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 10 February 2023, 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 and 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 2022, 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 16 February 2023.

Approved by

The Chairman | The Secretary

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

(Together with the annual financial statements and directors' report of Banco de Sabadell, S.A. for the year ended 31 December 2022)

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

KPMG Auditores, S.L.
Torre Realia
Plaça d'Europa, 41-43
08908 L'Hospitalet de Llobregat
(Barcelona)

Independent Auditor's Report on the Annual Financial Statements

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

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

REPORT ON THE ANNUAL FINANCIAL STATEMENTS

Opinion

We have audited the annual financial statements of Banco de Sabadell, S.A. (the "Bank"), which comprise the balance sheet at 31 December 2022, and the income statement, statement of recognised income and expenses, statement of total changes in equity and cash flow statement for the year then ended, and notes.

In our opinion, the accompanying annual financial statements give a true and fair view, in all material respects, of the equity and financial position of the Bank at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with the applicable financial reporting framework (specified in note 1 to the accompanying annual financial statements) and, in particular, with the accounting principles and criteria set forth therein.

Basis for Opinion

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

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

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

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Paseo de la Castellana, 259C 28046 Madrid

On the Spanish Official Register of Auditors ("ROAC") with No. S0702, and the Spanish Institute of Registered Auditors' list of companies with No. 10.
Reg. Mer Madrid, T. 11.961, F. 90, Sec. 8, H. M -188.007, Inscrip. 9
N.I.F. B-78510153

(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 annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of loans and advances to customers See notes 1.3.3.1, 3.4.2 and 10 to the annual financial statements	
Key audit matter	*How the matter was addressed in our audit*
The Bank's portfolio of loans and advances to customers reflects a net balance of Euros 114,143 million at 31 December 2022, while allowances and provisions recognised at that date for impairment total Euros 2,622 million. For the purposes of estimating impairment, financial assets measured at amortised cost are classified into three categories (Stage 1, 2 or 3) according to whether a significant increase in credit risk since their initial recognition has been identified (Stage 2), whether the financial assets are credit-impaired (Stage 3) or whether neither of the foregoing circumstances apply (Stage 1). For the Bank, establishing this classification is a relevant process inasmuch as the calculation of allowances and provisions for credit risk varies depending on the category in which the financial asset has been included. Impairment is calculated based on models for estimating expected losses, which the Bank estimates on both an individual and a collective basis. This calculation entails a considerable level of judgement as this is a significant and complex estimate. Allowances and provisions for credit risk determined individually consider estimates of future business performance and the market value of collateral provided for credit transactions. In the case of allowances and provisions calculated collectively, expected losses are estimated using internal models that use large databases, different macroeconomic scenarios, parameters to estimate provisions, segmentation criteria and automated processes, which are complex in their design and implementation and require past and present information and future forecasts to be considered. The Bank regularly conducts tests of its internal models in order to improve their predictive capabilities based on actual historical experience.	Our audit approach in relation to the Bank's estimate of impairment of loans and advances to customers due to credit risk mainly consisted of assessing the methodology applied to calculate expected losses, particularly as regards the methods and assumptions used to estimate exposure at default, probability of default and loss given default; and determining the future macroeconomic scenarios. We also assessed the mathematical accuracy of the calculations of expected losses and the reliability of the data used. To this end, we brought in our credit risk specialists. Our procedures related to the control environment focused on the following key areas: – Identifying the credit risk management framework and assessing the compliance of the Bank's accounting policies with the applicable regulations. – Evaluating the appropriateness of the classification of the loans and advances to customers portfolio based on credit risk, in accordance with the criteria defined by the Bank, particularly the criteria for identifying and classifying refinancing and restructuring transactions. – Assessing the relevant controls relating to the monitoring of transactions. – Evaluating whether the internal models for estimating both individual and collective allowances and provisions for credit risk, and for the management and valuation of collateral, are functioning correctly. – 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.

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

Impairment of loans and advances to customers See notes 1.3.3.1, 3.4.2 and 10 to the annual financial statements	
Key audit matter	*How the matter was addressed in our audit*
The conflict between Russia and Ukraine, the current levels of inflation, the energy crisis across Europe and central banks' present monetary policy, inter alia, have considerably changed the current geopolitical and macroeconomic backdrop, thus heightening uncertainty as to future developments and impacting on the economy and business activities of the countries where the Bank operates. Calculating expected credit risk losses therefore entails greater uncertainty and requires a higher degree of judgement, primarily as regards estimating macroeconomic scenarios, and the Bank has supplemented the estimates of expected losses obtained from its credit risk models with certain additional temporary adjustments. The consideration of this matter as a key audit matter is based both on the significance of the Bank's loans and advances to customers portfolio, and thus of the related allowance and provision for impairment, as well as on the relevance of the process for classifying these financial assets for the purpose of estimating impairment thereon and the subjectivity and complexity of calculating expected losses.	– Evaluating the integrity, accuracy and updating of the data used and of the control and management process in place. Our tests of detail on the estimated expected losses included the following: – With regard to the impairment of individually significant transactions, we analysed the appropriateness of the discounted cash flow models used by the Bank. We also selected a sample from the population of significant transactions and assessed the appropriateness of both the credit risk classification and the corresponding allowance and provision recognised. – With respect to the allowances and provisions for impairment estimated collectively, we evaluated the methodology used by the Bank, assessing the integrity and accuracy of the input balances for the process and whether the calculation engine is functioning correctly by replicating the calculation process, taking into account the segmentation and assumptions used by the Bank. – We evaluated the methods and assumptions used to estimate exposure at default, probability of default and loss given default. – We considered the macroeconomic scenario variables used by the Bank in its internal models to estimate expected losses. To this end, we brought in our corporate business valuation specialists. – We evaluated the additional adjustments to the internal models used to estimate the expected losses recognised by the Bank at 31 December 2022. Likewise, we analysed whether the disclosures in the notes to the annual financial statements were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Bank.

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

Risks associated with information technology

Key audit matter	*How the matter was addressed in our audit*
The Bank operates in a complex technological environment that is constantly evolving and which must efficiently and reliably meet business requirements. The high level of dependence on these systems with regard to the processing of the Bank's financial and accounting information make it necessary to ensure that these systems function correctly. In this context, it is critical to ensure that management of the technological risks that could affect information systems is adequately coordinated and harmonised, in relevant areas such as data and program security, systems operation, or development and maintenance of IT applications and systems used to prepare financial information. We have therefore considered the risks associated with information technology to be a key audit matter.	With the help of our information systems specialists, we performed tests relating to internal control over the processes and systems involved in generating the financial information, in the following areas: - Understanding of the information flows and identification of the key controls that ensure the appropriate processing of the financial information. - Testing of the key automated processes that are involved in generating the financial information. - Testing of the controls over the applications and systems related to accessing and processing the information and those related to the security settings of those applications and systems. - Testing of the controls over the operation, maintenance and development of applications and systems.

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

Other Information: Directors' Report

Other information solely comprises the 2022 directors' report, the preparation of which is the responsibility of the Bank's Directors and which does not form an integral part of the annual financial statements.

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

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

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

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the directors' report is consistent with that disclosed in the annual financial statements for 2022, and that the content and presentation of the report are in accordance with applicable legislation.

Responsibilities of the Bank's Directors' and the Audit and Control Committee for the Annual Financial Statements

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

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

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

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

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

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

As part of an audit in accordance with prevailing legislation regulating the audit of accounts in Spain, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

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

We communicate with the Bank's Audit and Control Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Bank's Audit and Control Committee with a statement that we have complied with the applicable ethical requirements, including those regarding independence, and to communicate with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital file of Banco de Sabadell, S.A. for 2022 in European Single Electronic Format (ESEF) comprising an XHTML file with the annual financial statements for the aforementioned year, which will form part of the annual financial report.

The Directors of Banco de Sabadell, S.A. are responsible for the presentation of the 2022 annual report in accordance with the format requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation"). In this regard, they have incorporated the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration by means of a reference thereto in the directors' report.

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

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

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

Additional Report to the Bank's Audit and Control Committee

The opinion expressed in this report is consistent with our additional report to the Bank's Audit and Control Committee dated 16 February 2023.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting on 28 March 2019 for a period of three years, from 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

16 February 2023

BANCO DE SABADELL, S.A.

Annual financial statements and Directors' Report for the year ended 31 December 2022

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

Contents: Banco de Sabadell, S.A. annual financial statements and Directors' Report for the year ended 31 December 2022

Annual financial statements for the year ended 31 December 2022

Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2022 and 2021

Thousand euro

Assets	Note	2022	2021 (*)
Cash, cash balances at central banks and other demand deposits (**)	**6**	**34,063,579**	**42,305,858**
Financial assets held for trading		**2,671,253**	**1,765,884**
Derivatives	9	2,254,122	1,175,511
Equity instruments		—	—
Debt securities	7	417,131	590,373
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		*93,000*	*106,791*
Non-trading financial assets mandatorily at fair value through profit or loss		**35,534**	**76,832**
Equity instruments	8	1,977	14,582
Debt securities	7	33,557	62,250
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		—	—
Financial assets designated at fair value through profit or loss		**—**	**—**
Debt securities		—	—
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		—	—
Financial assets at fair value through other comprehensive income		**5,754,945**	**5,856,546**
Equity instruments	8	68,025	64,568
Debt securities	7	5,686,920	5,791,978
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		*1,770,205*	*1,530,351*
Financial assets at amortised cost		**138,642,033**	**133,047,125**
Debt securities	7	18,305,267	12,176,675
Loans and advances	10	120,336,766	120,870,450
Central banks		—	—
Credit institutions		6,193,344	7,876,763
Customers		114,143,422	112,993,687
Memorandum item: loaned or pledged as security with sale or pledging rights		*6,329,769*	*3,554,788*
Derivatives – Hedge accounting	**11**	**1,342,300**	**240,921**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**(933,593)**	**126,152**
Investments in subsidiaries, joint ventures and associates	**13**	**5,768,013**	**5,358,076**
Group entities		5,664,601	5,237,576
Associates		103,412	120,500
Tangible assets	**14**	**1,776,960**	**1,837,094**
Property, plant and equipment		1,719,906	1,762,166
For own use		1,719,906	1,762,166
Leased out under operating leases		—	—
Investment properties		57,054	74,928
Of which: leased out under operating leases		*57,054*	*74,928*
Memorandum item: acquired through finance leases		*745,611*	*786,344*
Intangible assets	**15**	**36,805**	**48,840**
Goodwill		25,835	36,854
Other intangible assets		10,970	11,986
Tax assets		**5,494,027**	**5,485,221**
Current tax assets		167,127	219,403
Deferred tax assets	35	5,326,900	5,265,818
Other assets	**16**	**233,946**	**267,876**
Insurance contracts linked to pensions		89,729	116,453
Inventories		—	—
Rest of other assets		144,217	151,423
Non-current assets and disposal groups classified as held for sale	**12**	**735,161**	**771,395**
TOTAL ASSETS		**195,620,963**	**197,187,820**

(*) Shown for comparative purposes only.

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

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the balance sheet as at 31 December 2022.

Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2022 and 2021

Thousand euro

Liabilities	Note	2022	2021 (*)
Financial liabilities held for trading		**2,156,675**	**1,189,494**
Derivatives	9	1,932,228	1,132,832
Short positions		224,447	56,662
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		**180,367,656**	**182,745,169**
Deposits		154,872,472	159,650,268
Central banks	17	21,599,297	31,702,700
Credit institutions	17	10,701,141	8,170,430
Customers	18	122,572,034	119,777,138
Debt securities issued	19	20,586,641	18,831,284
Other financial liabilities	20	4,908,543	4,263,617
Memorandum item: subordinated liabilities		*3,493,041*	*4,243,768*
Derivatives – Hedge accounting	**11**	**941,607**	**354,769**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**(596,817)**	**95,139**
Provisions	**21**	**493,191**	**840,139**
Pensions and other post employment defined benefit obligations		57,841	79,575
Other long term employee benefits		170	297
Pending legal issues and tax litigation		89,843	76,841
Commitments and guarantees given		162,481	277,888
Other provisions		182,856	405,538
Tax liabilities		**156,166**	**135,055**
Current tax liabilities		90,122	62,479
Deferred tax liabilities	35	66,044	72,576
Share capital repayable on demand		**—**	**—**
Other liabilities	**16**	**649,483**	**524,808**
Liabilities included in disposal groups classified as held for sale		**—**	**—**
TOTAL LIABILITIES		**184,167,961**	**185,884,573**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the balance sheet as at 31 December 2022.

Balance sheets of Banco de Sabadell, S.A.

As at 31 December 2022 and 2021

Thousand euro

Equity	Note	2022	2021 (*)
Shareholders' equity	**22**	**11,733,884**	**11,371,203**
Capital		703,371	703,371
Paid up capital		703,371	703,371
Unpaid capital which has been called up		—	—
Memorandum item: capital not called up		—	—
Share premium		7,899,227	7,899,227
Equity instruments issued other than capital		—	—
Equity component of compound financial instruments		—	—
Other equity instruments issued		—	—
Other equity		11,606	9,663
Retained earnings		4,630,414	4,486,020
Revaluation reserves		—	—
Other reserves		(2,115,524)	(2,021,071)
(-) Treasury shares		(23,721)	(34,419)
Profit or loss for the year		740,551	328,412
(-) Interim dividends		(112,040)	—
Accumulated other comprehensive income	**23**	**(280,882)**	**(67,956)**
Items that will not be reclassified to profit or loss		(71,687)	(74,402)
Actuarial gains or (-) losses on defined benefit pension plans		(3,427)	(179)
Non-current assets and disposal groups classified as held for sale		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income		(68,260)	(74,223)
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		(209,195)	6,446
Hedge of net investments in foreign operations [effective portion]		(7,113)	(2,915)
Foreign currency translation		102,712	44,138
Hedging derivatives. Cash flow hedges reserve [effective portion]		(110,748)	(20,235)
Fair value changes of debt instruments measured at fair value through other comprehensive income		(194,046)	(14,542)
Hedging instruments [not designated elements]		—	—
Non-current assets and disposal groups classified as held for sale		—	—
TOTAL EQUITY		**11,453,002**	**11,303,247**
TOTAL EQUITY AND TOTAL LIABILITIES		**195,620,963**	**197,187,820**

Memorandum item: off-balance sheet exposures			
Loan commitments given	**24**	**21,297,399**	**21,078,872**
Financial guarantees given	**24**	**8,741,124**	**8,966,917**
Other commitments given	**24**	**9,722,964**	**7,425,425**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the balance sheet as at 31 December 2022.

Income statements of Banco de Sabadell, S.A.

For the years ended 31 December 2022 and 2021

Thousand euro

	Note	2022	2021 (*)
Interest income	26	3,143,677	2,822,930
Financial assets at fair value through other comprehensive income		70,670	48,872
Financial assets at amortised cost		2,779,144	2,369,585
Other interest income		293,863	404,473
(Interest expenses)	26	(754,253)	(641,558)
(Expenses on share capital repayable on demand)		—	—
Net interest income		**2,389,424**	**2,181,372**
Dividend income		104,495	72,568
Fee and commission income	27	1,524,125	1,447,682
(Fee and commission expenses)	27	(218,257)	(165,503)
Gains or (-) losses on financial assets and liabilities, net	28	206,020	171,015
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		(10,607)	331,246
Financial assets at amortised cost		(21,429)	323,928
Other financial assets and liabilities		10,822	7,318
Gains or (-) losses on financial assets and liabilities held for trading, net		207,246	(162,522)
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		207,246	(162,522)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		(3,625)	4,521
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		(3,625)	4,521
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		—	—
Gains or (-) losses from hedge accounting, net		13,006	(2,230)
Exchange differences [gain or (-) loss], net	28	(129,035)	184,214
Other operating income		51,850	53,042
(Other operating expenses)	29	(300,778)	(289,181)
Gross income		**3,627,844**	**3,655,209**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying Schedules I to VI form an integral part of the income statement for 2022.

Income statements of Banco de Sabadell, S.A.

For the years ended 31 December 2022 and 2021

Thousand euro

	Note	2022	2021 (*)
(Administrative expenses)		(1,717,097)	(2,066,063)
(Staff expenses)	30	(932,632)	(1,292,430)
(Other administrative expenses)	30	(784,465)	(773,633)
(Depreciation and amortisation)	14, 15	(193,817)	(218,687)
(Provisions or (-) reversal of provisions)	21	(65,784)	(196,830)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	31	(716,518)	(844,018)
(Financial assets at fair value through other comprehensive income)		(182)	701
(Financial assets at amortised cost)		(716,336)	(844,719)
Profit/(loss) on operating activities		**934,628**	**329,611**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		62,371	(54,438)
(Impairment or (-) reversal of impairment on non-financial assets)	32	(10,573)	(53,417)
(Tangible assets)		(10,573)	(53,417)
(Intangible assets)		—	—
(Other)		—	—
Gains or (-) losses on derecognition of non-financial assets, net	33	25,360	102,933
Negative goodwill recognised in profit or loss		—	—
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	34	(21,689)	52,565
Profit or (-) loss before tax from continuing operations		**990,097**	**377,254**
(Tax expense or (-) income related to profit or loss from continuing operations)	35	(249,546)	(48,842)
Profit or (-) loss after tax from continuing operations		**740,551**	**328,412**
Profit or (-) loss after tax from discontinued operations		—	—
PROFIT OR (-) LOSS FOR THE YEAR		**740,551**	**328,412**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying Schedules I to VI form an integral part of the income statement for 2022.

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

For the years ended 31 December 2022 and 2021

Thousand euro

	Note	2022	2021 (*)
Profit or loss for the year		**740,551**	**328,412**
Other comprehensive income	**23**	**(212,926)**	**(24,093)**
Items that will not be reclassified to profit or loss		2,715	9,032
Actuarial gains or (-) losses on defined benefit pension plans		(4,640)	(503)
Non-current assets and disposal groups held for sale		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income		7,155	5,105
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		—	—
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		—	—
Other valuation adjustments			
Income tax relating to items that will not be reclassified		200	4,430
Items that may be reclassified to profit or loss		(215,641)	(33,125)
Hedge of net investments in foreign operations [effective portion]		(4,198)	(16,307)
Valuation gains or (-) losses taken to equity		(4,198)	(16,307)
Transferred to profit or loss		—	—
Other reclassifications		—	—
Foreign currency translation		58,573	73,810
Translation gains or (-) losses taken to equity		58,573	73,810
Transferred to profit or loss		—	—
Other reclassifications		—	—
Cash flow hedges [effective portion]		(129,304)	(130,277)
Valuation gains or (-) losses taken to equity		(96,761)	(265,074)
Transferred to profit or loss		(32,582)	134,799
Transferred to initial carrying amount of hedged items		39	(2)
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		(247,394)	2,728
Valuation gains or (-) losses taken to equity		(236,237)	8,313
Transferred to profit or loss		(11,157)	(5,585)
Other reclassifications		—	—
Non-current assets and disposal groups held for sale		—	—
Valuation gains or (-) losses taken to equity		—	—
Transferred to profit or loss		—	—
Other reclassifications		—	—
Income tax relating to items that may be reclassified to profit or (-) loss		106,682	36,921
Total comprehensive income for the year		**527,625**	**304,319**

(*) Shown for comparative purposes only.

Explanatory notes 1 to 39 and the accompanying Schedules I to VI form an integral part of the statement of recognised income and expenses for 2022.

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

For the years ended 31 December 2022 and 2021

Thousand euro

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

Explanatory notes 1 to 39 and the accompanying Schedules I to VI form an integral part of the statement of total changes in equity for 2022.

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

For the years ended 31 December 2022 and 2021

Thousand euro

Sources of equity changes	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss for the year	(-) Interim dividends	Accumulated other comprehensive income	Total
Closing balance 31/12/2020	**703,371**	**7,899,227**	**—**	**8,755**	**4,402,722**	**—**	**(1,930,114)**	**(37,457)**	**93,781**	**—**	**(43,863)**	**11,096,422**
Effects of corrections of errors	—	—	—	—	—	—	—	—	—	—	—	**—**
Effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	**—**
Opening balance 01/01/2021	**703,371**	**7,899,227**	**—**	**8,755**	**4,402,722**	**—**	**(1,930,114)**	**(37,457)**	**93,781**	**—**	**(43,863)**	**11,096,422**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**328,412**	**—**	**(24,093)**	**304,319**
Other equity changes	**—**	**—**	**—**	**908**	**83,298**	**—**	**(90,957)**	**3,038**	**(93,781)**	**—**	**—**	**(97,494)**
Issuance of ordinary shares	—	—	—	—	—	—	—	—	—	—	—	**—**
Issuance of preference shares	—	—	—	—	—	—	—	—	—	—	—	**—**
Issuance of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	**—**
Exercise or expiration of other equity instruments issued	—	—	—	—	—	—	—	—	—	—	—	**—**
Conversion of debt to equity	—	—	—	—	—	—	—	—	—	—	—	**—**
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	**—**
Dividends (or shareholder remuneration)	—	—	—	—	—	—	—	—	—	—	—	**—**
Purchase of treasury shares	—	—	—	—	—	—	—	(63,960)	—	—	—	**(63,960)**
Sale or cancellation of treasury shares	—	—	—	—	—	—	1,416	66,998	—	—	—	**68,414**
Reclassification of financial instruments from equity to liability	—	—	—	—	—	—	—	—	—	—	—	**—**
Reclassification of financial instruments from liability to equity	—	—	—	—	—	—	—	—	—	—	—	**—**
Transfers among components of equity	—	—	—	—	93,781	—	—	—	(93,781)	—	—	**—**
Equity increase or (-) decrease resulting from business combinations	—	—	—	—	—	—	—	—	—	—	—	**—**
Share based payments	—	—	—	2,613	—	—	—	—	—	—	—	**2,613**
Other increase or (-) decrease in equity	—	—	—	(1,705)	(10,483)	—	(92,373)	—	—	—	—	**(104,561)**
Closing balance 31/12/2021	**703,371**	**7,899,227**	**—**	**9,663**	**4,486,020**	**—**	**(2,021,071)**	**(34,419)**	**328,412**	**—**	**(67,956)**	**11,303,247**

Shown for comparative purposes only.

Explanatory notes 1 to 39 and the accompanying Schedules I to VI form an integral part of the statement of total changes in equity for 2022.

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

For the years ended 31 December 2022 and 2021

Thousand euro

	Note	2022	2021 (*)
Cash flows from operating activities		**(7,168,059)**	**11,413,847**
Profit or loss for the period		740,551	328,412
Adjustments to obtain cash flows from operating activities		1,170,198	1,363,219
Depreciation and amortisation		193,817	218,687
Other adjustments		976,381	1,144,532
Net increase/decrease in operating assets		(7,701,809)	3,738,945
Financial assets held for trading		(905,369)	668,947
Non-trading financial assets mandatorily at fair value through profit or loss		41,298	(6,596)
Financial assets designated at fair value through profit or loss		—	—
Financial assets at fair value through other comprehensive income		(72,121)	(779,324)
Financial assets at amortised cost		(6,719,683)	3,279,024
Other operating assets		(45,934)	576,894
Net increase/decrease in operating liabilities		(1,393,419)	5,892,275
Financial liabilities held for trading		967,181	(1,126,646)
Financial liabilities designated at fair value through profit or loss		—	—
Financial liabilities at amortised cost		(1,627,512)	8,064,595
Other operating liabilities		(733,088)	(1,045,674)
Cash payments or refunds of income taxes		16,420	90,996
Cash flows from investing activities		**117,100**	**580,190**
Payments		(174,269)	(119,926)
Tangible assets	14	(154,255)	(112,282)
Intangible assets	15	(16,765)	(6,131)
Investments in joint ventures and associates	13	—	(1,187)
Other business units	13	(3,249)	(326)
Non-current assets and liabilities classified as held for sale		—	—
Other payments related to investing activities		—	
Collections		291,369	700,116
Tangible assets		42,384	101,357
Intangible assets		—	—
Investments in joint ventures and associates	13	123,811	68,693
Other business units	13	57,874	155,709
Non-current assets and liabilities classified as held for sale		67,300	374,357
Other collections related to investing activities		—	—

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the cash flow statement for 2022.

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

For the years ended 31 December 2022 and 2021

Thousand euro

	Note	2022	2021 (*)
Cash flows from financing activities		**(1,213,618)**	**1,567,594**
Payments		(1,314,721)	(250,822)
Dividends		(280,849)	—
Subordinated liabilities	3	(750,000)	—
Redemption of own equity instruments		—	—
Acquisition of own equity instruments		(86,457)	(63,961)
Other payments related to financing activities		(197,415)	(186,861)
Collections		101,103	1,818,416
Subordinated liabilities		—	1,750,000
Issuance of own equity instruments		—	—
Disposal of own equity instruments		101,103	68,416
Other collections related to financing activities		—	—
Effect of changes in foreign exchange rates		**22,298**	**20,656**
Net increase (decrease) in cash and cash equivalents		**(8,242,279)**	**13,582,287**
Cash and cash equivalents at the beginning of the year	**6**	**42,305,858**	**28,723,571**
Cash and cash equivalents at the end of the year	**6**	**34,063,579**	**42,305,858**
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Cash on hand	6	587,119	584,211
Cash equivalents in central banks	6	32,924,771	41,423,202
Other demand deposits	6	551,689	298,445
Other financial assets		—	—
Less: bank overdrafts repayable on demand		—	—
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**34,063,579**	**42,305,858**

(*) Shown for comparative purposes only.

Notes 1 to 39 and accompanying schedules I to VI form an integral part of the cash flow statement for 2022.

Annual report of Banco Sabadell, S.A. for the year ended 31 December 2022

Note 1 – Activity, accounting policies and practices

1.1 Activity

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

The Articles of Association and other public information can be viewed both at the Bank's registered offices and on its website (https://https://www.grupbancsabadell.com/corp/en/home.html).

The Bank is the parent company of a corporate group of entities (see Note 13 and Schedule I) whose activity it controls directly or indirectly and which comprise, together with the Bank, Banco Sabadell Group (hereinafter, the Group).

1.2 Basis of presentation and other material disclosures

The Bank's annual financial statements for the year ended 31 December 2022 have been prepared in accordance with that set forth in Bank of Spain Circular 4/2017, of 27 November (hereinafter, "Circular 4/2017"), as well as other provisions of the financial reporting regulations applicable to the Bank and considering the formatting and mark-up requirements established in Commission Delegated Regulation EU 2019/815, in order to fairly present the equity and financial situation as at 31 December 2022 and the results of its operations, recognised income and expenses, changes in equity and cash flows in 2022. Circular 4/2017 constitutes the implementation and adaptation to Spanish credit institutions of International Financial Reporting Standards as adopted by the European Union (EU-IFRS) in accordance with that set forth in Regulation 1606/2002 of the European Parliament and of the Council regarding the application of these standards.

The information included in these annual financial statements is the responsibility of the directors of the Bank. The Bank's annual financial statements for 2022 were signed off by the directors of Banco Sabadell at a meeting of the Board of Directors on 16 February 2023 and will be submitted to shareholders at the Annual General Meeting for approval. It is expected that the shareholders will approve the accounts without significant changes.

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

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

Thousand euro

	2022	2021
Total assets	251,379,528	251,946,591
Shareholders' equity	13,840,724	13,356,905
Income from financial activities	6,959,331	6,254,920
Profit or loss attributable to owners of the parent	858,642	530,238

Use of judgements and estimates in preparing the annual financial statements

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

The main judgements and estimates relate to the following:

- The determination of the business models under which financial assets are managed (see Notes 1.3.2, 7 and 10).
- The accounting classification of financial assets according to their credit risk (see Notes 1.3.3, 7 and 10).
- Losses due to the impairment of certain financial assets (see Notes 1.3.3, 7, 10 and 24).
- The assumptions used in actuarial calculations of liabilities and post-employment obligations (see Notes 1.3.16 and 21).
- The measurement of goodwill (see Notes 1.3.12 and 15).
- The useful life and impairment losses of tangible assets and other intangible assets (see Notes 1.3.10, 1.3.11, 1.3.12, 14 and 15).
- The provisions and consideration of contingent liabilities (see Notes 1.3.15 and 21).
- The fair value of certain unquoted financial assets (see Notes 1.3.2 and 5).
- The fair value of real estate assets held on the balance sheet (see Notes 1.3.8, 1.3.10, and 5).
- The recoverability of non-monetisable deferred assets and tax credits (see Notes 1.3.19 and 35).

The conflict between Russia and Ukraine and the European energy crisis have shaped the economic environment and the performance of financial markets in 2022, injecting uncertainty into companies' activity, which has reinforced the need to use professional judgement when assessing the impact of the existing macroeconomic situation on the aforesaid estimates, fundamentally in relation to the calculation of impairment losses on financial assets.

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

Other material disclosures

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).

In accordance with article 49.1 and 51 of Law 3/2009, of 3 April, on structural changes in corporations (Ley sobre Modificaciones Estructurales de las Sociedades Mercantile, hereinafter, "LME"), the approval of this merger by the Annual General Meeting of the absorbing company was not necessary as Banco Sabadell, S.A. is the sole shareholder in this transaction and, according to the provisions of article 51 of the LME, shareholder approval is not required.

The merger will involve the absorption of BanSabadell Financiación, E.F.C., S.A.U. by Banco Sabadell, S.A., resulting in the winding-up, through dissolution without liquidation, of BanSabadell Financiación, E.F.C., S.A.U. and the transfer en bloc of all of its assets to Banco Sabadell, S.A., which shall acquire, by universal succession, all of the rights and obligations of BanSabadell Financiación, E.F.C., S.A.U. The full effectiveness of this merger is subject to the following conditions: (i) receipt by Banco Sabadell, S.A. of authorisation from the Ministry of Economic Affairs and Digital Transformation, following a favourable report from the competent regulatory bodies, pursuant to that set forth in additional provision 12 of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions; and (ii) receipt by BanSabadell Financiación, E.F.C., S.A.U. of authorisation from the Ministry of Economic Affairs and Digital Transformation, following a favourable report from the competent regulatory bodies, and in accordance with the provisions of article 10 of Law 5/2015, of 27 April, on the promotion of business financing, and also by referral, in accordance with article 17 of Royal Decree 309/2020, of 11 February, on the legal framework for financial credit establishments.

In accordance with the provisions of article 89.1 of the Corporate Income Tax Law (Ley del Impuesto sobre Sociedades or "LIS"), the completion of this merger shall be reported to the Spanish Tax Authority by Banco Sabadell, S.A. in the manner and within the timeframe specified in articles 48 and 49 of Royal Decree 634/2015, of 10 July, approving the Corporate Income Tax Regulation.

Pursuant to the provisions of article 36.1 of the LME, the following are considered to be the merger balance sheets: (i) the interim financial statements of Banco Sabadell, S.A. as at 30 June 2022, released on 4 August 2022; and (ii) the balance sheet of BanSabadell Financiación, E.F.C., S.A.U. as at 30 September 2022. The merger balance sheets of the absorbing company and of the absorbed company have been audited by their respective auditors, KPMG Auditores, S.L.

The merger balance sheet as at 30 September 2022 of BanSabadell Financiación E.F.C., S.A.U. (absorbed company) is shown below:

Thousand euro

	30/09/2022		30/09/2022
ASSETS		**Equity**	
Cash, cash balances at central banks and other demand deposits	**2,240**	**Shareholders' equity**	**36,991**
		Capital	24,040
		Retained earnings	6,514
Financial assets at amortised cost	**589,107**	Other reserves	6,342
Loans and advances	589,107	Profit or loss for the year	95
Customers	589,107	**Total equity**	**36,991**
		Liabilities	
Tax assets	**138**	**Financial liabilities at amortised cost**	**554,592**
Current tax assets	1	Deposits	554,589
Deferred tax assets	137	Credit institutions	554,588
		Customers	1
Other assets	**1**	Other financial liabilities	3
		Provisions	**7**
		Pending legal issues and tax litigation	7
Non-current assets and disposal groups classified as held for sale	**430**	**Other liabilities**	**326**
		Total liabilities	**554,925**
Total assets	**591,916**	**Total equity and liabilities**	**591,916**
		Memorandum item: loan commitments given	**1,483**

1.3 Accounting principles and policies and measurement criteria

The accounting principles and policies, as well as the most significant measurement criteria that have been applied in preparing these annual financial statements, are described below. There are no cases in which accounting principles or measurement criteria have not been applied because of a significant effect on the Bank's Annual financial statements for 2022.

1.3.1 Investments in subsidiaries, joint ventures and associates

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

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

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

Joint ventures are entities subject to joint control agreements whereby decisions on significant activities are made unanimously by all of the entities which share control, and where the Bank has rights over its net assets. The Bank has not held investments in joint ventures in 2022 and 2021.

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

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

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

Among others, the Bank considers the following indicators to determine whether there is evidence of impairment:

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

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

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

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

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

The laws in effect in the various jurisdictions, along with the need to meet certain minimum capital requirements and carry out oversight activities, are circumstances that could affect the ability of these institutions to transfer funds in the form of cash, dividends, loans or advances.

Note 13 includes information on the most significant acquisitions and disposals that have taken place during the year. Significant disclosures regarding the Group's companies are provided in Schedule I.

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

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

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

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

Changes in measurements occurring subsequent to initial recognition for reasons other than those mentioned above are treated based on 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

– The characteristics of their contractual cash flows.

Business model

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

The business models used by the Bank are indicated 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 flows 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.

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

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

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

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

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

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

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

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

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

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

Portfolios of financial instruments classified for the purpose of their measurement

Financial assets and financial liabilities are classified, for the purposes 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 Bank's business.

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

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

Financial assets at fair value through other comprehensive income

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

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

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

These financial assets primarily correspond to debt securities.

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

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

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

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

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

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

When a debt instrument measured at fair value through other comprehensive income is derecognised from the balance sheet, the fair value change recognised under the heading “Accumulated other comprehensive income” of the statement of equity is reclassified into the income statement. However, when an equity instrument measured at fair value through other comprehensive income is derecognised from the balance sheet, this amount is not reclassified into the 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 Bank for its management or the characteristics of its contractual cash flows make it inadvisable to classify it into any of the other portfolios described above.

This portfolio is in turn subdivided into:

- *Financial assets held for trading*

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

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

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

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

In 2022 and 2021, no significant 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 income statement, making a distinction, in the case of non-derivative instruments, between the portion attributable to returns accrued on the instrument, which are recognised as interest applying the effective interest rate method, and the remaining portion, which is recognised as gains or (-) losses on financial assets and liabilities under the corresponding heading.

Financial liabilities at amortised cost

Financial liabilities measured 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 structure and maturity.

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

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

Hybrid financial instruments

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

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

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

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

The fair value of the Bank's financial instruments as at 31 December 2022 and 2021 is indicated in Note 5.

1.3.3 Impairment of financial assets

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

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

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

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

1.3.3.1 Debt instruments and off-balance sheet exposures

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

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

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

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

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

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

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

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

Definition of classification categories

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

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

- Stage 2: standard exposures under special monitoring, i.e. transactions which, although they do not meet the criteria to be classified individually as stage 3 or write-offs, show significant increases in credit risk (SICR) since initial approval. This category includes, among other transactions, those in which there are amounts more than 30 days past due, with the exception of non-recourse factoring, for which a threshold of more than 60 days is applied (55 and 32 million euros as at the end of 2022 and 2021, respectively), as well as refinanced and restructured transactions not recognised as stage 3 until they are classified into a lower risk category once they meet the established requirements for modifying their classification.

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

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

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

  - For reasons other than borrower arrears: transactions which do not meet the conditions for classification as write-offs or stage 3 as a result of borrower arrears, but for which there are reasonable doubts as to the likelihood of obtaining the estimated cash flows of the transaction, as well 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 due to arrears, and which will be maintained, for a 3-month probation period, in the stage 3 category for reasons other than borrower arrears.

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

– Write-off:

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

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

Purchased or originated credit-impaired transactions

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

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

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

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

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

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

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

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

Transaction classification criteria

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

- Automatic criteria;

- Specific criteria for refinancing transactions; and

- Criteria based on indicators (triggers).

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

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

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

Individual assessment

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

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

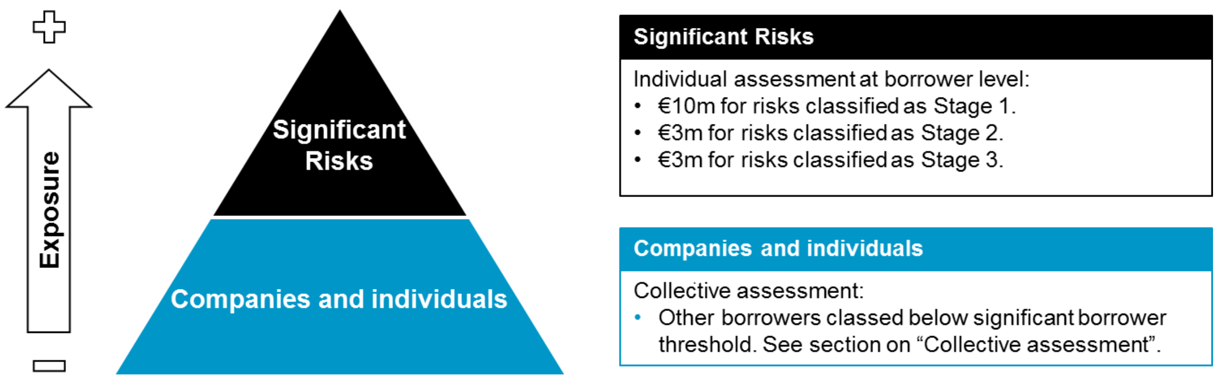
Exposures of more than 1 million euros of borrowers within the Top 10 main risk groups classified in stage 3, identified on an annual basis, are also considered individually. Exceptionally, and with the sole purpose of classifying and more precisely impairing transactions, borrowers whose exposures are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

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

To assess significant borrowers' transactions, a system of triggers, or indicators, 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 figure below shows the thresholds established by the Bank to differentiate between borrowers whose classification is determined individually from those whose classification is determined collectively.



The system of triggers and automatic criteria 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 and automatic criteria are listed here below:

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

  Stage 2 triggers:

  - Adverse changes in the financial situation, such as a significant increase in 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, significant decrease in EBITDA, in turnover, or in general, in the borrower’s recurrent cash flows.

- Increase in the borrower’s leverage ratios.

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

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

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

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

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

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

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

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

Collective assessment

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

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

– Systemic: macroeconomic characteristics shared by all exposures.

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

– Idiosyncratic: aspects specific to each transaction or borrower.

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

In March 2022, the Bank introduced a new statistical model that estimates significant increase in credit risk for borrowers and transactions subject to collective assessment models. The model generates an estimate using a logistic regression considering the annualised lifetime PD under the economic and idiosyncratic circumstances at the time the provision is calculated, relative to the annualised residual lifetime PD under the circumstances that existed at the time the transaction was approved, considering the difference between PDs in both relative and absolute terms. For this model, thresholds have been calibrated for the increase in annualised lifetime PD indicating stage 2 classification. The thresholds are 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 risk increase vary according to the portfolio, business size, loan product and level of PD upon approval, requiring relatively higher increases if the PD at approval is low.

Exceptionally, these thresholds are not applicable at certain low levels of current PD where there is practically no indication of significant risk increase 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 PD thresholds to identify the population exempt from significant risk increases have been calibrated differently for each of the portfolios under the collective model perimeter, i.e. companies differentiated by size, mortgages and consumer loans.

In any case, as a general criterion and in addition to those described previously, for portfolios in Spain, borrowers included in the watchlist identified according to risk (list of high risk borrowers) and all transactions that have a current 12-month PD above a given threshold, also calibrated with a sample of historical data and varying according to portfolio/segment, are reclassified to stage 2. Similarly, all transactions with a very high current 12-month PD, that surpass a threshold also calibrated with a sample of historical data and varying according to portfolio/segment, are reclassified to stage 3.

Refinancing and restructuring transactions

Credit risk management policies and procedures applied by the Bank ensure that borrowers are carefully monitored, identifying cases where provisions need to be allocated as there is evidence that their solvency is declining (see Note 3). To this end, the Bank allocates loan loss provisions for the transactions that require them given the borrower's circumstances, before formally executing any refinancing/restructuring arrangements, 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 current or foreseeable financial difficulties on the part of the borrower (or borrowers) affecting their ability to repay one or more transactions approved by the Bank and granted to the borrower (or borrowers) or to another company or companies belonging to their 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 current or foreseeable financial difficulties on the part of the borrower (or borrowers), the financial terms and conditions are amended 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 an amendment 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 those transactions whose terms are amended 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 when it can be proven that the terms are being amended for reasons other than borrowers' financial difficulties and that the amended terms are analogous to those applied in the market, on the date of such amendment, to transactions approved for borrowers with a similar risk profile.

If a transaction is classified into a particular risk category, refinancing does not mean that its risk classification will automatically improve. The algorithm establishes the initial classification of refinanced transactions based on their characteristics, mainly, the existence of a borrower's financial difficulties (for example, an unsuitable business plan), the existence of particular clauses such as long grace periods, or the existence of amounts that have been written off as they are considered to be non-recoverable. The algorithm then changes the initial classification depending on the established cure periods. 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 fully came to an end.
- The debt of both the contract and the borrower's exposures has been reduced by at least 5%, using a conservative criterion for its calculation, and that this figure is higher than at least the refinanced unpaid amount, the write-off and the new risk granted.

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

- 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 as stage 2.
- At least 12 months have passed since the grace period fully came to an end.
- The debt of both the contract and the borrower's exposures has been reduced by at least 3%, using a conservative criterion for its calculation, and that this figure is higher than at least the refinanced unpaid amount, the write-off and the new risk granted.

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

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

1.3.3.1.2 Credit loss allowances

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

– Multiple scenarios: in order to estimate expected losses, the Group applies different scenarios to identify the effect of the non-linearity of losses. To this end, the provisions required are estimated in the different scenarios for which a probability of occurrence has been defined. Specifically, the Group has considered three macroeconomic scenarios: one baseline scenario, the most likely of all (61%), an alternative scenario 1, the most optimistic of the three, which envisages zero supply chain disruption and productivity gains (9%), and an alternative scenario 2, the most adverse, which envisages a synchronised global recession (30%). In each of these scenarios, a 5-year time horizon has been used to carry out the projections. The main variables considered are changes in GDP, the unemployment rate and house prices. In 2021, the Group considered three macroeconomic scenarios with weights of 60%, 15% and 25%, respectively, and the same macroeconomic variables as in 2022.

