2% (+2 percentage points) in the case of senior managers and from 41.6% to 44.4% (+2.8 percentage points) in the case of middle managers, in line with the trend observed in previous years. The percentage of promotions given to women remains the same (59.0% in 2023 compared to 60.0% in 2022), which demonstrates the commitment to improving diversity and the results obtained with the measures put in place.

Breakdown of Group employees		
By gender	**2023**	**2022**
Men	8,641	8,385
Women	10,675	10,510
Total	**19,316**	**18,895**

Percentage of women, by professional category	**2023**	**2022**
Senior management	33.1%	31.1%
Middle management	43.8%	41.5%
Specialist staff	57.0%	57.6%
Administrative staff	71.5%	71.7%
Women promoted out of total number of promotions during the year	59.0%	60.0%

Group data as at 31/12/2023, with the exception of promotion figures, which relate to Spain only.

In 2023, Banco Sabadell has remained committed to the internal and external communication and dissemination of all the measures taken by the Bank in terms of diversity.

- The Sabadell Women Inspiration Group (SWING), an initiative promoted by female senior managers at the Bank, has continued to take action throughout 2023, with monthly meetings. The aim is to empower women at Banco Sabadell and raise awareness of the value of diversity and its benefits. The female senior managers that make up this group are standard-bearers for female talent and leaders in Banco Sabadell.
- In addition, the wider network called SWING&Co, which is open to anyone interested in diversity issues, continues to take action.

During the Equality and Diversity Week:

- An event open to all employees was held at the auditorium of the corporate centre in Sant Cugat del Vallés, which was live streamed, led by Vanessa López, Director at Fundación Quiero Trabajo, and entitled 'Self-esteem: how to recover your true value'. This main event was accompanied by a round table with three employees of the Bank who talked about their experience and internal development journey that led to their current managerial roles.

- A communication was sent to all staff to commemorate the International Women's Day and 8M commemorative vinyls and a roll-up were installed at some corporate centres.

To mark the World Day for Cultural Diversity, the Bank sought to showcase the diversity that exists in its workforce from a different angle: the diversity of cultures, origins and nationalities that make up the team, the diversity of languages in which staff interact, and the diversity of customers whom it serves in different countries.

In addition, in the Corporate & Investment Banking, Retail and Business Banking and Network units, diversity programmes were launched in February and July, respectively, in which 42 women participated. Their aim is to promote the professional development of high-potential women and create a pool of female talent ready to take on senior management roles.

At an external level, Banco Sabadell is part of the group behind the project 'Women in Banking' (WIB), an initiative to share best practices among banks in Spain and promote a network of women within the banking industry. The aim of 'Women in Banking' is to lead and bring about a meaningful change in the way women are valued in decision-making roles within the Spanish banking industry. The aim of WIB is to become a standard-bearer in the financial sector for diversity and the inclusion of women, giving visibility to female talent and inspiring new generations through exemplary models. The initiative has the support of eight financial institutions present in Spain and of the Spanish Banking Association (*Asociación Española de Banca,* or *AEB*).

Banco Sabadell also takes an active role in external events such as 'Empowering Women's Talent', organised by *Equipos&Talento*, which is a specialist publication on Human Resources and which was also awarded a seal in recognition of the Bank's commitment to gender equality. In September, it took part in Women's Talent Day, also organised by *Equipos&Talento*, where Esther Nin, International Advice Director, showcased the SWING initiative.

This commitment has long been held by Banco Sabadell, which received the Spanish Government's Equality in the Workplace (*Igualdad en la Empresa*) seal of distinction in 2018 and again in 2022. Furthermore, Banco Sabadell's Chief Executive Officer, César González-Bueno, signed the '*CEO por la diversidad*' ('CEOs supporting diversity') initiative launched by the Adecco Foundation and the Spanish Confederation of Employers' Organisations (*Confederación Española de Organizaciones Empresariales*, or *CEOE*).

<u>Diversity in the Board of Directors</u>

Banco Sabadell has general policies concerning diversity in terms of age, gender, disability, geographical provenance and professional training and experience.

The Banco Sabadell Director Selection Policy of 25 February 2016 (amended on 29 September 2022 and reviewed with no amendments 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 Board Appointments and Corporate Governance Committee is assigned the role, under Article 66 of the Articles of Association, of overseeing the qualitative composition of the Board of Directors, establishing a target for representation of the underrepresented sex and drawing up guidelines on how to achieve that target.

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.

Likewise, the Board Appointments and Corporate Governance Committee will ensure that the process abides by the principles of equality and equity and that it is free from any form of discrimination, including discrimination on the basis of age, disability or gender, without making any distinction by reason of race, sex, religion or any other distinguishing feature, honouring dignity and ensuring equal treatment and opportunities.

The following general principles will be followed when selecting candidates for the role of director and re-electing existing directors:

1. The Board Appointments and Corporate Governance Committee will identify the needs of the Bank, ensuring that the appointment or re-election favours both diversity on the Board and a Board composition that is suitably balanced between independent directors, proprietary directors and executive directors.

2. Candidates for the role of director must meet the requirements of repute, suitability and good governance necessary for the performance of their role; in particular, they should have recognised solvency, experience, qualification and training. Furthermore, they should have the necessary availability and a high level of commitment to their role within the Institution.

3. When selecting candidates for the role of director, it will be necessary to consider the objectives, parameters (professional competence, diversity, good repute and suitability) and procedures for selection, assessment and appointment established in the Director Selection Policy and the recommendations and criteria of the Good Governance Code of Listed Companies issued by the CNMV.

4. The procedure will ensure that directors' mandates are renewed in an orderly and well-planned manner, safeguarding the continuity of the business and enhancing the corporate governance system.

5. The procedure will ensure a compliant qualitative composition of the Board of Directors in which external and non-executive directors should account for no less than the majority of the total number of Board members. It will be necessary to ensure that there is a significant proportion of independent directors among the external or non-executive directors.

The Board Appointments and Corporate Governance Committee, in compliance with its duties, has implemented policies and measures to increase diversity in terms of gender, age, training, knowledge and experience that contribute to the collective suitability of the Board, issuing a favourable report to the Board on the re-election at the Annual General Meeting of the Chairman of the Board as Other External Director (Josep Oliu Creus), proposing to the AGM the appointment of an Independent Director (Pedro Viñolas Serra), the ratification and appointment of an Independent Director (Laura González Molero) and the re-election of another Independent Director (Aurora Catá Sala), as well as issuing a favourable report to the Board on its proposals for the re-election at the AGM of an Other External Director (María José García Beato) and an Executive Director (David Vegara Figueras).

The Board Appointments and Corporate Governance Committee, in compliance with recommendation 14 of the Good Governance Code of Listed Companies, with the function assigned in section 4.17 of its Regulations and with Banco Sabadell Director Selection Policy, verified, on 31 January 2024, that the appointment and re-election agreements adoptedby the Annual General Meeting in 2023 were compliant with the Policy. This verification has confirmed that the appointments and re-elections comply with the parameters and requirements of both the Policy and prevailing regulations for the role of member of the Board of Directors of a credit institution. The Committee also concluded that such appointments and re-elections favour a suitable composition of the Board of Directors, by increasing and consolidating its diversity, both in relation to the category of directors and in terms of the knowledge, skills and experience they bring. This fulfilled the mandate of the Board of Directors and of the Board Appointments and Corporate Governance Committee itself of contributing to increasing the diversity of skills within the Board. In particular, with the appointment of Pedro Viñolas Serra with a strong financial profile, specialising in corporate finance and financial strategy, with a great knowledge of the Spanish and European real estate sector, the diversity of banking knowledge and expertise has been enhanced and reinforced, especially in corporate banking, accounting and auditing, risk management, prevention of money laundering and financing of terrorism, responsible business practices and sustainability and academic skills of the Board, combined with specific experience in the banking sector and the ability to apply such knowledge and skills to the banking business, while broadening international experience.

In order to select candidates, the Board Appointments and Corporate Governance Committee relied on the competency and diversity matrix of the members of the Board of Directors of Banco Sabadell, which defines the skills and knowledge for directors. In addition, the Committee engaged external consultants who provided profiles of candidates who met the skills prioritised by the Board Appointments and Corporate Governance Committee.

As at 2023 year-end, there were five female Directors in Banco Sabadell, including four female Independent Directors out of a total of ten Independent Directors and one female Other External Director.

The Board of Directors and the Board Appointments and Corporate Governance Committee are committed to fostering diversity on the Board, ensuring that it has a sufficient number of female directors and promoting compliance with the objective to increase representation of the under-represented sex. In Banco Sabadell, in 2023 women accounted for 33% of the total membership of 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. In fulfilment of the commitment undertaken, 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 terms of the presence of women on Board committees, the Board Remuneration Committee is chaired by a female Independent Director and female directors sit on all Board Committees. Female directors are a large majority in the Board Appointments and Corporate Governance Committee and in the Board Remuneration Committee (75% and 66.67%, respectively). There is equal representation between both genders in the Board Risk Committee, while the presence of women in the Board Audit and Control Committee is 25%. In the Board Strategy and Sustainability Committee, women account for 16.67% (on the Strategy side) and 20% (on the Sustainability side), while in the Delegated Credit Committee, they represent 20%.

Diversity in the Board of Directors		
	2023	**2022**
Men	10	10
Women	5	5
Total	**15**	**15**

Data as at 31/12/2023.

6.4.2 Functional diversity

The Group establishes measures for the adjustment of workstations where required by people with different abilities, in line with the occupational medicine service's protocols relating to particularly sensitive individuals. The Institution also assists employees with paperwork and formalities at the municipality, autonomous community and State level that help to improve these employees' wellbeing beyond a strictly professional sense. Pursuant to the General Disability Law (Ley General de Discapacidad), it implements alternative supported employment measures by hiring services and supplies from special employment centres.

The number of people with functional diversity in the Group as at December 2023 was 300.

	2023			2022		
Professional category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Senior management	5	4	9	4	4	8
Middle management	16	10	26	13	11	24
Specialist staff	86	118	204	92	117	209
Administrative staff	14	47	61	16	52	68
Total	**121**	**179**	**300**	**125**	**184**	**309**

Group data as at 31/12/2023. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

6.4.3 LGBTIQ+ diversity

Banco Sabadell values diversity in all its forms as a fundamental pillar of our corporate culture. The Institution firmly believes that fostering an inclusive and diverse environment not only enriches, but also strengthens its ability to innovate, adapt and achieve its goals.

The Bank's purpose is focused on creating a workplace environment in which all people feel safe, respected and valued. Through non-discrimination policies, awareness programmes and continuous training, the Bank seeks to ensure equal opportunities.

In June, coinciding with Pride month, the Bank announced the creation of a new employee service point to resolve LGBTIQ+ diversity issues. Alongside this announcement, a group of Trusted People was set up. These individuals are distributed across the nation and will play a key role in providing a safe and confidential space for employees to address their concerns and personal or family needs in relation to sexual diversity and/or gender identity. This group has been educated and trained on matters of diversity, equality and inclusion in organisations and also deals with queries regarding functional and generational diversity, which demonstrates the Institution's commitment to a comprehensive approach to inclusion.

Projects have been launched within the Corporate Volunteering Programme, which collaborates with social institutions that work to help people from the LGBTIQ+ community, especially trans women and people with functional diversity.

Other regions:

TSB is committed to creating a diverse workplace where all employees can develop their potential and have a rewarding career regardless of their culture and origins.

- Progress continues to be made towards a diverse workforce with the aim that by 2025 the workforce will reflect the diversity of the UK's working age population. In 2023, the number of senior management roles held by women remains at 42% (same percentage as in 2022), above the UK banking sector average of 39%. The representation of other ethnic minorities in management roles has increased to 16% (9% in 2021).
- 'Black Talent Charter' seal of distinction. Committed to creating and maintaining an environment in which talent can be identified, supporting the recruitment, development and career progression into senior roles in the financial and professional sectors. In 2023, the first 'Ignite' programme was implemented to help them progress their careers at TSB.
- In order to develop an inclusive culture from all perspectives (ability, ethnicity, gender balance and LGBTQ+), TSB continues to support an internal network with executive level sponsors. In 2023 a fifth network sponsored by Social Mobility was launched. These networks actively challenge and contribute to the organisation's diversity and inclusion plans. 92% of TSB workforce believes that the organisation fosters an inclusive working environment that accepts people's differences.

Banco Sabadell Mexico has implemented practices that promote and support diversity, equality and inclusion, at an internal and external level. Internal practices include:

- Banco Sabadell Mexico has an internal diversity, equality and inclusion working group, formed of members from various areas in order to: 1) open dialogue between employees to brainstorm ideas and initiatives related to diversity, equality and inclusion in the workplace; 2) promote a culture of equality and inclusion in all teams; 3) work actively in the implementation of principles, measures and actions that favour people's development and equal opportunities; and 4) impact the financial and banking sectors. Members of the gender, LGBTQ+, generational and functional diversity subgroups worked on initiatives that promote diversity, equality and inclusion.

- During June, Pride month, the LGBTQ+ flag is added to all external communications and pride lanyards are gifted in solidarity.

External practices:

- Participation in the Diversity and Inclusion Committee of the Association of Mexican Banks (ABM).

- Participation in the working group for the development of the trade union's programme on diversity, equality and inclusion of the ABM.

- Participation in the 'Foundations' working group, the purpose of which is to create the main pillars that a financial organisation should have in order to promote gender equality.

- Participation in the Ranking Par 2023 and Human Rights 2023 surveys.

- In 2024, the entity received the 'Best Place to Work LGBTQ+' certification.

6.5 Remuneration policy

Banco Sabadell Group's remuneration policies are consistent with the goals of the risk and business strategy, the corporate culture, the protection of shareholders, investors and customers, the values and long-term interests of the Group, as well as with customer satisfaction and the measures taken to prevent conflicts of interest without providing incentives for excessive risk-taking.

Banco Sabadell Group's Remuneration Policy is based on the following principles:

- Promote medium- to long-term business and social sustainability, as well as an alignment with Group values.

- Reward performance in order to align remuneration with individual results and the level of risk taken.

- Ensure a competitive and fair remuneration system (external competitiveness and internal equity).

In addition to the above principles, the following aspects are also taken into account:

- The Remuneration Policy and remuneration practices will be in keeping with the Institution's credit risk management approach and with its appetite and strategies in relation to this risk, and will not create any conflicts of interest. These practices also include measures to manage conflicts of interest, so as to protect consumers from any undesired effects resulting from the remuneration of sales staff.

- There is consistency with the integration of sustainability risks and the related information is published on the Group's website.

- Encouraging actions consistent with the Group's climate and environmental approaches, as well as with the Group's voluntary commitments, and promoting a long-term approach to managing climate-related and environmental risks.

- Remuneration components must contribute to the promotion of environmental, social and governance (ESG) actions in order to make the business strategy sustainable and socially responsible. KPIs for ESG matters are included and linked to the variable remuneration of employees by means of a synthetic indicator (SI), making them part of the Group objectives with a weight of 10%. The metrics that comprise this indicator include:

Category	Indicator
ESG (cross-cutting)	Degree of progress in the achievement of actions set out in the Sustainable Finance Plan.
E (Environmental)	Channelling of resources through the volume of sustainable financing (applied and linked).
S (Social)	Diversity: increased presence of women in various management positions.
G (Governance)	A market-led assessment, carried out by ESG rating agencies, of the information disclosed.

To reinforce the alignment of the Group's Senior Management and Identified Staff remuneration and the Group's commitment to sustainability, as from 2023 a synthetic sustainability indicator (SSI) has been incorporated in the multi-year targets set by the Group, directly linked to long-term remuneration, with a weight of 20%.

All of the principles on which the Group's Remuneration Policy is based are compliant with European Directives and Regulations and with prevailing legislation.

The application of the Group's Remuneration Policy is impartial when it comes to gender, in line with the principle of equal remuneration among workers for the same work or for work of equal value, guiding decision-making towards the reduction of the gender pay gap.

In addition to ensuring equal remuneration for the same work or for work of equal value, equal opportunities are also guaranteed, as these are a prerequisite for long-term gender-neutral remuneration. This includes, among other things, hiring policies, career development, succession plans, access to training and the possibility of being selected to fill internal vacancies.

Remuneration of the Board of Directors

With regard to average pay, all members of the Board of Directors, both male and female, are remunerated according to the same criterion, i.e. the number of Board or Board Committee meetings in which they participate or, if applicable, that they chair, without any variation among them for any other reason.

Average remuneration of the Board of Directors[67]				
	2023		2022	
	Members	Remuneration	Members	Remuneration
Men	9	329,501	10	306,640
Women	5	164,667	4	167,152
Total	**14**	**270,632**	**14**	**266,786**

Average remuneration is calculated by considering Board members who have served as directors during the entire tax year, excluding Board members who have not served for the full year. Remuneration received for work carried out in the capacity of members of the Board of Directors is calculated excluding any amounts received for management functions and excluding any amounts received for work carried out as members of the Advisory Board. This remuneration includes, as of 2021, additional remuneration for the Non-Executive Chairman for his functions as Chairman of the Institution, Chairman of the Board of Directors and Chairman of the Annual General Meeting, as well as his functions as the highest representative of the Institution and all other functions attributed to him by law, the Articles of Association or the Board of Directors itself. In 2023, average remuneration for male members of the Board, not including the remuneration of the Non-Executive Chairman, was 170,689 euros, while average remuneration in 2022 was 162,933 euros.

[67] For further information on the remuneration of members of the Board of Directors, see the Directors' Remuneration Policy, the Annual Report on Directors' Remuneration and the Annual Report on Corporate Governance published on the corporate website of Banco Sabadell Group (www.grupobancsabadell.com).
https://www.grupbancsabadell.com/corp/en/corporate-governance-and-remuneration-policy/director-remuneration-policy.html
https://www.grupbancsabadell.com/corp/en/corporate-governance-and-remuneration-policy/annual-report-on-remuneration-of-directors.html
https://www.grupbancsabadell.com/corp/en/corporate-governance-and-remuneration-policy/corporate-governance-annual-report.html

Staff remuneration, by professional category, age and gender

Remuneration received for work carried out during the year is reported, broken down by geographical region.

The calculation of average total remuneration takes into account fixed remuneration at year-end, variable remuneration, salary and non-salary supplements and benefits, as well as annualised remuneration and remuneration actually paid. This criterion has been applicable in all countries since 2021.

Average total remuneration in Spain

	2023						2022					
	Employees			Remuneration			Employees			Remuneration		
Professional category	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Senior management	435	207	642	173,686	135,390	161,338	362	157	519	179,489	134,059	165,746
Middle management	1,759	1,405	3,164	74,320	62,197	68,937	1,613	1,151	2,764	73,038	61,329	68,162
Specialist staff	3,797	5,325	9,122	50,172	46,604	48,089	3,773	5,414	9,187	47,588	43,429	45,137
Administrative staff	50	112	162	29,039	27,976	28,304	48	106	154	27,854	26,412	26,862
Total	**6,041**	**7,049**	**13,090**	**65,922**	**52,024**	**58,438**	**5,796**	**6,828**	**12,624**	**62,745**	**48,267**	**54,914**

Data as at 31/12/2023. Average remuneration in euros. ‘Senior management’ includes executive directors, senior management, general management, corporate directors and top management. ‘Middle management’ includes directors not included in the ‘Senior management’ category. In Spain, roles classified as technical roles are included in the ‘Specialist staff’ category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

	2023						2022					
	Employees			Remuneration			Employees			Remuneration		
Age range	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Under 31	528	411	939	38,742	37,574	38,231	402	324	726	37,283	34,341	35,970
Between 31 and 49	3,207	4,295	7,502	61,198	50,517	55,083	3,299	4,472	7,771	57,207	46,770	51,201
Over 49	2,306	2,343	4,649	78,715	57,320	67,933	2,095	2,032	4,127	76,352	53,781	65,239
Total	**6,041**	**7,049**	**13,090**	**65,922**	**52,024**	**58,438**	**5,796**	**6,828**	**12,624**	**62,745**	**48,267**	**54,914**

Data as at 31/12/2023. Average remuneration in euros.

Average total remuneration in United Kingdom (TSB)

	2023						2022					
	Employees			Remuneration			Employees			Remuneration		
Professional category	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Senior management	74	50	124	336,967	283,784	315,522	81	47	128	313,505	260,247	293,949
Middle management	187	141	328	134,877	127,160	131,560	184	140	324	120,937	113,584	117,760
Specialist staff	1,271	1,481	2,752	66,314	56,457	61,009	1,256	1,518	2,774	57,938	48,967	53,028
Administrative staff	630	1,592	2,222	35,408	31,532	32,631	635	1,621	2,256	29,379	26,357	27,208
Total	**2,162**	**3,264**	**5,426**	**72,502**	**50,837**	**59,469**	**2,156**	**3,326**	**5,482**	**64,504**	**43,653**	**51,854**

Data as at 31/12/2023. Average remuneration in euros. Exchange rate as at 31/12/2023: GBP 0.8691 = EUR 1. Exchange rate as at 31/12/2022: GBP 0.88693 = EUR 1. Workforce figures only include TSB’s workforce; they do not include staff at Banco Sabadell’s foreign branch in the UK. ‘Senior management’ includes executive directors, senior management, general management, corporate directors and top management. ‘Middle management’ includes directors not included in the ‘Senior management’ category.

	2023						2022					
	Employees			Remuneration			Employees			Remuneration		
Age range	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Under 31	567	738	1,305	42,060	38,614	40,112	623	841	1,464	35,404	32,883	33,956
Between 31 and 49	1,119	1,608	2,727	76,768	55,132	64,010	1,108	1,598	2,706	70,832	47,254	56,908
Over 49	476	918	1,394	98,734	53,138	68,707	425	887	1,312	90,666	47,377	61,400
Total	**2,162**	**3,264**	**5,426**	**72,502**	**50,837**	**59,469**	**2,156**	**3,326**	**5,482**	**64,504**	**43,653**	**51,854**

Data as at 31/12/2023. Average remuneration in euros. Exchange rate as at 31/12/2023: GBP 0.86913 = EUR 1. Exchange rate as at 31/12/2022: GBP 0.88693 = EUR 1. Workforce figures only include TSB’s workforce; they do not include staff at Banco Sabadell’s foreign branch in the UK.

Average total remuneration in Mexico												
	2023						2022					
	Employees			Remuneration			Employees			Remuneration		
Professional category	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Senior management	37	18	55	262,326	173,372	231,534	36	18	54	238,425	137,774	204,242
Middle management	148	97	245	68,891	63,634	66,805	152	92	244	59,446	55,859	58,088
Specialist staff	82	63	145	28,775	25,453	27,322	78	56	134	24,080	23,316	23,756
Administrative staff	0	0	0	0	0	0	0	0	0	0	0	0
Total	**267**	**178**	**445**	**81,639**	**61,204**	**73,381**	**266**	**166**	**432**	**73,097**	**53,763**	**65,598**

Data as at 31/12/2023. Remuneration in euros. Exchange rate as at 31/12/2023: MXN 18.723 = EUR 1. Exchange rate as at 31/12/2022: MXN 20.856 = EUR 1. Remuneration figures do not include expatriated staff or staff at Sinia Capital, S.A. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category.

	2023						2022					
	Employees			Remuneration			Employees			Remuneration		
Age range	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Under 31	51	35	86	33,882	30,375	32,455	44	28	72	28,752	26,495	27,862
Between 31 and 49	174	128	302	79,058	64,628	72,908	192	127	319	73,762	57,398	67,185
Over 49	42	15	57	155,408	104,153	141,170	30	11	41	132,463	81,208	118,711
Total	**267**	**178**	**445**	**81,639**	**61,204**	**73,381**	**266**	**166**	**432**	**73,097**	**53,763**	**65,598**

Data as at 31/12/2023. Remuneration in euros. Exchange rate as at 31/12/2023: MXN 18.723 = EUR 1. Exchange rate as at 31/12/2022: MXN 20.856 = EUR 1. Remuneration figures do not include expatriated staff or staff at Sinia Capital, S.A.

Average fixed remuneration is calculated considering fixed remuneration as at year-end. This criterion has been applicable in all countries since 2021.

Average fixed remuneration in Spain												
	2023						2022					
	Employees			Remuneration			Employees			Remuneration		
Professional category	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Senior management	435	207	642	124,818	102,439	117,602	362	157	519	129,862	101,647	121,327
Middle management	1,759	1,405	3,164	57,274	49,082	53,636	1,613	1,151	2,764	56,230	48,269	52,915
Specialist staff	3,797	5,325	9,122	42,063	39,121	40,346	3,773	5,414	9,187	41,202	38,006	39,319
Administrative staff	50	112	162	24,951	24,759	24,818	48	106	154	23,289	23,211	23,235
Total	**6,041**	**7,049**	**13,090**	**52,309**	**42,738**	**47,155**	**5,796**	**6,828**	**12,624**	**50,773**	**40,970**	**45,471**

Data as at 31/12/2023. Average remuneration in euros. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

	2023						2022					
	Employees			Remuneration			Employees			Remuneration		
Age range	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Under 31	528	411	939	35,014	33,986	34,564	402	324	726	34,815	32,319	33,701
Between 31 and 49	3,207	4,295	7,502	48,664	41,235	44,411	3,299	4,472	7,771	46,408	39,472	42,416
Over 49	2,306	2,343	4,649	61,340	47,027	54,127	2,095	2,032	4,127	60,709	45,646	53,293
Total	**6,041**	**7,049**	**13,090**	**52,309**	**42,738**	**47,155**	**5,796**	**6,828**	**12,624**	**50,773**	**40,970**	**45,471**

Data as at 31/12/2023. Average remuneration in euros.

Average fixed remuneration in United Kingdom (TSB)

	2023						2022					
	Employees			Remuneration			Employees			Remuneration		
Professional category	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Senior management	74	50	124	216,993	193,174	207,388	81	47	128	203,000	172,132	191,666
Middle management	187	141	328	103,249	96,965	100,547	184	140	324	93,450	87,558	90,904
Specialist staff	1,271	1,481	2,752	50,022	42,074	45,745	1,256	1,518	2,774	44,841	37,882	41,032
Administrative staff	630	1,592	2,222	26,508	23,184	24,126	635	1,621	2,256	23,798	20,884	21,704
Total	**2,162**	**3,264**	**5,426**	**53,489**	**37,546**	**43,899**	**2,156**	**3,326**	**5,482**	**48,733**	**33,586**	**39,543**

Data as at 31/12/2023. Average remuneration in euros. Exchange rate as at 31/12/2023: GBP 0.8691 = EUR 1. Exchange rate as at 31/12/2022: GBP 0.88693 = EUR 1. Workforce figures only include TSB's workforce; they do not include staff at Banco Sabadell's foreign branch in the UK. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category.

	2023						2022					
	Employees			Remuneration			Employees			Remuneration		
Age range	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Under 31	567	738	1,305	32,359	29,329	30,646	623	841	1,464	28,999	26,626	27,636
Between 31 and 49	1,119	1,608	2,727	56,798	40,786	47,357	1,108	1,598	2,706	53,549	36,330	43,381
Over 49	476	918	1,394	70,878	38,477	49,541	425	887	1,312	65,107	35,241	44,915
Total	2,162	3,264	5,426	53,489	37,546	43,899	**2,156**	**3,326**	**5,482**	48,733	33,586	39,543

Data as at 31/12/2023. Average remuneration in euros. Exchange rate as at 31/12/2023: GBP 0.86913 = EUR 1. Exchange rate as at 31/12/2022: GBP 0.88693 = EUR 1. Workforce figures only include TSB's workforce; they do not include staff at Banco Sabadell's foreign branch in the UK. .

Average fixed remuneration in Mexico

	2023						2022					
	Employees			Remuneration			Employees			Remuneration		
Professional category	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Senior management	37	18	55	171,277	106,680	148,917	36	18	54	145,893	84,036	124,885
Middle management	148	97	245	48,210	43,805	46,462	152	92	244	40,294	37,156	39,106
Specialist staff	82	63	145	21,909	19,200	20,724	78	56	134	18,076	17,461	17,815
Administrative staff	0	0	0	0	0	0	0	0	0	0	0	0
Total	**267**	**178**	**445**	**56,079**	**41,441**	**50,164**	**266**	**166**	**432**	**47,956**	**35,596**	**43,162**

Data as at 31/12/2023. Remuneration in euros. Exchange rate as at 31/12/2023: MXN 18.723 = EUR 1.

Exchange rate as at 31/12/2022: MXN 20.856 = EUR 1. Remuneration figures do not include expatriated staff or staff at Sinia Capital, S.A. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category.

	2023						2022					
	Employees			Remuneration			Employees			Remuneration		
Age range	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Under 31	51	35	86	25,332	22,406	24,141	44	28	72	21,537	19,310	20,658
Between 31 and 49	174	128	302	53,715	43,949	49,553	192	127	319	48,061	37,817	43,944
Over 49	42	15	57	106,652	64,620	94,977	30	11	41	85,162	51,408	76,106
Total	**267**	**178**	**445**	**56,079**	**41,441**	**50,164**	**266**	**166**	**432**	**47,956**	**35,596**	**43,162**

Data as at 31/12/2023. Remuneration in euros. Exchange rate as at 31/12/2023: MXN 18.723 = EUR 1. Exchange rate as at 31/12/2022: MXN 20.856 = EUR 1. Remuneration figures do not include expatriated staff or staff at Sinia Capital, S.A.

Pay gap

In terms of equal pay for the same role with the same responsibility, Banco Sabadell makes no type of wage discrimination between genders, neither when recruiting staff nor during employees' salary reviews, monitoring the impact that any actions taken in relation to discretionary pay may have on the pay gap.

The gross pay gap calculation compares total remuneration received by men against total remuneration received by women. To this end, it is calculated as the percentage arrived at by taking the difference between average and median remuneration received by men and average and median remuneration received by women and then dividing this by the average and median remuneration received by men, without making any adjustments of any type. If the percentage is positive, this means that the average or median remuneration received by men is higher than that received by women. Conversely, if the percentage is negative, it means that women receive higher average or median remuneration than men.

Similarly, the overall pay gap is calculated as the average pay gap of each country weighted according to the percentage represented by their workforce out of the total.

Pay gap based on average total remuneration		
	2023	**2022**
Spain	21.08%	23.08%
United Kingdom (TSB)	29.88%	32.33%
Mexico	25.03%	26.45%
Total	**23.69%**	**25.89%**

Pay gap based on median total remuneration		
	2023	**2022**
Spain	13.86%	16.18%
United Kingdom (TSB)	26.11%	26.47%
Mexico	22.14%	17.55%
Total	**17.56%**	**19.25%**

Data as at 31/12/2023 and 31/12/2022.

Note on calculation of pay gap:

The methodology used to calculate the overall pay gap was unified in 2021 in all countries, in accordance with the criteria established in Spain's employment legislation (Royal Decree 902/2020). In addition, each country will continue to use its own local criteria to meet the requirements laid down by applicable local legislation.

Pay equity:

The gross pay gap indicator does not provide a complete picture of differences in remuneration nor does it make it possible to identify potential gender inequalities within the company. For those purposes, it is essential to employ statistical methods that allow the calculation of the portion of the gender pay gap that cannot be explained by other factors that might influence a person's compensation, such as their individual characteristics and those related to their job. The portion of the pay gap that remains when comparing similar individuals whose only difference is their gender is known as the adjusted pay gap.

To address this, in 2023 Banco Sabadell worked in collaboration with the Economics and Business department of the Pompeu Fabra University on the certification of an econometric model to determine the adjusted pay gap in Spain, with the following results:

Adjusted pay gap in Spain	
	2023
Pay gap based on average total remuneration	5.27%
Pay gap based on median total remuneration	2.90%

If the effect of staff- and job-related characteristics on pay is removed from the basic pay gap, the adjusted pay gap becomes 5.27% based on the average and 2.90% based on the median.

The introduction of additional factors explaining remuneration, other than gender, reduce the pay gap. The inclusion of specific job-related characteristics are significant in terms of explaining the observed pay gap. Therefore, the standardisation of the presence of gender in the different categories and job functions would also contribute to reducing the aforesaid pay gap.

Other regions:

In the United Kingdom, the aim of TSB's remuneration policy (and the Group's) is to provide competitive remuneration aligned with the achievement of strategic targets, designed to attract and retain talent and to generate sustained business performance, taking effective risk management and acceptable conduct into account.

TSB remains firm in its commitment to addressing the fundamental causes of the gender imbalance and it continues to build a more balanced workforce in the long term. It also remains committed to the Living Wage organisation, of which it has been a member since August 2016.

Furthermore, TSB was one of the first companies in the United Kingdom to publish its gender pay gap data (in July 2017) by issuing its 'Gender Balance Matters' report, which sets out a commitment not only to publish pay imbalances existing between men and women, but also to examine the causes of those imbalances, set out the measures being adopted and report on progress made.

6.6 Workplace environment and organisation

The Bank is able to transform itself and face up to major challenges with agile teams and people who bring their best selves to work. One of these transformation milestones involves understanding telecommuting as a capability that adds value to the work culture of Banco Sabadell. The Bank has a combined work model that allows people to work on-site or remotely, in which new habits are incorporated to learn how to make the best of both worlds. To be, in essence, a more flexible and connected Bank.

SmartWork[68] continues to evolve to adapt to the current environment and we continue to work with a blended model, with several telecommuting days each month, achieving good outcomes in relation to time management and developing the use of technological tools (Office 365) and new capabilities as an ally that can be counted on every day in order to work more efficiently.

The Bank continues to promote measures to enhance flexibility, such as telecommuting or flexitime arrangements. The workforce can change their effective working hours at their discretion and with flexibility in order to balance their needs for a work-life balance with the needs of the service. In the corporate centres, for the areas covered by the collective bargaining agreement for banks, the hybrid model based on a maximum of 6 days per month, remains in place. This arrangement is voluntary and is not regulated at a contractual level.

This declaration of intent rests on four pillars, which underpin the main actions that concern the workforce: technological transformation, adaptation of workspaces, culture & leadership, and new ways of working.

During the development of SmartWork, actions were taken in different spaces so that all kinds of tasks could be carried out in a hybrid environment. In addition, new protocols were designed, offering guidelines for new ways of working, thus optimising work under the new model. Clearly, the tools continue to develop, meanwhile, the creation of the SmartApp helped to improve team planning and resource management.

Communications, webinars and challenges are used to implement a support plan, which highlights the value of the most efficient practices, such as, the weekly newsletter (FlashIN), the fortnightly communication with managers (Eres Manager), the SmartSite portal (news related to SmartWork and useful resources), News on the corporate intranet (IN Sabadell and the Employee Portal), and a support plan with open sessions and webinars.

Other regions:

The culture at TSB is based on working methods designed to improve the work-life balance of the workforce, by supporting and promoting flexible working whilst maintaining excellent customer service. TSB has developed a blended approach with continuous investment in technological capabilities, which enables

[68] An initiative created by Banco Sabadell in 2020 with the primary aim of promoting a more agile organisation in which employees remain at the core, supporting the unstoppable process of digitisation.

employees to combine working from home with working in the office, promoting “office days” for collaborative work, social interaction and continuous learning.

In its survey “Colleague Engagement Pulse Survey 2023”, 85% of workers said that they felt able to balance their work and personal life adequately, and 87% were positive in their appreciation of TSB’s support for their health and well-being.

Mexico continues to successfully run its hybrid model, in which employees combine on-site attendance with two days per week remote working. .

6.6.1 Work-life balance

Banco Sabadell Group employees have at their disposal a series of work-life balance measures that are set out in the Equality Plan[69], signed in February 2022 with employees’ legal representatives.

signed in February 2022 with employees’ legal representatives. These measures seek to ensure that the workforce have a good work-life balance and to establish a framework for flexible working hours that can be used to improve the balance between personal and professional interests under equal terms for both men and women.

Work-life balance and flexibility measures:

- Flexibility to process leaves of absence or special unremunerated leave requested by the workforce, as envisaged in the extended provisions of Article 36.2 of the CBA[70].
- Unremunerated reductions of working hours, as set out in Article 37.6 of the Workers’ Statute (WS) and Article 35 of the CBA, for those who as legal guardians are directly responsible for a minor under the age of 12 or for a person with a physical, mental or sensory disability.
- Remunerated reductions of working hours in order to care for a child below 12 years of age who suffers a serious illness or accident requiring hospitalisation; employees may ask for their daily working hours to be reduced, by one hour per day and on a paid basis, for a period of two months.
- Reduction of working hours to care for a nursing child; as an improvement of the provisions of Article 33 of the Collective Bargaining Agreement for Banks and Article 37.4 of the Workers’ Statute, workers have the right to one hour of absence from work to nurse an infant of less than 9 months. In the event of a multiple birth, the hours allowed will be increased by one additional hour per day per child.
- Flexibility to adapt working hours (start and finish times) to meet the needs of those responsible for the care of children below 14 years of age, or who must care for family members up to second degree of consanguinity or affinity who are disabled or above 65 years of age.
- Furthermore, as established in the Agreement on Keeping Working Time Records of 27 February 2020, employees will have a 15-minute grace period applicable to the time they start their working day, which they can offset by adjusting the time they end their working day accordingly. This option is available to all those who currently have no flexitime arrangements to achieve a balance between their personal life, their family life and their working life.

Coordination and dialogue has been maintained at all times with employees’ legal representatives.

In addition, and in order to contribute to the protection of maternity and paternity rights, leaves of absence for the birth and care of a child are guaranteed, as are leaves of absence to care for nursing children, offering the option to take this nursing leave through 15 working days’ remunerated leave subsequent to any period of contractual suspension due to the birth, adoption, guardianship or foster care of a child. The duration of the leave of absence for the birth or care of a child will be equivalent to the duration of the leaves of absence taken in accordance with that provided in Article 48.4, 5 and 6 of the Workers’ Statute, with a total of 16 weeks, 6 of which will be mandatory, uninterrupted and comprise full working days, to be taken immediately following the date of the birth, while the remaining 10 weeks may be taken, in weekly periods, either in one single block or in separate blocks, during the 12 months following the date of the birth.

[69] https://www.grupbancsabadell.com/corp/files/1454335415322/plan_de_igualdad_es.pdf
[70] Collective Bargaining Agreement for Banks.

All employees have the right to receive a school allowance for their children, which is paid at the beginning of the academic year for each child in school between the ages of 0 and 23 years who is economically dependent on the employee in question. For those employees who have a child with a registered physical or mental disability of at least 33%, the maximum age is extended to 26 years.

Employees also have a benefits system linked to the flexible compensation system which allows them to make the most of their remuneration by contracting certain products through the payroll, such as "Flex Daycare" which they may use to earmark part of their salary to pay for childcare whilst obtaining tax benefits, depending on their place of residence within the Spanish territory. The Bank gives employees the option to pay for their children's daycare through two different methods: a virtual cheque with Sodexo or a bank transfer directly from the company.

The corporate centre at Sant Cugat del Vallés, has a nursing room available for use by employees who choose to combine nursing an infant with their work life. It has a private space to express breast milk, furnished with power sockets, an armchair, running water and a fridge where they can store the expressed milk during the working day. This nursing room can be freely accessed throughout the day.

All employees of the Bank have at their disposal a Guide to Work-Life Balance Measures, which explains, clearly and simply, the different work-life balance measures that staff can access; it can be found in the Equality and Diversity space of the corporate intranet.

Furthermore, Banco Sabadell gives its workforce access to a tool called "Mi Jornada", in compliance with the provisions of Royal Decree-Law 8/2019 on keeping daily records of working hours and in accordance with the Agreement on Keeping Working Time Records at Banco Sabadell, signed on 27/02/2020, where each worker is required to keep a record of the start and finish times of their working day.

The Group also offers a wide range of measures aimed at improving the work-life balance of its workforce, enabling them to arrange services and purchase products through the People portal. They can also choose to have their purchases left at lockers installed in some of the corporate buildings, so as to avoid having to make a specific trip to collect them or having to arrange for delivery outside of their working hours.

Employees continue to make use of the measures launched in previous years, such as the option to purchase additional days of annual leave and the advice offered by the work-life balance consultant, which are unique aspects of the Bank's value proposition for employees.

<u>Other regions:</u>

With regard to work-life balance, TSB has flexitime arrangements with the opportunity to request a temporary or permanent change in their way of working, at any stage of their careers and regardless of any personal reasons they might have. All requests are considered in a fair and consistent manner in order to improve the work-life balance of employees. This makes it possible to improve employee retention and attract more new talent.

TSB's maternity/paternity leave policy is applied equally, regardless of how they become fathers or mothers.

TSB's parental leave policy aims to help with childcare in the early weeks and months of parenthood, and to balance the ongoing challenges of work and family life.

TSB ensures that the biological mother/father and principal adoptive mother/father enjoy 20 weeks of leave on full pay, 19 weeks of statutory maternity/adoption remuneration, in addition to up to 13 weeks of unremunerated leave. They are also entitled to a total of 18 weeks of unremunerated parental leave for each child until that child reaches 18 years of age.

Banco Sabadell Mexico is developing its benefits policy for new mothers and fathers, by supporting healthcare and promoting a flexible model. Some of the benefits offered are detailed below:

- Leave of absence for the birth of a child is extended to 114 calendar days for mothers and to 30 calendar days for fathers.
- Reduced working hours during the first six months following the birth.
- Financial assistance is available for the birth/adoption of a child, consisting of 15 days' pay, up to a maximum of 8 times the minimum wage.

– Special leaves of absence, rollover of annual leave, on-site nursing room, among other things.

6.6.2 Health and safety

Banco Sabadell Group, aware that good working conditions are important for the health and safety of its employees, follows a policy of prevention and continuous improvement of the working conditions and health of its staff. In accordance with prevailing legislation, and to carry out preventive actions on a permanent basis, an integrated Prevention Management System has been launched in the general organisation of Banco Sabadell Group through the Prevention Plan, which includes all of the preventive activities carried out in this regard in the Group. This Plan contains the requirements to integrate prevention in the company's management and defines, in its first section, the Occupational Hazard Prevention Policy, which is based on the following principles:

- Promote and foster a preventive culture between the different areas and levels of the company.
- Promote preventive actions, even where they are not yet legally required.
- Offer guidelines to put into practice and evaluate management strategies for occupational hazard prevention.
- Ensure that all employees are provided with information and training about preventive actions and that they are encouraged to take part in them.

The aim of the Prevention Plan is to ensure the integration of occupational hazard prevention in the structures of Banco Sabadell Group companies. The implementation of the Plan ensures the health and safety of Banco Sabadell Group staff and compliance with the regulations applicable in this regard, so as to ensure the control of occupational hazards, the effectiveness of preventive measures and the detection of any weaknesses that could give rise to new risks. Its approval and review are carried out under the framework of the State Health and Safety Committee (a joint collective body of representatives of the company and legal representatives of the workforce).

A management system has been designed based on continuous improvement, in compliance with Law 54/2003 on the reform of the regulatory framework on occupational hazard prevention. This management system is periodically subject to a specific independent audit, as set forth in the legislation in force. In 2023, the Bank successfully completed the audit process, with no areas of non-compliance detected (not even minor ones) in any of the aspects audited.

A summary of these preventive activities is published every year in an Annual Report, which is available on the Bank's intranet and also on its corporate website. This report summarises all of the preventive activities carried out directly by the Banco Sabadell Group Joint Prevention Service or through the different work units or employees assigned tasks in this regard. Most of its content corresponds to that envisaged in the Annual Preventive Planning document. Any actions of a particular level of importance that have not been completed during the year will be added to the Plan for the following year.

The preventive speciality of Occupational Medicine is carried out through health surveillance. The health surveillance policy applied by Banco Sabadell Group comprises activities which aim to promote the general health of all employees and to prevent the workforce from suffering any sort of injury or harm as a result of their work. Health surveillance covers a series of activities relating to workers on both an individual basis (individual surveillance) and on a group basis (collective surveillance) through medical check-ups.

Individual surveillance seeks to enable the early detection of any repercussions on an individual's health stemming from working conditions, the identification of individuals who are particularly sensitive to certain risks, and the adaptation of tasks to each individual.

Collective surveillance is based on the analysis and interpretation of the results obtained within the group of workers, in order to assess the state of health of the organisation, so as to establish priority areas of action in relation to prevention and to evaluate the effectiveness of the measures set out in the Occupational Hazard Prevention Plan.

One of the health surveillance activities consists of conducting medical check-ups or health assessments. The medical check-ups are carried out:

– At the start of employment.

- On a regular basis (the frequency depends on the employees' age: once every three years for persons up to 30 years of age, every two years for those aged between 31 and 44 and annually for those aged over 45).

The check-ups are very thorough and they are optional for staff; that said, each year around 80% of employees accept their invitations to these check-ups.

Other medical check-ups carried out are:

- A medical examination following a prolonged period of incapacity for work (due to either common or professional contingencies).

- A medical examination carried out to determine whether an employee is particularly sensitive to the risks inherent to their position at work.

All of the Group's existing staff and all new hires receive information on occupational hazard prevention and complete mandatory training relating to health and safety in the workplace through an online course, Introduction to Occupational Hazard Prevention (Introducción a la Prevención de Riesgos Laborales). Completion of this course is mandatory for all employees and it aims to ascertain the risks to which employees may be exposed and the preventive measures that can be taken to avoid them.

In addition to the OHP courses available to employees in the training catalogue and which they can also view on the intranet portal, there are other specific training materials, including the course on fire suppression, the first aid course, the course on stress prevention, the course on preventing the risk of robbery, etc. In addition, training courses are supplemented with specific informative documents, such as ergonomics handbooks and manuals for work equipment (OHP Welcome Handbook). This information is posted on the Banco Sabadell Group intranet, in a specific section for documentation relating to OHP and everything related to the risks inherent in the Bank's activity.

The Banco Sabadell Group Joint Prevention Service has certain procedures designed to ensure the existence of suitable plans in the event of an emergency, so that an emergency may be prevented from happening, and establishing suitable prevention measures that all employees must know of and implement. The OHP Division submits a schedule of planned drills to the State Health and Safety Committee, and it also reports on the outcome of those drills and shares the main areas of improvement that have been identified.

In Spain, Banco Sabadell also carries out an initial occupational hazard assessment for each new work centre, and whenever work centres are reformed or updated. Equally, when a certain period of time has elapsed since the initial assessment, subsequent assessments are carried out, in all of the facilities, of both individual workstations and common areas, along with the installations and technical aspects of the working environment (temperature, lighting, etc.). There is a protocol, included as an annex to the Prevention Plan, which determines the cases in which a work centre should be reassessed, depending on the type of reforms carried out. In general, it is thought that activity in Banco Sabadell Group does not risk exposing employees to cleaning agents, meaning that it is not necessary to systematically evaluate these aspects. That said, as a preventive measure, hygienic measurements to evaluate the ambient conditions of the premises have been included in risk assessments.

Coordination of business activities also takes place with third-party companies that have staff or labourers working on site. This is a legal obligation, designed to enable companies sharing the same workplace to coordinate between themselves to comply with existing legislation on the prevention of occupational hazards, to ensure that the performance of multiple activities within the same workplace does not generate risks or lead to a workplace accident.

Monitoring absence from work

Absence from work is monitored through monthly reports, which include data on prevalence rates, severity rates, and frequency of absences. The data is grouped together by company, territorial division, age and gender, and makes it possible to detect trends and possible deviations depending on the variables analysed. Depending on the results, preventive actions are identified and applied.

General absence from work includes absence from work due to illness with temporary incapacity (TI) and without TI for common contingencies (common illnesses, non-work-related accidents) and professional contingencies, such as a work-related accident (WRA) or a work-related illness (WRI).

The data regarding the prevalence rate (number of employees who have been absent from work / total workforce) and the severity rate (number of days missed / total working days) showed a decline in 2023 relative to 2022. This was largely due to a reduced prevalence of Covid-19, which had its peak in the first quarter of 2022. In 2023, the annual figures were 5.10% for the prevalence rate (vs. 6.28% in 2022) and 2.94% for the severity rate (vs. 3.10% in 2022).

The number of new leaves of absence initiated in the month (frequency rate) has fallen significantly compared to the previous year, with an average of 307 per month in 2023, compared with 445 in 2022.

At a sectoral level, according to the latest data available for 2022, absenteeism due to illness stood at 3.10% in Banco Sabadell Group compared with 3.42% across the financial sector, even when considering that the information provided by mutual funds does not include data on illness without temporary incapacity, unlike the data supplied by Banco Sabadell, which does.

Indicators of absence from work in Spain	2023	2022
Total hours (accidents and ill health)	680,419	643,764
Total hours (work-related ill health)	1,975	79,136

Data as at 31/12/2023.

Indicators of absence from work in TSB	2023	2022
Total hours (accidents and ill health)	332,337	301,234
Total hours (work-related ill health)	22,059	37,280

Data as at 31/12/2023.

In Mexico, indicators of absence from work are recorded and reported as general ill health. As at the end of December 2023, a total of 35 days off work had been recorded.

Monitoring the work-related accident rate

One of the fundamental pillars of the management of occupational hazard prevention is the research into, and prevention of, work-related accidents. On becoming aware of an accident, the Joint Prevention Service collects the main data and deals with the official communication. An investigation is launched. The procedure varies depending on the severity and complexity of the event, determining, if necessary, the preventive and/or corrective actions that should be taken. All of these actions are designed to guarantee the care and subsequent recovery of the person concerned. In 2023 there was a significant decline in the number of accidents.

Work-related accidents

	2023			2022		
Types of accident in Spain	**M**	**W**	**Total**	**M**	**W**	**Total**
Work centre	5	32	37	11	38	49
Whilst commuting	28	41	69	29	55	84
Travel during workday	5	11	16	8	18	26
Different work centre	0	1	1	1	0	1
TOTAL	**38**	**85**	**123**	**49**	**111**	**160**

Data as at 31/12/2023. The data shown for 2022 includes an accident not included in the report for the previous year because the decision to include the accident was reported subsequent to the publication of the data.

	2023			2022		
Work-related accidents in Spain	**M**	**W**	**Total**	**M**	**W**	**Total**
Total hours	4,946	10,517	15,463	6,702	10,247	16,949
Frequency rate[71]	0.95	3.66	2.39	1.92	4.63	3.36
Severity rate[72]	0.05	0.09	0.07	0.06	0.09	0.08

Data as at 31/12/2023. Rate calculations exclude accidents occurring whilst commuting. Although all absences due to COVID-19 can be likened to work-related accidents for the purpose of claiming social security benefits, they are not included in the accident rates.