Baseline scenario

- Relations between Western countries and Russia remain strained. The conflict between Russia and Ukraine drags on without resolution and sanctions remain in place. The cut-off of Russian gas to Europe continues indefinitely, hampering energy supplies during the winter months. Nevertheless, European governments intervene effectively in the energy markets to cushion the economic impact, avoid major energy rationing and find viable alternatives to Russian gas.

- Inflation remains at high levels for much of 2023 due to the energy crisis in Europe and specific domestic factors in the United Kingdom and United States, such as the situation concerning labour markets and salaries. Thereafter, inflation gradually eases, but remains somewhat above the central banks' targets for quite some time. In any event, inflation expectations remain firmly anchored thanks to the monetary policy response.

- In terms of economic policy, fiscal policy continues to be expansionary and interventionist, based on cushioning the impacts of the energy crisis and high inflation. In the Eurozone, the region begins to harvest the positive effects of rollout of the Next Generation EU (NGEU) funds.

- The central banks maintain an orthodox stance and, given the high level of inflation, set and keep interest rates at somewhat restrictive levels and move ahead with their balance sheet reduction policies. As long as inflation shows no clear sign of returning to its target level, the central banks will leave considerations about the performance of financial markets and concerns about economic activity on the back burner.

- All things considered, there is greater concern about economic growth, as the boost to demand seen in 2021 weakens and the impact of recent events is felt (war in Ukraine, energy crisis and Russian gas cut-off, inflation and increased costs, and monetary policy tightening). All this produces an environment of global economic stagnation and the Eurozone and even the United States experience a mild economic recession.

- In Spain, the economic situation is more secure than in the rest of Europe. Economic activity is supported by the robust balance sheets of economic agents, the return to a normal growth dynamic for the sectors worst affected by the pandemic, use of the Next Generation EU funds and government measures to counteract the energy price increase. The labour market develops positively, with the unemployment rate falling in the coming years.

- In Spain, private sector lending continues to grow at a slower rate than nominal GDP, constrained by the subdued economic growth, the uncertainty stemming from the conflict in Ukraine and the rising interest rate environment.

- With regard to the financial markets, yields on long-term government debt become more stable, following the significant repricing observed in 2022. The greater focus on economic growth is another factor limiting further market upturns. Sovereign debt risk premiums in the European periphery remain at contained levels.

- The US dollar encounters depreciatory pressures against the euro from spring 2023 onwards, in a context of slowing inflation, the improving international economic environment, and the continued resumption of capital inflows to the Eurozone as the ECB's interest rate policy returns to normal.

- As regards Brexit, the scenario envisages a situation in which the United Kingdom and the European Union continue to implement pragmatic solutions to the agreements.

Alternative scenario 1: Zero supply chain disruption and productivity gains

- The geopolitical environment improves and the conflict in Ukraine is resolved with an agreement that is valid for all parties.

- The disruptions to supply chains are quickly resolved and the energy crisis is straightened out, producing a general fall in energy prices, thanks to the improved global geopolitical environment and the absence of any further shocks.

- Global economic growth is vigorous and synchronised, on the strength of an improved business climate and reduced uncertainty related to the geopolitical environment and the energy crisis. In addition, productivity gains stemming from an increasingly digitised and sustainable economy follow in the medium term.

- Inflation rates slide back rapidly and remain close to the levels targeted in the monetary policy of the respective central banks.

- The central banks are less hawkish and set interest rates at levels in line with monetary neutrality.

- Global financing conditions remain lax, with no significant episodes of risk aversion.

- The macroeconomic and financial environment allows risk premiums on both peripheral debt and corporate bonds to remain contained.

- In Spain, the economy maintains a significant growth dynamic thanks to the resolution of the Ukraine conflict, prevalence of lax funding conditions and the use of the NGEU funds which are received without problems and are used efficiently.

Alternative scenario 2: Synchronised global recession

- The global economy is faced with new shocks which bring on a recession in the first half of 2023. Specifically, in Europe, all commercial relations with Russia are severed. In addition, global government policies are taken in an uncoordinated fashion and are ineffective at limiting the impacts of the Russian gas cut-off and other disruptions stemming from the worsened relations with Russia. All this ends up causing a severe economic recession.

- Inflation remains high, initially due to the high starting point reached in 2022 and the additional energy price shock, but eventually it falls to the levels targeted by monetary policy due to weak demand.

- The central banks halt the process to normalise monetary policy in view of the weak demand. The ECB and the Fed implement some interest rate cuts, but these are limited due to the inflation rate which, initially, remains persistently high.

- Global funding conditions are tightened against a backdrop of increased uncertainty and a global recession. The yields on government debt partially reverse the upward trend of recent months, but they remain at high levels compared with those of recent years.

- Peripheral risk premiums face some upside pressure, alongside an expansionary fiscal policy and worsening public accounts.

- Spain is relatively less adversely affected than the Eurozone as a whole due to its lower dependency on Russian gas. However, the economy goes into recession in the first half of 2023 and, subsequently, it enters a prolonged period of stagnation.

As at 31 December 2022 and 2021, the main forecast variables considered for Spain are those shown below:

%

	31/12/2022				
	2023	2024	2025	2026	2027
GDP growth					
Baseline scenario	1.3	2.0	2.0	1.8	1.7
Alternative scenario 1	4.4	4.4	2.5	2.0	2.0
Alternative scenario 2	-1.1	0.1	1.6	1.8	1.7
Unemployment rate					
Baseline scenario	12.7	12.4	12.1	11.9	11.7
Alternative scenario 1	11.6	10.2	9.0	8.6	8.4
Alternative scenario 2	15.6	16.7	15.8	14.9	14.2
House price growth (*)					
Baseline scenario	1.0	1.6	2.0	2.0	2.0
Alternative scenario 1	3.0	3.6	3.8	3.6	3.6
Alternative scenario 2	-2.6	-1.6	2.0	2.0	2.0

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

%

	31/12/2021				
	2022	2023	2024	2025	2026
GDP growth					
Baseline scenario	6.3	3.3	2.7	2.2	2.0
Alternative scenario 1	7.8	4.5	3.6	2.7	2.4
Alternative scenario 2	3.4	1.9	1.8	1.5	1.4
Unemployment rate					
Baseline scenario	14.1	12.9	12.0	11.6	11.4
Alternative scenario 1	12.5	10.6	9.5	8.7	8.0
Alternative scenario 2	16.9	16.5	15.5	14.6	14.0
House price growth (*)					
Baseline scenario	3.8	3.8	3.5	3.2	3.2
Alternative scenario 1	5.7	4.8	4.0	3.8	3.6
Alternative scenario 2	-0.5	0.6	1.8	2.0	2.4

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

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

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

The Bank makes a series of additional adjustments to the results of its credit risk models, referred to as Post Model Adjustments (PMAs) or overlays, in order to address situations in which the results of the models are not sufficiently sensitive to the uncertainty in the macroeconomic environment. These adjustments are temporary and remain in place until the reasons for which they were originally applied cease to exist. The application of these adjustments is subject to the governance principles established by the Bank. Specifically, in 2022 a series of additional allowances have been recognised over and above the expected losses and incorporating specific sectoral features related to the current macroeconomic situation and the new inflationary environment, amounting to 170 million euros.

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

The amount of impairment allowances is calculated based on whether or not there has been a significant increase in credit risk since initial recognition, and on whether or not there 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).

Similarly, the internal model for calculating impairment losses has been designed in such a way as to require the allowance to be automatically increased in situations where an increase in PD is detected, but where that increase is not significant enough to require a reclassification into a different stage.

12-month expected credit losses are defined as:

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

Where:

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

Lifetime expected credit losses are defined as:

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

Where:

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

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

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

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

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

Individual allowance estimates

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

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

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

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

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

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

Collective allowance estimates

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

When calculating collective impairment losses, the Bank mainly takes the following aspects into account:

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

  - transactions with central banks;

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

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

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

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

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

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

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

- In order to collectively assess impairment, internal models estimate a different PD and LGD for each contract. To this end, various types of historical information are used that allow the risk to be individually classified for each exposure (ratings, default events, vintage, exposure, collateral, characteristics of the borrower or contract). Available historical information representative of the entity and past losses (defaults) are therefore taken into account. It is worth highlighting that the estimation obtained from the models is adjusted to account for the existing economic climate and the forecasts in the scenarios considered, 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.

Additionally, recurring back-testing exercises are carried out at least once a year, and estimates are adjusted in the event any major deviations are detected. The models are also reviewed regularly in order to 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 SICR models carry out calculations at the contract level, in order to consider the characteristics specific to each transaction (origination date, maturity date).

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

- By type of borrower: companies, developers and natural persons.
- By type of guarantee: mortgage, unsecured, monetary/financial, and guarantors.
- By type of product: credit cards, overdrafts, leases, credits and loans.

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

Risk drivers

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

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

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

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

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

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

Summary of criteria for classification and allowances

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

Observed credit impairment since initial recognition

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

Classification of credit risk and allowances for country risk

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

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

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

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

Guarantees

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

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

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

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

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

Real estate guarantees for loan transactions are valued on the date they are provided, while real estate assets are valued on the date on which they are recognised, whether as a result of a purchase, foreclosure or a payment in kind, and also whenever there is a significant reduction in value. Additionally, minimum updating criteria are applied, which ensure that updates take place at least once a year in the case of impaired assets (assets classified as stage 2 or 3 and real estate assets foreclosed or received in lieu of debt), or at least once every three years for large debts classified as stage 1 with no signs of latent credit risk. 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.

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

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

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

Overall comparison between financial asset and real estate asset impairment allowances

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

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

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

1.3.4 Hedging transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.3.5 Financial guarantees

Contracts by which the Bank undertakes to make specific payments for a third party in the event of the 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 others.

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

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

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

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

1.3.6 Transfers and derecognition of financial instruments from the balance sheet

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

Note 3 provides details of asset transfers in effect at the end of 2022 and 2021, indicating those that did not involve the derecognition of the asset from the balance sheet.

1.3.7 Offsetting of financial instruments

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

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

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

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

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

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

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

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

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

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

1.3.9 Discontinued operations

A discontinued operation is a component of a bank that has been sold or otherwise disposed of, or that is classified as non-current assets held for sale and which also meets the following conditions:

- Represents a separate major line of business or geographical area of operations.
- Is part of a single coordinated plan to sell or otherwise dispose of a separate major line of business or geographical area of operations.
- Is a subsidiary acquired exclusively with a view to resale.

The profit/(loss) generated in the year on the Bank’s components qualifying as discontinued operations are recorded net of taxes under the heading “Profit or (-) loss after tax from discontinued operations” in the income statement, both when the Bank’s component has been derecognised from the asset side of the balance sheet and when it remains there as at year-end closing. 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 Bank for current or future use that is expected to be used for more than one year, (ii) property, plant and equipment loaned to customers under operating leases, and (iii) investment properties, which include land, buildings and other structures held in order to be leased out or to obtain a capital gain on their sale. This heading also includes tangible assets received in payment of debts classified on the basis of their final use.

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

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

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

	Useful life (years)
Land and buildings	17 to 75
Fixtures and fittings	5 to 20
Furniture, office equipment and other	3 to 15
Vehicles	3 to 6
Computers and computer equipment	4

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

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

In particular, certain items of property, plant and equipment are assigned to cash-generating units in the banking business. Impairment tests are conducted on these units to verify whether sufficient cash flows are generated to support the assets' value. To this end, the Bank (i) calculates the recurring net cash flow of each branch based on the cumulative contribution margin less the allocated recurring cost of risk, and (ii) this recurring net cash flow is regarded as a perpetual cash flow and a valuation is effected using the discounted cash flow method applying the cost of capital and growth rate to perpetuity determined by the Bank (see Note 15).

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

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

1.3.11 Leases

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

Leases in which the Bank acts as lessee

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

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

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

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

The lease liability is initially recognised in the heading "Financial liabilities at amortised cost – Other financial liabilities" of the balance sheet (see Note 20), at a value equal to the present value of estimated payments outstanding, based on the envisaged maturity date. These payments comprise the following items:

- Fixed payments, less any lease incentives payable.
- Variable payments that depend on an index or rate.
- Amounts expected to be paid for residual value guarantees given to the lessor.
- The strike price of a purchase option if the Bank is reasonably certain to exercise that option.

- Payments of penalties for terminating the lease, if the lease term shows that an option to terminate the lease will be exercised.

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

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

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

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

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

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

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

Sale and leaseback

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

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

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

Leases in which the Bank acts as lessor

Finance leases

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

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 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 Bank. An intangible asset will be recognised when, in addition to meeting this definition, the Bank considers it likely that economic benefits deriving from the asset and its cost can be reliably estimated.

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

Goodwill

Positive differences between the cost of a business combination and the acquired portion of the net fair value of the assets, liabilities and contingent liabilities of the acquired and subsequently merged entities are recognised as goodwill on the asset side of the balance sheet. These differences represent an advance payment made by the Bank of the future economic benefits derived from the acquired entities that are not individually identified and separately recognised.

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

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

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

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

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

Other intangible assets

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

These intangible assets are amortised on the basis of their useful lives, applying similar criteria to those used for tangible assets. The useful life of brands and contractual rights arising from relationships with customers of the acquired businesses varies between 5 and 15 years, while for computer software the useful life ranges from 3 to 15 years. In particular, the applications corresponding to infrastructure, communications, architecture and corporate functions of the banking platforms used by Group entities to carry out their activity generally have a useful life of between 10 and 15 years, while the useful life of applications corresponding to channels and to data & analytics range from 7 to 10 years.

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

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

1.3.13 Own equity instruments

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

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

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

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

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

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

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

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

1.3.14 Remuneration in equity instruments

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

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

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

1.3.15 Provisions, contingent assets and contingent liabilities

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

In general, the Bank's annual financial statements include all significant provisions based on which it is estimated that it is more likely than not that the obligation will need to be settled. These provisions include, among others, pension commitments undertaken with employees (see Note 1.3.16), as well as provisions for tax litigation and other contingencies.

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

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

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

1.3.16 Provisions for pensions

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

Defined contribution plans

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

These contributions are recognised each year in the income statement (see Note 30).

Defined benefit plans

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

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

Pension plan

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

- Additional commitments due to early retirement, as set out in the Collective Bargaining Agreement for Banks.
- Disability or incapacity arising in certain circumstances.

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

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

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

Insurance contracts

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

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

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

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

- Commitments towards employees on extended leave of absence not covered with benefits accrued in the Banco Sabadell employee pension plan.

- Commitments towards early retirees. These may be partly financed with benefits accrued in the Banco Sabadell employee pension plan.

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

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

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

Internal funds

Internal funds are used to settle obligations with early retirees up to their legal retirement age.

Accounting record of defined benefit obligations

The "Provisions – Pensions and other post-employment defined benefit obligations" heading on the liabilities side of the balance sheet includes the 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 21.

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

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

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

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

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

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

Pension commitments are recognised as follows:

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

- Under the heading "Accumulated other comprehensive income – Items that will not be reclassified to profit or loss - Actuarial gains or (-) losses on defined benefit pension plans" in the 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 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 income statement.

Actuarial assumptions

The most relevant financial/actuarial assumptions used in the valuation of pension commitments are as follows:

	2022	2021
Tables	PER2020_Col_1er.orden	PER2020_Col_1er.orden
Discount rate, pension plan	3.25% per annum	1.00% per annum
Discount rate, internal fund	3.25% per annum	1.00% per annum
Discount rate, related insurance	3.25% per annum	1.00% per annum
Discount rate, non-related insurance	3.25% per annum	1.00% 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 2022 and 2021, the discount rate on all commitments has been determined by reference to the return on AA-rated corporate bonds (iBoxx € Corporates AA 10+), with an average duration of 13 and 13.7 years, respectively.

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

The return on long-term assets corresponding to plan assets and insurance policies linked to pensions has been determined by applying the same discount rate used in actuarial assumptions (3.25% and 1.00% in 2022 and 2021, respectively).

1.3.17 Transactions in foreign currency

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

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

- Monetary assets and liabilities are translated at the closing rate, defined as the average spot exchange rate at the end of the reporting period.

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

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

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

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

1.3.18 Recognition of income and expenses

Interest income and expense and other similar items

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

Commissions, fees and similar items

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

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

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

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

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

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

Non-financial income and expense

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 fund

The Bank is a member of the Deposit Guarantee Fund. In 2022, 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 2021. The contribution of each entity 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 2022 (see Note 29).

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) No. 806/2014. This regulation sets out standard rules and procedures for the resolution of credit institutions and investment firms within the framework of a Single Supervisory Mechanism and a Single Resolution Fund at European level.

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

The calculation of each entity's contribution to the Single Resolution Fund, governed by Regulation (EU) 2015/63, is based on the proportion that each entity represents with respect to the aggregate total liabilities of the Fund's member entities, after deducting own funds and the guaranteed amount of the deposits. The latter is then adjusted to the entity's risk profile (see Note 29).

1.3.19 Corporation tax

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

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

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

Deferred tax assets and deferred tax liabilities relate to taxes expected to be payable or recoverable arising from differences between the carrying amount of the assets and liabilities appearing in the financial statements and the related tax bases ("tax value"), as well as tax losses carried forward and unused tax credits that might be offset or applied in the future. They are calculated by applying to the relevant timing differences or tax credits the tax rate at which they are expected to be recovered or settled (see Note 35).

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

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

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

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

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

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

- Forecasts of results of the Spanish tax group and of the other entities, based on the financial budgets approved by the Bank’s administrators 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;

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

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

1.3.20 TLTRO III programme

Against the backdrop of Covid-19, the European Central Bank announced measures designed to mitigate the impact arising from this situation, including the TLTRO III programme, which offers favourable conditions for banks to borrow funds. More specifically, the TLTRO III programme ensured an interest rate that would be no higher than the average deposit facility rate, provided that the growth targets of eligible net lending established by the European Central Bank were met in certain special reference periods established for 2021 and 2020, which the Bank met. In addition, the interest rate was 50 basis points lower between 24 June 2020 and 23 June 2022, reaching -1% during that period.

Moreover, from 23 June 2022 to 22 November 2022 these transactions earned the average deposit facility rate over the lifetime of the TLTRO III operation. Finally, on 27 October 2022, the European Central Bank decided to recalibrate these funding operations and, since 23 November 2022, the applicable interest rate is index-linked to the average of the applicable official interest rates of the European Central Bank as from that date.

The Bank has considered that the use of a more favourable interest rate, i.e. the deposit facility rate, rather than the interest rate on the main refinancing operations, subject to compliance with the lending performance thresholds established by the European Central Bank, does not place the conditions of these operations significantly below market interest rates; therefore, this refinancing has been recognised as a financial liability measured at amortised cost in accordance with Bank of Spain Circular 4/2017.

The further interest rate reduction of 50 basis points for the period from 24 June 2020 to 23 June 2022 was not subject to compliance with any specific net lending target, since it was considered that this reduction could result in the cost of this financing having better conditions than those in the market during the aforesaid time period. Accordingly, this reduction has been considered a discount associated with the Covid-19 pandemic, aimed at reducing the Bank’s borrowing costs, and it has been systematically recognised under net interest margin in the income statement throughout the aforesaid period (see Note 3.4.3.1).

1.3.21 Statement of recognised income and expenses

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

As such, this statement shows:

- Profit or loss for the year

- Changes in “Accumulated other comprehensive income” in equity, which includes:

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

- Corporation tax due on recognised income and expenses, with the exception of adjustments arising in equity interests held in associates or joint ventures accounted for using the equity method, which are shown net.

– Total recognised income and expenses, calculated as the sum of the two previous sections.

1.3.22 Statement of total changes in equity

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

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

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

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

1.3.23 Cash flow statement

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

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

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

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

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

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

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

1.4 Comparability

The information presented in these annual financial statements for 2021 is provided solely and exclusively for purposes of comparison with the information for the year ended 31 December 2022 and therefore does not constitute the Bank's annual financial statements for 2021.

Note 2 – Shareholder remuneration and earnings per share

Set out below is the proposed distribution of the profits earned by Banco de Sabadell, S.A. in 2022, 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 2021, which was approved by shareholders at the Annual General Meeting of 24 March 2022.

Thousand euro

	2022	2021
To dividends	225,079	168,809
To Canary Island investment reserve	279	—
To voluntary reserves	515,193	159,603
Profit for the year of Banco de Sabadell, S.A.	**740,551**	**328,412**

On 26 October 2022, the Board of Directors of Banco Sabadell agreed 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.

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:	30/09/2022
Banco Sabadell profit as at the date indicated, after provisions for taxes	639,537
Estimated statutory reserve	—
Estimated Canary Island investment reserve	(139)
Maximum amount available for distribution	639,398
Interim dividend proposed	111,806
Cash balance available at Banco de Sabadell, S.A. (*)	36,968,295

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

Similarly, on 25 January 2023, the Board of Directors of Banco Sabadell agreed to submit a proposal to the Annual General Meeting for the distribution of a supplementary dividend of 0.02 euros (gross) per share, to be paid out of the earnings of 2022, in cash, foreseeably in the month following the Annual General Meeting.

In addition to the cash dividend, the Board of Directors of Banco Sabadell also agreed to establish a share buyback, to be purchased out of the earnings of 2022, for redemption, subject to the corresponding prior authorisations, at a maximum of 204 million euros, the terms of which will be announced separately prior to launch.

Total shareholder remuneration for the financial year 2022, which combines the cash dividend with the share buyback programme, will be equivalent to 50% of the Group's profit attributable to the owners of the parent.

At the Annual General Meeting held on 24 March 2022, shareholders agreed to distribute a dividend of 0.03 euros (gross) per share, to be paid out of the earnings of 2021, which was paid on 1 April 2022.

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:

	2022	2021
Profit or loss attributable to owners of the parent (thousand euro)	858,642	530,238
Adjustment: Remuneration of other equity instruments (thousand euro)	(110,374)	(100,593)
Profit or (-) loss after tax from discontinued operations (thousand euro)	—	—
Profit or loss attributable to the owners of the parent, adjusted (thousand euros)	748,267	429,646
Weighted average number of ordinary shares outstanding (*)	5,593,885,977	5,586,444,414
Assumed conversion of convertible debt and other equity instruments		—
Weighted average number of ordinary shares outstanding, adjusted	5,593,885,977	5,586,444,414
Earnings (or loss) per share (euros)	0.13	0.08
Basic earnings (or loss) per share adjusted for the effect of mandatory convertible bonds (euros)	0.13	0.08
Diluted earnings (or loss) per share (euros)	0.13	0.08

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

As at 31 December 2022 and 2021, 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 per share coincide with diluted earnings (or loss) per share.

Note 3 – Risk management

Throughout 2022, Banco Sabadell Group has continued to strengthen its risk management and control framework by incorporating improvements in accordance with supervisory expectations and market trends.

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

3.1. Macroeconomic, political and regulatory environment

Macroeconomic environment

When managing risks, the Group considers the macroeconomic environment. The most significant aspects of 2022 are set out below:

- The main factors at play in 2022 were the war in Ukraine and the energy crisis in Europe, while increasingly less importance was attached to Covid-19.
- In the wake of deteriorating geopolitical relations, Russia completely and indefinitely cut of its gas supplies flowing to Europe through the main pipeline linking both regions. This led to an unprecedented increase in the price of natural gas and electricity in Europe and stoked fears that strict energy rationing might be introduced during the winter.
- Developed countries across the globe saw their economies deteriorate over the year due to the consequences of the conflict in Ukraine, persistently high inflation and tighter financial conditions.
- In Spain, the economy outperformed the rest of the Eurozone, although it also slowed down over the year. The labour market remained relatively steady, with the lowest unemployment rate since 2008.
- In terms of economic policy in Spain, the government extended existing measures and rolled out new measures to deal with the energy crisis and high inflation.
- Spain also made progress in rolling out the Next Generation European funds, although the allocation and execution of these funds fell short of the government's expectations.
- Emerging economies proved resilient to the global economic environment, although the risks remained in economies with weaker fundamentals. China abandoned its zero-Covid policy at the end of the year.

- In Latin America, Mexico saw good economic performance, thanks to its limited exposure to Ukraine, the improvement of problems in global supply chains and its proximity to the United States.
- Inflation was the macroeconomic variable that aroused the most interest in 2022, reaching new record highs, with inflationary pressures spreading to various components.
- Inflation was pushed up by the higher costs of energy and commodities as a result of the conflict in Ukraine. In the United States and the United Kingdom, the jump in wages also contributed to higher inflation.
- Central banks focused on combatting inflation, introducing widespread interest rate hikes.
- The European Central Bank (ECB) raised interest rates by 250 basis points, introducing hikes of up to 75 basis points in two consecutive meetings. The ECB also discontinued its asset purchase programmes and announced that it would begin to reduce its balance sheet in 2023.
- The Federal Reserve (Fed) began its most aggressive rate hike cycle in several decades, increasing the range of its Fed funds rate by 425 basis points, coinciding with the launch of its quantitative tightening programme.
- The Bank of England (BoE) raised its base rate in each of its monetary policy meetings, gradually increasing the scale of these rate hikes. The BoE also began selling assets from its balance sheet in November.
- 2022 was a very negative year for both fixed-income markets and equity markets across the globe.
- Long-term government bond yields in the main developed countries rebounded sharply, influenced by aspects such as inflation and the interest rate hikes introduced by central banks.
- Peripheral sovereign debt risk premiums also rebounded in 2022, although they remained at relatively contained levels.
- The dollar saw widespread appreciation, acting as a safe-haven asset given the global economic landscape. In its currency pair with the euro, it appreciated to levels not seen since 2002, falling below parity for a few weeks.
- Emerging currencies generally found support, as the monetary tightening cycle began earlier in these economies. Sovereign risk premiums inched upwards but remained far from record high levels.
- Financial authorities believed that the risks to financial stability increased over the year due to the deterioration of financial and economic conditions, meaning that the banking industry faces higher risks in the medium term.

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 similar to those proposed during the health emergency in order to mitigate the impacts of the conflict (ICO guarantee lines and direct aid for affected sectors).

Banco Sabadell'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 both countries. Specifically, the largest exposures relate to mortgage loans granted to customers of Russian, Ukrainian or Belarusian nationality residing outside Spain, although these amount to less than 300 million euros. The real estate assets securing the aforesaid exposures are located in Spain, with an average loan-to-value of 39%. Furthermore, these are transactions that have been on the balance sheet for an average of six and a half years.

ICO guarantee line in the context of war in Ukraine

On 29 March 2022, the government approved the plan outlining its response to Russia's invasion of Ukraine through Royal Decree-Law 6/2022. The response plan contained, among other measures, an ICO guarantee line of 10 billion euros, designed to ensure that companies affected by the rise in costs of energy and commodities caused by the conflict could have access to liquidity.

The features of the guarantee line included, among others: all companies and self-employed professionals would be able to benefit from it, with the exception of the financial and insurance sectors; the deadline for applying for these guarantees was 1 December 2022; and banks would need to keep their customers' working capital lines open until 31 December 2022.

Subsequently, on 10 May 2022, a Council of Ministers' agreement approved the first tranche of this guarantee line, amounting to 5 billion euros, stating that its granting was subject to the European Commission's authorisation of the guarantee line, which was eventually received on 2 June 2022.

The continuation of the conflict and its impacts required the initially adopted European Temporary Framework to be revised in order to adapt and extend it. To that end, the Commission amended the European Temporary Framework on 20 July 2022 and again on 28 October 2022, in order to (i) prolong all the measures set out in the Temporary Crisis Framework until 31 December 2023, (ii) increase the ceilings applicable to state aid and (iii) introduce additional flexibility for liquidity support.

In line with the decision of the European Commission, the Council of Ministers approved Royal Decree-Law 19/2022 of 22 November, which extended the guarantee line included in the response plan to Russia's war in Ukraine, intended to ensure that all self-employed professionals and companies could access liquidity, to 31 December 2023. In addition to extending the aforesaid guarantee line, through an agreement of the Council of Ministers, certain amendments were introduced to the configuration of the first tranche activated in May. Specifically, the first tranche of the guarantee line was divided into two compartments, one amounting to 3.5 billion euros for SMEs and the self-employed and the other amounting to 1.5 billion euros for large enterprises, in order to ensure that companies of all sizes could continue to have access to finance.

Similarly, the maximum thresholds that limited the guarantee amount for each enterprise were raised to 2,000,000 euros in general, 250,000 euros for primary agricultural holdings and 300,000 for fishing and aquaculture, with no change to the conditions that existed previously.

Lastly, on 27 December, a 450 million euro direct aid scheme was established for the enterprises hit the hardest by the increase of gas prices, such as those involved in the ceramic industry.

Impacts of interest rate hikes and rising inflation

Measures to ease the mortgage burden

On 22 November 2022, through an agreement of the Council of Ministers, the government introduced a package of measures designed to ease the mortgage burden. The package acts in three ways. Firstly, it amends the 2012 Code of Good Practice, reinforcing the relief measures available to vulnerable households by reducing the applicable interest rate during the five-year grace period (to Euribor minus 0.10% from the current Euribor plus 0.25%), by introducing the option to apply for debt restructuring for a second time and by extending the period during which they can request that their home be surrendered in settlement of the outstanding debt to two years. The scope of application of the aforesaid Code of Good Practice was also extended, so that any households whose effort rate has increased by less than 50% may benefit from a two-year grace period, from a more favourable interest rate during this period and from a term extension on their loans of up to seven years. Secondly, it created a new temporary Code of Good Practice (valid for two years), which will ease the financial burden of mortgages taken out by middle-class families up to 31 December 2022, by freezing repayment instalment amounts and extending the repayment period of the loan to seven years. Thirdly, expenses and fees will be reduced to make it easier to change from a floating rate to a fixed rate and the fees charged for early repayments and for changing from a floating-rate mortgage to a fixed-rate mortgage will be scrapped for the whole of 2023. Uptake of the two Codes of Good Practice by financial institutions is voluntary, although once they become signatories, compliance therewith is mandatory. Banco Sabadell became a signatory of the new Code of Good Practice on 16 December 2022.

Impacts arising from Covid-19

The public health emergency caused by Covid-19 in March 2020 continued until early 2022 and was gradually overcome in the first half of the year in the main markets in which the Group operates. 2022 saw the application of the support measures approved by governments in 2020 and 2021 to provide the support needed by viable businesses, particularly in the form of public guarantees, as well as a Code of Good Practice specifically for the Covid-19 crisis, of which Banco Sabadell became a signatory in 2021.

Regarding the granting of ICO guarantees, through an agreement of the Council of Ministers on 21 June 2022, the government approved the possibility of applying maturity extensions to the Covid ICO guarantees beyond 30 June 2022, when the EU state aid temporary framework was due to expire. Extending the duration of the guarantees allows companies and self-employed professionals to extend the repayment term of their loans, subject to approval by the relevant financial institution, to up to 8 or 10 years.

In addition, on 28 October, the European Commission also decided to prolong the possibility to grant investment support measures for a sustainable recovery under the State Aid COVID Temporary Framework until 31 December 2023.

Brexit

The Group continues to monitor the developments and consequences of Brexit. Since the Brexit deals came into effect on 1 January 2021, attention has focused mainly on the difficulties identified by certain sectors in relation to the continuation of trade relations between the United Kingdom and the European Union and the way in which companies have been adapting to the new trade arrangements. It is difficult to separate the impacts caused by Brexit from the disruptions observed in global supply chains initially associated with pandemic-related restrictions and subsequently with the reopening of the economy and the recovery of demand as well as, more recently, the conflict in Ukraine and the energy crisis. Another aspect that has attracted attention in 2022 has been the implementation of the Northern Ireland protocol, due to tensions between the United Kingdom and the European Union in spite of the flexibility introduced in border controls for goods crossing between Great Britain and Northern Ireland. Tensions in this regard have continued throughout the year and negotiations between the United Kingdom and the European Union continue in pursuit of a more stable and long-lasting solution.

The United Kingdom has continued with the publication of proposals, for consultation purposes, regarding the regulation of financial services, using the new regulatory freedoms proffered by Brexit. On the other hand, news of financial service activity moving from the United Kingdom to the European Union and the United States continues to trickle through.

On the other hand, in relation to the specific activity of Banco Sabadell Group in the United Kingdom, and from an operational standpoint, there are no signs of vulnerability in terms of existing contracts between counterparties, cross-dependency on financial market infrastructures, reliance on funding markets, etc. It is also worth noting that TSB has a low risk profile, with one of the most robust capital positions in the United Kingdom (fully-loaded CET1 capital ratio of 17.1%), with a balance sheet that is evenly distributed between loans and deposits (loan-to-deposit ratio of 105%) and with a loan book in which over 90% of loans are mortgage-secured. Furthermore, the quality of this mortgage book is very high, with an average LTV of 42%, and only a relatively small exposure to high-risk segments.

In 2022, the Bank analysed the recoverability of the capital invested in TSB, based on the financial forecasts approved by the Board of Directors. The results of the analysis showed that there are no signs of impairment in this investment, as detailed in Note 15.

3.2 Key milestones during the year

3.2.1 The Group's risk profile during the year

The following milestones have been achieved in relation to the Group's risk profile during 2022:

I. Non-performing assets:

- Decrease in the NPL ratio in the year, from 3.7% to 3.4%, due to a reduction of stage 3 volumes as a result of improved credit quality.

II. Lending performance:

- Gross performing loans continue to increase year-on-year in all geographies, excluding the impact of the evolution of foreign currencies, with annual growth figures of 1.7% in Spain, 3.3% in the UK (TSB) and 1.4% in Mexico.
- In Spain, the year-on-year growth is primarily driven by loans to individuals (the increase in the mortgage portfolio is noteworthy) and by business loans.
- In TSB, at a constant exchange rate, annual growth was 3.3%, supported by the positive evolution of the mortgage book.

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 and follows a downward trend.

- Similarly, in terms of individual concentration, the risk metrics relating to concentration of large exposures do show a slight upward trend but nevertheless remain within the appetite level. The credit ratings of top segments improve significantly as more recent balance sheets with a more diluted impact of the health crisis are introduced.

- Geographically speaking, the portfolio is positioned in the most dynamic regions, both in Spain and worldwide. International exposures account for 36% of the loan book.

IV. Strong capital position:

- The CET1 ratio improved by 33 basis points to 12.55% in fully-loaded terms as at 2022 year-end (compared to 12.22% as at 2021 year-end).

- The phase-in Total Capital ratio stood at 17.08% as at the end of 2022, thus remaining above requirements with an MDA buffer of 399 basis points. The leverage ratio was 4.59% (in fully-loaded terms).

V. Sound liquidity position:

- The LCR stood at 234% (compared to 221% as at 2021 year-end) and the loan-to-deposit ratio was 96% at the end of 2022.

3.2.2 Strengthened credit risk management and control environment

2022 has been marked by the monitoring and control of the measures introduced to mitigate the effects of Covid-19, as well as high inflation and the effects of the war in Ukraine.

To that end, particular attention has been paid to monitoring and controlling the measures introduced (mainly ICOs). RAS metrics have also been strengthened and exposure to the sectors most affected by the crisis has been assessed to mitigate its impact.

In the case of individuals, the management and control framework has been reinforced, with changes in RAS metrics and with new origination rules and proposals for interest rate adjustments, effort rates and available income to cope with higher interest rates and the inflationary environment.

Performance of the main solutions offered in Spain

In terms of the ICO Covid lines, as at 31 December 2022, the amount of the loans granted was approximately 7.4 billion euros (8.6 billion euros as at 31 December 2021). As at year-end, the bulk of the payment holidays had already expired.

In 2022, Banco Sabadell took up the new ICO guarantee line in the context of war in Ukraine and undertook to adhere to the new Code of Good Practice, which includes measures to ease the mortgage burden of vulnerable individuals.

3.3 General principles of risk management

Global Risk Framework

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

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

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

- Facilitate the decision-making process.

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

- Understand the risk environment in which it operates.
- Ensure, following the guidelines of the Board of Directors, that critical risks are identified, understood, managed and controlled efficiently.

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

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

3.3.1 Global Risk Framework Policy

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

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

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

Global Risk Framework principles

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

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

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

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

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

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

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

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

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

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

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

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

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

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

– Alignment with the interests of stakeholders

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

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

3.3.2 Risk Appetite Framework (RAF)

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

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

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

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

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

3.3.3 Risk Appetite Statement (RAS)

The RAS is a key element in determining the Institution's risk strategies. It establishes qualitative expressions and quantitative limits for the different risks that the Institution is willing to accept, or seeks to avoid, in order to achieve its business objectives. Depending on the nature of each risk, the RAS includes both qualitative aspects and quantitative metrics, which are expressed in terms of capital, asset quality, liquidity, profitability or any other measure deemed to be relevant. The RAS is therefore a key element in setting the risk strategy, as it determines the area of activity.

Qualitative aspects of the RAS

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

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

Quantitative aspects of the RAS

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

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

In order to gradually detect possible situations of deterioration of the risk position and thus be able to monitor and control it more effectively, the RAS sets out a system of thresholds associated with the quantitative metrics. These thresholds reflect the desirable levels of risk for each metric, as well as the levels that should be avoided. A breach of these thresholds can trigger the activation of remediation plans designed to rectify the situation.

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

3.3.4 Specific policies for the different material risks

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

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

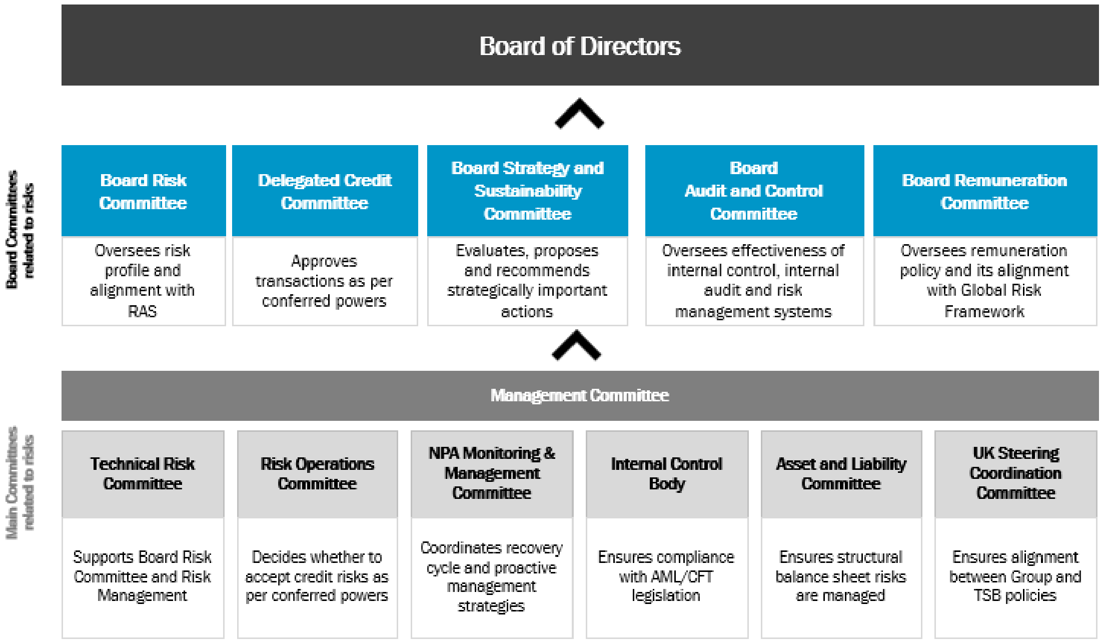
3.3.5 Overall organisation of the risk function

Governance structure

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

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

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



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

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

Organisation

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

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

- First line of defence: responsible for maintaining adequate and effective internal control and implementing corrective actions to rectify deficiencies in its processes and controls. The responsibilities attributed to this line under the Global Risk Framework are as follows:
  - Maintain effective internal controls and perform day-to-day risk assessment and control procedures;
  - Identify, quantify, control and mitigate risks, complying with the established internal policies and procedures and ensuring that activities are consistent with the established goals and objectives;
  - Implement adequate management and oversight processes to ensure compliance with regulations, focusing mainly on control errors, inadequate processes and unforeseen events.
- Second line of defence: in general, the second line of defence ensures that the first line of defence is well designed and performs its assigned duties. It also puts forward suggestions for its continuous improvement. The core responsibilities attributed to this line are the following:
  - Ensure the existence and promote the update of a Global Risk Framework, which establishes the core principles for adequate risk management and control.

- Put forward the Institution's Risk Appetite Statement (RAS) for approval, ensuring it is kept fully up to date at all times and monitoring it on an ongoing 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 functions specifically assigned this task, and identify areas for improvement within risk management.

- Formulate independent opinions to lend support in decision-making processes.

- Periodically analyse and report to the governance and management bodies on the risk profile of the Institution through the RAS.

- Report to the Board Risk Committee on the status and potential development of the Institution's risks.

- Provide guidance and support to identify, assess, monitor, manage and mitigate the Institution's risks.

- 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.

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

3.4 Management and monitoring of the main material risks

The most salient aspects concerning the management of the first-tier risks identified in the Banco Sabadell Group risk taxonomy and concerning the actions taken in this regard in 2022 are set out below:

3.4.1 Strategic risk

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

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

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

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

Strategic risk includes the management and control of four risks:

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

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

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

- Environmental risk: 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 through different risk drivers, which can be categorised as either physical risks or transition risks.

3.4.1.1 Solvency risk

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

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

Details on the closing data as at 31 December 2022 for solvency risk and capital management are available in Note 5 to the consolidated annual financial statements.

3.4.1.2 Business risk

The economic environment in 2022 has been marked by the conflict between Russia and Ukraine, an energy crisis, continuously climbing rates of inflation, higher interest rates, as well as the slowdown of the main global economies, although in the last few months of the year annual inflation figures in Spain surprised to the downside, becoming more moderate during the month of December for the fifth consecutive month and reaching 5.5%.

Against this backdrop, a number of European governments adopted new tax packages in order to protect households and companies from the sharp rise in energy prices. The exacerbation of the energy crisis also deteriorated the growth-inflation mix, leaving various developed economies in a situation tantamount to stagflation.

In 2022, inflationary pressures resulted in a faster pace of monetary policy normalisation, in turn causing: (i) interest rate hikes, (ii) the discontinuation of central banks' bond-buying schemes, (iii) the removal of other liquidity stimulus measures such as haircuts applied to assets eligible as collateral and, lastly, (iv) the repayment of long-term borrowings (TLTRO III). All of this increases the risk of returning to a more competitive environment in search of liquidity, with potential increases in financial costs and a reduction of liquidity buffers, which had fallen to record low levels in recent years. This new environment of higher interest rates is causing both institutions and the Supervisor to focus on managing and controlling its associated risks.

The change of course of central banks' monetary policies has incentivised the Group's profitability and net interest income, although no significant impact on funding costs has been observed as yet.

In spite of this context, in 2022 the Bank has significantly increased its net profit, with the year-on-year increase of net interest income being particularly worthy of note, and the cost savings delivered by the efficiency plan that began in 2020 and ended in March 2022 have fully come through. This all contributed to year-end ROTE levels standing higher than those disclosed to the market and set as guidance for the Institution in 2023.

3.4.1.3 Reputational risk

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

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

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

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

– Low appetite in the event of threats to the Group's reputation.

– Special consideration of restrictions on transactions with borrowers associated with political parties and the media.

– The Group neither invests nor provides funding to companies linked to the development, manufacture, distribution, storage, transfer or sale of controversial weapons, as set forth in the various conventions of the United Nations currently in force.

– The products and services offered to customers need to be known by all of the parties involved, who must be specifically trained for their sale, only offering customers products and services that are appropriate to their needs, and safeguarding their interests.

3.4.1.4 Environmental risk

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

Banco Sabadell Group's commitment to sustainability has been incorporated into all areas of its strategy and business model, internal governance, risk management and assessment arrangements, steering its activity and processes in order to make a firm contribution to sustainability and the fight against climate change and environmental degradation. The aim is to support the Group's customers in the transition towards a sustainable future, either by providing them with the appropriate and necessary funding for this or by offering them savings and investment products that help to achieve a world with greenhouse gas emissions neutrality. This is in addition to the Institution's own aims of achieving greenhouse gas (GHG) emissions neutrality and of continuing to reduce its own consumption.

As part of this corporate goal, throughout 2022 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.

Furthermore, all these initiatives make it possible to adopt and implement the various sustainability regulations to which Banco Sabadell Group is subject, as well as to comply with supervisory expectations with regard to the management and disclosure of environmental risks established by the European Central Bank (ECB).

In line with our commitment to achieve a sustainable future, since 2021 Banco Sabadell Group has been a member of the Net-Zero Banking Alliance (NZBA), an international banking alliance under the auspices of the United Nations, whose main goal is to achieve the alignment of their loan and investment portfolios with net-zero emissions scenarios by 2050 or earlier. Undertaking this commitment implies being able to achieve one of the most ambitious climate targets established in the Paris Agreement.

Lastly, since 2020 Banco Sabadell Group has also undertaken to follow the recommendations for disclosure of financial information related to climate-related risks established by the Task Force on Climate-related Financial Disclosures (TCFD).

<u>Banco Sabadell Group Sustainable Finance Plan</u>

Since 2020, Banco Sabadell Group has been developing a cross-cutting Sustainable Finance Plan that will allow the Institution to honour its sustainability commitments and adopt all the regulations, regulatory initiatives and supervisory expectations relating to banking in the European Union (EU).

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).

During this year, environmental risk indicators have also 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. Furthermore, the Climate Risk Policy has been reviewed and its scope of application and content have been expanded in order 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 has been renamed the Environmental Risk Policy.

Environmental risk management

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 through different risk drivers, 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 can in turn be categorised as either 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 economy. This process can be affected by four drivers: political (regulatory) and legal risks, technology risks, market and economic risks, as well as reputational and social risks.

For more information on environmental risk, please refer to the Non-Financial Disclosures Report (NFDR), which forms part of the consolidated Directors' report.

In line with the EBA's Sustainable Finance Plan to be implemented throughout 2020-2025 and 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, as well as its disclosures, in order to comply with these planned regulations. 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 that they feed into. In the final instance, environmental risk ultimately acts as an additional risk driver affecting traditional bank risks (e.g. credit, market, liquidity and operational risks). It is therefore important to measure its final impact (e.g. in terms of the solvency of both customers/ counterparties and of the Institution itself).

At present, as the EBA and the ECB themselves acknowledge, the academic world is working intensively and rapidly to develop and define the most suitable methodologies that can be used to tackle technical challenges and the lack of robust data facing the field of sustainability-related risks (with each of the letters of the ESG acronym).

Every year, Banco Sabadell Group carries out a qualitative materiality assessment of the impacts that environmental risks have on the main traditional bank risks affected: credit risk, market risk, liquidity risk, operational risk, reputational risk, strategy risk and business model risk. In 2022, this assessment has been expanded to include not only climate-related risk but also the risk associated with environmental degradation. Thus, the following activities now take place on a regular basis: (i) a quantitative estimate of the impacts stemming from environmental risk on credit risk, market risk, liquidity risk and operational risk, (ii) a quantitative analysis of the exposure of its credit portfolios to the most carbon-intensive sectors and (iii) a measurement of its sustainable exposure (green, social and sustainability-linked transactions).

It is worth noting that the Group has incurred no previous material losses associated with climate-related risk. Furthermore, it is worth mentioning that in an initial qualitative assessment of the materiality of the environmental risk factors for those risks in which those could be considerable, 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 potential medium- and long-term impacts should continue to be monitored and assessed on an ongoing basis, depending on the sector.

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 during the transition to a more sustainable economy.

It is also worth noting the implementation of an internal eligibility guide, aligned with the EU's taxonomy and the ICMA's Social Bond Principles, which will be updated with the Social Taxonomy and which can be used to validate the sustainability of the credit transactions financed by Banco Sabadell Group, as well as the adoption of sector-specific rules which set out the commitment to sustainability of the Institution when granting finance to certain greenhouse gas-intensive sectors and sectors with the greatest potential social and environmental impact.

In the same vein, the Sustainable Finance Plan expands the portfolio of sustainable products with the aim of paving the way for the transition of the economy towards sustainability. 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, it is worth mentioning that over the year Banco Sabadell Group has continued to issue new green bonds in the capital markets amounting to 1,695 million euros (500 million euros in 2021).

3.4.2. Credit risk

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

3.4.2.1 Credit risk management framework

Acceptance and monitoring

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

The Board of Directors grants powers and discretions to the Delegated Credit Committee to allow the latter to confer different approval powers to different decision-making levels. The implementation of authority thresholds in credit approval systems ensures that the conferral of approval powers established at each level is linked to the expected loss calculated for each transaction, also considering the total amount of the total risk exposure with an economic group and the amount of each transaction.

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

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

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

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

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

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 V "Other risk information: Refinancing and restructuring transactions" to these annual financial statements.

<u>Real estate credit risk management</u>

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 courses 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 monitor the 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 Risks 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 V “Other risk information: Exposure to construction and real estate development sector” to these annual financial statements.

3.4.2.2. 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 2022 and 2021 is detailed below:

%

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.

%

Distribution, by credit rating, of Banco Sabadell's portfolio of companies 2021										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.64%	1.65%	6.03%	19.98%	27.7%	23.32%	14.76%	5.10%	0.67%	0.15%	**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 2022 and 2021 is detailed below:

%

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.

%

Distribution, by behavioural score, of Banco Sabadell’s portfolio of individuals 2021										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
1.03%	9.85%	25.86%	35.10%	16.63%	6.31%	2.66%	1.43%	0.68%	0.45%	**100%**

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

Warning tools

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

This warnings system enables:

– Efficiency to be improved, as monitoring exercises focus on customers with the lowest credit rating or credit score (different cut-off points for each group).

– The Institution to anticipate actions required to manage any negative change in the situation of the customer (change in rating, new severe warnings, etc.).

– Customers whose situation remains unchanged and who have been assessed by the Basic Management Team to be regularly monitored.

3.4.2.3 Credit risk exposure

The table below shows the distribution, by headings of the balance sheet of Banco de Sabadell, S.A. and of off-balance sheet exposures, of the Bank's maximum gross credit risk exposure as at 31 December 2022 and 2021, 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	2022	2021
Financial assets held for trading		**417,131**	**590,373**
Debt securities	7	417,131	590,373
Non-trading financial assets mandatorily at fair value through profit or loss		**35,534**	**76,832**
Equity instruments	8	1,977	14,582
Debt securities	7	33,557	62,250
Financial assets at fair value through other comprehensive income		**5,862,794**	**5,965,759**
Equity instruments	8	175,874	173,781
Debt securities	7	5,686,920	5,791,978
Financial assets at amortised cost		**141,266,655**	**138,574,149**
Debt securities	7	18,305,478	12,176,675
Loans and advances	10	122,961,177	126,397,474
Derivatives	**9, 11**	**3,596,422**	**1,416,432**
Total credit risk due to financial assets		**151,178,536**	**146,623,545**
Loan commitments given	24	21,297,399	21,078,872
Financial guarantees given	24	8,741,124	8,966,917
Other commitments given	24	9,722,964	7,425,425
Total off-balance sheet exposures		**39,761,487**	**37,471,214**
Total maximum credit risk exposure		**190,940,023**	**184,094,759**

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

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

3.4.2.4. Credit risk mitigation

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

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

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

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

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

The Bank has not received any significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantees, except for those intrinsic in treasury activities, which are mostly repos with maturities of no more than six months, therefore their fair value does not differ substantially from their carrying amount (see Note 5). The fair value of the assets sold in connection with repos is included under the heading "Financial liabilities held for trading" as part of the short positions of securities.

Assets assigned under the same transactions amounted to 417,982 thousand euros (694,554 thousand euros as at 31 December 2021) and are included by type under the repos heading in Notes 17 and 18.

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

The values of the guarantees received to ensure collection, broken down into collateral and other guarantees, as at 31 December 2022 and 2021 are as follows:

Thousand euro

Guarantees received	**2022**	**2021**
Value of collateral	54,549,694	54,069,935
Of which: securing stage 2 loans	*4,595,052*	*4,080,781*
Of which: securing stage 3 loans	*1,511,325*	*1,682,506*
Value of other guarantees	16,261,030	16,438,028
Of which: securing stage 2 loans	*2,499,028*	*2,715,568*
Of which: securing stage 3 loans	*1,010,398*	*543,243*
Total value of guarantees received	**70,810,724**	**70,507,963**

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 2022, the exposure to home equity loans and credit lines represented 43.3% of total gross performing lending items granted to customers (42.9% as at 31 December 2021).

In addition, the Bank carried out three synthetic securitisation transactions in 2022, 2021 and 2020.

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 (103 million euros as at 31 December 2022), 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 from Chorus Capital Management in the amount of 75 million euros (50 million euros as at 31 December 2022), 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 from the European Investment Fund in the amount of 96 million euros (63 million euros as at 31 December 2022), 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.

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

3.4.2.5. Credit quality of financial assets

As stated earlier, in general terms, the Group uses internal models to rate most borrowers (or transactions) through which credit risk is incurred. These models have been designed considering the best practices proposed by the New Basel Capital Accord (NBCA). However, not all portfolios in which credit risk is incurred have internal models, partly due to the fact that these models can only be reasonably designed if a minimum level of experience with cases of non-payment 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 83%. This percentage has been calculated following the specifications of the ECB guide to internal models (Article 26a) published in October 2019.

The breakdown of the Group's total exposures, rated based on the various internal rating levels, as at 31 December 2022 and 2021 is as follows:

Million euro

Breakdown of exposure by rating	Note	Loans 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 value	**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**

Million euro

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

The breakdown of the Group's total off-balance sheet exposures, rated based on the various internal rating levels, as at 31 December 2022 and 2021 is as follows:

Million euro

Breakdown of exposure by rating	Note	Loans 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 value	**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**

Million euro

Breakdown of exposure by rating	Note	Loans assigned rating/score				
		2021				
		Stage 1	**Stage 2**	**Stage 3**	***Of which: purchased credit-impaired***	**Total**
AAA/AA		1,598	38	—	—	1,636
A		2,546	4	—	—	2,550
BBB		10,642	106	4.35	—	10,752
BB		9,095	158	2.86	*0.27*	9,255
B		10,323	684	1.65	*24*	11,009
Other		406	587	550	*1*	1,543
No rating/score assigned		725	352	—	—	1,077
Total gross value	**26**	**35,335**	**1,928**	**559**	***25***	**37,822**
Provisions recognised on liabilities side of the balance sheet	**26**	**(52)**	**(18)**	**(121)**	**—**	**(191)**
Total net amount		**35,283**	**1,910**	**438**	***25***	**37,631**

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

For borrowers included within business in Spain whose coverage has been assessed using internal models as at 31 December 2022 and 2021, 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:

%

	31/12/2022							
	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%

%

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

%

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

The development of new LGD models began in 2020 and continued in 2021 and 2022 in order to renew previous models that were in use since the implementation of IFRS 9 and to improve some aspects that had been previously identified, during either the ongoing monitoring carried out by Banco Sabadell or 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. The new developments primarily affect the LGD of the portfolio in non-performing status (stage 3), in which an increase in LGD is essentially recorded for the exposures that have been in default status the longest.

During 2022, stage 3 assets have decreased by 389 million euros, consequently reducing the Group's NPL ratio, as shown in the table below:

%	2022	2021
NPL ratio (*)	3.41	3.65
NPL coverage ratio (*)	39.42	41.16
NPL (stage 3) coverage ratio, with total provisions (*)	55.04	56.34

(*) The NPL ratio ex-TSB stands at 4.13%, the NPL (stage 3) coverage ratio stands at 42.25% and the NPL (stage 3) coverage ratio with total provisions stands at 56.41% (4.44%, 44.66% and 58.45%, respectively, in 2021).

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

3.4.2.6. Concentration risk

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

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

Concentration risk can be caused by two risk subtypes:

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

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

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

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

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

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

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

Consistency with the Global Risk Framework

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

Establishment of limits and metrics for concentration risk control

Given the nature of the Group's activity and its business model, concentration risk is primarily linked to credit risk, and various metrics 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.

Risk control monitoring and regular reporting

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

Action plans and mitigation techniques

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

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

Exposure to customers or significant risks

As at 31 December 2022 and 2021, 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 V 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 V includes quantitative data relating to sovereign risk exposures and exposures to the construction and real estate development sector.

3.4.2.7. Counterparty credit risk

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

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

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

The following tables show the breakdown of exposures by credit rating and by the geographical areas in which the Group operates, as at 31 December 2022 and 31 December 2021:

%

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%**

%

2021															
AAA	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**BB+**	**BB**	**BB-**	**B+**	**Other**	**TOTAL**
0.0%	0.0%	18.2%	30.1%	15.8%	0.9%	8.2%	8.9%	5.7%	1.9%	2.2%	2.4%	1.3%	0.6%	3.8%	**100%**

%

	2022	**2021**
Eurozone	70.7%	71.6%
Rest of Europe	24.5%	18.3%
United States and Canada	3.0%	6.6%
Rest of the world	1.8%	3.5%
Total	**100%**	**100%**

As can be seen in the table, the risk is concentrated in counterparties with a high credit quality, with 86% of the risk relating to counterparties rated A, whereas in 2021 this concentration was 73%.

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

	2022	**2021**
Transactions with organised markets	979,533	1,999,937
OTC transactions	123,537,072	95,317,863
Settled through clearing houses	*56,009,153*	*40,354,758*
Total	**124,516,605**	**97,317,800**

There are currently no transactions that meet the accounting criteria for offsetting transactions involving financial assets and financial liabilities on the balance sheet. The netting of derivative and repo transactions is only material when calculating the amount pending collateralisation, and it is not material in terms of their presentation on the balance sheet.

The following tables show the aggregate amount reflected on the balance sheet for the financial instruments subject to a master netting and collateral agreement for 2022 and 2021:

Thousand euro

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

Thousand euro

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

Thousand euro

	2021				
	Financial assets subject to collateral agreements				
			Guarantee received		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net amount
Financial assets	**(a)**	**(b)**	**(c)**	**(d)**	**(a) - (b) - (c) - (d)**
Derivatives	1,110,669	1,009,677	116,054	—	(15,062)
Repos	4,935,785	—	22,350	4,927,409	(13,974)
Total	**6,046,454**	**1,009,677**	**138,404**	**4,927,409**	**(29,036)**

Thousand euro

	2021				
	Financial liabilities subject to collateral agreements				
			Guarantee given		
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Cash	Securities	Net amount
Financial liabilities	**(a)**	**(b)**	**(c)**	**(d)**	**(a) - (b) - (c) - (d)**
Derivatives	1,395,229	1,009,677	575,955	159,273	(349,676)
Reverse repos	5,454,650	—	37,643	5,680,214	(263,207)
Total	**6,849,879**	**1,009,677**	**613,598**	**5,839,487**	**(612,883)**

The values of derivative financial instruments which are settled through a clearing house as at 31 December 2022 and 2021 are indicated hereafter:

Thousand euro

	2022	2021
Derivative financial assets settled through a clearing house	2,432,578	659,582
Derivative financial liabilities settled through a clearing house	1,579,647	600,870

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, *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 of the counterparties that wish to trade in derivatives.

Variation margin collateral agreements, as well as including the netting effect, also include the regular exchange of guarantees which mitigate the current exposure with a counterparty in respect of the transactions subject to such agreements.

In order to trade in derivatives or repos with financial institutions, the Group requires variation margin collateral agreements to be in place. Furthermore, for derivative transactions with these institutions, the Group is obliged to exchange variation margin collateral with financial counterparties pursuant to Delegated Regulation (EU) 2251/2016. The Group’s standard variation margin collateral agreement, which complies with the aforesaid regulation, is bilateral (i.e. both parties are obliged to deposit collateral) and includes the daily exchange of guarantees in the form of cash and in euros.

Initial margin collateral agreements include the provision of guarantees to mitigate the potential future exposure with a counterparty in respect of the transactions subject to such agreements.

The Group has initial margin collateral agreements in place for derivative transactions with financial institutions pursuant to Delegated Regulation (EU) 2251/2016.

3.4.2.8 Assets pledged in financing activities

As at the end of 2022 and 2021, there were certain financial assets pledged in financing operations, i.e. offered as collateral or guarantees for certain liabilities. These assets correspond mainly to loans linked to the issuance of mortgage covered bonds, public sector covered bonds and long-term asset-backed securities (see Note 19 and Schedules II and III). The remaining pledged assets are debt securities which are submitted in transactions involving assets sold under repurchase agreements, pledged collateral (loans or debt instruments) to access certain financing operations with central banks and all types of collateral provided to secure derivative transactions.

Royal Decree-Law 24/2021, of 2 November, was published on 3 November 2021 and transposes, in its Book One, Directive (EU) 2019/2162 on the issue of covered bonds and covered bond public supervision. The aim of this transposition is to harmonise mortgage market regulations in member states and to make it easier for credit institutions to access funding. In particular, this directive establishes the different types of covered bonds, the regime for their issuance, disclosure obligations and, lastly, it establishes effective mechanisms for investor protection. Its entry into force on 8 July 2022 entails the repeal of Law 2/1981 of 25 March on the regulation of the mortgage market.

Detailed information on home equity loans granted in Spain included in the “Loans and advances – Customers” portfolio and linked to the issuance of mortgage covered bonds can be found in Schedule III on “Information required to be kept by issuers of mortgage market securities”.

The issuing entity Banco Sabadell did not issue any public sector covered bonds in either 2022 or 2021.

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

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

Thousand euro

	2022	2021
Fully derecognised from the balance sheet:	**693,852**	**808,862**
Securitised mortgage assets	116,867	118,986
Other securitised assets	319,468	397,367
Other financial assets transferred	257,517	292,509
Fully retained on the balance sheet:	**6,316,633**	**6,950,706**
Securitised mortgage assets	5,650,976	6,721,857
Other securitised assets	665,657	228,849
Other transfers to credit institutions	—	—
Total	**7,010,485**	**7,759,568**

The assets and liabilities associated with securitisation funds of assets originated after 1 January 2004, and for which inherent risks and rewards of ownership have not been transferred to third parties, have been retained on the balance sheet. As at 31 December 2022 and 2021, there was no significant aid from the Group for securitisations not retained on the balance sheet.

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

3.4.3. Financial risks

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

3.4.3.1. Liquidity risk

Liquidity risk refers to the possibility of losses being incurred as a result of the Institution being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets or because it is unable to access the markets to refinance debts at a reasonable cost. This risk may be associated with factors of a systemic nature or specific to the Institution itself.

In this regard, the Group aims to maintain liquid assets and a funding structure that, in line with its strategic objectives and based on its Risk Appetite Statement, allow it to honour its payment commitments as usual and at a reasonable cost, both under business-as-usual conditions and in a stress situation caused by systemic and/or idiosyncratic factors.

The fundamental pillars of Banco Sabadell's governance structure for liquidity management and control are the direct involvement of the governing body, Board committees and management bodies, following the model of three lines of defence, and a clear segregation of duties, as well as a clear-cut structure of responsibilities.

Liquidity management

Banco Sabadell's liquidity management seeks to ensure funding for its business activity at an appropriate cost and term while minimising liquidity risk. The Institution's funding policy focuses on maintaining a balanced funding structure, based mainly on customer deposits, and it is supplemented with access to wholesale markets that allows the Group to maintain a comfortable liquidity position at all times.

The Group follows a structure based on Liquidity Management Units (LMUs) to manage its liquidity. Each LMU is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, working together with the Group's corporate functions. At present, these LMUs are Banco Sabadell (includes Banco de Sabadell, S.A., which incorporates activity in foreign branches, as well as the business in Mexico of Banco de Sabadell, S.A., I.B.M. (IBM) and Sabcapital S.A. de C.V., SOFOM, E.R. (SOFOM)) and 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.

– 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 comprising mainly the issuing capacity of covered bonds or assets prepositioned in central banks and not considered in the first line of liquidity.

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

– Alignment with the interests of stakeholders through regular public disclosure of liquidity risk information.

– Availability of a Liquidity Contingency Plan.

In 2022, the mitigating measures introduced by central banks following the outbreak of Covid-19 were partially discontinued; however, some measures are still in place, including support for banks' loan transactions, allowing them to accept a wider range of credit claims as collateral, and the partial reduction of the temporary collateral haircuts, among others.

Tools/metrics for monitoring and controlling liquidity risk management

Banco Sabadell Group has a system of metrics and thresholds which are provided in the RAS and which define the appetite for liquidity risk, 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 the daily changes in the funding needs of the balance sheet, the daily changes in the outstanding balance of transactions in capital markets, as well as the daily changes in the first line of liquidity maintained by each 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.

Residual maturity periods

The tables below show the breakdown, by contractual maturity, of certain pools of items on the balance sheet as at 31 December 2022 and 2021, under business-as-usual market conditions:

Thousand euro

	2022									
Time to maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
ASSETS										
Cash, balances at central banks and other demand deposits	2,606,065	31,450,935	—	18	1,089	107	1,206	173	3,986	34,063,579
Financial assets at fair value through other comprehensive income	—	45,287	50,044	802,905	691,950	738,253	971,211	244,104	2,211,192	5,754,945
Debt securities	—	45,287	50,044	802,905	691,950	738,253	971,211	244,104	2,143,167	5,686,920
Loans and advances	—	—	—	—	—	—	—	—	—	—
Customers	—	—	—	—	—	—	—	—	—	—
Financial assets at amortised cost	3,265,467	8,090,840	5,381,540	12,543,903	7,750,713	8,156,713	8,282,389	9,152,221	76,018,248	138,642,033
Debt securities	—	—	—	1,403,285	1,211,545	946,673	373,968	1,859,042	12,510,754	18,305,267
Loans and advances	3,265,467	8,090,840	5,381,540	11,140,618	6,539,168	7,210,040	7,908,421	7,293,178	63,507,494	120,336,766
Central banks	—	—	—	—	—	—	—	—	—	—
Credit institutions	681,043	2,248,224	458,265	1,717,725	339,909	196,547	413,636	70,946	67,048	6,193,344
Customers	2,584,424	5,842,615	4,923,274	9,422,892	6,199,260	7,013,493	7,494,784	7,222,233	63,440,446	114,143,422
Total assets	**5,871,532**	**39,587,062**	**5,431,584**	**13,346,826**	**8,443,752**	**8,895,072**	**9,254,807**	**9,396,497**	**78,233,425**	**178,460,557**
LIABILITIES										
Financial liabilities at amortised cost	116,676,728	9,168,191	4,508,026	21,852,905	10,290,892	3,574,436	3,431,916	3,688,587	7,175,975	180,367,656
Deposits	111,985,554	9,083,638	2,436,248	20,249,161	6,652,418	1,041,570	685,553	1,310,966	1,427,363	154,872,472
Central banks	—	—	—	16,660,008	4,939,290	—	—	—	—	21,599,297
Credit institutions	856,241	7,375,514	874,634	572,077	235,110	62,893	88,614	79,629	556,430	10,701,141
Customers	111,129,314	1,708,125	1,561,614	3,017,077	1,478,018	978,677	596,939	1,231,338	870,934	122,572,034
Debt securities issued	—	72,408	2,055,057	1,590,320	3,631,762	2,526,055	2,741,399	2,371,575	5,598,064	20,586,641
Other financial liabilities	4,691,174	12,145	16,720	13,423	6,712	6,812	4,964	6,046	150,547	4,908,543
Total liabilities	**116,676,728**	**9,168,191**	**4,508,026**	**21,852,905**	**10,290,892**	**3,574,436**	**3,431,916**	**3,688,587**	**7,175,975**	**180,367,656**
Trading and Hedging derivatives										
Receivable	—	12,955,799	8,582,574	17,444,042	18,282,098	5,737,155	4,977,036	3,146,284	31,346,860	102,471,849
Payable	—	9,523,493	8,519,750	15,978,035	18,690,780	5,980,773	4,795,665	3,256,120	33,935,041	100,679,657
Contingent risks										
Financial guarantees	33,551	39,680	102,916	389,812	188,177	163,372	58,470	238,094	7,527,052	8,741,124

Thousand euro

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
				2021						
ASSETS										
Cash, balances at central banks and other demand deposits	42,299,201	—	—	121	7	1,476	2	1,186	3,866	42,305,858
Financial assets at fair value through other comprehensive income	—	—	56,515	133,966	1,311,536	751,738	511,205	488,535	2,603,051	5,856,546
Debt securities	—	—	56,515	133,966	1,311,536	751,738	511,205	488,535	2,538,483	5,791,978
Loans and advances	—	—	—	—	—	—	—	—	—	—
Customers	—	—	—	—	—	—	—	—	—	—
Financial assets at amortised cost	2,875,666	7,594,418	4,578,073	9,968,443	14,215,509	7,391,797	8,723,589	8,216,215	69,483,415	133,047,125
Debt securities	—	—	—	398,300	1,053,117	841,985	858,278	111,481	8,913,514	12,176,675
Loans and advances	2,875,666	7,594,418	4,578,073	9,570,143	13,162,391	6,549,812	7,865,311	8,104,734	60,569,902	120,870,450
Central banks	—	—	—	—	—	—	—	—	—	—
Credit institutions	658,652	3,759,673	154,273	1,169,761	1,304,332	138,975	274,075	262,571	154,452	7,876,763
Customers	2,217,014	3,834,745	4,423,801	8,400,382	11,858,060	6,410,837	7,591,236	7,842,163	60,415,450	112,993,687
Total assets	**45,174,867**	**7,594,418**	**4,634,589**	**10,102,530**	**15,527,051**	**8,145,010**	**9,234,795**	**8,705,936**	**72,090,333**	**181,209,529**
LIABILITIES										
Financial liabilities at amortised cost	111,862,929	6,197,654	4,130,112	6,776,129	31,448,229	10,052,424	3,236,714	2,541,898	6,499,080	182,745,169
Deposits	107,843,940	6,121,135	2,803,291	4,972,049	28,657,892	6,420,028	588,025	1,066,150	1,177,759	159,650,268
Central banks	—	159,006	—	—	26,583,000	4,960,694	—	—	—	31,702,700
Credit institutions	619,995	4,773,918	689,951	632,800	636,255	97,518	77,826	108,327	533,840	8,170,430
Customers	107,223,944	1,188,211	2,113,340	4,339,249	1,438,637	1,361,816	510,198	957,823	643,919	119,777,138
Debt securities issued	—	61,017	1,310,001	1,791,426	2,784,337	3,627,013	2,644,956	1,472,131	5,140,403	18,831,284
Other financial liabilities	4,018,989	15,502	16,820	12,654	6,000	5,382	3,734	3,618	180,918	4,263,617
Total liabilities	**111,862,929**	**6,197,654**	**4,130,112**	**6,776,129**	**31,448,229**	**10,052,424**	**3,236,714**	**2,541,898**	**6,499,080**	**182,745,169**
Trading and Hedging derivatives										
Receivable	—	3,673,541	3,724,587	8,481,451	11,361,142	14,097,461	3,675,670	5,579,757	29,751,995	80,345,604
Payable	—	3,431,728	3,822,997	8,321,320	9,868,689	13,981,588	3,653,398	5,151,087	32,153,776	80,384,583
Contingent risks										
Financial guarantees	276	29,716	108,517	345,395	159,160	109,127	50,119	36,045	8,128,562	8,966,917

In this analysis, very short-term maturities traditionally represent funding requirements, as they include continuous maturities of short-term liabilities, which in typical banking activities see higher turnover rates than assets, but as they are continuously rolled over they actually end up satisfying these requirements and at times even result in the growth of outstanding balances.

Furthermore, the Group's funding capacity in capital markets is systematically checked to ensure it can meet its short-, medium- and long-term needs.

With regard to the information included in these tables, it is worth highlighting that the tables show the residual term to maturity of the asset and liability positions on the balance sheet, broken down into different time brackets.

The information provided is static and does not reflect foreseeable funding needs, as it does not include behavioural models of asset and/or liability items.

It should also be noted that cash flow breakdowns in the parent company have not been deducted.

In order to present the contractual maturities of financial liabilities with certain particular characteristics, the parent company has taken the following approach:

- Transactions are placed in different time brackets according to their contractual maturity date.
- Demand liabilities are included in the "on demand" tranche, without taking into account their type (stable vs. unstable).
- There are also contingent commitments which could lead to changes in liquidity needs. These are fundamentally credit facilities with amounts undrawn by the borrowers as at the balance sheet date. The Board of Directors also establishes limits in this regard for control purposes.

– Balances related to financial guarantee contracts have been included for the parent company, assigning the maximum amount of the guarantee to the first year in which the guarantee can be enforced.

– 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 2022 and 2021, the Bank had no instruments in addition to those regulated by master agreements associated with the arrangement of derivatives and repos/reverse repos.

– The Bank did not have any instruments which allow the Institution to decide whether to settle its financial liabilities using cash (or another financial asset) or through the submission of its own shares as at 31 December 2022 and 2021.

Funding strategy and evolution of liquidity in 2022

The Group's primary source of funding is customer deposits (mainly demand deposits and term deposits acquired through the branch network), supplemented with funding raised through interbank and capital markets in which the Institution has and regularly renews various short-term and long-term funding programmes in order to achieve an adequate level of diversification by type of product, term and investor. The Institution maintains a diversified portfolio of liquid assets that are largely eligible as collateral in exchange for access to funding operations with the European Central Bank (ECB).

On-balance sheet customer funds

As at 31 December 2022 and 2021, on-balance sheet customer funds broken down by maturity were as follows:

Million euro / %

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

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

Million euro / %

	Note	2021	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**119,592**	**4.2 %**	**1.6 %**	**1.7 %**	**3.0 %**	**89.5 %**
Deposits with agreed maturity		11,395	38.0 %	13.6 %	17.2 %	31.2 %	0.0 %
Sight accounts	18	107,068	0.0 %	0.0 %	0.0 %	0.0 %	100.0 %
Retail issues		1,129	62.9 %	33.9 %	3.2 %	0.0 %	0.0 %

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

Despite rising interest rates in financial markets, the composition of on-balance sheet customer funds remains the same.

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

In 2022, the funding gap has widened, mainly due to a greater growth of customer funds than of lending items, thus placing the Group's Loan-to-Deposit (LtD) ratio at 95.6% as at 2022 year-end (96.3% as at 2021 year-end).

Capital markets

In 2022, the level of funding in capital markets has increased, with senior non-preferred debt being the item with the greatest net increase, in order to keep an adequate level of own funds and eligible liabilities above the applicable regulatory requirement or MREL (Minimum Requirement for own funds and Eligible Liabilities). The outstanding nominal balance of funding in capital markets, by type of product, as at 31 December 2022 and 2021, is shown below:

Million euro

	2022	2021
Outstanding nominal balance	**22,077**	**21,086**
Covered Bonds	9,409	9,754
Of which: TSB	*1,409*	*2,083*
Commercial paper and ECP	7	—
Senior debt	4,440	4,335
Senior non-preferred debt	3,505	2,042
Subordinated debt and preferred securities	3,465	4,215
Asset-backed securities	1,251	738
Other	—	2

Maturities of issues in capital markets, by type of product (excluding securitisations and commercial paper), and considering their legal maturity, as at 31 December 2022 and 2021, are analysed below:

Million euro

	2023	2024	2025	2026	2027	2028	>2028	Balance outstanding
Mortgage bonds and covered bonds (*)	1,388	2,696	836	390	1,100	1549	1450	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
Other medium/long term financial instruments (**)	—	—	—	—	—	—	—	—
Total	**2,363**	**4,406**	**2,816**	**2,207**	**1,618**	**3,299**	**4,110**	**20,819**

(*) Secured issues.

(**) Unsecured issues.

Million euro

	2022	2023	2024	2025	2026	2027	>2027	Balance outstanding
Mortgage bonds and covered bonds (*)	1,717	1,388	2,743	836	390	1,100	1,580	9,754
Senior debt (**)	25	1,475	735	1,600	—	500	—	4,335
Senior non-preferred debt (**)	—	—	975	500	67	—	500	2,042
Subordinated debt and preferred securities (**)	—	—	—	—	500	—	3,715	4,215
Other medium/long term financial instruments (**)	—	—	2	—	—	—	—	2
Total	**1,742**	**2,863**	**4,455**	**2,936**	**957**	**1,600**	**5,795**	**20,348**

(*) Secured issues.

(**) Unsecured issues.

The Group is an active participant in capital markets and has a number of funding programmes in operation, with a view to diversifying its different funding sources.

In terms of short-term funding, as at year-end the Bank had one corporate commercial paper programme in operation, which governs the issuance of commercial paper and is aimed at institutional and retail investors. The Banco Sabadell Commercial Paper Programme for 2022, 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 2022, the outstanding balance of the programme was 872 million euros (net of commercial paper subscribed by Group companies), compared with 426 million euros as at 31 December 2021.

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 17 November 2022, with an issuance limit of 10 billion euros: this programme regulates the issuance of straight, non-preferred, subordinated or structured bonds and debentures, in addition to mortgage covered bonds and public sector covered bonds issued under Spanish law through the CNMV and aimed at institutional and retail investors, both domestic and foreign. As at 31 December 2022, the limit available for new issues under the Banco Sabadell Programme for the issuance of non-equity securities for 2022 was 9,000 million euros (as at 31 December 2021, the available limit under the Fixed Income Programme for 2021 was 9,933 million euros).

  In 2022, Banco Sabadell executed five public issues under the current Fixed Income Programme amounting to a total of 1,638 million euros, including one non-preferred debt issue in green format of 120 million euros:

Million euro

	ISIN code	Type of investor	Issue date	Amount	Term (years)
Issue of Straight Non-Preferred Bonds 1/2022 CNMV	ES0213860341	Institutional	30/3/2022	120	15
Mortgage covered bonds 2/2022	ES0413860802	Institutional	30/5/2022	1,000	7
Issue of Straight Non-Preferred Bonds 2/2022 CNMV	ES03138603I4	Institutional	3/6/2022	9	5
Issue of Straight Non-Preferred Bonds 3/2022 CNMV	ES0213860358	Institutional	1/8/2022	9	5
Mortgage covered bonds BEI 1/2022	ES0413860828	Institutional	21/12/2022	500	8

– Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 1 June 2022 and renewed on 28 July and 28 October 2022. 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 2022, Banco Sabadell executed four issues under the EMTN Programme, amounting to a total of 2,075 million euros; one of these was senior preferred debt and the other three were all senior non-preferred debt. Of the four issues, three were in green format, amounting to 1,575 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 call option):

Million euro

	ISIN code	Type of investor	Issue date	Amount	Term (years)
Senior Non Preferred 1/2022 issue	XS2455392584	Institutional	24/3/2022	750	4
Senior Non Preferred 2/2022 issue	XS2528155893	Institutional	8/9/2022	500	4
Senior Preferred 1/2022 issue	XS2553801502	Institutional	10/11/2022	750	6
Senior Non Preferred 3/2022 issue	XS2560673829	Institutional	23/11/2022	75	10

In 2022, upon receiving the relevant authorisations, Banco Sabadell exercised the early call option for the AT1 1/2017 issue amounting to 750 million euros on 18 May 2022, executed the early redemption of the Senior Preferred 1/2020 issue amounting to 500 million euros on 29 June 2022, as well as the early redemption of the Senior Bonds 3/2020 issue amounting to 120 million euros on 23 November 2022.

In relation to asset securitisation:

– The Group is a very 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 and consumer loans.

– There are currently 15 outstanding traditional asset securitisation transactions fully recognised on the balance sheet. Although some of the securities issued were retained by the Institution as liquid assets eligible as collateral in exchange for access to funding operations with the European Central Bank, the rest of the securities were placed in capital markets. As at 31 December 2022, the nominal balance of the asset-backed securities placed in the market was 1,251 million euros.

- On 13 July 2022, Banco Sabadell sold all of the tranches that are financing the loan book of the securitisation fund Sabadell Consumo 2, FT to the market, for a nominal amount of 750 million euros. This is Banco Sabadell's second consumer loan securitisation. This transaction was carried out to manage liquidity and capital.

- On 18 August 2022, TSB Bank incorporated the RMBS securitisation fund Duncan Funding 2022-1 PLC for the amount of 1,333 million pounds sterling, which was retained in full. The tranches retained by the Institution may be used as collateral for liquidity operations with the Bank of England.

- In 2022, Banco Sabadell called three securitisation funds early. On 20 June, it called the fund IM Sabadell PYME 11, FT, whose securities had been fully retained. On 22 September if called the multi-seller fund TDA 23, FTA, the clean-up call date having been reached and on 28 October it called the fund Caixa Penedés 2 TDA, FTA, whose securities were also retained in full.

As at the end of 2022, Banco Sabadell had 22 billion euros of outstanding TLTRO III borrowing, of which 17 billion euros mature in June 2023 and 5 billion euros mature in March 2024, having prepaid 10 billion euros of the aforesaid borrowing during the year. In 2022, the Group recognised 162 million euros in interest income on TLTRO III (313 million euros in 2021).

TSB, for its part, also had outstanding amounts borrowed from the Bank of England, namely 5 billion pounds sterling borrowed under the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) and 500 million pounds sterling borrowed under the Indexed Long Term Repo (ILTR), giving rise to a total amount borrowed from the Bank of England as at 31 December 2022 of 5.5 billion pounds sterling.

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

	2022	2021
Cash(*) + Net Interbank Position	35,012	43,189
Funds available in Bank of Spain facility	7,788	1,527
ECB eligible assets not pledged in facility	6,010	4,429
Other non-ECB eligible marketable assets (**)	5,234	4,738
Memorandum item:		
Balance drawn from Bank of Spain facility (***)	*22,000*	*32,000*
Balance drawn from Bank of England Term Funding Scheme (****)	*6,201*	*6,545*
Total Liquid Assets Available	**54,044**	**53,883**

(*) 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.

(****) At year-end 2022, includes 5 billion pounds to support Small and Medium-sized Enterprises (TFSME) and 500 million pounds of Indexed Long Term Repo (ILTR). At year-end 2021, included 5.5 billion pounds of TFSME borrowing.

In terms of 2022, the Group's first line has remained stable over the year, increasing by 161 million euros. The balance of reserves and the marginal deposit facility in central banks, as well as the net interbank position, decreased by 8,177 million euros in 2022, while in the case of the volume of liquid assets deemed eligible by the European Central Bank, its balance over the year 2022 increased by 7,842 million euros. These changes can be explained, not only by the reduction of assets' valuations, but also by the early repayment of the funds borrowed under TLTRO III and by the fixed-income portfolio purchases made. Similarly, assets available and not deemed eligible by the European Central Bank increased by 496 million euros in 2022, due mainly to the increase in available assets of foreign subsidiaries.

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, called the counterbalancing capacity, each LMU monitors its liquidity buffer with an internal conservative criterion. 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 2022, the second line of liquidity added a volume of 12,885 million euros to the liquidity buffer, including the covered bond issuing capacity, considering the average valuation applied by the European 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 with the Bank of England to obtain funding. As at 31 December 2022, the second line of liquidity, considering the amount of loans pre-positioned with the Bank of England, amounted to 3,366 million euros.

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 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 2022, the LCR stood at 196% for the TSB LMU, 270% for Banco Sabadell Spain and 234% for the Group.

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 their 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 2022, the NSFR stood at 151% for the TSB LMU, 132% for Banco Sabadell Spain and 138% for the Group.

3.4.3.2. Market risk

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

Positions that generate market risk are usually held in connection with trading activity, which consists of the hedging transactions arranged by the Bank to provide services to its customers as well as discretionary proprietary positions.

Market risk can also arise from the mere maintenance of overall (also known as structural) balance sheet positions that in net terms are left open. This risk is addressed in the sections on structural risks.

The items of the balance sheet as at 31 December 2022 and 2021 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

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

Thousand euro

	31/12/2021			
	On-balance sheet balance	Trading activity	Other	Main market risk factor in "Other"
Assets subject to market risk	**197,187,820**	**1,754,670**	**195,433,150**	
Cash, cash balances at central banks and other demand deposits	42,305,858	—	42,305,858	Interest rate
Financial assets held for trading	1,765,884	1,754,670	11,214	Interest rate; credit spread
Non-trading financial assets mandatorily at fair value through profit or loss	76,832	—	76,832	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	5,856,546	—	5,856,546	Interest rate; credit spread
Financial assets at amortised cost	133,047,125	—	133,047,125	Interest rate
Derivatives – Hedge accounting	240,921	—	240,921	Interest rate
Investments in joint ventures and associates	5,358,076	—	5,358,076	Equity
Other assets	8,536,578	—	8,536,578	—
Liabilities subject to market risk	**185,884,573**	**1,180,734**	**184,703,839**	
Financial liabilities held for trading	1,189,494	1,180,734	8,760	Interest rate
Derivatives – Hedge accounting	354,769	—	354,769	Interest rate
Financial liabilities at amortised cost	182,745,169	—	182,745,169	Interest rate
Other liabilities	1,595,141	—	1,595,141	—
Equity	**11,303,247**	**—**	**11,303,247**	

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 Technical Risk Committee. Market risk limits are aligned with the Group's targets and risk appetite framework.