In terms of subsidiaries, TSB, in compliance with UK legislation, does not keep a record of accidents, while Mexico has not recorded any accidents in 2023.

6.6.3 Trade union rights and right of association

Banco Sabadell Group guarantees the basic rights of employees in relation to freedom of association and collective bargaining.

In Spain, this guarantee is always in compliance with Spanish legislation, and these rights in relation to freedom of association and collective bargaining are set out in the Workers' Statute and in chapter 12 of the Collective Bargaining Agreement for Banks, Articles 62, 63 and 64.

In Spain, Banco Sabadell has 9 trade union sections, at both State and autonomous level. The subsidiaries[73] in Spain,that have trade union representation are Sabadell Digital, S.A.U., Sabadell Consumer Finance S.A., and Fonomed Gestión Telefónica, while the number of trade union sections is lower than that of Banco de Sabadell.

Workers' representatives are voted in every four years, in accordance with the guidelines set forth in prevailing legislation and the implementing agreement enforced in the Spanish Banking Association (Asociación Española de Banca, or AEB), jointly with the most representative State union sections of the Spanish banking industry. The results of the union elections determine the composition of the different Works Councils, as well as staff delegates, who are the main points of contact representing the company and who take part in collective bargaining negotiations. If no specific negotiations are taking place, they meet as and when required.

The elected trade union representatives are allocated hours from their normal working hours to engage in their trade union activities. In Spain, 100% of staff are covered by the Collective Bargaining Agreement, while in all the other countries the legislation applicable in each country is applied.

One of the main duties is to represent workers in occupational health and safety committees. In Spain, the following committees currently exist:

- State Health and Safety committees:
- Banco de Sabadell, S.A.
- Sabadell Digital, S.A.U.
- Sabadell Consumer Finance, S.A.
- Fonomed Gestión Telefónica, S.A.

Banco Sabadell Group also proactively promotes collective bargaining, as in general specific employment agreements are reached with workers' legal representatives. Some of the agreements reached are set out here below:

- Agreement regarding the incorporation of the State Health and Safety Committee: this created a State Health and Safety Committee (SHSC), a joint collective body that responds to enquiries and

[71] (number of accidents (excluding those occurring whilst commuting) / theoretical working hours (according to collective bargaining agreement))*1,000,000
[72] (working hours lost/ theoretical working hours (collective agreement) * 100)
[73] The subsidiary Business Services for Operational Support, S.A. had union representation until it was incorporated into Banco de Sabadell, S.A., and its staff were also represented by its Health and Safety Committee.

requests for participation received from workers concerning aspects related to safety and health in the company's work centres.

- Training agreement: under which a commitment is undertaken to ensure that training takes place during the legally established business day, or during the hours established in the corresponding agreements in the event training takes place outside of business hours.
- Agreement on early retirements (both with and without early access to pensions) and incentivised resignations: staff restructuring plan and certain agreed conditions.
- MiFID training agreement: agreement regarding compensation for MiFID training.
- Agreement on keeping working time records: an agreement that regulates working hours.
- Agreement on assistance for school fees: an agreement on economic assistance for the payment of school fees.
- Agreement on improved employee benefits.

Other regions:

In the United Kingdom, TSB continues to maintain a fluid and direct relationship with trade unions, renewing its agreement with Accord and Unite in 2023, which establishes the collective bargaining agreements. The agreement was reached with 90% of the trade unions represented. This relationship has allowed the management team to work in an open and collaborative manner to consult with trade union representatives on all issues affecting TSB's relationship with its staff, and to assess possible initiatives to make improvements to the workforce and introduce organisational changes.

With regard to the subsidiary in Mexico, there is no relationship between staff and union representatives.

6.7 Dialogue with employees: more connected than ever

Banco Sabadell Group has various mechanisms in place for communicating with staff and listening to their concerns, which are key to anticipating their needs and building a great place in which to develop a professional career. Banco Sabadell's inclusion in prestigious ranking tables as one of the 100 best companies to work for in Spain, is evidence of this.

In relation to information resources, in Spain the FlashIN newsletter continues to be issued and sent to all employees each week, providing information of interest to all, as well as guidance and context about the Institution and the sector. In addition, the internal news portal, IN Sabadell, is a crucial informational and unifying resource that provides key information on complex issues generated by the external environment, and on change processes that occur within the organisation itself. This portal, and the publication of the fortnightly *Eres Manage*r, also include ad hoc surveys to tap into any relevant issue and capture people's feelings about it. This allows the Institution to verify, survey after survey, the high degree of commitment of staff at any time.

Employees opinions and views are captured, on an ongoing basis, to find out their level of satisfaction with internal events or training sessions, with a will to improve their experience going forward. Another important initiative in 2023 was a survey on psychosocial risks, which captured people's views under the framework of occupational risk prevention.

In relation to El Banco *que queremos ser* (The Bank we aim to be), a survey which provides comprehensive information on the commitment of staff to the Institution's current and future course of action, the results were stable, in line with the good results for the year. Commitment and climate are measured at three different times in the year, addressing the following elements and questions:

Commitment to Sustainability	I firmly believe in my company's goals and targets
	I feel proud to be a part of this organisation
	I feel motivated in my day-to-day at work
	There are no major obstacles keeping me from doing my best work
Meritocracy and consistency	People and the team receive fair and equitable treatment
	People and the team receive fair and equitable treatment
	I can openly communicate my points of view at higher levels
	This organisation supports equal opportunities for everyone

Management	My manager communicates effectively
	My manager promotes collaboration with different teams and departments
	My manager gives me feedback regularly and helps me to grow professionally
Ways of working	People in this company work efficiently
	People in my team work efficiently
	My manager helps the team to adapt to change, by being an example and promoting new ways of working
Wellbeing	This is a psychologically and emotionally healthy place to work
Sustainability	We are making the changes needed to become a more environmentally responsible company and we are helping our customers with their own transition in that respect
	This company carries out specific actions to address social impact issues, which are important to me
Equality and Diversity	I can be myself at work, without worrying if I will be accepted
	Diversity and inclusion are supported in the workplace
Banco Sabadell's Management	I trust in the decisions taken by Management
Promotion	I know the criteria and procedures used in the promotion process
	Those who deserve promotion are promoted
Work-life balance	The company's work-life balance measures allow me to enjoy a good balance between my personal and professional life.
Compensation	How do you rate the compensation received for the work that you do
	With regard to my total compensation, I think that I am paid fairly for the work that I do.
My company	In this company, we are encouraged to learn from our mistakes.
	In my team, we openly discuss different opinions when decisions are taken.
	In my department, the flexibility measures offered by the Bank for its staff are used appropriately
Recommendation	Would you recommend Banco Sabadell to a friend or relative as a good place to work?

Good results were obtained on practically all of the factors analysed, such as quality of management, meritocracy or internal cooperation, revealing a clear improvement compared to the previous year. The Bank continues to listen continuously to the opinions of its workforce with periodic measurement surveys. This year, they took place in April and December, with a positive outcome in terms of evolution and improvement of the long-term commitment of our people.

Another key element in the architecture shaping relationships is the Employee Assistance Office, which plays an indispensable role in resolving staff concerns. This year, 49,501 queries were handled, while maintaining a high level of quality of service, obtaining a user satisfaction rating of 4.30 out of 5.

<u>Other regions:</u>

TSB is committed to creating a positive and inclusive culture and supporting the wellbeing of the workforce.

Created in 2013, 'Link' is TSB's People Forum, which serves as the voice of the workforce, with regular meetings and representatives from all areas of the bank. Every quarter, Link members meet with the Executive Committee to share their ideas, comments and recommendations. Link members also meet with TSB's Board of Directors once a year to follow up on the measures implemented. In 2023, Link contributed to TSB's 'Cost of living' support for customers, its strategy for vulnerable customers, and played a part in increasing customer confidence. Engagement with Link has increased by 80% this year relative to previous years.

In Mexico, a space has been created for all members of the Sabadell team, where the CEO of Sabadell Mexico speaks openly about issues that are of great importance for the organisation and in which certain employees are given the opportunities to express their doubts and concerns. This space is known as 'Open Mic' (*Micrófono Abierto*) and it helps to build trust and allow first-hand experience of the three fundamental values that are closeness, quality and commitment. In addition, the CEO is part of the 3rd edition of the Most Innovative CEO 2024, a distinction to be awarded in February.

In terms of staff information, Sabadell Communicates (*Comunica Sabadell*) is a weekly internal newsletter that allows recipients to stay abreast of the latest news inside and outside of the organisation. It is emailed on a regular basis to all employees.

Lastly, two organisational climate surveys are carried out:

- ‘Great Place To Work’, having received this certification for seven consecutive years, in 2023 it was ranked #60 out of 80 companies in the central region ranking, thus earning recognition as one of the best places to work in Mexico.

- ‘Great Culture to Innovate’, it has obtained certification as one of the most innovative companies in Mexico for three consecutive years. In 2023, it came in 4th place out of 100 participating companies and in 6th place in the category of companies with less than 500 employees.

7. Commitment to society

Banco Sabadell Group channels its commitment to society mainly through the Banco Sabadell Private Foundation (hereinafter, Banco Sabadell Foundation) with a view to impacting the progress and social welfare of individuals, by promoting culture and the arts and research and education, in particular by fostering young talent.

Research and education

By supporting research and education, the Banco Sabadell Foundation invests in society's future and in its ability to find solutions to the most complex and urgent challenges, contributes to boosting the economic, social and cultural growth of the nation, by increasing productivity and innovation, creates learning opportunities and fosters people's talent to facilitate access to the job market.

The Banco Sabadell Foundation Awards (for Economic Research, Biomedical Research, Science and Engineering and Marine Sustainability) are important pillars of this framework for action, as are the research grants, scientific or social and humanistic research projects and grants, bursaries and awards at universities, talent forums linked to regulated training centres and/or universities and talent training programmes.

Culture and the arts

By promoting culture and the arts, the Banco Sabadell Foundation fosters creativity and innovation, provides opportunities and resources to young artists to help them develop their skills and advocates for a more equitable and diverse society. In addition, it contributes to the cultural enrichment of society and drives transformation.

The support to high quality cultural programmes, creator grants and art research stays, programmes that promote the arts as a vehicle of transformation, young talent training and bringing culture closer to younger audiences are initiatives within this scope of action.

In 2023, the Board of Trustees of the Banco Sabadell Private Foundation approved the allocation of 3,716,208 euros in partnerships with other institutions and projects with extensive experience, prestige and broad social impact.

In addition to the Banco Sabadell Foundation, other divisions and subsidiaries of the Bank have also contributed to education and the fight against poverty, through initiatives including corporate volunteering, social housing management and charity fundraising.

7.1 Commitment to education

Financial education

Banco Sabadell continues to promote and take part in a number of financial education initiatives. By engaging in this type of activity, the Institution aims to not only meet the different training requirements of society in general, but also be by their side to help them develop skills and decision-making abilities. Some of the initiatives undertaken are:

- The Financial Education for Schools in Catalonia (EFEC, by its acronym in Spanish) programme: Banco Sabadell participated in this programme for the tenth consecutive year and has done so since its inception. Thanks to the corporate volunteers of the participating institutions, a total of 188,084 students have been trained in basic finance. In this edition, which has continued to be run in hybrid form with face-to-face and virtual workshops, the programme has been taught in 485 educational centres. With the participation of 86 volunteers who have run a total of 834 workshops, Banco Sabadell, together with all of the collaborating institutions, provided training for 29,228 young people in their fourth year of secondary school education. In terms of its version for adults, 15 of the Bank's volunteers have held 106 workshops in adult schools and correctional facilities. The estimated figures for the EFEC Adults programme were 86 centres and 4,983 students.

- ‘Your finances, Your future’ (*Tus Finanzas, Tu futuro*) initiative of the Spanish Banking Association (*Asociación Española de Banca*, or *AEB*) and the Junior Achievement (JA) Foundation. In this year’s online edition, 94 volunteers from the Bank took part in 52 programmes delivered to 33 educational centres and 1,191 students. In 2023, the programme, which is nationwide in scope, was delivered to 188 centres and 7,986 students.

During 2023, over 9,100 people have benefited from the workshops that Banco Sabadell volunteers have led as part of these programmes.

TSB is committed to social and financial inclusion. It offers secondary schools, mainly in under resourced communities in Britain, financial education workshops that are delivered by TSB volunteers. Content in the workshops meets the needs of the national schools curriculum covering topics including managing money and building independent living skills. In 2023, TSB volunteers delivered 58 workshops and reached over 1,000 students.

Banco Sabadell Mexico has a financial education programme for children of employees, in which each summer students are invited to become involved in projects of the various areas of the entity. During this period, they acquire theoretical and practical knowledge of the financial sector, which will also help them to make the best decision as regards their future career path.

Commitment to young talent

The Banco Sabadell Foundation is committed to young talent by supporting leading universities, research centres and educational institutions, as well as by contributing to research excellence through awards and support programmes.

Specifically, the Banco Sabadell Foundation has handed out 353 awards (349 award-winners from 16 projects run in collaboration with other entities and 4 award-winners from the Foundation’s own awards) and 2647 grants (2632 grant holders from 28 programmes run in collaboration with other entities and 15 grant holders from the Foundation’s own research grants).

The most noteworthy activities in this area are:

- The Banco Sabadell Foundation Awards in Biomedical Research, Economic Research, Science and Engineering and Marine Sustainability, which aim to promote and recognise the careers of young Spanish researchers who stand out for their excellence and innovation in these fields and for the applicability and social impact of their research works.

- Banco Sabadell Foundation research grants: intended for aspiring pre-doctoral students who are carrying out their doctoral thesis. They seek to promote and develop scientific works or to fund placements at universities or research centres.

- A new formula to generate systemic change bringing together young talent as an agent for change and the arts and social impact in order to inspire and raise awareness among young people about the arts’ potential as a tool for social transformation through the Art and Social Impact Hackathon.

- Collaboration initiatives with leading universities with award programmes and grants to promote young talent at the Universities of León, Oviedo, Vigo, Alicante, San Jorge, Jaume I, Las Palmas, Charles III, Francisco Vitoria, the Business School of the Valencian Community (EDEM), ESADE, the *Institut Barcelona d’Estudis Internacional (IBEI)* and the Barcelona Education in Science and Technology (BEST) Foundation.

- Grants with leading academic centres such as bursaries to support the ELLIS artificial intelligence PhD programme dedicated to scientific research on the study of how human beings converge with artificial intelligence.

- Programmes dedicated to the job search process and training in innovation, such as the Toolbox project of the University of Murcia, or the programme for work placements at the University of Alicante, after the participants receive mentorship from the Technological Skills Centre of Alicante (*Centro de Competencias Tecnológicas de Alicante, or CCTA*), in which students from various areas (particularly, information and communication technology) work to solve a technological challenge with the support of CCTA mentors from Banco Sabadell.

- Scholarship programmes with art centres such as *Fundación de la Comunidad Valenciana Auditorio de la Diputación de Alicante (ADDA*), which gives young musicians the chance to join the orchestra; *Fundación Albéniz*, which offers scholarships to young musicians at the *Reina Sofía School of Music*; or *Fundación Privada Associació d'artistes visuals de Catalunya (HANGAR*), which offers an annual art research grant.

- Training programmes for emerging artists in contemporary art such as the series Espai 13 run by *Fundació Miró*; the Generation programme of *La Casa Encendida* or the new artists forum run by *Fundación Cidade da Cultura de Galicia*; the Lied the future programme for young singers of poetic songs of the Franz Schubert Association; the concert with bursary students *Camerata Garnati* of the Live Music Association; or Festival Emergents and the new sound creation series Sampler Series run by *Consorci de l'Auditori i l'Orquestra.*

- Contemporary dance art residency programmes from *Consorci Mercat de les Flors*; the Carlota Soldevila art creation grants for young playwrights and performers of *Teatre Lliure*; the early music residency as part of the European training programme for young European musicians *Emerging of Joventuts Músicals de Torroella de Montgrí*; the Babestu programme to support contemporary creation run by *Centro Azkuna de Sociedad y Cultura Contemporáne*a; or the residency at the Jove *Orquestra Simfònica del Vallès of Fundació Òpera Catalunya.*

- Training at leading centres such as the Summer School of the Prado Museum or the course *Territorios de la modernidad a la posmodernidad: Galería, Revista y Colección of the Reina Sofía* National Art Centre.

- Young talent training programme run by *Asociación Celera*, the only accelerator for young talent that currently exists in Spain, which every year selects ten outstanding young individuals to offer them resources, training and skill development; and the *Cód¡GO!* programme of *Fundació Princes*a de Girona, which aims to bring young people closer to technology and coding.

- The Global Talent Programme, launched by the Banco Sabadell Foundation and *CIDOB* (Barcelona Centre for International Affairs), involves a paid research placement and two awards for applied research, aimed at young researchers.

- Awards to recognise young talent such as the ANFACO & Banco Sabadell Foundation Design Award and the ADI FAC Medals of Associació de disseny industrial; the Joan Guinjoan International Award for Young Composers of ESMUC; the Maria Canals International Music Competition for piano performers; the International Award for Young Cellists of Fundació Pau Casals; the Mirna Lacambra Competition for the professionalisation of young opera singers; the Rosa Barba International Landscape Award within the Biennial of Architecture organised every two years by Col·legi d'Arquitectes de Catalunya (COAC).

- Collaboration with programmes to promote a culture of innovation from the grassroots level, boosting young people's minds with a focus on human, creative and social skills, such as the Human Up programme of the Association for the Promotion of Young Talent; the Acumen Fellows Programme of the Open Value Foundation; or the Entrepreneurship and Leadership Programme of the Reina Sofía School of Music for young classical musicians.

- The Banco Sabadell Foundation also collaborated with the female, multidisciplinary and intergenerational crew Hypatia I, selected to carry out an analogue mission to the Mars Desert Research Station (USA) with the aim of advancing Martian research and promoting space exploration.

Business support and training

- The 'Export to Grow' (Exportar para crecer) programme: As part of its commitment to provide training in internationalisation to small and medium-sized enterprises, Banco Sabadell, in collaboration with AENOR, AMEC, Arola, CESCE, Cofides, Esade and Garrigues, has been promoting the 'Export to Grow' programme since 2012. This programme supports SMEs in their internationalisation process, through online tools, specialised information services and the organisation of roundtables throughout the country. Under this programme, a series of International Business Conferences (*Jornadas de Negocio Internacional*) have been held in online and hybrid (in-person + online) format, most notably the session on letters of credit: an exporter's guide, with the participation of 900 companies, and the session on international taxation issues for Spanish companies with 460 participating companies. In addition, a selection of news content concerning international business is offered through a newsletter that is sent to the Bank's business customers every month, with information about international markets and business sectors most likely to be concerned with internationalisation or export matters.

- Sabadell International Business Programme: The Institution has held the sixth edition of this university-certified training programme that offers advice to business customers, which has attracted the participation of more than 400 companies engaging in international business.

- The new editions of the Financial Advisor for Religious and Third Sector Institutions training course ended, which are promoted in collaboration with the post-graduate school of the University of Francisco de Vitoria that aim to be a solid foundation for the day-to-day management of administrators and bursars. A renewed and expanded course, updated with new content that make it more cross-disciplinary, offering complete and rigorous training to professionals and collaborators in the sector with the aim of reinforcing the specialised knowledge of these institutions and helping to provide their administrators with knowledge and tools. A brief and fully online course (12 ECTS and 24 MiFID accreditation hours) that offers tutorials delivered by Banco Sabadell specialists. These last two iterations of the course were open to professionals from all sectors and had a wide range of scholarships available covering up to 80% of the enrolment fee. At the end of the programme, the students received their certificates from the University of Francisco de Vitoria. These two new editions culminated with a total of 244 enrolled students (75 of whom were Banco Sabadell employees) and a total of 188 students received their certificates of completion.

BStartup

Banco Sabadell's BStartup is the pioneering and benchmark financial service in Spanish banking for startups and scaleups. It provides these companies with 360° service of specialised banking and equity investment.

Specialised banking is based on a team of relationship managers dedicated exclusively to startups and scaleups in the Territorial Divisions (TDs) with the highest concentration of this type of companies, with a specific risk management process, specific products and a team of specialists that support branches throughout Spain.

As at 2023 year-end, BStartup had 5,128 startup customers. They are very internationalised customers, often with complex transactions that require these highly specialised managers and services.

In 2023, BStartup's specialisation has been given a definite boost by enhancing training. Training was developed for all BStartup branch managers and advanced training for BStartup enterprise managers, who work exclusively in this segment. This training course was also taught to risk analysts specialised in startups.

Thus, the Catalonia TD concentrates all its startup customers at the main Barcelona branch, where it has six relationship managers, a representative and a risk analyst, all of them fully dedicated to startups, scaleups and investors. In 2023, it onboarded a new large enterprise manager specialised in high-turnover startups.

In the autonomous community of Madrid, the main Madrid branch concentrates most of the startups in this region and has a representative and four enterprise managers who are dedicated exclusively to these young innovative companies.

Valencia also has a branch fully dedicated to startups with an enterprise manager.

The other regions still have 20 BStartup branches with 25 relationship managers who, without working exclusively in this segment, regularly receive specialised training and have a specific risk management process in place with 7 risk analysts.

Equity investment targets mainly early-stage digital and technology companies with strong growth potential and innovative, scalable business models. During 2023, BStartup has invested 1,050,000 euros in ten startups.

BStartup invests in all types of sectors, but maintains its investment verticals:

- In 2023, BStartup launched the third call for proposals under BStartup Green to invest in 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 submitted proposals under this third call.
- In 2023, the sixth edition of BStartup Health was held. It is a programme designed to support health projects, in which invested funds are primarily used to validate technology, research and business. This year’s edition ended with 108 enrolled startups.
- During 2023, BStartup was very present at the main events of the entrepreneurial ecosystem. BStartup’s team has actively participated in 110 entrepreneurial events across Spain.

Companies Hub (Hub Empresa)

Companies Hub is Banco Sabadell's business connection centre, a hybrid model that combines:

- A digital space where companies can connect to each other through workshops and webinars led by the Bank's experts and leading external figures. They are inspiring and engaging sessions in which professional experiences, current content and the latest business trends are shared.
- A physical, landmark space for companies in the centre of Valencia, where they can meet and connect with other companies, receive training and business advice from experts in areas such as digital transformation or the sectoral economy, as well as other specialities such as financing, internationalisation and startups.

For all these reasons, Companies Hub is a service that contributes to Banco Sabadell’s positioning in the business segment as the bank that best understands their challenges.

The most noteworthy milestones of 2023 are:

- The strengthening of the hybrid model. This is the result of the consolidation of the online programme, as well as the fact that it was once again possible to generate at Companies Hub Valencia a recurring programme in face-to-face format. Moreover, it is possible to add content to the online programme from there by streaming some sessions to other regions.
- The series ‘Inspiring Stories’ with corporate customers interviewed by TD executives is one of the most eagerly awaited and successful events as it reinforces the Institution’s position as an expert and approachable business bank, while it involves the branch network at the same time.
- The Bank has carried on with the now staple series ‘Sustainability in SMEs’ with various sessions on the subject in collaboration with the Sustainability Division.

Companies Hub is committed to always being up to date with new challenges and opportunities, and consequently, it featured various sessions on artificial intelligence, an essential resource for driving innovation, efficiency and growth in companies, which also raises concerns and questions among customers.

Furthermore, people can access the content produced by the Companies Hub not just through its platform but also in social media and traditional media. It is a tool that serves the purpose of establishing communication between the Institution and SMEs, businesses and freelancers, which also generates content in other types of media such as articles, news or videos that entrepreneurs can view in the press and social media.

All this generated 1,246 mentions in social networks and offline and online media, reaching a total audience of 115 million users.

The topics for this year were the following:

a. The series ‘Inspiring Stories’: with success stories from large customers

b. Business financing

c. Next Generation EU funds

d. The series of conferences on enterprise digitalisation

e. The series of conferences on sustainability

f. The series of conferences on solutions and information for internationalisation

g. Vertical solutions: sessions for specific sectors, such as small merchants

h. Sectoral trends, such as the series of conferences ‘The World to Come’ (El Mundo que Viene) discussing various current topics: tourism, hospitality, agriculture, etc.

i. Leadership, professional and management skills, etc.

In 2023, the project kept both number of webinars and the impact generated by the Companies Hub intact across the entire territory. In total, 103 (online and hybrid) sessions were held, in which 17,884 companies and freelancers participated (including hybrid events), with an average participation of 174 attendees per session.

The Companies Hub Valencia held 54 activities (in collaboration with others and the Bank’s own sessions) and the space was rented out for other events on 90 occasions with 8,604 attendees.

In addition, at the Valencia space, the meeting rooms were booked on 553 occasions with 2,232 attendees; 2,942 individuals visited the physical space and 65 new customers were acquired.

Therefore, the total number of users of Banco Sabadell’s Companies Hub between webinars, in-person events and online streams, meeting room bookings and additional traffic during 2023 has been 25,940, with 205 activities.

The assessments of the sessions continue to reflect the great reception and acceptance of their content by Spanish companies, with an overall rating of 9.30 out of 10, with 48.82% of the participants giving Companies Hub a score of 10.

Furthermore, 87 videos summarising the sessions were made for dissemination on the Bank’s social media, and more than 46 articles and news items were published in different branded content spaces in online media and 21 news item in print and online media about the Companies Hub and its support for companies, as well as the topics covered by the webinars.

In 2023, the commitment to continue the series of conferences on sustainability remained strong to thus provide practical and valuable ESG-related information with the involvement of both in-house and external experts.

Six online sessions were held with a total of 663 attendees.

The sessions that were part of the series of conferences on sustainability are the following:

- **Sustainability as a business opportunity: strategies and keys to business success**: Session in which the Group’s customers explained how their business perspective has changed since they included sustainability in their processes. There was also more information about best practices and what they are doing in their day-to-day activities, including practical examples. With a total of 238 attendees and a rating of 8.95/10.

- **The challenge of the energy transition and how to finance it:** This session was held in hybrid format and gave an overview of the current state of the sector and the different ways to finance solar and wind farms, both from a banking and institutional standpoint, as well as a brief introduction to solar and wind M&A. With a total of 110 attendees and a rating of 9.4/10.

- **How sustainability impacts a company’s profit or loss account**: This session featured SIDENOR and the Bank’s experts in finance and sustainability and delved into topics, such as:

  - Best practices

  - How sustainability involves companies and applies to them (mandatory and/or desirable reports)

  - What are the business benefits

- How sustainability influences the profit or loss account and where to focus
- Resources available to advance the sustainable transition, with a total of 148 attendees and a rating of 8.70/10.

- **How sustainability affects the tourism industry: implementation and keys to business** success when it comes to financing: This session discussed with two leading companies in the sector and two Banco Sabadell experts in the tourism industry and sustainability topics such as best practices, how it applies to companies (legal implementation milestones and trending ESG criteria), decarbonisation and support measures for certification, among others. With a total of 65 attendees and a rating of 9.30/10.
- **The ABC of sustainability: business application and benefits**. This session was held in hybrid format and explained four general but very relevant concepts for sustainability, starting with its definition, analysing its business application and going over the extent of its implementation in the market and in companies. With 18 companies attending in-person and 65 online. The session scored a rating of 8.83/10.
- **Keys to how companies can tackle climate risk.** This session delved into this type of risk, by first explaining the context and then bringing in the experience of the agricultural sector, a pillar of the food industry and one of the main sectors of the Spanish economy. With a total of 37 attendees and a rating of 9.21/10.

Culture as a tool for transformation

The Banco Sabadell Foundation's mission is to bring culture closer to society by co-promoting, together with flagship cultural centres, cultural transformation projects, educational projects and transformative proposals that contribute to training, creation, development and employability of young people through various artistic disciplines. The following activities are particularly noteworthy:

- Design and pilot test of a career guidance programme aimed at socially vulnerable young people run by Fundación Exit, based on innovative experiences related to the arts that provide a new perspective to the guidance and self-awareness of youngsters from a holistic, humanistic and empowering standpoint through three stages: awareness, exploration and decision-making.
- 'Atempo, arts i formació' in the province of Gerona and a training seminar in Seville by Fundació La Ciutat Invisible, a project that aims to forge links between the educational world and the artistic world, training professionals from both sectors and making it easier for young people to take an active part in cultural life, as well as fostering innovative processes.
- Art and Social Impact Hackathon: The Banco Sabadell Foundation organised with the support of Asociación TFCoop (U4Impact) and Círculo de Bellas Artes a hackathon in which 138 young people registered to take part. Participants worked in challenges posed by entities from the Banco Sabadell Foundation's ecosystem, applying tools from the worlds of art and culture to develop social impact projects.
- The film education projects Dentro Cine of Madrid Destino and Horagai of La Selva Ecosistema Creatiu, aimed at vulnerable young people with the dual purpose of training them while at the same time providing them with the tools for self-awareness and emotional skills. • La Movida, a youth training and engagement programme run by Kubbo to prepare educational innovation proposals in special art education (music, dance, theatre and audiovisual) that, through digital communication in new formats, trains young artists to make innovative proposals to transform their own artistic education.
- The Las Artes Escénicas al servicio de la juventud ('The Performing Arts at the service of young people') programme run by Fundación Teatro Joven that aims to build bridges between the performing arts and the general public by placing young people at the forefront, particularly focusing on education, through a theatre project that encourages their emotional development, critical thinking and social awareness.

Bridging of the digital divide

In 2023, Banco Sabadell has promoted the following programmes and initiatives, upholding its commitment to education and digitalisation:

- The ‘Technological independence and digitalisation’ programme, to bridge the digital divide among older people, in collaboration with Fundación Alares, an organisation specialised in improving the quality of life of older people and other vulnerable groups. The aim of its training activities is to provide those taking part with information about and access to the possibilities that ICT has to offer, improving not only their independence and quality of life but also their sense of belonging and companionship.

Since its launch in May 2020, 38 four-hour workshops have been organised, with an average of 12 people in attendance. The workshops are taught by a specialised technician from Alares and a volunteer from Banco Sabadell. 34 volunteers have taken part and this programme has reached a total of 11,956 individuals.

- The Banco Sabadell Foundation has carried out the following programmes:

- The Conecta Joven-Conecta Mayores (Connect the Young – Connect the Elderly) programme in collaboration with Fundación Balia por la Infancia, an intergenerational project in which young people aged 14 to 18 carry out, on a voluntary basis, a learning process to teach basic computer skills and the use of digital devices to over 60s, with mild cognitive impairment and with intellectual disabilities who, for various reasons, have difficulty in accessing new technologies.

• The university expert course on digital skills of Fundación Universitaria Las Palmas (FULP) that seeks to prepare recent further education graduates for a digitalised and ever-changing job market.

Through the Bank’s digital media and during the course of 2023, the Institution has carried out 300 internal and external activities and events. The vast majority of these are institutional, corporate and support meetings and customer support appointments, disseminated through social media, with short videos, blog articles and online sessions. It is important to highlight the dissemination of content on fraud prevention and cybersecurity, digitalisation and sustainability support carried out this year. During this financial year, the Group has enhanced its outreach work to alert customers on the different flavours of fraud so that they are aware and can identify them. The fraud prevention work is carried out mainly through the corporate social media channels in order to combat fraud and protect the Group’s customers. In 2023, the Group recorded more than 2,300 mentions on this topic reaching 52 million social media accounts. It is important to note the work to support companies, SMEs, self-employed workers and individuals that the Companies Hub carries out. This year, these activities totalled 111 and their content has been shared through the corporate social media channels: proactive information on public-private aid, management, business opportunities abroad, digital marketing and other related content.

7.2 Social and volunteering activities

Banco Sabadell puts the talent of its employees at the disposal of those who need it the most, thus reinforcing its commitment to building a better, more sustainable world, paying particular attention to vulnerable groups.

Corporate Volunteering Programme

This year, once again, the people who form Banco Sabadell have demonstrated their commitment to society, reaching beyond their professional duties, giving their time and sharing their talents to help people and organisations in need of them. More than 2,200 volunteers have taken part in social initiatives promoted by the Bank, its Foundation and other collaborating organisations, through the Bank’s Corporate Volunteering Programme.

In addition to the educational programmes described above, the initiatives and cooperation and charitable programmes carried out by the Bank include, most notably:

- Support for third-sector institutions that participate in the B-Value social innovation programme, the aim of which is to professionalise the value proposition and work on the sustainability of projects of non-profit social institutions throughout Spain.

Since the first edition of B-Value in 2017, the Banco Sabadell Foundation and other organisations that promote the programme have presented different awards to finalists from among the 40 participating entities. These awards help them to take their projects forward and give visibility to the causes that they support, putting the spotlight on talent and innovation. One of the keys to the programme’s success is the participation of Bank employees as voluntary mentors. This year, 40 employees from different areas of the

Bank and in pre-managerial roles have supported those organisations in developing their social impact projects.

This year, for the first time, 15 employees from Sabadell Zurich have joined as mentors to support the ten finalists during the second phase (in the middle of the acceleration process), given their experience and potential to add value.

- With regard to programmes that leverage the knowledge and experience of the Bank's employees and that concern vulnerable sectors of society and/or those at risk of social exclusion, two initiatives worthy of mention are the 'Leader Coach Project' and the Career Guidance Programme aimed at socially vulnerable young people run by Fundación Éxit, in which the Banco Sabadell Foundation is involved. It is a corporate volunteering initiative that seeks to improve the future employability of young people who have had an unsuccessful academic experience. This year, 40 volunteers from the Bank took part and dedicated 707 hours of their time to young people, to keep them in training.

- Involvement in programmes that bring young talent together to work on solutions to issues from challenges proposed by professionals in the cultural, social, artistic and technology sectors. 15 employees of the Bank have participated in the Art and Social Impact Hackathon as volunteers offering mentorship to teams of young people to design solutions by applying tools of the worlds of art and culture to generate impact projects that use artistic disciplines as a tool for transformation. Another group of three employees supported students of the University of Oviedo during the TalentUO Hackathon. These two programmes were promoted by the Banco Sabadell Foundation.

• In line with the goal of promoting and supporting young talent, the mentoring and talent management programme of the University of Alicante and the Technological Skills Centre of Alicante (CCTA) of Banco Sabadell is worthy of mention. In 2023, the third edition of the programme was held, in which 24 professionals from the CCTA guided 15 students from the University of Alicante during the resolution of a challenge, so that they could develop key skills for their professional future.

- Together with Fundación Éxit, the Bank has continued with a collaborative initiative that aims to promote female talent, by helping women aged between 18 and 25 who are thinking of returning to education or who are actively seeking employment. To do so, 11 volunteers from managerial roles at Banco Sabadell and with prior experience in mentoring and coaching assisted the young women through various workshops designed to help them develop soft skills, such as communication, initiative-taking, managing interpersonal relationships, etc., tools that will help them to enhance their self-knowledge and remove barriers limiting their future professional choices.

- In collaboration with Fundación Bertelsmann and as part of its 'Companies that Inspire' project, the Bank's Analytics and Artificial Intelligence Division gave a master class to young students on the occasion of the International Day of Women and Girls in Science, with the aim of promoting the choice of STEM (Science, Technology, Engineering and Mathematics) subjects among girls and teenage girls. The same team also taught data science workshops to students of training and employability programmes of Barcelona's metro area. 14 volunteers took part in this initiative.

- Women are also the recipients of the following programmes: 'Ace your job interview' (Triunfa en tu entrevista de trabajo), 'Job search 2.0' (Búsqueda de empleo 2.0), 'Ready and able' (Capaces) and 'Emotional intelligence for the workplace' (Inteligencia emocional para el empleo), in which the Bank has been collaborating with Fundación Quiero Trabajo since 2019. The aim is to empower people, particularly women, by enhancing their skills and attitudes, and by giving them the tools to manage the selection process and job interviews with success. This year, a total of 67 volunteers from the Bank mentored the participants of these programmes. In 2023 and in collaboration with Fundación Quiero Trabajo, the Bank has accompanied other vulnerable groups such as young people who are on day release at the Quatre Camins prison or members of the LGBTIQ+ community.

- Jointly with the Private Foundation for self-employment in Catalonia (Fundació Privada per a la Promoció de l'Autoocupació de Catalunya), and through its SOS Mentoring programme, 18 volunteers from the branch network worked with young entrepreneurs, self-employed professionals and micro-enterprises that have faced difficulties to start or continue their business. The Banco Sabadell mentors are delivering personalised support to help entrepreneurs diagnose their situation, evaluate alternative courses of action, identify the best decisions in different scenarios and implement them.

In addition, the Bank has an innovation community made up of 70 people, trained in agile, scrum and creative thinking techniques that put their talents and time at the disposal of the Institution and of projects that directly impact the Bank, customers and society in general. Testament to this is the participation in Hackathons with a charitable component such as the collaboration with Hospital del Mar or the Innovation Banking Hack Fest, organised by Sabadell Digital at the Technological Skills Centre of Alicante, in which 48 volunteers from Sabadell Digital and Banco Sabadell took part.

- In May 2023, the charity sporting team event Oxfam Intermón Trailwalker took place once again; this year, 37 teams from the Bank took part. More than 220 people, including walkers, personal helpers and volunteers raised 44,324 euros to contribute to Oxfam and to the work it carries out in over 90 countries to combat poverty and hunger.

- Along these same lines and with a charitable purpose, 180 employees took part in September in the Madrid corre por Madrid race sponsored by the Bank. The beneficiaries were Fundación Erick Lövass for autism, Fundación Madrid por el deporte and BUSF.

- At the initiative of the Institution's own employees, this year the Bank participated in the seventh Milla Nàutica Solidària, a swimming event organised in collaboration with the Barcelona Fire Department, in which 17 Banco Sabadell employees took part and raised 11,635 euros which will be donated to the non-profit association Mirada Neta that helps families with children diagnosed with autism spectrum disorders.

- Participation in Cheers4U, a fun inter-company teambuilding event in collaboration with Centro Especial de Empleo Icaria, which had 14 volunteers in order to help people with functional diversity enter the job market.

- Each year, to coincide with the Christmas festivities and in collaboration with the Fundación Magone - Salesianos Acción Social, through its corporate volunteering programme, the Bank runs the 'Be one of the Wise Men' (Conviértete en Rey Mago) programme, in which volunteers sponsor and deliver gifts in response to letters written by children under the care of the foundation. On the eve of Epiphany, the volunteers distribute the gifts. During Christmas 2023, 643 Wise Men from Banco Sabadell took part in this project. In addition, in collaboration with Cáritas Molina de Segura, 70 volunteers distributed the same number of gifts to local children.

- In 2023, the Bank once again organised 'donor days' to make it easier for the Bank's volunteers to donate blood. In collaboration with Banc de Sang i Teixits, four blood donor days were organised at the Banco Sabadell corporate centre in Sant Cugat with the participation of 275 employees. This year, the Bank also marked the twentieth anniversary of its commitment to Banc de Sang i Teixits and received a distinction in June. In other parts of the nation, such as Madrid, Alicante and Valencia, 108 volunteers were also able to donate blood.

Banco Sabadell promotes the wellbeing of its workers, social interaction between colleagues and involvement in charity and volunteering through Sabadell Life, an internal portal in place since 2016, which has more than 9,000 users among the Bank's employees. Through Sabadell Life, the Bank and its employees have the opportunity to propose other charity and/or volunteering initiatives. In addition, thanks to the collaboration with the startup Worldcoo, employees can make direct donations to any of the causes supported by the Bank, via the Actitud Solidaria platform located in Sabadell Life. In most cases, these causes are selected by the employees themselves. In 2023, employees answered the emergency appeal linked to the humanitarian crisis resulting from the war in Ukraine effectively, contributing 3,232 euros for Mensajeros de la Paz and the Convent of Santa Clara, with the aim of building a field hospital.

The Bank also contributed 8,086 euros to the needs of those affected by the earthquake in Syria and Turkey.

Furthermore, campaigns were launched in aid of the Red Cross to help those affected by the earthquake in Morocco and the floods in Libya, which are still ongoing.

Once again, the Bank has participated in organising the ceremony to award grants to charitable causes of the fund Sabadell Inversión Ética y Solidaria, FI, managed by Sabadell Asset Management, and in coordinating with beneficiary offices and entities in order to make the payments. This year, for the 27 charitable projects of the 27 entities selected by the Ethics Committee in 2022, a total of 279,968 euros has been awarded, 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 this aid to these projects in 2024.

In relation to charitable donations, there were 914 donation collection boxes installed and operational as at December-end, as part of the 'DONE' system, which integrate contactless technology. Since its launch, this system has helped to collect more than 5.4 million euros. These funds have been delivered to various charities and social entities, both religious and non-profit, channelling funds to meet the needs brought about by the effects of the pandemic.

In the case of the UK subsidiary, TSB, volunteering has a huge role to play in delivering against the bank strategy and the Do What Matters Plan. All TSB employees are given up to 8 hours per year for volunteering activities. In 2023, over 1,200 (20.7%) TSB employees volunteered with young people in schools, supported domestic abuse charities, and helped other good causes in their communities.

TSB has enhanced its school money confidence workshops and works with Neighbourly, an online volunteering platform to help to embed a volunteering culture and find skills-based opportunities that support money confidence.

As part of TSB's commitment to the communities it serves and their goal to driving social inclusion, in December 2022, TSB became the first high-street bank to offer a safe space to victims of domestic abuse under the charity Hestia's Safe Space both in branch and online. Their leading position has been complemented with support for employees and customers via an emergency flee fund for survivors of domestic, financial or economic abuse. This money is used to help them escape their abuser. Since its launch, TSB has helped over 200 survivors.

In relation to Mexico, in collaboration with Fundación Quiera and the Association of Mexican Banks (Asociación de Bancos de México, or ABM), the Institution made a donation in kind that allows funds to be allocated to foundations that mainly support vulnerable children and young people. Banco Sabadell Mexico also took part in the bank volunteering initiative of AFEECI (an association to eradicate child homelessness), through which employees can become more aware of these situations and play with the children and young people of this institution.

In view of Hurricane Otis, which hit Acapulco, Guerrero and Mexico in October, a food collection was carried out among employees to support the victims of this natural disaster. The food was sent through the Spanish Chamber of Commerce and the Mexican Red Cross to guarantee its delivery.

For the fourth year in a row, the entity continues to be part of the 'Young people building the future' programme, which integrates young people to the job market so that they can have their first professional experience and develop their skills in the bank.

Through Sabadell Seguros, in 2023 the Institution has also participated in various charitable initiatives, focused on people, diseases, social exclusion and poverty.

In this respect, 'Life Care Mujer' is a product aimed at addressing the specific needs of women. It is a life insurance product exclusively for women, which aims to protect the insured family's financial stability and economic needs in adversity, in the event of death, permanent disability or serious illness, such as female cancer diagnosis. In addition, for each customer that takes out Life Care Mujer insurance, Bansabadell Vida makes a donation of three euros to pioneering research projects that contribute to prevent and stop women's cancers. In 2023, 30,000 euros were donated to the Spanish Association Against Cancer (Asociación Española Contra el Cáncer, or AECC) and 15,000 euros to Fundación Contigo.

Social integration

The Banco Sabadell Foundation collaborates on projects aimed at social integration, such as:

- The B-Value programme, co-created by the Banco Sabadell Foundation and Fundación Ship2B, to promote social transformation through innovation. It is aimed at leaders in the third sector who work in non-profit organisations based in Spain and who seek to develop their projects with a strategic vision in mind, design new income generation models, elevate their value proposition and move away from traditional philanthropic schemes.

- Art education projects through film, such as the Dentro Cine programme run by Madrid Destino Cultura, Turismo y Negocio (Matadero) or the Horagai programme run by La Selva, Ecosistema

Creativo, all targeting vulnerable young people, with the aim of training them in the craft and language of art and filmmaking, providing them with the tools of dialogue and self-awareness. In addition to programmes that are channelled through music, as is the case of Zona Xamfrà Jove by l'ARC Taller de Música or the special education project Fuerza Musical run by Acción Social por la Música where children and young people with intellectual disabilities have the opportunity to express themselves and develop through musical group practice.

- The SuperArte art scholarship programme of Fundación Grupo SIFU, which identifies talented young individuals with functional diversity in the field of music and dance. In the same vein, the Entrepreneurship and Leadership Programme of the Reina Sofía School of Music is also worth highlighting. Through it, young classical musicians create innovative projects, many of which are aimed at the social sector, in order to take classical music to groups at risk of social exclusion, as well as the career guidance model of Fundación Exit, aimed at socially vulnerable young people and which offers an innovative perspective on counselling in a holistic manner through a model that encourages self-awareness. Also worthy of note is the academic scholarship programme for vulnerable young people with outstanding academic record promoted by Fundación Dádoris.

To address the needs of the more vulnerable segments of society or those at risk of financial exclusion, products are marketed in a targeted manner, such as the 'basic payment account', an account suitable for asylum seekers or persons without a residence permit. In addition to debt restructuring actions on shared residence mortgages, which are carried out to protect customers at risk of losing their home due to an inability to pay, in line with the provisions of the Spanish Regulation (Royal Decree Law 6/2021), which the Institution has voluntarily adhered to since it entered into force.

Medical research and health

In addition to the four Awards for Biomedical, Economic, Scientific and Marine Sustainability Research, the Banco Sabadell Foundation also supports scientific research through programmes promoted by flagship institutions in the sector. For example, as member of the Board of Trustees of BIST (Barcelona Institute of Science and Technology); with programmes such as Intensifica't al Taulí, promoted with Consorci Parc Taulí in Sabadell to give scientists the opportunity to dedicate 12 months of their time to their lines of research; the pre-doctoral research grants awarded to students of the San Jorge University in Zaragoza; the pre-doctoral grant awarded by the Principality of Asturias' Foundation for Biosanitary Research and Innovation (FINBA); or the support offered for the annual activities of Fundación Pasqual Maragall and to Instituto Degén of the Spanish Foundation for Aid to Parkinson's Research. Another of the leading research institutions with which the Banco Sabadell Foundation collaborates is the Spanish National Cancer Research Centre (Centro Nacional de Investigación Oncológica, or CNIO) through a series of conferences on scientific and philosophical topics.

Economic development

Since 2002, the Banco Sabadell Foundation has been accepting applications for the Banco Sabadell Foundation Award for Economic Research, which marked its twenty-second edition and aims to foster and recognise the work of Spanish researchers in the fields of economics, business and social sciences, and to contribute to the analysis and creation of new alternatives that promote social welfare.

Promoting alliances

The Banco Sabadell Foundation promotes the creation of alliances between institutions that seek to raise the profile of culture, the arts, research and education in order to build avenues for collaboration and a more critical, fair and inclusive society. It supports the institutions with which it collaborates by providing its knowledge and networks and by boosting synergies between institutions and projects to facilitate collaboration.

The Banco Sabadell Foundation has brought together close to 20 leading organisations involved in the field of music to take part in SumArte in order to share, reflect on and promote collaboration and the co-creation of projects in the industry.

7.3 Social housing management

Banco Sabadell manages social housing through Sogeviso (a wholly owned subsidiary created by the Bank in 2015) in order to responsibly tackle the social exclusion of its vulnerable mortgage customers and the loss of their primary residence, as part of the Bank's sustainability policies.

In its eight years of activity, Sogeviso has managed around 23,000 contracts for social or affordable rent and it has helped some 8,500 families improve their social and economic situation through its programmes designed to offer social support and improve employment prospects (JoBS), as well as overcome the digital divide (Pathfinder).

As at 31 December 2023, Sogeviso managed 2,336 properties under social and affordable rental arrangements specifically aimed at these vulnerable customers. In 8% of these cases the ‘Social Contract’ has remained in place.

The Social Contract is an innovative model for managing vulnerable customers. It is a service for customers who rent a property under a social rental arrangement that is adapted to their income and that offers specific support provided by a social manager based on three independent lines of approach: connect these customers with public services, support them with training to manage their household finances and facilitate access to public aid, and the JoBS programme.

The JoBS programme is a job placement service that aims to provide customers with skills and tools to enable them to access the labour market, as well as market research to match profiles with existing job offers. Since the launch of the Social Contract in 2016, a total of 2,382 people have found work thanks to the JoBS programme.

The Social Contract currently provides services to 187 families, including 23 individuals actively seeking employment through the JoBS programme.

Under the scope of action of the Social Contract, the ‘Pathfinder’ programme was organised in 2021, aimed at bridging the digital divide. This programme was set up with the collaboration of the Mobile World Capital Foundation, which provided technological devices to participants, and the Ayo (Accelerating Youth Opportunities) Foundation. In the programme’s first phase, 33 training workshops and 21 group tutorials were held, attended by 21 users, 62% of whom were women. Thanks to the Pathfinder programme, 62% of participants improved their digital skills.

Since the beginning of Sogeviso’s management, 4,754 families, all Banco Sabadell customers, have improved their socio-economic situation, and 68.3% of applications for rental arrangement renewals in 2023 submitted by families who had taken part in the social support programme for 18 months or more were approved with higher rents charged to those families thanks to an improvement in their socio-economic circumstances.

In addition, Banco Sabadell has assigned 104 properties to 40 non-profit institutions and/or foundations, aimed at supporting the most disadvantaged social groups, and since 2013 it has been a member of the Social Housing Fund (Fondo Social de la Vivienda, or FSV), contributing 440 homes intended mainly for customers acquired through deeds in lieu and repossessions. Of the FSV housing stock, 81% is let out under social rental agreements currently in effect.

Since 2021, Sogeviso has held the prestigious international B-Corp certification. This certification attests Sogeviso’s social and environmental impact and ratifies its high standards of ethics, transparency and social responsibility.

On 14 March 2023, Sogeviso was awarded the Social Inclusion seal of distinction, in the category of social and labour market integration, given by the Ministry of Inclusion, Social Security and Migrations. This seal is awarded to institutions or companies engaging in activities that help those receiving the minimum living income *(ingreso mínimo vital*) from the State, helping them to move from a situation of poverty and exclusion to taking a more active role in society.

On 21 November 2023, Sogeviso received a SERES award for its socially responsible housing management. Its Social Contract was recognised by the SERES Foundation as one of the corporate actions that help to improve society and to bridge the existing gap with the most disadvantaged social groups. With this distinction, Sogeviso was recognised as Spain’s first real estate company to focus on people for responsible and sustainable management of housing.