Trading activity

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

- Interest rate risk: risk associated with the possibility of interest rate fluctuations adversely affecting the value of a financial instrument. This is reflected, for example, in transactions involving interbank deposits, fixed income and interest rate derivatives.

- Credit spread risk: this risk arises from fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.

- Foreign exchange risk: risk associated with the fluctuation of exchange rates with respect to the functional currency. In the case of Banco Sabadell, the functional currency is the euro. This risk occurs mainly in currency exchange transactions and currency derivatives.

- Equity price risk: risk arising from fluctuations in the value of capital instruments (shares and quoted indices). This risk is reflected in the market prices of the securities and their derivatives.

Changes in commodities prices have not had an impact in the year, as the Group has residual (both direct and underlying) exposures.

Market risk incurred in trading activity is measured using the VaR and stressed VaR methodologies. These allow risks to be standardised across different types of financial market transactions.

VaR provides an estimate of the maximum potential loss associated with a position due to adverse, but normal, movements of one or more of the identified parameters generating market risk. This estimate is expressed in monetary terms and refers to a specific date, a particular level of confidence and a specified time horizon. A 99% confidence interval is used. Due to the low complexity of the instruments and the high level of liquidity of the positions, a time horizon of 1 day is used.

The methodology used to calculate VaR is historical simulation. The advantages of this methodology are that it is based on a full revaluation of transactions under recent historical scenarios, and that no assumptions need to be made as regards the distribution of market prices. The main limitation to this methodology is its reliance on historical data, given that, if a possible event has not materialised within the range of historical data used, it will not be reflected in the VaR data.

The reliability of the VaR methodology used can be verified using backtesting techniques, which serve to verify that the VaR estimates fall within the confidence level considered. Backtesting consists of comparing daily VaR against daily results. If losses exceed the VaR level, an exception occurs. No backtesting exceptions occurred in 2022 or 2021.

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 2022, the impact of the most adverse scenario considered was -11 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 Technical Risk 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 2022 and 2021 was as follows:

Million euro

	2022			2021		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest rate risk	1.08	2.21	0.61	0.88	1.86	0.55
Foreign exchange risk (trading)	1.29	2.40	0.88	1.61	3.13	0.03
Equity	0.13	1.24	—	0.16	1.89	0.04
Credit spread	0.25	0.57	0.11	0.25	0.62	0.07
Aggregate VaR	**2.74**	**4.78**	**2.09**	**2.89**	**5.38**	**1.14**

During 2022, the overall VaR figures of trading activity have remained at medium-low levels, the exchange rate being the main risk factor, due to a higher exposure of portfolios to this risk factor. In spite of the increased volatility during the year, on average the figures dropped slightly compared to the previous year as the Covid-19 scenarios, which had a considerable impact on the foreign exchange risk factor, no longer fell within the time window considered, although a slight rebound of interest rates and credit spreads was observed.

Structural interest rate risk

Structural interest rate risk is inherent in banking activity and is defined as the current or future risk to both the income statement (income and expenses) and the economic value of equity (present value of assets, liabilities and off-balance sheet positions) arising from adverse interest rate fluctuations affecting interest rate-sensitive instruments in non-trading activities (also known as Interest Rate Risk in the Banking Book, or IRRBB).

The Group identifies five interest rate sub-risks:

- Repricing risk is the risk arising from mismatches at the time the repricing of interest rate-sensitive instruments occurs, including those changes in the time structure of interest rates that occur consistently along the yield curve (parallel shifts).

- Curve risk is the risk arising from mismatches at the time the repricing of interest rate-sensitive instruments occurs, including those changes in the time structure of interest rates that occur differently depending on the time to maturity (non-parallel shifts).

- Basis risk includes the risk arising from the impact of relative changes in interest rates on instruments with similar maturities but whose repricing is determined using different interest rate indices.

- Automatic optionality risk comprises the risk arising from automatic options (e.g. lending floors and caps), both embedded and explicit, in which the Balance Sheet Management Unit (BSMU) or its customer can alter the level and timing of their cash flows and in which the holder will almost certainly exercise the option when it is in their financial interest to do so.

- Behavioural optionality risk arises from the flexibility embedded within the terms of certain financial contracts, which allow variations in interest rates to produce a change in customer behaviour.

The Group's management of this risk pursues two fundamental objectives:

- To stabilise and protect the net interest margin, preventing interest rate movements from causing excessive variations in the budgeted margin.

- To minimise the volatility of the economic value of equity, this perspective being complementary to that of the margin.

Interest rate risk is managed through a Group-wide approach on the basis of the RAS, approved by the Board of Directors. A decentralised model is followed based on Balance Sheet Management Units (BSMUs). In coordination with the Group's corporate functions, each BSMU has the autonomy and capability to carry out risk management and control duties.

The Group's current interest rate risk management strategy is based on the following principles in particular, in line with the business model and the defined strategic objectives:

- Each BSMU has appropriate tools and robust processes and systems in place to adequately identify, measure, manage, control and report on IRRBB, following the main criteria defined by the Group's internal methodology. The Group uses these to obtain information about all of the identified sources of IRRBB, assess their effect on the net interest margin and the economic value of equity and measure the vulnerability of the Group/BSMU in the event of potential losses arising from IRRBB under different scenarios affecting the interest rate curves.

- At the corporate level, a series of limits are established for overseeing and monitoring IRRBB exposure levels, which are aligned with internal risk tolerance policies. However, each BSMU has the autonomy and structure required to properly manage and control IRRBB and CSRBB (Credit Spread Risk in the Banking Book). 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 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 metrics that the Group calculates on a monthly basis are as follows:

- Interest rate gap: static metric showing the breakdown of maturities and repricing of sensitive balance sheet items. This metric compares the values of assets that are due to be revised or that mature in a given period and the liabilities that mature or reprice in that same period.

- Net interest margin sensitivity: dynamic metric that measures the impact of interest rate fluctuations 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.

- Duration analysis: a static metric based on the assignment of all cash flows of interest-rate sensitive balance sheet items to time brackets. 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.

- 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.

- Metric 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 -100 basis points for current maturities and increasing by 5 basis point intervals, eventually reaching 0% after 20 years or more.

In addition, measurements are carried out that include assumptions regarding the evolution of the balance sheet based on the forward-looking scenarios of the Group's Financial Plan, referring to scenarios of interest rates, volumes and margins.

Furthermore, in accordance with the Group's corporate principles, all BSMUs regularly carry out stress tests, which allow them to forecast high-impact situations with a low probability of occurrence that could place BSMUs in a position of extreme exposure in relation to interest rate risk, and they also consider mitigating actions for such situations.

The following table gives details of the Bank's interest rate gap as at 31 December 2022 and 2021:

Thousand euro

	2022								
Time to maturity	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**TOTAL**
Money Market	36,068,169	373,780	593,215	125,651	—	—	8,668	—	**37,169,483**
Loans and advances	16,221,330	17,273,107	35,725,359	9,363,247	6,926,992	5,384,177	4,265,903	18,076,148	**113,236,263**
Debt securities	471,227	860,922	2,017,614	1,692,448	1,384,951	939,393	2,783,050	13,928,303	**24,077,908**
Other assets	—	—	—	—	—	—	—	—	**—**
Total assets	**52,760,726**	**18,507,809**	**38,336,188**	**11,181,346**	**8,311,943**	**6,323,570**	**7,057,621**	**32,004,451**	**174,483,654**
Money Market	29,893,180	290,048	550,024	125,651	—	—	—	—	**30,858,903**
Customer deposits	111,206,535	1,580,408	2,922,185	1,411,541	559,774	478,866	1,044,540	99,917	**119,303,766**
Issues of marketable securities	1,680,252	3,493,442	1,853,628	3,510,000	3,908,110	2,457,000	3,118,100	2,145,025	**22,165,557**
Of which: Subordinated liabilities	—	400,000	500,000	—	300,000	1,500,000	750,000	15,025	***3,465,025***
Other liabilities	55,015	122,537	277,700	217,712	144,908	130,335	113,172	670,277	**1,731,656**
Total liabilities	**142,834,982**	**5,486,435**	**5,603,537**	**5,264,904**	**4,612,792**	**3,066,201**	**4,275,812**	**2,915,219**	**174,059,882**
Hedging derivatives	**2,366,916**	**(5,434,459)**	**587,325**	**3,803,604**	**1,946,135**	**872,912**	**1,294,035**	**(5,436,468)**	**—**
Interest rate gap	**(87,707,340)**	**7,586,915**	**33,319,976**	**9,720,046**	**5,645,286**	**4,130,281**	**4,075,844**	**23,652,764**	**423,772**

Thousand euro

	2021								
Time to maturity	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**TOTAL**
Money Market	46,427,515	65,685	536,886	560,946	—	—	—	—	47,591,032
Loans and advances	12,988,079	16,966,019	38,437,099	13,996,053	6,629,018	5,333,052	3,995,440	16,456,783	114,801,543
Debt securities	982,561	123,296	137,269	1,351,555	1,514,715	1,378,681	1,309,007	9,208,183	16,005,267
Other assets	—	—	—	—	—	—	—	—	—
Total assets	**60,398,155**	**17,155,000**	**39,111,254**	**15,908,554**	**8,143,733**	**6,711,733**	**5,304,447**	**25,664,966**	**178,397,842**
Money Market	37,533,449	10,154	515,179	560,425	—	5,229	—	—	38,624,436
Customer deposits	107,472,796	1,838,637	3,957,112	1,292,156	1,216,439	114,277	816,153	129,868	116,837,438
Issues of marketable securities	934,160	2,649,284	2,426,220	2,577,337	3,529,309	2,668,804	2,464,779	3,373,358	20,623,251
Of which: Subordinated liabilities	—	—	1,150,000	500,000	—	300,000	1,500,000	765,025	*4,215,025*
Other liabilities	67,814	182,842	344,716	182,133	158,191	130,003	115,416	674,340	1,855,455
Total liabilities	**146,008,219**	**4,680,917**	**7,243,227**	**4,612,051**	**4,903,939**	**2,918,313**	**3,396,348**	**4,177,566**	**177,940,580**
Hedging derivatives	**1,538,491**	**(2,514,023)**	**1,506,771**	**(601,913)**	**1,422,940**	**343,465**	**1,008,435**	**(2,704,166)**	**—**
Interest rate gap	**(84,071,573)**	**9,960,060**	**33,374,798**	**10,694,590**	**4,662,734**	**4,136,885**	**2,916,534**	**18,783,234**	**457,262**

Banco Sabadell has positive exposure to interest rate increases in its net interest income (NII) insofar as higher interest rates are passed through on the asset side and contained on the liabilities side. Assuming that interest rate variations are gradually passed through to the cost of customer funds, Banco Sabadell estimates that the sensitivity of its net interest income to increases of +100 basis points would be +7.9% in the first year and +16.2% in the second year, on the assumption that the pass-through would take place in the same way as it has done thus far.

In addition, the following table shows the interest rate risk levels in terms of the sensitivity of the Group's main currencies, as at 2022 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	**Net Interest Income impact**	**Impact on economic value of equity**
EUR	0.6%	-4.8%
GBP	0.7%	0.0%
USD	1.7%	-0.2%
MXN	0.0%	0.0%

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

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 2022 work has continued on the review and continuous improvement of the systems and behavioural models in accordance with the guidelines established by the EBA. Among other things, it is worth noting the calibration of the main behavioural modelling assumptions for demand deposits based on the different interest rate scenarios, and the enhancement of stress testing procedures.

In 2022, the Bank's loan book shifted towards a higher proportion of fixed-rate transactions (mainly mortgages and business loans), while on the liabilities side demand deposit balances increased. In addition, other balance sheet variations in 2022 included: the increase of the fixed-income portfolio on the asset side and the early TLTRO III repayment of 10 billion euros, with the total outstanding amount now standing at 22 billion euros. The repayment conditions were changed in November. This all translated into a smaller net balance of interest-rate sensitive items.

With regard to interest rates, in 2022 benchmark rates have increased sharply in all currencies, in particular in the euro, going from negative to positive, with the 12-month Euribor, for example, standing above 3% as at the end of 2022. The marginal deposit rate of the European Central Bank (ECB) ended the year at 2% (+250 basis points over the year), while the base rate of the Bank of England ended at 3.50% (+325 basis points over the year). The situation envisaged in the short-to-medium term is that rates of the Group's main currencies (EUR, USD and GBP) will continue to rise, influenced by inflationary pressures.

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

Furthermore, the Group continues to monitor customer behaviour in reaction to interest rate hikes and variations of other economic variables (unemployment rates, gross domestic product, etc.), in order to anticipate possible changes and impacts on the behavioural assumptions used to measure and manage IRRBB. In particular, it analyses customer behaviour related to non-maturing items (changes in the stability of demand deposits and possible migration to other products that earn more interest) and related to items with an expected maturity that may be different to the contractually established maturity (due to early repayment of loans, early termination of term deposits or recovery time and balance of non-performing exposures).

3.4.3.3. Structural foreign exchange risk

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

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

Foreign exchange risk is monitored regularly and reports are sent to supervisory bodies on existing risk levels and on compliance with the limits set forth by the Board of Directors. The main monitoring metric is currency exposure, which measures the maximum potential loss that the open structural position could produce over a 1-month time horizon, with a 99% confidence level and in stressed market conditions.

Compliance with, and the effectiveness of, the Group's targets and policies are monitored and reported on a monthly basis to the Board Risk Committee.

The Bank's Financial Division, through the ALCO (Asset and Liability Committee), 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 made in US dollars, pounds sterling and Mexican pesos.

As regards permanent investments in US dollars, the overall position in this currency has gone from 1,096 million as at 31 December 2021 to 1,154 million as at 31 December 2022. In relation to this position, as at 31 December 2022, a buffer of 37% of total investment is maintained.

In terms of permanent investments in Mexican pesos, the capital buffer has gone from 9,583 million Mexican pesos as at 31 December 2021 (of a total exposure of 12,519 million Mexican pesos) to 8,833 million Mexican pesos as at 31 December 2022 (of a total exposure of 13,359 million Mexican pesos), representing 66% of the total investment made.

As regards permanent investments in pounds sterling, the capital buffer has increased by 213 million pounds sterling as at 31 December 2021 to 333 million pounds sterling as at 31 December 2022 (total exposure has gone from 1,715 million pounds sterling as at 31 December 2021 to 1,700 million pounds sterling as at 31 December 2022), representing 20% of the total investment made (excluding intangibles).

Currency hedges are continuously reviewed in light of market movements.

The exchange value in euros of assets and liabilities in foreign currencies maintained by the Bank as at 31 December 2022 and 2021, classified in accordance with their nature, is as follows:

Thousand euro

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

Thousand euro

	2021			
	USD	GBP	Other currencies	TOTAL
Assets denominated in foreign currency:	**9,198,168**	**4,692,158**	**1,248,354**	**15,138,680**
Cash, cash balances at central banks and other demand deposits	294,699	54,557	76,729	425,985
Debt securities	1,133,691	896,356	268,566	2,298,613
Loans and advances	7,586,335	1,468,032	291,051	9,345,418
Central banks and Credit institutions	243,323	4,046	24,278	271,647
Customers	7,343,012	1,463,986	266,773	9,073,771
Other assets	183,443	2,273,213	612,008	3,068,664
Liabilities denominated in foreign currency:	**6,755,021**	**675,036**	**176,150**	**7,606,207**
Deposits	6,543,790	648,216	157,825	7,349,831
Central banks and Credit institutions	1,142,752	209,930	46,637	1,399,319
Customers	5,401,038	438,286	111,188	5,950,512
Other liabilities	211,231	26,820	18,325	256,376

The net position of foreign currency assets and liabilities includes the structural position of the Institution, valued as at 31 December 2022, which amounted to 2,488 million euros, of which 1,541 million euros corresponded to permanent equity holdings in pounds sterling, 683 million euros corresponded to permanent equity holdings in US dollars and 217 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 2022, the sensitivity of the equity exposure to a 1.3% 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, would amount to 32 million euros, of which 62% would correspond to the pound sterling, 27% to the US dollar and 9% to the Mexican peso.

3.4.4. Operational risk

Operational risk is defined as the risk of incurring losses due to inadequacies or failures of processes, staff or internal systems or due to external events. This definition includes but is not limited to legal risk, model risk and information and communications technology (ICT) risk and excludes strategic risk and reputational risk.

The management of operational risk is decentralised and devolved to process managers throughout the organisation. The processes that they manage are indicated in the corporate process flowchart, which facilitates the integration of data according to the organisational structure. The Group has a central unit that specialises in the management of operational risk, whose main duties are to coordinate, oversee and promote the identification, assessment and management of risks by the process managers, based on the management model adopted by Banco Sabadell Group.

Senior Management and the Board of Directors are directly involved and effectively take part in managing this risk by approving the management framework and its implementation as proposed by the Board Risk Committee (formed of Senior Management members from different functional areas within the Institution) and by ensuring that regular audits are carried out of the application of the management framework and of the reliability of the reported information, as well audits of the internal validation tests of the operational risk model. Operational risk is managed through two main courses of action:

The first course of action is based on the analysis of processes, the identification of risks associated with those processes that may result in losses, and a qualitative assessment of the risks and the associated controls. The foregoing are carried out jointly between process managers and the central operational risk unit. This provides an assessment of the future exposure to risk in terms of expected and unexpected losses and also allows trends to be foreseen and the corresponding mitigating actions to be adequately planned.

This is complemented by the identification, monitoring and active management of the risk through the use of key risk indicators. These allow warnings to be established, which alert the Institution to any increase in this exposure, and also enable it to identify the causes of that increase and measure the effectiveness of the implemented controls and improvements.

At the same time, checks are run to verify that specific business continuity plans have been defined and implemented for processes identified as being highly critical in the event of any service disruption. In terms of the identified risks, a qualitative estimate is made of the reputational impact that they could cause if they were to materialise.

The second 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: defined as the possibility, at present or in the future, of incurring losses as a result of the inadequate provision of financial services, including cases of wilful misconduct or negligence. It is comprehensively managed using the elements defined in the methodological framework for operational risk and through the governance structures and lines of defence defined therein.

- 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 or security of these infrastructures and data, or 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: the possibility of incurring losses as a result of suppliers failing to provide subcontracted services or discontinuing their provision, weaknesses in their systems' security, disloyal employees or a breach of applicable regulations. It also includes other related risks such as concentration risk, country risk, legal risk and compliance risk.

- Model risk: the possibility of incurring losses due to decisions made using inadequate models.

- Tax risk: the probability of failing to achieve the objectives set out in Banco Sabadell's tax strategy from a dual perspective due to either internal or external factors:

  - On one hand, the probability of failing to fulfil tax obligations, potentially resulting in a failure to pay taxes that are due, or the occurrence of any other event that could potentially prevent the Bank from achieving its goals.

  - On the other hand, the probability of paying taxes not actually due under tax obligations, thus negatively affecting shareholders and other stakeholders.

- Compliance risk: 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 the Group's activity.

Reputational risk, understood as the possibility of incurring losses as a result of negative publicity related to the Institution's practices and business, is also managed and controlled according to the methodological framework for operational risk, as this is a potentially significant source of reputational risk. This risk also considers the loss of trust in the Institution, which could affect its solvency.

Senior Management and, in particular, the Board Risk Committee, have closely monitored the Group's risk profile through specific reports containing information and indicators associated with the main operational risks (including those associated with technology, human error, conduct, processes, security and fraud) and reputational impacts that could potentially affect the Group's different stakeholders (employees and partners, customers, suppliers, supervisors). No noteworthy impacts have been detected.

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

3.4.4.1 Technology risk

In recent years, the importance, complexity and use of technology and data have increased even further in banking processes, especially in remote channels (online banking) as a result of the impact of Covid-19. 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 conflict between Ukraine and Russia has brought with it the risk of becoming a target for cyberattacks, in reaction to the restrictions imposed on Russia and due to Ukraine's de facto membership of NATO, requiring the introduction of back-up measures. At the present time, this risk related to this conflict is stable, though latent.

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

It should be mentioned that this risk is not only applicable to the Group's own systems and processes, but it is also applicable to suppliers, given the widespread use of third parties for support in technological and business processes, and this therefore represents a significant risk when it comes to managing outsourcing. On the topic of IT outsourcing, with regard to 2022 it is particularly worth noting the implementation of Project Dingle, which has concentrated the outsourcing of application development and testing in three key suppliers and which therefore requires a greater level of control and monitoring of those suppliers, while at the same time reducing the probability of experiencing cybersecurity incidents in this area.

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 (intra-group outsourcing) to provide IT systems, their management or related services produces a negative effect on the Institution's performance (including impacts on customers, as well as reputational, regulatory or financial impacts).
- IT governance: risk arising from inadequate or insufficient management and use of technology, as well as a poor alignment of these technologies and their intended uses with the business strategy.
- Technological transformation: risk associated with inappropriate adoption or inefficient use of technology within the organisation for the development of new value propositions.
- IT skills: risk arising from the insufficiency of adequate IT profiles (internal and/or external partners) to ensure effective and efficient coverage of technological activities, processes and services.

3.4.4.2 Tax risk

With regard to tax risk, the tax risk policies of Banco Sabadell Group 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:

3.4.4.3 Compliance risk

As regards compliance risk, one of the core aspects of the Group's policy, and the foundation of its organisational culture, is strict compliance with all legal provisions, meaning that the achievement of business objectives must be compatible, at all times, with adherence to the law and the established legal system.

To this end, the Group has a Compliance Division whose mission is to seek the highest levels of compliance with existing legislation and ensure that professional ethics are present in all areas of the Group's activity.

This Division assesses and manages compliance risk, understood 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, minimising the possibility of any breaches of the foregoing, and ensuring that any breaches that do occur are identified, reported and diligently resolved. It does this by performing the following tasks:

- Monitoring and overseeing the adaptation to new regulations through proactive management to ensure regular and systematic monitoring of legal updates.
- Identifying and periodically assessing compliance risks in the different areas of activity and contributing to their management in an efficient manner. To this end, establishing, applying and maintaining appropriate procedures to prevent, detect, correct and minimise any compliance risk.
- Establishing, in accordance with the above, an up-to-date oversight and control programme, with the appropriate tools and methodologies for control.
- Supervising the risk management activities carried out by the first line of defence to ensure that they are aligned with the established risk policies and procedures.
- Keeping, for at least the period of time established by the legislation in force at any given time, the documentary justification of the controls carried out by the Compliance Division, as well as any other policies and procedures implemented for the best possible fulfilment of regulatory obligations.
- Submitting to the administrative and management bodies the regular or ad hoc reports on compliance that are legally required at any given time.
- Reporting to the administrative and management bodies on any information relevant to compliance arising from all areas and activities of each Group entity.
- Assisting the Board of Directors and Senior Management in compliance matters.
- Controlling and coordinating inspections, as well as responses to the requirements of Supervisors and Regulators, and checking that their recommendations have been acted on accordingly.
- 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.
- Assigning functional responsibilities for compliance where necessary.
- Intervening in the process for establishing remuneration policies and practices.

- With regard to Anti-Money Laundering, Counter-Terrorist Financing (AML/CTF) and International Sanctions, implementing, managing and updating policies and procedures; carrying out the preliminary classification of the AML/CTF 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/CTF and international sanctions.

- 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.

- Taking part in the development of training programmes in order to advise and make employees aware of the importance of complying with the established internal procedures.

- 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.

The following compliance risks have been identified:

- Anti-Money Laundering and Counter-Terrorist Financing.
- Data protection.
- Market integrity.
- MiFID.
- EBA.
- Other products and services.
- Publicity.
- New legislation.
- Corporate crime prevention.
- Remuneration.
- Code of Conduct and Ethics.
- Subsidiaries and foreign branches.
- Customer Care Service (*Servicio de Atención al Cliente*, or SAC).

Note 4 – Minimum own funds and capital management

As at 31 December 2022 and 2021, the Bank's eligible own funds exceeded those required by the current regulatory framework concerning capital (Directive 2013/36/EU and Regulation (EU) 575/2013).

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

Note 5 – Fair value of assets and liabilities

Financial assets and financial liabilities

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

When there is no market price for a particular financial asset or financial liability, the fair value is estimated from the values established for similar instruments in recent transactions or, alternatively, by using mathematical valuation models that have been suitably tested by the international financial community. When using these models, the particular characteristics of the financial asset or financial liability to be valued are taken into account, particularly the different types of risk that may be associated therewith. The above notwithstanding, the limitations inherent in the valuation models that have been developed and possible inaccuracies in the assumptions and parameters required by these models may result in the estimated fair value of a financial asset or financial liability not exactly matching the price at which the asset or liability could be delivered or settled on the valuation date.

The fair value of financial derivatives quoted on an active market is the daily quoted price.

In the case of instruments for which quoted prices cannot be determined, prices are estimated using internal models developed by the Bank, most of which take data based on observable market parameters as significant inputs. In the remaining cases, the models make use of other inputs which rely on internal assumptions based on generally accepted practices within the financial community.

For financial instruments, the fair values disclosed in the financial statements are classified according to the following fair value levels:

- Level 1: Fair values are obtained from the (unadjusted) prices quoted on active markets for that instrument.
- Level 2: Fair values are obtained from the prices being quoted on active markets for similar instruments, the prices of recent transactions, expected payment flows or other valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3: Fair values are obtained through valuation techniques in which some significant inputs are not based on observable market data.

Set out below are the main valuation methods, assumptions and inputs used when estimating the fair value of financial instruments classified in Levels 2 and 3, according to the type of financial instrument concerned:

Financial instruments Level 2	**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	- NACEs - 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 and spot curve
Other derivatives (a)	Analytic/semi-analytic formulae	- For equity derivatives, FX or commodities: Black-Scholes model: assumes log normal distribution of underlying with volatility depending on 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: allow perfect correlation of negative rates and forward rates in the yield curve term structure.	- Term structure of interest rates - Volatility surfaces of Libor rate options (caps) and swap rate options (swaptions)
	Monte Carlo simulations	For valuation of equity derivatives, FX or commodities: Black-Scholes model: assumes log normal distribution of underlying with volatility depending on term For calculation of CVA and DVA adjustments: Normal model and Black-Scholes model.	- Forward structure of the underlying asset, given by market data (dividends, swap points, etc.). - Volatility surfaces of options - Probability of default for calculation of CVA and DVA (b)
	Hybrid local volatility models - stochastic	- 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	- Credit Default Swaps (CDS) price quotes - 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.

Financial instruments Level 3	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 on variables that affect future flows: claims, losses, redemptions	- Estimated credit spreads of the issuer or a similar issuer - Rates of claims, losses and/or redemptions
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 - Sector risk of the company - 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

(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 stock prices have been assigned.

Determination of the fair value of financial instruments

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

Thousand euro

		2022		2021	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Cash, cash balances at banks	6	34,063,579	34,063,579	42,305,858	42,305,858
Financial assets held for trading	7, 9	2,671,253	2,671,253	1,765,884	1,765,884
Non-trading financial assets mandatorily at fair value through profit or loss	7, 8	35,534	35,534	76,832	76,832
Financial assets at fair value through other comprehensive income	7, 8	5,754,945	5,754,945	5,856,546	5,856,546
Financial assets at amortised cost	7, 10	138,642,033	133,396,897	133,047,125	138,280,555
Derivatives – Hedge accounting	11	1,342,300	1,342,300	240,921	240,921
Total assets		**182,509,644**	**177,264,508**	**183,293,166**	**188,526,596**

Thousand euro

	Note	2022 Carrying amount	2022 Fair value	2021 Carrying amount	2021 Fair value
Liabilities:					
Financial liabilities held for trading	9	2,156,675	2,156,675	1,189,494	1,189,494
Financial liabilities at amortised cost	17, 18, 19, 20	180,367,656	167,569,018	182,745,169	181,125,677
Derivatives – Hedge accounting	11	941,607	941,607	354,769	354,769
Total liabilities		**183,465,938**	**170,667,300**	**184,289,432**	**182,669,940**

Financial instruments at fair value

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

Thousand euro

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

Thousand euro

	Note	2022 Level 1	2022 Level 2	2022 Level 3	2022 Total
Liabilities:					
Financial liabilities held for trading		224,447	1,932,228	—	2,156,675
Derivatives	9	—	1,932,228	—	1,932,228
Short positions		224,447	—	—	224,447
Deposits with credit institutions		—	—	—	—
Financial liabilities designated at fair value through profit or loss		—	—	—	—
Derivatives – Hedge accounting	11	—	941,607	—	941,607
Total liabilities		**224,447**	**2,873,835**	**—**	**3,098,282**

Thousand euro

	Note	2021			
		Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		590,373	1,175,511	—	1,765,884
Derivatives	9	—	1,175,511	—	1,175,511
Equity instruments		—	—	—	—
Debt securities	7	590,373	—	—	590,373
Loans and advances – Customers		—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss		15,634	1,541	59,657	76,832
Equity instruments		14,544	38	—	14,582
Debt securities	7	1,090	1,503	59,657	62,250
Loans and advances		—	—	—	—
Financial assets designated at fair value through profit or loss		—	—	—	—
Debt securities		—	—	—	—
Loans and advances – Credit institutions		—	—	—	—
Financial assets at fair value through other comprehensive income		4,804,977	625,220	426,349	5,856,546
Equity instruments	8	1,922	58,182	4,464	64,568
Debt securities	7	4,803,055	567,038	421,885	5,791,978
Loans and advances		—	—	—	—
Derivatives – Hedge accounting	11	—	240,921	—	240,921
Total assets		**5,410,984**	**2,043,193**	**486,006**	**7,940,183**

Thousand euro

	Note	2021			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		56,662	1,132,832	—	1,189,494
Derivatives	9	—	1,132,832	—	1,132,832
Short positions		56,662	—	—	56,662
Deposits with credit institutions		—	—	—	—
Financial liabilities designated at fair value through profit or loss		—	—	—	—
Derivatives – Hedge accounting	11	—	354,769	—	354,769
Total liabilities		**56,662**	**1,487,601**	**—**	**1,544,263**

Derivatives with no credit support annexes (CSAs) include the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA) in their fair value, respectively. The fair value of these derivatives represents 6.91% of the total, and their adjustment for credit and debit risks represents 11.91% of their fair value as at 31 December 2022 (6.11% and 5.73%, respectively, as at 31 December 2021).

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

Thousand euro

	Assets	Liabilities
Balance as at 31 December 2020	**75,813**	**—**
Valuation adjustments recognised in profit or loss (*)	4,231	—
Valuation adjustments not recognised in profit or loss	(561)	—
Purchases, sales and write-offs	(17,018)	—
Net additions/removals in Level 3	415,117	—
Exchange differences and other	8,424	—
Balance as at 31 December 2021	**486,006**	**—**
Valuation adjustments recognised in profit or loss (*)	3,992	—
Valuation adjustments not recognised in profit or loss	(46,071)	—
Purchases, sales and write-offs	(46,627)	—
Net additions/removals in Level 3	(4,465)	—
Exchange differences and other	(16,051)	—
Balance as at 31 December 2022	**376,784**	**—**

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

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

Thousand euro

	2022					
From:	**Level 1**		**Level 2**		**Level 3**	
To:	**Level 2**	**Level 3**	**Level 1**	**Level 3**	**Level 1**	**Level 2**
Assets:						
Financial assets held for trading	—	—	—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—	—	—	—	—
Financial assets designated at fair value through profit or loss	—	—	—	—	—	—
Financial assets at fair value through other comprehensive income	—	—	—	—	4,465	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Liabilities:						
Financial liabilities held for trading	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	—	—	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Total	**—**	**—**	**—**	**—**	**4,465**	**—**

Details of financial instruments that were transferred to different valuation levels in 2021 are as follows:

Thousand euro

	2021					
From:	Level 1		Level 2		Level 3	
To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:						
Financial assets held for trading	—	—	—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—	—	—	—	—
Financial assets designated at fair value through profit or loss	—	—	—	—	—	—
Financial assets at fair value through other comprehensive income	540,129	415,117	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Liabilities:						
Financial liabilities held for trading	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	—	—	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Total	**540,129**	**415,117**	**—**	**—**	**—**	**—**

Transfers from Level 3 to Level 1 in 2022 are due to the fact that the markets in which these instruments (senior bonds) are traded are now being considered as active market; therefore, their valuation was obtained from market prices.

The transfers from Level 1 to Level 2 in 2021 were due to the fact that these instruments (senior debt securities issued by TSB) were no longer considered to have an active market and their valuation was now calculated using valuation techniques in which all significant inputs were based on directly or indirectly observable market data.

The transfers from Level 1 to Level 3 in 2021 were due to the fact that the markets in which these instruments (subordinated bonds issued by TSB and asset-backed securities) were no longer traded on active markets and their valuation was now calculated using valuation techniques in which one of the main significant inputs (prepayment rate of securitised loans in the case of asset-backed securities, and risk premium, to calculate the discount rate, and IRR volatility, to value the call optionality of the instrument, in the case of the subordinated bond issued by TSB) was based on unobservable market data.

As at 31 December 2022 and 2021, 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 deemed likely, is not significant.

At year-end in both years, there were no derivatives using equity instruments as underlying assets or material interests in discretionary gains in any companies.

Financial instruments at amortised cost

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

Thousand euro

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

Thousand euro

	2022			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Financial liabilities at amortised cost (*):				
Deposits	—	143,293,339	—	143,293,339
Debt securities issued	15,613,490	3,753,646	—	19,367,136
Total liabilities	**15,613,490**	**147,046,985**	**—**	**162,660,475**

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

Thousand euro

	2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets at amortised cost:				
Debt securities	11,947,929	716,151	67,830	12,731,910
Loans and advances	—	25,446,544	100,102,101	125,548,645
Total assets	**11,947,929**	**26,162,695**	**100,169,931**	**138,280,555**

Thousand euro

	2021			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Financial liabilities at amortised cost (*):				
Deposits	—	156,959,474	—	156,959,474
Debt securities issued	15,339,879	4,559,588	3,119	19,902,586
Total liabilities	**15,339,879**	**161,519,061**	**3,119**	**176,862,060**

(*) As at 31 December 2021, the Bank had other financial liabilities amounting to 4,263,617 thousand euros.

The fair value of the headings “Financial assets at amortised cost” and “Financial liabilities at amortised cost” has been estimated using the discounted cash flow method, applying market interest rates at the end of each year, with the exception of debt securities traded on active markets, for which it has been estimated using year-end market 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 2022 and 2021, there were no equity instruments valued at their cost of acquisition that could be considered significant.

Loans and financial liabilities at fair value through profit or loss

As at 31 December 2022 and 2021, there were no loans or financial liabilities recognised at fair value through profit or loss.

Non-financial assets

Real estate assets

As at 31 December 2022 and 2021, the net carrying amounts of real estate assets do not differ significantly from the fair values of these assets (see Notes 12 and 14).

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

Valuation techniques are generally used by all appraisal companies based on the type of each real estate asset.

As per regulatory requirements, in the valuation techniques used, the appraisal companies maximise the use of observable market data and other factors which would be taken into account by market operators when setting prices, endeavouring to keep the use of subjective considerations and unobservable or non-verifiable data to a minimum.

The main valuation methods used fall into the following measurement levels:

Level 2

- Comparison method: applicable to all kinds of properties provided that there is a representative market of comparable properties and that sufficient data is available relating to transactions that reflect the current market situation.

- Rental update method: applicable when the valued property generates or may generate rental income and there is a representative market of comparable data.

- Statistical model: this model adjusts the value of the assets based on the date of acquisition and their location, updating the value in accordance with price trends in the area concerned as from the date of purchase. To this end, it includes statistical information on price trends in all provinces, as provided by external appraisal firms, as well as demographic data from the Spanish Office for National Statistics (INE) to calculate sensitivity at a municipality level. The value obtained is in turn adjusted based on the construction progress (finished product, development in progress, plots or land under management) and use (residential, industrial, etc.) of the asset.

Level 3

- Cost method: applicable to determine the value of buildings being planned, under construction or undergoing renovations.

- Residual method: in the present macroeconomic climate, the dynamic calculation procedure is being used preferentially in new land valuations to the detriment of the static procedure, which is reserved for specific cases in which the envisaged timeframes for project completion are in line with the relevant regulations.

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

- Completed works: valued in comparable terms, based on updates to income or the statistical model (Level 2).

- Works in progress: valued using the cost method as a sum of the land value and the value of the work carried out (Level 3).

- Land: valued using the residual method (Level 3).

Determination of the fair value of real estate assets

The following tables show the main real estate assets broken down by the valuation method used in their fair value estimate as at 31 December 2022 and 2021:

Thousand euro

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

Thousand euro

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Housing	—	532,355	—	532,355
Branches and offices, retail establishments and other real estate	—	626,255	—	626,255
Land and building plots	—	—	18,670	18,670
Work in progress	—	—	2,438	2,438
Total assets	**—**	**1,158,610**	**21,108**	**1,179,718**

Significant unobservable variables used in valuations classed as Level 3 have not been developed by the Group but by the independent third party valuation companies that performed the appraisals. Given the widespread use of the appraisals, the valuation techniques of which are clearly set out in the regulation governing the valuation of properties, the unobservable variables used reflect the assumptions frequently used by all appraisal firms. In terms of proportional weight, unobservable variables represent almost all of the value of these appraisals.

The main unobservable variables used in the valuation of assets in accordance with the dynamic residual method are the future selling price, the estimated construction costs, the costs of development, the time required for land planning and development and the discount rate. The main unobservable variables used in accordance with the static residual method are construction costs, the costs of development and the profit for the developer.

The number of plots in the Bank's possession is very fragmented, and they are very varied, both in terms of location and in terms of the stage of development of the urban infrastructure and the possibility of future development. For this reason, no quantitative information can be provided regarding the unobservable variables affecting the fair value of these types of assets.

Movements in the balances of real estate assets classified as Level 3 in 2022 and 2021 are shown below:

Thousand euro

	Housing	**Branches and offices, retail establishments and other real estate**	**Land**
Balance as at 31 December 2020	**—**	**—**	**26,132**
Purchases	—	—	1,800
Sales	—	—	(4,575)
Net additions/removals in Level 3	—	—	(2,249)
Balance as at 31 December 2021	**—**	**—**	**21,108**
Purchases	—	—	374
Sales	—	—	(2,301)
Net additions/removals in Level 3	—	—	(1,616)
Balance as at 31 December 2022	**—**	**—**	**17,565**

During 2022 and 2021, there have been no material movements between valuation levels.

The following table shows a comparison between the value at which the Group's real estate assets were recognised under the headings "Non-current assets and disposal groups classified as held for sale" obtained through foreclosures and "Investment properties" and their appraisal value, as at the end of 2022 and 2021:

Thousand euro

		2022				2021			
	Note	Carrying amount (*)	Impairment	Net carrying amount	Appraisal value	Carrying amount (*)	Impairment	Net carrying amount	Appraisal value
Investment properties	14	73,940	(16,886)	57,054	87,722	83,115	(8,187)	74,928	100,272
Non-current assets held for sale		714,708	(180,627)	534,081	848,298	778,029	(204,279)	573,750	904,020
Total		**788,648**	**(197,513)**	**591,135**	**936,020**	**861,144**	**(212,466)**	**648,678**	**1,004,292**

(*) Cost less accumulated depreciation.

The fair values of real estate assets valued by appraisal companies and included in the headings "Non-current assets and disposal groups classified as held for sale" and "Investment properties" in 2022 are as follows:

Thousand euro

Appraisal firm	Non-current assets held for sale	Investment properties
Afes Técnicas de Tasación, S.A.	—	104
Alia Tasaciones, S.A.	23,266	4,000
CBRE Valuation Advisory, S.A.	121,442	1,211
Eurovaloraciones, S.A.	42,160	11,419
Gestión de Valoraciones y Tasaciones, S.A.	2,257	301
Gloval Valuation, S.A.U.	154,013	2,203
Ibertasa, S.A.	61	—
Sociedad de Tasación, S.A.	102,178	22,380
Tabimed Gestión de Proyectos, S.L.	412	—
Tecnitasa Técnicos en Tasación, S.A	9,819	1,308
Tinsa Tasaciones Inmobiliarias, S.A.	24,954	6,128
Valoraciones Mediterráneo, S.A.	48,674	7,722
UVE Valoraciones, S.A.	4,638	—
Other	207	278
Total	**534,081**	**57,054**

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

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

The composition of this heading in the balance sheet as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
By nature:		
Cash	587,119	584,211
Cash balances at central banks	32,924,771	41,423,202
Other demand deposits	551,689	298,445
Total	**34,063,579**	**42,305,858**
By currency:		
In euro	33,460,270	41,879,873
In foreign currency	603,309	425,985
Total	**34,063,579**	**42,305,858**

Cash balances at central banks include balances held to comply with the central bank's mandatory minimum reserve requirement. Throughout 2022 and 2021, Banco Sabadell has complied with minimum requirements set out in applicable regulations regarding this ratio.

Note 7 – Debt securities

Debt securities reported in the accompanying balance sheets as at 31 December 2022 and 2021 are broken down below:

Thousand euro

	2022	2021
By heading:		
Financial assets held for trading	417,131	590,373
Non-trading financial assets mandatorily at fair value through profit or loss	33,557	62,250
Financial assets designated at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	5,686,920	5,791,978
Financial assets at amortised cost	18,305,267	12,176,675
Total	**24,442,875**	**18,621,276**
By nature:		
Central banks	—	—
General governments	22,722,348	17,174,855
Credit institutions	568,492	44,187
Other sectors	1,529,145	1,196,375
Stage 3 assets	73	73
Impairment allowances	(211)	—
Other valuation adjustments (interest, fees and commissions, other)	(376,972)	205,786
Total	**24,442,875**	**18,621,276**
By currency:		
In euro	22,221,190	16,322,663
In foreign currency	2,221,685	2,298,613
Total	**24,442,875**	**18,621,276**

In May 2021, the Bank decided to sell debt instruments which had a carrying amount of 3,735 million euros and which were recognised on the balance sheet under the heading “Financial assets at amortised cost”, by arranging forward sale contracts that were settled in the third quarter of 2021. The results obtained from these disposals were recognised under the heading “Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net – Financial assets at amortised cost” of the income statement (see Note 28). These sales were carried out as part of a series of actions undertaken to improve the Bank’s future profitability while preserving its solvency, including the restructuring announced in Spain in the third quarter of 2021 (see Note 30). The Bank considered that these sales, while not speculative in nature, did not fit into any of the categories that the regulation considers to be consistent with the business model of “holding financial assets in order to collect their contractual cash flows” under which these assets are managed. Therefore, the Bank decided to refrain from classifying any debt securities it may purchase under the heading “Financial assets at amortised cost” on the balance sheet, until it once again meets the conditions to do so.