7.4 Sponsorship

With regard to sponsorship, the budget allocated for 2023 was 1,648,550 euros. Sporting events continue to be the item with the greatest weight within the budget, accounting for a total of 49%. Sporting events include the cycling tours around the Basque Country and the Valencian Community, as well as the “Madrid

Corre por Madrid" fun run. The majority of the remaining budget was allocated to cultural events (music festivals) and business-related events. During the year, partnerships were struck with several foundations and non-profit organisations in Spain.

In addition, the Bank has once again sponsored the Barcelona Open Banc Sabadell - Conde de Godó Trophy, in its 2023 edition as a show of responsibility and support to the city of Barcelona, in a clear commitment to the city's economic and business activity. The investment[74] came to 1,800,000 euros for sponsorship and 288,400 euros for complementary actions to promote that sponsorship, such as merchandising, the creation of a stand and the purchase of tickets for hospitality purposes.

7.5 Patronage

The Banco Sabadell Private Foundation, through its sponsorship actions, carries out the majority of its activities in collaboration with the leading institutions in the sector in order to achieve its objectives in both the cultural and talent spheres, whilst at the same time highlighting the work of other institutions with extensive experience and impact.

In 2023, the Banco Sabadell Private Foundation received an endowment of 5 million euros from Banco Sabadell, intended for implementation of the annual Action Plan approved by the Board of Trustees in January 2023, in which 3,716,208 euros have been allocated at the end of the year to carry out its activities. .

The Banco Sabadell Private Foundation organises its activity in two main lines of action: Research & Education and Culture & the Arts, distributing the budget as follows:

Area and field	No. of collaborations 2023	Amount allocated 2023	No. of collaborations 2022	Amount allocated 2022
Culture and the arts	112	€2,423,206.00	106	€2,381,661
Research and education	54	€1,293,002	54	€1,278,649
Overall total	**166**	**€3,716,208**	**160**	**€3,660,310**

Every year, the Banco Sabadell Private Foundation publishes its annual report on https://www.fundacionbancosabadell.com/en

7.6 Institutional relations

The Bank takes part in different alliances, forums and initiatives related to the financial sector and in areas that contribute to economic development and to society in general, such as research, sustainability, innovation and digital transformation, among others. In 2023, the amount invested in institutional representation, including the main partnership actions related to sectoral representation, business associations, chambers of commerce and institutions of economic interest, amounted to €2,098,368 as at year-end.

In 2023, some of the largest sector contributions went to the Spanish Banking Association (€846,493), the Spanish Chamber of Commerce (€110,000), the Foundation for Applied Economic Studies (Fundación de Estudios de Economía Aplicada, or FEDEA) (€90,000) and the Institute of International Finance (IIF) (€85,073).

7.7 Consumers

Banco Sabadell adheres to the Code of Good Practice (Código de Buenas Prácticas, or CBP) enacted by Royal Decree Law (RDL) 6/2012 of 9 March and to its subsequent modifications, the latest of which was introduced by RDL 19/2022, extended by the Council of Ministers Agreement of 22 November 2022, whose main objective is to arrange for the viable restructuring of mortgage debt for primary residences, which is aimed both at families struggling to make their mortgage payments because they are on the 'exclusion threshold' and at persons in vulnerable situations. The Bank reiterated its commitment to the CBP in 2023, arranging 682 debt restructuring transactions under its auspices.

With regard to Spain, in accordance with Order ECO 734/2004 of 11 March, Banco Sabadell has a Customer Care Service (Servicio de Atención al Cliente, or SAC) which handles complaints and claims.

[74] The total figure shown in the first paragraph does not include investment in the Barcelona Open Banc Sabadell - Conde de Godó Trophy.

Customers and users may also appeal to the Customer Ombudsman, an independent body of the Institution that has the authority to resolve any issues referred to it, in both the first and second instances. Decisions by the Customer Care Service or the Ombudsman are binding on all the Bank's units.

In accordance with its Regulations, the SAC handles and resolves complaints and claims from customers and users of Banco de Sabadell, S.A. and other associated entities: 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 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. Its main function is to handle and resolve complaints and claims brought forward by customers and users of the financial services of the Bank and its associated entities, under the principles of transparency, impartiality, effectiveness, coordination, speed and security.

During 2023, the following complaints and claims were received and managed in accordance with Bank of Spain Circular 4/2001 of 25 November:

Complaints and claims received	Volume
Customer Care Service	51,175
Customer Ombudsman	2,952
Bank of Spain	720
Spanish National Securities Market Commission (CNMV)	37
Total complaints and claims received	**54,884**

Complaints handled	Volume	Percentage
Resolved in favour of the Institution	15,775	45.2%
Resolved in favour of the claimant	19,155	54.8%
Inadmissible as a result of the application of Regulations	18,914	

In the case of TSB, if we take the figure for the year up to 30 November 2023, the number of recorded complaints, claims and other communications was 62,696. The volume recorded during the same period in 2022 was 69,178 and, therefore, 2023 represents an 9.9% reduction (6,482) on that figure. This reduction is mainly explained by improvements made to the customer journey and to the system's greater stability. Of the total number of complaints, claims and other communications recorded in 2023, a total of 61,543 (98.2%) were resolved before the end of the year, i.e. 31 December 2023.

TSB is the first UK retail bank accredited by the Good Business Charter, a national accreditation scheme that recognises businesses that behave responsibly and measures behaviour over 10 components: real living wage, fairer hours and contracts, employee wellbeing, employee representation, diversity and inclusion, environmental responsibility, paying fair tax, commitment to customers, ethical sourcing and prompt payment.

With regard to Mexico, a total of 11 complaints and 1 claim were received in 2023.

For more details, see Note 42 to the consolidated annual financial statements for 2023 and the SAC section of the Directors' Report.

Vulnerable customers

The Bank is currently monitoring the evolution of its vulnerable customers (understood as customers who, due to personal, economic, educational or social needs or circumstances, are in a situation of special dependency, defencelessness or lack of protection that prevents them from exercising their rights on an equal footing), mainly in three areas:

- The first area is **financial vulnerability**, i.e. low-income customers. During 2023, the Institution has made progress with its identification of financially vulnerable customers to ensure they are managed separately.

The Institution has taken action to publicise the main features of the Basic Payment Account, through communication initiatives (focusing on customers in vulnerable situations). Specifically, it sent out information to a selection of customers who were thought to be potentially vulnerable in financial terms (sending 2,165 messages in total), informing them of the existence of the Basic Payment Account. The Bank's Basic Payment Account is a current account designed to offer access to basic banking services to everyone, irrespective of their economic circumstances. Its most noteworthy features include the option to make essential banking transactions such as cash deposits, cash withdrawals, debit card payments and transfers.

This financial product is particularly beneficial for vulnerable groups, as it has no minimum or maximum income requirements and it offers flexible terms and conditions for opening and using the account. In addition, reduced fees are applied to this group of customers, so as to alleviate their financial burden.

The Institution has continued to train its teams specialising in debt recovery so that they may offer customers the option of requesting application of the special measures provided in the Code of Good Practice, in light of the impact of the new mortgage code published in December 2022 and revised in December 2023. Work is also still underway to design actions that will minimise the impact of rising interest rates on customers who cannot request application of the special measures provided in the Code of Good Practice.

• The second area is **digital vulnerability**, i.e. customers with difficulties in accessing and using online/digital banking services, as well as ATMs. The following actions taken during 2023 are worth mentioning:

1. The impact analysis of the Accessibility Directive is now underway. This Directive lays down universal accessibility requirements for products and services so as to optimise their autonomous use by all people, in particular by disabled persons.

2. Notifications have been sent advising customers of branch closures or relocations and of the continued availability of standalone ATMs where a relocated branch was one of Banco Sabadell's in the municipality in question.

As a result of Compliance's analysis of branch closures effected as a result of merging Banco Sabadell branches in July 2023, it was proposed that new messages be sent out to customers, specifically to those over the age of 65, not only to inform them that their local branch had been relocated but also to:

– Inform this social group of the free-of-charge telephone assistance service available to them.

– Identify customers who still use or have a passbook in order to recommend that they elect to have their account statements mailed to their home address instead.

– Have relationship managers make additional calls to ensure customers were aware that their local branch would be moving to a different location.

In parallel, an information leaflet was handed out to branches to improve the care provided to elderly citizens, the content of which was agreed on between the Spanish Banking Association (AEB), CECA (Spanish Confederation of Savings Banks) and UNACC (Spanish National Union of Credit Cooperatives), hereinafter referred to as banking employers' associations . The leaflet explained the actions being taken by the banking industry to help this group with their day-to-day banking. The campaign "Tu atención, nuestra prioridad" (meaning 'Serving you is our priority') describes the commitments undertaken by the banking industry to improve the service provided to those over the age of 65.

Sabadell reaffirms its commitment to the financial inclusion of all social groups, particularly the elderly and the disabled. In Banco Sabadell, those over the age of 65 do not pay any fees for withdrawing cash. This approach has been endorsed by the government with its recent legislation (Royal Decree-Law of 27 December), which reinforces this goal, removing fees for cash withdrawals at bank counters for disabled persons and persons over age 65.

A quarterly monitoring report had been published, in November 2023, reflecting the progress made in relation to helping elderly and disabled groups under the Protocolo Estratégico para Reforzar el Compromiso Social y Sostenible de la Banca (strategic protocol to reinforce banks' commitment to society and sustainability), signed by the three aforesaid banking employers' associations, with data as at 30 June 2023. This monitoring report concluded that the percentage of branches that are required to extend their on-site opening hours had increased customer usage of these features of personalised telephone support and that banks' customers and staff had received more training and financial education.

In addition, as regards ATMs, actions have been taken in recent years to ensure that as many people as possible have access to the service. To that end, the following actions were taken:

a. Installation of keyboards with bas-relief on the number 5 key and with serigraphy for the numbers 0 to 9 keys to allow users to detect what the number is, and also for the “backspace” and “enter” keys, with their corresponding signs.

b. Installation of ATMs at a height that allows them to be accessible by vulnerable groups, setting the height of the number 5 key on the keyboard at 105 cm on all ATMs.

c. Adaptability of ATMs, installing versions with simplified language and easier-to-read screens.

Lastly, in July 2023, the State Prosecutor’s office, the Bank of Spain and the banking employers’ associations signed a collaboration protocol to ensure the autonomous use of banking products and services by disabled persons. The agreement lays the groundwork to ensure that banking practices are adapted to the new legal treatment of disability provided in legislation (Law 8/21), designed to allow those with disabilities to have more autonomy in their decision-making, with the aim of promoting collaboration to gradually bring in the necessary adaptations so that disabled persons may do their day-to-day banking activities by themselves. These adaptations include, among other initiatives, the provision of information in an accessible style of language.

• The third area relates to customers with **regional vulnerability**, i.e. customers located far away from the Institution’s infrastructures, and it is characterised by difficulties in accessing cash.

Banco Sabadell has five mobile branch vehicles operating on different routes, three of them in Asturias, one in Galicia and one new route in the province of Leon (since September 2023). The routes in Asturias serve customers in 17 different towns, while those in Galicia and Leon cover 5 and 4 locations, respectively.

In 2023, work continued on the development and evolution of protocols such as the Protocolo Estratégico para Reforzar el Compromiso Social y Sostenible de la Banca (strategic protocol to reinforce banks’ commitment to society and sustainability) in relation to measures to foster financial inclusion, already mentioned in the previous section.

The progress made by banks is reflected in the two monitoring reports published by the banking employers’ associations in early November 2023 containing data as at 30 June 2023. These monitoring reports on the aforesaid protocols were published, making a distinction between the report on measures for the financial inclusion of the elderly and disabled (published twice a year and discussed in the previous section) and the report on rural areas (published every quarter).

The progress made in this last area has been, on balance, very positive, as 93% of municipalities with over 500 inhabitants that one year ago had no physical point through which to access basic financial services now have one already in place, or else have one which is either in the process of being set up, undergoing a public bidding process or currently under discussion with the relevant authority in order to be put in place soon. The remaining 7% corresponds to regions that opted out of this service (mainly because they are close to other locations that already have it in place).

Similarly, throughout 2023, follow-up meetings were held between the industry, representatives of users of financial services, the Bank of Spain and the Ministry of Economy to appraise the implementation of these services and explore ways in which they might be improved. In this respect, on 18 December 2023, after one of these follow-up meetings, the Ministry took a positive view of the impact of the aforesaid financial inclusion protocols and of the Codes of Good Practice signed and highlighted, in particular, that in 2023 significant progress had been made in relation to rural inclusion, ensuring access to services in more than 200 municipalities with over 500 inhabitants that did not have access previously, meaning that more than 200,000 people living in rural areas now benefit from financial inclusion.

7.8 Outsourcing and suppliers

The new challenges of competition and those faced by society today require close coordination between the Group and its suppliers, viewing the latter as partners and collaborators to help achieve strategic objectives and to ensure fulfilment of the goals and commitments in relation to sustainability (including its environmental, social and governance-related components).

In order to establish this long-term cooperation, it is also necessary to understand the needs and goals of suppliers, maintaining a willingness to honour their commitments and making them compatible with the Group’s requirements and vision.

Based on this principle, the Group has a Procurement Policy and a Policy on the Outsourcing of Functions, as well as several associated procedures and mechanisms through which it extends its commitment to socially responsible practices to the supply chain. These practices include the advocacy of human rights, workers' rights, freedom of association and environmental rights. These policies, procedures and mechanisms cover the entire end-to-end relationship with suppliers, from the start of the supplier accreditation and procurement process until the services are provided, controlled and managed.

The Group's Procurement Policy and its associated procedures lay down mechanisms and controls to ensure the adequate management of the actual and potential impacts of all third-party engagements, ensuring the following principles:

a. Cost-benefit analysis: all goods or services should be purchased or hired with the intention of ensuring that the benefit obtained outweighs the cost of producing them internally.

b. Competition guarantee: fair competition and equal opportunities among suppliers must be ensured, seeking to offer all those taking part in the bidding process the same opportunities, always provided they meet the minimum requirements, including obligations in relation to social responsibility.

c. Preservation of capabilities and responsibilities: procurement activities should not reduce the Group's internal control capabilities or make it any less able to fulfil its responsibilities before competent authorities and supervisory bodies.

d. Sustainability: the Group should ensure that it promotes the engagement of suppliers that apply best practice in matters related to ethics, governance, society and the environment.

The supplier engagement process comprises various phases:

Identification of need

The Group's various business units detect the need and make a decision, with Management's authorisation, to proceed to formally request initiation of the procurement process in order to meet the identified need.

Detailed analysis and definition of the engagement strategy:

Regulatory and legislative impacts of the procurement process are identified, thereafter deciding on the most suitable purchase process (e.g. tender process led by the Purchasing Division, tender process delegated to the unit that put forward the request, bilateral negotiation captained by the Purchase Division, etc.).

The accreditation process, a pre-requisite for a supplier to be awarded a service contract, ensures that suppliers meet the standards envisaged in the Group's various policies and comply with the Supplier Code of Conduct, which comprises:

- The United Nations' Universal Declaration of Human Rights.
- The International Labour Organisation's conventions.
- The United Nations' Convention on the Rights of the Child.
- The principles of the United Nations Global Compact, signed by the Group in February 2005, in the areas of human rights, labour, the environment and freedom of association.

In order to proceed with the accreditation process, suppliers must provide their legal documentation, financial information, quality certificates, tax clearance certificates proving they are up to date with their social security payments and tax obligations (or similar certificates to that effect depending on the geography), as well as their policy on Corporate Social Responsibility (CSR) and aspects related to sustainability (governance of the organisation, society and community, and environment), assigning a rating to suppliers (A+, A, B, C or D) based on the evidence provided. Accordingly, ISO certifications (ISO 9001, ISO 14001 and other certificates related to quality, environmental management, labour relations and occupational hazard prevention or similar) are requested, as well as disclosures of information related to the company's CSR and/or sustainability. In addition, details of the characteristics of the products made available to the Bank by the supplier (recycled, ecological and reusable products) are also required.

Supplier validations are carried out on a regular basis, checking that the documentation provided by suppliers is fully up to date to ensure compliance with supplier accreditation criteria, establishing mechanisms for sending regular alerts.

For supplier engagements in Spain (which account for over 75% of the Group's third-party billing), we have updated our supplier relationship management model to include the supplier rating system known as "RePro", created by ACHILLES South Europe, S.L., which gives useful information about partners that have responsible practices throughout their entire supply chain (assigning an ESG rating to each of them), ensuring that we only work with those that are closely aligned with our targets in relation to social, ethical and environmental responsibility. Furthermore, for suppliers not registered on the RePro system, Banco Sabadell has its own mechanisms that it uses to obtain a rating.

On the other hand, in terms of information security and the protection of data owned by the Group and to which suppliers have access, an analysis is conducted prior to engaging any potentially sensitive services in that regard, and specific monitoring exercises are carried out depending on the supplier's inherent risk.

Supplier engagement

The standard contract with suppliers includes clauses concerning the respect of human rights and the observance of the ten principles of the United Nations Global Compact on that matter, also including labour rights, the fight against corruption, restrictions on lending and investment in activities in the arms industry, and the equality plan.

The Group ensures compliance with the laws and regulations applicable at any given time, with contracts stipulating the ability to require suppliers to adapt their activities and service level agreements to those regulations.

Supplier recruitment in the international network is decentralised, hiring mostly local suppliers and affecting only products for sole use by the relevant branch or office in its daily activities. The hiring of local suppliers (those whose tax identification number coincides with the country of the company receiving the goods or services) contributes to the economic and social development of the regions in which the Group operates.

Monitoring

For services categorised as outsourced (as per criteria of EBA/GL/2019/02) and/or critical (to business continuity, for example), regular exercises are carried out to monitor the supplier's performance and their fulfilment of contractual obligations, which include aspects such as monitoring service level indicators or the application of the agreed relationship governance model and official releases/reports published on those forums. Based on these monitoring exercises, an overall appraisal is obtained of both the service provided and the supplier themselves.

Audits

In 2022 and 2023, Internal Audit conducted audits of supplier engagement processes in general and of outsourcing providers in particular (EBA/GL/2019/02 criteria).

The audit recommendations resulting from those evaluations found no critical aspect and are being implemented in accordance with the established calendar.

Information about suppliers

In 2023, the top 20 suppliers represented 39.48% of all supplier invoicing. Other noteworthy aspects are included in the following table:

In 2022, the top 20 suppliers represented 51.12% of all supplier invoicing. Other noteworthy aspects are included in the following table:

	2023 (Group) [75]	2023 (Spain)	2022 (Spain)	2021 (Spain)
Total number of suppliers who invoiced more than 100,000 euros at year-end	845[76]	548	577	558
% of suppliers of essential services (out of total suppliers)	7.7%	7.3%	7.3%	7.5%
Total number of approved suppliers	2,303[77]	1,407	1,376	1,279
Amount invoiced by Special Employment Centres [78]	€3.1m	€3.1m	€3.7m	€2.8m
Days payable outstanding [79]	N/A	25.49	28.74	27.30

These figures exclude those relating to brokerage, securities firms, subsidiaries, duties and taxes, pension funds, homeowners' associations, SOCIMIs (REITs) and rental of premises.

7.9 Tax information

One way in which Banco Sabadell Group's commitment to sustainability materialises is in the promotion and development of responsible tax management, aligned with the Sustainable Development Goals (SDGs) approved by the United Nations.

The action principles followed for tax matters are geared towards compliance with the SDGs, particularly those relating to fostering a fairer, more respectful, sustainable and cohesive society (e.g. "No poverty", "Reduced inequalities"), SDG 8 "Decent work and economic growth" being one of the priority goals for the Group that is closely related to tax affairs.

Tax Strategy

The principles of the Group's tax-related actions are listed and explained in the tax strategy[80] approved by its Board of Directors, which is reviewed annually, although it can be adapted if necessary in the event of regulatory changes or changes in the fiscal environment.

The tax strategy is applicable to all companies controlled by the Group and they are all required to comply with it, regardless of their geographical location, without prejudice to any adaptations made to comply with the requirements of jurisdictions' own legislation, as in the case of the United Kingdom. Such transpositions must be aligned with the principles, values and common action guidelines established in the aforesaid tax strategy. Similarly, the Group undertakes to ensure that, for investments in which control is shared with partners outside of the Group, or in which there is a significant shareholding, certain action principles in relation to tax matters are followed that are aligned with the tax strategy.

The tax strategy's principles and action guidelines are established in a way that is aligned and consistent with the Group's mission, values and business strategy, based on ethical and responsible management, guiding its commitment so that its activities have a positive impact on society as a whole. In the same vein, the business strategy is geared towards profitable growth that generates value for shareholders, with a conservative risk profile, as part of the framework of ethical and professional codes and taking into account the needs of the various stakeholders.

To that end, the Group has a set of policies, internal rules and codes of conduct that guarantee the aforesaid ethical and responsible behaviour at all levels of the organisation and in all of its activities.

The Group's Code of Conduct establishes the fulfilment of tax obligations as one of the fundamental elements underpinning its commitment to the economic development of society in all jurisdictions in which it operates, committing to pay taxes in each of them and contributing in this way to the economies of those regions, as well as acting in accordance with the principles set out in the tax strategy.

In order to detect and manage any elements that could put the aforesaid ethical and responsible behaviour at risk, the Group has a complaints channel in place that enables participation and dialogue with the various stakeholders.

[75] Includes data for all geographies.
[76] Includes 548 suppliers in Spain, 214 in the UK, 52 in Mexico and 31 in other foreign branches.
[77] Includes 1407 suppliers in Spain, 496 in the UK, 369 in Mexico and 31 in other foreign branches with turnover >€100,000.
[78] Information not applicable for geographies other than Spain.
[79] Average time taken to pay suppliers (in days), based on consolidated entities located in Spain. Information included in Note 21 "Other financial liabilities" to the consolidated annual financial statements for 2023.
[80] The Tax Strategy can be viewed on the corporate website: https://www.grupbancsabadell.com/corp/en/sustainability/fiscal-transparency.html

The principles set forth in the aforesaid tax strategy are the principles of efficiency, prudence, transparency and minimisation of tax risk, which aim to ensure compliance with current tax legislation by promoting responsible and transparent actions with regard to tax, in accordance with the requirements of customers, shareholders, tax authorities and other stakeholders. These principles are the following:

- Guarantee and ensure compliance with and observance of the current tax-related laws and regulations in each and every country and territory in which Group companies operate and/or are present, as well as the international guides and principles stipulated in relation to tax matters by the OECD (Organisation for Economic Co-operation and Development), by making reasonable interpretations of legislation that consider both the letter and spirit of the laws as well as their purpose.

- Establish tax criteria with a well-founded basis in Law, governed by existing academic and case-law criteria, and by international guidelines and standards.

- Verify that any transaction with tax implications is carried out for commercial and business-related reasons, even if the achievement of those objectives depends on maximum fiscal efficiency.

- Conduct a preliminary assessment of the fiscal implications of transactions so as to minimise tax risks, including reputational risk.

- Configure and market banking products taking into account all of their tax implications, which will be conveyed to customers in a clear and transparent manner.

- Assess related-party transactions, as legally defined at any given time, on an ‘arm’s length’ basis, in the terms established by the OECD, considering the roles, assets and risks of the parties involved and observing the recommendations approved by the OECD.

- Avoid structures or institutions that are opaque or resident in territories classed as tax havens/non-cooperative jurisdictions whose purpose is to reduce Banco Sabadell Group’s tax burden. Any presence or activity in those territories will exist solely for economic or business-related reasons.

- Foster constructive and collaborative relationships with tax authorities, on a reciprocal basis of good faith and transparency, guided by institutional respect and seeking mutually agreed solutions in the event of any dispute. As an example of these initiatives, Banco Sabadell adheres to the Code of Good Practice of Spain’s State Tax Agency (Agencia Estatal de Administración Tributaria, or AEAT), acting collaboratively and in line with the recommendations contained in that text.

It also proactively collaborates with competent authorities, accommodating their requests and taking part in cooperative forums and schemes promoted by local authorities, such as the Large Companies Forum, in order to help strengthen the fiscal system and prevent the generation of tax-related litigation and conflicts[81].

In addition, the tax strategy establishes that the Group should disclose relevant tax information in a direct, clear and transparent manner to its customers and shareholders, to tax authorities and to other stakeholders, taking their needs into consideration.

The attainment of the objectives set out in the tax strategy and compliance with the fundamental principles that govern it are ensured through the establishment of a tax risk management and control system, which is embedded in Banco Sabadell Group’s global risk management and control framework.

The purpose of the tax risk policy is to ensure that any tax risks that could affect the tax strategy are identified, assessed and managed in a systematic way and it establishes the governance structure in relation to the management and control of tax risk. The backbone of the aforesaid structure is the direct involvement of the Institution’s governing and management bodies within a corporate model based on three lines of defence, with clearly assigned roles and responsibilities.

To this end, the Board Audit and Control Committee oversees the effectiveness of the risk management systems. In 2023, the Board Audit and Control Committee supervised the Group’s tax management, focusing particularly on the implementation of the tax strategy and its guiding principles, the actions carried out to adequately analyse tax affairs, the main tax-related proceedings and actions on corporate tax governance (such as the voluntary submission of the Annual Tax Transparency Report for 2022, or the

[81] Details of the current status of the Group’s main tax disputes and the years open to tax inspection can be found in Banco Sabadell Group’s consolidated annual financial statements for 2023 (Note 39 – Tax Situation).

development of the stages subsequent to the submission and receipt of the Annual Tax Transparency Report for 2021).

Collaborative relationship with the State Tax Agency, Good Tax Practices and Transparency

Banco Sabadell adheres to the Code of Good Tax Practice (Código de Buenas Prácticas Tributarias, or CBPT), approved by the Large Company Forum, of which it is a member, and acts in accordance with the recommendations contained therein. Banco Sabadell voluntarily submits the "Annual Tax Transparency Report" on a yearly basis to the State Tax Agency (AEAT).[82]

Additionally, through its subsidiary in the United Kingdom, it follows the Code of Practice on Taxation for Banks, promoted by the UK tax authorities, complying with its content.

In line with the principle of transparency, the Group discloses relevant tax information directly, clearly and transparently to its different stakeholders, and includes that information in the various documents accessible on its corporate website (tax strategy, annual financial statements, Board Audit and Control Committee report, Tax Liability and Good Taxation Practices documentation, etc.).

In light of this commitment and actions in this area, Fundación Haz (formerly Fundación Compromiso y Transparencia) awarded Banco Sabadell the "t for transparent" label in relation to the tax information published for 2022. The Institution received the highest rating category, as a result of complying with 100% of the transparency and fiscal responsibility indicators.

Presence in tax havens / non-cooperative jurisdictions

In accordance with the corporate principles governing its tax strategy and the CBPT to which it adheres, the Group has undertaken a commitment to prevent the existence of entities resident in tax havens / non-cooperative jurisdictions, unless their presence or operations are justified on economic or business grounds.

Pursuant to this commitment, Banco Sabadell Group does not include any subsidiary undertaking resident in territories considered to be tax havens/non-cooperative jurisdictions, in accordance with the applicable regulations in Spain, the OECD guidelines and the position of the European Union[83], as stated in the 'Declaration of presence in territories classified as tax havens / non-cooperative jurisdictions', published on Banco Sabadell's website[84].

[82] The Annual Tax Transparency Report for the 2022 financial year was sent to the AEAT in October 2023.
[83] The subsidiary Bahamas Bank & Trust Ltd. is located in the Bahamas, a territory included in the "EU list of non-cooperative jurisdictions for tax purposes" of 4 October 2022. This does not entail a presence in this jurisdiction, as it is an inactive company in the process of liquidation (incorporated into the Group as a result of the merger by absorption of Banco Atlántico in 2006).
[84] https://www.grupbancsabadell.com/corp/en/sustainability/fiscal-transparency.html

Breakdown of profit and tax by country

Consolidated pre-tax profit[85], and details of corporation tax paid and accrued are set out below.

	Consolidated pre-tax profit		Corporation tax paid[86]		Corporation tax accrued	
Country	**2023**	**2022**	**2023**	**2022**	**2023**	**2022**
Spain	1,331,983	874,751	289,125	-16,420	-412,218	-223,405
United Kingdom	304,734	196,267	44,361	49,302	-84,715	-101,533
United States	155,442	144,311	57,631	19,933	-40,015	-34,613
France	27,465	9,909	-892	3,660	-5,541	-1,651
Portugal	5,059	3,732	1,391	1,709	-1,676	-1,072
Morocco	3,323	1,672	1,150	1,096	-1,004	-1,126
Bahamas	-90	-32	0	0	0	0
Mexico	62,862	42,705	16,090	8,243	-12,006	-9,856
Brazil	0	90	0	0	0	0
Andorra	0	-9	0	0	0	0
Total	**1,890,778**	**1,273,396**	**408,856**	**67,523**	**-557,175**	**-373,256**

Data in thousand of euros.

The data contained in the Non-Financial Disclosures Report as at 31 December 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).

Other contributions

In addition to corporation tax, the Institution contributes to the deposit guarantee schemes in place in each geography and to the European Single Resolution Fund, which have a positive impact on citizens' economic and financial security. Furthermore, every year it pays the Tax on Deposits of Credit Institutions and the capital contribution payable due to the monetisation of DTAs[87]and, since 2023, the temporary levy for credit institutions and financial credit establishments. The table below shows the breakdown of each of the contributions made:

	2023	**2022**
Contribution to deposit guarantee schemes	-150,784	-129,157
Banco Sabadell	*-132,209*	*-113,832*
TSB	*-280*	*-540*
Sabadell IBM Mexico	*-18,295*	*-14,785*
Contribution to Single Resolution Fund	-76,485	-100,151
Tax on Deposits of Credit Institutions	-34,418	-34,984
Capital contribution due to the monetisation of DTAs	-46,251	-48,069
Bank levy	-156,182	N/A
Total	**-464,120**	**-312,361**

Data in thousand of euros.

Public subsidies received

Subsidies received in Spain in 2023 (training) amounted to 1,267,807.34 euros.

[85] For the purpose of determining the countries and figures included in the following table, the constituent entities included in Banco Sabadell Group as at 31 December of each year are considered; therefore, there may be differences with respect to other information included in the annual financial statements, essentially due to entities being sold during the year or to the profit/(loss) contributed by companies consolidated using the equity method.
[86] This amount usually differs from corporation tax accrued, as the first is determined on a cash basis (net difference between amounts of tax paid – which essentially correspond to instalment payments – and amounts collected as refunds when the amount paid is higher than the resulting tax liability for the year) and in accordance with the payment schedule established by the tax legislation in force in each country, while the second corresponds to corporation tax accrued in accordance with the applicable accounting legislation.
[87] Deferred tax assets.

7.10 Anti-Money Laundering and Counter-Terrorist Financing

Anti-money laundering and counter-terrorist financing (hereinafter, AML/CTF) is a fundamental aspect of the fight against financial crime and constitutes a key pillar of our Institution's control framework.

Banco Sabadell Group focuses its efforts on establishing a robust control framework to effectively manage money laundering and terrorist financing risks, including both compliance with AML/CTF regulations and compliance with regulations on international financial sanctions in relation to the restrictions imposed by domestic and international bodies for operating with certain jurisdictions and persons, both natural and legal. This framework is applied in all entities of the Group, incorporating local regulations of the jurisdictions in which it is present, best practices of the international financial sector on this topic and the recommendations issued by international bodies such as the Financial Action Task Force (FATF).

Banco Sabadell Group and Banco de Sabadell, S.A. have Anti-Money Laundering and Counter-Terrorist Financing Policies in place, both approved by the Board of Directors, which establish the basic principles, critical management parameters, governance structure, roles and responsibilities, procedures, tools and controls applicable in relation to AML/CTF and which describe the main procedures through which Money Laundering and Terrorist Financing risks (hereinafter, MLTF risks) should be identified and managed at all levels of the Bank and of the Group.

These policies incorporate the following basic principles:

- Promotion and supervision of the adaptation and execution of the AML/CTF model by the Board of Directors.
- Promotion and direction of the execution and development of the AML/CTF model by Senior Management.
- Independence when performing the AML/CTF function.
- Autonomy when performing AML/CTF tasks.
- Effective management and control of MLTF risk.
- Assurance of compliance with regulations.
- Proactive collaboration with the competent authorities and coordination and cooperation with other areas of the Institution.
- Coordination and cooperation with other areas.

Similarly, the aforesaid policies establish the following critical management parameters, among others:

- Board member responsible for AML/CTF and representative before competent authorities.
- Ongoing monitoring of the business relationship.
- Counter-Terrorist Financing and International Financial Sanctions.
- Risk tolerance framework in relation to AML/CTF.
- Onboarding of customers and correspondent banks.
- Identification and knowledge of customers.
- Application of due diligence according to risk.
- Examination and reporting of transactions suspected of being related to MLTF.
- Staff training in relation to AML/CTF.
- Mechanisms for reporting potential AML/CTF breaches.
- Information management in relation to AML/CTF.

The rest of subsidiaries that are obliged entities from an AML/CTF point of view and foreign branches also have their own MLTF risk management and control policies, approved by their respective governing bodies, adapted to the specific legislation applicable in each country, as well as procedures, systems, processes and resources appropriate to the nature, size and complexity of the activities in which they engage, always maintaining the corresponding alignment with the policies and procedures established by the Group.

The Group's AML/CTF function defines roles and responsibilities on the basis of the model of three lines of defence:

a. 1st line of defence, formed of business and management units;

b. 2nd line of defence, which includes Compliance and Internal Control; and

c. 3rd line of defence, comprising Internal Audit.

The Group's AML/CTF units are integrated in the second line of defence and their goal is to ensure the fulfilment of legal obligations in relation to AML/CTF. The function comprises one Group unit as well as local units in each of the obliged entities and foreign branches, led by designated officers in each of the geographies in which Banco Sabadell operates.

Banco Sabadell Group has a control structure, with an Internal Control Body (hereinafter, ICB) in relation to AML/CTF, as well as a technical AML/CTF unit that oversees the global AML/CTF control framework and executes the controls corresponding to the second line of defence, of which it is part.

Banco Sabadell Group has subsidiaries that are obliged entities from the point of view of AML/CTF and foreign branches that conduct their activities in different jurisdictions. In this respect, the Group's international presence means that it is subject to supervision by different regulators, requiring it to comply with a variety of regulatory requirements, which in turn makes it necessary for it to have a global and cross-cutting risk management and control model. For this reason, the MLTF risk control mechanisms are applied in all entities that form part of the Group.

The Group always follows a policy of strict compliance with AML/CTF regulations, going beyond the requirements of legal standards. In addition to the policies described above, internal manuals are also available, to which all employees are subject, concerning anti-money laundering and counter-terrorist financing as well as the application of international financial sanctions.

Banco de Sabadell, S.A. makes it a priority to adopt the necessary measures to ensure that all employees receive ongoing training on the requirements arising from AML/CTF legislation and regulations. The training actions are set out in an annual plan, designed according to the identified risks, that is approved by the Internal Control Body through its Delegated Committee. This plan outlines the training actions stipulated for the current year and the mandatory AML/CTF courses of each function. In addition to this, and depending on requirements, specific training will also be imparted.

Employees are under the obligation to perform all AML/CTF training activities that they are invited to complete, so that they may prevent, avoid and/or detect any instances of money laundering and terrorist financing in the course of their professional activities. This obligation includes any isolated training actions determined by the Delegated Committee of the ICB (Internal Control Body) so that employees may refresh their knowledge and reinforce their practices in relation to AML/CTF legislation and regulations. Completion of all training actions must be duly validated and the level of completion of the annual training plan must be documented.

Similarly, subsidiaries that are obliged entities and foreign branches also have their own specific training plan.

It should be noted that the Institution has a communication channel that can be easily accessed by all employees, where they can submit various queries, suggestions or complaints, anonymously if they wish. They can also report breaches, with the assurance that the information they provide will be kept in confidence and that no retaliation will be taken, provided the channel is used in good faith.

8. Commitment against corruption and bribery

The Group undertakes to safeguard integrity and promote a culture of zero-tolerance of corruption, expressly prohibiting any and all actions of this kind. Similarly, as a signatory of the United Nations Global Compact, it is committed to complying with the ten principles established therein, among them that of working to combat corruption in all its forms, including extortion and bribery.

One of the basic elements for consolidating a corporate culture is the existence of a set of regulations that reflects the firm commitment of all units to comply with legislation, starting with the Management Body.

In this connection, there is a Code of Conduct, as well as Policies on Compliance, Conflicts of Interest, Anti-Money Laundering and Counter-Terrorist Financing, Internal Reporting System and Protection of Reporting Persons, Corporate Crime Prevention and Anti-Corruption, which are applicable to the entire Group.

The Anti-Corruption Policy defines all those actions included in the concept of corruption, as well as actions linked to corruption that are prohibited. Both the Code of Conduct and the Policies indicated above are regularly reviewed and updated as needed.

The Group's Code of Conduct, which all staff are required to formally declare that they will adhere to, includes specific sections on the fight against corruption and bribery. The Code of Conduct explicitly establishes that no gifts should be accepted from customers, in addition to the obligation to comply with the provisions of internal regulations with regard to gifts from suppliers, in order to avoid this limiting or otherwise affecting the ability to make decisions.

As for the identification and control of risks related to corruption, it should be pointed out that a Crime Risk and Anti-Corruption Management and Organisation Model is in place, which is re-evaluated annually and has its own specific section on the fight against corruption. As a result of the activities carried out as part of the aforesaid model and the management of the complaints and whistleblowing channel, which is described later on in this document, no risks related to corruption materialised in 2023, 2022 or in 2021. Similarly, as proof of their commitment to the model, every year, staff are required to formally declare that they will follow the main polices on which it is based: the Corporate Crime Prevention Policy and the Anti-Corruption Policy.

In terms of training, the Crime Risk and Anti-Corruption Management and Organisation Model has its own training programme, made up of a series of courses on corporate crime prevention, anti-corruption, as well as the channel for complaints and whistleblowing and protection of informants. These training courses are aimed at all Group employees, including those on part-time contracts and interns. Similarly, to become familiar with the commitments of the Group's Code of Conduct and to adopt them in a natural way, the Institution has a course that specifically deals with the Code. Completion of all of these courses is mandatory for all staff.

In addition, in order to facilitate continuous and voluntary learning with new and interesting formats, such as infographics, short videos, comic strips, posts, etc., the Regulatory School training space has been created. This school is split into different spaces called 'classrooms' dedicated to specific topics such as anti-money laundering and counter-terrorist financing, data protection, and ethics and conduct. In this last classroom, staff can access content related to the Group's Code of Conduct, the Supplier Code of Conduct, corporate crime, corruption and the complaints/whistleblowing channel.

In 2022, AENOR Internacional S.A.U. conducted a full audit of the Crime Risk and Anti-Corruption Management and Organisation Model, with a view to ascertaining and certifying that Banco de Sabadell S.A.'s model complied with the requirements set forth by standards UNE 19601 on crime compliance management systems and ISO 37001 on anti-bribery management systems. This certification was corroborated in 2023, having found no instances of non-compliance with the model.

The Bank also pays particular attention to the oversight of loans and accounts held by political parties, by following a very rigorous customer onboarding protocol, and to the controls over donations and contributions received from third parties. Similarly, the Bank does not make contributions of any kind to political parties, politically exposed persons or related institutions. Likewise, in terms of transparency, all donations to NGOs and foundations are analysed and assessed by the Foundation's Board of Trustees. The Sponsorship

Committee is the body responsible for the final approval or rejection of sponsorship commitments within the Bank.

With regard to TSB, conduct risk is also a key part of its strategic planning, decision-making, proposition development and performance management processes. Throughout the end-to-end customer journey, it is vital to ensure fair treatment, the delivery of fair outcomes and to make every possible effort to avoid customer harm. The identification, assessment, management and reporting of conduct risks is the responsibility of each Executive Committee member, with respect to their relevant business areas, as set out in TSB's Statement of Responsibility (SOR) under the United Kingdom's Senior Managers and Certification Regime (SMCR).

TSB has Anti-Money Laundering, Anti-Bribery, Anti-Corruption and Financial Sanctions Policies in place.

TSB promotes an environment of zero-tolerance of illicit activities to protect its employees, customers and communities against financial crimes. These principles are conveyed through policies and procedures on Anti-Money Laundering and Counter-Terrorist Financing, Anti-Corruption and Sanctions, as well as through their associated procedures and annual training courses to incorporate controls that implement the control requirements detailed in the policies.

The offer and acceptance of gifts, entertainment and hospitality is permitted, provided these are not thought be improper or excessive and provided they cannot be viewed as a bribe or potential bribe and as long as they are approved and recorded in accordance with TSB's Gifts, Entertainment and Hospitality Policy. TSB prohibits all activities considered to be facilitation payments, political donations or actions which could facilitate tax evasion.

TSB's compliance with the financial crime framework's requirements is monitored via ongoing control testing, assurance, audits, the provision of management information and senior governance committees.

In relation to fraud, TSB continues to meet their commitment to refund every TSB customer who is an innocent victim of fraud. In 2023, TSB refunded 97% (2022:97%) of all fraud cases compared with an industry wide refund rate of only 64% (2022:56%). In 2024, regulations will make the reimbursement of victims of authorised push payment fraud (APP fraud) mandatory for all payment service providers (PSPs) that process transactions through Faster Payments or the Clearing House Automated Payments System (CHAPS). A model in which both sending and receiving PSPs split the costs of reimbursement 50:50 will be introduced.

With regard to Banco Sabadell Mexico, this subsidiary also has the following initiatives in place to combat corruption and bribery:

- Its own Corporate Crime Prevention Programme, re-evaluated annually, which follows the Group's model but has been adapted to its own activities and applicable legislation. This programme identifies corruption-related crimes, for the purpose of their prevention, mitigation and management, and it also provides mandatory training on this subject matter for all staff.

- It defines policies and establishes the criteria, procedures and standards that must be complied with by all of the Bank's senior managers, representatives, officials and employees.

- Adoption of the Bank's Anti-Corruption Policy in Spain. This Policy defines all actions covered by the concept of corruption, as well as related actions that are prohibited. Both the Code of Conduct and the Policy are reviewed regularly and updated as required.

- Banco Sabadell Mexico promotes an environment of zero-tolerance of illicit activities to protect its employees and customers against financial crimes. The policies and annual training courses ensure that risk assessment and due diligence practices have been implemented correctly to evaluate exposure to bribery or corruption through dealings with related parties. All new employees are required to complete mandatory anti-corruption training, and all staff receive communications regarding the Customer and Supplier Gifts Policy, in order to reduce the risk of engaging in unfair practices, mainly corruption or bribery, and to avoid conflicts of interest.

9. Commitment to Human Rights

9.1 Information regarding Human Rights

In carrying out its activities, Banco Sabadell Group respects, upholds and protects internationally recognised fundamental human rights in all territories in which it is present, taking into consideration the internal and external relationships it develops with all of its stakeholders: employees, customers, suppliers and the communities and environment in which it operates. The Group has a Sustainability Policy, ratified by the Board of Directors in 2021, which is reviewed annually and which includes a specific principle concerning respect for internationally recognised fundamental human rights. In 2023, the Bank's subsidiaries with business activities in other geographies ratified their adherence to the Banco Sabadell Group Sustainability Policy at their respective Board meetings.

Respect for human rights is an integral part of Banco Sabadell's values and a standard for the legitimate development of its business activity in all regions where it operates, while each geography has laws and case law that ensure the fulfilment of these rights.

Its commitment is underpinned by, among other things, the Guiding Principles on Business and Human Rights, the Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work, as well as the United Nations Principles for Responsible Investment (UN-PRI).

These commitments have been reinforced by the decision to sign up certain important national and international agreements on human rights, including:

- The United Nations Global Compact, which encompasses human rights and labour rights in its first and second principles, undertaking to incorporate into its activities the Global Compact's ten principles of conduct and action in this regard, such as non-discrimination in employment, the elimination of forced labour, and the abolition of child labour.
- The Equator Principles, which it signed up to in 2011 and which conform a framework for the assessment and management of social and environmental risks, encompassing respect for human rights, and the performance of due diligence to prevent, mitigate and manage adverse impacts.
- The Principles for Responsible Banking, among which the principles of commercial alignment, the principle of impacts and those related to customers and users, as well as the principle of transparency and accountability, are particularly relevant to human rights.

From the perspective of corporate governance, the Group has a Human Rights Policy and a related Due Diligence Procedure, both approved in 2021, and reviewed annually and are applicable to all Group companies. They establish basic principles of action, as well as the mechanisms required to identify, prevent, mitigate and/or remedy any potential negative impacts on human rights that the Bank's activities and procedures may entail, in particular, with regard to granting of financing to companies, or in its human resources management model or supplier engagement processes. They also establish the need for employees to receive training in all of these areas.

The Group also has a reviewed version of the Group Code of Conduct, approved in 2021 by the Board of Directors after an in-depth review to adapt it to regulatory requirements, supervisory guidelines and specifications, and to market standards. In short, to ensure it complies with the expectations and objectives of different stakeholders. The whole Group's workforce was required to read and expressly accept the new version of the Group's Code of Conduct.

As a direct result of updating the Group's Code of Conduct, the Supplier Code of Conduct was also reviewed, incorporating aspects related to the Group's model for the organisation and management of crime risk, as well as the Corporate Ethics Committee as the highest supervisory and control body of the whistleblowing channel.

The principles heading the Human Rights Policy take into consideration the impact and relationship with four main stakeholder: employees, customers, suppliers and commercial partners, and the communities or environment in which the Group operates its business activity.

In terms of its employees, the Group encourages and strives to keep an environment where the workforce is treated with dignity and respect, fairly, and without discrimination of any kind on grounds of gender, ethnicity, age, social background, religion, nationality, sexual orientation, political opinion or disability; promoting equal employment and promotion opportunities, work-life balance, inclusion of disabled persons, where ensuring the fundamental right of employees to create or join unions or other representative bodies, safeguarding freedom of opinion, as well as employees' basic right to engage in collective bargaining, and prohibiting any form of forced or child labour.

Concerning to health and safety, the Group strives to promote and safeguard the health and safety of the workforce in the workplace and in its facilities in general. Additionally, the Group refrains from establishing commercial relationships related to the so-called 'controversial weapons' or with 'countries subject to an arms embargo', according to the definitions of those terms set out in existing United Nations treaties and conventions, limiting its investment in international trade activities involving countries and/or people affected by international sanctions, and preventing certain weapons from being used to commit crimes under international law or serious human rights violations.

With regard to suppliers or other commercial partners, the Group has the necessary procedures put in place to ensure transparency and respect for human rights at every stage of the supplier engagement process, and when evaluating their corresponding supply chains. Suppliers are required to meet the fundamental human rights in the performance of their activity and observe current labour legislation, maintaining a work environment free of any abuse where the health and safety of the workforce is promoted, in accordance with the Group's Supplier Code of Conduct, which they are expressly requested to comply with and to which they must formally adhere to.

The tender process for suppliers seeking to establish a commercial relationship with the Group incorporates compliance with specific clauses related to oversight, including clauses on the protection of the environment or respect for human rights related to their business activity; the process also sets out the possibility of carrying out supplier reviews when deemed necessary or appropriate. Banco Sabadell Group's responsibility for transparency extends to the supplier tendering process, in which all participants are provided with accurate information and opportunities are offered to alternative suppliers.

In terms of customers and society in general, the Group is committed to implementing measures, within its scope of action, to ensure that its activity do not produce any subordination, helplessness or vulnerability among its customers or in the communities in which it operates, which might prevent them from exercising their rights of equality, on account of personal, economic, educational or social circumstances in which customers may find themselves, even if these circumstances are temporary or if they relate to a specific territory or sector.

In this regard, the Bank is supporting vulnerable customers in three areas: financial, digital and territorial.[88]

The Group encourages inclusion among its customers, offering products and services that contribute to a positive social impact through responsible business, as is the case with its social housing management and financial inclusion activities, through digitalisation and financial education programmes. To that end, the Group promotes transparency of information and responsible communication with regard to its financial products and/or services, adapting them to the needs and circumstances of its customers and helping customers' understanding of the related terms and conditions, risks and costs, thus promoting clear, balanced and transparent communication around those products and services.

In addition, as part of the effort to prevent digital fraud, mainly affecting people aged 65 and above, the Bank has within its structure a specialised Transaction Fraud unit, which manages to prevent 91% of attempted digital fraud incidents, through an alert system in cash transfer transactions (transfers, payment services and Bizum).

The Group is also committed to the fight against corruption, money laundering and terrorist financing, and undertakes in maintaining conduct that is respectful of the rules and ethical standards, ensuring the same respect in relation to its customers, suppliers or other commercial partners and in relation to the environment or communities in which Banco Sabadell Group operates.

On the other hand, the Group supports the communities in which it is present, through direct donations or by encouraging and helping employees to engage in corporate volunteering, to benefit multiple initiatives aimed at those who need it most. Likewise, it promotes practices that contribute to addressing issues related to housing and social exclusion in the most disadvantaged groups, facilitating the transfer of real

[88] See more details about Customer vulnerability in section 7.7. Consumers.

estate assets by non-profit institutions and foundations aimed at providing support to the most vulnerable or at risk social groups.

With regard to the United Kingdom, TSB continues to fulfil its commitment to refund customers who were victims of fraud. In 2023, TSB refunded 97% (2022: 97%) of all fraud cases compared to the industry average of just 64% (2022: 56%).

TSB also continued to support victims of domestic abuse by providing a safe space, both online and in its entire branch network. During 2023, TSB has helped 144 people financially, through the Emergency Flee Fund, to escape from abusive partners. In recognition of this work, in September 2023 TSB was awarded the Every One's Business Awards from the Employer's Initiative on Domestic Abuse, a national network of employers encompassing 25% of British employees from around 1,400 small and large enterprises, whose mission is to share the experience and best practices of its members so that all UK employers can support employees affected by domestic abuse.

Furthermore, TSB publishes an annual statement in accordance with the British Parliament's Modern Slavery Act, setting out the actions carried out with the aim of identifying any risk of modern slavery that may be related to the performance of its work, and describing the measures taken to prevent situations of slavery or human trafficking in the performance of its activity and in its supply chains.

As a voluntary signatory of the Prompt Payment Code, TSB has kept its policy on prompt payment of suppliers in place, paying 99% of supplier invoices within the first 30 days, while also focusing on prioritising payment to small and medium suppliers on an average of 4 days as in 2022. In recognition of its ability to pay suppliers promptly, TSB has been receiving the 'Fast Payer Award' by Good Business Pays every year since 2021.