In March 2022, the Bank carried out an assessment to ascertain whether those conditions had been met. In particular, the assessment reviewed past sales from the debt securities portfolio recorded at amortised cost, and the reasons for those sales, as well as the prospects for future sales from that portfolio. Following that assessment, it was concluded that the right circumstances were in place to reactivate the “Holding financial assets in order to collect their contractual cash flows” business model in respect of those financial instruments, so that the allocation of purchased debt securities to that model was resumed as from the second quarter of 2022.

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

Details of debt instruments included under the "Financial assets at fair value through other comprehensive income" heading, as at 31 December 2022 and 2021, are shown below:

Thousand euro

	2022	2021
Amortised cost	5,955,145	5,812,619
Fair value (*)	5,686,920	5,791,978
Accumulated losses recognised in equity	(319,559)	(65,226)
Accumulated capital gains recognised in equity	52,673	45,735
Value adjustments made for credit risk	(1,339)	(1,150)

(*) Includes net impairment losses in the income statements for 2022 and 2021, in the amount of -182 and 701 thousand euros, of which, -742 and -673 thousand euros correspond to allowances, and 560 and 1,374 thousand euros correspond to provision reversals, respectively (see Note 31).

Details of exposures held in public debt instruments included under the "Financial assets at fair value through other comprehensive income" heading, as at 31 December 2022 and 2021, are as follows:

Thousand euro

	2022	2021
Amortised cost	4,467,428	4,694,528
Fair value	4,232,226	4,656,501
Accumulated losses recognised in equity	(278,541)	(77,250)
Accumulated capital gains recognised in equity	43,446	39,329
Value adjustments made for credit risk	(107)	(106)

Details of the "Financial assets at amortised cost" portfolio as at 31 December 2022 and 2021 are shown below:

Thousand euro

	2022	2021
General governments	17,887,829	12,165,659
Credit institutions	298,256	11,016
Other sectors	119,393	—
Impairment allowances	(211)	—
Total	**18,305,267**	**12,176,675**

Note 8 – Equity instruments

Equity instruments reported as at 31 December 2022 and 2021 are broken down below:

Thousand euro

	2022	2021
By heading:		
Non-trading financial assets mandatorily at fair value through profit or loss	1,977	14,582
Financial assets at fair value through other comprehensive income	68,024	64,568
Total	**70,001**	**79,150**
By nature:		
Resident sector	66,978	60,132
Credit institutions	8,484	6,659
Other	58,494	53,473
Non-resident sector	1,046	3,888
Credit institutions	—	—
Other	1,046	3,888
Participations in investment vehicles	1,977	15,130
Total	**70,001**	**79,150**
By currency:		
In euro	69,996	79,019
In foreign currency	5	131
Total	**70,001**	**79,150**

As at 31 December 2022 and 2021, there were no investments in listed equity instruments for which their quoted market price has not been considered as a reference of their fair value.

In addition, as of the aforesaid dates, there were no 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

	2022	2021
Acquisition cost	171,697	175,396
Fair value	68,025	64,568
Accumulated capital losses recognised in equity at reporting date	(142,165)	(143,594)
Accumulated capital gains recognised in equity at reporting date	38,493	32,766
Transfers of gains or losses within equity during the year	(4,468)	(3,022)
Recognised dividends from investments held at the end of the year	1,777	1,193

Note 9 – Derivatives held for trading

The breakdown by type of risk of derivatives held for trading as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022		2021	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Securities risk	14,807	16,354	29,019	30,165
Interest rate risk	1,608,169	1,497,444	777,185	728,018
Foreign exchange risk	552,812	342,639	219,541	224,989
Other types of risk	78,334	75,791	149,766	149,660
Total	**2,254,122**	**1,932,228**	**1,175,511**	**1,132,832**
By currency:				
In euro	2,061,315	1,748,191	1,069,273	1,031,127
In foreign currency	192,807	184,037	106,238	101,705
Total	**2,254,122**	**1,932,228**	**1,175,511**	**1,132,832**

The fair values of derivatives held for trading, broken down by type of derivative instrument as at 31 December 2022 and 2021, are shown below:

Thousand euro

	2022	2021
Assets		
Swaps, CCIRS, Call Money Swaps	1,594,722	899,808
Currency options	126,794	37,819
Interest rate options	85,552	27,143
Index and securities options	14,807	29,019
Currency forwards	426,018	181,722
Fixed income forwards	6,229	—
Total derivatives on asset side held for trading	**2,254,122**	**1,175,511**
Liabilities		
Swaps, CCIRS, Call Money Swaps	1,538,551	858,771
Currency options	126,486	42,520
Interest rate options	33,640	11,644
Index and securities options	14,807	36,282
Currency forwards	216,153	182,469
Fixed income forwards	1,044	—
Equity forwards	1,547	1,146
Total derivatives on liability side held for trading	**1,932,228**	**1,132,832**

As at 31 December 2022, the Bank holds embedded derivatives that have been separated from their host contracts and recognised under the heading "Financial liabilities held for trading – Derivatives" of the balance sheet in the amount of 278 thousand euros (7,683 thousand euros as at 31 December 2021). The host contracts of those embedded derivatives correspond to customer deposits and debt securities in issue and have been allocated to the portfolio of financial liabilities at amortised cost.

Note 10 – Loans and advances

Credit institutions

The breakdown of the heading "Loans and advances – Credit institutions" of the balance sheets as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
By heading:		
Financial assets held for trading	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—
Financial assets designated at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	—	—
Financial assets at amortised cost	6,193,344	7,876,763
Total	**6,193,344**	**7,876,763**
By nature:		
Deposits with agreed maturity	2,680,094	2,729,339
Repos	3,111,099	4,938,372
Other	378,716	187,873
Stage 3 assets	—	1
Impairment allowances	(2,777)	(2,063)
Other valuation adjustments (interest, fees and commissions, other)	26,212	23,241
Total	**6,193,344**	**7,876,763**
By currency:		
In euro	5,844,305	7,605,116
In foreign currency	349,039	271,647
Total	**6,193,344**	**7,876,763**

Customers

The breakdown of the heading "Loans and advances – Customers" (general governments and other sectors) as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
By heading:		
Financial assets held for trading	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—
Financial assets designated at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	—	—
Financial assets at amortised cost	114,143,422	112,993,687
Total	**114,143,422**	**112,993,687**
By nature:		
Overdrafts, etc.	2,028,986	1,998,001
Commercial loans	7,249,924	5,908,387
Finance leases	2,216,983	2,097,078
Secured loans	51,472,660	51,765,501
Other term loans	49,113,145	51,943,610
Stage 3 assets	4,669,659	4,907,950
Impairment allowances	(2,621,634)	(5,524,960)
Other valuation adjustments (interest, fees and commissions, other) (*)	13,699	(101,880)
Total	**114,143,422**	**112,993,687**
By sector:		
General governments	10,004,250	9,354,481
Other sectors	102,077,447	104,358,097
Stage 3 assets	4,669,660	4,907,950
Impairment allowances	(2,621,634)	(5,524,961)
Other valuation adjustments (interest, fees and commissions, other) (*)	13,699	(101,880)
Total	**114,143,422**	**112,993,687**
By currency:		
In euro	104,331,697	103,919,916
In foreign currency	9,811,725	9,073,771
Total	**114,143,422**	**112,993,687**
By geographical area:		
Spain	100,659,836	103,237,104
Rest of European Union	4,679,084	4,534,658
United Kingdom	2,343,575	2,340,087
Americas	7,615,439	6,702,226
Rest of the world	1,467,122	1,704,572
Impairment allowances	(2,621,634)	(5,524,960)
Total	**114,143,422**	**112,993,687**

(*) Other valuation adjustments of financial assets classed as stage 3 amount to 23,645 thousand euros as at 31 December 2022 and 28,692 thousand euros as at 31 December 2021.

The "Loans and advances – Customers" heading on the balance sheets includes certain assets pledged in funding operations, i.e. assets pledged as collateral or guarantees with respect to certain liabilities. For further information, see the "Credit risk" section of Note 3 "Risk management".

Finance leases

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

Thousand euro

	2022	2021
Finance leases		
Total gross investment	2,399,943	2,306,566
Impairment allowances	(97,994)	(96,182)
Interest income	52,126	50,224

As at 31 December 2022 and 2021, the reconciliation of undiscounted payments received on leases against the net investment in the leases is as follows:

Thousand euro

	2022	2021
Undiscounted lease payments received	2,245,279	2,130,070
Residual value	154,664	176,496
Unguaranteed residual value	123,343	159,203
Guaranteed residual value	31,321	17,293
Gross investment in the lease	**2,399,943**	**2,306,566**
Unearned financial income	(182,960)	(151,975)
Net investment in the lease	**2,216,983**	**2,154,591**

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

Thousand euro

	2022	2021
Undiscounted lease payments received		
Up to 1 year	499,059	579,545
1-2 years	525,887	436,182
2-3 years	396,700	338,823
3-4 years	262,804	231,920
4-5 years	171,266	153,587
More than 5 years	389,563	390,013
Total	**2,245,279**	**2,130,070**

Past-due financial assets

The balance of “Loans and advances – Customers” past-due and pending collection not classified as stage 3 as at 31 December 2022 amounts to 158,453 thousand euros (128,379 thousand euros as at 31 December 2021). Of this total, over 89% of the balance as at 31 December 2022 (90% of the balance as at 31 December 2021) was no more than one month past due.

Financial assets classified on the basis of their credit risk

The breakdown of the gross carrying amounts, excluding valuation adjustments, of financial assets classified on the basis of their credit risk as at 31 December 2022 and 2021 is as follows:

Thousand euro

Stage 1	**2022**	**2021**
Debt securities	24,770,812	18,415,417
Loans and advances	109,356,004	108,565,975
Customers	103,192,663	100,732,401
Central banks and Credit institutions	6,163,341	7,833,574
Total stage 1	**134,126,816**	**126,981,391**
By sector:		
General governments	32,721,392	26,525,280
Central banks and Credit institutions	6,731,833	7,877,760
Other private sectors	94,673,591	92,578,352
Total stage 1	**134,126,816**	**126,981,391**
Stage 2		
Debt securities	49,173	—
Loans and advances	8,895,603	13,002,190
Customers	8,889,035	12,980,179
Central banks and Credit institutions	6,568	22,011
Total stage 2	**8,944,776**	**13,002,190**
By sector:		
General governments	5,207	4,056
Central banks and Credit institutions	6,568	22,011
Other private sectors	8,933,000	12,976,123
Total stage 2	**8,944,776**	**13,002,190**
Stage 3		
Debt securities	73	73
Loans and advances	4,669,660	4,907,951
Customers	4,669,660	4,907,950
Central banks and Credit institutions	—	1
Total stage 3	**4,669,733**	**4,908,024**
By sector:		
General governments	8,122	9,632
Central banks and Credit institutions	—	1
Other private sectors	4,661,610	4,898,391
Total stage 3	**4,669,733**	**4,908,024**
Total stages	**147,741,325**	**144,891,605**

Movements of gross values, excluding valuation adjustments, of assets subject to impairment by the Bank during the years ended 31 December 2022 and 2021 were as follows:

Thousand euro

	Stage 1	Stage 2	Stage 3	*Of which: purchased credit-impaired*	Total
Balance as at 31 December 2020	**131,282,055**	**11,590,126**	**4,650,712**	***14,061***	**147,522,893**
Transfers between stages	(3,712,534)	2,521,185	1,191,349	—	—
To stage 1	2,501,515	(2,483,464)	(18,052)	—	(1)
To stage 2	(5,954,392)	6,246,545	(292,154)	—	(1)
To stage 3	(259,658)	(1,241,896)	1,501,554	—	—
Increases	40,653,643	726,670	456,444	—	41,836,757
Decreases	(41,642,593)	(1,881,988)	(1,016,216)	*(2,781)*	(44,540,797)
Transfers to write-offs	—	—	(383,765)	—	(383,765)
Adjustments for exchange differences	400,820	46,197	9,500	—	456,517
Balance as at 31 December 2021	**126,981,391**	**13,002,190**	**4,908,024**	***11,280***	**144,891,605**
Transfers between stages	(1,761,941)	487,252	1,274,689	—	—
To stage 1	4,413,349	(4,299,520)	(113,829)	—	—
To stage 2	(5,858,090)	6,426,543	(568,453)	—	—
To stage 3	(317,200)	(1,639,771)	1,956,971	—	—
Increases	50,148,156	869,873	279,840	—	51,297,869
Decreases	(41,688,623)	(5,551,729)	(1,481,874)	*(11,280)*	(48,722,226)
Transfers to write-offs	—	—	(322,819)	—	(322,819)
Adjustments for exchange differences	447,833	137,190	11,873	—	596,896
Balance as at 31 December 2022	**134,126,816**	**8,944,776**	**4,669,733**	**—**	**147,741,325**

The breakdown of assets classified as stage 3 by type of guarantee as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
Secured with a mortgage (*)	1,890,107	2,059,338
Of which: Stage 3 financial assets with guarantees covering all of the risk	*1,558,763*	*1,611,690*
Other collateral (**)	241,896	241,768
Of which: Stage 3 financial assets with guarantees covering all of the risk	*135,817*	*174,291*
Other	2,537,730	2,606,918
Total	**4,669,733**	**4,908,024**

(*) 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 2022 and 2021 is as follows:

Thousand euro

	2022	2021
Spain	4,083,961	4,720,531
Rest of European Union	456,072	45,538
United Kingdom	30,339	37,020
Americas	70,286	75,832
Rest of the world	29,075	29,103
Total	**4,669,733**	**4,908,024**

Movements in impaired financial assets derecognised from the asset side of the balance sheet because their recovery was deemed remote during 2022 and 2021 are as follows:

Thousand euro	
Balance as at 31 December 2020	**4,708,180**
Additions	**788,879**
Use of accumulated impairment balance	383,765
Directly recognised on income statement	—
Contractually payable interests	138,621
Other items	266,493
Disposals	**(162,373)**
Collections of principal in cash from counterparties	(39,454)
Collections of interest in cash from counterparties	(1,799)
Debt forgiveness	(17,743)
Expiry of statute-of-limitations period	—
Sales	(100,264)
Foreclosure of tangible assets	(2,510)
Other items	(603)
Exchange differences	**—**
Balance as at 31 December 2021	**5,334,686**
Additions	**462,150**
Use of accumulated impairment balance	322,819
Directly recognised on income statement	—
Contractually payable interests	139,331
Other items	—
Disposals	**(608,692)**
Collections of principal in cash from counterparties	(31,042)
Collections of interest in cash from counterparties	(2,171)
Debt forgiveness	(17,396)
Expiry of statute-of-limitations period	—
Sales	(468,369)
Foreclosure of tangible assets	(857)
Other items	(88,857)
Exchange differences	**—**
Balance as at 31 December 2022	**5,188,144**

Allowances

The values of financial asset impairment allowances under the different headings on the asset side, classified according to their risk, as at 31 December 2022 and 2021 are as follows:

Thousand euro

Stage 1	**2022**	**2021**
Debt securities	211	—
Loans and advances	258,668	256,074
Central banks and Credit institutions	2,773	2,041
Customers	255,895	254,033
Total stage 1	**258,879**	**256,074**
Stage 2		
Debt securities	—	—
Loans and advances	382,498	3,020,338
Central banks and Credit institutions	4	22
Customers	382,494	3,020,316
Total stage 2	**382,498**	**3,020,338**
Stage 3		
Debt securities		—
Loans and advances	1,983,245	2,250,612
Central banks and Credit institutions	—	—
Customers	1,983,245	2,250,612
Total stage 3	**1,983,245**	**2,250,612**
Total stages	**2,624,622**	**5,527,024**

Detailed movements in impairment allowances allocated to cover credit risk during 2022 and 2021 are as follows:

Thousand euro

	Individually measured		Collectively measured			Total
	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
Balance as at 31 December 2020	**2,443,550**	**560,451**	**316,212**	**303,934**	**1,425,702**	**5,049,850**
Movements reflected in impairment gains/ (losses) (*)	**(37,236)**	**123,829**	**(4,468)**	**160,949**	**565,619**	**808,693**
Increases due to origination	—	—	139,226	—	—	139,226
Changes due to credit risk variance	(45,173)	136,578	(78,415)	121,588	566,742	701,319
Changes in calculation approach	—	—	—	—	—	—
Other movements	7,937	(12,749)	(65,279)	39,361	(1,123)	(31,852)
Movements not reflected in impairment gains/(losses)	**235,249**	**(127,813)**	**(54,907)**	**(83,058)**	**(292,715)**	**(323,244)**
Transfers between stages	(9,810)	22,675	(42,372)	(72,581)	102,088	—
To stage 1	(2)	1,886	39,475	(35,936)	(5,424)	—
To stage 2	614	(480)	(73,908)	125,660	(51,886)	—
To stage 3	(10,422)	21,269	(7,939)	(162,305)	159,398	—
Utilisation of allocated provisions	(360)	(150,488)	(12,469)	(10,438)	(365,987)	(539,742)
Other movements	245,419	—	(66)	(39)	(28,816)	216,498
Adjustments for exchange differences	**—**	**(4,103)**	**(765)**	**(3,030)**	**(377)**	**(8,275)**
Balance as at 31 December 2021	**2,641,563**	**552,364**	**256,072**	**378,795**	**1,698,229**	**5,527,024**
Scope additions / exclusions						
Movements reflected in impairment gains/ (losses) (*)	**(20,364)**	**71,276**	**64,618**	**92,736**	**465,614**	**673,880**
Increases due to origination	—	—	218,366	—	—	218,366
Changes due to credit risk variance	(17,983)	82,426	(1,098)	114,556	468,092	645,993
Changes in calculation approach	—	—	—	—	—	—
Other movements	(2,381)	(11,150)	(152,650)	(21,820)	(2,478)	(190,479)
Movements not reflected in impairment gains/(losses)	**(2.616.604) (**)**	**(113,155)**	**(61,637)**	**(92,931)**	**(687,304)**	**(3,571,631)**
Transfers between stages	4,977	6,447	(60,759)	(106,107)	155,442	—
To stage 1	(171)	(285)	58,623	(49,979)	(8,188)	—
To stage 2	9,929	(6,108)	(104,235)	186,256	(85,842)	—
To stage 3	(4,781)	12,840	(15,147)	(242,384)	249,472	—
Utilisation of allocated provisions	(2,608,344)	(91,556)	(878)	—	(854,658)	(3,555,436)
Other movements	(13,237)	(28,046)	—	13,176	11,912	(16,195)
Adjustments for exchange differences	**29**	**(1,551)**	**(173)**	**(758)**	**(2,197)**	**(4,650)**
Balance as at 31 December 2022	**4,624**	**508,934**	**258,880**	**377,842**	**1,474,342**	**2,624,622**

(*) This figure, corresponding to the amortisation charged to results on impaired financial assets derecognised from the asset side of the balance sheet and the recovery of write-offs, has been recognised with a balancing entry under the heading 'Impairment and gains or losses on changes in cash flows of financial assets not measured at fair value through profit or loss and net gains or (-) losses on changes' (see Note 31)

(**) See Note 13.

The breakdown by geographical area of the balance of impairment allowances as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
Spain	2,382,696	5,264,498
Rest of European Union	121,016	120,486
United Kingdom	30,369	26,602
Americas	77,164	100,540
Rest of the world	13,377	14,898
Total	**2,624,622**	**5,527,024**

Sensitivity analysis of the key variables of macroeconomic scenarios

An analysis of the sensitivity of the expected loss and its impact by stage on impairment allowances in the event of a change, *ceteris paribus*, from the actual macroeconomic environment, relative to the most probable baseline macroeconomic scenario envisaged in the Group's business plan, is set out below. The results of this analysis are shown below:

Group					
Key explanatory macroeconomic variables	**Change in the variable (*)**	**Impact on stage 1**	**Impact on stage 2**	**Impact on stage 3**	**Total impact**
GDP growth deviation	- 100 bp	2.9%	5.1%	1.7%	2.3%
	+ 100 bp	-2.3%	-4.7%	-1.6%	-2.2%
Unemployment rate deviation	+ 100 bp	1.5%	4.2%	0.6%	1.2%
	- 100 bp	-0.8%	-2.6%	-0.5%	-0.9%
House price growth deviation	- 100 bp	1.3%	1.8%	0.6%	0.9%
	+ 100 bp	-0.7%	-1.6%	-0.6%	-0.8%

(*) Changes in macroeconomic variables reflect impacts, in absolute values, on the baseline macroeconomic scenario described in Note 1.3.3.

Note 11 – Derivatives - hedge accounting

Hedging management

The main hedges arranged by the Bank are described below:

Interest rate risk hedge

Based on the balance sheet position and the market situation and outlooks, interest rate risk mitigation strategies are proposed and agreed upon to adapt this position to the one desired by Banco Sabadell. With this aim in mind, Banco Sabadell establishes interest rate hedging strategies for positions that are not included in the trading book and, to that end, derivative instruments are used, whether fair value or cash flow hedging instruments, and a distinction is made between them depending on the items hedged:

- Macro-hedges: hedges intended to mitigate the risk of balance sheet components.
- Micro-hedges: hedges intended to mitigate the risk of a particular asset or liability.

When a transaction is designated as a hedging operation, it is classified as such from the outset of the transaction or the inception of the instruments included in the hedge, and a document is prepared which covers the hedging strategy, defining it in management and accounting terms, and setting out its governance. The aforesaid document clearly identifies the item or items hedged and the hedging instrument, the risk that it seeks to hedge and the criteria or methodologies followed by the Bank to evaluate its effectiveness.

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

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

  The main types of balance sheet items hedged are:

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

If the hedge relates to assets, the Bank enters into a fixed-for-floating swap, whereas if the macro-hedge relates to liabilities, it enters into a floating-to-fixed interest rate swap. These derivatives can be traded in cash or as forwards. The hedged risk is the interest rate risk arising from a potential change in the risk-free interest rate that gives rise to changes in the value of the hedged balance sheet items. As such, the hedge will not cover any risk inherent in the hedged items other than the risk of a change in the risk-free interest rate.

In order to assess the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated monthly variance in the fair value of the hedged item against the accumulated monthly variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that future changes in the fair value of the hedged balance sheet items are offset by future changes in the fair value of the derivative.

– Cash flows: hedging against the exposure to changes in cash flows arising from a particular risk associated with a previously recognised asset or liability, or a forecast transaction that is highly likely to materialise and which could affect the results for the year. They are used to reduce net interest income volatility.

  The main types of balance sheet items hedged are:

  - Floating rate mortgage loans indexed to the mortgage Euribor.

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

  If the hedge relates to assets, the Bank enters into a floating-to-fixed interest rate swap, whereas if the macro-hedge relates to liabilities, it enters into a fixed-for-floating swap. These derivatives can be traded in cash or as forwards. The hedged risk is the interest rate risk associated with the effect that a potential change in the benchmark interest rate could have on the future interest accrued on hedged balance sheet items. The credit spread and risk premium which, together with the benchmark index, make up the contractual interest rate applicable to the hedged balance sheet items is expressly excluded from the hedge.

  In order to assess the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated variance in the fair value of the hedged item against the accumulated variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that the expected cash flows on the hedged items are still highly likely to materialise.

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

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

Hedging disclosures

The nominal values and the fair values of the hedging instruments as at 31 December 2022 and 2021, broken down by risk category and type of hedge, are as follows:

Thousand euro

	2022			2021		
	Nominal	Assets	Liabilities	Nominal	Assets	Liabilities
Microhedges:						
Fair value hedges	**7,095,166**	**101,877**	**204,569**	**6,253,987**	**90,016**	**83,334**
Foreign exchange risk	798,976	22,628	—	667,550	—	14,952
Of liability-side transactions (A)	—	—	—	—	—	—
Of permanent investments (B)	*798,976*	*22,628*	—	*667,550*	—	*14,952*
Of non-monetary items	—	—	—	—	—	—
Interest rate risk	2,063,856	39,104	29,640	2,296,251	27,189	879
Of liability-side transactions (A)	*65,304*	—	*5,532*	*32,359*	*309*	*879*
Of asset-side transactions (B)	*1,998,552*	*39,104*	*24,108*	*2,263,892*	*26,880*	—
Equity risk	4,232,334	40,145	174,929	3,290,186	62,827	67,503
Of liability-side transactions (A)	*4,232,334*	*40,145*	*174,929*	*3,290,186*	*62,827*	*67,503*
Cash flow hedges	**1,467,999**	**15,141**	**132,400**	**931,383**	**9,453**	**39,784**
Foreign exchange risk	—	—	—	—	—	—
Of non-monetary items	—	—	—	—	—	—
Interest rate risk	229,902	5,161	1,733	134,000	3,305	3,890
Of future transactions (D)	*95,902*	—	*1,733*	—	—	—
Of liability-side transactions (A)	*134,000*	*5,161*	—	*134,000*	*3,305*	*3,890*
Of securitisation transactions	—	—	—	—	—	—
Other	—	—	—	—	—	—
Equity risk	63,980	—	639	23,383	—	187
Of liability-side transactions (E)	*63,980*	—	*639*	*23,383*	—	*187*
Other risks	1,174,117	9,980	130,028	774,000	6,148	35,707
Of inflation-linked bonds (F)	*1,174,000*	—	*130,028*	*774,000*	*6,148*	*35,707*
Of future transactions (D)	*117*	*9,980*	—	—	—	—
Hedge of net investment in foreign operations	**398,462**	**12,687**	**—**	**247,219**	**71**	**3,660**
Foreign exchange risk (B)	398,462	12,687	—	247,219	71	3,660
Macrohedges:						
Fair value hedges	**16,979,900**	**1,212,501**	**602,948**	**11,948,500**	**141,381**	**227,991**
Interest rate risk	16,979,900	1,212,501	602,948	11,948,500	141,381	227,991
Of liability-side transactions (G)	*7,455,000*	—	*600,478*	*5,635,000*	*94,913*	*9,437*
Of asset-side transactions (H)	*9,524,900*	*1,212,501*	*2,470*	*6,313,500*	*46,468*	*218,554*
Cash flow hedges	**2,050,000**	**94**	**1,690**	**—**	**—**	**—**
Interest rate risk	2,050,000	94	1,690	—	—	—
Of liability-side transactions	—	—	—	—	—	—
For lending operations (I)	*2,050,000*	*94*	*1,690*	—	—	—
Total	**27,991,527**	**1,342,300**	**941,607**	**19,381,089**	**240,921**	**354,769**
By currency:						
In euro	26,325,139	1,300,183	934,333	18,015,028	228,669	351,421
In foreign currency	1,666,388	42,117	7,274	1,366,061	12,252	3,348
Total	**27,991,527**	**1,342,300**	**941,607**	**19,381,089**	**240,921**	**354,769**

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

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

B. Hedges against foreign exchange risk on permanent investments, recognised under the heading "Investments in subsidiaries, joint ventures and associates", currently cover 333 million pounds sterling and 8,833 million Mexican pesos corresponding to interests held in Group entities, considered as fair value hedges (213 million pounds sterling and 9,583 million Mexican pesos as at 31 December 2021), and 425 million US dollars corresponding to interests held in foreign branches (280 million US dollars as at 31 December 2021), which are considered as hedges of net investments in foreign operations (see Note 3). All of these hedges are carried out through currency forwards.

C. Micro-hedges of transactions involving customer loans, recognised under the heading "Financial assets at amortised cost" and those involving debt securities under the heading "Financial assets at fair value through other comprehensive income".

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

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

F. Micro-hedges of interest rates on inflation-linked bonds, recognised under the heading "Financial assets at amortised cost". The Bank has arranged financial swaps to hedge future changes in cash flows that will be settled by inflation-linked bonds (ILBs).

G. Macro-hedges of the funding operations in capital markets and transactions involving term deposits opened by customers, recognised under the heading "Financial liabilities at amortised cost". The average rate of interest rate swaps used for this hedge was 0.71% as at 31 December 2022 (0.22% as at 31 December 2021).

H. Macro-hedges of debt securities classified under the headings "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost", and of fixed-rate mortgage loans granted to customers, recognised under the heading "Financial assets at amortised cost". The average rates of financial interest rate swaps used to hedge debt securities were 0.62% and 1.03%, respectively, as at 31 December 2022 (0.55% and 0.42%, respectively, as at 31 December 2021). The average rate of interest rate swaps used for to hedge fixed-rate mortgage loans was 1.79% as at 31 December 2022. This last hedge was not in effect as at 31 December 2021.

I. Macro-hedges of floating rate mortgage loans granted to customers recognised under the heading "Financial assets at amortised cost". The average rate of interest rate swaps used for this hedge was 3.59% as at 31 December 2022. This last hedge was not in effect as at 31 December 2021.

The maturity profiles of the hedging instruments used by the Bank as at 31 December 2022 and 2021 are shown below:

Thousand euro

	2022					
	Nominal					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 and 5 years**	**More than 5 years**	**Total**
Foreign exchange risk	460,156	737,282	—	—	—	1,197,438
Interest rate risk	107,395	—	825,000	8,979,789	11,411,474	21,323,658
Equity risk	60,038	90,741	408,348	3,539,198	197,989	4,296,314
Other risks	—	—	449,000	200,000	525,117	1,174,117
Total	**627,589**	**828,023**	**1,682,348**	**12,718,987**	**12,134,580**	**27,991,527**

Thousand euro

	2021					
	Nominal					
	Up to 1 month	1 to 3 months	3 to 12 months	1 and 5 years	More than 5 years	Total
Foreign exchange risk	304,396	610,373	—	—	—	914,769
Interest rate risk	—	—	500,000	5,189,614	8,689,137	14,378,751
Equity risk	2,501	376,528	463,911	2,192,832	277,797	3,313,569
Other risks	—	—	—	449,000	325,000	774,000
Total	**306,897**	**986,901**	**963,911**	**7,831,446**	**9,291,934**	**19,381,089**

In 2022 and 2021, there were no reclassifications from equity to the income statement due to cash flow hedges and hedges of net investments in foreign operations for transactions that were ultimately not executed.

The following table shows the accounting information of items covered by the fair value micro-hedges arranged by the Bank as at 31 December 2022 and 2021:

Thousand euro

	2022				
	Carrying amount of hedged item		Accumulated fair value adjustments in the hedged item		Accumulated amount of adjustments in hedged items for which hedge accounting no longer applies
	Assets	Liabilities	Assets	Liabilities	
Micro-hedges:					
Fair value hedges					
Foreign exchange risk	798,976	—	—	—	—
Interest rate risk	1,742,188	23,274	23,178	(1,444)	(76)
Equity risk	—	2,040,966	—	(92,318)	—
Total	**2,541,164**	**2,064,240**	**23,178**	**(93,762)**	**(76)**

Thousand euro

	2021				
	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	667,550	—	—	—	—
Interest rate risk	2,025,745	9,689	(16,596)	425	3,206
Equity risk	—	1,708,590	—	14,149	(7)
Total	**2,693,295**	**1,718,279**	**(16,596)**	**14,574**	**3,199**

In terms of fair value macro-hedges, the carrying amount of the hedged items recognised in assets and liabilities as at 31 December 2022 amounted to 63,996,765 thousand euros and 44,104,826 thousand euros, respectively (14,536,679 thousand euros and 52,369,550 thousand euros as at 31 December 2021, respectively). Similarly, fair value adjustments of the hedged items amounted to -933,593 thousand euros and -596,817 thousand euros as at 31 December 2022, respectively (126,152 thousand euros and 95,139 thousand euros as at 31 December 2021, respectively).

In relation to fair value hedges, the losses and gains recognised in 2022 and 2021 arising from both hedging instruments and hedged items are detailed hereafter:

Thousand euro

	2022		2021	
	Hedging instruments	**Hedged items**	**Hedging instruments**	**Hedged items**
Microhedges:	**(148,234)**	**149,852**	**(52,754)**	**53,413**
Fixed-rate assets	(8,687)	9,362	(656)	656
Capital markets and fixed-rate liabilities	(107,478)	108,411	(15,297)	15,910
Assets denominated in foreign currency	(32,069)	32,079	(36,801)	36,847
Macrohedges:	**695,269**	**(684,655)**	**177,262**	**(176,026)**
Capital markets and fixed-rate liabilities	(672,209)	675,505	(130,698)	130,462
Fixed-rate assets	1,367,478	(1,360,160)	307,960	(306,488)
Total	**547,035**	**(534,803)**	**124,508**	**(122,613)**

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

Hedge ineffectiveness in the results for 2022 related to cash flow hedges amounted to income of 773 thousand euros (losses of 4,127 thousand euros in 2021).

As at 31 December 2022, the Bank holds embedded derivatives that have been separated from their host contracts and recognised under the headings "Derivatives – Hedge accounting" on the asset side and on the liabilities side of the balance sheet in the amount of 33,586 thousand euros and 46,917 thousand euros, respectively (43,707 and 22,683 thousand euros, respectively, as at 31 December 2021). The host contracts of those embedded derivatives correspond to customer deposits and debt securities in issue and have been allocated to the portfolio of financial liabilities at amortised cost.

Note 12 – Non-current assets and disposal groups classified as held for sale

The composition of this heading in the balance sheets as at 31 December 2022 and 2021 was as follows:

Thousand euro

	2022	2021
Assets	**945,341**	**987,527**
Loans and advances	10,337	67
Credit institutions	—	—
Customers	10,337	67
Debt securities	—	—
Real estate exposure	775,256	827,607
Tangible assets for own use	56,030	44,944
Foreclosed assets	719,226	782,663
Equity interests	159,748	159,853
Impairment allowances	**(210,180)**	**(216,132)**
Non-current assets and disposal groups classified as held for sale	**735,161**	**771,395**

Tangible assets for own use relate mainly to commercial premises.

Regarding real estate assets obtained through foreclosures, 93.79% of the balance corresponds to residential properties, 5.71% to industrial properties and 0.50% to agricultural assets.

The average term during which assets remained within the category of "Non-current assets and assets and liabilities included in disposal groups classified as held for sale – Foreclosed assets" was 52 months in 2022 (43 months in 2021). The policies concerning the sale or disposal by other means of these assets are set out in Note 3.4.2.1.

The percentage of foreclosed assets sold with financing granted by the Bank to the buyer in 2022 was 4.9% (in 2021 it was 4.2%). On the date of sale, these properties had a gross asset value of 5.7 million euros in 2022 (8.4 million euros in 2021).

In 2021, the Bank recognised its 20% stake in the capital of the associate company Promontoria Challenger I, S.A., which was recognised under the heading “Investments in subsidiaries, joint ventures and associates” of the balance sheet (see Note 13), as a non-current asset held for sale. The carrying amount of this investment amounted to 159,748 thousand euros as at 31 December 2022 (159,853 thousand euros as at 31 December 2021).

Movements in “Non-current assets and disposal groups classified as held for sale” during 2022 and 2021 were as follows:

Thousand euro

	Note	Non-current assets held for sale
Cost:		
Balance as at 31 December 2020		**1,204,555**
Additions		98,095
Disposals		(434,649)
Transfer of credit losses (*)		(28,921)
Other transfers/reclassifications		148,447
Balance as at 31 December 2021		**987,527**
Additions		62,689
Disposals		(108,835)
Transfer of credit losses (*)		(16,195)
Other transfers/reclassifications		20,155
Balance as at 31 December 2022		**945,341**
Impairment allowances:		
Balance as at 31 December 2020		**265,212**
Impairment through profit or loss	34	68,293
Reversal of impairment through profit or loss	34	(51,533)
Utilisations		(16,454)
Other transfers/reclassifications		(49,386)
Balance as at 31 December 2021		**216,132**
Impairment through profit or loss	34	47,671
Reversal of impairment through profit or loss	34	(44,468)
Utilisations		(23,049)
Other transfers/reclassifications		13,894
Balance as at 31 December 2022		**210,180**
Balance as at 31 December 2021		**771,395**
Balance as at 31 December 2022		**735,161**

(*) Allowance arising from provisions allocated to cover credit risk.

The reduced balance of loans and advances recognised as non-current assets held for sale in 2021 occurred as a result of the closing of transfer transactions of two credit portfolios, which were agreed on 21 December 2020 and 30 December 2020, once the established conditions had been met.

Note 13 – Investments in subsidiaries, joint ventures and associates

The composition of this heading in the balance sheets as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022		
	Group entities	**Associates**	**Total**
By nature:			
Credit institutions	787,768	—	787,768
Other resident sectors	2,671,188	84,268	2,755,456
Other non-resident sectors	2,205,645	19,144	2,224,789
Total	**5,664,601**	**103,412**	**5,768,013**
By quote:			
Quoted	—	—	—
Not quoted	5,664,601	103,412	5,768,013
Total	**5,664,601**	**103,412**	**5,768,013**
By currency:			
In euro	2,768,191	84,268	2,852,459
In foreign currency	2,896,410	19,144	2,915,554
Total	**5,664,601**	**103,412**	**5,768,013**

Thousand euro

	2021		
	Group entities	**Associates**	**Total**
By nature:			
Credit institutions	703,695	—	703,695
Other resident sectors	2,296,231	101,356	2,397,587
Other non-resident sectors	2,237,650	19,144	2,256,794
Total	**5,237,576**	**120,500**	**5,358,076**
By quote:			
Quoted	2,559	—	2,559
Not quoted	5,235,017	120,500	5,355,517
Total	**5,237,576**	**120,500**	**5,358,076**
By currency:			
In euro	2,392,504	101,356	2,493,860
In foreign currency	2,845,072	19,144	2,864,216
Total	**5,237,576**	**120,500**	**5,358,076**

Movements during 2022 and 2021 are shown below:

Thousand euro

	Group entities	Associates	Total
Balance as at 31 December 2020	**5,231,504**	**326,360**	**5,557,864**
Additions due to acquisition(s)	326	—	326
Contributions	3,132	1,187	4,319
Sale, dissolution, recovery of investment(s)	(26,598)	(397)	(26,995)
Transfers (*)	(161)	(206,614)	(206,775)
Exchange differences	36,847	—	36,847
Impairments	(7,474)	(36)	(7,510)
Balance as at 31 December 2021	**5,237,576**	**120,500**	**5,358,076**
Additions due to acquisition(s)	911	—	911
Contributions	3,081,880	—	3,081,880
Capital increases	2,338	—	2,338
Sale, dissolution, recovery of investment(s)	(33,029)	(16,677)	(49,706)
Transfers	(2,719,936)	—	(2,719,936)
Exchange differences	32,079	—	32,079
Impairments	62,782	(411)	62,371
Balance as at 31 December 2022	**5,664,601**	**103,412**	**5,768,013**

(*) Corresponds, fundamentally, to reclassification of the stake held in Promontoria Challenger I, S.A. to the heading "Non-current assets and disposal groups classified as held for sale" (see Note 12).

The section of the cash flow statements relating to "Investing activities – Collections from investments in joint ventures and associates" shows a figure of 123,811 thousand euros, which correspond to "Sale, dissolution, recovery of investment(s)" amounting to 16,677 thousand euros, dividends received from associates amounting to 85,631 thousand euros and results of derecognitions of associates amounting to 21,261 thousand euros recorded under the heading "Gains or (-) losses on derecognition of non-financial assets, net" and 242 thousand euros recorded under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations".

The section of the cash flow statements relating to "Investing activities – Collections from investments in other business units" shows a figure of 57,874 thousand euros, which correspond to "Sale, dissolution, recovery of investment(s)" amounting to 33,029 thousand euros, dividends received from Group entities amounting to 17,088 thousand euros and results of derecognitions of Group entities amounting to 5,028 thousand euros recorded under the heading "Gains or (-) losses on derecognition of non-financial assets, net" and 2,729 thousand euros recorded under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations".

Most significant changes in investments during 2022

Group entities

In 2022, equity loans and credit facilities were converted into contributions from shareholders to balance the equity of several subsidiaries. This conversion led to contributions that have increased the investment in subsidiaries by 3,081,880 thousand euros and to a decrease in the investment due to the transfer of impairment allowances associated with these equity loans and credit facilities by 2,719,936 thousand euros, resulting in a net increase in the investment of 361,944 thousand euros. The most significant subsidiaries in terms of amount were:

- Sabadell Real Estate Development, S.L.U.: 171,490 thousand euros.
- Tenedora de Inversiones y Participaciones, S.L.: 167,216 thousand euros.

Associates

There have been no significant changes during the year.

Most significant changes in investments during 2021

Group entities

- On 29 April 2021, Banco Sabadell and ALD Automotive Group entered into a long-term strategic partnership to offer vehicle leasing products, allowing Banco Sabadell to improve its customer value proposition for mobility solutions, with a larger and more innovative range of vehicle leasing products.

  The agreement included the sale of 100% of the share capital of BanSabadell Renting, S.L.U. for 59 million euros, adjusted by the change in the company's equity between the reference date used for ALD Automotive Group's offer (i.e. 30 September 2020) and the closing date of the transaction. This transaction was closed on 30 November 2021 after obtaining the necessary authorisations. Prior to this transaction, on 4 June 2021, the Bank acquired the assets and liabilities corresponding to the equipment leasing business from BanSabadell Renting, S.L.U. for 255,960 thousand euros. The Bank obtained profit of 61,310 thousand euros on this transaction, which was recognised under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" of the income statement (see Note 34).

- On 5 October 2021, Banco Sabadell transferred its entire stake in BancSabadell d'Andorra, S.A., which represented 50.97% of its share capital (and 51.61% including the proportional part of treasury stock) to Mora Banc Grup, S.A. for 68,010 thousand euros. The Bank obtained profit of 51,852 thousand euros on this transaction, which has been recognised under the heading "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" of the income statement (see Note 34).

Associates

In 2021, a contribution of 1,187 thousand euros was made to Promontoria Challenger I, S.A.

Schedule I sets out details of the recognition and derecognition of equity interests in the years 2022 and 2021.

Other relevant information

On 22 September 2022, the Bank communicated that it is analysing a potential strategic agreement with an industrial partner specialised in the acquisition business. This ongoing analysis process aims to strengthen the competitive advantage and enhance its value proposition in this area.

Note 14 – Tangible assets

The composition of this heading in the balance sheets as at 31 December 2022 and 2021 was as follows:

Thousand euro

	2022				2021			
	Cost	**Depreciation**	**Impairment**	**Net amount**	**Cost**	**Depreciation**	**Impairment**	**Net amount**
Property, plant and equipment	**3,135,549**	**(1,369,728)**	**(45,915)**	**1,719,906**	**3,168,539**	**(1,340,500)**	**(65,873)**	**1,762,166**
For own use:	3,135,549	(1,369,728)	(45,915)	1,719,906	3,168,539	(1,340,500)	(65,873)	1,762,166
Computer equipment and related facilities	496,171	(334,369)	—	161,802	493,986	(353,907)	—	140,079
Furniture, vehicles and other facilities	822,413	(520,039)	—	302,374	872,661	(549,092)	—	323,569
Buildings	1,797,095	(515,320)	(45,915)	1,235,860	1,782,251	(437,501)	(65,873)	1,278,877
Work in progress	—	—	—	—	—	—	—	—
Other	19,870	—	—	19,870	19,641	—	—	19,641
Investment properties:	**85,872**	**(11,932)**	**(16,886)**	**57,054**	**97,515**	**(14,400)**	**(8,187)**	**74,928**
Buildings	85,872	(11,932)	(16,886)	57,054	97,515	(14,400)	(8,187)	74,928
Total	**3,221,421**	**(1,381,660)**	**(62,801)**	**1,776,960**	**3,266,054**	**(1,354,900)**	**(74,060)**	**1,837,094**

Movements in the balance under this heading during 2022 and 2021 were as follows:

Thousand euro

	Note	Own use - Buildings and other	Own use - Computer equipment, furniture and related facilities	Investment properties	Total
Cost:					
Balances as at 31 December 2020		**1,853,709**	**1,388,538**	**81,485**	**3,323,732**
Additions		41,949	70,057	276	112,282
Disposals		(86,771)	(91,948)	(3,464)	(182,183)
Other transfers		(6,995)	—	19,218	12,223
Balances as at 31 December 2021		**1,801,892**	**1,366,647**	**97,515**	**3,266,054**
Additions		65,016	89,157	81	154,254
Disposals		(34,571)	(137,220)	(8,995)	(180,786)
Other transfers		(15,372)	—	(2,729)	(18,101)
Balances as at 31 December 2022		**1,816,965**	**1,318,584**	**85,872**	**3,221,421**
Accumulated depreciation:					
Balances as at 31 December 2020		**366,635**	**889,344**	**8,061**	**1,264,040**
Additions		92,281	75,591	2,300	170,172
Disposals		(18,071)	(61,936)	(463)	(80,470)
Other transfers		(3,344)	—	4,502	1,158
Balances as at 31 December 2021		**437,501**	**902,999**	**14,400**	**1,354,900**
Additions		87,697	74,092	2,607	164,396
Disposals		(6,740)	(122,683)	(362)	(129,785)
Other transfers		(3,138)	—	(4,713)	(7,851)
Balances as at 31 December 2022		**515,320**	**854,408**	**11,932**	**1,381,660**
Impairment losses:					
Balances as at 31 December 2020		**5,548**	**—**	**4,739**	**10,287**
Impairment through profit or loss	32	52,088	—	4,426	56,514
Reversal of impairment through profit or loss	32	—	—	(3,096)	(3,096)
Utilisations		—	—	—	—
Other movements		8,237	—	2,118	10,355
Balances as at 31 December 2021		**65,873**	**—**	**8,187**	**74,060**
Impairment through profit or loss	32	1,991	—	11,817	13,808
Reversal of impairment through profit or loss	32	—	—	(3,235)	(3,235)
Utilisations		(6,671)	—	(1,018)	(7,689)
Other transfers		(15,278)	—	1,135	(14,143)
Balances as at 31 December 2022		**45,915**	**—**	**16,886**	**62,801**
Net balances as at 31 December 2021		**1,298,518**	**463,648**	**74,928**	**1,837,094**
Net balances as at 31 December 2022		**1,255,730**	**464,176**	**57,054**	**1,776,960**

Specific information relating to tangible assets as at 31 December 2022 and 2021 is shown hereafter:

Thousand euro

	2022	2021
Gross value of tangible assets for own use in use and fully depreciated	350,747	373,076
Net carrying amount of tangible assets of foreign operations	14,379	23,675

Lease contracts in which the Bank acts as lessee

As at 31 December 2022, the cost of property, plant and equipment for own use includes right-of-use assets corresponding to leased tangible assets in which the Bank acts as lessee, in the amount of 1,099,996 thousand euros, which have accumulated depreciation of 315,729 thousand euros and are impaired in the amount of 38,657 thousand euros (1,069,864 thousand euros as at 31 December 2021, which had accumulated depreciation and impairment for 246,854 thousand euros and 36,666 thousand euros as at that date).

The cost recognised in the income statement for 2022 for the depreciation and impairment of right-of-use assets corresponding to leased tangible assets in which the Bank acts as lessee amounted to 77,479 thousand euros and 1,991 thousand euros, respectively (79,475 thousand euros and 28,584 thousand euros, respectively, in 2021).

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

Thousand euro

	2022	2021
Interest expense on lease liabilities	(13,866)	(14,404)
Expense related to short-term low-value leases (*)	(7,905)	(8,147)
Total lease payments in cash (**)	87,041	86,268

(*) Recognised in the "Administrative expenses" heading, in the item on "Of property, plant and equipment" (see Note 30).

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

Minimum future payments over the non-cancellable period for lease contracts in effect as at 31 December 2022 and 2021 are indicated below:

Thousand euro

	2022	2021
Undiscounted lease payments receivable		
Up to 1 month	898	583
1 to 3 months	19,822	19,393
3 to 12 months	58,942	56,853
1 to 5 years	283,088	268,486
More than 5 years	429,652	474,943

The future cash outflows to which the Bank may potentially be exposed and which are not included in the amount recorded under lease liabilities as at 31 December 2022 and 2021 are not significant.

Sale and leaseback transactions

Between 2009 and 2012, the Bank completed transactions for the sale of properties and simultaneously entered into a lease contract with the buyers for the same properties (maintenance, insurance and taxes to be borne by the Bank), whose main features are set out below:

2022				
Operating lease contracts	**No. properties sold**	**No. contracts with purchase option**	**No. contracts without purchase option**	**Mandatory term**
2009	63	26	37	10 to 20 years
2010	379	378	1	10 to 25 years
2011 (acquisition B.Guipuzcoano)	40	30	10	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 2022 and 2021 is given below:

Thousand euro

	2022	2021
Undiscounted lease payments receivable		
Up to 1 month	130	120
1 to 3 months	11,167	10,630
3 to 12 months	34,392	32,702
1 to 5 years	178,154	169,022
More than 5 years	367,262	389,324

In 2022, no significant results were recorded for sale and leaseback transactions. In 2021, gains from sale and leaseback transactions amounted to 25,281 thousand euros and were recognised under the heading "Gains or (-) losses on derecognition of non-financial assets, net" of the income statement.

Note 15 – Intangible assets

The composition of this heading in the balance sheets as at 31 December 2022 and 2021 was as follows:

Thousand euro

	2022	2021
Goodwill	**25,835**	**36,854**
BS Profesional, S.A.	—	49
From acquisition of Banco BMN Penedés assets	12,268	36,805
From acquisition of BSOS assets	13,567	—
Other intangible assets:	**10,970**	**11,986**
With a finite useful life:	10,970	11,986
Private Banking Business, Miami	4,925	8,445
Administrative franchises	1,018	1,104
Computer software	4,945	2,354
Other	82	83
Total	**36,805**	**48,840**

Movements in the balance of goodwill and intangible assets during 2022 and 2021 were as follows:

Thousand euro

	Goodwill		
	Cost	Amortisation	Total
Balance as at 31 December 2020	**1,005,530**	**(932,151)**	**73,379**
Additions	—	(36,525)	(36,525)
Balance as at 31 December 2021	**1,005,530**	**(968,676)**	**36,854**
Additions	13,681	(24,700)	(11,019)
Balance as at 31 December 2022	**1,019,211**	**(993,376)**	**25,835**

Thousand euro

	Other intangible assets		
	Cost	Amortisation	Total
Balance as at 31 December 2020	**493,553**	**(464,832)**	**28,722**
Additions	6,131	(11,991)	(5,860)
Disposals	(159,830)	147,894	(11,936)
Other	4,702	(3,642)	1,060
Balance as at 31 December 2021	**344,556**	**(332,571)**	**11,986**
Additions	3,084	(4,721)	(1,637)
Disposals	(77,873)	77,873	—
Other	3,730	(3,109)	621
Balance as at 31 December 2022	**273,497**	**(262,528)**	**10,970**

The gross value of other intangible assets that were in use and had been fully amortised as at 31 December 2022 and 2021 amounted to 485,767 thousand euros and 562,465 thousand euros, respectively.

Goodwill

On 1 December 2022, the Bank acquired a business unit of its subsidiary Business Services for Operational Support, S.A.U. As a result of this acquisition, there is a goodwill in the amount of 13,681 thousand euros.

As set forth in the regulatory framework of reference, Banco Sabadell carried out an analysis in 2022 to evaluate the existence of any potential impairment of its goodwill.

Banco Sabadell Group has been monitoring the Group's total goodwill across the ensemble of Cash-Generating Units (CGUs) that make up the Banking Business Spain operating segment.

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 2027, plus an estimated terminal value.

The projections used to determine the recoverable amount are those set out in the Financial Projections approved by the Board of Directors. Those projections are based on sound and well-founded assumptions, which represent management's best estimates of overall upcoming economic conditions. To determine the key variables (basically net interest income, fees and commissions, expenses, cost of risk and solvency levels) that underpin the Financial Projections, management has used microeconomic variables, such as the existing balance sheet structure, market positioning and strategic decisions adopted, and macroeconomic variables, such as the expected evolution of GDP and the forecast evolution of interest rates and unemployment. The macroeconomic variables used for the baseline macroeconomic scenario, described in Note 1, were estimated by the Group's Research Division.

The approach used to determine the values of assumptions is based on the projections and on past experience. These values are compared against external information sources, if available.

In 2022, to calculate the terminal value, Spain's nominal GDP in 2027 was taken as reference, using a growth rate in perpetuity of 1.9% (2.0% in 2021), 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 10.4% (9.3% in 2021), 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 valued.

The recoverable amount obtained is higher than the carrying amount; therefore, there has been no impairment. The individual recoverable amount for each CGU at the end of 2022 and 2021, before allocating goodwill to the CGUs as a group, was above its carrying amount; therefore, the Group did not recognise any impairment at the CGU level during the aforesaid years.

The European Central Bank's interest rate hikes and the new monetary policy environment have led to an increase in the discount rate used to estimate the recoverable amount of CGUs. However, the estimated positive effect on the cash flows generated by the businesses exceeds the impact of the increase in the discount rate, so that, overall, interest rate hikes had a positive impact on the recoverable amount.

Additionally, the Group has carried out a sensitivity test, making reasonable adjustments to the main assumptions used to calculate the recoverable amount.

This test consisted of adjusting, individually, the following assumptions:

- Discount rate +/- 0.5%.
- Growth rate in perpetuity +/- 0.5%.
- Minimum capital requirement +/-0.5%.
- NIM/ATAs in perpetuity +/- 5bps.
- Cost of risk in perpetuity +/- 10bps.

The sensitivity test does not alter the conclusions drawn from the impairment test. In all scenarios defined in that analysis, the recoverable amount obtained is greater than the carrying amount.

In accordance with the specifications of the restated text of the Corporation Tax Law, the goodwill generated is not tax-deductible.

Other intangible assets

Miami Private Banking business

Intangible assets associated with the acquisition in 2008 of the Private Banking business in Miami include the value of contractual rights arising from customer relationships taken over from this business, mainly short-term lending and deposits. These assets are amortised over a period of between 10 and 15 years from their creation.

Computer software

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

R&D expenditure in 2022 and 2021 was not significant.

Note 16 – Other assets and liabilities

The "Other assets" heading on the balance sheets as at 31 December 2022 and 2021 breaks down as follows:

Thousand euro

	Note	2022	2021
Insurance contracts linked to pensions	21	89,729	116,453
Rest of other assets		144,217	151,423
Total		**233,946**	**267,876**

The "Other liabilities" heading on the balance sheets as at 31 December 2022 and 2021 breaks down as follows:

Thousand euro

	31/12/2022	31/12/2021
Other accrual/deferral	469,313	513,431
Rest of other liabilities	180,170	11,377
Total	**649,483**	**524,808**

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

Note 17 – Deposits of central banks and credit institutions

The breakdown of the balance of deposits of credit institutions and central banks in the balance sheets as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
By heading:		
Financial liabilities at amortised cost	32,300,438	39,873,130
Total	**32,300,438**	**39,873,130**
By nature:		
Demand deposits	396,921	553,717
Deposits with agreed maturity	24,053,124	34,260,634
Repurchase agreements	8,118,516	5,398,905
Other accounts	124,873	114,521
Valuation adjustments	(392,996)	(454,647)
Total	**32,300,438**	**39,873,130**
By currency:		
In euro	31,397,086	38,473,811
In foreign currency	903,352	1,399,319
Total	**32,300,438**	**39,873,130**

Note 18 – Customer deposits

The balance of customer deposits on the balance sheets as at 31 December 2022 and 2021 breaks down as follows:

Thousand euro

	2022	2021
By heading:		
Financial liabilities at amortised cost	122,572,034	119,777,138
Total	**122,572,034**	**119,777,138**
By nature:		
Demand deposits	110,084,369	107,067,623
Deposits with agreed maturity	10,481,762	10,904,564
Fixed term	7,656,133	8,710,287
Non-marketable covered bonds and bonds issued	418,835	1,111,603
Other	2,406,794	1,082,674
Hybrid financial liabilities (see Notes 9 and 11)	2,074,477	1,680,942
Repurchase agreements	(1)	60,313
Valuation adjustments	(68,573)	63,696
Total	**122,572,034**	**119,777,138**
By sector:		
General governments	8,490,332	7,896,777
Other sectors	114,150,275	111,816,665
Other valuation adjustments (interest, fees and commissions, other)	(68,573)	63,696
Total	**122,572,034**	**119,777,138**
By currency:		
In euro	117,024,083	113,826,626
In foreign currency	5,547,951	5,950,512
Total	**122,572,034**	**119,777,138**

Note 19 – Debt securities in issue

The composition of this heading in the balance sheets as at 31 December 2022 and 2021, by type of issuance, is as follows:

Thousand euro

	2022	2021
Straight bonds/debentures	8,050,800	7,139,915
Straight bonds	8,009,500	7,082,715
Structured bonds	41,300	57,200
Commercial paper	1,445,701	903,897
Mortgage covered bonds	7,563,000	6,540,400
Subordinated marketable debt securities	3,450,000	4,200,000
Subordinated liabilities	1,800,000	1,800,000
Preferred securities	1,650,000	2,400,000
Valuation and other adjustments	77,140	47,072
Total	**20,586,641**	**18,831,284**

Schedule IV shows details of the outstanding issues as at 2022 and 2021 year-end.

The remuneration for preferred securities that are contingently convertible into ordinary shares amounted to 110,374 thousand euros in 2022 (100,593 thousand euros in 2021) and is recognised under the heading "Other reserves" of equity.

Note 20 – Other financial liabilities

The composition of this heading in the balance sheets as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
By heading:		
Financial liabilities at amortised cost	4,908,543	4,263,617
Total	**4,908,543**	**4,263,617**
By nature:		
Debentures payable	358,479	351,336
Guarantee deposits received	8,992	11,261
Clearing houses	1,032,869	672,355
Collection accounts	1,834,098	1,984,815
Lease liabilities	804,732	842,362
Other financial liabilities	869,373	401,488
Total	**4,908,543**	**4,263,617**
By currency:		
In euro	4,831,154	4,177,811
In foreign currency	77,389	85,806
Total	**4,908,543**	**4,263,617**

The following table shows information relating to the average time taken to pay suppliers (days payable outstanding), as required by Additional Provision Three of Law 15/2010, taking into account the amendments introduced by Law 18/2022, of 28 September, on the creation and growth of companies:

	2022	2021
Average payment period and supplier payment ratios (in days)		
Average time taken to pay suppliers	17.29	11.35
Ratio of transactions paid (*)	17.29	11.35
Ratio of transactions payable (**)	—	—
Payments made and pending at year-end (in thousand euro)		
Total payments made	1,463,066	1,689,020
Total payments outstanding	—	—
Payments made in < 60 days (in thousand euro) (***)		
Monetary volume of paid invoices	1,410,723	1,635,751
Percentage of total amount of payments to suppliers	96	97
Number of invoices paid in < 60 days (***)		
Number of invoices paid	137,086	150,249
Percentage of total number of invoices	93	92

(*) The ratio of paid transactions is equal to the sum of the amount of each paid transaction 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 payable is equal to the sum of the amount of each transaction payable multiplied by the number of days elapsed since the date of receipt of the invoice until the last day of the period, divided by the total amount of pending payments.

(***) Corresponds to invoices paid within the maximum period established in regulations on late payment.

Note 21 – Provisions and contingent liabilities

Movements during 2022 and 2021 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 2020	**94,463**	**1,228**	**114,089**	**421,572**	**393,598**	**1,024,950**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**—**	**—**
Interest and similar expenses - pension commitments	**451**	**4**	**—**	**—**	**—**	**455**
Allowances charged to income statement - staff expenses (*)	**525**	**6**	**—**	**—**	**274,290**	**274,821**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**1,305**	**17**	**39,608**	**99,400**	**56,500**	**196,830**
Allocation of provisions	39	—	41,093	574,981	56,500	672,613
Reversal of provisions	—	—	(1,485)	(475,581)	—	(477,066)
Actuarial losses / (gains)	1,266	17	—	—	—	1,283
Exchange differences	**—**	**—**	**—**	**206**	**—**	**206**
Utilisations:	**(7,914)**	**(921)**	**(76,856)**	**—**	**(32,746)**	**(118,437)**
Net contributions by the sponsor	281	—	—	—	—	281
Pension payments	(8,195)	(921)	—	—	—	(9,116)
Other	—	—	(76,856)	—	(32,746)	(109,602)
Other movements	**(9,255)**	**(37)**	**—**	**(243,290)**	**(286,104)**	**(538,686)**
Balance as at 31 December 2021	**79,575**	**297**	**76,841**	**277,888**	**405,538**	**840,139**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**—**	**—**
Interest and similar expenses - pension commitments	**1,299**	**4**	**—**	**—**	**—**	**1,303**
Allowances charged to income statement - staff expenses (*)	**224**	**5**	**—**	**—**	**2,195**	**2,424**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**228**	**(32)**	**45,211**	**(5,678)**	**26,055**	**65,784**
Allocation of provisions	84	—	47,619	206,249	26,055	280,007
Reversal of provisions	—	—	(2,408)	(211,927)	—	(214,335)
Actuarial losses / (gains)	144	(32)	—	—	—	112
Exchange differences	**—**	**—**	**—**	**(305)**	**—**	**(305)**
Utilisations:	**(7,272)**	**(188)**	**(32,209)**	**—**	**(138,528)**	**(178,197)**
Net contributions by the sponsor	612	—		—	—	612
Pension payments	(7,884)	(188)	—	—	—	(8,072)
Other	—	—	(32,209)	—	(138,528)	(170,737)
Other movements	**(16,213)**	**84**	**—**	**(109,424)**	**(112,404)**	**(237,957)**
Balance as at 31 December 2022	**57,841**	**170**	**89,843**	**162,481**	**182,856**	**493,191**

(*) See Note 30.

The headings "Pensions and other post-employment defined benefit obligations" and "Other long term employee benefits" include the amount of provisions for the coverage of post-employment remuneration and commitments undertaken with early retirees and similar commitments.

The heading "Commitments and guarantees given" includes the amount of provisions for the coverage of commitments given and contingent risks arising from financial guarantees or other types of contracts.

During the usual course of business, the Bank is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third party experts when necessary and, where appropriate, provisions are recognised under the headings "Pending legal issues and tax litigation" or "Other provisions". As at 31 December 2022 and 2021, these headings mainly include:

- Provisions for legal contingencies amounting to 23 million euros as at 31 December 2022 (28 million euros as at 31 December 2021).

- Other provisions for legal contingencies in Spain arising from customer claims in connection with certain general terms and conditions of agreements amounting to 179 million euros (171 million euros as at 31 December 2021). 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, for the amount of 99 million euros as at 31 December 2022 (114 million euros as at 31 December 2021). In a highly adverse scenario of potential additional claims being filed, both through the procedures established by the Institution, in accordance with that set forth in the aforesaid Royal Decree, and through court proceedings applying the percentages set forth in the current agreement, the maximum contingency would amount to 114 million euros.

  With regard to this provision, the Bank considers its floor clauses to be transparent and clear to customers, and in general, these have not been definitively voided with a final ruling. On 12 November 2018, Section 28 of the Civil Division of the Provincial Court of Madrid issued a ruling in which it partially supported the appeal brought forth by Banco de Sabadell, S.A. against the ruling issued by the Commercial Court no. 11 of Madrid on the invalidity of the restrictive interest rate clauses, considering that some of the clauses established by Banco de Sabadell, S.A. are transparent and valid in their entirety. With regard to the rest of the clauses, the Bank still considers that it has legal arguments which should be reviewed in the legal appeal which the Institution presented to the Supreme Court, with regard to the ruling made by the Provincial Court of Madrid. 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.

  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 80 million euros as at 31 December 2022 (57 million euros as at 31 December 2021).

- Provisions to cover the anticipated costs relating to restructuring plans announced in previous years and pending final implementation amounting to 56 million euros as at 31 December 2022 (274 million euros as at 31 December 2021) – see Note 30.

The final disbursement amount and the payment schedule are uncertain due to the difficulties inherent in estimating the factors used to determine the amount of the provisions set aside.

Pensions and similar obligations

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

Thousand euro

	2022	2021	2020	2019	2018
Obligations arising from pension and similar commitments	559,504	732,658	811,819	796,260	762,853
Fair value of plan assets	(501,493)	(652,786)	(716,128)	(697,621)	(667,835)
Net liability recognised on balance sheet	**58,011**	**79,872**	**95,691**	**98,639**	**95,018**

The return on the Banco Sabadell pension plan was -13.88% and that of the E.P.S.V. was 0.22% in 2022 (4.25% and 2.67%, respectively, in 2021).

Movements during 2022 and 2021 in obligations due to pensions and similar commitments and the fair value of the plan assets are as follows:

Thousand euro

	Obligations arising from pension and similar commitments	Fair value of plan assets	Net liability recognised on balance sheet
Balance as at 31 December 2020	**811,819**	**716,128**	**95,691**
Interest costs	3,944	—	3,944
Interest income	—	3,489	(3,489)
Normal cost in year	531	—	531
Past service cost	—	—	—
Benefits paid	(47,354)	(38,238)	(9,116)
Settlements, curtailments and terminations	(13,352)	(14,618)	1,266
Net contributions by the Institution	—	(181)	181
Actuarial gains or losses from changes in demographic assumptions	—	—	—
Actuarial gains or losses from changes in financial assumptions	(42,683)	—	(42,683)
Actuarial gains or losses from experience	2,702	—	2,702
Return on plan assets excluding interest income	—	(30,845)	30,845
Other movements	17,051	17,051	—
Balance as at 31 December 2021	**732,658**	**652,786**	**79,872**
Interest costs	12,141	—	12,141
Interest income	—	10,838	(10,838)
Normal cost in year	229	—	229
Past service cost	—	—	—
Benefits paid	(46,857)	(38,784)	(8,073)
Settlements, curtailments and terminations	(3,832)	(3,976)	144
Net contributions by the Institution	—	(644)	644
Actuarial gains or losses from changes in demographic assumptions	—	—	—
Actuarial gains or losses from changes in financial assumptions	(142,910)	—	(142,910)
Actuarial gains or losses from experience	(4,605)	—	(4,605)
Return on plan assets excluding interest income	—	(131,322)	131,322
Other movements	12,680	12,595	85
Balance as at 31 December 2022	**559,504**	**501,493**	**58,011**

The breakdown of Bank pension obligations and similar obligations as at 31 December 2022 and 2021, based on the financing vehicle, coverage and the interest rate applied in their calculation, is given below:

Thousand euro

		2022	
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**270,917**	
Insurance policies with related parties	Matched	26,279	3.25%
Insurance policies with unrelated parties	Matched	244,638	3.25%
Insurance contracts		**288,417**	
Insurance policies with related parties	Matched	60,555	3.25%
Insurance policies with unrelated parties	Matched	227,862	3.25%
Internal funds	Without cover	**170**	3.25%
Total obligations		**559,504**	

Thousand euro

		2021	
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**358,922**	
Insurance policies with related parties	Matched	33,404	1.00%
Insurance policies with unrelated parties	Matched	325,518	1.00%
Insurance contracts		**372,859**	
Insurance policies with related parties	Matched	78,285	1.00%
Insurance policies with unrelated parties	Matched	294,574	1.00%
Internal funds	Without cover	**877**	1.00%
Total obligations		**732,658**	

The value of the obligations covered by matched insurance policies as at 31 December 2022 amounted to 559,334 thousand euros (731,781 thousand euros as at 31 December 2021); therefore, in 99.97% of its obligations (99.88% as at 31 December 2021) there is no mortality risk (mortality tables) or profitability risk (interest rate) for the Bank. Therefore, the evolution of interest rates in 2022 has not had an impact on the Institution’s payment capacity to cope with its pension obligations.

The sensitivity analysis for the actuarial assumptions of the technical interest rate and the rate of salary increase shown in Note 1.3.16 to these annual financial statements, as at 31 December 2022 and 2021, illustrates how the obligation and the cost of the services during the current year would have been affected by changes deemed reasonably likely to occur as at that date.

%

	2022	2021
Sensitivity analysis	**Percentage change**	
Interest rate		
Interest rate -50 basis points:		
Assumption	2.75 %	0.50 %
Change in obligation	5.19 %	5.87 %
Change in current service cost	11.60 %	11.59 %
Interest rate +50 basis points:		
Assumption	3.75 %	1.50 %
Change in obligation	(4.47)%	(5.36)%
Change in current service cost	(10.13)%	(10.33)%
Rate of salary increase		
Rate of salary increase -50 basis points:		
Assumption	2.50 %	2.50 %
Change in obligation	(0.01)%	(0.06)%
Change in current service cost	(3.49)%	(3.27)%
Rate of salary increase +50 basis points:		
Assumption	3.50 %	3.50 %
Change in obligation	0.01 %	0.06 %
Change in current service cost	3.88 %	3.92 %

The estimate of probable present values, as at 31 December 2022, of benefits payable for the next ten years, is set out below:

Thousand euro

	Years										
	2023	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**Total**
Future pension benefit payments	8,047	7,680	7,411	7,139	6,867	6,585	6,289	5,983	5,668	5,347	**67,016**

The fair value of assets linked to pensions recognised on the balance sheet amounted to 89,729 thousand euros as at 31 December 2021 (116,452 thousand euros as at 31 December 2021) – see Note 16.

The main categories of the plan's assets as at 31 December 2022 and 2021 are indicated hereafter:

%

	2022	2021
Mutual funds	2.90 %	2.08 %
Deposits and guarantees	0.42 %	0.14 %
Other (non-linked insurance policies)	96.68 %	97.78 %
Total	**100 %**	**100 %**

There are no financial instruments issued by the Bank included in the fair value of the plan's assets as at 31 December 2022 and 2021.

Note 22 – Shareholders' equity

The breakdown of the balance of shareholders' equity on the balance sheets as at 31 December 2022 and 2021 is the following:

Thousand euro

	2022	2021
Capital	703,371	703,371
Share premium	7,899,227	7,899,227
Other equity	11,606	9,663
Retained earnings	4,630,414	4,486,020
Other reserves	(2,115,524)	(2,021,071)
(-) Treasury shares	(23,721)	(34,419)
Profit or loss for the year	740,551	328,412
(-) Interim dividends	(112,040)	—
Total	**11,733,884**	**11,371,203**

Capital

The Bank's share capital as at 31 December 2022 and 2021 stood at 703,370,587.63 euros, represented by 5,626,964,701 registered shares with a par value of 0.125 euros each. All shares are fully paid-up and are numbered in sequential order from 1 through 5,626,964,701, inclusive.

The Bank's shares are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and on Spain's electronic market (Mercado Continuo) managed by Sociedad de Bolsas, S.A.

None of the other subsidiary companies included in the scope of consolidation are listed on the stock exchange.

The rights conferred to the equity instruments are those regulated by the Capital Companies Act. During the Annual General Meeting, shareholders may exercise a percentage of votes equivalent to the percentage of the share capital in their possession. The Articles of Association do not contain any provision for additional loyalty voting rights.

There were no changes in the Bank's share capital in 2022 and 2021.

Significant investments in the Bank's capital

As required by Articles 23 and 32 of Royal Decree 1362/2007, of 19 October, implementing the Securities Market Law 24/1988, of 28 July, on transparency requirements relating to information on issuers whose securities have been admitted to trading on an official secondary market or on any other European Union regulated market, the following table gives details of significant investments in the share capital of Banco Sabadell as at 31 December 2022:

Direct owner of the shareholding	% of voting rights assigned to shares	% of voting rights through financial instruments	Total % of voting rights	Indirect owner of the shareholding
Various subsidiaries of BlackRock Inc.	3.23%	1.38%	4.61%	Blackrock Inc.
Funds and accounts advised or sub-advised by Dimensional Fund Advisors LP or its subsidiaries	3.01%	—%	3.01%	Dimensional Fund Advisors LP
Fintech Europe S.A.R.L.	3.45%	—%	3.45%	David Martínez Guzmán
Sanders Capital LLC	3.47%	—%	3.47%	Lewis A. Sanders and clients of Sanders Capital LLC who delegate their voting rights to others

The sources for the information provided are communications sent by shareholders to the National Securities Market Commission (CNMV) or directly to the Institution.

Retained earnings and Other reserves

The balance of these headings of the balance sheets as at 31 December 2022 and 2021 breaks down as follows:

Thousand euro

	2022	2021
Restricted reserves:	**222,819**	**206,665**
Statutory reserve	140,674	140,674
Reserves for treasury shares pledged as security	68,469	52,315
Reserves for investments in the Canary Islands	10,561	10,561
Reserve for redenomination of share capital	113	113
Capital redemption reserve	3,002	3,002
Unrestricted reserves	**2,292,071**	**2,258,284**
Total	**2,514,890**	**2,464,949**

Other equity

This heading includes share-based remuneration pending settlement which, as at 31 December 2022 and 2021, amounted to 11,606 thousand euros and 9,663 thousand euros, respectively.

Business involving own equity instruments

The movements of the parent company's shares acquired by the Bank during 2022 and 2021 are as follows:

	No. of shares	Nominal value *(in thousand euro)*	Average price *(in euro)*	% Shareholding
Balance as at 31 December 2020	**48,560,867**	**6,070.11**	**0.77**	**0.86**
Purchases	115,224,411	14,403.05	0.56	2.05
Sales	123,106,070	15,388.26	0.55	2.19
Balance as at 31 December 2021	**40,679,208**	**5,084.90**	**0.85**	**0.72**
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**

Net gains and losses arising from transactions involving own capital instruments have been included under the heading "Shareholders' equity – Other reserves" on the balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to the sale or cancellation of treasury shares.

As at 31 December 2022, the number of shares of the Bank pledged as collateral for transactions was 77,735,661 with a nominal value of 9,717 thousand euros (88,399,047 shares with a nominal value of 11,450 thousand euros as at 31 December 2021).

The number of Banco de Sabadell, S.A. equity instruments owned by third parties, yet managed by the different companies of the Group, amounts to 3,607,904 and 17,183,167 securities as at 31 December 2022 and 2021, with a nominal value of 383 thousand euros and 2,148 thousand euros as at those dates, respectively. In both years, 100% of the securities corresponded to Banco Sabadell shares.

Note 23 – Accumulated other comprehensive income

The composition of this heading of the statement of equity as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
Items that will not be reclassified to profit or loss	(71,687)	(74,402)
Actuarial gains or (-) losses on defined benefit pension plans	(3,427)	(179)
Non-current assets and disposal groups classified as held for sale	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income	(68,260)	(74,223)
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	(209,195)	6,446
Hedge of net investments in foreign operations [effective portion] (*)	(7,113)	(2,915)
Foreign currency translation	102,712	44,138
Hedging derivatives. Cash flow hedges [effective portion] (**)	(110,748)	(20,235)
Amount deriving from outstanding operations	(140,086)	(57,265)
Amount deriving from discontinued operations	29,338	37,030
Fair value changes of debt instruments measured at fair value through other comprehensive income	(194,046)	(14,542)
Hedging instruments [not designated elements]	—	—
Non-current assets and disposal groups classified as held for sale	—	—
Total	**(280,882)**	**(67,956)**

(*) The value of the hedge of net investments in foreign operations is fully obtained from outstanding transactions (see Note 11).

(**) Cash flow hedges mainly mitigate interest rate risk and other risks (see Note 11).

The breakdown of the items in the statement of recognised income and expenses as at 31 December 2022 and 2021, indicating their gross and net of tax effect amounts, is as follows:

Thousand euro

	2022			2021		
	Gross value	**Tax effect**	**Net**	**Gross value**	**Tax effect**	**Net**
Items that will not be reclassified to profit or loss	2,515	200	2,715	4,601	4,430	9,031
Actuarial gains or (-) losses on defined benefit pension plans	(4,640)	1,392	(3,248)	(503)	151	(352)
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income	7,155	(1,192)	5,963	5,104	4,279	9,383
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	(322,323)	106,682	(215,641)	(70,046)	36,921	(33,125)
Hedge of net investments in foreign operations [effective portion]	(4,198)	—	(4,198)	(16,307)	—	(16,307)
Foreign currency translation	58,573	—	58,573	73,810	—	73,810
Hedging derivatives. Cash flow hedges reserve [effective portion]	(129,304)	38,791	(90,513)	(130,277)	39,083	(91,194)
Fair value changes of debt instruments measured at fair value through other comprehensive income	(247,394)	67,891	(179,503)	2,728	(2,162)	566
Hedging instruments [not designated elements]	—	—	—	—	—	—
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Total	**(319,808)**	**106,882**	**(212,926)**	**(65,445)**	**41,351**	**(24,094)**

Note 24 – Off-balance sheet exposures

The composition of off-balance sheet exposures as at 31 December 2022 and 2021 was as follows:

Thousand euro

Commitments and guarantees given	Note	2022	2021
Loan commitments given		**21,297,399**	**21,078,872**
Of which, amount classified as stage 2		*800,416*	926,191
Of which, amount classified as stage 3		*34,916*	*47,289*
Drawable by third parties		21,297,399	21,078,872
By credit institutions		101,133	193,349
By general governments		1,019,180	1,062,490
By other resident sectors		16,176,208	15,965,269
By non-residents		4,000,878	3,857,764
Provisions recognised on liabilities side of the balance sheet	21	57,357	154,899
Financial guarantees given (*)		**8,741,124**	**8,966,917**
Of which, amount classified as stage 2		*254,090*	*143,686*
Of which, amount classified as stage 3		*58,197*	*116,373*
Provisions recognised on liabilities side of the balance sheet (**)	21	26,817	42,516
Other commitments given		**9,722,964**	**7,425,425**
Of which, amount classified as stage 2		*434,869*	*473,436*
Of which, amount classified as stage 3		*265,507*	*358,184*
Other guarantees given		6,964,640	7,274,643
Assets earmarked for third-party obligations		—	—
Irrevocable letters of credit		722,640	967,766
Additional settlement guarantee		25,000	25,000
Other guarantees and sureties given		6,217,000	6,281,877
Other contingent risks		—	—
Other commitments given		2,758,324	150,782
Financial asset forward purchase commitments		2,639,536	—
Conventional financial asset purchase contracts		—	50,116
Capital subscribed but not paid up		19	19
Underwriting and subscription commitments		—	—
Other loan commitments given		118,769	100,647
Provisions recognised on liabilities side of the balance sheet	21	78,307	80,473
Total		**39,761,487**	**37,471,214**

(*) Includes 122,500 and 68,837 thousand euro as of 31 December 2022 and 2021, respectively, corresponding to financial guarantees given in connection with construction and real estate development.

(**) Includes 4,305 and 6,512 thousand euro as of 31 December 2022 and 2021, respectively, in connection with construction and real estate development.

Total commitments drawable by third parties as at 31 December 2022 include home equity loan commitments amounting to 3,212,266 thousand euros (3,021,856 thousand euros as at 31 December 2021). 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 classed as stage 3

The movement of the balance of financial guarantees and other commitments given classed as stage 3 during 2022 was the following:

Thousand euro

Balances as at 31 December 2020	**457,820**
Additions	94,214
Disposals	(77,477)
Balances as at 31 December 2021	**474,557**
Additions	90,909
Disposals	(241,762)
Balances as at 31 December 2022	**323,704**

The breakdown by geographical area of the balance of the financial guarantees and other commitments given classed as stage 3 as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
Spain	321,296	469,444
Rest of European Union	439	439
United Kingdom	8	4
Americas	14	2,808
Rest of the world	1,947	1,862
Total	**323,704**	**474,557**

Credit risk allowances corresponding to financial guarantees and other commitments given as at 31 December 2022 and 2021, broken down by the method used to determine such allowances, are as follows:

Thousand euro

	2022	2021
Specific individually measured allowances:	**79,564**	**86,050**
Stage 2	3,753	424
Stage 3	75,811	85,626
Specific collectively measured allowances:	**25,560**	**36,939**
Stage 1	4,833	6,318
Stage 2	7,098	5,763
Stage 3	13,234	24,140
Allowances for country risk	395	718
Total	**105,124**	**122,989**

The movement of this coverage during 2022 and 2021, together with the coverage of other loan commitments given is shown in Note 21.

Note 25 – Off-balance sheet customer funds

Off-balance sheet customer funds managed by the Bank, those sold but not under management and the financial instruments deposited by third parties as at 31 December 2022 and 2021 are shown below:

Thousand euro

	2022	2021
Managed by the bank:	**4,234,635**	**5,160,075**
Investment firms and funds	702,580	1,364,922
Asset management	3,532,055	3,795,153
Sold by the bank:	**34,257,725**	**36,517,746**
Mutual Funds	21,878,344	23,228,405
Pension funds	3,182,486	3,524,786
Insurance	9,196,895	9,764,555
Financial instruments deposited by third parties	**44,378,498**	**48,875,715**
Total	**82,870,858**	**90,553,536**

Note 26 – Interest income and expenses

These headings in the income statement include interest accrued during the year on all financial assets and liabilities the yield of which, implicit or explicit, is obtained by applying the effective interest rate approach, irrespective of whether they are measured at fair value or otherwise, and using product adjustments due to accounting hedges.

The majority of interest income is generated by 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 2022 and 2021 is the following:

Thousand euro

	2022	2021
Interest income		
Loans and advances	2,585,976	2,193,867
Central banks	143,759	113
Credit institutions	41,347	24,129
Customers	2,400,870	2,169,625
Debt securities (*)	243,588	192,018
Stage 3 assets	18,912	30,162
Correction of income from hedging operations	44,948	11,684
Other interest (**)	250,253	395,199
Total	**3,143,677**	**2,822,930**
Interest expense		
Deposits	(216,009)	(187,646)
Central banks	(2,468)	(1,048)
Credit institutions	(49,099)	(13,694)
Customers	(164,442)	(172,904)
Debt securities issued	(279,549)	(244,691)
Correction of expenses on hedging operations	(130,665)	(15,234)
Other interest (***)	(128,030)	(193,987)
Total	**(754,253)**	**(641,558)**

(*) Includes 1,524 thousand euros in 2022 and -32 thousand euros in 2021 corresponding to interest on financial assets at fair value through profit or loss (trading book).

(**) Includes positive returns from liability products.

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

The average annual interest rate during 2022 and 2021 of the following balance sheet headings is shown below:

%

	2022	2021
Assets		
Cash, cash balances at central banks and other demand deposits	0.14	(0.34)
Debt securities	1.04	0.69
Loans and advances		
Customers	2.15	1.98
Liabilities		
Deposits		
Central banks and Credit institutions	0.35	0.83
Customers	(0.04)	(0.01)
Debt securities issued	(1.45)	(1.37)

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

Note 27 – Fee and commission income and expenses

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

Thousand euro

	2022	2021
Fees from risk transactions	**292,235**	**272,602**
Asset-side transactions	177,846	166,267
Sureties and other guarantees	114,389	106,335
Service fees	**720,955**	**705,218**
Payment cards	180,735	161,677
Payment orders	81,450	71,674
Securities	51,433	62,062
Sight accounts	245,811	248,265
Other	161,526	161,540
Asset management fees	**292,678**	**304,359**
Mutual funds	118,799	114,920
Sale of pension funds and insurance products	152,016	153,157
Asset management	21,863	36,282
Total	**1,305,868**	**1,282,179**
Memorandum item		
Fee and commission income	1,524,125	1,447,682
Fee and commission expenses	(218,257)	(165,503)
Fees and commissions (net)	**1,305,868**	**1,282,179**

Note 28 – Gains or (-) losses on financial assets and liabilities (net) and exchange differences (net)

The composition of this heading of the income statement for the years ended 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(10,607)	331,246
Financial assets at fair value through other comprehensive income	11,157	5,585
Financial assets at amortised cost	(21,429)	323,928
Financial liabilities at amortised cost	(335)	1,733
Gains or (-) losses on financial assets and liabilities held for trading, net	207,246	(162,522)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(3,625)	4,521
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	—	—
Gains or (-) losses from hedge accounting, net	13,006	(2,230)
Total	**206,020**	**171,015**
By type of financial instrument:		
Net gain/(loss) on debt securities	4,622	336,923
Net gain/(loss) on other equity instruments	(433)	357
Net gain/(loss) on derivatives	223,260	(166,677)
Net gain/(loss) on other items (*)	(21,429)	412
Total	**206,020**	**171,015**

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

The breakdown of the heading “Exchange differences [gain or (-) loss], net” of the income statement for the years ended 31 December 2022 and 2021 is shown below:

Thousand euro

	2022	2021
Exchange differences [gain or (-) loss], net	(129,035)	184,214

During 2022, the Bank has carried out sales of certain debt securities which it held in its portfolio of financial assets at fair value through other comprehensive income, generating profits of 11,157 thousand euros (5,585 thousand euros as at 31 December 2021). In 2022, 100% of these profits came from the sale of debt securities held with general governments. In 2021, the Bank did not dispose of debt securities issued by general governments and recorded in this portfolio.