At a global level, the Group contributes to the attainment of the United Nations' Sustainable Development Goals (SDGs) linked to fundamental human rights, through the development of programmes and initiatives, such as quality education (SDG 4), no poverty (SDG 1), good health and well-being (SDG 3), decent work and economic growth (SDG 8), gender equality (SDG 5) and reduced inequalities (SDG 10).

Training and awareness

In terms of training, the Group promotes awareness and a culture of upholding human rights by providing employees with the necessary information to raise awareness about the importance of observing maximum respect for human rights, and specific training activities are carried out, aimed at the early detection and reporting of any conduct that may be in violation of these international principles. The objective is to reduce any potential human rights violations.

To this end, staff are offered a series of training activities that consider and have an impact on the main human rights directly or indirectly related to employees or the activity they carry out. These training activities include courses on occupational hazard prevention, anti-money laundering and counter-terrorist financing, data protection and human trafficking.

In addition, having raised awareness among Group employees, in recent years there has been greater employee involvement in corporate volunteering, specifically in financial education and other charitable actions in the community. In this respect, and within the framework of the Bank's commitment to human rights and financial inclusion, corporate volunteers have run financial education workshops for high school students, adults and senior citizens, working on the financial inclusion of vulnerable groups.

9.2 Whistleblowing channel

Banco Sabadell Group has incorporated the internal resources required for effective management of aspects related to human rights. To generally report on actions or omissions that may entail a breach of current legislation, of Banco Sabadell Group Code of Conduct and of the Group's other internal regulations (including regulations on the prevention of money laundering and financing of terrorism), the Group has enabled, at an external and internal level and in all the countries in which it operates, the necessary communication tools so that the different stakeholder groups can participate and interact.

Banco de Sabadell, S.A., as the Group's parent company, has a whistleblowing channel available to its stakeholders and subsidiaries (Mexico and the UK have their own channels), overseas branches and representative offices of the Group, as a formal whistleblowing mechanism that is part of the Group's Internal Reporting System, one of the guiding principles of which is the protection of the reporting person.

The Institution has a Policy and Procedure for the Internal Reporting System and Protection of Reporting Persons published on the channel's platform and on the corporate intranet, which is available to all Group employees or related persons and which describes the principles and safeguards of the Internal Reporting System and the process and main stages of the management of whistleblowing reports.

The competent body to resolve and respond to whistleblowing reports received through this channel is the Banco Sabadell Group's Corporate Ethics Committee (CEC), which delegates the management and processing of case files to its Secretary, member of the CEC and Compliance Director or Chief Compliance Officer (CCO).

The channel, hosted in a platform which can be consulted online at https://canaldenunciasgrupo.bancsabadell.com, is the main resource to report, detect and manage potential irregularities that can endanger this commitment or that may entail a crime. Any Group employee or related person (subcontractors, partners, suppliers, etc.) must report any information or sign of a breach of the Code of Conduct or of an alleged crime of which they become aware.

Reports can be submitted by a named individual or anonymously, ensuring at all times the confidentiality of the identity of the reporting person, of any other person involved, as well as of any information provided, the protection of personal data, the right of defence, the right to presumption of innocence and honour of all persons involved, whilst also guaranteeing the absence of any reprisals when the channel is used in good faith.

In accordance with the Procedure for the Internal Reporting System and Protection of Reporting Persons, all the reports received were duly handled and managed. This procedure sets out all the stages of the process for handling whistleblowing reports, such as:

- Receipt, acknowledgement of receipt to the reporting person, recording and decision on admissibility or inadmissibility.
- Information provided to the parties: reporting person and reported person.
- Opening of the case file and appointment of the investigator.
- Issuance of internal investigation report and proposed resolution (archiving or adoption of corrective measures/application of the internal penalties regime) and closure of the case file.

In 2023, 30 reports were lodged, of which 20 were admitted for processing and investigated, and 10 were rejected (8 because they were outside the material or personal scope of the channel, and the remaining 2 because they lacked enough information). Broken down by type of report, those related to workplace harassment had the highest number of reports (6), followed by breaches to the code of conduct and internal regulations (6) and sexual harassment (3).

Of the 20 reports processed, the investigations carried out concluded that in 6 cases a breach had occurred, resulting in disciplinary actions on 4 occasions.

As at 31 December 2023, 3 of the reports processed were still under internal investigation.

None of the reports received in 2023 concerned a human rights violation at Banco Sabadell Group.

In accordance with that set forth in the Equality Plan, any report aimed at exposing a possible act of discrimination, workplace and/or sexual harassment or gender-based harassment is channelled through the whistleblowing channel. Once the report has been admitted for processing, the Harassment Prevention Committee will run point and lead the investigation.

The Committee reports every six months to the Equality Plan Monitoring and Assessment Committee on the whistleblowing reports managed and the resolution of case files. The Equality Plan Monitoring Committee comprises one employee representative or union delegate for each of the trade union representatives who signed the Equality Plan, and an equal number of representatives of the Institution.

10. Commitment to information

In line with the Group's Strategic Plan, the priorities in digital transformation are set out in section "1.5 Customers - Digital transformation and customer experience" of Banco Sabadell Group's consolidated Directors' Report.

10.1 Transparency

Banco Sabadell Group establishes, through the Sustainability Policy and the Code of Conduct, a series of principles in order to adapt the organisation so that it may be in line with best practices in relation to transparency. In this regard, the Institution promotes transparent information and responsible, straightforward and friendly communication with all stakeholders aiming, in particular, to:

- Promote clear, balanced, objective and transparent communication about financial products and services, as established in the Commercial Communication Policy.
- Ensure maximum transparency in the supplier tender process. Similarly, the Bank ensures that suppliers are selected in line with the internal regulations in place at any given time and, in particular, with the principles of the Group's Code of Conduct, which are set out, in in this particular case, in the Supplier Code of Conduct[89].
- Offer complete, clear and truthful information to all analysts, investors and shareholders through the different communication channels made available to them by the Group, which are published in the Policy on Communication and Contact with Shareholders, Investors and Proxy Advisors, available on the corporate website.
- Establish the Tax Strategy based on principles of transparency, in accordance with prevailing legislation[90].

In addition, the Bank fosters transparency in the disclosure of information, at all times adopting responsible communication practices that prevent the tampering of data and protect the company's integrity and honour, in accordance with the recommendations of the Good Governance Code of Listed Companies of the Spanish National Securities Market Commission (CNMV).

Furthermore, with the entry into force of MiFID II (Markets in Financial Instruments Directive II) and the IDD (Insurance Distribution Directive) in 2018, Banco Sabadell prioritises the provision of advice as the service delivery model for the distribution of financial instruments. The Institution has a tool called "Sabadell Inversor", which serves as a guide for relationship managers to recommend the products best suited to the characteristics and needs of customers, by analysing their experience, knowledge and preferences in relation to sustainability.

The information provided to customers, following the guidelines of those directives, is always impartial, clear and unambiguous. Furthermore, since March 2021, Banco Sabadell has been complying with obligations on sustainability disclosures in relation to products affected by Regulation (EU) 2019/2088, also known as the Sustainable Finance Disclosure Regulation (SFDR).

In accordance with its policies and procedures, the Bank has mechanisms in place to ensure that all information provided to customers is transparent and that all of the products and services which it offers are suited to their needs at all times. To this end, before marketing a new product or service, an internal workflow ("Product Workflow") is followed, where the relevant areas of the Bank review the various aspects to ensure they conform to the established standards. The subsequent validation by the areas involved is ultimately ratified by a high-level committee, the Technical Product Committee. This validation process allows the Institution to identify the target audience to which the product should be aimed, in other words, the group of customers whose interests, goals and characteristics fit with the conditions of the product, even in cases where these can cover preferences regarding sustainability, as established in MiFID II and the IDD.

[89] The scope, principles and measures provided in this Code are indicated in section 7.8 Outsourcing and suppliers.
[90] The principles on which the Tax Strategy is based are indicated in section 7.9 Tax information.

Furthermore, every year, the different units responsible for the product offering perform an in-depth review of the conditions of the products and their impact on customers in order to ensure that those products continue to be suitable for the target audience defined originally. This review process falls within the obligations required by various customer and investor protection regulations, such as the Guidelines on Product Oversight and Governance Arrangements for Retail Banking Products and the MiFID II Directive. In the branch network, relationship managers have access to different items of information about products and services, which enable them to provide the necessary explanations so that customers and consumers may understand their characteristics and risks. This information is complemented with the corresponding pre-contractual information documents delivered to customers.

It is worth noting that, since 2010, the Bank has been a member of the Asociación para la Autorregulación de la Comunicación Comercial (the independent advertising self-regulatory organisation in Spain, more commonly known as 'Autocontrol'), and through this membership, it undertakes the commitment to deliver responsible advertising that ensures the accuracy of the information and the adequacy of the acquisition process and operational characteristics of the advertised products.

In addition, in 2022 the Bank sent all of its mortgage borrowers a personalised communication containing information regarding the publication of the Code of Good Practice of 2022 and the updated 2012 Code (RDL 6/2012 and RDL 19/2022), updated and made more flexible in 2023 to respond to the needs of mortgage borrowers with lower levels of income, thus fulfilling the obligation set forth in the Royal Decree-Law requiring customers to be individually informed of developments. To complement the communication, a specific mailbox and hotline were created to deal with customers' concerns and queries Furthermore, a specific section was created on the Bank's website[91] and in the existing guidance for customers.

Since 2021, Banco de Sabadell, S.A. has been running a mortgage product communication campaign that focuses particularly on transparency. Focus groups were held with customers, through which it was determined that their main concerns when choosing a mortgage included a lack of knowledge about the product and the anxiety that taking out a mortgage can generate. That is why, in recent years, the Bank has based its value proposition on the provision of support, through specialised relationship managers, to help customers throughout the process. In 2023, the concept of the campaign was further developed, going one step further and seeking to empathise with people from all walks of life. As a result, the "Hipoteca Con Todo" product ('the mortgage that has it all') was launched.

The reasoning was that the pressure people feel when signing a mortgage is very real:

- On one hand, the customer is in a rush to sign.
- On the other, the customer wants and needs time to understand it.

That is why Sabadell's Hipoteca Con Todo has all the advantages that the best of online banking has to offer:

- Instant and personalised pricing.
- Online calculation of monthly instalments in just one minute.
- Online exchange of documents.
- Pre-approved mortgage process.

In addition to aspects that only expert banks can offer:

- The best specialist relationship managers to support customers throughout the entire process.

As for TSB, the UK subsidiary is committed to producing and publishing responsible advertising and communications across the full range of propositions offered both as TSB and its associated third party suppliers. In this way, it meets the information needs of customers by ensuring that information is presented in a balanced, fair, clear and unambiguous way. TSB's Customer Communications and Product Promotion Policy is a reflection of the UK and (where appropriate) EU regulatory environment. The purpose of the Policy is to set out key processes, controls, and responsibilities enabling TSB to meet all relevant regulatory requirements including in acting to deliver good outcomes when communicating to/with its customers, across all channels and customer communications, including financial promotions. TSB has no

[91] https://www.bancsabadell.com/cs/Satellite/SabAtl/Vulnerable-actions/6000080941749/en/

appetite for unfair customer outcomes and this Policy and associated controls are designed to mitigate conduct risk and the occurrence of customer harm arising from its communications or any other dealing they may have with TSB.

Banco Sabadell Mexico, on the other hand, in accordance with Mexican banking regulations, is transparent in its publication of product-related information disclosed via:

- Banco Sabadell Mexico’s official website:
- The section on financial products shows the Bank’s offering of products, which are aimed at two groups: natural persons and companies. It also contains prevailing standard form contracts and product information sheets, which specify the terms, conditions, requirements and fees associated with the products.
- Costs and fees document, which sets out the costs, returns and fees of the products. The total annual rate of return (Ganancia Anual Total, GAT) of investment products is also shown, in accordance with the provisions of the Bank of Mexico.
- Record of Standard Form Contracts, on the web portal of the National Commission for the Protection and Defence of Users of Financial Services (Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros, CONDUSEF), a record that contains the standard form contracts of financial institutions. Regulations establish which products and services should be arranged under this type of contract.
- Bureau of financial institutions, a consultation and disclosure tool with information about the Bank’s products.
- Logo and links to access the Institute for the Protection of Bank Savings (Instituto para la Protección al Ahorro Bancario, IPAB), which guarantees savings of up to 400,000 UDIs (inflation-linked investment units) per customer, per bank.

10.2 Data protection

To ensure that personal data processing takes place pursuant to applicable data protection regulations, the Institution has a mechanism that comprises three lines of defence, through which all members of the organisation, from all areas, in line with their authority and discretions, actively take part in the management, control and supervision of the Institution’s data processing.

Banco Sabadell has a Data Protection Officer (DPO) who has been duly entered in the register of the Spanish Data Protection Agency (*Agencia Española de Protección de Datos, AEPD*), and who advises the different areas of the Bank in order to ensure compliance with regulations. Every year, the DPO reports to the Board of Directors, providing relevant information about the existing data protection risks.

Following the management model built around three lines of defence, the Bank has the following action framework:

First line of defence	
Centralised Operations:	– Unit responsible for designing and executing procedures concerning data subjects’ rights in relation to data protection. – Designs the procedure for obtaining consent and a legitimate basis for data processing and traceability.
ICT Security Management:	– Designs security measures commensurate with the risks associated with personal data processing. – Performs impact assessments of personal data processing activities. – Keeps a record of security breaches and defines criteria and protocols for notifying data subjects and, where applicable, the Control Board.
Data:	– Enters all data processing activities declared by accountable units in the Data Processing Activities Log. – Keeps information about international data transfers and their publication on the appropriate channel, where applicable, up to date.

Supplier Management:	– Ensures that management units wishing to engage the services of a third-party supplier adequately identify the associated personal data processing requirements and coordinates and manages the adaptation of contracts to prevailing legislation.
Contract-Related Legal Advice:	– Writes clauses related to data protection for both contracts entered into with suppliers and those entered into with customers and data subjects. – Assesses the regulatory impacts on the organisation of potential sector-specific regulations.
Marketing/Product:	– Ensures that commercial data processing activities take place based on suitable legitimate grounds. Seeks the consent of data subjects and determines legitimate interest.
Data controllers:	– Lead the design and implementation of training and awareness-raising plans on the topic of data protection, requiring the involvement of each accountable unit.
Second line of defence	
Compliance:	– Determines the controls needed to ensure compliance with data protection legislation.
Data Protection Officer (DPO):	– Liaises with the Control Board and represents the Institution in various data protection forums. – Determines the need to give notice and, where applicable, gives notice in the event of a security breach. – Deals with queries and complaints submitted by data subjects.
Internal Control:	– Receives information from Compliance regarding the effectiveness of the controls implemented by the first line of defence to mitigate compliance risks and any instances of non-compliance, together with the corrective measures taken, in order to carry out a joint assessment to be submitted to the corresponding governing bodies, and to align the controls with the established risk tolerance levels.
Third line of defence	
Internal Audit:	– Supervises the activities of the first and second lines of defence. – Reviews the control environment. – Reviews the fulfilment and effectiveness of policies and procedures.

The aforementioned mechanisms are set out in the Personal Data Protection and Privacy Policy designed by the Institution as an internal organisational instrument to ensure the protection of natural persons in connection with personal data processing.

The aforesaid document indicates the policies and related procedures and defines the management and control model established in relation to data protection. The Personal Data Protection and Privacy Policy is published on the Bank's work tool and is available to all employees; it is reviewed annually and approved by the Board of Directors.

All of the Bank's employees complete, as mandatory training, a course on personal data protection and, depending on the professional duties of each employee, they also receive specific training imparted by the Data Protection Officer (DPO). Attendees take an active role in the training, positing practical situations and aspects that they encounter in their day-to-day activities. In addition, through the Bank's various communication channels, employees receive 'brief training capsules', written in a friendly and visually pleasing way, which are used to convey short and direct messages to remind employees of their obligations in relation to data protection. This year, specifically, the Bank decided to launch a video series, comprising six chapters in all, in which the Bank's DPO directly addressed employees to remind them of certain data protection obligations.

The Bank publishes information relating to its "privacy policy" and "privacy notice" on its website, in the section on customer information. This document, called "Annex of detailed information on personal data protection"[92], which contains mandatory information about the various personal data processing activities carried out by the Institution, is published in all of Spain's official languages and also in French, English and German. This document, available to all interested parties, is continuously updated to include the new data processing activities launched by the Institution. The Personal Data Protection and Privacy Policy also applies to the engagement of services from third-party suppliers and the instructions that those suppliers receive are in line with the Bank's own Privacy Policy.

The Institution has a procedure for analysing and evaluating security incidents to determine whether an incident concerns personal data and should therefore be considered a security breach. These security breach assessments are carried out by the Data Protection Officer and are duly documented and made available to the Control Board.

The findings of the security breach assessment may require the Control Board and even the data subjects themselves to be notified in cases where the rights and freedoms of the data subjects could be at risk. 11 security incidents were recorded in 2023, but it was not necessary to inform either the Control Board or the data subjects.

In the United Kingdom, TSB has a Data Privacy Policy that requires personal data to be collected correctly and legally and used only for specific purposes. Where information is transferred to or processed on behalf of third-party suppliers, that information is subject to adequate due diligence and transferred only for legitimate operational or commercial purposes. The management staff of each business area take responsibility for the development, implementation, operation and maintenance of controls that meet the requirements set out in the aforesaid policy.

Effective management and protection of personal data, in addition to being a legal and regulatory requirement, is also critical to the commercial success of TSB. For this reason, the subsidiary has its own Data Protection Officer (DPO).

Furthermore, TSB carries out annual training dedicated to privacy and data protection, which all employees are required to complete on an annual basis. TSB's DPO reviews the content to ensure it addresses all the required topics before approving it.

In line with the UK Data Protection Act, TSB complies with the following:

- The legal framework, which mainly comprises:
    - The Data Protection Act of 2018; and
    - The UK's GDPR.
- The codes of good practice and the guidelines of the Information Commissioner's Office, or ICO (the UK's independent body set up to uphold information rights and to regulate data protection in the United Kingdom). Periodic meetings are held with the that body to discuss complaints it has received.
- The designation of a Data Protection Officer.
- The establishment of an internal Policy and Technical Standards (Rules) that complement a series of policies and recommendations associated with related areas that include:
    - The Data Privacy Policy;
    - Technical rules for data privacy impact assessments;
    - Technical rules on data protection principles;
    - Technical rules on incidents related to personal data;
    - Technical rules on cookies and similar technologies of the Privacy and Electronic Communications Regulation;
    - Technical rules on direct marketing of the Privacy and Electronic Communications Regulation;

[92] https://www.bancsabadell.com/cs/Satellite/SabAtl/Customer-information//GBS_Generico_FA/1183016790073/1191332198208/en/ > Other relevant information > Annex - Detailed information on personal data protection

- Technical rules on special categories of personal data;
- Technical rules on records of processing activities;
- Process to handle the rights of data subjects, backed by training, guidance and personalised process flows.

- Mandatory training on data privacy for all employees.
- The creation of a Privacy Portal where all employees can access relevant materials in a single place.
- Regular submission of reports to risk committees and other governance forums.

As for Banco Sabadell Mexico, in accordance with Mexican personal data protection legislation, this subsidiary complies with the following:

- Legal Framework, comprising:
- Federal Law on Protection of Personal Data Held by Individuals (Ley Federal de Protección de Datos Personales en Posesión de los Particulares, LFPDPPP).
- LFPDPPP Regulation.
- Provisions and guidelines issued by Mexico's National Institute for Transparency, Access to Information and Personal Data Protection (Instituto Nacional de Transparencia, acceso a la Información y Protección de Datos Personales, INAI), the body responsible for ensuring personal data protection.
- Data Protection Officer (DPO).
- Manual and Policies in effect at Banco Sabadell Mexico:
- Personal Data Privacy Manual.
- Policy on Sending and Transferring Personal Data.
- Policy on Assistance with INAI Procedures.
- Policy on Personal Data Protection Training.
- Policy on Handling Personal Data Breaches.
- Process for Upholding Rights of Access, Rectification, Objection and Erasure/Right to be Forgotten.

10.3 Cybersecurity

In 2023, cyberthreats and cyber risks have become an increasing cause for concern. In this context, effective and responsible management of those risks is now more important than ever.

Banco Sabadell Group, in line with its internal security control framework, continuously monitors the cybersecurity risks to which it is exposed, in order to protect its information systems and corporate information, as well as information pertaining to customers, employees and other stakeholders.

This control framework, which is updated and expanded on a regular basis, includes the updated Information Systems Security Policy, the definition of cybersecurity responsibilities across the three lines of defence and in governing bodies, and the need to protect corporate, customer and employee data and systems, including payment systems.

The Information Security function sends regular reports on the cybersecurity status to governing bodies, such as the Management Committee, the Board Strategy and Sustainability Committee and the Board of Directors, which are the bodies responsible for overseeing the Institution's cybersecurity, along with the Board Risk Committee, which oversees ICT risks.

Banco Sabadell Group's in-house cybersecurity team is formed of over 100 specialist staff dedicated to ensuring that protection measures are adequate in relation to the existing cybersecurity risks. To that end, the following activities are carried out on a regular basis:

- Analysis of new cyberthreats and their development, enhancement of controls and assessment of risks.

- Review and execution of ongoing checks on information systems and security controls, including certifications carried out by external auditors.

- Preparation for incidents, through training, drills and simulated cyberattacks.

- Training and awareness-raising campaigns for staff and partners that include awareness-raising communications and regular drills.

- Awareness-raising communications regarding cybersecurity risks and digital fraud for customers, which can be distributed by email, using digital channels or ATMs, or through social media campaigns.

- Annual training courses in relation to data protection and cybersecurity, which are mandatory for all employees, as well as specific training programmes for the cybersecurity teams.

Through the Information Systems Security function, Banco Sabadell Group entities establish measures for the protection of information systems, which are set out in policies and procedures, to guarantee secure access to systems and to deal with new cyberthreats. These measures include:

- Role-based access control and regular recertification of these permissions.

- Two-factor authentication for remote access.

- Malware protection systems.

- Systems for monitoring and correlating security events.

- Security incident response team, available 24 hours a day, 7 days a week, recognised as an official Computer Emergency Response Team (CERT).

With these capabilities for protection, detection and response to cyberthreats, the Institution has not suffered any major cybersecurity incidents in 2023, adequately mitigating any cyber-related incidents affecting suppliers.

Banco Sabadell Group engages third-party specialists to run advanced cybersecurity tests, which evaluate the effectiveness of the key controls by simulating realistic cyberattacks. These verifications, which consider commonly used cyberattack techniques, prepare and train teams responsible for cyber defence, thus improving the levels of protection.

These tests also use well-renowned automated verification tools that simulate multiple cyberattacks. The Group’s various entities also pay attention to the main external ratings that measure cybersecurity (Bitsight, RiskRecon, Security Scorecard). Banco Sabadell Group has secured positions in the top spots of these ratings in comparative terms with the rest of the sector.

The various Banco Sabadell Group entities also endeavour to ensure the resilience of their infrastructures, making sure they have redundant components and regularly tested recovery procedures in order to guarantee the continuity of technological services in the event an incident occurs, such as a disaster affecting the facilities or a cyberattack.

In addition, every quarter, Banco Sabadell Group carries out drills that simulate cyber incidents, training the Institution’s teams to detect and contain cybersecurity events and to recover operating services to minimise potential impacts.

Its financial statements are also subject to annual statutory audits and an external audit takes place, focusing on the design, implementation and operational effectiveness of its cybersecurity controls, carried out following the main information security standards.

Security in Digital Transformation initiatives

Banco Sabadell Group’s cybersecurity specialists participate in digital transformation initiatives and technological projects by assisting with the assessment of security risks, defining the security controls and measures to be incorporated and carrying out technical security tests to check that no vulnerabilities are introduced.

Among the digital transformation initiatives designed and rolled out securely with the participation of the cybersecurity team, it is worth highlighting new financial products and services, such as those detailed in section 1.5 Customers - Digital transformation and customer experience, in the consolidated Directors' Report.

Annex 1

Beyond the actions and initiatives summarised in this Non-Financial Disclosures Report, Banco Sabadell has a series of codes, policies and standards in place which determine its commitment to the Group's corporate purpose, and it is also a signatory of various national and international agreements which in turn enshrine this commitment. The policies and commitments listed below are those corresponding to the Institution's non-financial areas.

Key non-financial documents[93]

Policies

- Banco Sabadell Group Sustainability Policy.
- Banco Sabadell Mexico Environmental and Social Policy.
- Banco Sabadell Environmental Risk Policy.
- Banco Sabadell Policy on Integrating ESG Risks in Savings/Investment Products.
- Banco Sabadell Director Selection Policy.
- Banco Sabadell Group Remuneration Policy.
- Banco Sabadell Director Remuneration Policy.
- Banco Sabadell Group Policy on Outsourcing of Functions.
- Banco Sabadell Group Procurement Policy.
- Banco Sabadell Group Anti-Money Laundering and Counter-Terrorist Financing Policy.
- Banco Sabadell Group Anti-Corruption Policy.
- Banco Sabadell Group Compliance Policy.
- Banco Sabadell Group General Policy on Conflicts of Interest.
- Banco Sabadell Group Corporate Crime Prevention Policy.
- TSB Gifts, Entertainment and Hospitality Policy.
- Banco Sabadell Group Human Rights Policy.
- Banco Sabadell Commercial Communication Policy.
- Banco Sabadell Policy on Communication and Contact with Shareholders, Investors and Proxy Advisors.
- Banco Sabadell Personal Data Protection and Privacy Policy.
- Banco Sabadell Mexico Policy on Sending and Transferring Personal Data.
- Banco Sabadell Mexico Policy on Assistance with INAI Procedures.
- Banco Sabadell Mexico Policy on Personal Data Protection Training.
- Banco Sabadell Mexico Policy on Handling Personal Data Breaches.
- TSB Data Protection and Privacy Policy.

[93] This list includes documents not directly mentioned in the Non-Financial Disclosures Report.

- Banco Sabadell Group Information Systems Security Policy.
- Banco Sabadell Customer Classification and Assessment Policy.
- Banco Sabadell Senior Management Remuneration Policy.
- Banco Sabadell Group Identified Staff Remuneration Policy.
- Banco Sabadell General Policy on Governance Procedures and Oversight of Retail Banking Products.
- Banco Sabadell Reputational Risk Policy.
- Banco Sabadell Group IT Risk Management and Control Policy.
- Banco Sabadell Complaints and Claims Policy.
- Banco Sabadell Internal Governance Policy.
- Financial and Non-Financial Disclosures Policy.
- MiFID Training Policy.
- LCCI Training Policy.
- IDD Training Policy.
- Business Continuity Policy.
- Banco Sabadell Group Defence Sector Policy.

Other documents

- Sabadell's Commitment to Sustainability.
- Environmental and Social Risk Framework. Sectoral Rules.
- Framework for the issuance of bonds linked to the Sustainable Development Goals of Banco Sabadell.
- Decarbonisation targets.
- Eligibility Guide.
- Annual Report on Occupational Hazard Prevention.
- Banco Sabadell Group Code of Conduct.
- Internal Code of Conduct relating to the securities market.
- Banco Sabadell Group Supplier Code of Conduct.
- Banco Sabadell Plan for Effective Equality between Women and Men.
- Green Bonds Report 2023 (and previous).
- Banco Sabadell Mexico Conceptual Manual on Anti-Money Laundering and Counter-Terrorist Financing.
- Banco Sabadell Mexico Personal Data Privacy Manual.
- TSB Do What Matters Plan.
- Banco Sabadell Group Tax Strategy.
- Human Rights Due Diligence Procedure.
- Annex of detailed information on personal data protection.

Pacts, agreements and commitments

- Signatory of the United Nations Global Compact on human rights, labour, the environment and anti-corruption.
- Founding signatory of the UNEP Finance Initiative (UNEP FI) Principles for Responsible Banking, committing to strategically align its business with the Sustainable Development Goals and the Paris Agreement on Climate Change.
- Adherence to Collective Commitment to Climate Action promoted by AEB, CECA and ICO.
- Signatory of the Equator Principles.
- Membership of Task Force on Climate-related Financial Disclosures (TCFD).
- Membership of Net-Zero Banking Alliance (NZBA).
- Membership of the Partnership for Carbon Accounting Financials (PCAF).
- Signatory of the Sustainability Protocol of the Association of Mexican Banks (ABM).
- Signatory of the "Declaration in favour of the development of environmental, green and sustainable finance in the Mexican banking sector", promoted by the Green Finance Advisory Council (Consejo Consultivo de Finanzas Verdes, or CCFV) and the Association of Mexican Banks (Asociación de Bancos de México, or ABM).
- Enrolment in the MeCuida Plan promoted by the Spanish Government.
- Membership of the Spanish Observatory of Sustainable Financing (OFISO).
- Renewed membership of the agreement signed between the Spanish Banking Association (AEB), the Spanish Securities Market Commission (CNMV) and the Bank of Spain for the pursuit of courses of action within the framework of the National Plan for Financial Education.
- Adherence to the Code of Good Banking Practices.
- Adherence to the Code of Good Tax Practices.
- Certification of transparency and fiscal accountability ("T for Transparent" seal) awarded by the Haz Foundation.
- Membership of Autocontrol (independent advertising self-regulatory organisation in Spain).
- Gold Seal of Excellence from the European Foundation for Quality Management (EFQM).
- ISO 14001 certification in five corporate buildings.
- Signatory of the Carbon Disclosure Project (CDP) for action against climate change.
- Awarded once again the "Equality in the Workplace" Seal of Distinction by the Ministry of the Presidency, Relations with the Courts and Equality.
- Signatory of the CEOs supporting diversity ("CEO por la diversidad") initiative promoted by the Adecco Foundation and CEOE.
- General Protocol for "More Women, Better Companies" (Protocolo General de Más Mujeres, Mejores Empresas) promoted by the Women's Institute, which establishes the commitment to boost internal diversity.
- Membership of the Business Network Association for LGBTI Diversity and Inclusion (REDI by its Spanish acronym), which works to promote safe and respectful workplace environments.
- Membership of "Empowering Women's Talent", launched by Equipos&Talento, focused on empowering women in business.

- Membership of “Women in Banking” (WIB), an initiative dedicated to promoting the role of women in Spanish banks.
- TSB’s adherence to the Good Business Charter, a UK accreditation scheme that recognises businesses that behave responsibly. TSB is the first retail bank accredited by this scheme.
- TSB’s membership of the Prince’s Responsible Business Network, a Business in the Community (BITC) initiative that helps companies to address a wide range of essential issues to build a fairer society and a more sustainable future.
- Through TSB, Member of Prompt Payment Code.
- Through TSB, signatory of HMT Mortgage Charter.
- Signatory of the “Declaration in favour of the development of environmental, green and sustainable finance in the Mexican banking sector”, promoted by the Green Finance Advisory Council (Consejo Consultivo de Finanzas Verdes, or CCFV) and the Association of Mexican Banks (Asociación de Bancos de México, or ABM).
- Membership of the Sustainability Committee of the Spanish Chamber of Commerce (CAMESCOM) in Mexico.

Annex 2

Table of contents Law 11/2018

In the table below, the acronym ‘DR’ means the Consolidated Directors’ Report, while the acronym ‘AFS’ means the Group’s Consolidated Annual Financial Statements. Where no such acronyms are included, the numbering refers to the chapters of this document.

		Response	GRI disclosure number	GRI description
General disclosures				
Business model	Brief description of the Group’s business model	DR 1 – BANCO SABADELL GROUP (Introduction) DR 1.1 Mission, values and business model	2-6	Activities, value chain and other business relationships
	Markets in which it operates	DR 1 – BANCO SABADELL GROUP (Introduction) 1. Introduction	2-1	Organisational details
	Organisation’s objectives and strategies	DR 1 – BANCO SABADELL GROUP (Introduction) DR 1.1 Mission, values and business model 2. Governance 3. Sabadell’s Commitment to Sustainability 4. Commitment to climate and the environment (particularly, 4.2 Climate-related and environmental strategy) 4.4. Environmental management and impact 5. Commitment to sustainable finance 6.3 Training 6.4 Diversity 6.5 Remuneration policy 6.6 Workplace environment and organisation 6.7 Dialogue with employees: more connected than ever 7. Commitment to society 8. Commitment against corruption and bribery 9. Commitment to Human Rights 10. Commitment to information	3-3	Management of material topics
	Key factors and trends that could affect its future performance	3. Sabadell’s Commitment to Sustainability 4. Commitment to climate and the environment (particularly, 4.2 Climate-related and environmental strategy) 4.4. Environmental management and impact 5. Commitment to sustainable finance	3-1	Process to determine material topics
General	Reporting framework	1. Introduction	GRI (2021)	
	Materiality principle	1. Introduction	2-2	Entities included in sustainability reporting
		3.3 Materiality	3-2	List of material topics

		Response	GRI disclosure number	GRI description
Management approach	Description of applicable policies	DR 1 – BANCO SABADELL GROUP (Introduction) DR 1.1 Mission, values and business model 2. Governance 3. Sabadell’s Commitment to Sustainability 4. Commitment to climate and the environment (particularly, 4.2 Climate-related and environmental strategy) 4.4. Environmental management and impact 5. Commitment to sustainable finance 6.3 Training 6.4 Diversity 6.5 Remuneration policy 6.6 Workplace environment and organisation 6.7 Dialogue with employees: more connected than ever 7. Commitment to society 8. Commitment against corruption and bribery 9. Commitment to Human Rights 10. Commitment to information	3-3	Management of material topics
	Results of those policies	2. Governance 3. Sabadell’s Commitment to Sustainability 4. Commitment to climate and the environment (particularly, 4.2 Climate-related and environmental strategy) 4.4. Environmental management and impact 5. Commitment to sustainable finance 6.3 Training 6.4 Diversity 6.5 Remuneration policy 6.6 Workplace environment and organisation 6.7 Dialogue with employees: more connected than ever 7. Commitment to society 8. Commitment against corruption and bribery 9. Commitment to Human Rights 10. Commitment to information	3-3	Management of material topics
	The main risks related to these matters linked to the Group’s activities	4.3 Environmental risk management 8. Commitment against corruption and bribery 9. Commitment to Human Rights DR.5 Risks	3-1	Process to determine material topics

		Response	GRI disclosure number	GRI description
Environmental matters				
Environmental management	Detailed information about the current and foreseeable effects of the company's activities on the environment and, where applicable, on health and safety	3.3 Materiality 4.3 Environmental risk management 4.4. Environmental management and impact	3-1	Process to determine material topics
	Environmental assessment or certification procedures	4.4. Environmental management and impact	3-3	Management of material topics
	Resources dedicated to environmental risk prevention	2. Governance 4.3 Environmental risk management 4.4. Environmental management and impact AFS Note 4.4.1.4 Environmental risk	3-3	Management of material topics
	Application of the precautionary principle	4.3 Environmental risk management 4.4. Environmental management and impact	2-23	Commitments and policies
	Amount of provisions and guarantees for environmental risks	4.3 Environmental risk management AFS Note 4.4.1.4 Environmental risk	3-3	Management of material topics
Pollution	Measures to prevent, reduce or offset carbon emissions that severely affect the environment; taking into account any form of atmospheric pollution caused by a specific activity, including noise and light pollution	Banco Sabadell does not consider this issue to be material in relation to its activity	3-3	Management of material topics
Circular economy and waste prevention and management	Measures on the prevention, recycling, reuse and other forms of recovery and disposal of waste	4.4.4 Circular economy and waste management	3-3 306-2 (2020) in relation to generation of hazardous and non-hazardous waste	Management of material topics Management of significant waste-related impacts
	Actions to combat food waste	Banco Sabadell does not consider this issue to be material in relation to its activity	3-3	Management of material topics
Sustainable use of resources	Water consumption and water supply in accordance with local restrictions	4.4. Environmental management and impact	303-5 (2018) in relation to total water consumption	Water consumption
	Consumption of raw materials and measures adopted to make their use more efficient	4.4. Environmental management and impact	301-1	Materials used by weight or volume
	Direct and indirect energy consumption	4.4. Environmental management and impact	302 -1	Energy consumption within the organisation
	Measures taken to improve energy efficiency	4.4. Environmental management and impact	3-3 302-4	Management of material topics Reduction of energy consumption
	Use of renewable energies	4.4. Environmental management and impact	302-1	Energy consumption within the organisation

		Response	GRI disclosure number	GRI description
Climate change	Greenhouse gas emissions generated as a result of the company's activities, including the use of the goods it produces and the services it provides	4.4. Environmental management and impact	305-1	Direct (Scope 1) GHG emissions
			305-2	Energy indirect (Scope 2) GHG emissions
			305-3 excluding category 15	Other indirect (Scope 3) GHG emissions
			305-4 excluding category 15	GHG emissions intensity
	Measures adopted to adapt to the consequences of climate change	4. Commitment to climate and the environment	3-3	Management of material topics
			201-2	Financial implications and other risks and opportunities due to climate change
	Voluntary reduction targets established for the medium and long term to reduce greenhouse gas emissions and the measures implemented for such purposes	4.4. Environmental management and impact	305-5	Reduction of GHG emissions
Protection of biodiversity	Measures taken to preserve or restore biodiversity	Banco Sabadell considers this to be a material issue purely because of its indirect contribution through finance 4.3.4 Equator Principles	3-3	Management of material topics
	Impacts caused by activities or operations in protected areas	Banco Sabadell considers this to be a material issue purely because of its indirect contribution through finance		

		Response	GRI disclosure number	GRI description
Corporate and staff-related matters				
Employment	Total number and breakdown of employees by country, sex, age and professional category	6.1 Workforce information 6.4.1 Gender	2-7 405-1	Employees Diversity of governance bodies and employees
	Total number and breakdown of types of employment contract	6.1 Workforce information	2-7	Employees
	Annual average by type of contract (permanent, temporary or part-time) by sex, age and professional category	Banco Sabadell's activities are not linked to any significant seasonal variation For this reason, the changes between data as at 31 December and data averages are not material	2-7	Employees
	Number and breakdown of dismissals by sex, age	6.1 Workforce information	3-3	Management of material topics
	Average remuneration and its evolution, broken down by sex, age and professional category or its equivalent	6.5 Remuneration policy	3-3 405-2	Management of material topics Ratio of basic salary and remuneration of women to men
	Average remuneration of directors and senior managers, including variable pay, subsistence allowances, severance pay, payments into long-term retirement plans or any other amounts received, broken down by sex	6.5 Remuneration policy	3-3 405-2	Management of material topics Ratio of basic salary and remuneration of women to men
	Pay gap	6.5 Remuneration policy (pay gap)	3-3 in relation to ratio of remuneration of women to men, by professional category	Management of material topics
	Implementation of policies safeguarding employees' right to disconnect	6.6.1 Work-life balance	3-3	Management of material topics
	Employees with disabilities	6.4.2 Functional diversity	405-1	Diversity of governance bodies and employees
Workplace organisation	Organisation of working hours	6.6 Workplace environment and organisation	3-3	Management of material topics
	Number of hours of employee absence	6.6.2 Health and safety	403-9 (2018) in relation to absentee hours	Work-related injuries
	Measures aimed at facilitating the achievement of a work-life balance and encouraging the equal enjoyment of such measures by both parents	6.6.1 Work-life balance	3-3	Management of material topics

		Response	GRI disclosure number	GRI description
Health and safety	Health and safety conditions in the workplace	6.6.2 Health and safety 6.6 Workplace environment and organisation	3-3	Management of material topics
		6.6.2 Health and safety	403-1 (2018)	Occupational health and safety management system
		6.6.2 Health and safety	403-2 (2018)	Hazard identification, risk assessment and incident investigation
		6.6.2 Health and safety	403-3 (2018)	Occupational health services
	Workplace accidents, in particular their frequency and severity, broken down by sex	6.6.2 Health and safety	403-9 (2018) in relation to work-related injuries	Work-related injuries
	Occupational illnesses, broken down by sex	Social Security does not define any occupational illnesses in the banking sector	403-10 (2018) in relation to work-related ill health	Work-related ill health
Workplace relations	Organisation of social dialogue, including procedures for informing and consulting with staff and for negotiating with them	6.6.3 Trade union rights and right of association	3-3	Management of material topics
	Percentage of employees covered by a collective bargaining agreement, by country	6.6.3 Trade union rights and right of association	2-30	Collective bargaining agreements
	Status of collective bargaining agreements, particularly in relation to occupational health and safety	6.6.3 Trade union rights and right of association	403-4 (2018)	Worker participation, consultation, and communication on occupational health and safety
	Mechanisms and procedures that the company has in place to promote the involvement of employees in the company's management in terms of information, consultation and participation	6.6.3 Trade union rights and right of association 6.7 Dialogue with employees: more connected than ever	3-3	Management of material topics
Training	Policies implemented in relation to training	6.2 Commitment to talent	3-3	Management of material topics
		6.4 Diversity	404-2	Programs for upgrading employee skills and transition assistance programs
	Total hours of training, broken down by professional category	6.3 Training	404-1 in relation to average hours of training, by employee category	Average hours of training per year per employee
Accessibility	Integration and universal accessibility for people with disabilities	6.4.2 Functional diversity	3-3	Management of material topics

		Response	GRI disclosure number	GRI description
Equality	Measures adopted to promote equal treatment and opportunities between women and men	6.4 Diversity 6.4.1 Gender	3-3	Management of material topics
	Equality Plans (Chapter III of Organic Law 3/2007, of 22 March, on effective equality between women and men)	6.4 Diversity	3-3	Management of material topics
	Measures adopted to promote employment, protocols against sexual abuse and sexual harassment	6.4 Diversity 6.4.1 Gender	3-3	Management of material topics
	Policy against all forms of discrimination and, where applicable, gender diversity management	6.4 Diversity 6.4.1 Gender	3-3	Management of material topics
Disclosures on respecting human rights				
Human rights	Application of due diligence procedures in relation to human rights, prevention of risks of human rights violations and, where applicable, measures to mitigate, manage and redress any such violations	9.1 Information regarding Human Rights	2-27	Compliance with laws and regulations
		9.2 Whistleblowing channel	2-26	Mechanisms for seeking advice and raising concerns
			2-23	Commitments and policies
	Reported human rights violations	No reports have been made in relation to human rights in 2023	3-3	Management of material topics
		9.2 Whistleblowing channel	406-1	Incidents of discrimination and corrective actions taken
	Advocacy of, and compliance with, the provisions of fundamental conventions of the International Labour Organisation related to safeguarding the freedom of association and the right to collective bargaining; elimination of workplace discrimination and job discrimination; elimination of forced or compulsory labour; effective abolition of child labour	9. Commitment to Human Rights	3-3	Management of material topics
			407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk
			408-1	Operations and suppliers at significant risk for incidents of child labour
			409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour

		Response	GRI disclosure number	GRI description
Information regarding the fight against corruption and bribery				
Corruption and bribery	Measures adopted to prevent corruption and bribery	8. Commitment against corruption and bribery	3-3	Management of material topics
			2-27	Compliance with laws and regulations
			2-26	Mechanisms for seeking advice and raising concerns
			2-23	Commitments and policies
			205-2	Communication and training about anti-corruption policies and procedures
			205-3	Confirmed incidents of corruption and actions taken
	Measures to combat money laundering	7.10 Anti-Money Laundering and Counter-Terrorist Financing	3-3	Management of material topics
			2-27	Compliance with laws and regulations
			2-26	Mechanisms for seeking advice and raising concerns
			2-23	Commitments and policies
			205-2	Communication and training about anti-corruption policies and procedures
			205-3	Confirmed incidents of corruption and actions taken
	Contributions to foundations and non-profit organisations	7.6 Institutional relations	2-28	Membership associations
		7.3 Social housing management	201-1 in relation to community investments	Direct economic value generated and distributed
		8. Commitment against corruption and bribery	415-1	Political contributions
Information regarding society				
The company's commitments to sustainable development	The impact of the company's activities on local employment and development	7. Commitment to society	3-3	Management of material topics
		7. Commitment to society	203-2 in relation to significant indirect economic impacts	Significant indirect economic impacts
	Impact of the company's activities on local communities and in the area	7.1 Commitment to education 7.2 Social and volunteering activities 7.3 Social housing management	413-1	Operations with local community engagement, impact assessments, and development programs
	Relationships with key members of local communities and the different forms of dialogue with the same	7.1 Commitment to education	2-29	Approach to stakeholder engagement
		7.2 Social and volunteering activities 7.3 Social housing management	413-1	Operations with local community engagement, impact assessments, and development programs
	Association and sponsorship activities	7.1 Commitment to education 7.4 Sponsorship 7.5 Patronage	3-3	Management of material topics
		7.2 Social and volunteering activities	201-1 in relation to community investments	Direct economic value generated and distributed

		Response	GRI disclosure number	GRI description
Outsourcing and suppliers	Inclusion in the procurement policy of social, gender equality and environmental matters	7.8 Outsourcing and suppliers	3-3	Management of material topics
	relationships with suppliers and subcontractors of their social and environmental	7.8 Outsourcing and suppliers	2-6 414-1	Activities, value chain and other business relationships Supplier Social Assessment
	Supervision and audit systems and their results	7.8 Outsourcing and suppliers	2-6 308-1	Activities, value chain and other business relationships Supplier Environmental Assessment
Consumers	Consumer health and safety measures	10. Commitment to information 6.6.2 Health and safety	3-3	Management of material topics
	Whistleblowing systems, complaints received and their resolution	7.7 Consumers DR - 1.5. Customers AFS, Note 42 – Other information	3-3	Management of material topics
Tax information	Country-by-country earnings obtained	7.9 Tax information	3-3 201-1 in relation to pre-tax profit received	Management of material topics Direct economic value generated and distributed
	Corporation tax paid	7.9 Tax information	3-3 201-1 in relation to corporation tax paid	Management of material topics Direct economic value generated and distributed
	Public subsidies received	7.9 Tax information AFS - Schedule VII Annual banking report	201-4	Financial assistance received from government
Regulation (EU) 2020/852 - Taxonomy				
	Requirements of the Regulation	4.2 Climate-related and environmental strategy 4.3.3 Integration in management arrangements - EU Taxonomy 5. Commitment to sustainable finance	Company criteria	

GRI content index

Statement of use	Banco Sabadell has presented the information cited in this GRI content index for the period from 1 January 2023 to 31 December 2023 using the GRI Standards as a reference.
GRI 1 used	GRI 1: Foundation 2021
GRI Sector Standards	N/A

GRI Standard / Other sources	**Content**	**Location**
General disclosures		
GRI 2: General disclosures 2021	2-1 Organisational details	DR 1 – BANCO SABADELL GROUP (Introduction)
	2-2 Entities included in sustainability reporting	1. Introduction AFS Note 2 – Banco Sabadell Group
	2-3 Reporting period, frequency, and contact point	The report covers the 2023 financial year and is prepared annually and published as an annex to the Institution's Consolidated Directors' Report. Contact point for the report:
	2-4 Restatements of information	1. Introduction
	2-5 External assurance	Assurance included at the end of this document
	2-6 Activities, value chain and other business relationships	DR 1 – BANCO SABADELL GROUP 7.8 Outsourcing and suppliers AFS Note 2 – Banco Sabadell Group
	2-7 Employees	6.1 Workforce information
	2-9 Governance structure and composition	Banco Sabadell Internal Governance Framework
	2-10 Nomination and selection of the highest governance body	Regulation of the Board of Directors
	2-11 Chair of the highest governance body	Banco Sabadell Internal Governance Framework
	2-12 Role of the highest governance body in overseeing the management of impacts	Regulation of the Board of Directors
	2-13 Delegation of responsibility for managing impacts	Regulation of the Board of Directors
	2-14 Role of the highest governance body in sustainability reporting	Regulations of the Strategy and Sustainability Committee Art. 4
	2-15 Conflicts of interest	Regulation of the Board of Directors
	2-16 Communication of critical concerns	Regulation of the Board of Directors
	2-17 Collective knowledge of the highest governance body	Banco Sabadell Internal Governance Framework
	2-18 Evaluation of the performance of the highest governance body	Annual Report on Remuneration of Directors
	2-19 Remuneration policies	Director Remuneration Policy
	2-20 Process to determine remuneration	Director Remuneration Policy
	2-22 Statement on sustainable development strategy	3. Sabadell's Commitment to Sustainability

GRI 2: General disclosures 2021	2-23 Commitments and policies	Annex 1 8. Commitment against corruption and bribery 9. Commitment to Human Rights 10. Commitment to information
	2-24 Embedding commitments and policies	8. Commitment against corruption and bribery 9. Commitment to Human Rights 10. Commitment to information
	2-24 Process to remediate negative impacts	7.7 Consumers 9.2 Whistleblowing channel
	2-26 Mechanisms for seeking advice and raising concerns	7.7 Consumers 8. Commitment against corruption and bribery 9.2 Whistleblowing channel
	2-28 Membership associations	7.6 Institutional relations
	2-29 Approach to stakeholder engagement	3.2 Initiatives and alliances 7.6 Institutional relations
	2-30 Collective bargaining agreements	6.6.3 Trade union rights and right of association
Material topics		
GRI 3: Material topics 2021	3-1 Process to determine material topics	3.3 Materiality
	3-2 List of material topics	3.3.1 Definition of Material Topics
Corporate governance		
GRI 3: Material topics 2021	3-3 Management of material topics	2. Governance
GRI 405: Diversity and equal opportunity 2016	405-1 Diversity of governance bodies and employees	2. Governance 6.1 Workforce information 6.4 Diversity
GRI 2: General disclosures 2021	2-9 Governance structure	2. Governance
	2-12 Role of the highest governance body in	2. Governance
	2-18 Evaluation of the performance of the highest governance body	3.1 ESG framework (Remuneration linked to Sustainability)
	2-19 Remuneration policies	6.5 Remuneration policy
	2-22 Statement from senior decision-makers	https://www.grupbancsabadell.com/memoria2023/en (Chairman’s message)
Transparency and data management		
GRI 3: Material topics 2021	3-3 Management of material topics	7.9 Tax information

GRI 2: General disclosures 2021	2-28 Membership associations	3.2 Initiatives and alliances
	2-29 Approach to stakeholder engagement	3.3 Materiality 7.4 Sponsorship 7.5 Patronage 7.6 Institutional relations
	2-30 Collective bargaining agreements	6.6.3 Trade union rights and right of association
GRI 201: Economic performance 2016	201-4 Financial assistance received from government	7.9 Tax information
GRI 207: Tax 2019	207-01 Approach to tax	7.9 Tax information
	207-02 Tax governance, control, and risk management	7.9 Tax information
Risk management and cybersecurity		
GRI 3: Material topics 2021	3-3 Management of material topics	DR 5 - RISKS 10.3 Cybersecurity
Other: 102 General disclosures (2016)	102-15 Key impacts, risks and opportunities	DR 5 - RISKS
	102-29 Identifying and managing economic, environmental and social impacts	DR 5 - RISKS 10.3 Cybersecurity
GRI 2: General disclosures 2021	2-23 Commitments and policies	DR 5 - RISKS 10.3 Cybersecurity
Customer satisfaction and digitisation		
GRI 3: Material topics 2021	3-3 Management of material topics	7.7 Consumers DR 1.5 Customers
Other	Claims and complaints, by product	7.7 Consumers DR 1.5 Customers AFS Note 42 – Other information (SAC)
Corporate culture		
GRI 3: Material topics 2021	3-3 Management of material topics	6. Commitment to people
Other: GRI 102 General disclosures (2016)	102-16 Values, principles, standards and norms of behaviour	6. Commitment to people
Ethics and integrity		
GRI 3: Material topics 2021	3-3 Management of material topics	8. Commitment against corruption and bribery
GRI 2: General disclosures 2021	2-15 Conflicts of interest	8. Commitment against corruption and bribery 6.5 Remuneration policy
	2-26 Mechanisms for seeking advice and raising concerns	8. Commitment against corruption and bribery
	2-27 Compliance with laws and regulations	8. Commitment against corruption and bribery

GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures	8. Commitment against corruption and bribery
	205-3 Confirmed incidents of corruption and actions taken	8. Commitment against corruption and bribery
GRI 415: Public policy 2016	415-1 Political contributions	8. Commitment against corruption and bribery
Responsible supply chain		
GRI 3: Material topics 2021	3-3 Management of material topics	7.8 Outsourcing and suppliers 9. Commitment to Human Rights
GRI 308: Supplier environmental assessment 2016	308-1 New suppliers that were screened using environmental criteria	7.8 Outsourcing and suppliers
GRI 407: Freedom of association and collective bargaining	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	9. Commitment to Human Rights
GRI 414: Supplier social assessment 2016	414-1 New suppliers that were screened using social criteria	7.8 Outsourcing and suppliers
Value creation and solvency		
GRI 3: Material topics 2021	3-3 Management of material topics	DR 1 – Banco Sabadell Group
GRI 2: General disclosures 2021	2-1 Organisational details	DR 1 – Banco Sabadell Group
GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	7.2 Social and volunteering activities 7.3 Social housing management 7.9 Tax information
Sustainable finance and investment		
GRI 3: Material topics 2021	3-3 Management of material topics	5. Commitment to sustainable finance
Other	Volumes of sustainable financing	5. Commitment to sustainable finance
Climate and environment: risks		
GRI 3: Material topics 2021	3-3 Management of material topics	4. Commitment to climate and the environment
GRI 201: Economic performance 2016	201-2 Financial implications and other risks and opportunities due to climate change	4. Commitment to climate and the environment
Internal environmental footprint		
GRI 3: Material topics 2021	3-3 Management of material topics	4.4.3 Details of emissions and sustainable use of resources
GRI 301: Materials 2016	301-1 Materials used by weight or volume	4.4.3 Details of emissions and sustainable use of resources
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	4.4.3 Details of emissions and sustainable use of resources
GRI 303: Water and effluents 2018	303-5 Water consumption	4.4.3 Details of emissions and sustainable use of resources

GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	4.4.1 Carbon footprint 4.4.3 Details of emissions and sustainable use of
	305-2 Energy indirect (Scope 2) GHG emissions	4.4.1 Carbon footprint 4.4.3 Details of emissions and sustainable use of resources
	305-3 Other indirect (Scope 3) GHG emissions	4.4.1 Carbon footprint 4.4.3 Details of emissions and sustainable use of
	305-4 GHG emissions intensity	4.4.1 Carbon footprint 4.4.3 Details of emissions and sustainable use of
	305-5 Reduction of GHG emissions	4.4.1 Carbon footprint 4.4.3 Details of emissions and sustainable use of
GRI 306: Effluents and waste 2016	306-2 Management of significant waste-related impacts	4.4.4 Circular economy and waste management
	306-3 Waste generated	4.4.4 Circular economy and waste management
Commitments and partnerships in environmental matters		
GRI 3: Material topics 2021	3-3 Management of material topics	3.2 Initiatives and alliances 4.4. Environmental management and impact
GRI 2: General disclosures 2021	2-29 Approach to stakeholder engagement	3.2 Initiatives and alliances 4.4. Environmental management and impact
Diversity, inclusion and equality		
GRI 3: Material topics 2021	3-3 Management of material topics	6.4 Diversity 6.5 Remuneration policy
GRI 405: Diversity and equal opportunity 2016	405-2 Ratio of basic salary and remuneration of women to men	6.4 Diversity 6.5 Remuneration policy
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	No reports have been made in relation to human rights in 2023 9.1 Information regarding Human Rights 9.2 Whistleblowing channel
Quality employment and talent management		
GRI 3: Material topics 2021	3-3 Management of material topics	6.1 Workforce information 6.2 Commitment to talent
GRI 2: General disclosures 2021	2-7 Employees	6.1 Workforce information
GRI 403: Occupational health and safety 2018	403-1 Occupational health and safety management system	6.6.2 Health and safety
	403-2 Hazard identification, risk assessment and incident investigation	6.6.2 Health and safety
	403-3 Occupational health services	6.6.2 Health and safety
	403-4 Worker participation, consultation, and communication on occupational health and safety	6.6.3 Trade union rights and right of association
	403-9 Work-related injuries	6.6.2 Health and safety

GRI 404: Training and education 2016	404-1 Average hours of training per year per employee	6.2.1 Talent management model
	404-2 Programs for upgrading employee skills and transition assistance programs	6.2 Commitment to talent
Social commitment and Human Rights		
GRI 3: Material topics 2021	3-3 Management of material topics	7. Commitment to society 9.1 Information regarding Human Rights
GRI 203: Indirect economic impacts 2016	203-1 Infrastructure investments and services supported	5. Commitment to sustainable finance
	203-2 Significant indirect economic impacts	7. Commitment to society
GRI 408: Child labour 2016	408-1 Operations and suppliers at significant risk for incidents of child labour	9.1 Information regarding Human Rights
GRI 409: Forced or compulsory labour 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	9.1 Information regarding Human Rights
GRI 412: Human rights assessment 2016	412-2 Employee training on human rights policies or procedures	9.1 Information regarding Human Rights
	412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	4.3.4 Equator Principles
GRI 413: Local communities 2016	Operations with local community engagement, impact assessments, and development programs	7.1 Commitment to education 7.2 Social and volunteering activities 7.3 Social housing management

Task Force on Climate-related Financial Disclosures (TCFD)

In November 2020, Banco Sabadell became a member of the Task Force on Climate-related Financial Disclosures (TCFD) and, in this connection, it is executing a roadmap to align with these disclosure standards and supervisory expectations.

Below are the references to sections in the NFDR document where the information to meet TCFD recommendations is detailed:

TCFD Recommendation		Banco de Sabadell NFDR section	Reference
Governance	a) Describe the Board's oversight of climate-related risks and opportunities.	2. Governance	2. Governance
		4. Commitment to climate and the environment	4.1 Environmental risk governance
	b) Describe Management's role in assessing and managing climate-related risks and opportunities.	2. Governance	2. Governance
		4. Commitment to climate and the environment	4.1 Environmental risk governance ; 4.2 Climate-related and environmental strategy; 4.3 Environmental risk management
Strategy	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	4. Commitment to climate and the environment	4.2 Climate-related and environmental strategy; 4.3 Environmental risk management
		5. Commitment to sustainable finance	5.1 Commitment to sustainable financing solutions for the CIB business, Companies and Individuals; 5.2 Sinia Renovables; 5.3 Issuance of sustainability bonds; 5.4 Sustainable savings and responsible investment solutions; 5.5 Green loans and lines of credit with multilateral development banks in Mexico
	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	4. Commitment to climate and the environment	4.3 Environmental risk management
		5. Commitment to sustainable finance	5.1 Commitment to sustainable financing solutions for the CIB business, Companies and Individuals; 5.2 Sinia Renovables; 5.3 Issuance of sustainability bonds; 5.4 Sustainable savings and responsible investment solutions; 5.5 Green loans and lines of credit with multilateral development banks in Mexico
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	4. Commitment to climate and the environment	4.2 Climate-related and environmental strategy; 4.3 Environmental risk management

Risk management	a) Describe the organization's processes for identifying and assessing climate-related risks.	4. Commitment to climate and the environment	4.3 Environmental risk management
	b) Describe the organization's processes for managing climate-related risks.	4. Commitment to climate and the environment	4.3 Environmental risk management
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	4. Commitment to climate and the environment	4.2 Climate-related and environmental strategy; 4.3.3 Integration in management arrangements; 4.3.4 Equator Principles
Metrics and targets	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	4. Commitment to climate and the environment	4.3.1 Risk identification; 4.3.2. Assessment and measurement; 4.3.4 Equator Principles[94]
		5. Commitment to sustainable finance	5. Commitment to sustainable finance; 5.1 Commitment to sustainable financing solutions for the CIB business, Companies and Individuals; 5.2 Sinia Renovables; 5.3 Issuance of sustainability bonds; 5.4 Sustainable savings and responsible investment solutions; 5.5 Green loans and lines of credit with multilateral development banks in Mexico
		Annex 4 - Taxonomy indicators	Annex 4 - Taxonomy indicators [95]
	b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	4. Commitment to climate and the environment	4.3.2. Assessment and measurement (Emissions of the financed portfolio);4.4. Environmental management and impact[96]
	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	4. Commitment to climate and the environment	4.2 Climate and environmental strategy (Portfolio alignment); 4.4. Environmental management and impact (Reduction targets)
		5. Commitment to sustainable finance	5. Commitment to sustainable finance

[94] The indicators mentioned in section 4.3.2 Assessment and measurement, specifically in the subsection on "Physical climate risks", correspond to the EC-G8 indicator of the supplement on reporting climate-related information (2019/C 209/01) of the European Commission.
[95] The indicators mentioned in this section correspond to indicators EC-G9 and EC-SC3 of the supplement on reporting climate-related information (2019/C 209/01) of the European Commission.
[96] The indicators mentioned in this section correspond to indicators EC-G1, EC-G2, EC-G3, EC-G4 and EC-G5 of the supplement on reporting climate-related information (2019/C 209/01) of the European Commission.

Annex 3

Principles for Responsible Banking. Reporting and Self-Assessment

Principle 1: Alignment

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

Business model

Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided and the main sectors and types of activities across the main geographies in which your bank has operations or provides products and services. Please also quantify the information by disclosing e.g. the distribution of your bank's portfolio (%) in terms of geographies, segments (i.e. by balance sheet and/or off-balance sheet) or by disclosing the number of customers and clients served.

The Institution'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.	Directors' Report 2023: 1.1 Mission, values and business model: Business model, main objectives achieved and actions carried out
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. The Bank has 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.	5.1.3 Sustainable financing solutions for retail customers and businesses 10.1 Transparency
Over the last twelve years, Banco Sabadell has expanded its geographical footprint and increased its market share in Spain through a number of acquisitions and organic growth. 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, including 9% in trade credit, 9% in finance for productive activities, 6% in mutual funds, 5% in securities trading and 17% in PoS turnover. Sustainable financing is one of the main levers to facilitate energy transition, specifically, to mitigate global warming by promoting an economic model that helps to protect the environment. Regarding individuals and SMEs, Banco Sabadell remains firm in its purpose of supporting and accelerating the important economic and social transformations that contribute to sustainable development and the fight against climate change. Every year, the different units responsible for the product offering perform an in-depth review of the conditions of the products and their impact on customers in order to ensure that those products continue to be suitable for the target audience defined originally. With these developments, the Group has become one of the largest financial institutions in Spain's financial system. It has a geographically diverse business (76% in Spain, 22% in the UK and 2% 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. Banco Sabadell Group's banking business operates under the following brands: • Banco Sabadell is the Group's main brand. This is the leading brand in the Spanish market providing services to individuals and corporates. • TSB is the Group's leading brand in the United Kingdom. It became part of the Group in 2015 to provide greater competitiveness and serve an increasing number of customer needs, thus improving the banking experience in this country. • Banco Sabadell Mexico is the brand under which the Bank operates in Mexico, where the Group opened its first representative office in 1991.	1. Introduction

Strategy alignment

Does your corporate strategy identify and reflect sustainability as strategic priority/ies for your bank?

☒ Yes

☐ No

Please describe how your bank has aligned and/or is planning to align its strategy to be consistent with the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.

Does your bank also reference any of the following frameworks or sustainability regulatory reporting requirements in its strategic priorities or policies to implement these?

☒ UN Guiding Principles on Business and Human Rights

☒ International Labour Organization fundamental conventions

☒ UN Global Compact

☐ UN Declaration on the Rights of Indigenous Peoples

☒ Any applicable regulatory reporting requirements on environmental risk assessments, e.g. on climate risk - please specify which ones: ***Equator Principles***

☒ Any applicable regulatory reporting requirements on social risk assessments, e.g. on modern slavery - please specify which ones: ***Equator Principles***

☐ None of the above

Banco Sabadell has an ESG action framework (section 3. Sabadell's Commitment to Sustainability), which is aligned with the SDGs and in which climate action (SDG 13) is one of the priority SDGs of its corporate strategy. Banco Sabadell continues to forge alliances with other sectors and is part of major international initiatives designed to fight climate change and improve social development, showing its continued support: • Signatory of the corporate responsibility initiative of the United Nations Global Compact and the ten principles in the areas of human rights, labour, environment and anti-corruption, since 2005. • Signatory of the Carbon Disclosure Project (CDP) for action against climate change since 2009. • The signature of the Equator Principles, since 2011, which incorporate social and environmental criteria in the funding of large-scale project finance and corporate loans. • Since 2019, it has adhered to the United Nations Principles for Responsible Banking, the first global framework of reference that defines the role and responsibilities of the banking industry in ensuring a sustainable future, to that end reinforcing the alignment with the SDGs in relation to the Paris Agreement. • In 2019, it ratified the Collective Commitment to Climate Action, whose goals serve to further reduce the carbon footprint of balance sheets. • Since 2020, it became a member of the Task Force on Climate-related Financial Disclosures (TCFD) for the disclosure of risks and opportunities related to climate change. • Since 2021, it became a member of the Net-Zero Banking Alliance (NZBA), an international alliance convened by the United Nations Environment Programme Finance Initiative (UNEPFI), through which the Bank is committed to aligning its lending portfolios with net-zero emissions by 2050 at the latest, in line with the targets of the Paris Agreement. • Adherence in 2022 to the Partnership for Carbon Accounting Financials (PCAF), in order to measure and disclose emissions financed through loans and investments in a standardised way.	4. Commitment to climate and the environment 3.2 Initiatives and alliances 4.3.3 Integration into management procedures 4.3.4 Equator Principles

In addition to the above alliances, all of which are implicit in the ESG framework called Sabadell's Commitment to Sustainability, other transformation and promotion actions are included, both those taken by the Group and those expected to be taken in the future, with the aim of accelerating green transition actions, the fight against climate change, and social development, reinforcing and at the same time addressing the topics considered to be a priority based on their materiality. This framework is aligned with the UN SDGs and focuses on those where it has the greatest capacity to influence due to systemic interrelationships, type of activity and capacity to make an impact. Effective integration of environmental risks into management arrangements requires a strategy and set of regulations that establish the action guidelines, targets and limits required at different points of the credit approval workflow. The Bank has created the ESG Guidelines, which are the framework that consolidates the ESG commitments and standards currently applied when authorising the Bank's credit transactions. Specifically, the ESG Guidelines comprise the Environmental and Social Risk Framework, the IRCA (for more details, see section 4.3.2. Assessment and measurement. Heading "Climate-related and environmental performance of the loan book") and decarbonisation pathways. The verification of ESG Guidelines has been embedded into the IRCA evaluation process, meaning that, when ESG analysts receive a loan application from a customer who is subject to the IRCA, they conduct an additional evaluation of their fulfilment of the Environmental and Social Risk Framework and of their decarbonisation pathways. The Group has an Environmental and Social Risk Framework that establishes the Group's position, designed to restrict 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, as part of the financial sector, the Group measures ESG performance using the IRCA to promote the transition of companies and businesses, steering the financing according to the nature of the activities and helping agents in polluting industries who work to improve their ESG performance to transition to a more sustainable model, or limiting its exposure in the case of those not transitioning. At the same time, the Bank has a decarbonisation strategy for the four first sectors (Electricity, Oil & Gas, Cement and Coal) and it has published its commitment in a second phase for three new sectors (Iron & Steel, Car manufacture and Air transport). The assessment of the level of fulfilment of pathways is currently embedded into day-to-day management arrangements. Therefore, all significant transactions affected by them are evaluated, thus ensuring achievement of the established targets. In addition, since 2011, the Group has adhered to the Equator Principles, an international voluntary framework of policies, standards and guidelines coordinated by the International Finance Corporation (IFC), a sister organisation of the World Bank, which aims to identify, assess and manage environmental and social risks relating to project finance of 10 million US dollars or more and corporate loans related to projects of more than 50 million US dollars. Through the standards of the Equator Principles, a social and environmental assessment of the potential impacts of the project is carried out by an independent expert.	4. Commitment to climate and the environment 3.2 Initiatives and alliances 4.3.3 Integration into management procedures 4.3.4 Equator Principles

Principle 2: Impact and Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and the environment resulting from our activities, products and services. To that end, we will set and publish targets where we can have the most significant impacts.

2.1 Impact Analysis (Key Step 1)

Show that your bank has performed an impact analysis of its portfolio(s) to identify its most significant impact areas and determine priority areas for target-setting. The impact analysis shall be updated regularly and fulfil the following requirements/elements (a-d):

a) ***Scope:*** What is the scope of your bank's impact analysis? Please describe which parts of the bank's core business areas, products/services across the main geographies that the bank operates in (as described under 1.1) have been considered in the impact analysis. Please also describe which areas have not yet been included, and why.

In 2022, Banco Sabadell carried out an analysis to identify the positive and negative impacts arising from its financing activities, in line with the requirements of the Principles for Responsible Banking of the United Nations Environment Programme Finance Initiative (UNEP FI). This analysis took place using the Portfolio Impact Analysis Tool for Banks for the use of the Holistic Impact Methodology devised by UNEP FI. The tool allows identifying environmental, social and economic impacts (both positive and negative) associated with both the Retail Banking lending portfolio and the Business Banking lending portfolio, and to overlay these associations with the challenges and priorities for the sustainable development of the countries in which the Bank operates, in order to identify the most significant impact areas/topics of the portfolio. The results of this analysis prompted Banco Sabadell to prioritise two areas of impact on account of their materiality rating assigned in both analyses: Climate and environment, and Financial inclusion and education. The impact analysis conducted by Banco Sabadell focused on the main business areas of the Bank, analysing the financial products and services offered to natural persons in its Retail Banking business in Spain and the business of TSB in the United Kingdom, as well as business lending in the Business Banking line in Spain and Mexico. The exercise covered 92% of Banco Sabadell's overall lending portfolio, 45% of which corresponds to the Retail Banking lending portfolio, while 47% corresponds to the Business Banking lending portfolio. The analysis did not consider TSB's Business Banking portfolio in the UK, nor the Bank's exposure in foreign branches, due to their low materiality in overall terms.	3.3.4 Engagement with Principles for Responsible Banking

b) ***Portfolio composition:*** Has your bank considered the composition of its portfolio (in %) in the analysis? Please provide proportional composition of your portfolio globally and per geographical scope

i) by sectors & industries for business, corporate and investment banking portfolios (i.e. sector exposure or industry breakdown in %), and/or

ii) by products & services and by types of customers for consumer and retail banking portfolios.

If your bank has taken another approach to determine the bank's scale of exposure, please elaborate, to show how you have considered where the bank's core business/major activities lie in terms of industries or sectors.

The business lending portfolio accounts for around half of the Bank's loan book. The sectors with the largest lending volume in each geography are: (a) financing of general activities of the General Government and the rental and management of real estate in Spain, and (b) hotel management and real estate in Mexico. On the other hand, most of the exposure of the Retail Banking portfolio is concentrated in the Bank's financial mortgage products in both Spain and the UK. To identify the impacts associated with the sectors financed by Banco Sabadell and the impacts associated with the products and services offered to retail customers, the Sector Impact Map embedded in the Portfolio Impact Analysis tool has been used, which systematically analyses the different impact areas associated with each of the financed sectors, products and services. As a result, it has been concluded that the most prominent impact areas in Banco Sabadell's portfolios are "Availability, accessibility, affordability and quality of resources and services" (specifically, "Access to finance and housing", "Climate stability" and "Circularity"). The efforts made by the Institution to be among the leaders in renewable energy project finance, support Climate stability and Circularity. On the other hand, consumer loans and mortgages for individuals, as well as the products and services offered by Banco Sabadell for specific groups (e.g. young people, seniors or groups with reduced financial capability) contribute substantially to Access to finance and housing. Lastly, the financing of sectors classified as carbon-intensive (e.g. generation of non-renewable electricity, transport and the real estate sector) and which require natural resources for their production processes could have a potentially negative contribution in the aforementioned impact areas.	3.3.4 Engagement with Principles for Responsible Banking
c) ***Context:*** What are the main challenges and priorities related to sustainable development in the main countries/regions in which your bank and/or your clients operate? Please describe how these have been considered, including what stakeholders you have engaged to help inform this element of the impact analysis. *This step aims to put your bank's portfolio impacts into the context of society's needs.*	
The Context Module of the UNEP FI Portfolio Impact Analysis tool has been used to analyse the environmental, social and economic context in Spain, Mexico and the UK and to map out the main challenges and priorities for sustainable development in each of these countries based on sets of statistical data and the strategies announced by domestic governments in their voluntary progress reports on the achievement of SDGs. As a result, Access to housing has been identified as being the main challenge and as a shared priority across all geographies. Furthermore, Climate stability has been recognised as one of the major challenges shared by all of the countries analysed. In addition, for better comprehension of the local context of the countries in which the Group operates, several renowned sources of information have been consulted. The main indicators of financial concerns in households and businesses are the following: • 19-26% of the poorest within society are worried about their monthly income or concerned that they might not be able to save enough for retirement (source: World Bank - DataBank: Global Financial Inclusion) • 24% of Spanish people feel they lack sufficient financial literacy to deal with their day-to-day finances (European average: 19%) and 61% feel economically worse off than one year before (source: Intrum "European Consumer Payment Report 2022 (Spain)) • 62.2% of micro-enterprises in Spain need finance and 36.5% declared that they are in a worse financial situation now than one year before (source: CESGAR (XII Report on SME finance in Spain "La Financiación de la Pyme en España")) • In the UK, SMEs declared that their profits have improved and that there is a growing tendency to use overdrafts (source: "Small Business Finance Markets 2022/23" report by the British Business Bank) In relation to climate stability, stakeholders are more concerned about climate change and there is also increasing supervisory pressure in this area. In 2015, faced with one of humanity's greatest challenges – climate change – all of the United Nations Member States agreed to create the foundations to ensure a future for everyone. This ultimately resulted in the 2030 Agenda for Sustainable Development, which lays down the Sustainable Development Goals (SDGs): Planet, People, Prosperity, Peace and Partnerships. A roadmap to achieve a common social goal: sustainable human and global development, which was strengthened with the Paris Agreement against climate change and the European Green Deal to move towards a carbon-neutral economy.	3.3.4 Engagement with Principles for Responsible Banking

Based on these first three elements of an impact analysis, what positive and negative impact areas has your bank identified? Which (at least two) significant impact areas did you prioritize to pursue your target setting strategy (see 2.2)? Please disclose:	
The results of the portfolio composition analysis, along with the evaluation of the challenges and priorities for sustainable development in Spain, Mexico and the UK, have prompted Banco Sabadell to prioritise two areas of impact due to their significance obtained from both analyses: Climate and environment (described in the tool as Climate stability) and Financial inclusion and education (which would include Access to finance and housing). Both areas of impact that were prioritised are aligned with the results obtained in the materiality analysis. In this respect, the areas prioritised in the impact analysis in relation to Climate and environment, and Financial inclusion and education, each relate directly to at least three of the material topics for which positive and negative impacts were identified according to the double materiality perspective (i.e.impacts of the environment on the Institution and of the Institution on stakeholders). The areas of impact in relation to Climate and environment is closely related to the material topics of Climate and environment, Sustainable finance and investment, and the topic of Commitments and partnerships in environmental matters. On the other hand, the area of inclusion and financial education is directly related to the material topics of Social commitment and Human Rights, Sustainable finance and investment, and Customer satisfaction and digitisation.	3.3.4 Engagement with Principles for Responsible Banking
d) *For these (min. two prioritized impact areas):* ***Performance measurement:*** Has your bank identified which sectors & industries as well as types of customers financed or invested in are causing the strongest actual positive or negative impacts? Please describe how you assessed the performance of these, using appropriate indicators related to significant impact areas that apply to your bank's context. In determining priority areas for target-setting among its areas of most significant impact, you should consider the bank's current performance levels, i.e. qualitative and/or quantitative indicators and/or proxies of the social, economic and environmental impacts resulting from the bank's activities and provision of products and services. If your bank has taken another approach to assess the intensity of impact resulting from the bank's activities and provision of products and services, please describe this. *The outcome of this step will then also provide the baseline (incl. indicators) you can use for setting targets in two areas of most significant impact.*	
Understanding current practices and the success with which impacts are managed is fundamental to determine how Banco Sabadell can continue to develop and improve and thus ensure the achievement of the targets. To measure the Institution's performance and quantify the impact generated by the lending portfolio in those sectors or products that contribute substantially to the two areas of impact that have been prioritised, Banco Sabadell has established a series of indicators. On the area of impact related to climate and the environment, which is closely linked to the energy and real estate sectors, the following indicators are measured: (a) emissions of the portfolio, (b) volume of financial products and services mobilised in cumulative terms in sustainable finance solutions, (c) renewable capacity (MW) financed through Project Finance, (d) emissions prevented by investing in renewable energy projects (tCO_2), (e) clean energy generated by investing in renewable energy projects for a specified number of households, and (f) the cumulative volume of mortgages with the most efficient EPCs. In terms of the area of impact related to financial inclusion and education, which is closely linked to consumer loans and mortgages granted to individuals, and to the products and services offered by Banco Sabadell for specific groups of people, the Bank evaluates the progress made using indicators such as (a) the annual number of those benefiting from financial education programmes, adding new population sectors (seniors, vulnerable groups, etc.), (b) the cumulative volume of finance granted to micro-enterprises through loans, credit, leases, rentals, reverse factoring and factoring between 2021 and 2025, and (c) the number of social rent or affordable rent contracts managed through Sogeviso (number of households reached). In addition, the Institution has been developing indicators in relation to Financial Health and Inclusion in order to evaluate how customers are impacted by the finance granted. In this respect, new indicators have been added that measure changes in the workforce and sales of micro-enterprises to which finance has been granted.	3.3.4 Engagement with Principles for Responsible Banking

Self-assessment summary:

Which of the following components of impact analysis has your bank completed, in order to identify the areas in which your bank has its most significant (potential) positive and negative impacts?

Scope:	☒ Yes	☐ In progress	☐ No
Portfolio composition:	☒ Yes	☐ In progress	☐ No
Context:	☒ Yes	☐ In progress	☐ No
Performance measurement:	☒ Yes	☐ In progress	☐ No

Which most significant impact areas have you identified for your bank, as a result of the impact analysis?

The most significant impact areas identified as a result of the impact analysis are: (a) Climate and environment and (b) Financial inclusion and education (which would include Access to finance and housing).

How recent is the data used for and disclosed in the impact analysis?

☐ Up to 6 months prior to publication

☐ Up to 12 months prior to publication

☒ Up to 18 months prior to publication

☐ Longer than 18 months prior to publication

Open text field to describe potential challenges, aspects not covered by the above etc.: *(optional)*

2.2 Target Setting (Key Step 2)

Show that your bank has set and published a minimum of two targets which address at least two different areas of most significant impact that you identified in your impact analysis.

The targets have to be Specific, Measurable (qualitative or quantitative), Achievable, Relevant and Time-bound (SMART). Please disclose the following elements of target setting (a-d), for each target separately:

a) ***Alignment:*** which international, regional or national policy frameworks to align your bank's portfolio with have you identified as relevant? Show that the selected indicators and targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks.

You can build upon the context items under 2.1.

Banco Sabadell is firmly committed to continuing to move forward in its activity and organisation in order to support and accelerate the important economic and social transformations that contribute to sustainable development and the fight against climate change. To that end, the Group has established its Commitment to Sustainability, a framework for action that ensures the integration into the Bank's strategy of a forward-looking vision for the period 2025-2050 in relation to environmental, social and governance (ESG) commitments, that aligns the business objectives with the Sustainable Development Goals (SDGs) and the Paris Agreement, and that establishes action levers to generate transformation and promotion activities. It has been created with the involvement of all of the Institution's corporate bodies and four strategic pillars have been established, on which work is already underway: • Progress as a sustainable institution • Support customers in the transition to a sustainable economy • Offer investment opportunities that contribute to sustainability • Work together for a sustainable and cohesive society	Sabadell's Commitment to Sustainability 3. Sabadell's Commitment to Sustainability

b) Baseline: Have you determined a baseline for selected indicators and assessed the current level of alignment? Please disclose the indicators used as well as the year of the baseline.	
Emissions of the financed portfolio account for the largest proportion of the Group's emissions. Therefore, since 2021, Banco Sabadell Group has calculated the carbon footprint of its financed portfolio using the Partnership for Carbon Accounting Financials (PCAF) methodology. It is worth mentioning that PCAF has two methodological approaches for listed stocks and corporate bonds. In this case, the Bank uses the same methodology that it does for business loans and unlisted stocks, in which values are attributed considering counterparties' balance sheet data. Based on this methodology, the Group has calculated its carbon footprint (Scope 1 and 2) for approximately 96% of its financed portfolio. The portfolios not calculated are those for which no calculation or estimation standards or methodologies exist, such as portfolios of consumer loans for purposes other than vehicle purchase or private banking, among others. It is worth noting that in 2023 the Group has continued to improve its calculation model to obtain more reliable and complete results, which have been submitted to the Sustainability Committee. The main improvements are the following: • Calculation of the new Sovereign Bonds segment of the portfolio within the model used to calculate the carbon footprint, following the new methodology published in the guidance to banks for calculating financed emissions issued by the PCAF. In line with the PCAF recommendations, the calculation of Scope 1 financed emissions is available, both including the emissions factors of countries' Land Use, Land-Use Change and Forestry (LULUCF) and without them. • Inclusion of the PCAF's new emission factors in the calculation of emissions stemming from the financed business portfolio, amending the Bank's reports, both public and internal, from 2024 onwards. In 2023, the PCAF updated the emission factors that it recommends for use when calculating the carbon footprint of the financed portfolio. The new factors provided are at a regional and sectoral level (understood as two-digit NACE codes), the latter of the two being the recommended option. This change will produce less granular emission factors than the previous version, as before emissions factors were available at the activity level (four-digit NACE codes). • Inclusion of fixed-income contracts for corporate bonds in the business segment. • Incorporation of actual emissions data with regard to business risk, floor area and EPC ratings, both actual and estimated by appraisal firms, and of the value and type of vehicles, leading to an improved data quality (DQ) estimate. Since 2020, Banco Sabadell has been developing a Sustainable Finance Plan, affecting all of its business lines and units, which will allow it to deliver the Institution's sustainability commitments. In 2021, the volume of financial products and services mobilised through sustainable finance solutions was over €10,700m. On this basis, the Bank has set itself cumulative mobilisation targets for 2025, which are described in the following section. In the area of financial inclusion and education, in 2021, more than €2,900m of finance was granted to micro-enterprises to promote and maintain employment. On this basis, the Bank has set itself cumulative targets for 2025, which are described in the following section. On the other hand, Banco Sabadell continues to promote and take part in a number of financial education initiatives. By engaging in this type of activity, the Institution aims to not only meet the different training requirements of society in general, but also be by their side to help them develop skills and decision-making abilities. In 2021, a total of 6,300 people benefited every year from the Bank's financial education programmes imparted through 836 workshops by 154 volunteers. The targets set for 2025 are described in the following section.	4.3.2. Assessment and measurement: Emissions of the financed portfolio 7.1 Commitment to education

c) SMART targets (incl. key performance indicators (KPIs)): Please disclose the targets for your first and your second area of most significant impact, if already in place (as well as further impact areas, if in place). Which KPIs are you using to monitor progress towards reaching the target?

Banco Sabadell has set the following targets and objectives for each of the prioritised areas of impact:

Climate and environment:

Banco Sabadell supports customers in the transition towards a sustainable economy. It provides them with the information, advice, products and services that they need. The Group helps its customers overcome their challenges, understanding their situation and aligning it with the regulatory environment, whilst also identifying physical and transition risks and their opportunities for transformation.

In order to decarbonise its balance sheet by reducing the portfolio's carbon footprint, the following targets and objectives have been set:

- *Achieve emissions neutrality of the portfolio by 2050.*
- *Calculate decarbonisation pathways for all sectors published by internationally recognised bodies and for customers where there is sufficient information to make this calculation.*

Sector	Value chain stage	Emissions scope	Reference scenario	Metric	Base year	Base year metric	2030 target	% reduction
Electricity	Electricity generation	1 and 2	IEA Net Zero 2050	Physical intensity Kg CO2e / MWh	2020	61	85-45	-
Oil & Gas	Upstream & Downstream 1	1, 2 and 3	IEA Net Zero 2050	Absolute emissions Kt CO2e	2020	6,300	4,851	-23% vs 2020
Cement	Production	1 and 2	IEA Net Zero 2050	Physical intensity Kg CO2e / tonne cement	2020	660	510	-23% vs 2020
Coal	Mining activity	Not applicable	IEA Net Zero 2050	Exposure in Million euros	2020	3	~0	-100% vs 2020
Iron & Steel	Manufacturing	1 and 2	IEA Net Zero 2050	Physical intensity KgCO2e / tonne steel	2022	1,593	1,172	-26% vs 2022
Automotive	Manufacture / OEMs 2	3	IEA Net Zero 2050	Physical intensity gCO2e / vkm 3	2022	211	124	-41% vs 2022
Aviation	Airlines	1 and 2	IEA Net Zero 2050 4	Physical intensity gCO2e / rpk 5	2022	94	65	-31% vs 2022

Notes about methodology applied: Base year (2020) data and 2030 targets are based on the large corporations segment. To determine industry commitments based on the reduction of emissions intensity (electricity and cement), average emissions intensity has been calculated based on emissions and attributed output according to the amount of financing granted. The commitments have been determined based on the methodology of the Science-Based Targets initiative (SBTi) and the pathway indicated in the reference scenario for the oil & gas, cement and coal industries.

Note 1: Includes refining.

Note 2: OEM: Original Equipment Manufacturer. Scope 3 emissions are those linked to the use of sold vehicles (category 11 - Use of sold products).

Note 3: vkm: vehicle kilometre.

Note 4: A correction factor has been added to the scenario to remove the distortion caused by Covid-19 in the forecast data for the 2019-2030 period, due to the reduced aircraft occupancy rate during the pandemic.

Note 5: rpk: revenue passenger kilometre.

- *Mobilise €65bn in financial products and services, in cumulative terms, in sustainable finance solutions between 2021 and 2025.*

Financial inclusion and education:

Banco Sabadell contributes to the transition towards a more sustainable and cohesive society through ethical and responsible management.

It promotes financial education and inclusion, volunteering and charitable activities. It pays special attention to supporting customers in vulnerable situations with social housing management initiatives and employability programmes. In order to promote financial inclusion and education, the Group has set itself the following targets and objectives:

- *Reach 10,000 annual recipients of financial education programmes including new sectors of the population (seniors, vulnerable groups, etc.) by 2025.*
- *Reach a volume of over €15bn in cumulative finance granted to micro-entities through loans, credit, leases, rental arrangements, reverse factoring and factoring between 2021 and 2025.*

Sabadell's Commitment to Sustainability

4.2 Climate-related and environmental strategy: Portfolio Alignment

d) ***Action plan:*** which actions including milestones have you defined to meet the set targets? Please describe. Please also show that your bank has analysed and acknowledged significant (potential) indirect impacts of the set targets within the impact area or on other impact areas and that it has set out relevant actions to avoid, mitigate, or compensate potential negative impacts.	
The Commitment to Sustainability action framework defines two types of levers for achieving the established targets and objectives: • Transformation actions to align the organisation with ESG criteria • Actions to promote sustainable finance and generate opportunities To make progress on the achievement of climate-related and environmental targets, among other actions taken, Banco Sabadell has: • Measured the carbon footprint of the financed portfolio, using the Partnership for Carbon Accounting Financials (PCAF) methodology • Advised corporate customers in their transition to more sustainable models which, as a whole, enables the attainment of international decarbonisation targets. • Trained and deployed a team of specialists in European Funds and Sustainability to offer support to the branch network in the development of sustainable operations. • Developed a range of solutions geared towards energy saving, offering solutions for home purchases and home renovations, sustainable mobility and the installation of renewable energy systems. To achieve targets in relation to financial education and inclusion, among other actions, Banco Sabadell has: • Developed basic accounts for vulnerable customers and those at risk of financial exclusion • Developed volunteer programmes, mainly made up of pre-retirees of the Institution for the financial and digital training of senior groups • Granted finance to micro-enterprises for the purpose of promoting and maintaining employment • Developed programmes dealing with topics such as access to finance	Sabadell's Commitment to Sustainability

Self-assessment summary Which of the following components of target setting in line with the PRB requirements has your bank completed or is currently in a process of assessing for your…		
	… first area of most significant impact: CLIMATE AND ENVIRONMENT	… second area of most significant impact: FINANCIAL INCLUSION AND EDUCATION
Alignment	☒ Yes ☐ In progress ☐ No	☒ Yes ☐ In progress ☐ No
Baseline	☒ Yes ☐ In progress ☐ No	☒ Yes ☐ In progress ☐ No
SMART targets	☒ Yes ☐ In progress ☐ No	☒ Yes ☐ In progress ☐ No
Action plan	☒ Yes ☐ In progress ☐ No	☒ Yes ☐ In progress ☐ No

2.3 Target implementation and monitoring (Key Step 2)

For each target separately:

Show that your bank has implemented the actions it had previously defined to meet the set target.

Report on your bank's progress since the last report towards achieving each of the set targets and the impact your progress resulted in, using the indicators and KPIs to monitor progress you have defined under 2.2.

Or, in case of changes to implementation plans (relevant for 2nd and subsequent reports only): describe the potential changes (changes to priority impact areas, changes to indicators, acceleration/review of targets, introduction of new milestones or revisions of action plans) and explain why those changes have become necessary.

In order to monitor the progress made by Banco Sabadell with regard to the achievement of the established targets and objectives, a series of milestones have been identified. In 2021, the Bank committed to mobilise 65 billion euros in sustainable finance by 2025. As at December 2023, and following a review of the criteria relating to consideration as sustainable mobilisation, more than €38.6bn have been mobilised, including over €15bn in 2023. Banco Sabadell continues to promote and take part in a number of financial education initiatives. By engaging in this type of activity, the Institution aims to not only meet the different training requirements of society in general, but also be by their side to help them develop skills and decision-making abilities. In this respect, during 2023, more than 9,100 people have benefited from the workshops held by Banco Sabadell volunteers, representing a 91% of the target set for 2025. In the area of social loans, it is worth highlighting those granted to micro-entities for the purpose of promoting and maintaining employment. During 2023, the focus has remained on financing activities that promote employment and the development and progression of the business and industrial fabric of each territory. Funding for micro-enterprises in 2023, mainly through loans and credits, reached more than 3 billion euros, compared with 2.9 and 2.75 billion euros in 2021 and 2022. It is worth noting that, of the micro-entities that received finance in 2021, two-thirds of them maintained or increased the number of employees (data 2022 vs 2021). In addition, over 74% of the micro-entities that received finance improved their sales volume.[97]	5. Commitment to sustainable finance 7.1 Commitment to education

[97] Calculations based on public information contained in annual accounts, corresponding to 88.9% of financed enterprises.

Principle 3: Clients and Customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

3.1 Client engagement

Does your bank have a policy or engagement process with clients and customers in place to encourage sustainable practices?

☒ Yes ☐ In progress ☐ No

Does your bank have a policy for sectors in which you have identified the highest (potential) negative impacts?

☒ Yes ☐ In progress ☐ No

Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities. It should include information on relevant policies, actions planned/implemented to support clients' transition, selected indicators on client engagement and, where possible, the impacts achieved.

This should be based on and in line with the impact analysis, target-setting and action plans put in place by the bank (see P2).

Sustainable financing is one of the main levers to facilitate the energy transition, specifically, to mitigate global warming by promoting an economic model that helps to protect the environment.

Regarding individuals and SMEs, Banco Sabadell remains firm in its purpose of supporting and accelerating the important economic and social transformations that contribute to sustainable development and the fight against climate change. It also offers its customers a set of solutions designed with energy saving in mind, as well as solutions for the purchase and rehabilitation of housing, sustainable mobility and the installation of renewable energies.

The Group promotes sustainable financing and investment to drive forward the transition towards a more sustainable model and a low-carbon economy, offering customers and investors the best possible solutions. In 2021, the Bank committed to mobilise €65bn in sustainable finance by 2025. As at December 2023, and following a review of the criteria relating to consideration as sustainable mobilisation, more than €38.6bn have been mobilised, including over €15bn in 2023.

To fulfil this commitment and in order to promote social and financial inclusion, contribute to environmental preservation and climate change mitigation, the Bank is strengthening its awareness-raising and advisory activities in all business sectors, providing solutions to fund the investments needed for this transition. To that end, all of its capabilities are being made available:

Financing solutions in the various business lines:

To bring processes for loan approval, portfolio management and reporting tasks in line with international standards on sustainable financing (the Green Loan Principles and Sustainability-Linked Loan Principles issued by the Loan Market Association and the Green Bond Principles and Sustainability-Linked Bond Principles issued by the International Capital Market Association, ICMA), in 2020 the following types of financing were defined, according to the intended use of the funds

2. Governance

3.1 ESG framework

4.3.3 Integration into management procedures

5. Commitment to sustainable finance

10.1 Transparency

Directors' Report 2023: 1.5 Customers

• Green and Social Loans (GSLs), in which the use of the funds is the main crietria for determining the green, social or sustainable nature. In general, this type of financing is preferable as it generates a positive direct impact on the environment and/or society. This type of financing is closely related to Banco Sabadell's Eligibility Guide, whose main references are the EU Taxonomy and the best practices in the market such as the Green Loan Principles, and to the green bonds issued by the Bank in recent years under the SDG Bond Framework. To promote GSL transactions, the Bank has approved discounts that allow it to offer better prices to customers. The rollout of the Next Generation EU Recovery Funds is expected to significantly boost this type of finance (section "5.1.4 Next Generation EU" provides more details on the actions that the Bank is taking in relation to the aforesaid funds). • Sustainability-Linked Loans (SLLs), relating to the type of financing that incentivises the achievement of sustainability targets, linking the transaction price to the evolution of one or more KPIs. This category does not require the funds to be used for any specific purpose. It is considered essential for the selected indicators to be relevant and central for customers, as this enables their sustainability strategy to gain more traction. • Investment in renewable energies through Sinia Renovables subsidiary (further details provided in section "5.2 Sinia Renovables"). • Issuance of own sustainability bonds (more details in section "5.3 Issuance of sustainability bonds"). • Sustainable savings and responsible investment solutions (more details in section "5.4 Sustainable savings and responsible investment solutions"). Work has been undertaken to create a single framework to manage ESG credit risk that incorporates all rules on this topic that are currently applied when authorising the Bank's credit transactions. For this reason, the ESG risk management guidelines were created, which include: • Environmental and Social Risk Framework at customer level, to identify from the outset whether a new transaction could be associated with any of the restricted activities (see subheading on Environmental and Social Risk Framework). • IRCA: indicator that allows the Institution to screen the ESG risk of the companies to which it provides finance whilst at the same time considering their performance in relation to the management of climate-related and environmental risks. It is used to define credit risk management policies and to identify potential opportunities for investment to support emissions-intensive companies in their transition towards more sustainable activities. • Decarbonisation pathways: for borrowers operating in sectors affected by the decarbonisation pathways defined by the Group (see section on "Portfolio Alignment"), the Bank evaluates everything about significant transactions to which pathways are applied on a continuous basis, starting as soon as they are originated. At present, a specific workflow has been established in order to identify, evaluate and monitor transactions subject to pathways The Bank has established Sabadell's Commitment to Sustainability. Underpinned by four strategic pillars, this framework sets out the Bank's sustainability strategy and forward-looking vision with ESG goals and commitments, aligned with the UN Sustainable Development Goals (SDGs), and establishing levers for transformation and promotion actions. The main courses of action of this ESG framework are the following: • Progress as a sustainable institution: the Bank focuses on achieving greenhouse gas (GHG) emissions neutrality, promoting diversity, safeguarding talent, and continuing to incorporate ESG criteria in its governance, as well as participating in the most relevant ESG alliances.	2. Governance 3.1 ESG framework 4.3.3 Integration into management procedures 5. Commitment to sustainable finance 5.1.3 Sustainable financing solutions for retail customers and businesses 10.1 Transparency Directors' Report 2023: 1.5 Customers

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Support customers in the transition to a sustainable economy: to do so, the Bank is making progress by setting decarbonisation pathways, supporting customers in their transition to specialised solutions in renewable energies, energy efficiency and sustainable mobility, and setting sectoral standards that limit controversial activities and/or those 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 opportunities for savings and investment 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.

Knowing customers at every stage of their relationship with Banco Sabadell is crucial. That is why new methodologies are continuously being 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. This measurement involves understanding the market, consumers and customers, using a number of different qualitative and quantitative analytical methodologies to that end.
Banco Sabadell analyses its customers' experience through quantitative surveys, such as:

Net Promoter Score (NPS)
Satisfaction surveys
Branch quality surveys

In accordance with its policies and procedures, the Bank has mechanisms in place to ensure that all information provided to customers is transparent and that all of the products and services which it offers are suited to their needs at all times. To this end, before marketing a new product or service, an internal workflow ("Product Workflow") is followed, where the relevant areas of the Bank review the various aspects to ensure they conform to the established standards. The subsequent validation by the areas involved is ultimately ratified by a high-level committee, the Technical Product Committee. This validation process allows the Institution to identify the target audience at which the product should be aimed, in other words, the group of customers whose interests, goals and characteristics fit with the conditions of the product, even in cases where these can cover preferences regarding sustainability, as established in MiFID II and the IDD.
Furthermore, every year, the different units responsible for the product offering perform an in-depth review of the conditions of the products and their impact on customers in order to ensure that those products continue to be suitable for the target audience defined originally. This review process falls within the obligations required by various customer and investor protection regulations, such as the Guidelines on Product Oversight and Governance Arrangements for Retail Banking Products and the MiFID II Directive
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2. Governance
3.1 ESG framework
4.3.3 Integration into management procedures
5. Commitment to sustainable finance
5.1.3 Sustainable financing solutions for retail customers and businesses
10.1 Transparency
Directors' Report 2023: 1.5 Customers
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<td colspan="2">
<h2>3.2 Business opportunities</h2>
Describe what strategic business opportunities in relation to the increase of positive and the reduction of negative impacts your bank has identified and/or how you have worked on these in the reporting period. Provide information on existing products and services, information on sustainable products developed in terms of value (USD or local currency) and/or as a % of your portfolio, and which SDGs or impact areas you are striving to make a positive impact on (e.g. green mortgages – climate, social bonds – financial inclusion, etc.).
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Banco Sabadell seeks to identify and leverage opportunities related to the transition to a sustainable economy (section 5. Commitment to sustainable finance): • Increasing exposure to green financial assets, as they are one of the key factors in achieving decarbonisation targets. In this regard, progress continues to be made on the implementation of financing solutions in the different businesses through Green and Social Loans (GSLs) and Sustainability-Linked Loans (SLLs). • Offering specialised advice and responding to the transition challenges of all customers (large enterprises and corporations, SMEs and individuals) by: 1) Offering strategic advise, identifying the most appropriate sustainable finance solutions. 2) Promoting the energy transition with solutions and agreements with partners from different sectors. 3) Offering ESG investment opportunities. • Engaging in management activities with larger knowledge and specialisation, levering the internal training of teams specialised in sustainability through the certification in sustainable finance attended by the Carlos III University in Madrid, along with other internal training schemes. Section 5. Commitment to sustainable finance gives details of the solutions offered to customers and investors to help them transition to a more sustainable model. To name a few: Green financing solutions for individuals: Green mortgages Banco Sabadell currently offers a reduced price across its entire mortgage range to incentivise the purchase, construction or renovation of homes with high-category energy certification, in accordance with the national certification system and in line with the Institution's Eligibility Guide. In 2023, the volume of mortgages with sustainable certification was more than 437 million euros. Sabadell green renovation loans The aim of the Sabadell green renovation loan is to encourage home renovations and/or purchases that improve the sustainability and energy saving capacity of a primary or secondary residence. The Bank offers financing, with attractive conditions, for improvements of openings (windows and doors), upgrades of heating or cooling systems to make them more efficient, and purchases of energy efficient household appliances, specifically, those rated A or higher. ECO car loan The Bank offers the 'Préstamo Coche ECO' (ECO car loan), aimed at retail customers, which enables the purchase of 'zero emissions' or 'ECO' labelled vehicles with very attractive conditions, contributing to the adoption of cleaner vehicles that are suited to the new low-emissions zones in Spain's largest cities.	4.2 Climate-related and environmental strategy 5. Commitment to sustainable finance

Social financing solutions for individuals In the area of social financing, and due to the economic impact of higher interest rates, Banco Sabadell continues to proactively offer solutions to customers with variable-rate mortgages who may be experiencing difficulties, in addition to customers who meet the vulnerability criteria in accordance with the Code of Good Practice (CGP), with the aim of helping these customers to meet their obligations, relieve their financial burden and avoid default situations. Green loans: In 2023, more than 2.5 billion euros were mobilised to fund companies engaged in green operations or projects, mainly through loans, leasing and rentals. These do not include Renewable Energies Project Finance transactions, which are described individually in section 5.1.2. Social loans: In the area of social loans, it is worth highlighting those granted to micro-entities for the purpose of promoting and maintaining employment. Funding for micro-enterprises in 2023, mainly through loans and credits, reached more than 3 billion euros, compared with 2.9 and 2.75 billion euros in 2021 and 2022, respectively. Sinia Renovables: As at 2023 year-end, Sinia Renovables, Banco Sabadell's division for investment in renewable energies and sustainability, has investments in operation, construction and development projects with an overall installed capacity of 1368,2 MW, equivalent to the electricity consumption of about 979,742 household. Of this capacity, the portion attributable to Sinia through its direct shareholding is 246.3 MW, equivalent to the generation of 516.1 GWh of sustainable electricity every year. This power generation, assuming all projects are in operation, would be equivalent to the average annual consumption of approximately 157,738 households. Renewable electricity attributable to Sinia, based on the entirety of its portfolio in operation, in which it holds a direct equity interest, is 262,7 GWh/year. a 67% increase in production compared to 2022. This renewable energy prevents the emission of around 36778 tonnes of CO2 equivalent per year, equivalent to the average annual consumption of approximately 80287 households	4.2 Climate-related and environmental strategy 5. Commitment to sustainable finance

Principle 4: Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

4.1 Stakeholder identification and consultation

Does your bank have a process to identify and regularly consult, engage, collaborate and partner with stakeholders (or stakeholder groups) you have identified as relevant in relation to the impact analysis and target setting process?