In addition, in 2021, the Bank sold certain debt securities held in the portfolio of financial assets at amortised cost in order to fortify the Bank’s solvency as part of a series of actions taken to improve future profitability and the quality of its balance sheet in response to the economic crisis triggered by Covid-19 (see Notes 7 and 30).

The “Net gain/(loss) on derivatives” heading 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. The results obtained from these derivatives are recognised under the heading “Gains or (-) losses on financial assets and liabilities held for trading, net” of the income statement, while the exchange differences generated by debit and credit balances denominated in foreign currencies hedged with these derivatives are recognised under the heading “Exchange differences [gain or (-) loss], net” of the income statement.

Note 29 – Other operating expenses

The composition of this heading of the income statement for the years ended 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
Contribution to deposit guarantee scheme	(113,832)	(116,341)
Contribution to resolution fund	(99,655)	(87,573)
Other items	(87,291)	(85,267)
Total	**(300,778)**	**(289,181)**

“Other items” includes expenses corresponding to Tax on Deposits of Credit Institutions, amounting to 34,894 thousand euros in 2022 (33,438 thousand euros in 2021), as well as expenses associated with non-financial activities (mostly operating leases).

Note 30 – Administrative expenses

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

Staff expenses

The staff expenses recognised in the income statement for the years ended 31 December 2022 and 2021 are as follows:

Thousand euro

	Note	2022	2021
Payrolls and bonuses for active staff		(705,425)	(748,461)
Social Security payments		(166,002)	(182,334)
Contributions to defined benefit pension plans	21	(229)	(531)
Contributions to defined contribution pension plans		(24,863)	(32,456)
Other staff expenses		(36,113)	(328,648)
Of which: collective dismissal procedure in Spain		—	*(274,301)*
Total		**(932,632)**	**(1,292,430)**

In October 2021, the Bank reached an agreement with all trade union sections involved in the negotiating committee representing workers, under the framework of a collective redundancy procedure in Spain, which affected 1,603 employees (496 in 2021 and 1,107 during the first half of 2022). This agreement involved an expenditure of 274,301 thousand euros, which was funded with income from the sale of debt instruments recognised in the amortised cost portfolio (see Notes 8, 22 and 30).

As at 31 December 2022 and 2021, the breakdown of the Bank's average workforce by category and sex is as follows:

Average number of employees

	2022			2021		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Senior management	376	157	533	382	141	523
Middle management	1,616	1,152	2,768	1,844	1,106	2,950
Specialist staff	3,695	5,369	9,064	4,251	6,123	10,374
Total	**5,687**	**6,678**	**12,365**	**6,477**	**7,370**	**13,847**

The breakdown of the Bank's average workforce by category as at 31 December 2022 and 2021 with a reported disability of 33% or more is as follows:

Average number of employees

	2022	2021
Senior management	3	3
Middle management	10	14
Specialist staff	96	111
Total	**109**	**128**

As at 31 December 2022 and 2021, the breakdown of the Bank's workforce by category and sex is as follows:

Number of employees

	2022			2021		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Senior management	368	158	526	407	164	571
Middle management	1,633	1,169	2,802	1,637	1,041	2,678
Specialist staff	3,750	5,466	9,216	3,990	5,903	9,893
Total	**5,751**	**6,793**	**12,544**	**6,034**	**7,108**	**13,142**

Of the total workforce as at 31 December 2022, 114 employees had informed the Bank that they had some form of recognised disability (115 as at 31 December 2021).

Long-term share-based complementary incentive scheme

Pursuant to the Remuneration Policy, the latest version of which was approved by the Board of Directors at its meeting of 16 December 2021, at the proposal of the 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 2022, as described below:

Long-term remuneration scheme

The Board of Directors, in its meeting of 20 December 2018, at the proposal of the Board Remuneration Committee, approved Long-Term Remuneration for 2019-2021, aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff who are assigned to TSB Banking Group Plc or its subsidiaries, which consisted of the allocation of a certain amount to each beneficiary, which was determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. The incentive is paid 55% in shares of the Bank (using the weighted average price of the last 20 trading sessions of December 2019 to calculate the number of shares) and 45% in cash. The incentive vesting period started on 1 January 2019 and ended on 31 December 2021, and comprised two sub-periods:

- Individual annual targets measurement period: this is the period from 1 January 2019 to 31 December 2019, in which the annual targets of each beneficiary (composed of Group targets, management targets and individual targets) established to determine the "Adjusted Target" were measured, which was subject to the Risk Correction Factor, with capital (CET1) and liquidity (Liquidity Coverage Ratio) indicators.

- Group multi-year targets measurement period: this is the period from 1 January 2019 to 31 December 2021, in which multi-year Group targets were measured for the purpose of determining the final incentive, which was also subject to the Risk Correction Factor. The Group's multi-year targets were related to the following indicators: total shareholder return (25%), the Group's liquidity coverage ratio (25%), the CET1 capital indicator (25%) and the Group's return on risk-adjusted capital (RoRAC) (25%). The results were 0% relative to total shareholder return, 100% relative to the Group's liquidity coverage ratio, 100% relative to the CET1 capital ratio and 0% relative to the Group's return on risk-adjusted capital (RoRAC). Based on the above, a final pay-out of 50% of the target was determined for management staff who had been allocated to receive this incentive.

In addition to meeting the annual and multi-year targets described above, payment of the incentive is subject to the requirements set out in the General Terms and Conditions of the 2019-2021 Long-Term Remuneration Scheme. As at 31 December 2022, 2,150 thousand euros are pending payment.

The Board of Directors, in its meeting of 19 December 2019, at the proposal of the Board Remuneration Committee, approved Long-Term Remuneration for 2020-2022, aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff who are assigned to TSB Banking Group Plc or its subsidiaries, which consisted of the allocation of a certain amount to each beneficiary, which was determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. The incentive will be paid 55% in shares of the Bank (using the weighted average price of the last 20 trading sessions of December 2020 to calculate the number of shares) and 45% in cash. The incentive vesting period started on 1 January 2020 and ended on 31 December 2022, and consisted of two sub-periods:

- Individual annual targets measurement period: this is the period from 1 January 2020 to 31 December 2020, in which the annual targets of each beneficiary (composed of Group targets, management targets and individual targets) established to determine the "Adjusted Target" were measured, which was subject to the Risk Correction Factor, with capital (CET1) and liquidity (Liquidity Coverage Ratio) indicators.

- Group multi-year targets measurement period: this is the period from 1 January 2020 to 31 December 2022, in which multi-year Group targets were measured for the purpose of determining the final incentive, which was also subject to the Risk Correction Factor. The Group's multi-year targets were related to the following indicators: total shareholder return (25%), the Group's liquidity coverage ratio (25%), the CET1 capital indicator (25%) and the Group's return on risk-adjusted capital (RoRAC) (25%). The results were 50% relative to total shareholder return, 100% relative to the Group's liquidity coverage ratio, 100% relative to the CET1 capital ratio and 100% relative to the Group's return on risk-adjusted capital (RoRAC). Based on the above, a final pay-out of 87.5% of the target was determined for management staff who had been allocated to receive this incentive.

In addition to meeting the annual and multi-year targets described above, payment of the incentive is subject to the requirements set out in the General Terms and Conditions of the 2020-2022 Long-Term Remuneration Scheme.

The Board of Directors, in its meeting of 17 December 2020, at the proposal of the Board Remuneration Committee, approved Long-Term Remuneration for 2021-2023, aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff who are assigned to TSB Banking Group Plc or its subsidiaries, which consisted of the allocation of a certain amount to each beneficiary, which was determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. The incentive will be paid 55% in shares of the Bank (using the weighted average price of the last 20 trading sessions of December 2021 to calculate the number of shares) and 45% in cash. The incentive vesting period started on 1 January 2021 and ends on 31 December 2023, and comprises two sub-periods:

– Individual annual targets measurement period: this is the period from 1 January 2021 to 31 December 2021, in which the annual targets of each beneficiary (composed of Group targets, management targets and individual targets) established to determine the "Adjusted Target" were measured, which was subject to the Risk Correction Factor, with capital (CET1) and liquidity (Liquidity Coverage Ratio) indicators.

– Group multi-year targets measurement period: this is the period from 1 January 2021 to 31 December 2023, in which multi-year Group targets were measured for the purpose of determining the final incentive, which was also subject to the Risk Correction Factor. The Group's multi-year targets relate to the following indicators: total shareholder return (25%), the Group's liquidity coverage ratio (25%), the CET1 capital indicator (25%) and the Group's return on risk-adjusted capital (RoRAC) (25%).

In addition to meeting the annual and multi-year targets described above, payment of the incentive will be subject to the requirements set out in the General Terms and Conditions of the Long-Term Remuneration 2021-2023.

Finally, the Board of Directors, in its meeting of 16 December 2021, at the proposal of the Board Remuneration Committee, approved Long-Term Remuneration for 2022-2024, aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff who are assigned to TSB Banking Group Plc or its subsidiaries, which consists of the allocation of a certain amount to each beneficiary, which is determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. The incentive will be paid 55% in shares of the Bank (using the weighted average price of the last 20 trading sessions of December 2022 to calculate the number of shares) and 45% in cash. The incentive vesting period started on 1 January 2022 and ends on 31 December 2024, and comprises two sub-periods:

– Individual annual targets measurement period: this is the period from 1 January 2022 to 31 December 2022, in which the annual targets of each beneficiary (composed of Group targets, management targets and individual targets) established to determine the "Adjusted Target" were measured, which was subject to the Risk Correction Factor, with capital (CET1) and liquidity (Liquidity Coverage Ratio) indicators.

– Group multi-year targets measurement period: this is the period from 1 January 2022 to 31 December 2024, in which multi-year Group targets were measured for the purpose of determining the final incentive, which was also subject to the Risk Correction Factor. The Group's multi-year targets relate to the following indicators: total shareholder return (25%), the Group's liquidity coverage ratio (25%), the CET1 capital indicator (25%) and the Group's return on risk-adjusted capital (RoRAC) (25%).

In addition to meeting the annual and multi-year targets described above, payment of the incentive will be subject to the requirements set out in the General Terms and Conditions of the Long-Term Remuneration 2022-2024.

As regards the staff expenses associated with long-term complementary incentive schemes (see Note 1.3.14), the balancing entry for such expenses is recognised in equity in the case of stock options settled with shares (see statement of total changes in equity – share-based payments), while those settled with cash are recognised in the "Other liabilities" heading of the balance sheet.

Expenditure recognised in relation to incentive schemes and long-term remuneration granted to employees in 2022 and 2021 is shown below:

Thousand euro

	2022	2021
Settled in shares	849	1,865
Settled in cash	693	1,344
Total	**1,542**	**3,209**

Other general administrative expenses

The composition of this heading in the income statement for the years 2022 and 2021 was as follows:

Thousand euro

	2022	2021
Property, plant and equipment	(39,782)	(38,921)
Information technology	(412,607)	(388,031)
Communication	(6,045)	(6,232)
Publicity	(40,608)	(37,109)
Subcontracted administrative services	(95,456)	(96,046)
Contributions and taxes	(113,260)	(132,995)
Technical reports	(10,323)	(14,492)
Security services and fund transfers	(16,330)	(14,159)
Entertainment expenses and staff travel expenses	(5,198)	(2,597)
Membership fees	(2,435)	(2,109)
Other expenses	(42,421)	(40,942)
Total	**(784,465)**	**(773,633)**

Audit firm fees

The fees received by KPMG Auditores, S.L. in the years ended 31 December 2022 and 2021 for audit and other services were as follows:

Thousand euro

	2022	2021
Audit services (*)	**2,127**	**2,074**
Of which: Audit of the Bank's annual and interim accounts	2,100	2,049
Of which: Audit of the annual accounts of foreign branches (**)	27	25
Audit-related services	**264**	**270**
Total	**2,391**	**2,344**

(*) Including fees corresponding to the year's audit, irrespective of the date on which that audit was completed.

(**) Corresponding to the branch located in London.

The fees received by other companies forming part of the KPMG network in the years ended 31 December 2022 and 2021 for audit and other services were as follows:

Thousand euro

	2022	2021
Audit services (*)	**343**	**482**
Of which: Audit of the annual accounts of foreign branches	343	302
Audit-related services	**52**	**46**
Other services	**383**	**211**
Of which: Other	383	211
Total	**778**	**739**

(*) Including fees corresponding to the year's audit, irrespective of the date on which that audit was completed.

The main items included under "Audit-related services" correspond to fees related to reports that the auditors are required to produce under the applicable regulations, the issuance of comfort letters and other assurance reports required. Furthermore, "Other services" mainly includes fees related to reviews of the Pillar III Disclosures report and the Non-Financial Disclosures report provided by other companies of the KPMG network.

Finally, in foreign countries the Bank engaged auditors other than KPMG to carry out the audits of foreign branches. Audit and other services provided by those companies to the branches amounted to 13 thousand euros and 9 thousand euros in the year ended 31 December 2022, respectively (19 thousand euros and 5 thousand euros in the year ended 31 December 2021).

The information related to non-audit services provided by KPMG Auditores, S.L. to companies controlled by the Bank during 2022 and 2021 is set out in the Banco Sabadell Group consolidated annual financial statements for 2022.

All services provided by the auditors and companies forming part of their network comply with the requirements for external auditor independence set forth in the Spanish Audit Law and do not, in any case, include work that is unrelated to auditing.

Note 31 – Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and modification losses or (-) gains, net

The composition of this heading of the income statement for the years ended 31 December 2022 and 2021 is as follows:

Thousand euro

	Note	2022	2021
Financial assets at fair value through other comprehensive income		(182)	701
Debt securities	7	(182)	701
Other equity instruments		—	—
Financial assets at amortised cost (*)	10	(716,336)	(844,719)
Debt securities		(190)	68
Loans and advances		(716,146)	(844,787)
Total		**(716,518)**	**(844,018)**

(*) This figure mainly includes allowances recorded in the income statement allocated to cover credit risk exposures, as shown in the impairment allowances movements of Note 10.

Note 32 – Impairment or (-) reversal of impairment on non-financial assets

The composition of this heading of the income statement for the years ended 31 December 2022 and 2021 is as follows:

Thousand euro

	Note	2022	2021
Property, plant and equipment for own use	14	(1,991)	(52,088)
Investment properties	14	(8,582)	(1,329)
Total		**(10,573)**	**(53,417)**

Impairment on property, plant and equipment for own use recognised in 2021 was mainly due to the termination of commercial activity at premises belonging to the Bank's branch network.

Allowance for the impairment of investment properties in 2022 and 2021 was calculated based on Level 2 valuations (see Note 5).

Note 33 – Gains or (-) losses on derecognition of non-financial assets, net

The composition of this heading of the income statement for the years ended 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
Property, plant and equipment	(928)	(356)
Intangible assets	—	(11,935)
Interests	26,289	12,870
Other items	(1)	102,354
Total	**25,360**	**102,933**

The sale of tangible assets under finance leases in which the Bank acted as the lessor did not have a material impact on the 2022 and 2021 income statements.

The item “Interests” includes in 2022 the profit for the sale of the Bank’s 20% stake in Solvia Servicios Inmobiliarios, S.L. for 18,533 thousand euros.

Agreement for the sale of the institutional depository business

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

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

The transaction will generate net profit of 75 million euros, of which 59 million euros were recognised on the income statement for 2021 (mainly, an item of income of 84 million euros under the heading “Gains or (-) losses on derecognition of non-financial assets, net” and an item of expense of 25 million euros under the heading “Tax expense or (-) income related to profit or loss from continuing operations”).

Note 34 – Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The composition of this heading of the income statement for the years ended 31 December 2022 and 2021 is as follows:

Thousand euro

	Note	**2022**	**2021**
Property, plant and equipment		(24,404)	(60,868)
Gains/losses on sales		(21,201)	(44,108)
Impairment/Reversal	12	(3,203)	(16,760)
Interests (*)		2,972	98,268
Other items		(257)	15,165
Total		**(21,689)**	**52,565**

(*) The amount for 2021 mainly corresponds to the profit obtained from the disposal of BanSabadell Renting, S.L.U., in the amount of 61,310 thousand euros, and on the disposal of BancSabadell d'Andorra, S.A., in the amount of 51,852 thousand euros (see note 13).

The impairment of non-current assets held for sale and disposal groups classified as held for sale excludes income from the increase in fair value less selling costs.

The total allowance for the impairment of non-current assets held for sale in 2022 and 2021 was calculated based on Level 2 valuations (see Note 5).

Note 35 – Tax situation (income tax relating to continuing operations)

Consolidated tax group

Banco de Sabadell, S.A. is the parent company of a consolidated tax group for corporation tax purposes, comprising all the Spanish entities in which the Bank holds an interest that meet the requirements of the Spanish Corporation Tax Law.

The amount of this tax in the year has been calculated bearing in mind this circumstance and it will be paid to Banco de Sabadell S.A., as the parent company of the Group, which will in turn settle the consolidated tax with the tax authority (Hacienda Pública).

Reconciliation

The reconciliation between the pre-tax profit and the taxable income for corporation tax purposes for 2022 and 2021 is shown below:

Thousand euro

	2022	2021
Profit/(loss) before tax	990,097	377,254
Increases in taxable income	167,623	676,934
From profits	167,623	676,934
From equity		—
Decreases in taxable income	(737,313)	(614,243)
From profits	(626,939)	(513,650)
From equity	(110,374)	(100,593)
Taxable income	**420,407**	**439,945**
Tax payable (30%)	**(126,122)**	**(131,984)**
Deductions for double taxation, training and other	1,744	3,272
Tax payable (less tax credits)	**(124,378)**	**(128,712)**
Due to timing differences (net)	(32,192)	98,420
Other adjustments (net) (*)	(92,976)	(18,550)
(Tax expense or (-) income related to profit from continuing operations)	**(249,546)**	**(48,842)**

(*) Includes -48.7 million euros in 2022 (-26.3 million euros in 2021) of expense for corporation tax on foreign branches and offices.

The tax rate in effect calculated as the ratio of corporation tax expense to the pre-tax profit/(loss) amounted to 25.2% and 12.95% in 2022 and 2021, 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 temporary or permanent differences:

Thousand euro

	2022	2021
Permanent difference	88,619	190,151
Gains/(losses) on sale of equity instruments	6,955	3,844
Amortisation of Goodwill	24,586	36,524
Generated deductions/Non-deductible expenses	51,853	40,130
Other	5,225	109,653
Timing difference arising during the year	53,727	447,003
Timing difference arising in previous years	25,277	39,780
Increases	**167,623**	**676,934**
Permanent difference	(440,628)	(455,526)
Gains/(losses) on sale of equity instruments (exempt)	(116,261)	(155,411)
Difference in effective tax rate on permanent establishments	(198,043)	(132,039)
Generated deductions/Non-deductible expenses	(50,480)	(57,846)
Other	(75,844)	(110,229)
Timing difference arising during the year	(110,374)	(3,022)
Timing difference arising in previous years	(186,311)	(155,695)
Decreases	**(737,313)**	**(614,243)**

Deferred tax assets and liabilities

Under current tax and accounting regulations, certain temporary differences should be taken into account when quantifying the relevant tax expense related to profit from continuing operations.

In 2013, Spain made a provision (Royal Decree-Law 14/2013) for tax assets generated by allowances for the impairment of loans and other assets arising from the potential insolvency of debtors not related to the relevant taxable person, as well as those corresponding to contributions or provisions in respect of social welfare systems and, where appropriate, early retirement schemes, to be afforded the status of assets guaranteed by the Spanish State (hereinafter, "monetisable tax assets").

Monetisable tax assets can be converted into credit enforceable against the Spanish Tax Authority in cases where the taxable person incurs accounting losses or the institution is liquidated or legally declared insolvent. Similarly, they can be exchanged for public debt securities, once the 18-year term has elapsed, calculated from the last day of the tax period in which these assets were recognised in the accounting records. In order to retain the State guarantee, these are subject to an annual capital contribution of 1.5% of their amount as of 2016.

Movements of deferred tax assets and liabilities during 2021 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 2020	**3,998,199**	**833,471**	**272,469**	**—**	**5,104,139**
(Debit) or credit recorded in the income statement	(19,491)	169,064	(15,883)	—	133,690
(Debit) or credit recorded in equity	—	2,535	—	—	2,535
Exchange differences and other movements	17,043	1,677	6,734	—	25,454
Balances as at 31 December 2021	**3,995,751**	**1,006,747**	**263,320**	**—**	**5,265,818**
(Debit) or credit recorded in the income statement	(48,542)	43,735	(36,861)	7	(41,661)
(Debit) or credit recorded in equity		85,337			85,337
Exchange differences and other movements	17,713	(9,335)	9,026		17,404
Balances as at 31 December 2022	**3,964,922**	**1,126,484**	**235,485**	**7**	**5,326,898**

Thousand euro

Deferred tax liabilities	Total
Balances as at 31 December 2020	**118,158**
(Debit) or credit recorded in the income statement	(14,989)
(Debit) or credit recorded in equity	(30,411)
Exchange differences and other movements	(182)
Balances as at 31 December 2021	**72,576**
(Debit) or credit recorded in the income statement	(5,880)
(Debit) or credit recorded in equity	(17)
Exchange differences and other movements	(635)
Balances as at 31 December 2022	**66,044**

The sources of the deferred tax assets and liabilities recognised in the balance sheets as at 31 December 2022 and 2021 are as follows:

Thousand euro

Deferred tax assets	2022	2021
Monetisable	**3,964,922**	**3,995,751**
Due to credit impairment	3,321,585	3,352,177
Due to real estate asset impairment	517,911	517,823
Due to pension funds	125,426	125,751
Non-monetisable	**1,126,486**	**1,006,747**
Tax credits for losses carried forward	**235,485**	**263,320**
Deductions not applied	**7**	**—**
Total	**5,326,900**	**5,265,818**

Deferred tax liabilities	2022	2021
Property restatements	54,197	55,838
Adjustments to value of wholesale debt issuances arising in business combinations	7,472	12,916
Other financial asset value adjustments	1,455	1,475
Other	2,920	2,347
Total	**66,044**	**72,576**

As indicated in Note 1.3.19, according to the information available as at year-end, and the projections taken from the Group's business plan for the coming years, the Bank estimates that it will be able to generate sufficient taxable income to offset tax loss carry-forwards within a period of six years and non-monetisable tax assets when these can be deducted on the basis of 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 recovery analysis, taking into consideration reasonable changes to the key assumptions on which the projected results of each entity or fiscal group are based and the estimated reversal of temporary differences. With respect to Spain, the variables included are those used in the sensitivity analysis of the calculation of the recoverable amount of goodwill (see Note 15). The conclusions arising from that analysis are not significantly different from those reached without stressing the significant variables.

On 29 December 2021, the government published Law 22/2021, which sets forth the minimum tax rate for corporation tax in Spain, calculated for financial institutions, as 18% of the taxable base (provided this is positive), as from 2022. The change introduced by this tax regulation does not modify the recoverability period for the Group's deferred tax assets.

Monetisable tax assets are guaranteed by the State; therefore, their recoverability does not depend on the generation of future tax benefits.

The Bank has no deferred tax assets that have not been recognised in the balance sheet.

Other information

In compliance with the accounting obligations set out in Article 86 of Law 27/2014, of 27 November, on Corporation Tax, with regard to the mergers carried out to date between Banco de Sabadell, S.A. and Solbank SBD, S.A., Banco Herrero, S.A., Banco de Asturias, S.A., BanSabadell Leasing EFC, S.A., Solbank Leasing EFC, S.A., BanAsturias Leasing EFC, S.A., Banco Atlántico, S.A., Banco Urquijo, S.A., Europea de Inversiones y Rentas S.L., Banco CAM, S.A., Banco Guipuzcoano, S.A., BS Profesional, Axel Group, Sabadell Solbank S.A.U. (Formerly, Lloyds Bank) and Banco Gallego, S.A., the requisite information was included in the first annual report of Banco de Sabadell, S.A. approved following each of the aforesaid mergers.

Reserves for investments in the Canary Islands

As set out in Note 2 to these annual financial statements, the Annual General Meeting held on 24 March 2022 approved allocating a reserve for investments in the Canary Islands amounting to 279 thousand euros. This reserve was fully realised in 2021 through investments carried out in that same year in various items of property, plant and equipment classified as fixtures and fittings.

Years subject to tax inspection

As at 31 December 2022, Banco de Sabadell S.A.'s Corporation Tax liabilities for the years 2015 and following are subject to review and VAT liabilities for the years 2016 and following are open for review.

On 11 January 2022, the State Agency for Tax Administration (AEAT by its Spanish acronym) gave notice of the commencement of verification and investigation procedures in relation to the items and periods listed below:

Entity	Item	Period
Banco de Sabadell, S.A. (parent company of the VAT group 74/08)	Value added tax	January 2018 to December 2019
Banco de Sabadell, S.A.	Withholding/payment on account on earnings from professional/work/economic activities	January 2018 to December 2019
Banco de Sabadell, S.A.	Withholding/payment on account on earnings from movable capital	January 2018 to December 2019
Banco de Sabadell, S.A.	Tax on Deposits of Credit Institutions	2017 to 2019
Banco de Sabadell, S.A. (parent company of the consolidated tax group 16/91)	Income tax	2015 to 2019

In addition, in July 2022, a notification was sent of the broadening of the scope of the verification and investigation procedures in respect of the capital contribution due to the conversion of deferred tax assets into credit enforceable against the Spanish Tax Authority for the years 2016 to 2019.

Ongoing disputes

As at 31 December 2022, the main ongoing tax dispute corresponds to an appeal for judicial review before the Spanish National Court in relation to the rebuttal of the settlement of the disputed VAT assessment for Banco Sabadell between 2008-2010 for an amount of tax due of 1,831 thousand euros (2,337 thousand euros in total including late-payment interest), after a tax settlement was issued in execution of a decision made by the Central Tax Appeal Board partially upholding the claim.

The dispute regarding the administrative-financial claim lodged before the Central Tax Appeal Board on 25 March 2019 against the settlement agreement issued in relation to the disputed tax assessment concerning VAT for the period 07/2012 to 12/2014 which contained an adjustment for a tax amount due of 5,638 thousand euros (6,938 thousand euros in total including late-payment interest) in relation to various sector-based issues ended in the 2022 financial year. In June 2022, the Bank received a ruling from this court partially upholding the claim, which notifies the corresponding implementing agreement in December, resulting in a total reimbursement of 9,443 thousand euros.

The Bank has, in any event, made suitable provisions for any contingencies that it is considered may arise in relation to these procedures.

In relation to other tax periods and items for which the statute of limitations is unexpired, due to potential differences in the interpretation of tax regulations, the results of the tax authority inspections for the years subject to review may give rise to contingent tax liabilities, which it is not possible to quantify objectively. However, the Bank considers that the possibility of such liabilities materialising is remote and, if they did materialise, the resulting tax charge would not be such as to have any significant impact on these annual financial statements.

Temporary levy for credit institutions

On 28 December 2022, Law 38/2022, of 27 December, was published which, among other aspects, establishes a temporal levy on credit institutions and financial credit establishments. This levy must be complied with during 2023 and 2024 by institutions operating in Spain, whose sum of interest income and fees and commissions in 2019 was equal to or greater than 800 million euros. The payment amount was set at 4.8% of the sum of net interest income and net fees and commissions stemming from their activities in Spain recognised in the income statement for the year 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 paid during the first 20 calendar days of the month of February following the date on which the payment obligation arises.

The estimated impact of this levy for the Group in the income statement for 2023 amounts to approximately 170 million euros.

Note 36 – Related party transactions

In accordance with the provisions of Chapter VII *bis* Related Party Transactions, of the Capital Companies Act, introduced by Law 5/2021, of 12 April, amending the restated text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July, and other financial regulations, with regard to the promotion of long-term shareholder involvement in listed companies, there are no transactions with officers and directors of the company that could be considered relevant, other than those considered to be "related party transactions" in accordance with Article 529 *vicies* of the Capital Companies Act, carried out following the corresponding approval procedure and, where applicable, reported in accordance with Articles 529 *unvicies et seq.* of the aforesaid Capital Companies Act. Those that did take place were performed in the normal course of the company's business or were performed on an arm's-length basis or under the terms generally available to any employee. There is no record of any transactions being performed other than on an arm's-length basis with persons or entities related to directors or senior managers.

During 2022, the Board of Directors has not approved any significant transactions by reason of their amount or materiality carried out by the Bank with other related parties.

Details of the most significant balances held with related parties as at 31 December 2022 and 2021, as well as the effect on the income statements for 2022 and 2021 arising from related party transactions, are shown below:

Thousand euro

	2022				
	Subsidiaries	**Associates**	**Key personnel**	**Other related parties**	**TOTAL**
Assets:					
Loans and advances – Credit institutions	1,992,532	38,668	—	—	2,031,200
Loans and advances – Customers	5,960,922	68,850	3,305	514,566	6,547,643
Liabilities:					
Deposits from credit institutions	19,197	—	—		19,197
Customer deposits	2,747,055	225,959	5,718	75,107	3,053,839
Debt securities issued	567,945	—	—	—	567,945
Off-balance sheet exposures:					
Financial guarantees given	6,710,890	294	—	15,067	6,726,251
Loan commitments given	1,160,577	47	395	296,880	1,457,899
Other commitments given	48,582	6,499	—	82,913	137,994
Income statement:					
Interest income	126,751	3,249	33	5,644	135,677
Interest expense	(46,466)	(18)	(5)	(643)	(47,132)
Fees and commissions (net)	152,917	2,200	25	(64)	155,078
Other general expenses	(467,303)	(3,652)	—	(2,714)	(473,669)

Thousand euro

	2021				
	Subsidiaries	Associates	Key personnel	Other related parties	TOTAL
Assets:					
Loans and advances – Credit institutions	1,851,465	37,625	—	—	1,889,090
Loans and advances – Customers	9,293,526	92,551	2,593	539,451	9,928,121
Liabilities:					
Deposits from credit institutions	18,809	5,578	—	—	24,387
Customer deposits	3,268,166	192,586	7,450	87,272	3,555,474
Debt securities issued	473,237	—	—	—	473,237
Off-balance sheet exposures:					
Financial guarantees given	7,023,769	302	—	10,042	7,034,113
Loan commitments given	1,160,525	102	449	108,373	1,269,449
Other commitments given	40,562	6,749	—	112,112	159,423
Income statement:					
Interest income	84,897	3,707	22	5,001	93,627
Interest expense	(79,886)	(73)	1	(20)	(79,978)
Fees and commissions (net)	143,171	3,624	48	1,444	148,287
Other general expenses	(435,187)	(4,811)	—	(2,522)	(442,520)

As at 31 December 2022, the Bank had no subordinated bonds on its balance sheet (5,000 thousand euros as at 31 December 2021).

Note 37 – 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 2022 and 2021, the amount paid to directors for services provided by them in that capacity:

Thousand euro

	Remuneration	
	2022	**2021**
Josep Oliu Creus (1)	1,600	1,259
Pedro Fontana García (2)	335	257
José Javier Echenique Landiríbar (3)	—	185
César González-Bueno Mayer (*) (4)	100	83
Jaime Guardiola Romojaro (5)	—	17
Anthony Frank Elliott Ball	158	162
Aurora Catá Sala	179	178
Luis Deulofeu Fuguet (6)	175	39
María José García Beato (7)	180	166
Mireya Giné Torrens	160	150
Laura González Molero (8)	30	—
George Donald Johnston III	178	188
David Martínez Guzmán	100	100
José Manuel Martínez Martínez	180	167
José Ramón Martínez Sufrategui (9)	91	135
Alicia Reyes Revuelta	150	164
Manuel Valls Morató	140	145
David Vegara Figueras (*)	100	100
Total	**3,856**	**3,495**

(*) Perform executive functions.

(1) Chairman with status of Other External Director since 26 March 2021.

(2) Appointed Deputy Chair of the Board on 28 July 2021.

(3) Submitted resignation from position as Director on 28 July 2021.

(4) On 17 December 2020, the Board of Directors approved his appointment as Chief Executive Officer. He accepted the position on 18 March 2021.

(5) Submitted resignation from position as Chief Executive Officer on 18 March 2021.

(6) On 28 July 2021, the Board of Directors approved his appointment as member of the Board of Directors, in the capacity of Independent Director. He accepted the position on 26 October 2021.

(7) Other External Director since 31 March 2021.

(8) 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.

(9) 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.

In 2021 and 2022, no contributions have been 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 94 thousand euros as fixed remuneration in 2022 (124 thousand euros in 2021) by reason of their membership of boards of directors in Banco Sabadell Group companies (these amounts are included in the Annual Report on Directors’ Remuneration).

Remuneration earned by directors for discharging their executive duties during 2022 amounted to 3,520 thousand euros (6,563 thousand euros in 2021).

Thousand euro

	Fixed remuneration	Variable remuneration	Long-term remuneration	Total ordinary remuneration	Compensation	Total 2022	Total 2021
Josep Oliu Creus (*)	—	—	—	**—**	—	**—**	**988**
Jaime Guardiola Romojaro (**)	—	—	—	**—**	—	**—**	**697**
María José García Beato (*)	—	—	55	**55**	—	**55**	**2,037**
César González-Bueno Mayer	2,024	698	—	**2,722**	—	**2,722**	**2,155**
David Vegara Figueras	573	101	69	**743**	—	**743**	**686**
Total	**2,597**	**799**	**124**	**3,520**	**—**	**3,520**	**6,563**

(*) In 2022, they have not performed executive duties.

(**) Submitted resignation from position as Chief Executive Officer on 18 March 2021.

For comparative purposes, it is important to note that during 2021, the Chairman, Josep Oliu Creus, following the amendment to the Articles of Association carried out at the Annual General Meeting of 26 March 2021, changed his status to Other External Director. In 2022, he has not received any amount for his executive duties.

The directorship of María José García Beato also changed to the category of Other External Director, effective as of 31 March 2021. In 2022, she received the amount corresponding to long-term remuneration 2020-2022 for the period in which she was an Executive Director.

The contributions made in 2022 in insurance premiums covering pension contingencies amounted to 101 thousand euros (4,381 thousand euros in 2021).

Total risk transactions granted by the Bank and consolidated companies to directors of the parent company amounted to 907 thousand euros as at 31 December 2022, of which 748 thousand euros corresponded to loans and receivables and 159 thousand euros related to loan commitments given (1,068 thousand euros as at 31 December 2021, consisting of 909 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. Liabilities amounted to 4,376 thousand euros as at 31 December 2022 (5,928 thousand euros as at 31 December 2021).

Total Senior Management remuneration earned during 2022 amounted to 12,875 thousand euros. Pursuant to applicable regulations, this amount includes the remuneration of the Senior Management members plus the Internal Audit Officer. The total remuneration of Senior Management includes amounts received by all those who were members of Senior Management at any time during 2022, in proportion to the time they spent in that position (on average 8.3 members in 2022 and 7.3 members in 2021).

Thousand euro

	2022			2021		
	Ordinary remuneration	Severance pay	Total	Ordinary remuneration	Severance pay	Total
Senior Management and Director of Internal Audit remuneration	6,675	6,200	**12,875**	6,418	5,340	**11,758**

Risk transactions granted by the Bank and consolidated companies to Senior Management staff (with the exception of those who are also Executive Directors, for whom details are provided above) amounted to 3,405 thousand euros as at 31 December 2022 (4,156 thousand euros in 2021), comprising 3,169 thousand euros in loans and receivables and 236 thousand euros related to loan commitments given (in 2021, 3,865 thousand euros related to loans and receivables and 290 thousand euros to loan commitments given). Liabilities amounted to 1,342 thousand euros as at 31 December 2022 (1,520 thousand euros as at 31 December 2021).

The accrued expenses corresponding to long-term remuneration schemes granted to members of Senior Management, including Executive Directors (see Note 30), amounted to 1,181 thousand euros in 2022 (952 thousand euros in 2021).

Details of existing agreements between the company and members of the Board and management staff with regard to severance pay are set out in the Group's Annual Corporate Governance Report, which is included for reference purposes in the Directors' Report.

For further details on Directors' remuneration, see the Annual Report on Directors' Remuneration for 2022, which is included for reference purposes in the Directors' Report.

The amounts included in the Annual Report on Directors' Remuneration and in the Annual Corporate Governance Report follow the criteria set forth in CNMV Circular 5/2013, amended by 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 2022, irrespective of the deferral schedule to which they are subject.

The Executive Directors and Senior Management are specified below, indicating the positions they hold in the Bank as at 31 December 2022:

Executive Directors	
César González-Bueno Mayer	Sabadell Group CEO
David Vegara Figueras	Director-General Manager
Senior Management	
Leopoldo Alvear Trenor	General Manager
Cristóbal Paredes Camuñas	General Manager
Jorge Rodríguez Maroto	General Manager
Carlos Ventura Santamans	General Manager
Gonzalo Barettino Coloma	Secretary General
Marc Armengol Dulcet	Deputy General Manager
Elena Carrera Crespo	Deputy General Manager
Carlos Paz Rubio	Deputy General Manager
Sonia Quibus Rodríguez	Deputy General Manager

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 revised text of the Capital Companies Act (hereinafter, Capital Companies Act) in relation to the duty to avoid situations of conflict of interest, and without prejudice to the provisions of Article 529 *vicies et seq*. of the aforesaid Act[1], directors have reported to the company that, during 2022, they or persons related to them, as defined in Article 231 of the Capital Companies Act:

- Have not carried out transactions with the company without taking into account usual operations, performed under standard conditions for customers and whose significance is immaterial, understanding such operations to be those that do not need to be reported to give a true and fair view of the company's equity, financial situation and income, or any operations carried out and considered to be "related party transactions" in accordance with Article 529 *vicies* of the Capital Companies Act, having applied with the corresponding approval procedure and reporting requirement, in accordance with Articles 529 *unvicies et seq.* of the aforesaid Capital Companies Act.

- Have not used the name of the company or their position as administrator to unduly influence the performance of personal transactions.

- Have not made use of corporate assets, including the company's confidential information, for personal purposes.

- Have not taken undue advantage of the company's business opportunities.

- Have not obtained advantages or remuneration from third parties other than the company or group in connection with the discharge of their duties, with the exception of acts of mere courtesy.

- Have not carried out activities on their own behalf or on behalf of a third party that involve competition with the company, whether on an isolated or potential basis, or that might otherwise place them in permanent conflict with the company's interests.

[1] The regulation of related-party transactions is governed by its own special regime.

The Bank has entered into a civil liability insurance policy for 2022 that covers the Institution's Directors and Senior Management staff. The total premium paid was 3,761 thousand euros (5,420 thousand euros in 2021).

Note 38 – Other information

Transactions with significant shareholders

No major transactions with significant shareholders have been carried out during 2022 and 2021.

Environmental disclosures

At Banco Sabadell, sustainability is part of the company's values and the way in which the Institution understands banking; therefore, developments in this area have been gradual, focusing on the business relationship and positively impacting its surrounding environment.

Consequently, during 2022, the Bank has continued to make progress on all these aspects of its activity and organisation by creating an ESG framework, Sabadell's Commitment to Sustainability. To this end, the Institution continues to align its strategy to the Sustainable Development Goals (SDGs) and the Paris Agreement, with the aim of supporting and accelerating the key economic and social transformations that contribute to sustainable development and the fight against climate change.

With its sustainability strategy, the Group deals with the risks and opportunities posed by the climate and environmental issues that impact the strategic pillars of its ESG framework, Sabadell's Commitment to Sustainability, from a 'double materiality' perspective. To this end, the Bank has set objectives and is carrying out transformation actions. The following actions are worthy of note:

– Progress as a Sustainable Institution, by environmentally managing premises and by driving forward climate and environmental commitments. The Bank is focused on reducing its carbon footprint and on being carbon neutral.

– Support customers in the transition towards a sustainable economy, through advisory services and the development of specific solutions aligned with the regulatory environment, as well as the identification of transformation opportunities.

During 2022 and in line with the commitment to reduce CO_2 emissions, the Bank has implemented plans for energy saving, preventive maintenance of HVAC systems, waste management and recycling, and continues to invest in projects to offset its greenhouse gas (GHG) emissions.

In support of the main international commitments to sustainability and net zero, the Bank strengthens its transitional actions by signing new agreements such as the Platform for Carbon Accounting Financials (PCAF) to make progress in the calculation of the carbon footprint of the lending and investment portfolio.

As regards its support of customers in their transition, the Bank continues to learn more about the environmental and climate impact of its activity and classify it accordingly. It is also offering sustainable finance solutions, as well as promoting the energy transition and raising awareness of the importance of the green transition via training activities geared at employees and advice aimed at customers.

Moreover, the Bank has set decarbonisation targets for the most CO_2-intensive sectors to ensure that it meets its portfolio neutrality targets by 2050.

Another framework for action is to offer ESG investment opportunities by increasing the offer of sustainable savings and investment products, either our own or those of third parties, and by driving capital investment in renewable energy projects and promoting green initiatives and technologies.

Given the activities in which it is engaged, as at 31 December 2022, the Bank does not have responsibilities, expenses, assets, revenues or provisions or contingencies of an environmental nature that could be deemed significant with respect to equity, the financial situation and its consolidated results; therefore, there are no specific disclosures in the environmental disclosures document envisaged by Order JUS/616/2022, of 30 June, approving the new templates for the submission to the Companies Register of the annual financial statements of institutions required to published them.

For further details, see the Non-Financial Disclosures Report, which is included as part of the Consolidated Directors' Report.

Relationships with agents

In accordance with Article 21 of Royal Decree 84/2015, of 13 February, implementing Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, the Bank has not kept in force any agency contracts with agents who have been authorised to operate routinely with their customers, in the name of or on behalf of the principal, to negotiate or arrange transactions typical of the activity of a credit institution.