☒ Yes ☐ In progress ☐ No

Please describe which stakeholders (or groups/types of stakeholders) you have identified, consulted, engaged, collaborated or partnered with for the purpose of implementing the Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders, what issues were addressed/results achieved and how they fed into the action planning process..

In 2022, a review was carried out of the materiality analysis performed in 2021, which established a list of material topics for the Group. This review was carried out in order to update the Group's perspective in the materiality matrix and to adapt to the increasingly demanding regulatory requirements and market environment in this respect. Similarly, the method of prioritising material topics based on their importance was replaced with a method based on the impact they generate, in line with the requirements of "GRI 3: Material Topics 2021", published in October 2021. In addition, during the second half of 2023, work got underway to update Banco Sabadell Group's materiality analysis according to the guidelines of the European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG). The objective of this analysis is to identify and prioritise the material topics of relevance to the Group and its stakeholders, with three aims: • Ascertain the ESG priorities on which Banco Sabadell Group should focus its attention, taking into consideration risks, opportunities, impacts and trends. • Strengthen the relationship with the various stakeholders when identifying and outlining the impacts and expectations with regard to ESG. • Address the disclosure needs arising from legal requirements and from analysts and indices, as well as the demands of shareholders, investors, rating agencies and other stakeholders, with a language that is easy to understand. In 2021, priority stakeholders whose demands and requirements were included in the materiality assessment were identified, namely: employees, suppliers, customers, investors, rating agencies, society, regulators and supervisory authorities, and economic operators. Following this interaction with the various stakeholders, the materiality of all topics related to ESG was analysed, from the perspective of both internal and external stakeholders. The material topics and their definition are set out in section 3.3.1. of this document. In a second phase of the materiality assessment process, carried out in 2021 and updated in 2022, Banco Sabadell combined the analysis of stakeholder expectations with the identification of impacts from a double materiality perspective. The double materiality process aims to identify the impacts of the environmental and social environment on the Group, and of the Group on its stakeholders, assessing these to obtain a holistic view of the extent to which sustainability issues are impacted by each material topic. Based on these identified impacts, and with the aim of prioritising them, the Group carried out a quantitative assessment in which it sent questionnaires to different areas of the Bank to consult them on these impacts, determining their extent using pre-defined scales. The results of the analysis made it possible to complete the double materiality approach, which is explained in section "3.3.2 Double materiality", and to update the materiality matrix, which is set out in section "3.3.3. Materiality matrix". Concerning the results, three levels of priority were established, level 1 representing the greatest impact for the Group and in which the following material topics were included: (i) Corporate governance, (ii) Value creation and solvency, (iii) Ethics and integrity, (iv) Climate-related and environmental risks, and (v) Sustainable finance and investment.	3.3 Materiality

Principle 5: Governance & Culture

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

5.1 Governance Structure for Implementation of the Principles

Does your bank have a governance system in place that incorporates the PRB?

☒ Yes ☐ In progress ☐ No

Please describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support the effective implementation of the Principles. This includes information about

- which committee has responsibility over the sustainability strategy as well as targets approval and monitoring (including information about the highest level of governance the PRB is subjected to),
- details about the chair of the committee and the process and frequency for the board having oversight of PRB implementation (including remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected), as well as
- remuneration practices linked to sustainability targets.

The governance system and the organisation of the different decision-making levels are both being continuously improved and adapted to the needs that are emerging from the new sustainability environment.

Board of Directors

With the exception of matters reserved to the Annual General Meeting, Banco Sabadell's Board of Directors is the most senior decision-making body of the company as it is responsible, by law and pursuant to 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. To ensure better and more diligent performance of its general supervisory duties, the Board is directly responsible for approving the Institution's general strategies. It also approves its policies and is therefore responsible for establishing principles, commitments and targets in the area of sustainability, and for including them into the Institution's strategy.

Sustainability played an important role within Banco Sabadell's business purpose and strategy in 2023. When defining the general strategy, the business objectives and the risk management framework of the Institution, the Board of Directors considers environmental aspects, including climate-related, environmental, social and governance risks, and it also effectively oversees them.

2. Governance

Remuneration linked to Sustainability

Board Committees	2. Governance
The Board Strategy and Sustainability Committee was set up in 2021 and is chaired by the Chairman of the Board of Directors, in the capacity of Other External Director. It is formed of five Directors: three Independent, one Other External and its Chair. This Board Committee met 12 times in 2023. On matters of strategy, the Chief Executive Officer takes part in the meetings, with full voting and speaking privileges, meaning that on such matters the Committee has six members. With regard to sustainability, the Board Committee has the following duties: • Analyse and inform the Board of Directors about the Institution's sustainability and environmental policies. • Inform the Board of Directors of any modifications or regular updates of the sustainability strategy. • Analyse the definition and, where applicable, amendment of policies on diversity and integration, human rights, equal opportunities and work-life balance and evaluate the level of compliance therewith on a regular basis. • Review the Bank's social action strategy and its sponsorship and patronage plans. • Review and update the Institution's Non-Financial Disclosures Report prior to its review and update by the Board Audit and Control Committee and its subsequent sign-off by the Board of Directors. • Receive information in connection with reports, documents or communications from external supervisory bodies within the scope of responsibility of this Board Committee. Other Board Committees are involved to various degrees in the sustainability governance arrangements. In 2021, the Board Appointments and Corporate Governance Committee also took on duties in relation to the disclosure of internal corporate policies and rules, the oversight of rules on corporate governance, and relations with shareholders and investors, proxy advisers and other stakeholders. The Board Audit and Control Committee oversees the process for preparing and submitting regulated financial and non-financial information and gives recommendations or proposals to the Board of Directors, aimed at safeguarding its integrity, and reports to the Board of Directors, prior to its publication, on the financial information and the directors' report, which include mandatory non-financial information that the Institution must regularly disclose. When necessary and in coordination with the Board Risk Committee, it oversees and assesses the effectiveness of policies and internal risk management and control systems as a whole, covering the Institution's financial and non-financial risks, including operational, IT, legal, social, environmental, political and reputational risks or those related to corruption, and supervises that the main direct or indirect risks are reasonably identified, measured and controlled. The Board Risk Committee monitors the implementation of the Global Risk Framework Policy of the Institution and is responsible for advising and supporting the Board of Directors in overseeing the Bank's risk appetite and overall strategy, taking into account all kinds of risks to ensure that they are in line with the Institution's business strategy, objectives, corporate culture and values.	Remuneration linked to Sustainability

Internal Committees	2. Governance
The Management Committee regularly monitors the Sustainable Finance Plan and updates to the regulatory framework and it is also in charge of overseeing the aforesaid plan and resolving any incidents. In addition, the Sustainability Committee, created in 2020 and chaired since 2021 by the General Manager and head of the Sustainability and Efficiency Division, is the body responsible for establishing the Bank's Sustainable Finance Plan and for monitoring its execution, for defining and disclosing the general action principles in the area of sustainability and for promoting the development of projects and initiatives, as well as managing any alerts that may arise in relation to ongoing initiatives or any developments in the regulatory, supervisory or other environments. It is made up of 12 members (ensuring the representation of several areas, including Sustainability, Risk, Finance, Business, Communication, Research Service and Regulation) and it meets once a month. This composition of the Sustainability Committee covers all functional areas, which enables the cross-cutting establishment and implementation of the Sustainable Finance Plan and, therefore, the execution of the Institution's ESG strategy. The Sustainability Committee met 11 times in 2023. Since the first quarter of 2022, a regular report has been drawn up for the various management and governance bodies in the Bank, including the Board of Directors, which includes vital information to evaluate the exposure to climate-related and environmental risks, their evolution, as well as other events or circumstances that could have an impact on the Institution in relation to the environment in which it operates, among which references are included regarding the progress made by the Institution on the Principles for Responsible Banking. **Remuneration linked to sustainability** The commitment to sustainability and the involvement of the Bank's staff in the Institution's ESG performance are reflected in the attainment of the Group's targets. Through the synthetic sustainability indicator (SSI) established in 2020, Key Performance Indicators (KPIs) for ESG matters are included and linked to the variable remuneration of employees, making them part of the Group targets with a weight of 10%.	Remuneration linked to Sustainability

Category	Indicator
ESG (cross-cutting)	Degree of progress in the achievement of actions set out in the Sustainable Finance Plan.
E (Environmental)	Channelling of resources through the volume of sustainable financing (applied and linked).
S (Social)	Diversity: increased presence of women in various management positions.
G (Governance)	A market-led assessment, carried out by ESG rating agencies, of the information disclosed.

In addition, in 2023, the commitment of the Group's Senior Management and its Identified Staff has been further reinforced by adding this synthetic sustainability indicator to the multi-year targets, weighted at 20% and linked directly to their long-term remuneration.

Further details provided in section "6.5 Remuneration policy".

5.2 Promoting a culture of responsible banking:

Describe the initiatives and measures of your bank to foster a culture of responsible banking among its employees (e.g. capacity building, e-learning, sustainability training for client-facing roles, inclusion in remuneration structures and performance management and leadership communication, amongst others).

Banco Sabadell Group's training model is built on the following pillars: • Offer training aligned with the business and needs, both the regulatory needs in the market and the needs of staff members of Banco Sabadell Group. • Improve the development of employees, as the drivers of change and transformation. • Streamline the Institution's training budget so that more employees can receive training and to achieve greater transformation. • Be a standard-bearer within the financial sector in terms of innovation in staff training. • Be leaders in terms of adjusting training schemes to the digital transformation of business lines. In 2023, the Group has continued to support the business in the challenges and targets that it has set itself, offering new specific training resources for strategic projects that are a matter of priority for Banco Sabadell Group, focusing on aspects such as specialisation programmes for commercial roles, financial current affairs and sustainability. 96.7% of employees received training in 2023, with 862,752 total hours of training completed at the Group level (equivalent to an average of 46 hours per employee). The area of sustainability continues to have its own place on Campus, with self-guided training content for the Bank's employees. Introductory content is still featured on the platform, such as the Introduction to Sustainability course, the Sustainable Borrowing course and the Sustainable Finance Certification. With regard to training activities on ESG for employees, the Group has undertaken the commitment to continue developing its specific training on ESG. Through the Carlos III University of Madrid, a certification in sustainable finance is issued, which includes materials about the environment and the fight against climate change, among other materials on financial and social matters. In 2023, the certification in sustainable finance was obtained by 430 employees. In addition, during 2023, specific on-site training sessions took place, to convey the vision of sustainability applied to the business to managers in the branch network and to other specialist roles in corporate buildings. It is worth highlighting the fact that, since 2023, employees at the subsidiaries in Mexico and the USA (Miami) have also had the opportunity to obtain the certification in sustainable finance issued by the Carlos III University in Madrid. In Campus, the online training space for Group employees, in addition to the certification in sustainable finance programme, there is a specific space for Sustainability, with a wide range of training modules available in relation to environmental matters, which also connects with web tools for use by relationship managers (the internal Sustainability site), which includes content related to business activity, the ESG vision and the trade narrative. In addition, the available training modules are supplemented with webinars held by Sabadell's Companies Hub. Training-related aspects are detailed in section "6.3 Training".	6.3 Training

5.3 Policies and due diligence processes

Does your bank have policies in place that address environmental and social risks within your portfolio? Please describe.

Please describe what due diligence processes your bank has installed to identify and manage environmental and social risks associated with your portfolio. This can include aspects such as identification of significant/salient risks, environmental and social risks mitigation and definition of action plans, monitoring and reporting on risks and any existing grievance mechanism, as well as the governance structures you have in place to oversee these risks.

In April 2023, the Board of Directors updated the Sustainability Policy, which aims to provide a framework for all of the Institution's activities and organisation within ESG parameters. The Policy incorporates environmental, social and governance factors into decision-making processes and ensures that the needs and concerns of all its stakeholders are addressed taking these factors into account. The Sustainability Policy sets out the core principles on which Banco Sabadell Group bases its approach to tackling the challenges of sustainability, and defines the corresponding management parameters, as well as the organisation and governance structure required for their optimal implementation. Effective integration of environmental risks into management arrangements requires a strategy and set of regulations that establish the guidelines, targets and limits required at different points of the credit approval workflow. For this reason, the Group has an Environmental and Social Risk Framework that establishes the Group's position, designed to restrict 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), 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, as part of the financial sector, the Group promotes the transition of companies, steering the financing according to the nature of the activities and making it easier for agents in polluting industries who work to improve their ESG performance to transition to a more sustainable model or limiting its exposure int he case of those not transitioning . With this aim in mind, the ESG Risk Management Guidelines have been defined, through which the Group aims to limit access to funding for polluting companies with poor ESG performance. To classify large enterprises according to their ESG performance, the Group is defining an indicator internally. The Group has a Human Rights Policy and a related Due Diligence Procedure, both approved in 2021, and reviewed annually and are applicable to all Group companies. They establish basic principles of action, as well as the mechanisms required to identify, prevent, mitigate and/or remedy any potential negative impacts on human rights that the Bank's activities and procedures may entail, in particular, with regard to granting of financing to companies, or in its human resources management model or supplier engagement processes. They also establish the need for employees to receive training in all of these areas. The principles heading the Human Rights Policy take into consideration the impact and relationship with four main stakeholder groups: Group employees, customers, suppliers and commercial partners, and the communities or environment in which the Group operates its business acrivity. The Group also has a reviewed version of the Group Code of Conduct, first approved in 2021 by the Board of Directors, after an in-depth review to adapt it to regulatory requirements, supervisory guidelines and specifications, and to market standards. In short, to ensure it complies with the expectations and objectives of different stakeholders. The whole Group's workforce was required to read and expressly accept the new version of the Group's Code of	2. Governance 4.3.3 Integration into management procedures 9.1 Information regarding Human Rights

Self-assessment summary

Does the CEO or other C-suite officers have regular oversight over the implementation of the Principles through the bank's governance system?

☒ Yes ☐ No

Does the governance system entail structures to oversee PRB implementation (e.g. incl. impact analysis and target setting, actions to achieve these targets and processes of remedial action in the event targets/ milestones are not achieved or unexpected neg. impacts are detected)?

☒ Yes ☐ No

Does your bank have measures in place to promote a culture of sustainability among employees (as described in 5.2)?

☒ Yes ☐ In progress ☐ No

Principle 6: Transparency & Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

6.1 Assurance

Has this publicly disclosed information on your PRB commitments been assured by an independent assurer?

☒ Yes ☐ Partially ☐ No

If applicable, please include the link or description of the assurance statement.

KPMG Asesores, S.L.	Assurance included at the end of this document

6.2 Reporting on other frameworks

Reporting on other frameworks Does your bank disclose sustainability information in any of the listed below standards and frameworks?

☒ GRI

☐ SASB

☒ CDP

☐ IFRS Sustainability Disclosure Standards (to be published)

☒ TCFD

☐ Other: ….

-	Annex 2

6.3 Outlooks

What are the next steps your bank will undertake in next 12 monthreporting period (particularly on impact analysis, target setting and governance structure for implementing the PRB)? Please describe briefly.

In 2022, Banco Sabadell conducted an impact analysis and set targets for the areas with the greatest impact. During 2023, it monitored the interim targets for the first four carbon-intensive sectors (electricity, oil & gas, cement and coal) identified by the Net-Zero Banking Alliance (NZBA) and it established new decarbonisation pathways for three additional sectors (iron & steel, automotive and aviation). In addition, the Institution continues to monitor the established targets and to report on its progress in relation to the Principles for Responsible Banking. It also plans to continue setting additional interim targets for the rest of the carbon-intensive sectors identified by the Net-Zero Banking Alliance (NZBA). In relation to financial health and inclusion, the impact on employment and sales volumes of the social finance granted to micro-entities during 2021 was evaluated (once the necessary data became available) and the impacts of finance granted in subsequent years will continue to be monitored once the requisite information becomes available.	*PBR 2 Impact and Target Setting* *Portfolio Alignment*

6.4 Challenges

Here is a short section to find out about challenges your bank is possibly facing regarding the implementation of the Principles for Responsible Banking. Your feedback will be helpful to contextualise the collective progress of PRB signatory banks.

What challenges have you prioritized to address when implementing the Principles for Responsible Banking? Please choose what you consider the top three challenges your bank has prioritized to address in the last 12 months (optional question).

☐ Embedding PRB oversight into governance

☐ Gaining or maintaining momentum in the bank

☐ Getting started: where to start and what to focus on in the beginning

☐ Conducting an impact analysis

☒ Assessing negative environmental and social impacts

☐ Choosing the right performance measurement methodology/ies

☒ Setting targets

☐ Other: …

☐ Customer engagement

☐ Stakeholder engagement

☒ Data availability

☐ Data quality

☐ Access to resources

☐ Reporting

☐ Assurance

☐ Prioritizing actions internally

If desired, you can elaborate on challenges and how you are tackling these:

Annex 4

Taxonomy indicators

Indicator	2023
1- Proportion in their total assets of exposures to EU Taxonomy-eligible economic activities (climate targets, not including new activities)	36.4%
1-bis- Proportion in their total assets of exposures to EU Taxonomy-eligible economic activities (non-climate targets and new climate target activities)	3.9%
2- Proportion in their total assets of exposures to central governments, central banks and supranational issuers	25.9%
3- Proportion in their total assets of derivatives exposures	1.0%
4- Proportion in their total assets of exposures to companies not obliged to report non-financial information pursuant to Article 19(a) or 29(a) of Directive 2013/34/EU	17.3%
5- Proportion in their total assets of trading book and interbank sight loans	1.4%

Details are provided here below regarding the components of the indicators, which have been calculated based on the exposures set out later on in the GAR calculation templates::

1. This indicator has been calculated based on total taxonomy-eligible assets, set out in Template 1, relative to total assets.

   a. For the new environmental objectives and the new activities included for the two climate targets, the eligibility percentage has been estimated as the exposure to sectors deemed eligible according to these new activities based on their NACE codes relative to total assets.

2. Exposures to central governments, central banks and supranational issuers accounted for a proportion of 25.9% of total assets as at 2023 year-end.

   This indicator was calculated taking into consideration cash balances in central banks and loans, advances and debt securities of central banks and general governments relative to the Group's total assets.

3. The exposure to derivatives accounted for a proportion of 1.0% of total assets as at 2023 year-end.

   This indicator was calculated taking into consideration total derivative assets relative to the Group's total assets.

4. Exposures to companies not obliged to disclose non-financial information pursuant to Article 19(a) or 29(a) of Directive 2013/34/EU accounted for a proportion of 17.3% of total assets as at 2023 year-end.

   This indicator was calculated taking into account the exposure[98] to companies with 500 employees or less and, according to the latest available information, with assets of 20 million euros or less and turnover of 40 million euros or less and Non-EU country counterparties not subject to NFRD disclosure obligations.

5. Trading book and on-demand interbank loans accounted for a proportion of 1.4% of total assets as at 2023 year-end.

This indicator was calculated taking into consideration cash balances in credit institutions, loans and advances to credit institutions and total financial assets held for trading relative to the Group's total assets.

In addition, in accordance with Annex XI of Delegated Regulation (EU) 2021/2178, information about the strategy is given in section "3. Sabadell's Commitment to Sustainability" and "4.2 Climate-related and environmental strategy". As for the products and weights of the finance granted, the information is set out in section "5. Commitment to sustainable finance".

[98] Risk drawn down.

Key Performance Indicators in the Taxonomy Regulation – Green Asset Ratio (GAR)

Regulation (EU) 2020/852, commonly known as the European Union Taxonomy (hereinafter, the Taxonomy), lays down criteria to determine which economic activities qualify as environmentally sustainable. In addition, Article 8 of this Regulation establishes the obligation for any undertaking which is subject to the Non-Financial Reporting Directive (NFRD) to publish information on how and to what extent the undertaking's activities are associated with economic activities that qualify as environmentally sustainable under the Taxonomy. Specifically, for non-financial undertakings, it establishes the requirement that they shall disclose the proportion of their turnover, capital expenditure (CapEx) and operating expenditure (OpEx) derived from this type of activity. In the case of financial institutions for which indicators of this type would not be appropriate to measure their economic activity's degree of alignment, this disclosure obligation translates into various indicators, one relating to the main off-balance sheet items (assets under management and guarantees), another relating to the turnover and fees deriving from activities other than asset management and simple credit financing, and a third, central, indicator known as the green asset ratio (GAR).

The GAR measures the Institution's assets that finance or are invested in economic activities that meet the Taxonomy's technical screening criteria as a proportion of the total eligible balance (the total balance excludes sovereign exposures, exposures to central banks and the trading book). An activity is deemed to be Taxonomy-aligned where it is an eligible activity, in the sense that it could potentially contribute to one or more of the six environmental objectives set out in the Taxonomy and where, additionally, it meets the following technical screening criteria: it contributes substantially to one or more of the six environmental objectives, the activity does not significantly harm (DNSH) any of the environmental objectives, and the activity is carried out in compliance with the minimum social safeguards (MSS) in relation to human rights.

The Group determines whether the contribution of the specific finance in question qualifies as substantial according to the technical screening criteria set out in the European Taxonomy. The Group is also making every effort to ensure compliance with the DNSH and MSS criteria. Available information and market practices in relation to alignment with DNSH and MSS are constantly changing, making it difficult to provide evidence of its full compliance in accordance with prevailing legislation. That is why the Group, unable to ensure strict compliance with the DNSH and MSS principles, has not included a portion of the finance in the taxonomy-aligned values in certain cases. However, for the retail mortgage portfolios, in accordance with Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022, the alignment of those exposures is determined following a simplified approach based on high energy efficiency, in turn established based on each property's respective energy performance certificate.

The perimeter used to calculate the GAR, in accordance with Commission Delegated Regulation (EU) 2021/2178, is the prudential scope of the consolidated Group, such that intragroup exposures outside of the prudential scope of consolidation are considered third-party exposures. In addition, the GAR is calculated for the existing stock as at a specific disclosure reference date and also for the flow of new exposures acquired over a 12-month period, which gives an idea of how the Institution is transitioning towards sustainable economic activities and also of how it is helping its counterparties in their transition and adaptation journey.

The numerator considers the gross carrying amount of the assets aligned with the Taxonomy's environmental objectives concerning climate change mitigation and climate change adaptation; these include loans and advances, debt securities, as well as equity instruments not held for trading or sale, making a distinction between:

- Exposures to financial corporations, including exposures to credit institutions and other financial corporations within the European Union (EU).
- Exposures to non-financial (EU) corporations subject to the NFRD disclosure requirements, i.e. with over 500 employees considering, in the case of firms that belong to a group, the number of employees in their corporate group.
- Households, which include home equity loans, building renovation loans and consumer loans for vehicle purchase. In relation to properties, for those that are Taxonomy-aligned, a simplified approach may be followed to measure their contribution to climate change mitigation based on the energy efficiency of the

collateral. In the case of mortgages granted to retail customers, the Bank's total perimeter is considered, regardless of whether or not the property is located in the EU, and irrespective of whether or not the obligor is a citizen of an EU Member State.

- Local governments, including finance for public housing and other specialised lending.

In addition, the purpose of the finance granted to the counterparty should be considered, making a distinction between whether the purpose is to finance their general activity or whether the finance is being sought for a specific purpose:

- Finance for generic purposes or for unknown purposes, where exposures are included provided the counterparty's activity is aligned with the economic activities defined in the Taxonomy. This is in turn determined based on the key performance indicators published by the counterparties in relation to their turnover, capital expenditure (CapEx) and operating expenditure (OpEx).

- Finance for specific purposes, where exposures are included based on the information provided by the counterparties concerning the project or activities that meet the defined environmental standards and for which the funds will be used.

The denominator considers the gross carrying amount of the Institution's total assets, excluding exposures to central governments and central banks and the trading book. This way, in addition to the numerator's total exposure, the denominator includes several types of exposures that are excluded from the numerator, such as non-financial corporations not subject to the NFRD and based both inside and outside the EU (the vast majority of SMEs), non-financial corporations and financial corporations based outside the EU, derivatives, interbank deposits, cash and other assets (goodwill, tangible assets, tax assets, etc.). It is important to note that this asymmetrical perimeter between the assets eligible for inclusion in the ratio's numerator and those eligible for its denominator means, in practice, that the GAR is defined as though all exposures not eligible to be considered in the numerator had 0% alignment with the Taxonomy.

Calculation approach

The Group, following the established guidelines, has included those exposures that make a substantial contribution (SC) to the climate change mitigation and climate change adaptation objectives and are aligned with the European Taxonomy's requirements in the GAR.

To that end, a distinction is made between two allocation or tagging methodologies:

- **Finance for specific purposes or uses**: the reported exposure corresponds exclusively to households since, as mentioned previously, given that the Group is unable to ensure strict compliance with the DNSH and MSS principles, in certain cases, it has decided not to include a portion of its Taxonomy-eligible finance. Within finance granted to households, only properties with the highest EPC ratings are considered.

- **Finance for generic purposes or for unknown purposes**: where the Institution grants finance to counterparties for generic purposes, i.e. without the funds having a specific goal other than to manage the company's liquidity, cash or usual activities. As indicated in Annex V of Royal Decree 2021/2178, credit institutions should in this case use the key performance indicators related to CapEx and turnover disclosed by the counterparties themselves for each environmental objective, with no need for any additional verifications to ensure alignment with the SC, DNSH and MSS criteria.

This way, the exposure reported as being EU Taxonomy-aligned corresponds solely and exclusively to the exposure with counterparties that have not disclosed the degree of their activity's alignment with the EU Taxonomy in terms of either turnover or CapEx in their non-financial disclosure reports.

To that end, it is worth noting that the Institution has gathered counterparties' eligibility and alignment information by means of a project, conducted in a coordinated manner and at a sectoral level with a reputable third party, which compiled and unified the information of counterparties subject to the NFRD that have disclosed information in their corporate reports, NFDRs or equivalent (data of firms that have not published their KPIs have not been reported, in other words, the counterparties with no reported KPIs are considered to have 0% alignment in terms of both their turnover and CapEx). The data obtained, mainly at the level of consolidated groups, has been applied to their generic exposures, for both the parent companies and their subsidiaries, always provided the intended use of the funds is for generic purposes, weighting counterparties' exposure by their degree of alignment in percentage terms (turnover or CapEx, depending on the reporting template).

Based on the foregoing, the following templates are included here below:

- **Summary of GAR KPIs in relation to turnover and CapEx KPIs**: This table gives a summary of the GAR's key performance indicators, in terms of both stock and flow, as well as its coverage ratio.

- **Assets used to calculate the GAR in relation to turnover and CapEx KPIs**: This table gives details of the assets considered in the GAR (indicating the type of counterparty and asset class), of the assets that are considered in the numerator and those that are only considered in the denominator, and of those that have been excluded from the calculation. For the different asset breakdowns, their eligibility and alignment with each of the climate-related environmental objectives is shown.

- **GAR (%) in terms of both flow and stock in relation to turnover and CapEx KPIs**: Lastly, this table shows the results of the GAR calculation, in percentage terms, based on the amounts shown in the previous table.

- **Assets of non-financial corporations used to calculate the GAR in relation to turnover and CapEx KPIs, broken down by activity sector**: Banking book exposures relative to sectors covered (eligible) by the Taxonomy, using the corresponding NACE codes based on the counterparty's economic activity and broken down by environmental objective (climate change mitigation and climate change adaptation).

- **Ratio of taxonomy-aligned off-balance sheet exposures in relation to turnover and CapEx KPIs**: Details of the balance sheet exposures aligned with each of the environmental objectives, in percentage terms, relative to total off-balance sheet exposures, distinguishing between financial guarantees and assets under management.

- **Activities related to nuclear energy and fossil gas.**

- **Amount and proportion of taxonomy-aligned exposures reported in the GAR's denominator and numerator for nuclear and gas activities, mainly, in terms of both CapEx and turnover for each environmental objective.**

0. Summary of KPIs to be disclosed by credit institutions under Article 8 Taxonomy Regulation

Summary of GAR KPIs in relation to turnover KPIs

	Total environmentally sustainable assets	KPI[99]	KPI[100]	% coverage (over total assets)[101]	% of assets excluded from the numerator of the GAR (Article 7(2) and (3) and Section 1.1.2. of Annex V)[102]	% of assets excluded from the denominator of the GAR (Article 7(1) and Section 1.2.4 of Annex V)[103]
Green asset ratio (GAR) stock	7,706.10	4.41 %		47.29 %	25.70 %	27.01 %

GAR (flow)	2,148.70	6.30 %				
Trading book						
Financial guarantees	13.51	14.00 %				
Assets under management	78.78	86.00 %				
Fees and commissions income						

Summary of GAR KPIs in relation to CapEx KPIs

	Total environmentally sustainable assets	KPI	KPI	% coverage (over total assets)***	% of assets excluded from the numerator of the GAR (Article 7(2) and (3) and Section 1.1.2. of Annex V)	% of assets excluded from the denominator of the GAR (Article 7(1) and Section 1.2.4 of Annex V)
Green asset ratio (GAR) stock	7,636.06		4.37 %	47.29 %	25.70 %	27.01 %

GAR (flow)	2,018.75		6.12 %			
Trading book						
Financial guarantees	13.51		8.00 %			
Assets under management	145.54		92.00 %			
Fees and commissions income						

[99] Based on the Turnover KPI of the counterparty.
[100] Based on the CapEx KPI of the counterparty, except for lending activities where for general lending Turnover KPI is used.
[101] % of assets covered by the KPI over banks´ total assets. Gross carrying amount of exposures eligible for GAR calculation (numerator) relative to gross carrying amount of total assets.
[102] Gross carrying amount of exposures not eligible for GAR calculation relative to gross carrying amount of total assets.
[103] Gross carrying amount of exposures not covered by GAR calculation relative to gross carrying amount of total assets.

1.Assets for the calculation of GAR

Assets used to calculate the GAR in relation to turnover KPIs

	Million EUR	Disclosure reference date T														
		Total [gross] carrying amount	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
			Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)				Of which towards taxonomy relevant sectors (Taxonomy-eligible)				
				Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)				Of which environmentally sustainable (Taxonomy-aligned)			
					Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	113,202.8	86,880.9	7,557.8	—	113.6	233.1	316.3	126.9	—	10.1	87,114.0	7,706.1	—	230.4	243.2
2	**Financial undertakings**	7,684.3	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3	Credit institutions	6,588.5	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4	Loans and advances	5,607.5	—	—	—	—	—	—	—	—	—	—	—	—	—	—
5	Debt securities, including UoP	970.5	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6	Equity instruments	10.5	—	—		—	—	—	—		—	—	—		—	—
7	Other financial corporations	1,095.8	—	—	—	—	—	—	—	—	—	—	—	—	—	—
8	of which investment firms	1,063.7	—	—	—	—	—	—	—	—	—	—	—	—	—	—
9	Loans and advances	951.1	—	—	—	—	—	—	—	—	—	—	—	—	—	—
10	Debt securities, including UoP	61.7	—	—	—	—	—	—	—	—	—	—	—	—	—	—
11	Equity instruments	50.9	—	—		—	—	—	—		—	—	—		—	—
12	of which management companies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Loans and advances	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
14	Debt securities, including UoP	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
15	Equity instruments	—	—	—		—	—	—	—		—	—	—		—	—
16	of which insurance undertakings	32.1	—	—	—	—	—	—	—	—	—	—	—	—	—	—
17	Loans and advances	10.8	—	—	—	—	—	—	—	—	—	—	—	—	—	—
18	Debt securities, including UoP	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
19	Equity instruments	21.3	—	—		—	—	—	—		—	—	—		—	—
20	**Non-financial undertakings**	14,829.1	2,068.7	909.8	—	112.5	233.1	316.3	126.9	—	10.1	2,301.8	1,058.0	—	229.3	243.2
21	Loans and advances	14,637.8	1,979.2	845.1	—	112.3	169.4	311.2	126.1	—	9.3	2,197.0	992.5	—	229.1	178.7
22	Debt securities, including UoP	191.3	89.5	64.7	—	0.1	63.7	5.1	0.8	—	0.8	104.9	65.5	—	0.2	64.4
23	Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
24	**Households**	89,143.5	84,812.2	6,648.1	—	1.1	—	—	—	—	—	84,812.2	6,648.1	—	1.1	—
25	of which loans collateralised by residential immovable	75,576.4	75,576.4	6,646.9	—	—	—	—	—	—	—	75,576.4	6,646.9	—	—	—
26	of which building renovation loans	1,316.4	1,316.4	0.8	—	0.8	—	—	—	—	—	1,316.4	0.8	—	0.8	—
27	of which motor vehicle loans	1,824.6	381.6	—	—	—	—					381.6	—	—	—	—
28	**Local governments financing**	1,545.9	—	—	—	—	—	—	—	—	—	—	—	—	—	—
29	Housing financing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
30	Other local government financing	1,545.9	—	—	—	—	—	—	—	—	—	—	—	—	—	—

31	**Collateral obtained by taking possession: residential and commercial immovable properties**	1,267.7	1,267.7	89.0	—	—	—	—	—	—	—	1,267.7	89.0	—	—	—
32	**Assets excluded from the numerator for GAR calculation (covered in the denominator)**	61,510.4														
33	**Financial and Non-financial undertakings**	41,413.8														
34	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	30,121.2														
35	Loans and advances	29,946.2														
36	of which loans collateralised by commercial immovable property	4,899.9														
37	of which building renovation loans	—														
38	Debt securities	62.7														
39	Equity instruments	112.4														
40	Non-EU country counterparties not subject to NFRD disclosure obligations	11,292.6														
41	Loans and advances	11,286.1														
42	Debt securities	—														
43	Equity instruments	6.5														
44	**Derivatives**	2,424.6														
45	**On demand interbank loans**	693.0														
46	**Cash and cash-related assets**	726.1														
47	**Other assets (e.g. Goodwill, commodities etc.)**	16,252.8														
48	Total GAR assets	174,713.2														
49	**Other assets not covered for GAR calculation**	64,649.0														
50	**Sovereigns**	33,219.3														
51	**Central banks exposure**	28,723.2														
52	**Trading book**	2,706.5														
53	**Total assets**	239,362.2														
Off-balance sheet exposures - Undertakings subject to NFRD disclosure obligations																
54	Financial guarantees	914.2	506.5	13.5	—	—	—	—	—	—	—	506.5	13.5	—	—	—
55	Assets under management	3,007.0	78.8	78.8	—	—	—	4.5	4.5	—	—	235.7	84.2	—	3.9	42.7
56	Of which debt securities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
57	Of which equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

Assets used to calculate the GAR in relation to CapEx KPIs

	Million EUR	Disclosure reference date T														
		Total [gross] carrying amount	Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
			Of which towards taxonomy relevant sectors (Taxonomy-eligible)					Of which towards taxonomy relevant sectors (Taxonomy-eligible)								
				Of which environmentally sustainable (Taxonomy-aligned)					Of which environmentally sustainable (Taxonomy-aligned)				Of which environmentally sustainable (Taxonomy-aligned)			
					Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	113,202.8	87,160.3	7,495.5	—	113.9	381.7	292.4	121.1	—	6.7	87,364.8	7,636.1	—	228.3	388.5
2	**Financial undertakings**	7,684.3	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3	Credit institutions	6,588.5	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4	Loans and advances	5,607.5	—	—	—	—	—	—	—	—	—	—	—	—	—	—
5	Debt securities, including UoP	970.5	—	—	—	—	—	—	—	—	—	—	—	—	—	—
6	Equity instruments	10.5	—	—		—	—	—	—		—	—	—		—	—
7	Other financial corporations	1,095.8	—	—	—	—	—	—	—	—	—	—	—	—	—	—
8	of which investment firms	1,001.1	—	—	—	—	—	—	—	—	—	—	—	—	—	—
9	Loans and advances	889.0	—	—	—	—	—	—	—	—	—	—	—	—	—	—
10	Debt securities, including UoP	61.7	—	—	—	—	—	—	—	—	—	—	—	—	—	—
11	Equity instruments	50.9	—	—		—	—	—	—		—	—	—		—	—
12	of which management companies	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
13	Loans and advances	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
14	Debt securities, including UoP	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
15	Equity instruments	—	—	—		—	—	—	—		—	—	—		—	—
16	of which insurance undertakings	32.1	—	—	—	—	—	—	—	—	—	—	—	—	—	—
17	Loans and advances	10.8	—	—	—	—	—	—	—	—	—	—	—	—	—	—
18	Debt securities, including UoP	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
19	Equity instruments	21.3	—	—		—	—	—	—		—	—	—		—	—
20	**Non-financial undertakings**	14,829.1	2,348.1	847.5	—	112.8	381.7	292.4	121.1	—	6.7	2,552.6	988.0	—	227.2	388.5
21	Loans and advances	14,637.8	2,240.0	824.5	—	112.8	359.0	288.0	120.4	—	6.1	2,429.7	964.3	—	227.1	365.1
22	Debt securities, including UoP	191.3	108.2	23.0	—	—	22.7	4.3	0.7	—	0.7	122.9	23.7	—	—	23.4
23	Equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
24	**Households**	89,143.5	84,812.2	6,648.1	—	1.1	—	—	—	—	—	84,812.2	6,648.1	—	1.1	—
25	of which loans collateralised by residential immovable property	75,576.4	75,576.4	6,646.9	—	—	—	—	—	—	—	75,576.4	6,646.9	—	—	—
26	of which building renovation loans	1,316.4	1,316.4	0.8	—	0.8	—	—	—	—	—	1,316.4	0.8	—	0.8	—
27	of which motor vehicle loans	1,824.6	381.6	—	—	—	—					381.6	—	—	—	—
28	**Local governments financing**	1,545.9	—	—	—	—	—	—	—	—	—	—	—	—	—	—
29	Housing financing	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
30	Other local government financing	1,545.9	—	—	—	—	—	—	—	—	—	—	—	—	—	—
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	1,267.7	1,267.7	89.0	—	—	—	—	—	—	—	1,267.7	89.0	—	—	—
32	**Assets excluded from the numerator for GAR calculation (covered in the denominator)**	61,510.4	—	—	—	—	—	—	—	—	—	—	—	—	—	—

33	**Financial and Non-financial undertakings**	41,413.8														
34	SMEs and NFCs (other than SMEs) not subject to NFRD disclosure obligations	30,121.2														
35	Loans and advances	29,946.2														
36	of which loans collateralised by commercial immovable property	4,899.9														
37	of which building renovation loans	—														
38	Debt securities	62.7														
39	Equity instruments	112.4														
40	Non-EU country counterparties not subject to NFRD disclosure obligations	11,292.6														
41	Loans and advances	11,286.1														
42	Debt securities	—														
43	Equity instruments	6.5														
44	**Derivatives**	2,424.6														
45	**On demand interbank loans**	693.0														
46	**Cash and cash-related assets**	726.1														
47	**Other assets (e.g. Goodwill, commodities etc.)**	16,252.8														
48	Total GAR assets	174,713.2														
49	**Other assets not covered for GAR calculation**	64,649.0														
50	**Central governments and Supranational issuers**	33,219.3														
51	**Central banks exposure**	28,723.2														
52	**Trading book**	2,706.5														
53	**Total assets**	239,362.2														
Off-balance sheet exposures - Undertakings subject to NFRD disclosure obligations																
54	Financial guarantees	914.2	506.5	13.5	—	—	—	—	—	—	—	506.5	13.5	—	—	—
55	Assets under management	3,007.0	145.5	145.5	—	—	—	7.5	7.5	—	—	350.0	157.3	—	5.7	69.8
56	Of which debt securities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
57	Of which equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—

2. GAR sector information

Assets of non-financial corporations used to calculate the GAR in relation to turnover KPIs, broken down by activity sector

	Breakdown by sector - NACE 4 digits level (code and label)		Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
			Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
			Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount	
			Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCM + CCA + WTR + CE	Mn EUR	Of which environmentally sustainable (CCM + CCA + WTR + CE
1	111	Growing of cereals (except rice), leguminous crops and oil seeds	7.5	—			—	—			7.5	—		
2	113	Growing of vegetables and melons, roots and tubers	15.7	—			—	—			15.7	—		
3	119	Growing of other nonperennial crops	—	—			—	—			—	—		
4	123	Growing of citrus fruits	7.6	—			—	—			7.6	—		
5	124	Growing of pome fruits and stone fruits	1.6	—			—	—			1.6	—		
6	125	Growing of other tree and bush fruits and nuts	9.4	—			—	—			9.4	—		
7	126	Growing of oleaginous fruits	—	—			—	—			—	—		
8	130	Plant propagation	2.9	1.1			—	—			2.9	1.1		
9	142	Raising of other cattle and buffaloes	—	—			—	—			—	—		
10	143	Raising of horses and other equines	—	—			—	—			—	—		
11	145	Raising of sheep and goats	0.2	—			—	—			0.2	—		
12	146	Raising of swine/pigs	23.3	—			—	—			23.3	—		
13	147	Raising of poultry	26.5	—			—	—			26.5	—		
14	149	Raising of other animals	3.4	—			—	—			3.4	—		
15	150	Mixed farming	—	—			—	—			—	—		
16	161	Support activities for crop production	2.2	—			—	—			2.2	—		
17	162	Support activities for animal production	0.3	—			—	—			0.3	—		
18	210	Silviculture and other forestry activities	4.9	—			—	—			4.9	—		
19	311	Marine fishing	1.0	—			—	—			1.0	—		
20	321	Marine aquaculture	0.6	—			—	—			0.6	—		
21	322	Freshwater aquaculture	—	—			—	—			—	—		
22	510	Mining of hard coal	0.2	—			—	—			0.2	—		
23	610	Extraction of crude petroleum	39.4	—			—	—			39.4	—		
24	729	Mining of other nonferrous metal ores	20.5	—			—	—			20.5	—		
25	811	Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate	0.9	—			—	—			0.9	—		
26	812	Operation of gravel and sand pits; mining of clays and kaolin	0.2	—			—	—			0.2	—		
27	891	Mining of chemical and fertiliser minerals	3.6	—			—	—			3.6	—		
28	893	Extraction of salt	0.2	—			—	—			0.2	—		
29	899	Other mining and quarrying n.e.c.	22.2	—			—	—			22.2	—		
30	1011	Processing and preserving of meat	73.4	—			—	—			73.4	—		
31	1012	Processing and preserving of poultry meat	1.7	—			—	—			1.7	—		

32	1013	Production of meat and poultry meat products	101.9	—			—	—			101.9	—		
33	1020	Processing and preserving of fish, crustaceans and molluscs	36.2	—			—	—			36.2	—		
34	1032	Manufacture of fruit and vegetable juice	12.1	—			—	—			12.1	—		
35	1039	Other processing and preserving of fruit and vegetables	23.8	—			—	—			23.8	—		
36	1041	Manufacture of oils and fats	25.4	—			—	—			25.4	—		
37	1051	Operation of dairies and cheese making	69.4	—			—	—			69.4	—		
38	1052	Manufacture of ice cream	11.5	—			—	—			11.5	—		
39	1061	Manufacture of grain mill products	10.4	—			—	—			10.4	—		
40	1071	Manufacture of bread; manufacture of fresh pastry goods and cakes	73.9	—			—	—			73.9	—		
41	1072	Manufacture of rusks and biscuits; manufacture of preserved pastry goods and cakes	22.2	—			—	—			22.2	—		
42	1073	Manufacture of macaroni, noodles, couscous and similar farinaceous products	22.6	—			—	—			22.6	—		
43	1082	Manufacture of cocoa, chocolate and sugar confectionery	2.3	—			—	—			2.3	—		
44	1083	Processing of tea and coffee	0.1	—			—	—			0.1	—		
45	1084	Manufacture of condiments and seasonings	0.7	—			—	—			0.7	—		
46	1085	Manufacture of prepared meals and dishes	2.1	—			—	—			2.1	—		
47	1086	Manufacture of homogenised food preparations and dietetic food	1.5	—			—	—			1.5	—		
48	1089	Manufacture of other food products n.e.c.	31.8	—			—	—			31.8	—		
49	1091	Manufacture of prepared feeds for farm animals	77.9	—			—	—			77.9	—		
50	1092	Manufacture of prepared pet foods	0.6	—			—	—			0.6	—		
51	1101	Distilling, rectifying and blending of spirits	0.1	—			—	—			0.1	—		
52	1102	Manufacture of wine from grape	62.0	—			—	—			62.0	—		
53	1105	Manufacture of beer	73.0	—			—	—			73.0	—		
54	1106	Manufacture of malt	—	—			—	—			—	—		
55	1107	Manufacture of soft drinks; production of mineral waters and other bottled waters	70.8	—			—	—			70.8	—		
56	1310	Preparation and spinning of textile fibres	3.3	—			—	—			3.3	—		
57	1320	Weaving of textiles	3.8	—			—	—			3.8	—		
58	1330	Finishing of textiles	0.6	—			—	—			0.6	—		
59	1391	Manufacture of knitted and crocheted fabrics	—	—			—	—			—	—		
60	1392	Manufacture of madeup textile articles, except apparel	—	—			—	—			—	—		
61	1396	Manufacture of other technical and industrial textiles	1.2	—			—	—			1.2	—		
62	1399	Manufacture of other textiles n.e.c.	—	—			—	—			—	—		
63	1412	Manufacture of workwear	0.3	—			—	—			0.3	—		
64	1413	Manufacture of other outerwear	7.8	—			—	—			7.8	—		
65	1419	Manufacture of other wearing apparel and accessories	6.0	—			—	—			6.0	—		
66	1431	Manufacture of knitted and crocheted hosiery	0.1	—			—	—			0.1	—		
67	1511	Tanning and dressing of leather; dressing and dyeing of fur	5.5	—			—	—			5.5	—		
68	1512	Manufacture of luggage, handbags and the like, saddlery and harness	—	—			—	—			—	—		
69	1520	Manufacture of footwear	1.3	—			—	—			1.3	—		
70	1610	Sawmilling and planing of wood	2.5	—			—	—			2.5	—		
71	1621	Manufacture of veneer sheets and woodbased panels	34.7	—			—	—			34.7	—		
72	1623	Manufacture of other builders' carpentry and joinery	9.2	—			—	—			9.2	—		
73	1629	Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials	0.9	—			—	—			0.9	—		
74	1711	Manufacture of pulp	38.2	6.6			—	7.3			38.2	13.9		

75	1712	Manufacture of paper and paperboard	63.8	—			—	—			63.8	—		
76	1721	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	21.4	—			—	—			21.4	—		
77	1722	Manufacture of household and sanitary goods and of toilet requisites	16.7	—			—	—			16.7	—		
78	1723	Manufacture of paper stationery	0.6	—			—	—			0.6	—		
79	1811	Printing of newspapers	0.7	—			—	—			0.7	—		
80	1812	Other printing	—	—			—	—			—	—		
81	1814	Binding and related services	0.1	—			—	—			0.1	—		
82	1920	Manufacture of refined petroleum products	67.3	—			—	—			67.3	—		
83	2011	Manufacture of industrial gases	—	—			—	—			—	—		
84	2012	Manufacture of dyes and pigments	1.9	—			—	—			1.9	—		
85	2013	Manufacture of other inorganic basic chemicals	13.0	—			—	1.6			13.0	1.6		
86	2014	Manufacture of other organic basic chemicals	10.7	—			—	—			10.7	—		
87	2015	Manufacture of fertilisers and nitrogen compounds	29.7	—			—	—			29.7	—		
88	2016	Manufacture of plastics in primary forms	12.3	—			—	—			12.3	—		
89	2017	Manufacture of synthetic rubber in primary forms	21.8	0.1			—	—			21.8	0.1		
90	2020	Manufacture of pesticides and other agrochemical products	15.0	—			—	—			15.0	—		
91	2030	Manufacture of paints, varnishes and similar coatings, printing ink and mastics	47.9	—			—	—			47.9	—		
92	2041	Manufacture of soap and detergents, cleaning and polishing preparations	15.0	—			—	—			15.0	—		
93	2042	Manufacture of perfumes and toilet preparations	12.9	—			—	—			12.9	—		
94	2051	Manufacture of explosives	16.2	—			—	—			16.2	—		
95	2052	Manufacture of glues	—	—			—	—			—	—		
96	2059	Manufacture of other chemical products n.e.c.	15.5	—			—	—			15.5	—		
97	2060	Manufacture of manmade fibres	0.1	—			—	—			0.1	—		
98	2110	Manufacture of basic pharmaceutical products	181.6	—			—	—			181.6	—		
99	2120	Manufacture of pharmaceutical preparations	58.1	—			—	—			58.1	—		
100	2211	Manufacture of rubber tyres and tubes; retreading and rebuilding of rubber tyres	1.7	—			—	—			1.7	—		
101	2219	Manufacture of other rubber products	7.3	—			—	—			7.3	—		
102	2222	Manufacture of plastic packing goods	12.7	—			—	—			12.7	—		
103	2223	Manufacture of builders' ware of plastic	7.2	—			—	—			7.2	—		
104	2229	Manufacture of other plastic products	76.0	—			—	—			76.0	—		
105	2312	Shaping and processing of flat glass	0.2	—			—	—			0.2	—		
106	2314	Manufacture of glass fibres	0.1	—			—	—			0.1	—		
107	2320	Manufacture of refractory products	2.9	—			—	—			2.9	—		
108	2331	Manufacture of ceramic tiles and flags	66.7	—			—	—			66.7	—		
109	2332	Manufacture of bricks, tiles and construction products, in baked clay	1.0	—			—	—			1.0	—		
110	2344	Manufacture of other technical ceramic products	3.3	—			—	—			3.3	—		
111	2349	Manufacture of other ceramic products	3.7	—			—	—			3.7	—		
112	2351	Manufacture of cement	59.0	0.6			—	—			59.0	0.6		
113	2352	Manufacture of lime and plaster	4.9	—			—	—			4.9	—		
114	2361	Manufacture of concrete products for construction purposes	0.3	—			—	—			0.3	—		
115	2363	Manufacture of readymixed concrete	4.9	0.2			—	—			4.9	0.2		
116	2364	Manufacture of mortars	—	—			—	—			—	—		
117	2369	Manufacture of other articles of concrete, plaster and cement	—	—			—	—			—	—		

118	2370	Cutting, shaping and finishing of stone	3.4	—			—	—			3.4	—		
119	2399	Manufacture of other nonmetallic mineral products n.e.c.	6.7	—			—	—			6.7	—		
120	2410	Manufacture of basic iron and steel and of ferroalloys	106.1	—			—	—			106.1	—		
121	2420	Manufacture of tubes, pipes, hollow profiles and related fittings, of steel	19.4	3.5			—	—			19.4	3.5		
122	2431	Cold drawing of bars	0.2	—			—	—			0.2	—		
123	2432	Cold rolling of narrow strip	17.9	—			—	—			17.9	—		
124	2433	Cold forming or folding	—	—			—	—			—	—		
125	2434	Cold drawing of wire	11.1	—			—	—			11.1	—		
126	2442	Aluminium production	54.7	—			—	—			54.7	—		
127	2445	Other nonferrous metal production	274.1	93.6			—	93.6			274.1	187.1		
128	2446	Processing of nuclear fuel	48.4	—			—	—			48.4	—		
129	2451	Casting of iron	3.0	—			—	—			3.0	—		
130	2452	Casting of steel	13.0	—			—	—			13.0	—		
131	2453	Casting of light metals	5.1	—			—	—			5.1	—		
132	2454	Casting of other nonferrous metals	1.8	—			—	—			1.8	—		
133	2511	Manufacture of metal structures and parts of structures	45.2	—			—	—			45.2	—		
134	2512	Manufacture of doors and windows of metal	2.9	—			—	—			2.9	—		
135	2521	Manufacture of central heating radiators and boilers	—	—			—	—			—	—		
136	2529	Manufacture of other tanks, reservoirs and containers of metal	3.7	—			—	—			3.7	—		
137	2540	Manufacture of weapons and ammunition	2.2	—			—	—			2.2	—		
138	2550	Forging, pressing, stamping and rollforming of metal; powder metallurgy	42.6	—			—	—			42.6	—		
139	2561	Treatment and coating of metals	13.5	—			—	—			13.5	—		
140	2562	Machining	1.5	—			—	—			1.5	—		
141	2571	Manufacture of cutlery	—	—			—	—			—	—		
142	2572	Manufacture of locks and hinges	0.6	—			—	—			0.6	—		
143	2573	Manufacture of tools	—	—			—	—			—	—		
144	2592	Manufacture of light metal packaging	14.3	—			—	—			14.3	—		
145	2593	Manufacture of wire products, chain and springs	2.3	—			—	—			2.3	—		
146	2594	Manufacture of fasteners and screw machine products	5.8	—			—	—			5.8	—		
147	2599	Manufacture of other fabricated metal products n.e.c.	17.0	—			—	—			17.0	—		
148	2611	Manufacture of electronic components	12.3	—			—	—			12.3	—		
149	2612	Manufacture of loaded electronic boards	0.8	—			—	—			0.8	—		
150	2630	Manufacture of communication equipment	—	—			—	—			—	—		
151	2651	Manufacture of instruments and appliances for measuring, testing and navigation	0.1	—			—	—			0.1	—		
152	2652	Manufacture of watches and clocks	2.0	—			—	—			2.0	—		
153	2660	Manufacture of irradiation, electromedical and electrotherapeutic equipment	1.7	—			—	—			1.7	—		
154	2670	Manufacture of optical instruments and photographic equipment	2.1	—			—	—			2.1	—		
155	2711	Manufacture of electric motors, generators and transformers	24.8	—			—	—			24.8	—		
156	2712	Manufacture of electricity distribution and control apparatus	6.1	—			—	—			6.1	—		
157	2720	Manufacture of batteries and accumulators	—	—			—	—			—	—		
158	2732	Manufacture of other electronic and electric wires and cables	15.0	—			—	—			15.0	—		
159	2740	Manufacture of electric lighting equipment	—	—			—	—			—	—		
160	2751	Manufacture of electric domestic appliances	6.8	—			—	—			6.8	—		

161	2790	Manufacture of other electrical equipment	8.9	—			—	—			8.9	—		
162	2813	Manufacture of other pumps and compressors	—	—			—	—			—	—		
163	2815	Manufacture of bearings, gears, gearing and driving elements	7.3	—			—	—			7.3	—		
164	2821	Manufacture of ovens, furnaces and furnace burners	—	—			—	—			—	—		
165	2822	Manufacture of lifting and handling equipment	4.7	—			—	—			4.7	—		
166	2825	Manufacture of nondomestic cooling and ventilation equipment	5.5	—			—	—			5.5	—		
167	2829	Manufacture of other generalpurpose machinery n.e.c.	5.2	—			—	—			5.2	—		
168	2830	Manufacture of agricultural and forestry machinery	2.3	—			—	—			2.3	—		
169	2841	Manufacture of metal forming machinery	12.4	—			—	—			12.4	—		
170	2849	Manufacture of other machine tools	—	—			—	—			—	—		
171	2891	Manufacture of machinery for metallurgy	0.3	—			—	—			0.3	—		
172	2892	Manufacture of machinery for mining, quarrying and construction	7.3	—			—	—			7.3	—		
173	2894	Manufacture of machinery for textile, apparel and leather production	0.1	—			—	—			0.1	—		
174	2895	Manufacture of machinery for paper and paperboard production	0.3	—			—	—			0.3	—		
175	2896	Manufacture of plastics and rubber machinery	2.3	—			—	—			2.3	—		
176	2899	Manufacture of other specialpurpose machinery n.e.c.	40.3	—			—	—			40.3	—		
177	2910	Manufacture of motor vehicles	72.7	4.3			—	—			72.7	4.3		
178	2920	Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semitrailers	2.7	—			—	—			2.7	—		
179	2931	Manufacture of electrical and electronic equipment for motor vehicles	0.8	—			—	—			0.8	—		
180	2932	Manufacture of other parts and accessories for motor vehicles	270.8	—			—	—			270.8	—		
181	3011	Building of ships and floating structures	4.7	3.5			—	—			4.7	3.5		
182	3020	Manufacture of railway locomotives and rolling stock	35.7	25.1			—	1.2			35.7	26.3		
183	3030	Manufacture of air and spacecraft and related machinery	0.4	—			—	—			0.4	—		
184	3092	Manufacture of bicycles and invalid carriages	0.1	—			—	—			0.1	—		
185	3099	Manufacture of other transport equipment n.e.c.	2.1	—			—	—			2.1	—		
186	3101	Manufacture of office and shop furniture	6.0	—			—	—			6.0	—		
187	3102	Manufacture of kitchen furniture	—	—			—	—			—	—		
188	3109	Manufacture of other furniture	1.2	—			—	—			1.2	—		
189	3250	Manufacture of medical and dental instruments and supplies	2.0	—			—	—			2.0	—		
190	3299	Other manufacturing n.e.c.	8.5	—			—	—			8.5	—		
191	3312	Repair of machinery	0.5	—			—	—			0.5	—		
192	3314	Repair of electrical equipment	—	—			—	—			—	—		
193	3315	Repair and maintenance of ships and boats	—	—			—	—			—	—		
194	3317	Repair and maintenance of other transport equipment	1.3	0.2			—	—			1.3	0.2		
195	3320	Installation of industrial machinery and equipment	3.0	—			—	—			3.0	—		
196	3511	Production of electricity	341.7	11.3			—	—			341.7	11.3		
197	3512	Transmission of electricity	1.7	1.4			—	—			1.7	1.4		
198	3513	Distribution of electricity	257.8	28.2			—	—			257.8	28.2		
199	3514	Trade of electricity	36.2	3.4			—	1.2			36.2	4.6		
200	3521	Manufacture of gas	50.0	—			—	—			50.0	—		
201	3522	Distribution of gaseous fuels through mains	195.6	6.5			—	0.6			195.6	7.1		
202	3523	Trade of gas through mains	0.6	—			—	—			0.6	—		
203	3600	Water collection, treatment and supply	107.5	32.0			—	—			107.5	32.0		
204	3700	Sewerage	37.9	9.5			—	—			37.9	9.5		
205	3811	Collection of nonhazardous waste	36.0	1.2			—	—			36.0	1.2		

206	3812	Collection of hazardous waste	—	—			—	—			—	—		
207	3821	Treatment and disposal of nonhazardous waste	26.2	0.1			—	—			26.2	0.1		
208	3822	Treatment and disposal of hazardous waste	0.2	0.1			—	—			0.2	0.1		
209	3831	Dismantling of wrecks	1.8	—			—	—			1.8	—		
210	3832	Recovery of sorted materials	12.3	—			—	—			12.3	—		
211	3900	Remediation activities and other waste management services	4.0	—			—	—			4.0	—		
212	4110	Development of building projects	188.2	—			—	—			188.2	—		
213	4120	Construction of residential and nonresidential buildings	50.3	2.6			—	0.2			50.3	2.7		
214	4211	Construction of roads and motorways	101.9	7.9			—	0.4			101.9	8.2		
215	4212	Construction of railways and underground railways	157.9	69.2			—	—			157.9	69.2		
216	4213	Construction of bridges and tunnels	15.2	3.0			—	—			15.2	3.0		
217	4221	Construction of utility projects for fluids	2.0	0.4			—	—			2.0	0.4		
218	4222	Construction of utility projects for electricity and telecommunications	25.9	8.2			—	—			25.9	8.2		
219	4291	Construction of water projects	0.6	—			—	—			0.6	—		
220	4299	Construction of other civil engineering projects n.e.c.	126.1	14.6			—	0.9			126.1	15.5		
221	4311	Demolition	0.5	—			—	—			0.5	—		
222	4312	Site preparation	39.0	—			—	—			39.0	—		
223	4321	Electrical installation	121.9	4.5			—	—			121.9	5.2		
224	4322	Plumbing, heat and airconditioning installation	50.8	—			—	—			50.8	—		
225	4329	Other construction installation	0.1	—			—	—			0.1	—		
226	4331	Plastering	—	—			—	—			—	—		
227	4332	Joinery installation	—	—			—	—			—	—		
228	4333	Floor and wall covering	1.6	—			—	—			1.6	—		
229	4339	Other building completion and finishing	0.3	—			—	—			0.3	—		
230	4399	Other specialised construction activities n.e.c.	86.1	3.6			—	0.2			86.1	3.8		
231	4511	Sale of cars and light motor vehicles	52.0	—			—	—			52.0	—		
232	4519	Sale of other motor vehicles	3.5	—			—	—			3.5	—		
233	4520	Maintenance and repair of motor vehicles	0.6	—			—	—			0.6	—		
234	4531	Wholesale trade of motor vehicle parts and accessories	3.1	—			—	—			3.1	—		
235	4532	Retail trade of motor vehicle parts and accessories	2.2	—			—	—			2.2	—		
236	4540	Sale, maintenance and repair of motorcycles and related parts and accessories	3.1	0.8			—	—			3.1	0.8		
237	4611	Agents involved in the sale of agricultural raw materials, live animals, textile raw materials and semifinished goods	0.2	—			—	—			0.2	—		
238	4612	Agents involved in the sale of fuels, ores, metals and industrial chemicals	0.5	—			—	—			0.5	—		
239	4613	Agents involved in the sale of timber and building materials	4.4	—			—	—			4.4	—		
240	4614	Agents involved in the sale of machinery, industrial equipment, ships and aircraft	1.5	0.1			—	—			1.5	0.1		
241	4615	Agents involved in the sale of furniture, household goods, hardware and ironmongery	9.7	—			—	—			9.7	—		
242	4617	Agents involved in the sale of food, beverages and tobacco	7.0	—			—	—			7.0	—		
243	4618	Agents specialised in the sale of other particular products	4.7	—			—	—			4.7	—		
244	4619	Agents involved in the sale of a variety of goods	6.9	—			—	—			6.9	—		
245	4621	Wholesale of grain, unmanufactured tobacco, seeds and animal feeds	41.6	—			—	—			41.6	—		
246	4622	Wholesale of flowers and plants	—	—			—	—			—	—		
247	4623	Wholesale of live animals	1.2	—			—	—			1.2	—		

248	4631	Wholesale of fruit and vegetables	83.8	—			—	—			83.8	—		
249	4632	Wholesale of meat and meat products	19.8	—			—	—			19.8	—		
250	4633	Wholesale of dairy products, eggs and edible oils and fats	35.5	—			—	—			35.5	—		
251	4634	Wholesale of beverages	9.8	—			—	—			9.8	—		
252	4635	Wholesale of tobacco products	—	—			—	—			—	—		
253	4636	Wholesale of sugar and chocolate and sugar confectionery	2.2	—			—	—			2.2	—		
254	4637	Wholesale of coffee, tea, cocoa and spices	1.9	—			—	—			1.9	—		
255	4638	Wholesale of other food, including fish, crustaceans and molluscs	35.3	—			—	—			35.3	—		
256	4639	Nonspecialised wholesale of food, beverages and tobacco	37.3	—			—	—			37.3	—		
257	4641	Wholesale of textiles	4.5	—			—	—			4.5	—		
258	4642	Wholesale of clothing and footwear	46.2	—			—	—			46.2	—		
259	4643	Wholesale of electrical household appliances	7.4	—			—	—			7.4	—		
260	4644	Wholesale of china and glassware and cleaning materials	8.2	—			—	—			8.2	—		
261	4645	Wholesale of perfume and cosmetics	341.1	—			—	—			341.1	—		
262	4646	Wholesale of pharmaceutical goods	35.0	—			—	—			35.0	—		
263	4647	Wholesale of furniture, carpets and lighting equipment	—	—			—	—			—	—		
264	4648	Wholesale of watches and jewellery	—	—			—	—			—	—		
265	4649	Wholesale of other household goods	6.6	—			—	—			6.6	—		
266	4651	Wholesale of computers, computer peripheral equipment and software	12.8	—			—	—			12.8	—		
267	4652	Wholesale of electronic and telecommunications equipment and parts	3.2	—			—	—			3.2	—		
268	4661	Wholesale of agricultural machinery, equipment and supplies	—	—			—	—			—	—		
269	4662	Wholesale of machine tools	—	—			—	—			—	—		
270	4663	Wholesale of mining, construction and civil engineering machinery	0.2	—			—	—			0.2	—		
271	4665	Wholesale of office furniture	2.1	—			—	—			2.1	—		
272	4666	Wholesale of other office machinery and equipment	9.8	—			—	—			9.8	—		
273	4669	Wholesale of other machinery and equipment	22.6	—			—	—			22.6	—		
274	4671	Wholesale of solid, liquid and gaseous fuels and related products	62.0	—			—	—			62.0	—		
275	4672	Wholesale of metals and metal ores	63.0	—			—	—			63.0	0.1		
276	4673	Wholesale of wood, construction materials and sanitary equipment	98.2	—			—	—			98.2	—		
277	4674	Wholesale of hardware, plumbing and heating equipment and supplies	44.4	—			—	—			44.4	—		
278	4675	Wholesale of chemical products	32.9	—			—	—			32.9	—		
279	4676	Wholesale of other intermediate products	51.3	—			—	—			51.3	—		
280	4677	Wholesale of waste and scrap	37.4	—			—	—			37.4	—		
281	4690	Nonspecialised wholesale trade	14.9	—			—	—			14.9	—		
282	4711	Retail sale in nonspecialised stores with food, beverages or tobacco predominating	507.5	0.1			—	—			507.5	0.1		
283	4719	Other retail sale in nonspecialised stores	198.8	—			—	—			198.8	—		
284	4721	Retail sale of fruit and vegetables in specialised stores	17.5	—			—	—			17.5	—		
285	4722	Retail sale of meat and meat products in specialised stores	3.5	—			—	—			3.5	—		
286	4725	Retail sale of beverages in specialised stores	—	—			—	—			—	—		
287	4729	Other retail sale of food in specialised stores	33.1	—			—	—			33.1	—		
288	4730	Retail sale of automotive fuel in specialised stores	2.1	—			—	—			2.1	—		
289	4741	Retail sale of computers, peripheral units and software in specialised stores	12.7	—			—	—			12.7	—		
290	4742	Retail sale of telecommunications equipment in specialised stores	6.9	—			—	—			6.9	—		
291	4751	Retail sale of textiles in specialised stores	4.1	—			—	—			4.1	—		

292	4752	Retail sale of hardware, paints and glass in specialised stores	37.2	—			—	—			37.2	—		
293	4754	Retail sale of electrical household appliances in specialised stores	1.1	—			—	—			1.1	—		
294	4759	Retail sale of furniture, lighting equipment and other household articles in specialised stores	20.0	—			—	—			20.0	—		
295	4761	Retail sale of books in specialised stores	0.1	—			—	—			0.1	—		
296	4764	Retail sale of sporting equipment in specialised stores	7.0	—			—	—			7.0	—		
297	4771	Retail sale of clothing in specialised stores	102.5	—			—	—			102.5	—		
298	4772	Retail sale of footwear and leather goods in specialised stores	2.2	—			—	—			2.2	—		
299	4773	Dispensing chemist in specialised stores	0.1	—			—	—			0.1	—		
300	4774	Retail sale of medical and orthopaedic goods in specialised stores	0.1	—			—	—			0.1	—		
301	4775	Retail sale of cosmetic and toilet articles in specialised stores	51.4	—			—	—			51.4	—		
302	4776	Retail sale of flowers, plants, seeds, fertilisers, pet animals and pet food in specialised stores	0.8	—			—	—			0.8	—		
303	4777	Retail sale of watches and jewellery in specialised stores	1.8	—			—	—			1.8	—		
304	4778	Other retail sale of new goods in specialised stores	83.0	—			—	—			83.0	—		
305	4781	Retail sale via stalls and markets of food, beverages and tobacco products	0.7	—			—	—			0.7	—		
306	4791	Retail sale via mail order houses or via Internet	—	—			—	—			—	—		
307	4799	Other retail sale not in stores, stalls or markets	2.6	—			—	—			2.6	—		
308	4910	Passenger rail transport, interurban	397.8	395.6			—	—			397.8	395.6		
309	4920	Freight rail transport	—	—			—	—			—	—		
310	4931	Urban and suburban passenger land transport	346.6	12.2			—	—			346.6	12.2		
311	4932	Taxi operation	0.7	—			—	—			0.7	—		
312	4939	Other passenger land transport n.e.c.	44.5	—			—	—			44.5	—		
313	4941	Freight transport by road	77.0	—			—	—			77.0	—		
314	4950	Transport via pipeline	30.0	—			—	—			30.0	—		
315	5010	Sea and coastal passenger water transport	32.9	—			—	—			32.9	—		
316	5020	Sea and coastal freight water transport	57.1	—			—	—			57.1	—		
317	5110	Passenger air transport	23.5	—			—	—			23.5	—		
318	5121	Freight air transport	—	—			—	—			—	—		
319	5210	Warehousing and storage	14.6	—			—	—			14.6	—		
320	5221	Service activities incidental to land transportation	747.5	6.3			—	0.4			747.5	21.2		
321	5222	Service activities incidental to water transportation	120.2	—			—	—			120.2	—		
322	5223	Service activities incidental to air transportation	151.6	55.2			—	—			151.6	55.2		
323	5224	Cargo handling	0.2	—			—	—			0.2	—		
324	5229	Other transportation support activities	42.9	—			—	—			42.9	—		
325	5310	Postal activities under universal service obligation	0.5	—			—	—			0.5	—		
326	5320	Other postal and courier activities	14.6	—			—	—			14.6	—		
327	5510	Hotels and similar accommodation	925.2	—			—	—			925.2	—		
328	5520	Holiday and other shortstay accommodation	31.3	—			—	—			31.3	—		
329	5530	Camping grounds, recreational vehicle parks and trailer parks	—	—			—	—			—	—		
330	5590	Other accommodation	2.5	—			—	—			2.5	—		
331	5610	Restaurants and mobile food service activities	116.2	—			—	—			116.2	—		
332	5621	Event catering activities	—	—			—	—			—	—		
333	5629	Other food service activities	7.4	—			—	—			7.4	—		
334	5630	Beverage serving activities	0.8	—			—	—			0.8	—		

335	5811	Book publishing	0.8	—			—	—			0.8	—		
336	5813	Publishing of newspapers	3.9	—			—	—			3.9	—		
337	5819	Other publishing activities	2.0	—			—	—			2.0	—		
338	5821	Publishing of computer games	20.0	—			—	—			20.0	—		
339	5829	Other software publishing	0.6	—			—	—			0.6	—		
340	5911	Motion picture, video and television programme production activities	19.2	—			—	—			19.2	—		
341	6010	Radio broadcasting	—	—			—	—			—	—		
342	6020	Television programming and broadcasting activities	8.7	—			—	—			8.7	—		
343	6110	Wired telecommunications activities	144.6	1.1			—	—			144.6	1.1		
344	6120	Wireless telecommunications activities	62.5	0.1			—	4.2			62.5	4.3		
345	6130	Satellite telecommunications activities	0.1	—			—	—			0.1	—		
346	6190	Other telecommunications activities	220.5	0.3			—	5.9			220.5	6.2		
347	6201	Computer programming activities	17.1	—			—	—			17.1	—		
348	6202	Computer consultancy activities	17.9	—			—	0.9			17.9	1.0		
349	6203	Computer facilities management activities	0.1	—			—	—			0.1	—		
350	6209	Other information technology and computer service activities	72.3	2.5			—	7.6			72.3	10.1		
351	6311	Data processing, hosting and related activities	1.0	—			—	—			1.0	—		
352	6312	Web portals	—	—			—	—			—	—		
353	6399	Other information service activities n.e.c.	—	—			—	—			—	—		
354	6419	Other monetary intermediation	—	—			—	—			—	—		
355	6420	Activities of holding companies	553.1	—			—	—			553.1	—		
356	6430	Trusts, funds and similar financial entities	14.2	—			—	—			14.2	—		
357	6492	Other credit granting	(0.8)	—			—	—			(0.8)	—		
358	6499	Other financial service activities, except insurance and pension funding n.e.c.	107.0	31.6			—	—			107.0	36.2		
359	6612	Security and commodity contracts brokerage	0.4	—			—	—			0.4	—		
360	6619	Other activities auxiliary to financial services, except insurance and pension funding	121.6	36.7			—	—			121.6	36.7		
361	6622	Activities of insurance agents and brokers	0.5	—			—	—			0.5	—		
362	6810	Buying and selling of own real estate	74.9	0.1			—	—			74.9	0.1		
363	6820	Renting and operating of own or leased real estate	393.9	1.7			—	—			393.9	1.7		
364	6831	Real estate agencies	0.1	—			—	—			0.1	—		
365	6832	Management of real estate on a fee or contract basis	42.4	—			—	—			42.4	—		
366	6910	Legal activities	39.9	0.1			—	—			39.9	0.1		
367	6920	Accounting, bookkeeping and auditing activities; tax consultancy	58.1	—			—	—			58.1	—		
368	7010	Activities of head offices	434.0	16.6			—	0.6			434.0	18.8		
369	7022	Business and other management consultancy activities	116.9	—			—	—			116.9	—		
370	7111	Architectural activities	—	—			—	—			—	—		
371	7112	Engineering activities and related technical consultancy	161.8	0.4			—	—			161.8	0.4		
372	7120	Technical testing and analysis	15.5	—			—	—			15.5	—		
373	7211	Research and experimental development on biotechnology	1.9	—			—	—			1.9	—		
374	7219	Other research and experimental development on natural sciences and engineering	1.4	—			—	—			1.4	—		
375	7220	Research and experimental development on social sciences and humanities	0.7	—			—	—			0.7	—		
376	7311	Advertising agencies	0.4	—			—	—			0.4	—		
377	7320	Market research and public opinion polling	0.6	—			—	—			0.6	—		

378	7410	Specialised design activities	—	—			—	—			—	—		
379	7490	Other professional, scientific and technical activities n.e.c.	24.0	—			—	—			24.0	0.1		
380	7500	Veterinary activities	—	—			—	—			—	—		
381	7711	Renting and leasing of cars and light motor vehicles	30.0	—			—	—			30.0	—		
382	7712	Renting and leasing of trucks	4.5	—			—	—			4.5	—		
383	7732	Renting and leasing of construction and civil engineering machinery and equipment	23.9	—			—	—			23.9	—		
384	7734	Renting and leasing of water transport equipment	0.8	—			—	—			0.8	—		
385	7735	Renting and leasing of air transport equipment	61.6	—			—	—			61.6	—		
386	7739	Renting and leasing of other machinery, equipment and tangible goods n.e.c.	13.4	—			—	—			13.4	—		
387	7740	Leasing of intellectual property and similar products, except copyrighted works	0.8	—			—	—			0.8	—		
388	7810	Activities of employment placement agencies	2.5	—			—	—			2.5	—		
389	7820	Temporary employment agency activities	9.8	—			—	—			9.8	—		
390	7830	Other human resources provision	—	—			—	—			—	—		
391	7911	Travel agency activities	24.4	—			—	—			24.4	—		
392	7912	Tour operator activities	6.0	—			—	—			6.0	—		
393	7990	Other reservation service and related activities	—	—			—	—			—	—		
394	8010	Private security activities	3.9	—			—	—			3.9	—		
395	8020	Security systems service activities	16.0	—			—	—			16.0	—		
396	8110	Combined facilities support activities	2.8	—			—	—			2.8	—		
397	8121	General cleaning of buildings	8.0	—			—	—			8.0	—		
398	8122	Other building and industrial cleaning activities	15.5	1.2			—	—			15.5	1.2		
399	8129	Other cleaning activities	2.7	—			—	—			2.7	—		
400	8130	Landscape service activities	0.2	—			—	—			0.2	—		
401	8211	Combined office administrative service activities	24.5	—			—	—			24.5	—		
402	8219	Photocopying, document preparation and other specialised office support activities	1.3	—			—	—			1.3	—		
403	8220	Activities of call centres	1.3	—			—	—			1.3	—		
404	8230	Organisation of conventions and trade shows	5.4	—			—	—			5.4	—		
405	8291	Activities of collection agencies and credit bureaus	3.0	—			—	—			3.0	—		
406	8292	Packaging activities	0.4	—			—	—			0.4	—		
407	8299	Other business support service activities n.e.c.	57.3	0.2			—	—			57.3	0.2		
408	8411	General public administration activities	447.3	0.1			—	—			447.3	0.1		
409	8412	Regulation of the activities of providing health care, education, cultural services and other social services, excluding social security	0.7	—			—	—			0.7	—		
410	8413	Regulation of and contribution to more efficient operation of businesses	—	—			—	—			—	—		
411	8424	Public order and safety activities	—	—			—	—			—	—		
412	8520	Primary education	3.5	—			—	—			3.5	—		
413	8531	General secondary education	0.7	—			—	—			0.7	—		
414	8532	Technical and vocational secondary education	15.0	—			—	—			15.0	—		
415	8542	Tertiary education	0.2	—			—	—			0.2	—		
416	8559	Other education n.e.c.	4.5	—			—	—			4.5	—		
417	8560	Educational support activities	2.6	—			—	—			2.6	—		
418	8610	Hospital activities	111.4	—			—	—			111.4	—		

419	8621	General medical practice activities	2.3	—			—	—			2.3	—		
420	8622	Specialist medical practice activities	0.6	—			—	—			0.6	—		
421	8690	Other human health activities	19.4	—			—	—			19.4	—		
422	8710	Residential nursing care activities	4.3	—			—	—			4.3	—		
423	8720	Residential care activities for mental retardation, mental health and substance abuse	4.0	—			—	—			4.0	—		
424	8730	Residential care activities for the elderly and disabled	88.0	—			—	—			88.0	—		
425	8790	Other residential care activities	29.3	—			—	—			29.3	—		
426	8810	Social work activities without accommodation for the elderly and disabled	0.8	—			—	—			0.8	—		
427	8891	Child daycare activities	0.1	—			—	—			0.1	—		
428	8899	Other social work activities without accommodation n.e.c.	—	—			—	—			—	—		
429	9004	Operation of arts facilities	—	—			—	—			—	—		
430	9104	Botanical and zoological gardens and nature reserves activities	3.8	—			—	—			3.8	—		
431	9200	Gambling and betting activities	11.5	—			—	—			11.5	—		
432	9311	Operation of sports facilities	13.1	—			—	—			13.1	—		
433	9312	Activities of sport clubs	5.4	—			—	—			5.4	—		
434	9313	Fitness facilities	0.8	—			—	—			0.8	—		
435	9319	Other sports activities	0.8	—			—	—			0.8	—		
436	9321	Activities of amusement parks and theme parks	0.7	—			—	—			0.7	—		
437	9329	Other amusement and recreation activities	3.1	—			—	—			3.1	—		
438	9412	Activities of professional membership organisations	—	—			—	—			—	—		
439	9499	Activities of other membership organisations n.e.c.	2.0	—			—	—			2.0	—		
440	9511	Repair of computers and peripheral equipment	0.2	—			—	—			0.2	—		
441	9512	Repair of communication equipment	—	—			—	—			—	—		
442	9601	Washing and (dry)cleaning of textile and fur products	8.7	—			—	—			8.7	—		
443	9602	Hairdressing and other beauty treatment	2.9	—			—	—			2.9	—		
444	9603	Funeral and related activities	24.3	—			—	—			24.3	—		
445	9604	Physical wellbeing activities	—	—			—	—			—	—		
446	9609	Other personal service activities n.e.c.	20.9	—			—	—			20.9	—		

Assets of non-financial corporations used to calculate the GAR in relation to CapEx KPIs, broken down by activity sector

	Breakdown by sector - NACE 4 digits level (code and label)		Climate Change Mitigation (CCM)				Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)			
			Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD		Non-Financial corporates (Subject to NFRD)		SMEs and other NFC not subject to NFRD	
			Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount		Gross carrying amount	
			Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCM)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCA)	Mn EUR	Of which environmentally sustainable (CCM + CCA + WTR + CE	Mn EUR	Of which environmentally sustainable (CCM + CCA + WTR + CE
1	111	Growing of cereals (except rice), leguminous crops and oil seeds	7.5	—			—	—			7.5	—		
2	113	Growing of vegetables and melons, roots and tubers	15.7	—			—	—			15.7	—		
3	119	Growing of other nonperennial crops	—	—			—	—			—	—		
4	123	Growing of citrus fruits	7.6	—			—	—			7.6	—		
5	124	Growing of pome fruits and stone fruits	1.6	—			—	—			1.6	—		
6	125	Growing of other tree and bush fruits and nuts	9.4	—			—	—			9.4	—		
7	126	Growing of oleaginous fruits	—	—			—	—			—	—		
8	130	Plant propagation	2.9	2.4			—	—			2.9	2.4		
9	142	Raising of other cattle and buffaloes	—	—			—	—			—	—		
10	143	Raising of horses and other equines	—	—			—	—			—	—		
11	145	Raising of sheep and goats	0.2	—			—	—			0.2	—		
12	146	Raising of swine/pigs	23.3	—			—	—			23.3	—		
13	147	Raising of poultry	26.5	—			—	—			26.5	—		
14	149	Raising of other animals	3.4	—			—	—			3.4	—		
15	150	Mixed farming	—	—			—	—			—	—		
16	161	Support activities for crop production	2.2	—			—	—			2.2	—		
17	162	Support activities for animal production	0.3	—			—	—			0.3	—		
18	210	Silviculture and other forestry activities	4.9	—			—	—			4.9	—		
19	311	Marine fishing	1.0	—			—	—			1.0	—		
20	321	Marine aquaculture	0.6	—			—	—			0.6	—		
21	322	Freshwater aquaculture	—	—			—	—			—	—		
22	510	Mining of hard coal	0.2	—			—	—			0.2	—		
23	610	Extraction of crude petroleum	39.4	—			—	—			39.4	—		
24	729	Mining of other nonferrous metal ores	20.5	—			—	—			20.5	—		
25	811	Quarrying of ornamental and building stone, limestone, gypsum, chalk and slate	0.9	—			—	—			0.9	—		
26	812	Operation of gravel and sand pits; mining of clays and kaolin	0.2	—			—	—			0.2	—		
27	891	Mining of chemical and fertiliser minerals	3.6	—			—	—			3.6	—		
28	893	Extraction of salt	0.2	—			—	—			0.2	—		
29	899	Other mining and quarrying n.e.c.	22.2	—			—	—			22.2	—		
30	1011	Processing and preserving of meat	73.4	—			—	—			73.4	—		
31	1012	Processing and preserving of poultry meat	1.7	—			—	—			1.7	—		
32	1013	Production of meat and poultry meat products	101.9	—			—	—			101.9	—		
33	1020	Processing and preserving of fish, crustaceans and molluscs	36.2	—			—	—			36.2	—		

34	1032	Manufacture of fruit and vegetable juice	12.1	—			—	—			12.1	—		
35	1039	Other processing and preserving of fruit and vegetables	23.8	—			—	—			23.8	—		
36	1041	Manufacture of oils and fats	25.4	—			—	—			25.4	—		
37	1051	Operation of dairies and cheese making	69.4	—			—	—			69.4	—		
38	1052	Manufacture of ice cream	11.5	—			—	—			11.5	—		
39	1061	Manufacture of grain mill products	10.4	—			—	—			10.4	—		
40	1071	Manufacture of bread; manufacture of fresh pastry goods and cakes	73.9	—			—	—			73.9	—		
41	1072	Manufacture of rusks and biscuits; manufacture of preserved pastry goods and cakes	22.2	—			—	—			22.2	—		
42	1073	Manufacture of macaroni, noodles, couscous and similar farinaceous products	22.6	—			—	—			22.6	—		
43	1082	Manufacture of cocoa, chocolate and sugar confectionery	2.3	—			—	—			2.3	—		
44	1083	Processing of tea and coffee	0.1	—			—	—			0.1	—		
45	1084	Manufacture of condiments and seasonings	0.7	—			—	—			0.7	—		
46	1085	Manufacture of prepared meals and dishes	2.1	—			—	—			2.1	—		
47	1086	Manufacture of homogenised food preparations and dietetic food	1.5	—			—	—			1.5	—		
48	1089	Manufacture of other food products n.e.c.	31.8	—			—	—			31.8	—		
49	1091	Manufacture of prepared feeds for farm animals	77.9	—			—	—			77.9	—		
50	1092	Manufacture of prepared pet foods	0.6	—			—	—			0.6	—		
51	1101	Distilling, rectifying and blending of spirits	0.1	—			—	—			0.1	—		
52	1102	Manufacture of wine from grape	62.0	—			—	—			62.0	—		
53	1105	Manufacture of beer	73.0	—			—	—			73.0	—		
54	1106	Manufacture of malt	—	—			—	—			—	—		
55	1107	Manufacture of soft drinks; production of mineral waters and other bottled waters	70.8	—			—	—			70.8	—		
56	1310	Preparation and spinning of textile fibres	3.3	—			—	—			3.3	—		
57	1320	Weaving of textiles	3.8	—			—	—			3.8	—		
58	1330	Finishing of textiles	0.6	—			—	—			0.6	—		
59	1391	Manufacture of knitted and crocheted fabrics	—	—			—	—			—	—		
60	1392	Manufacture of madeup textile articles, except apparel	—	—			—	—			—	—		
61	1396	Manufacture of other technical and industrial textiles	1.2	—			—	—			1.2	—		
62	1399	Manufacture of other textiles n.e.c.	—	—			—	—			—	—		
63	1412	Manufacture of workwear	0.3	—			—	—			0.3	—		
64	1413	Manufacture of other outerwear	7.8	—			—	—			7.8	0.7		
65	1419	Manufacture of other wearing apparel and accessories	6.0	—			—	—			6.0	—		
66	1431	Manufacture of knitted and crocheted hosiery	0.1	—			—	—			0.1	—		
67	1511	Tanning and dressing of leather; dressing and dyeing of fur	5.5	—			—	—			5.5	—		
68	1512	Manufacture of luggage, handbags and the like, saddlery and harness	—	—			—	—			—	—		
69	1520	Manufacture of footwear	1.3	—			—	—			1.3	—		
70	1610	Sawmilling and planing of wood	2.5	—			—	—			2.5	—		
71	1621	Manufacture of veneer sheets and woodbased panels	34.7	—			—	—			34.7	—		
72	1623	Manufacture of other builders' carpentry and joinery	9.2	—			—	—			9.2	—		
73	1629	Manufacture of other products of wood; manufacture of articles of cork, straw and plaiting materials	0.9	—			—	—			0.9	—		
74	1711	Manufacture of pulp	38.2	8.7			—	8.7			38.2	17.5		
75	1712	Manufacture of paper and paperboard	63.8	—			—	—			63.8	—		

76	1721	Manufacture of corrugated paper and paperboard and of containers of paper and paperboard	21.4	—			—	—			21.4	—		
77	1722	Manufacture of household and sanitary goods and of toilet requisites	16.7	—			—	—			16.7	—		
78	1723	Manufacture of paper stationery	0.6	—			—	—			0.6	—		
79	1811	Printing of newspapers	0.7	—			—	—			0.7	—		
80	1812	Other printing	—	—			—	—			—	—		
81	1814	Binding and related services	0.1	—			—	—			0.1	—		
82	1920	Manufacture of refined petroleum products	67.3	3.0			—	—			67.3	3.0		
83	2011	Manufacture of industrial gases	—	—			—	—			—	—		
84	2012	Manufacture of dyes and pigments	1.9	—			—	—			1.9	—		
85	2013	Manufacture of other inorganic basic chemicals	13.0	—			—	1.3			13.0	1.3		
86	2014	Manufacture of other organic basic chemicals	10.7	0.4			—	—			10.7	0.4		
87	2015	Manufacture of fertilisers and nitrogen compounds	29.7	—			—	—			29.7	—		
88	2016	Manufacture of plastics in primary forms	12.3	—			—	—			12.3	—		
89	2017	Manufacture of synthetic rubber in primary forms	21.8	3.6			—	—			21.8	3.6		
90	2020	Manufacture of pesticides and other agrochemical products	15.0	—			—	—			15.0	—		
91	2030	Manufacture of paints, varnishes and similar coatings, printing ink and mastics	47.9	—			—	—			47.9	—		
92	2041	Manufacture of soap and detergents, cleaning and polishing preparations	15.0	—			—	—			15.0	—		
93	2042	Manufacture of perfumes and toilet preparations	12.9	—			—	—			12.9	—		
94	2051	Manufacture of explosives	16.2	—			—	—			16.2	—		
95	2052	Manufacture of glues	—	—			—	—			—	—		
96	2059	Manufacture of other chemical products n.e.c.	15.5	—			—	—			15.5	—		
97	2060	Manufacture of manmade fibres	0.1	—			—	—			0.1	—		
98	2110	Manufacture of basic pharmaceutical products	181.6	—			—	—			181.6	—		
99	2120	Manufacture of pharmaceutical preparations	58.1	—			—	—			58.1	—		
100	2211	Manufacture of rubber tyres and tubes; retreading and rebuilding of rubber tyres	1.7	—			—	—			1.7	—		
101	2219	Manufacture of other rubber products	7.3	—			—	—			7.3	—		
102	2222	Manufacture of plastic packing goods	12.7	—			—	—			12.7	—		
103	2223	Manufacture of builders' ware of plastic	7.2	—			—	—			7.2	—		
104	2229	Manufacture of other plastic products	76.0	—			—	—			76.0	—		
105	2312	Shaping and processing of flat glass	0.2	—			—	—			0.2	—		
106	2314	Manufacture of glass fibres	0.1	—			—	—			0.1	—		
107	2320	Manufacture of refractory products	2.9	—			—	—			2.9	—		
108	2331	Manufacture of ceramic tiles and flags	66.7	—			—	—			66.7	—		
109	2332	Manufacture of bricks, tiles and construction products, in baked clay	1.0	—			—	—			1.0	—		
110	2344	Manufacture of other technical ceramic products	3.3	—			—	—			3.3	—		
111	2349	Manufacture of other ceramic products	3.7	—			—	—			3.7	—		
112	2351	Manufacture of cement	59.0	1.1			—	—			59.0	1.1		
113	2352	Manufacture of lime and plaster	4.9	—			—	—			4.9	—		
114	2361	Manufacture of concrete products for construction purposes	0.3	—			—	—			0.3	—		
115	2363	Manufacture of readymixed concrete	4.9	0.3			—	—			4.9	0.3		
116	2364	Manufacture of mortars	—	—			—	—			—	—		
117	2369	Manufacture of other articles of concrete, plaster and cement	—	—			—	—			—	—		
118	2370	Cutting, shaping and finishing of stone	3.4	—			—	—			3.4	—		

119	2399	Manufacture of other nonmetallic mineral products n.e.c.	6.7	—			—	—			6.7	—		
120	2410	Manufacture of basic iron and steel and of ferroalloys	106.1	—			—	—			106.1	—		
121	2420	Manufacture of tubes, pipes, hollow profiles and related fittings, of steel	19.4	2.3			—	—			19.4	2.3		
122	2431	Cold drawing of bars	0.2	—			—	—			0.2	—		
123	2432	Cold rolling of narrow strip	17.9	—			—	—			17.9	—		
124	2433	Cold forming or folding	—	—			—	—			—	—		
125	2434	Cold drawing of wire	11.1	—			—	—			11.1	—		
126	2442	Aluminium production	54.7	—			—	—			54.7	—		
127	2445	Other nonferrous metal production	274.1	96.1			—	96.1			274.1	192.3		
128	2446	Processing of nuclear fuel	48.4	—			—	—			48.4	—		
129	2451	Casting of iron	3.0	—			—	—			3.0	—		
130	2452	Casting of steel	13.0	—			—	—			13.0	—		
131	2453	Casting of light metals	5.1	—			—	—			5.1	—		
132	2454	Casting of other nonferrous metals	1.8	—			—	—			1.8	—		
133	2511	Manufacture of metal structures and parts of structures	45.2	—			—	—			45.2	—		
134	2512	Manufacture of doors and windows of metal	2.9	—			—	—			2.9	—		
135	2521	Manufacture of central heating radiators and boilers	—	—			—	—			—	—		
136	2529	Manufacture of other tanks, reservoirs and containers of metal	3.7	—			—	—			3.7	—		
137	2540	Manufacture of weapons and ammunition	2.2	—			—	—			2.2	—		
138	2550	Forging, pressing, stamping and rollforming of metal; powder metallurgy	42.6	—			—	—			42.6	—		
139	2561	Treatment and coating of metals	13.5	—			—	—			13.5	—		
140	2562	Machining	1.5	—			—	—			1.5	—		
141	2571	Manufacture of cutlery	—	—			—	—			—	—		
142	2572	Manufacture of locks and hinges	0.6	—			—	—			0.6	—		
143	2573	Manufacture of tools	—	—			—	—			—	—		
144	2592	Manufacture of light metal packaging	14.3	—			—	—			14.3	—		
145	2593	Manufacture of wire products, chain and springs	2.3	—			—	—			2.3	—		
146	2594	Manufacture of fasteners and screw machine products	5.8	—			—	—			5.8	—		
147	2599	Manufacture of other fabricated metal products n.e.c.	17.0	—			—	—			17.0	—		
148	2611	Manufacture of electronic components	12.3	—			—	—			12.3	—		
149	2612	Manufacture of loaded electronic boards	0.8	—			—	—			0.8	—		
150	2630	Manufacture of communication equipment	—	—			—	—			—	—		
151	2651	Manufacture of instruments and appliances for measuring, testing and navigation	0.1	—			—	—			0.1	—		
152	2652	Manufacture of watches and clocks	2.0	—			—	—			2.0	—		
153	2660	Manufacture of irradiation, electromedical and electrotherapeutic equipment	1.7	—			—	—			1.7	—		
154	2670	Manufacture of optical instruments and photographic equipment	2.1	—			—	—			2.1	—		
155	2711	Manufacture of electric motors, generators and transformers	24.8	—			—	—			24.8	—		
156	2712	Manufacture of electricity distribution and control apparatus	6.1	—			—	—			6.1	—		
157	2720	Manufacture of batteries and accumulators	—	—			—	—			—	—		
158	2732	Manufacture of other electronic and electric wires and cables	15.0	0.1			—	—			15.0	0.1		
159	2740	Manufacture of electric lighting equipment	—	—			—	—			—	—		
160	2751	Manufacture of electric domestic appliances	6.8	0.2			—	—			6.8	0.2		
161	2790	Manufacture of other electrical equipment	8.9	—			—	—			8.9	—		

162	2813	Manufacture of other pumps and compressors	—	—			—	—			—	—		
163	2815	Manufacture of bearings, gears, gearing and driving elements	7.3	0.1			—	—			7.3	0.1		
164	2821	Manufacture of ovens, furnaces and furnace burners	—	—			—	—			—	—		
165	2822	Manufacture of lifting and handling equipment	4.7	—			—	—			4.7	—		
166	2825	Manufacture of nondomestic cooling and ventilation equipment	5.5	—			—	—			5.5	—		
167	2829	Manufacture of other generalpurpose machinery n.e.c.	5.2	—			—	—			5.2	—		
168	2830	Manufacture of agricultural and forestry machinery	2.3	—			—	—			2.3	—		
169	2841	Manufacture of metal forming machinery	12.4	—			—	—			12.4	—		
170	2849	Manufacture of other machine tools	—	—			—	—			—	—		
171	2891	Manufacture of machinery for metallurgy	0.3	—			—	—			0.3	—		
172	2892	Manufacture of machinery for mining, quarrying and construction	7.3	—			—	—			7.3	—		
173	2894	Manufacture of machinery for textile, apparel and leather production	0.1	—			—	—			0.1	—		
174	2895	Manufacture of machinery for paper and paperboard production	0.3	—			—	—			0.3	—		
175	2896	Manufacture of plastics and rubber machinery	2.3	—			—	—			2.3	—		
176	2899	Manufacture of other specialpurpose machinery n.e.c.	40.3	—			—	—			40.3	—		
177	2910	Manufacture of motor vehicles	72.7	15.9			—	—			72.7	15.9		
178	2920	Manufacture of bodies (coachwork) for motor vehicles; manufacture of trailers and semitrailers	2.7	—			—	—			2.7	—		
179	2931	Manufacture of electrical and electronic equipment for motor vehicles	0.8	—			—	—			0.8	—		
180	2932	Manufacture of other parts and accessories for motor vehicles	270.8	—			—	—			270.8	—		
181	3011	Building of ships and floating structures	4.7	3.1			—	—			4.7	3.1		
182	3020	Manufacture of railway locomotives and rolling stock	35.7	26.5			—	—			35.7	26.5		
183	3030	Manufacture of air and spacecraft and related machinery	0.4	—			—	—			0.4	—		
184	3092	Manufacture of bicycles and invalid carriages	0.1	—			—	—			0.1	—		
185	3099	Manufacture of other transport equipment n.e.c.	2.1	—			—	—			2.1	—		
186	3101	Manufacture of office and shop furniture	6.0	—			—	—			6.0	—		
187	3102	Manufacture of kitchen furniture	—	—			—	—			—	—		
188	3109	Manufacture of other furniture	1.2	—			—	—			1.2	—		
189	3250	Manufacture of medical and dental instruments and supplies	2.0	—			—	—			2.0	—		
190	3299	Other manufacturing n.e.c.	8.5	0.3			—	—			8.5	0.3		
191	3312	Repair of machinery	0.5	—			—	—			0.5	—		
192	3314	Repair of electrical equipment	—	—			—	—			—	—		
193	3315	Repair and maintenance of ships and boats	—	—			—	—			—	—		
194	3317	Repair and maintenance of other transport equipment	1.3	0.1			—	—			1.3	0.1		
195	3320	Installation of industrial machinery and equipment	3.0	—			—	—			3.0	—		
196	3511	Production of electricity	341.7	14.0			—	—			341.7	14.0		
197	3512	Transmission of electricity	1.7	1.3			—	—			1.7	1.3		
198	3513	Distribution of electricity	257.8	196.2			—	—			257.8	196.2		
199	3514	Trade of electricity	36.2	12.0			—	1.5			36.2	13.4		
200	3521	Manufacture of gas	50.0	—			—	—			50.0	—		
201	3522	Distribution of gaseous fuels through mains	195.6	58.8			—	0.6			195.6	59.4		
202	3523	Trade of gas through mains	0.6	—			—	—			0.6	—		
203	3600	Water collection, treatment and supply	107.5	44.9			—	—			107.5	44.9		
204	3700	Sewerage	37.9	13.1			—	—			37.9	13.1		
205	3811	Collection of nonhazardous waste	36.0	2.3			—	—			36.0	2.3		
206	3812	Collection of hazardous waste	—	—			—	—			—	—		

207	3821	Treatment and disposal of nonhazardous waste	26.2	—			—	—			26.2	—		
208	3822	Treatment and disposal of hazardous waste	0.2	—			—	—			0.2	—		
209	3831	Dismantling of wrecks	1.8	—			—	—			1.8	—		
210	3832	Recovery of sorted materials	12.3	—			—	—			12.3	—		
211	3900	Remediation activities and other waste management services	4.0	—			—	—			4.0	—		
212	4110	Development of building projects	188.2	—			—	—			188.2	—		
213	4120	Construction of residential and nonresidential buildings	50.3	1.3			—	—			50.3	1.3		
214	4211	Construction of roads and motorways	101.9	6.1			—	0.2			101.9	6.3		
215	4212	Construction of railways and underground railways	157.9	23.3			—	—			157.9	23.3		
216	4213	Construction of bridges and tunnels	15.2	6.4			—	—			15.2	6.4		
217	4221	Construction of utility projects for fluids	2.0	0.1			—	—			2.0	0.1		
218	4222	Construction of utility projects for electricity and telecommunications	25.9	6.3			—	—			25.9	6.3		
219	4291	Construction of water projects	0.6	—			—	—			0.6	—		
220	4299	Construction of other civil engineering projects n.e.c.	126.1	12.0			—	0.5			126.1	12.5		
221	4311	Demolition	0.5	—			—	—			0.5	—		
222	4312	Site preparation	39.0	—			—	—			39.0	—		
223	4321	Electrical installation	121.9	3.5			—	—			121.9	3.5		
224	4322	Plumbing, heat and airconditioning installation	50.8	—			—	—			50.8	—		
225	4329	Other construction installation	0.1	—			—	—			0.1	—		
226	4331	Plastering	—	—			—	—			—	—		
227	4332	Joinery installation	—	—			—	—			—	—		
228	4333	Floor and wall covering	1.6	—			—	—			1.6	—		
229	4339	Other building completion and finishing	0.3	—			—	—			0.3	—		
230	4399	Other specialised construction activities n.e.c.	86.1	3.4			—	0.1			86.1	3.5		
231	4511	Sale of cars and light motor vehicles	52.0	—			—	—			52.0	—		
232	4519	Sale of other motor vehicles	3.5	—			—	—			3.5	—		
233	4520	Maintenance and repair of motor vehicles	0.6	—			—	—			0.6	—		
234	4531	Wholesale trade of motor vehicle parts and accessories	3.1	—			—	—			3.1	—		
235	4532	Retail trade of motor vehicle parts and accessories	2.2	—			—	—			2.2	—		
236	4540	Sale, maintenance and repair of motorcycles and related parts and accessories	3.1	1.6			—	—			3.1	1.6		
237	4611	Agents involved in the sale of agricultural raw materials, live animals, textile raw materials and semifinished goods	0.2	—			—	—			0.2	—		
238	4612	Agents involved in the sale of fuels, ores, metals and industrial chemicals	0.5	—			—	—			0.5	—		
239	4613	Agents involved in the sale of timber and building materials	4.4	—			—	—			4.4	—		
240	4614	Agents involved in the sale of machinery, industrial equipment, ships and aircraft	1.5	0.1			—	—			1.5	0.1		
241	4615	Agents involved in the sale of furniture, household goods, hardware and ironmongery	9.7	—			—	—			9.7	—		
242	4617	Agents involved in the sale of food, beverages and tobacco	7.0	—			—	—			7.0	—		
243	4618	Agents specialised in the sale of other particular products	4.7	—			—	—			4.7	—		
244	4619	Agents involved in the sale of a variety of goods	6.9	—			—	—			6.9	—		
245	4621	Wholesale of grain, unmanufactured tobacco, seeds and animal feeds	41.6	—			—	—			41.6	—		
246	4622	Wholesale of flowers and plants	—	—			—	—			—	—		
247	4623	Wholesale of live animals	1.2	—			—	—			1.2	—		
248	4631	Wholesale of fruit and vegetables	83.8	—			—	—			83.8	—		

249	4632	Wholesale of meat and meat products	19.8	—			—	—			19.8	—		
250	4633	Wholesale of dairy products, eggs and edible oils and fats	35.5	—			—	—			35.5	—		
251	4634	Wholesale of beverages	9.8	—			—	—			9.8	—		
252	4635	Wholesale of tobacco products	—	—			—	—			—	—		
253	4636	Wholesale of sugar and chocolate and sugar confectionery	2.2	—			—	—			2.2	—		
254	4637	Wholesale of coffee, tea, cocoa and spices	1.9	—			—	—			1.9	—		
255	4638	Wholesale of other food, including fish, crustaceans and molluscs	35.3	—			—	—			35.3	—		
256	4639	Nonspecialised wholesale of food, beverages and tobacco	37.3	—			—	—			37.3	—		
257	4641	Wholesale of textiles	4.5	—			—	—			4.5	—		
258	4642	Wholesale of clothing and footwear	46.2	—			—	—			46.2	—		
259	4643	Wholesale of electrical household appliances	7.4	—			—	—			7.4	—		
260	4644	Wholesale of china and glassware and cleaning materials	8.2	—			—	—			8.2	—		
261	4645	Wholesale of perfume and cosmetics	341.1	—			—	—			341.1	—		
262	4646	Wholesale of pharmaceutical goods	35.0	—			—	—			35.0	—		
263	4647	Wholesale of furniture, carpets and lighting equipment	—	—			—	—			—	—		
264	4648	Wholesale of watches and jewellery	—	—			—	—			—	—		
265	4649	Wholesale of other household goods	6.6	—			—	—			6.6	—		
266	4651	Wholesale of computers, computer peripheral equipment and software	12.8	—			—	—			12.8	—		
267	4652	Wholesale of electronic and telecommunications equipment and parts	3.2	—			—	—			3.2	—		
268	4661	Wholesale of agricultural machinery, equipment and supplies	—	—			—	—			—	—		
269	4662	Wholesale of machine tools	—	—			—	—			—	—		
270	4663	Wholesale of mining, construction and civil engineering machinery	0.2	—			—	—			0.2	—		
271	4665	Wholesale of office furniture	2.1	—			—	—			2.1	—		
272	4666	Wholesale of other office machinery and equipment	9.8	—			—	—			9.8	—		
273	4669	Wholesale of other machinery and equipment	22.6	—			—	—			22.6	—		
274	4671	Wholesale of solid, liquid and gaseous fuels and related products	62.0	1.2			—	—			62.0	1.2		
275	4672	Wholesale of metals and metal ores	63.0	—			—	—			63.0	0.1		
276	4673	Wholesale of wood, construction materials and sanitary equipment	98.2	—			—	—			98.2	—		
277	4674	Wholesale of hardware, plumbing and heating equipment and supplies	44.4	—			—	—			44.4	—		
278	4675	Wholesale of chemical products	32.9	—			—	—			32.9	—		
279	4676	Wholesale of other intermediate products	51.3	—			—	—			51.3	—		
280	4677	Wholesale of waste and scrap	37.4	—			—	—			37.4	—		
281	4690	Nonspecialised wholesale trade	14.9	—			—	—			14.9	—		
282	4711	Retail sale in nonspecialised stores with food, beverages or tobacco predominating	507.5	2.0			—	—			507.5	2.0		
283	4719	Other retail sale in nonspecialised stores	198.8	—			—	—			198.8	—		
284	4721	Retail sale of fruit and vegetables in specialised stores	17.5	—			—	—			17.5	—		
285	4722	Retail sale of meat and meat products in specialised stores	3.5	—			—	—			3.5	—		
286	4725	Retail sale of beverages in specialised stores	—	—			—	—			—	—		
287	4729	Other retail sale of food in specialised stores	33.1	0.1			—	—			33.1	0.1		
288	4730	Retail sale of automotive fuel in specialised stores	2.1	0.2			—	—			2.1	0.2		
289	4741	Retail sale of computers, peripheral units and software in specialised stores	12.7	—			—	—			12.7	—		
290	4742	Retail sale of telecommunications equipment in specialised stores	6.9	—			—	—			6.9	—		
291	4751	Retail sale of textiles in specialised stores	4.1	—			—	—			4.1	—		
292	4752	Retail sale of hardware, paints and glass in specialised stores	37.2	—			—	—			37.2	—		

293	4754	Retail sale of electrical household appliances in specialised stores	1.1	—			—	—			1.1	—		
294	4759	Retail sale of furniture, lighting equipment and other household articles in specialised stores	20.0	—			—	—			20.0	—		
295	4761	Retail sale of books in specialised stores	0.1	—			—	—			0.1	—		
296	4764	Retail sale of sporting equipment in specialised stores	7.0	—			—	—			7.0	—		
297	4771	Retail sale of clothing in specialised stores	102.5	—			—	—			102.5	—		
298	4772	Retail sale of footwear and leather goods in specialised stores	2.2	—			—	—			2.2	—		
299	4773	Dispensing chemist in specialised stores	0.1	—			—	—			0.1	—		
300	4774	Retail sale of medical and orthopaedic goods in specialised stores	0.1	—			—	—			0.1	—		
301	4775	Retail sale of cosmetic and toilet articles in specialised stores	51.4	—			—	—			51.4	—		
302	4776	Retail sale of flowers, plants, seeds, fertilisers, pet animals and pet food in specialised stores	0.8	—			—	—			0.8	—		
303	4777	Retail sale of watches and jewellery in specialised stores	1.8	—			—	—			1.8	—		
304	4778	Other retail sale of new goods in specialised stores	83.0	—			—	—			83.0	—		
305	4781	Retail sale via stalls and markets of food, beverages and tobacco products	0.7	—			—	—			0.7	—		
306	4791	Retail sale via mail order houses or via Internet	—	—			—	—			—	—		
307	4799	Other retail sale not in stores, stalls or markets	2.6	—			—	—			2.6	—		
308	4910	Passenger rail transport, interurban	397.8	—			—	—			397.8	—		
309	4920	Freight rail transport	—	—			—	—			—	—		
310	4931	Urban and suburban passenger land transport	346.6	12.7			—	—			346.6	12.7		
311	4932	Taxi operation	0.7	—			—	—			0.7	—		
312	4939	Other passenger land transport n.e.c.	44.5	—			—	—			44.5	—		
313	4941	Freight transport by road	77.0	—			—	—			77.0	—		
314	4950	Transport via pipeline	30.0	—			—	—			30.0	—		
315	5010	Sea and coastal passenger water transport	32.9	—			—	—			32.9	—		
316	5020	Sea and coastal freight water transport	57.1	—			—	—			57.1	—		
317	5110	Passenger air transport	23.5	—			—	—			23.5	—		
318	5121	Freight air transport	—	—			—	—			—	—		
319	5210	Warehousing and storage	14.6	—			—	—			14.6	—		
320	5221	Service activities incidental to land transportation	747.5	5.7			—	0.2			747.5	18.6		
321	5222	Service activities incidental to water transportation	120.2	—			—	—			120.2	—		
322	5223	Service activities incidental to air transportation	151.6	43.4			—	—			151.6	43.4		
323	5224	Cargo handling	0.2	—			—	—			0.2	—		
324	5229	Other transportation support activities	42.9	—			—	—			42.9	—		
325	5310	Postal activities under universal service obligation	0.5	—			—	—			0.5	—		
326	5320	Other postal and courier activities	14.6	—			—	—			14.6	—		
327	5510	Hotels and similar accommodation	925.2	—			—	—			925.2	—		
328	5520	Holiday and other shortstay accommodation	31.3	—			—	—			31.3	—		
329	5530	Camping grounds, recreational vehicle parks and trailer parks	—	—			—	—			—	—		
330	5590	Other accommodation	2.5	—			—	—			2.5	—		
331	5610	Restaurants and mobile food service activities	116.2	—			—	—			116.2	—		
332	5621	Event catering activities	—	—			—	—			—	—		
333	5629	Other food service activities	7.4	—			—	—			7.4	—		
334	5630	Beverage serving activities	0.8	—			—	—			0.8	—		
335	5811	Book publishing	0.8	—			—	—			0.8	—		

336	5813	Publishing of newspapers	3.9	—			—	—			3.9	—		
337	5819	Other publishing activities	2.0	—			—	—			2.0	—		
338	5821	Publishing of computer games	20.0	—			—	—			20.0	—		
339	5829	Other software publishing	0.6	—			—	—			0.6	—		
340	5911	Motion picture, video and television programme production activities	19.2	—			—	—			19.2	—		
341	6010	Radio broadcasting	—	—			—	—			—	—		
342	6020	Television programming and broadcasting activities	8.7	—			—	—			8.7	—		
343	6110	Wired telecommunications activities	144.6	0.5			—	—			144.6	0.5		
344	6120	Wireless telecommunications activities	62.5	—			—	—			62.5	0.1		
345	6130	Satellite telecommunications activities	0.1	—			—	—			0.1	—		
346	6190	Other telecommunications activities	220.5	0.1			—	—			220.5	0.2		
347	6201	Computer programming activities	17.1	—			—	—			17.1	—		
348	6202	Computer consultancy activities	17.9	—			—	0.1			17.9	0.1		
349	6203	Computer facilities management activities	0.1	—			—	—			0.1	—		
350	6209	Other information technology and computer service activities	72.3	6.7			—	6.5			72.3	13.3		
351	6311	Data processing, hosting and related activities	1.0	—			—	—			1.0	—		
352	6312	Web portals	—	—			—	—			—	—		
353	6399	Other information service activities n.e.c.	—	—			—	—			—	—		
354	6419	Other monetary intermediation	—	—			—	—			—	—		
355	6420	Activities of holding companies	553.1	—			—	—			553.1	—		
356	6430	Trusts, funds and similar financial entities	14.2	—			—	—			14.2	—		
357	6492	Other credit granting	(0.8)	—			—	—			(0.8)	—		
358	6499	Other financial service activities, except insurance and pension funding n.e.c.	107.0	67.5			—	—			107.0	71.5		
359	6612	Security and commodity contracts brokerage	0.4	—			—	—			0.4	—		
360	6619	Other activities auxiliary to financial services, except insurance and pension funding	121.6	87.2			—	—			121.6	87.2		
361	6622	Activities of insurance agents and brokers	0.5	—			—	—			0.5	—		
362	6810	Buying and selling of own real estate	74.9	1.5			—	—			74.9	1.5		
363	6820	Renting and operating of own or leased real estate	393.9	4.0			—	4.4			393.9	8.4		
364	6831	Real estate agencies	0.1	—			—	—			0.1	—		
365	6832	Management of real estate on a fee or contract basis	42.4	—			—	—			42.4	—		
366	6910	Legal activities	39.9	0.2			—	—			39.9	0.2		
367	6920	Accounting, bookkeeping and auditing activities; tax consultancy	58.1	—			—	—			58.1	—		
368	7010	Activities of head offices	434.0	39.9			—	0.4			434.0	42.0		
369	7022	Business and other management consultancy activities	116.9	—			—	—			116.9	—		
370	7111	Architectural activities	—	—			—	—			—	—		
371	7112	Engineering activities and related technical consultancy	161.8	0.1			—	—			161.8	0.1		
372	7120	Technical testing and analysis	15.5	—			—	—			15.5	—		
373	7211	Research and experimental development on biotechnology	1.9	—			—	—			1.9	—		
374	7219	Other research and experimental development on natural sciences and engineering	1.4	—			—	—			1.4	—		
375	7220	Research and experimental development on social sciences and humanities	0.7	—			—	—			0.7	—		
376	7311	Advertising agencies	0.4	—			—	—			0.4	—		
377	7320	Market research and public opinion polling	0.6	—			—	—			0.6	—		
378	7410	Specialised design activities	—	—			—	—			—	—		

379	7490	Other professional, scientific and technical activities n.e.c.	24.0	—			—	—			24.0	—		
380	7500	Veterinary activities	—	—			—	—			—	—		
381	7711	Renting and leasing of cars and light motor vehicles	30.0	—			—	—			30.0	—		
382	7712	Renting and leasing of trucks	4.5	—			—	—			4.5	—		
383	7732	Renting and leasing of construction and civil engineering machinery and equipment	23.9	—			—	—			23.9	—		
384	7734	Renting and leasing of water transport equipment	0.8	—			—	—			0.8	—		
385	7735	Renting and leasing of air transport equipment	61.6	—			—	—			61.6	—		
386	7739	Renting and leasing of other machinery, equipment and tangible goods n.e.c.	13.4	—			—	—			13.4	—		
387	7740	Leasing of intellectual property and similar products, except copyrighted works	0.8	—			—	—			0.8	—		
388	7810	Activities of employment placement agencies	2.5	—			—	—			2.5	—		
389	7820	Temporary employment agency activities	9.8	—			—	—			9.8	—		
390	7830	Other human resources provision	—	—			—	—			—	—		
391	7911	Travel agency activities	24.4	—			—	—			24.4	—		
392	7912	Tour operator activities	6.0	—			—	—			6.0	—		
393	7990	Other reservation service and related activities	—	—			—	—			—	—		
394	8010	Private security activities	3.9	—			—	—			3.9	—		
395	8020	Security systems service activities	16.0	—			—	—			16.0	—		
396	8110	Combined facilities support activities	2.8	—			—	—			2.8	—		
397	8121	General cleaning of buildings	8.0	—			—	—			8.0	—		
398	8122	Other building and industrial cleaning activities	15.5	2.5			—	—			15.5	2.5		
399	8129	Other cleaning activities	2.7	—			—	—			2.7	—		
400	8130	Landscape service activities	0.2	0.1			—	—			0.2	0.1		
401	8211	Combined office administrative service activities	24.5	—			—	—			24.5	—		
402	8219	Photocopying, document preparation and other specialised office support activities	1.3	—			—	—			1.3	—		
403	8220	Activities of call centres	1.3	—			—	—			1.3	—		
404	8230	Organisation of conventions and trade shows	5.4	—			—	—			5.4	—		
405	8291	Activities of collection agencies and credit bureaus	3.0	—			—	—			3.0	—		
406	8292	Packaging activities	0.4	—			—	—			0.4	—		
407	8299	Other business support service activities n.e.c.	57.3	0.3			—	—			57.3	0.3		
408	8411	General public administration activities	447.3	0.1			—	—			447.3	0.1		
409	8412	Regulation of the activities of providing health care, education, cultural services and other social services, excluding social security	0.7	—			—	—			0.7	—		
410	8413	Regulation of and contribution to more efficient operation of businesses	—	—			—	—			—	—		
411	8424	Public order and safety activities	—	—			—	—			—	—		
412	8520	Primary education	3.5	—			—	—			3.5	—		
413	8531	General secondary education	0.7	—			—	—			0.7	—		
414	8532	Technical and vocational secondary education	15.0	—			—	—			15.0	—		
415	8542	Tertiary education	0.2	—			—	—			0.2	—		
416	8559	Other education n.e.c.	4.5	—			—	—			4.5	—		
417	8560	Educational support activities	2.6	—			—	—			2.6	—		
418	8610	Hospital activities	111.4	—			—	—			111.4	—		
419	8621	General medical practice activities	2.3	—			—	—			2.3	—		

420	8622	Specialist medical practice activities	0.6	—			—	—			0.6	—		
421	8690	Other human health activities	19.4	—			—	—			19.4	—		
422	8710	Residential nursing care activities	4.3	—			—	—			4.3	—		
423	8720	Residential care activities for mental retardation, mental health and substance abuse	4.0	—			—	—			4.0	—		
424	8730	Residential care activities for the elderly and disabled	88.0	—			—	—			88.0	—		
425	8790	Other residential care activities	29.3	—			—	—			29.3	—		
426	8810	Social work activities without accommodation for the elderly and disabled	0.8	—			—	—			0.8	—		
427	8891	Child daycare activities	0.1	—			—	—			0.1	—		
428	8899	Other social work activities without accommodation n.e.c.	—	—			—	—			—	—		
429	9004	Operation of arts facilities	—	—			—	—			—	—		
430	9104	Botanical and zoological gardens and nature reserves activities	3.8	—			—	—			3.8	—		
431	9200	Gambling and betting activities	11.5	—			—	—			11.5	—		
432	9311	Operation of sports facilities	13.1	—			—	—			13.1	—		
433	9312	Activities of sport clubs	5.4	—			—	—			5.4	—		
434	9313	Fitness facilities	0.8	—			—	—			0.8	—		
435	9319	Other sports activities	0.8	—			—	—			0.8	—		
436	9321	Activities of amusement parks and theme parks	0.7	—			—	—			0.7	—		
437	9329	Other amusement and recreation activities	3.1	—			—	—			3.1	—		
438	9412	Activities of professional membership organisations	—	—			—	—			—	—		
439	9499	Activities of other membership organisations n.e.c.	2.0	—			—	—			2.0	—		
440	9511	Repair of computers and peripheral equipment	0.2	—			—	—			0.2	—		
441	9512	Repair of communication equipment	—	—			—	—			—	—		
442	9601	Washing and (dry)cleaning of textile and fur products	8.7	—			—	—			8.7	—		
443	9602	Hairdressing and other beauty treatment	2.9	—			—	—			2.9	—		
444	9603	Funeral and related activities	24.3	—			—	—			24.3	—		
445	9604	Physical wellbeing activities	—	—			—	—			—	—		
446	9609	Other personal service activities n.e.c.	20.9	—			—	—			20.9	—		

3. GAR KPI stock. GAR (%) in terms of stock in relation to turnover KPIs

	% (compared to total covered assets in the denominator)	Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proporción del total de activos cubiertos
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling	
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	49.73 %	4.33 %	— %	0.07 %	0.13 %	0.18 %	0.07 %	— %	0.01 %	49.86 %	4.41 %	— %	0.13 %	0.14 %	64.79 %
2	**Financial undertakings**	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	4.40 %
3	Credit institutions	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	3.77 %
4	Loans and advances	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	3.21 %
5	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.56 %
6	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.01 %
7	Other financial corporations	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.63 %
8	of which investment firms	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.61 %
9	Loans and advances	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.54 %
10	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.04 %
11	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.03 %
12	of which management companies	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
13	Loans and advances	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
14	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
15	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
16	of which insurance undertakings	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.02 %
17	Loans and advances	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.01 %
18	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
19	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.01 %
20	**Non-financial undertakings**	1.18 %	0.52 %	— %	0.06 %	0.13 %	0.18 %	0.07 %	— %	0.01 %	1.32 %	0.61 %	— %	0.13 %	0.14 %	8.49 %
21	Loans and advances	1.13 %	0.48 %	— %	0.06 %	0.10 %	0.18 %	0.07 %	— %	0.01 %	1.26 %	0.57 %	— %	0.13 %	0.10 %	8.38 %
22	Debt securities, including UoP	0.05 %	0.04 %	— %	— %	0.04 %	— %	— %	— %	— %	0.06 %	0.04 %	— %	— %	0.04 %	0.11 %
23	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
24	**Households**	48.54 %	3.81 %	— %	— %	— %	— %	— %	— %	— %	48.54 %	3.81 %	— %	— %	— %	51.02 %
25	of which loans collateralised by residential immovable property	43.26 %	3.80 %	— %	— %	— %	— %	— %	— %	— %	43.26 %	3.80 %	— %	— %	— %	43.26 %
26	of which building renovation loans	0.75 %	— %	— %	— %	— %	— %	— %	— %	— %	0.75 %	— %	— %	— %	— %	0.75 %
27	of which motor vehicle loans	0.22 %	— %	— %	— %	— %	— %	— %	— %	— %	0.22 %	— %	— %	— %	— %	1.04 %
28	**Local governments financing**	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.88 %
29	Housing financing	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
30	Other local government financing	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.88 %
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	0.73 %	0.05 %	— %	— %	— %	— %	— %	— %	— %	0.73 %	0.05 %	— %	— %	— %	0.73 %
32	**Total GAR assets**	49.73 %	4.33 %	— %	0.07 %	0.13 %	0.18 %	0.07 %	— %	0.01 %	49.86 %	4.41 %	— %	0.13 %	0.14 %	64.79 %

3. GAR KPI stock. GAR (%) in terms of stock in relation to CapEx KPIs

	% (compared to total covered assets in the denominator)	Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling	
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	49.89 %	4.29 %	— %	0.07 %	0.22 %	0.17 %	0.07 %	— %	— %	50.00 %	4.37 %	— %	0.13 %	0.22 %	64.79 %
2	**Financial undertakings**	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	4.40 %
3	Credit institutions	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	3.77 %
4	Loans and advances	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	3.21 %
5	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.56 %
6	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.01 %
7	Other financial corporations	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.63 %
8	of which investment firms	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.57 %
9	Loans and advances	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.51 %
10	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.04 %
11	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.03 %
12	of which management companies	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
13	Loans and advances	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
14	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
15	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
16	of which insurance undertakings	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.02 %
17	Loans and advances	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.01 %
18	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
19	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.01 %
20	**Non-financial undertakings**	1.34 %	0.49 %	— %	0.06 %	0.22 %	0.17 %	0.07 %	— %	— %	1.46 %	0.57 %	— %	0.13 %	0.22 %	8.49 %
21	Loans and advances	1.28 %	0.47 %	— %	0.06 %	0.21 %	0.16 %	0.07 %	— %	— %	1.39 %	0.55 %	— %	0.13 %	0.21 %	8.38 %
22	Debt securities, including UoP	0.06 %	0.01 %	— %	— %	0.01 %	— %	— %	— %	— %	0.07 %	0.01 %	— %	— %	0.01 %	0.11 %
23	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
24	**Households**	48.54 %	3.81 %	— %	— %	— %	— %	— %	— %	— %	48.54 %	3.81 %	— %	— %	— %	51.02 %
25	of which loans collateralised by residential immovable property	43.26 %	3.80 %	— %	— %	— %	— %	— %	— %	— %	43.26 %	3.80 %	— %	— %	— %	43.26 %
26	of which building renovation loans	0.75 %	— %	— %	— %	— %	— %	— %	— %	— %	0.75 %	— %	— %	— %	— %	0.75 %
27	of which motor vehicle loans	0.22 %	— %	— %	— %	— %	— %	— %	— %	— %	0.22 %	— %	— %	— %	— %	1.04 %
28	**Local governments financing**	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.88 %
29	Housing financing	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
30	Other local government financing	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.88 %
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	0.73 %	0.05 %	— %	— %	— %	— %	— %	— %	— %	0.73 %	0.05 %	— %	— %	— %	0.73 %
32	**Total GAR assets**	49.89 %	4.29 %	— %	0.07 %	0.22 %	0.17 %	0.07 %	— %	— %	50.00 %	4.37 %	— %	0.13 %	0.22 %	64.79 %

4. GAR (%) in terms of both flow in relation to turnover KPIs

	% (compared to flow of total eligible assets)	Disclosure reference data T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total new assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling	
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	32.90 %	5.84 %	— %	0.04 %	0.22 %	0.17 %	0.04 %	— %	— %	33.15 %	6.30 %	— %	0.07 %	0.22 %	69.24 %
2	**Financial undertakings**	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	15.48 %
3	Credit institutions	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	14.94 %
4	Loans and advances	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	14.94 %
5	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
6	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
7	Other financial corporations	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.54 %
8	of which investment firms	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.54 %
9	Loans and advances	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.54 %
10	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
11	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
12	of which management companies	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
13	Loans and advances	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
14	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
15	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
16	of which insurance undertakings	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
17	Loans and advances	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
18	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
19	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
20	**Non-financial undertakings**	2.02 %	0.75 %	— %	0.03 %	0.22 %	0.17 %	0.04 %	— %	— %	2.27 %	0.85 %	— %	0.07 %	0.22 %	16.82 %
21	Loans and advances	2.02 %	0.75 %	— %	0.03 %	0.22 %	0.17 %	0.04 %	— %	— %	2.27 %	0.85 %	— %	0.07 %	0.22 %	16.82 %
22	Debt securities, including UoP	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
23	Equity instruments	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
24	**Households**	30.88 %	5.09 %	— %	0.01 %	— %	— %	— %	— %	— %	30.88 %	5.45 %	— %	— %	— %	36.71 %
25	of which loans collateralised by residential immovable property	25.27 %	5.08 %	— %	— %	— %	— %	— %	— %	— %	25.27 %	5.45 %	— %	— %	— %	25.27 %
26	of which building renovation loans	0.28 %	— %	— %	— %	— %	— %	— %	— %	— %	0.28 %	— %	— %	— %	— %	0.28 %
27	of which motor vehicle loans	0.52 %	— %	— %	— %	— %	— %	— %	— %	— %	0.52 %	— %	— %	— %	— %	4.73 %
28	**Local governments financing**	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.23 %
29	Housing financing	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %
30	Other local government financing	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	— %	0.23 %
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	0.09 %	— %	— %	— %	— %	— %	— %	— %	— %	0.09 %	— %	— %	— %	— %	0.09 %
32	**Total GAR assets**	32.90 %	5.84 %	— %	0.04 %	0.22 %	0.17 %	0.04 %	— %	— %	33.15 %	6.30 %	— %	0.07 %	0.22 %	69.24 %

4. GAR (%) in terms of flow in relation to CapEx KPIs

	% (compared to flow of total eligible assets)	Disclosure reference date T														
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)					
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total new assets covered
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling	
	GAR - Covered assets in both numerator and denominator															
1	Loans and advances, debt securities and equity instruments not HfT eligible for GAR calculation	34.40%	6.04%	—%	0.03%	0.43%	0.08%	0.03%	—%	—%	34.63%	6.12%	—%	0.05%	0.43%	73.41%
2	**Financial undertakings**	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	16.02%
3	Credit institutions	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	15.46%
4	Loans and advances	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	15.46%
5	Debt securities, including UoP	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
6	Equity instruments	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
7	Other financial corporations	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	0.56%
8	of which investment firms	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	0.56%
9	Loans and advances	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	0.56%
10	Debt securities, including UoP	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
11	Equity instruments	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
12	of which management companies	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
13	Loans and advances	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
14	Debt securities, including UoP	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
15	Equity instruments	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
16	of which insurance undertakings	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
17	Loans and advances	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
18	Debt securities, including UoP	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
19	Equity instruments	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
20	**Non-financial undertakings**	2.44%	0.78%	—%	0.03%	0.43%	0.08%	0.03%	—%	—%	2.67%	0.87%	—%	0.05%	0.43%	19.16%
21	Loans and advances	2.44%	0.78%	—%	0.03%	0.43%	0.08%	0.03%	—%	—%	2.67%	0.87%	—%	0.05%	0.43%	19.16%
22	Debt securities, including UoP	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
23	Equity instruments	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
24	**Households**	31.96%	5.26%	—%	—%	—%	—%	—%	—%	—%	31.96%	5.26%	—%	—%	—%	37.99%
25	of which loans collateralised by residential immovable property	26.15%	5.26%	—%	—%	—%	—%	—%	—%	—%	26.15%	5.26%	—%	—%	—%	26.15%
26	of which building renovation loans	0.29%	—%	—%	—%	—%	—%	—%	—%	—%	0.29%	—%	—%	—%	—%	0.29%
27	of which motor vehicle loans	0.54%	—%	—%	—%	—%	—%	—%	—%	—%	0.54%	—%	—%	—%	—%	4.89%
28	**Local governments financing**	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	0.24%
29	Housing financing	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%
30	Other local government financing	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	—%	0.24%
31	**Collateral obtained by taking possession: residential and commercial immovable properties**	0.09%	—%	—%	—%	—%	—%	—%	—%	—%	0.09%	—%	—%	—%	—%	0.09%
32	**Total GAR assets**	34.40%	6.04%	—%	0.03%	0.43%	0.08%	0.03%	—%	—%	34.63%	6.12%	—%	0.05%	0.43%	73.41%

5. Ratio of Taxonomy-aligned off-balance sheet exposures in relation to turnover and CapEx KPIs

Banco Sabadell uses a financial data supplier to compile, analyse and publish the various indicators. Given the types of products manufactured by Banco Sabadell, discretionary portfolio management, and the engagement of third parties to manage those assets, the supplier Bloomberg has been selected for their compilation and calculation. Bloomberg is a global leader in business and financial information and market news. For the calculation, every month the Institution discloses its AuM and Bloomberg applies several levels of data extraction to explore the final investment of those positions and report their various KPIs. The information is the actual data reported by companies in which that position is invested and no estimates are used.

As for eligibility data, the values indicated are equal to the eligibility values for CCM and CCA, as the values obtained were lower than the alignment values. This situation has been checked and confirmed with the supplier, and the reason is that these alignment targets have been disclosed to the market for longer, and the level of disclosure is greater than it is for eligibility in relation to the companies that make up our portfolio of instruments. Regarding the difference between the totals and the breakdown by objective, this is because part of the invested issuers make overall disclosures but are not yet providing the details for each objective, so there is a difference between the individual objectives and the total.

Indicators relating to transitional alignment and CCM & CCA enabler are not reported as the data supplier indicates that companies have not published that breakdown.

Ratio of Taxonomy-aligned off-balance sheet exposures in relation to turnover KPIs

% (compared to total eligible off-balance sheet assets)		Disclosure reference date T													
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling
1	Financial guarantees (FinGuar KPI)	87.00%	15.00%				—%	—%			68.00%	14.00%		—%	—%
2	Assets under management (AuM KPI)	13.00%	85.00%				100.00%	100.00%			32.00%	86.00%		100.00%	100.00%

Ratio of Taxonomy-aligned off-balance sheet exposures in relation to CapEx KPIs

	% (compared to total eligible off-balance sheet assets)	Disclosure reference date T													
		Climate Change Mitigation (CCM)					Climate Change Adaptation (CCA)				TOTAL (CCM + CCA)				
		Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-eligible)				
			Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)					Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)				Proportion of total covered assets funding taxonomy relevant sectors (Taxonomy-aligned)			
				Of which Use of Proceeds	Of which transitional	Of which enabling			Of which Use of Proceeds	Of which enabling			Of which Use of Proceeds	Of which transitional	Of which enabling
1	Financial guarantees (FinGuar KPI)	78.00%	8.00%				—%	—%			59.00%	8.00%		—%	—%
2	Assets under management (AuM KPI)	22.00%	92.00%				100.00%	100.00%			41.00%	92.00%		100.00%	100.00%

Amount and proportion of taxonomy-aligned exposures reported in the GAR's denominator and numerator for nuclear and gas activities, mainly, in terms of both CapEx and turnover for each environmental objective

Nuclear and fossil gas related activities in terms of turnover

	Nuclear energy related activities	
1	The undertaking carries out, funds or has exposures to research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle.	YES
2	The undertaking carries out, funds or has exposures to construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies.	YES
3	The undertaking carries out, funds or has exposures to safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades.	YES
	Fossil gas related activities	
4	The undertaking carries out, funds or has exposures to construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels.	NO
5	The undertaking carries out, funds or has exposures to construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels.	YES
6	The undertaking carries out, funds or has exposures to construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels.	NO

Taxonomy-aligned economic activities (denominator) in terms of turnover

Row	Economic activities	Amount and proportion (Amounts presented in million euros)					
		CCM + CCA		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
		Amount	%	Amount	%	Amount	%
1	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	24.1	9.69 %	24.1	10.04 %	—	— %
2	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	24.1	9.69 %	24.1	10.04 %	—	— %
3	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	24.1	9.69 %	24.1	10.04 %	—	— %
4	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %	—	— %	—	— %
5	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	176.1	70.92 %	167.6	69.89 %	8.5	100.00 %
6	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %	—	— %	—	— %
7	Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI	—	— %	—	— %	—	— %
8	Total applicable KPI	248.3	100.00 %	239.8	100.00 %	8.5	100.00 %

Taxonomy-aligned economic activities (numerator) in terms of turnover

Row	Economic activities	Amount and proportion (Amounts presented in million euros)					
		(CCM+CCA)		Climate change mitigation		Climate change adaptation	
		Amount	%	Amount	%	Amount	%
1	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	6.1	0.08 %	6.1	0.08 %	—	— %
2	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	6.1	0.08 %	6.1	0.08 %	—	— %
3	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	6.1	0.08 %	6.1	0.08 %	—	— %
4	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	— %	—	— %	—	— %
5	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	158.1	2.05 %	149.6	1.98 %	8.5	6.71 %
6	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	— %	—	— %	—	— %
7	Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the numerator of the applicable KPI	7,529.8	97.71 %	7,390.1	97.78 %	118.4	93.29 %
8	Total amount and proportion of taxonomy-aligned economic activities in the numerator of the applicable KPI	7,706.1	100.00 %	7,557.8	100.00 %	126.9	100.00 %

Taxonomy-eligible but not taxonomy-aligned economic activities in terms of turnover

Row	Economic activities	Proportion (Amounts presented in million euros)					
		(CCM+CCA)		Climate change mitigation		Climate change adaptation	
		Amount	%	Amount	%	Amount	%
1	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	31.4	5.10 %	31.4	5.24 %	—	— %
2	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	31.4	5.10 %	31.4	5.24 %	—	— %
3	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	31.4	5.10 %	31.4	5.24 %	—	— %
4	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %	—	— %	—	— %
5	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	521.5	84.70 %	505.3	84.29 %	16.2	100.00 %
6	Amount and proportion of taxonomy-eligible but not taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %	—	— %	—	— %
7	Amount and proportion of other taxonomy-eligible but not taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI	—	— %	—	— %	—	— %
8	Total amount and proportion of taxonomy eligible but not taxonomy-aligned economic activities in the denominator of the applicable KPI	615.7	100.00 %	599.5	100.00 %	16.2	100.00 %

Taxonomy non-eligible economic activities in terms of turnover

Row	Economic activities	Amount	%
1	Amount and proportion of economic activity referred to in row 1 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %
2	Amount and proportion of economic activity referred to in row 2 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %
3	Amount and proportion of economic activity referred to in row 3 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %
4	Amount and proportion of economic activity referred to in row 4 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	0.4	0.19 %
5	Amount and proportion of economic activity referred to in row 5 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	182.2	99.81 %
6	Amount and proportion of economic activity referred to in row 6 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %
7	**Amount and proportion of other taxonomy-non-eligible economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI**	—	— %
8	**Total amount and proportion of taxonomy-non-eligible economic activities in the denominator of the applicable KPI**	182.5	100.00 %

Nuclear and fossil gas related activities in terms of CapEx

	Nuclear energy related activities	
1	The undertaking carries out, funds or has exposures to research, development, demonstration and deployment of innovative electricity generation facilities that produce energy from nuclear processes with minimal waste from the fuel cycle.	YES
2	The undertaking carries out, funds or has exposures to construction and safe operation of new nuclear installations to produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production, as well as their safety upgrades, using best available technologies.	NO
3	The undertaking carries out, funds or has exposures to safe operation of existing nuclear installations that produce electricity or process heat, including for the purposes of district heating or industrial processes such as hydrogen production from nuclear energy, as well as their safety upgrades.	YES
	Fossil gas related activities	
4	The undertaking carries out, funds or has exposures to construction or operation of electricity generation facilities that produce electricity using fossil gaseous fuels.	NO
5	The undertaking carries out, funds or has exposures to construction, refurbishment, and operation of combined heat/cool and power generation facilities using fossil gaseous fuels.	YES
6	The undertaking carries out, funds or has exposures to construction, refurbishment and operation of heat generation facilities that produce heat/cool using fossil gaseous fuels.	NO

Taxonomy-aligned economic activities (denominator) in terms of CapEx

Row	Economic activities	Amount and proportion (Amounts presented in million euros)					
		CCM + CCA		Climate change mitigation (CCM)		Climate change adaptation (CCA)	
		Amount	%	Amount	%	Amount	%
1	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	1.9	0.53 %	1.9	0.53 %	—	— %
2	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %	—	— %	—	— %
3	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	1.9	0.53 %	1.9	0.53 %	—	— %
4	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %	—	— %	—	— %
5	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI.	349.0	98.94 %	349.0	98.94 %	—	— %
6	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %	—	— %	—	— %
7	Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI	—	— %	—	— %	—	— %
8	Total applicable KPI	352.8	100.00 %	352.8	100.00 %	—	— %

Taxonomy-aligned economic activities (numerator) in terms of CapEx

Row	Economic activities	Amount and proportion (Amounts presented in million euros)					
		(CCM+CCA)		Climate change mitigation		Climate change adaptation	
		Amount	%	Amount	%	Amount	%
1	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	1.9	0.02 %	1.9	0.02 %	—	— %
2	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	— %	—	— %	—	— %
3	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	1.9	0.02 %	1.9	0.02 %	—	— %
4	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	— %	—	— %	—	— %
5	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	349.0	4.57 %	349.0	4.66 %	—	— %
6	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	— %	—	— %	—	— %
7	Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the numerator of the applicable KPI	7,283.3	95.38 %	7,142.7	95.29 %	121.1	100.00 %
8	Total amount and proportion of taxonomy-aligned economic activities in the numerator of the applicable KPI	7,636.1	100.00 %	7,495.5	100.00 %	121.1	100.00 %

Taxonomy-eligible but not taxonomy-aligned economic activities in terms of CapEx

Row	Economic activities	Amount and proportion (Amounts presented in million euros)					
		(CCM+CCA)		Climate change mitigation		Climate change adaptation	
		Amount	%	Amount	%	Amount	%
1	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	6.6	1.46 %	6.6	1.46 %	—	— %
2	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	— %	—	— %	—	— %
3	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	6.6	1.46 %	6.6	1.46 %	—	— %
4	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	— %	—	— %	—	— %
5	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	439.7	97.07 %	439.7	97.07 %	—	— %
6	Amount and proportion of taxonomy-aligned economic activity referred to in Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the numerator of the applicable KPI	—	— %	—	— %	—	— %
7	Amount and proportion of other taxonomy-aligned economic activities not referred to in rows 1 to 6 above in the numerator of the applicable KPI	—	— %	—	— %	—	— %
8	Total amount and proportion of taxonomy-aligned economic activities in the numerator of the applicable KPI	452.9	100.00 %	452.9	100.00 %	—	— %

Taxonomy non-eligible economic activities in terms of CapEx

Row	Economic activities	Amount	Porcentaje
1	Amount and proportion of economic activity referred to in row 1 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.26 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %
2	Amount and proportion of economic activity referred to in row 2 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.27 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %
3	Amount and proportion of economic activity referred to in row 3 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.28 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %
4	Amount and proportion of economic activity referred to in row 4 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.29 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %
5	Amount and proportion of economic activity referred to in row 5 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.30 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	183.0	100.00 %
6	Amount and proportion of economic activity referred to in row 6 of Template 1 that is taxonomy-non-eligible in accordance with Section 4.31 of Annexes I and II to Delegated Regulation 2021/2139 in the denominator of the applicable KPI	—	— %
7	Amount and proportion of other taxonomy-non-eligible economic activities not referred to in rows 1 to 6 above in the denominator of the applicable KPI	—	— %
8	Total amount and proportion of taxonomy-non-eligible economic activities in the denominator of the applicable KPI	183.0	100.00 %

Annex 5
SDG alignment

	No Poverty	Zero Hunger	Good health and well-being	Quality education	Gender equality	Clean water and sanitation	Affordable and clean energy	Decent work and economic growth
1. Introduction								
2. Governance								
3. Sabadell's Commitment to Sustainability								
4. Climate and environmental commitment						✓	✓	
5. Commitment to sustainable financing	✓						✓	✓
6. Commitment to people			✓		✓			✓
7. Commitment to Society	✓	✓	✓	✓	✓			✓
8. Commitment against corruption and bribery								
9. Commitment to Human Rights								✓
10. Commitment to information								
Annex 1								
Annex 2								
Annex 3								
Annex 4								

	Industry, innovation and infrastructure	Reduced inequalities	Sustainable cities and communities	Responsible consumption and production	Climate action	Life below water	Life on land	Peace, justice and strong institutions	Partnerships for the goals
1. Introduction									
2. Governance									
3. Sabadell's Commitment to Sustainability									
4. Climate and environmental commitment			✓	✓	✓	✓	✓		
5. Commitment to sustainable financing	✓		✓	✓	✓			✓	
6. Commitment to people		✓			✓				
7. Commitment to Society		✓	✓			✓		✓	
8. Commitment against corruption and bribery		✓						✓	
9. Commitment to Human Rights		✓						✓	
10. Commitment to information								✓	
Annex 1									✓
Annex 2									
Annex 3									
Annex 4									

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Independent Assurance Report on the Consolidated Non-Financial Disclosures Report for Banco de Sabadell, S.A. and subsidiaries for 2023

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

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

Pursuant to article 49 of the Spanish Code of Commerce, we have provided limited assurance on the Consolidated Non-Financial Disclosures Report (hereinafter NFDR) for the year ended 31 December 2023, of Banco de Sabadell, S.A. (hereinafter the Parent) and subsidiaries (hereinafter the Group) which forms part of the Group's 2023 consolidated Directors' Report.

The NFDR includes additional information to that required by prevailing mercantile legislation governing non-financial information, which has not been the subject of our assurance work. Our assurance work was limited only to providing assurance on the information contained in table "Table of contents Law 11/2018" included in the annex 2 of the NFDR.

In addition, we have verified, with limited scope of security, the information related to the impact analysis, setting objectives, progress in the implementation of objectives, governance, structure and progress in the implementation of the Principles for Responsible Banking set out in Annex 3 "Principles of Responsible Banking. Report and self-assessment" of the NFDR, submitted in accordance with the "Guidance Document. Principles for Responsible Banking and Self-Assessment" published by UNEP FI in 2019 (hereinafter referred to as the PBRs).

Directors' responsibility

The Directors of the Parent are responsible for the contents and the authorisation for issue of the NFDR included in the Group's consolidated Directors' Report. The NFDR has been prepared in accordance with prevailing mercantile legislation and Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards) based on each subject area in "Table of contents Law 11/2018" included in the annex 2 of the aforementioned NFDR.

The formulation of the NFDR included in the Group's consolidated Management Report, as well as its content, is the responsibility of the Directors of the Parent. The NFDR has been prepared in accordance with the contents of the current commercial regulations and following the criteria of the Sustainability Reporting Standards of the Global Reporting Initiative (GRI standards) selected in accordance with what is mentioned for each subject in the "Table of contents Law 11/2018" that appears in Annex 2 of the aforementioned NFDR. In addition, information relating to the impact analysis, setting of objectives, progress in the implementation of objectives, governance, structure and progress in the implementation of the Principles for Responsible Banking contained in the Annex 3, "Principles of Responsible Banking. Reporting and Self-Assessment" of the NFdR, has been submitted in accordance with the PBRs.

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

This responsibility also encompasses the design, implementation and maintenance of internal control deemed necessary to ensure that the NFDR is free from material misstatement, whether due to fraud or error.

The Parent's directors are also responsible for defining, implementing, adapting and maintaining the management systems used to obtain the information required to prepare the NFDR.

Our independence and quality management

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including international independence standards) issued by the Internal Ethics Standards Board for Accountants (IESBA), which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies the International Standard on Quality Management (ISQC) 1, which requires us to design, implement and operate a system of quality management including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

The engagement team comprised professionals specialised in reviews of non-financial information and, specifically, in information on economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed. We conducted our review engagement in accordance with the requirements of the Revised International Standard on Assurance Engagements 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information" (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the guidelines for assurance engagements on the Non-Financial Information Statement issued by the Spanish Institute of Registered Auditors (ICJCE). Likewise, for the verification of information related to PBRs, our work has been carried out in accordance with the requirements established in the Guide "Providing limited assurance for reporting" issued by UNEP FI.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently, the level of assurance provided is also lower.

Our work consisted of making inquiries of management and of the different units and areas responsible of the Parent that participated in the preparation of the NFDR, reviewing the processes for compiling and validating the information presented in the NFDR and applying certain analytical procedures and sample review tests, which are described below:

- Meetings with the Parent personnel to gain an understanding of the business model, policies and management approaches applied, the principal risks related to these questions and to obtain the information necessary for the external review.

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- Analysis of the scope, relevance and completeness of the content of the NFDR based on the materiality analysis performed by the Parent and described in the section "3.3 Materiality" considering the content required in prevailing mercantile legislation.
- Analysis of the processes for compiling and validating the data presented in the NFDR for 2023.
- Review of the information relative to the risks, policies and management approaches applied in relation to the material aspects presented in the NFDR for 2023.
- In relation to the PRBs, a review of the reported information regarding impact analysis, target setting, progress in implementing targets, governance, structure and progress in implementing the PRBs described in Annex 3, "Principles of Responsible Banking. Reporting and Self-Assessment" of the NFDR, with respect to the presentation of the information, compliance thereof with the PBR requirements, as well as an examination of the consistency of the references in this section with the rest of the information in the NFDR.
- Corroboration, through sample testing, of the information relative to the content of the NFDR for 2023 and whether it has been adequately compiled based on data provided by information sources.
- Procurement of a representation letter from the Directors and management.

Conclusion

Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that:

a) The NFDR of Banco de Sabadell, S.A. and subsidiaries for the year ended 31 December 2023 has not been prepared, in all material respects, in accordance with prevailing mercantile legislation and selected GRI Standards based on each subject area in Annex 2 "Table of contents Law 11/2018" of the NFDR.

b) The information regarding impact analysis, target setting, progress in implementing targets, governance, structure and progress in implementing the PRBs set out in Annex 3, "Principles of Responsible Banking. Reporting and Self-Assessment" of the NFDR has not been prepared, in all material respects, in accordance with the "Principles for Responsible Banking Guidance Document" published by UNEP FI in 2019.

Emphasis of matter

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and the delegated acts promulgated in accordance with this Regulation, stipulate the obligation to disclose information on how and to what extent the undertaking's investments are associated with eligible economic activities relating to the environmental objectives of sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control and protection and restoration of biodiversity and ecosystems (the other environmental objectives), and relating to certain new activities included in the objectives of climate change mitigation and climate change adaptation. This obligation applies for the first time for the 2023 fiscal year. This regulation also stipulates for the first time for the 2023 fiscal year the obligation to disclose information on how and to what extent the undertaking's activities are associated with economic activities aligned to the activities included in the objectives of climate change mitigation and climate change adaptation, excluding the aforementioned new activities. Therefore, no comparative information on alignment with the objectives of climate change mitigation and climate change adaptation has been included in the NFDR, nor has comparative information on eligibility been included for the other environmental objectives or for the new activities included in the climate change mitigation and climate change adaptation objectives. Furthermore, inasmuch as the information on eligible activities in 2022 was not required to be as detailed as in 2023, the disclosures on eligibility included in the NFDR are not strictly comparable. In addition, the directors of Banco de Sabadell S.A. have included information on the criteria which, in their opinion, enables them to meet such obligation and which are defined in section "EU Taxonomy" and in Annex 4 "Taxonomy Indicators" of the attached NFDR. Our conclusion is not modified in respect of this matter.

Use and distribution

This report has been prepared in response to the requirement established in prevailing mercantile legislation in Spain, and thus may not be suitable for other purposes and jurisdictions.

KPMG Asesores, S.L.

(Signed on the original in Spanish)

Patricia Reverter Guillot

22 February 2024