Customer Care Service (SAC)

The Customer Care Service (hereinafter, SAC as per its Spanish acronym) and its head, who is appointed by the Board of Directors, report directly to the Compliance Division and is independent of the Bank's business and operational lines. Its main function is to handle and resolve complaints and claims brought forward by customers and users of the financial services of Banco de Sabadell, S.A. and member entities, when these relate to their interests and legally recognised rights arising from contracts, transparency and customer protection regulations or good financial practices and uses, in accordance with Banco Sabadell Regulations for the Protection of Customers and Users of Financial Services.

The entities that adhere to the SAC Regulations are the following: BanSabadell Financiación, E.F.C., S.A.; Sabadell Asset Management, S.A., S.G.I.I.C. Sociedad Unipersonal; Urquijo Gestión, S.G.I.I.C, S.A.; and Sabadell Consumer Finance, S.A.U.

In 2022, Banco Sabadell Customer Care Service received 41,887 complaints and 41,332 complaints were handled during the year with 1,465 claims and complaints pending analysis as at 31 December 2022.

	Complaints	% of total received
Product		
Loans and credit secured with mortgages	6,870	16.4 %
Loans and credit not secured with collateral	7,187	17.2 %
Demand deposits and payment accounts	20,345	48.6 %
Payment instruments and electronic money	2,271	5.3 %
Other payment services	1,978	4.7 %
Other products/services	2,163	5.2 %
Other products	1,073	2.6 %
Total	**41,887**	**100 %**

Complaints and claims processed by SAC at first instance

During 2022, the SAC received 38,726 complaints and claims and 28,726 were accepted for processing and resolved, in accordance with the provisions of Order ECO 734/2004, of 11 March.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 15,476 (53.9%) were resolved in the customer's favour, 13,238 (46.1%) in the Institution's favour and in 12 cases the customer withdrew their complaint. During 2022, 9,475 complaints and claims were not accepted for processing due to reasons envisaged in the SAC Regulations.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 15,546 (54.1%) were processed within a period of 15 working days, 11,487 (40.0%) within a period of less than one month and 1,693 (5.9%) within a period longer than one month.

Complaints and claims managed by the Ombudsman

At Banco Sabadell, the role of Customer Ombudsman is assumed by José Luis Gómez-Dégano y Ceballos-Zúñiga. The Ombudsman is responsible for resolving the complaints brought forward by the customers and users of Banco de Sabadell, S.A., and of the other aforementioned entities associated with it, both at first and second instance, and for resolving issues that are passed on by the SAC. The Ombudsman's decisions are binding on the Institution.

In 2022, the SAC received a total of 2,547 complaints and claims via the Customer Ombudsman, of which 2,524 were handled during the year.

With regard to claims and complaints resolved by the Customer Ombudsman, 8 were resolved in the customer's favour, 652 were resolved in the Institution's favour, in 1,099 cases the Bank acquiesced to the claimant's request and in 9 cases the customer withdrew their complaint. In 666 complaints, the Ombudsman declined to act in accordance with the regulations governing its remit. As at 31 December 2022, 53 complaints are pending submission of allegations and 90 pending resolution by the Customer Ombudsman.

Complaints and claims managed by the Bank of Spain and the CNMV

Under current legislation, customers or users who are dissatisfied with the response received from the SAC or from the Customer Ombudsman may submit their claims and complaints to the Market Conduct and Complaints Department of the Bank of Spain, to the CNMV or to the Directorate General for Insurance and Pension Funds, subject to the essential prerequisite of having previously addressed their complaint or claim to the Institution.

The SAC received a total of 614 claims referred by the Bank of Spain and the CNMV until 31 December 2022. During 2022, taking into account claims that remained pending at the end of the previous year, 607 claims were accepted and resolved.

Note 39 – Subsequent events

There were no significant events worthy of mention subsequent to 31 December 2022.

Schedule I – Banco Sabadell Group companies

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. in Liquidation	Real estate	Elche - Spain	—	100.00	1,942	(89,826)	(45)	—	3	1,919	(89,803)	(45)
Duncan de Inversiones S.I.C.A.V., S.A. 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)

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			
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	—	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
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. in Liquidation	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

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			
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
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. in Liquidation	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 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies (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	(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	14,636	12,744
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	225,516	62,988
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**	**229,206**	**119,980**

(*) 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 -65,352 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 associates

(b) Incorporation of subsidiaries

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
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) Items removed from the scope due to dissolution and/or liquidation.

(b) Items removed from the scope due to disposal

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L. in Liquidation	Real estate	Alicante - Spain	100.00	—	100	339	(10)	—	427	10,538	(10,099)	(10)
Aurica Coinvestments, S.L.	Holding	Barcelona - Spain	—	61.76	50,594	(1,045)	1,880	1,043	51,459	31,247	(1,758)	(4,165)
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	1,598	709	(25)	—	3,001	2,439	(378)	(25)
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	—	—	703,371	10,271,463	328,412	—	197,187,820	—	12,378,089	366,036
Banco Sabadell, S.A., Institución de Banca Múltiple	Credit institution	Mexico City - Mexico	99.99	0.01	573,492	(57,153)	(12,296)	—	3,851,192	576,941	(54,325)	(24,286)
BanSabadell Factura, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	100	(276)	157	—	2,602	299	(475)	157
BanSabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell - Spain	100.00	—	24,040	12,339	517	—	649,954	24,040	12,339	517
BanSabadell Inversió Desenvolupament, S.A.U.	Holding	Barcelona - Spain	100.00	—	16,975	103,159	(213)	—	198,505	108,828	19,810	(2,401)
BanSabadell Mediación, Operador De Banca-Seguros Vinculado Del Grupo Banco Sabadell, S.A.	Other regulated companies	Alicante - Spain	—	100.00	301	59	8,232	9,288	53,763	524	(4,174)	10,809
Bitarte, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	6,506	(2,117)	(59)	—	4,416	9,272	(4,405)	(83)
BStartup 10, S.L.U.	Holding	Barcelona - Spain	—	100.00	1,000	3,768	384	—	9,605	1,000	(621)	(157)
Business Services for Operational Support, S.A.	Other ancillary activities	Sant Cugat del Valles - Spain	80.00	—	530	(8,052)	(1,938)	—	35,059	1,160	(6,290)	(1,372)
Compañía de Cogeneración del Caribe Dominicana, S.A.	Power generation	Santo Domingo - Dominican Republic	—	100.00	5,016	(4,606)	—	—	427	—	(312)	—
Crisae Private Debt, S.L.U.	Other ancillary activities	Barcelona - Spain	—	100.00	3	196	(14)	—	199	200	(1)	(15)
Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. in Liquidation	Real estate	Elche - Spain	—	100.00	1,942	(90,935)	1,109	—	2	1,919	(90,912)	1,109
Duncan de Inversiones S.I.C.A.V., S.A.	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	99.81	—	7,842	(5,242)	(53)	—	2,553	2,887	(291)	(53)
Ederra, S.A.	Real estate	San Sebastián - Spain	97.85	—	2,036	34,219	(31)	—	36,331	36,062	(405)	108
ESUS Energía Renovable, S.L.	Power generation	Vigo - Spain	—	90.00	50	(727)	(44)	—	3,701	23	(1,367)	(173)
Europea Pall Mall Ltd.	Real estate	London - United Kingdom	100.00	—	20,843	(1,412)	633	—	24,194	20,843	(5,173)	347
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other ancillary activities	Alicante - Spain	100.00	—	1,232	2,458	502	—	7,096	2,771	1,763	199
Fuerza Eólica De San Matías, S. de R.L. de C.V.	Power generation	Monterrey - Mexico	—	99.99	8,144	(10,146)	(3,981)	—	51,515	5,951	(4,845)	(4,688)

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Galeban 21 Comercial, S.L.U.	Servicios	A Coruña - España	100.00	—	10,000	(4,292)	—	—	5,708	14,477	(8,769)	—
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	53	(20,740)	(49)	—	1,695	23,891	(44,578)	(49)
Gest 21 Inmobiliaria, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	7,810	1,142	(34)	—	8,926	80,516	(46,718)	(8)
Gestión Financiera del Mediterráneo, S.A.U.	Other financial services	Alicante - Spain	100.00	—	13,000	2,551	12,043	2,789	27,903	66,787	(41,914)	3,614
Guipuzcoano Promoción Empresarial, S.L.	Holding	San Sebastián - Spain	—	100.00	53	(75,502)	(161)	—	6,774	7,160	(82,600)	(161)
Hobalear, S.A.U.	Real estate	Barcelona - Spain	—	100.00	60	61	11	—	135	414	61	11
Hondarriberri, S.L.	Holding	San Sebastián - Spain	99.99	0.01	41	18,545	(386)	—	59,216	120,669	95,578	(138)
Hotel Management 6 Gestión Activa, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	135,730	29,104	(835)	—	163,999	136,335	49,803	532
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	—	100.00	29,074	(22,041)	(2,093)	—	61,620	27,611	(20,405)	(2,266)
Interstate Property Holdings, LLC.	Holding	Miami - United States	100.00	—	7,293	(1,349)	5	—	5,951	3,804	6,387	1,462
Inverán Gestión, S.L. in Liquidation	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	90	(34)	(46)	—	70	45,090	(45,034)	(46)
Inversiones Cotizadas del Mediterráneo, S.L.	Holding	Alicante - Spain	100.00	—	308,000	198,920	3,717	—	727,461	589,523	(83,233)	(554)
Inversiones en Resorts Mediterráneos, S.L. in Liquidation	Real estate	Torre Pacheco - Spain	—	55.06	299,090	(302,367)	—	—	68	175,124	—	—
LSP Finance, S.L.U.	Provision of technology services	Sant Cugat del Valles - Spain	—	100.00	252	(1,825)	1,229	—	3,012	6,484	(3,865)	(2,964)
Manston Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	33,357	(12,930)	(665)	—	20,055	33,357	(12,930)	(665)
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	62	(65,791)	(316)	—	6,661	55,013	(120,741)	(316)
Mediterráneo Sabadell, S.L.	Holding	Alicante - Spain	50.00	50.00	85,000	16,853	(171)	9	101,685	510,829	(408,829)	(171)
Paycomet, S.L.U.	Payment institution	Torrelodones - Spain	—	100.00	200	223	517	—	8,458	8,853	(275)	509
Plataforma de Innovación Sabadell, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	(1)	(3)	—	4	3	(1)	(3)
Puerto Pacific Vallarta, S.A. de C.V.	Real estate	Mexico City - Mexico	—	100.00	28,947	(16,979)	(150)	—	11,820	29,164	(11,571)	(379)
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	—	20	(290)	(11)	—	356,364	20	(290)	(11)
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	—	3	(24)	(6)	—	479,591	3	(24)	(6)
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Other financial services	São Paulo - Brazil	99.99	0.01	905	(845)	—	—	78	250	393	—
Sabadell Consumer Finance, S.A.U.	Credit institution	Sabadell - Spain	100.00	—	35,720	56,936	20,444	—	1,777,133	72,232	25,069	20,722
Sabadell Corporate Finance, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	70	8,078	(131)	—	8,134	9,373	(1,204)	(152)

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	—	100.00	12,036	22,563	(115)	—	61,548	41,296	(8,266)	(115)
Sabadell Information Systems, S.A.U.	Provision of technology services	Sabadell - Spain	100.00	—	40,243	36,312	23,004	—	1,561,069	143,695	(67,662)	15,589
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	1,000	3,824	(2,073)	—	45,555	1,000	(2,651)	(600)
Sabadell Innovation Cells, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	(2,988)	169	—	2,929	3	(3,041)	(320)
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	30,116	813,910	(17,922)	—	888,175	863,895	(19,869)	(8,101)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	100,060	235,327	(1,123)	—	334,842	500,622	(165,235)	(1,123)
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	15,807	(2,406,085)	(36,983)	—	1,151,093	2,147,442	(4,513,277)	(39,337)
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	2,073	122	(2,893)	—	25,235	14,292	(11,836)	(3,154)
Sabadell Securities USA, Inc.	Other financial services	Miami - United States	100.00	—	551	5,266	530	—	6,547	551	4,873	539
Sabadell Strategic Consulting, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	320	168	—	1,018	3	275	213
Sabadell Venture Capital, S. L.U.	Holding	Barcelona - Spain	—	100.00	3	12,061	1,763	—	56,417	3	2,964	582
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico City - Mexico	49.00	51.00	164,828	20,841	24,759	4,826	1,493,425	151,709	55,610	24,779
Sinia Capital, S.A. de C.V.	Holding	Mexico City - Mexico	—	100.00	20,830	6,542	(526)	—	75,454	18,150	6,538	(1,563)
Sinia Renovables, S.A.U.	UCITS, funds and similar financial corporations	Barcelona - Spain	100.00	—	15,000	1,338	505	—	60,915	15,000	3,400	718
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.	Real estate	Alicante - Spain	100.00	—	3	9,893	70	—	11,707	3	10,026	(62)
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	60,729	(11,092)	(613)	—	49,496	60,729	(11,092)	(613)
Tasaciones de Bienes Mediterráneo, S.A. in Liquidation	Other ancillary activities	Alicante - Spain	99.88	0.12	1,000	1,416	—	—	2,420	5,266	(2,876)	26
Tenedora de Inversiones y Participaciones, S.L.	Holding	Alicante - Spain	100.00	—	296,092	(528,628)	(11,037)	—	351,343	2,564,914	(2,725,376)	(13,159)
TSB Bank PLC	Credit institution	Edinburgh - United Kingdom	—	100.00	90,710	1,981,428	149,533	—	55,583,840	1,814,636	193,342	137,490
TSB Banking Group PLC	Holding	London - United Kingdom	100.00	—	7,028	1,864,273	1,979	—	2,787,944	2,213,148	(189,474)	(38,646)
TSB Banking Group plc Employee Share Trust	Other ancillary activities	Saint Helier - Jersey	—	100.00	1	(12,225)	44	—	526	—	(11,183)	—
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	—	—	—

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss)	Dividends paid	Total assets			
TSB Covered Bonds LLP	UCITS, funds and similar financial corporations	London - United Kingdom	—	100.00	1	14	3	—	61	—	14	3
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	100.00	—	3,606	4,858	4,213	2,717	18,542	3,084	5,380	4,213
Urumea Gestión, S.L. in Liquidation	Other ancillary activities	San Sebastián - Spain	—	100.00	9	(13)	(1)	—	1	9	(12)	(1)
VeA Rental Homes , S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	5,000	(17,022)	1,380	—	44,202	5,000	(17,022)	1,380
Venture Debt SVC, S.L.U.	Holding	Barcelona - Spain	—	100.00	3	—	—	—	3	3	—	—
TOTAL								**20,672**		**13,418,379**	**4,004,030**	**439,553**

Banco Sabadell Group companies as at 31 December 2021 consolidated by the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies (d)	Contribution to Group consolidated profit/(loss) (e)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Atrian Bakers, S.L.	Manufacturing	Castellgalí - Spain	—	22.41	26,249	(11,299)	(1,380)	—	32,988	2,000	(854)	(1,146)
Aurica Capital Desarrollo, S.G.E.I.C., S.A.	Funds management activities	Barcelona - Spain	20.00	—	750	(79)	596	602	2,078	161	119	35
Aurica III, Fondo de Capital Riesgo	UCITS, funds and similar financial corporations	Barcelona - Spain	—	47.50	76,699	(8,760)	217	—	69,308	37,183	1,992	33,282
Aurica IIIB, S.C.R., S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	—	42.85	51,839	(5,990)	142	—	46,771	22,680	1,207	21,313
BanSabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	—	7,813	35,176	737	—	49,466	40,378	(18,913)	369
BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	10,000	77,263	22,658	5,000	297,303	34,000	9,311	11,330
BanSabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	43,858	537,011	92,570	52,500	10,418,907	27,106	236,190	49,328
Doctor Energy Central Services, S.L.	Other business management consulting activities	Granollers - Spain	—	24.99	7	(2)	1	—	23	12	(11)	—
Parque Eólico Casa Vieja S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	629	267	(15)	—
Parque Eólico Villaumbrales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	628	267	(15)	—
Parque Eólico Perales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	628	267	(15)	—
Parque Eólico Los Pedrejones S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	628	267	(15)	—
Energíes Renovables Terra Ferma, S.L.	Power generation	Barcelona - Spain	—	50.00	6	(55)	(13)	—	1,531	3	(3)	—
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	—	38,288	11,436	5,620	1,407	95,226	19,144	3,062	2,868
Flex Equipos de Descanso, S.A.	Manufacturing	Getafe - Spain	—	19.16	66,071	21,237	19,472	1,917	268,777	50,930	2,912	10,834
Gestora de Aparcamientos del Mediterráneo, S.L. in Liquidation	Services	Alicante - Spain	—	40.00	1,000	(10,551)	(207)	—	2,006	7,675	(7,675)	—
Murcia Emprende, S.C.R. de R.S., S.A.	Other financial services	Murcia - Spain	28.70	—	2,557	(316)	(169)	—	2,307	2,026	(1,337)	(103)
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	—	45.01	3	(15,260)	(25)	—	31,967	3,057	(3,057)	—
Portic Barcelona, S.A.	Data processing, hosting and related activities	Barcelona - Spain	25.00	—	291	1,754	131	—	2,392	486	506	33
SBD Creixent, S.A.	Real estate	Sabadell - Spain	23.05	—	5,965	(1,168)	90	—	5,437	3,524	(2,414)	17
Solvia Servicios Inmobiliarios, S.L.	Real estate	Alicante - Spain	20.00	—	660	143,772	37,703	—	221,138	16,517	32,924	9,432
Total								**61,426**		**267,950**	**253,899**	**137,592**

(*) 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 2021 also includes -18,445 thousand euros corresponding to Promontoria Challenger I, S.A., an entity classified as a non-current asset held for sale.

(e) The contribution of Promontoria Challenger I, S.A. to the Group's consolidated profit/(loss) in 2021 was -46,907 thousand euros.

The balance of total revenue from associates consolidated by the equity method and individually considered to be non-material amounted to 709,825 thousand euros as at 31 December 2021. The balance of liabilities as at the end of 2021 amounted to 519,694 thousand euros.

Changes to the scope of consolidation in 2021

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Fair value of equity instruments issued for the acquisition		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Acquisition cost	Fair value of equity instruments issued for the acquisition					
Parque Eólico Casa Vieja S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Parque Eólico Villaumbrales S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Parque Eólico Perales S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Parque Eólico Los Pedrejones S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Aurica Capital Desarrollo, S.G.E.I.C., S.A.	Associate	6/5/2021	248	—	20.00 %	20.00 %	Direct	Equity method	b
Total newly consolidated subsidiaries			**3**						
Total newly consolidated associates			**1,814**						

(a) Acquisition of subsidiaries.

(b) Change in consolidation method.

(c) Incorporation of subsidiaries.

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Caminsa Urbanismo, S.A.U. in Liquidation	Subsidiary	20/1/2021	100.00 %	— %	—	Indirect	Full consolidation	b
Gestión de Proyectos Urbanísticos del Mediterráneo, S.L.U. in Liquidation	Subsidiary	19/1/2021	100.00 %	— %	—	Indirect	Full consolidation	b
Guipuzcoano Valores, S.A. in Liquidation	Subsidiary	8/2/2021	100.00 %	— %	(37)	Direct	Full consolidation	b
Tierras Vega Alta del Segura, S.L. in Liquidation	Subsidiary	19/1/2021	100.00 %	— %	—	Indirect	Full consolidation	b
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Subsidiary	2/6/2021	100.00 %	— %	(31)	Direct	Full consolidation	b
Verum Inmobiliaria Urbanismo y Promoción, S.A.	Subsidiary	14/5/2021	97.20 %	— %	(2)	Indirect	Full consolidation	b
Duncan Holdings 2020-1 Limited	Subsidiary	23/7/2021	100.00 %	— %	—	Indirect	Full consolidation	b
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	Associate	5/8/2021	47.81 %	— %	(17)	Direct	Equity method	b
Termosolar Borges, S.L.	Associate	5/8/2021	47.50 %	— %	(13,920)	Direct	Equity method	a
Villoldo Solar, S.L.	Associate	5/8/2021	50.00 %	— %	52	Direct	Equity method	a
Aurica Capital Desarrollo, S.G.E.I.C., S.A.U.	Subsidiary	6/5/2021	80.00 %	20.00 %	(99)	Direct	Full consolidation	c
Assegurances Segur Vida, S.A.U.	Subsidiary	5/10/2021	50.97 %	— %	—	Indirect	Full consolidation	a
BancSabadell d'Andorra, S.A.	Subsidiary	5/10/2021	50.97 %	— %	11,725	Direct	Full consolidation	a
Sabadell d'Andorra Inversions, S.G.O.I.C., S.A.U.	Subsidiary	5/10/2021	50.97 %	— %	—	Indirect	Full consolidation	a
Serveis i Mitjans de Pagament XXI, S.A.	Associate	5/10/2021	20.00 %	— %	—	Indirect	Equity method	a
BanSabadell Renting, S.L.U.	Subsidiary	30/11/2021	100.00 %	— %	41,907	Direct	Full consolidation	a
Duncan Holdings 2016 -1 Limited	Subsidiary	21/12/2021	100.00 %	— %	—	Indirect	Full consolidation	b
Duncan Holdings 2015-1 Limited	Subsidiary	21/12/2021	100.00 %	— %	—	Indirect	Full consolidation	b
Other					15,169			
TOTAL					**54,747**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

(c) Partial sale and change of consolidation method.

Schedule II – Structured entities - Securitisation funds

Thousand euro

Year	Securitisation funds fully retained on the balance sheet	Entity	Total securitised assets as at 31/12/2022	Of which: issued via mortgage transfer certificates (*)	Of which: issued via mortgage participations (*)
2005	TDA CAM 4 F.T.A	Banco CAM	111,784	17,038	94,062
2005	TDA CAM 5 F.T.A	Banco CAM	277,873	78,556	197,886
2006	TDA 26-MIXTO, F.T.A	Banco Guipuzcoano	45,146	1,747	43,000
2006	TDA CAM 6 F.T.A	Banco CAM	199,257	86,012	111,383
2006	FTPYME TDA CAM 4 F.T.A	Banco CAM	63,600	51,897	—
2006	TDA CAM 7 F.T.A	Banco CAM	312,333	130,537	179,427
2006	CAIXA PENEDES 1 TDA, FTA	BMN- Penedés	118,640	24,935	93,552
2007	TDA 29, F.T.A	Banco Guipuzcoano	63,348	6,561	56,024
2007	TDA CAM 8 F.T.A	Banco CAM	288,874	73,544	213,084
2007	TDA CAM 9 F.T.A	Banco CAM	295,849	109,153	185,636
2007	CAIXA PENEDES PYMES 1 TDA, FTA	BMN- Penedés	21,670	20,550	—
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	BMN- Penedés	36,945	36,437	—
2009	GAT-ICO-FTVPO 1, F.T.H (CP)	BMN- Penedés	1,571	—	1,571
2017	TDA SABADELL RMBS 4, FT	Banco Sabadell	3,842,401	3,838,383	—
2022	SABADELL CONSUMO 2 FDT	Banco Sabadell	637,343	—	—
Total			**6,316,633**	**4,475,352**	**1,175,625**

(*) 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 31/12/2022	Of which: issued via mortgage transfer certificates (**)	Of which: issued via mortgage participations (**)
2006	TDA 25, FTA (*)	Banco Gallego	2,913	1,176	1,737
2010	FPT PYMES 1 LIMITED	Banco CAM	214,204	87,727	26,228
2019	SABADELL CONSUMO 1, FT	Banco Sabadell	219,219	—	—
Total			**436,335**	**88,903**	**27,965**

(*) Securitisation fund in process of early liquidation.

(**) Corresponds to the allocation at source of loans when mortgage transfer certificates and mortgage participations were issued.

Schedule III – Information required to be kept by issuers of mortgage market securities

On 3 November 2021, Royal Decree-Law 24/2021, of 2 November, was published, transposing in book one Directive (EU) 2019/2162 of the European Parliament and of the Council, of 27 November 2019, on the issuance and public supervision of covered bonds. The aim of this transposition was to harmonise the legislation on the mortgage markets of member states and give easy access to financing from credit institutions. The entry into force of this Royal Decree-Law on 8 July 2022 has brought about a change in the way in which the assets that serve as collateral for outstanding issues of covered bonds are considered.

In line with the new methodology for assets, at the end of 2022, the Bank held a total of 24,187 million euros of mortgage loans and credits compared to 16,114 million euros of mortgage covered bonds issued. This entails an over-collateralisation level of 150% for mortgage covered bonds, with all their collateral denominated in euro.

The following information is provided below (for information and comparison purposes only) on mortgage-backed loans that would be linked to the issuance of mortgage covered bonds as at 2022 and 2021 year-end, in accordance with the legislation repealed by the aforementioned Royal Decree 24/2021 (primarily, Law 2/1981, of 25 March, on the mortgage market) and Rule 60 of Bank of Spain Circular 4/2017, which makes it mandatory for this information to be reported to the Bank of Spain at close of these consolidated annual financial statements.

A) Asset-side transactions

Details of the aggregate nominal values of mortgage loans and credit as at 31 December 2022 and 2021 used as collateral for issues, their eligibility and the extent to which they qualify as such for mortgage market purposes, would be as follows:

Thousand euro

Breakdown of overall mortgage loan & credit portfolio; eligibility and qualifying amounts (nominal values)		
	2022	**2021**
Total mortgage loan and credit portfolio	**49,785,504**	**50,225,414**
Participation mortgages issued	**1,203,590**	**1,535,765**
Of which: Loans held on balance sheet	*1,175,625*	*1,502,504*
Mortgage transfer certificates	**4,717,842**	**5,466,788**
Of which: Loans held on balance sheet	*4,475,352*	*5,219,354*
Mortgage loans pledged as security for financing received	**—**	**—**
Loans backing issues of mortgage bonds and covered bonds	**43,864,072**	**43,222,861**
Ineligible loans	7,902,005	8,794,185
Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009	7,311,513	8,429,918
Other	590,492	364,267
Eligible loans	35,962,067	34,428,676
Non-qualifying portions	63,623	59,146
Qualifying portions	35,898,444	34,369,530
Loans covering mortgage bond issues		—
Loans eligible as coverage for covered bond issues	35,898,444	34,369,530
Replacement assets subject to covered bond issues	**—**	**—**

A breakdown of these nominal values according to different classifications is given below:

Thousand euro

Breakdown of total mortgage loan and credit portfolio backing mortgage market issues	2022		2021	
	Total	***Of which: Eligible loans***	**Total**	***Of which: Eligible loans***
Total mortgage loan and credit portfolio	**43,864,072**	***35,962,067***	**43,222,861**	***34,428,676***
Origin of operations	**43,864,072**	***35,962,067***	**43,222,861**	***34,428,676***
Originated by the Institution	43,294,159	*35,488,626*	42,655,304	*34,016,806*
Subrogated from other entities	391,841	*366,620*	292,307	*256,014*
Other	178,072	*106,821*	275,250	*155,856*
Currency	**43,864,072**	***35,962,067***	**43,222,861**	***34,428,676***
Euro	43,832,854	*35,935,560*	43,173,341	*34,386,431*
Other currencies	31,218	*26,507*	49,520	*42,245*
Payment status	**43,864,072**	***35,962,067***	**43,222,861**	***34,428,676***
Satisfactory	40,278,656	*33,574,531*	39,681,234	*32,280,269*
Other	3,585,416	*2,387,536*	3,541,627	*2,148,407*
Average residual maturity	**43,864,072**	***35,962,067***	**43,222,861**	***34,428,676***
Up to 10 years	9,510,104	*8,403,102*	9,789,964	*8,350,104*
10 to 20 years	16,710,609	*14,041,084*	16,907,433	*13,923,891*
20 to 30 years	17,417,939	*13,441,173*	16,088,183	*11,979,015*
More than 30 years	225,420	*76,708*	437,281	*175,666*
Interest rate	**43,864,072**	***35,962,067***	**43,222,861**	***34,428,676***
Fixed	24,402,318	*20,372,560*	21,087,632	*17,206,952*
Variable	19,461,754	*15,589,507*	22,135,229	*17,221,724*
Mixed				
Borrowers	**43,864,072**	***35,962,067***	**43,222,861**	***34,428,676***
Legal entities and individual entrepreneurs	11,416,719	*8,975,562*	11,403,204	*8,578,554*
Of which: Real estate developers	*1,769,356*	*1,183,218*	*1,805,426*	*1,062,649*
Other individuals and NPISHs	32,447,353	*26,986,505*	31,819,657	*25,850,122*
Type of guarantee	**43,864,072**	***35,962,067***	**43,222,861**	***34,428,676***
Completed assets/buildings	43,226,453	*35,541,201*	42,517,282	*33,960,470*
Residential	*35,980,366*	*29,848,881*	*35,052,356*	*28,295,021*
Of which: Social housing	*1,329,898*	*1,090,829*	*1,360,692*	*1,120,368*
Commercial	*7,055,271*	*5,557,543*	*7,238,866*	*5,491,003*
Other	*190,816*	*134,777*	*226,060*	*174,446*
Assets/ buildings under construction	159,876	*154,367*	139,896	*132,851*
Residential	*133,587*	*128,091*	*125,565*	*118,595*
Of which: Social housing	*47*	*47*	*50*	*50*
Commercial	*26,040*	*26,027*	*13,977*	*13,902*
Other	*249*	*249*	*354*	*354*
Land	477,743	*266,499*	565,683	*335,355*
Developed	*51,410*	*19,374*	*68,582*	*22,181*
Rest	*426,333*	*247,125*	*497,101*	*313,174*

The nominal value of available funds (undrawn commitments) of mortgage loans and credit as at 31 December 2022 and 2021 would be as follows:

Thousand euro

Undrawn balances (nominal value). Total mortgage loans and credit backing issues of mortgage bonds and covered bonds	**2022**	**2021**
Potentially eligible	2,220,700	1,051,888
Ineligible	991,567	1,969,968

The breakdown of nominal values based on the loan-to-value (LTV) ratio measuring the risk based on the last available valuation of the mortgage lending portfolio eligible for the issuance of mortgage bonds and mortgage covered bonds as at 31 December 2022 and 2021 would be as set out below:

Thousand euro

LTV ratio by type of security. Loans eligible for the issuance of mortgage bonds and covered bonds		
	2022	**2021**
Secured on residential property	**29,972,232**	**28,408,838**
Of which LTV <= 40%	*8,282,779*	*8,015,059*
Of which LTV 40%-60%	*10,270,663*	*9,912,812*
Of which LTV 60%-80%	*11,418,790*	*10,480,967*
Of which LTV > 80%	—	—
Secured on other property	**5,989,835**	**6,019,838**
Of which LTV <= 40%	*3,608,965*	*3,666,010*
Of which LTV 40%-60%	*2,380,870*	*2,353,828*
Of which LTV > 60%	—	—

Changes during 2022 and 2021 in the nominal values of mortgage loans that would secure issues of mortgage bonds and mortgage covered bonds (eligible and ineligible) would be as follows:

Thousand euro

Changes in nominal values of mortgage loans		
	Eligible	**Ineligible**
Balance as at 31 December 2020	**32,580,946**	**10,169,340**
Disposals during the period	**(5,351,119)**	**(3,764,409)**
Terminations upon maturity	(2,694,833)	(523,277)
Early terminations	(2,037,072)	(1,205,645)
Subrogations by other entities	(47,071)	(6,509)
Other	(572,143)	(2,028,978)
Additions during the period	**7,198,849**	**2,389,254**
Originated by the Institution	4,816,896	1,835,061
Subrogations by other entities	56,991	2,358
Other	2,324,962	551,835
Balance as at 31 December 2021	**34,428,676**	**8,794,185**
Disposals during the period	**(5,272,051)**	**(2,798,469)**
Terminations upon maturity	(2,557,971)	(468,270)
Early terminations	(1,770,460)	(496,843)
Subrogations by other entities	(47,309)	(6,004)
Derecognised due to securitisations		
Other	(896,311)	(1,827,352)
Additions during the period	**6,805,442**	**1,906,289**
Originated by the Institution	4,915,527	1,627,536
Subrogations by other entities	122,565	593
Other	1,767,350	278,160
Balance as at 31 December 2022	**35,962,067**	**7,902,005**

B) Liability-side transactions

Information on issues carried out and secured with Banco Sabadell's mortgage loans and credit portfolio included in the cover pool of mortgage covered bonds is provided in the following table, broken down according to whether the sale was by public offering or otherwise and by their residual maturity:

Thousand euro

Nominal value	2022	2021
Mortgage covered bonds issued	**16,114,410**	**14,986,254**
Of which: Not recognised on liabilities side of the balance sheet	*8,115,000*	*7,315,000*
Debt securities. Issued through public offering	**5,100,000**	**4,100,000**
Residual maturity up to one year	1,000,000	—
Residual maturity from one to two years	1,000,000	1,000,000
Residual maturity from two to three years	—	1,000,000
Residual maturity from three to five years	1,100,000	—
Residual maturity from five to ten years	2,000,000	2,100,000
Residual maturity more than ten years	—	—
Debt securities. Other issues	**10,578,000**	**9,755,400**
Residual maturity up to one year	338,000	1,677,400
Residual maturity from one to two years	1,600,000	338,000
Residual maturity from two to three years	2,750,000	1,600,000
Residual maturity from three to five years	4,890,000	5,140,000
Residual maturity from five to ten years	1,000,000	1,000,000
Residual maturity more than ten years	—	—
Deposits	**436,410**	**1,130,854**
Residual maturity up to one year	100,000	694,444
Residual maturity from one to two years	—	100,000
Residual maturity from two to three years	336,410	—
Residual maturity from three to five years	—	336,410
Residual maturity from five to ten years	—	—
Residual maturity more than ten years	—	—

	2022		2021	
	Nominal value (thousand euro)	**Average residual maturity** (years)	**Nominal value** (thousand euro)	**Average residual maturity** (years)
Mortgage transfer certificates	**4,717,842**	**20**	**5,466,788**	**20**
Issued through public offering				
Other issues	4,717,842	20	5,466,788	20
Participation mortgages	**1,203,590**	**11**	**1,535,765**	**12**
Issued through public offering				
Other issues	1,203,590	11	1,535,765	12

Other matters

Royal Decree-Law 24/2021 provides that covered bonds will have a cover pool consisting of a portfolio of assets whose sole purpose is to serve as collateral for the holders of these issues. To that end, the Group has control procedures in place to monitor its entire loan portfolio, the amount drawn down from the loans, any assets that replace them and assets to cover the liquidity requirement and the derivative instruments that comprise each of the cover pools, as well as any collateral received in connection with positions in derivative instruments and any credit right arising from damage insurance policies referred to in Article 23.6 of the abovementioned Royal Decree-Law, as well as to verify compliance with the suitability criteria for allocation to the issuance of mortgage covered bonds, and to comply at all times with the maximum issuance limit. These procedures are all regulated by current mortgage market regulations.

In order to ensure compliance with the regulations governing the mortgage market for covered bonds, the Group has policies and procedures relating to the Group's activity in the mortgage market, with the Board of Directors being responsible for the Group's risk management and control processes (see Note 4.3 "General principles of risk management"). In terms of credit risk, in particular, the Board of Directors confers powers and discretions to the Delegated Credit Committee, which then sub-delegates authority to the various decision-making levels. The internal procedures set up to handle the origination and monitoring of assets that make up the Group's lending, and particularly those secured by mortgages, which back the Group's mortgage covered bond issues, are described in detail below for each type of loan applicant.

Individuals

Loans to individuals are approved and decided on using the credit scoring tools described in Note 4.4.2.2 "Risk management models". Where necessary, these tools are complemented with the work of a risk analyst, who carries out more in-depth studies of supplementary materials and reports. Furthermore, a series of other information and parameters are considered, such as the consistency of customers' applications and how well their requested products match their repayment possibilities; customers' ability to pay based on their current and future circumstances; the value of the property provided as security for the loan (as determined by an appraisal carried out by a valuation firm authorised by Bank of Spain and which the institution's own internal approval processes will, additionally, have shown to be free of any association with the Group); the availability of any additional guarantees; examinations of internal and external databases of defaulters, etc.

One aspect of the decision-making process involves establishing the maximum amount of the loan, based on the appraisal value of the assets pledged as guarantees, as well as the purchase value if that is the purpose of the loan. As a general rule, under internal Group policies, the maximum amount of the loan relative to the appraisal value or the purchase value, whichever is lower, is applicable to purchases by individuals of properties for use as their primary residence and is fixed at 80%. This provides an upper limit below which a range of other maximum ratios of less than 80% are set, having regard to the purpose of the loan.

In addition, it should be noted that, if the application is accepted and as part of the process of completing the transaction, the charges associated with the assets provided as collateral for the loan granted are reviewed, as well as the insurance policies arranged on the aforementioned collateral, and the corresponding mortgage is registered in the Property Registry.

Concerning approval discretions, the credit scoring tools are the main reference for determining the feasibility of the transaction. Where the loan being sought is above a certain amount, or where factors are present that are not readily captured by a credit scoring procedure, a risk analyst will be involved. The limit for each discretion is based on credit scores and the amount of the transaction/risk of the customer, with additional conditions being specified at each level to determine when special intervention is required. A list of exceptions has been drawn up, based on the particular circumstances of the borrower and the transaction, and these exceptions are covered in the Group's internal rules and procedures.

As mentioned in Note 4.4.2.2 "Risk management models", the Group has a comprehensive monitoring system in place which uses early warning tools that enable the early detection of borrowers that could be predisposed to compliance issues. A key part of this process consists of well-established procedures to review and validate the guarantees given.

Corporates unrelated to construction and/or real estate development

Analyses and decisions concerning the approval of risks (lending and guarantees) are based on rating tools and "core risk management teams", formed by one person from the business side and one from the risks side at different decision-making levels, both described in Note 3.4.2.2 "Risk management models". A range of other data and parameters are also taken into account, such as the consistency of the application, ability to pay and the nature of the security provided (as determined by an appraisal carried out by a Bank of Spain-authorised valuation firm which Banco Sabadell's own approval processes will, additionally, have shown to be free of any association with the Group) and considering any supplementary guarantees, the "fit" between the company's working capital and its total sales; the appropriateness of the total amount borrowed from the Group based on the business's capital strength, examinations of internal and external databases of defaulters, etc. The profitability associated with the level of risk of each customer is also included in the analysis, with minimum levels to be achieved.

Reviews of charges and liens associated with the security provided and the registration of mortgages with the Property Registry are also applicable in this case.

Discretion figures are assigned based on the expected loss on the transaction/customer/risk group and the total risk of the customer or risk group. There are several levels in the approval process. In each such level there is a "core management team", one member of which will be on the business side and one on the risk management side. All loan approvals must be the result of a joint decision. As with retail customers, a set of exceptional circumstances has been specified for borrowers and sectors, and these are provided for in the Group's internal procedures.

As in the case of retail customers, transactions are monitored using early warning tools. There are also procedures to ensure that the securities and guarantees provided are constantly being reviewed and validated.

Corporates engaging in construction and/or real estate development

The Bank includes the management of real estate developer loans in the Real Estate Business Division. This unit has its own organisational structure geared towards a specialised management of these assets based on knowledge of the situation and development of the real estate market. Managing the risks in this portfolio is the responsibility of the Real Estate Risk Division, a specialist unit which forms part of the Risk Management Division.

Risk assessments are carried out by teams of specialised analysts who operate in conjunction with the Real Estate Business Division to ensure that a risk management perspective is combined with a view based on direct contact with customers and knowledge of them.

The decision is reached by assessing both the developer and the project and a set of supplementary information. The developer is assessed on their experience, the current status of ongoing projects, equity situation and financial capacity. The project is assessed in terms of location, distribution and qualities, supply versus demand and forecasts of income and expenses, among other aspects.

Furthermore, the Institution validates that own funds are contributed at the start, that the land is owned and the building permit is in force, that there is a building agreement in place with a solvent construction company and sale agreements (date of signature, date of delivery, payments on account, penalties, etc.).

Loans for real estate development purposes are conditional upon the progress of the project. To that end, an external Project Monitor is engaged that validates the progress of the development item by item and the destination of the funds.

Depending on the quality of the developer and the internal assessment of the project, the maximum loan rate (loan-to-cost, or LTC) is capped and a minimum level of sales is set. This allows the loan to be matched to the risk profile of the transaction.

Decision-making powers and discretions are assigned according to the specific types of portfolios handled within this business segment, which may be related to new projects, sales, purchases or action plans, as established in internal regulations.

The management of these risks is constantly monitored. For development projects, the Project Monitor issues regular reports that give an update on the progress of the works, the level of sales, costs, potential deviations, the planned calendar and potential project concerns. In the case of finished products, the level of sales or rentals is monitored, as well as remaining up-to-date with payment commitments. As in the case of other companies, a key part of this process consists of well-established procedures to review and validate the guarantees given.

Schedule IV – Details of outstanding issues and subordinated liabilities

Debt securities in issue

The breakdown of the Bank's issues as at 31 December 2022 and 2021 is as follows:

Thousand euro

Issuer	Issue date	Amount 31/12/2022	Amount 31/12/2021	Interest rate ruling as at 31/12/2022	Maturity/call date	Issue currency	Target of offering
Banco de Sabadell, S.A.	03/07/2017	—	10,000	MAX(EURIBOR 3M + 0.30; 0.3%)	04/07/2022	Euros	Retail
Banco de Sabadell, S.A.	28/07/2017	—	26,800	MAX(EURIBOR 3M; 0.60%)	28/07/2022	Euros	Retail
Banco de Sabadell, S.A.	28/09/2017	—	10,000	MAX(EURIBOR 3M + 0.30; 0.3%)	28/09/2022	Euros	Retail
Banco de Sabadell, S.A.	05/12/2017	1,000,000	1,000,000	0.88%	05/03/2023	Euros	Institutional
Banco de Sabadell, S.A.	26/02/2018	4,000	4,000	MAX(EURIBOR 3M; 0.4%)	27/02/2023	Euros	Retail
Banco de Sabadell, S.A.	16/03/2018	6,000	6,000	MAX(EURIBOR 3M; 0.67%)	17/03/2025	Euros	Retail
Banco de Sabadell, S.A.	03/04/2018	6,000	6,000	MAX(EURIBOR 3M; 0.4%)	03/04/2023	Euros	Retail
Banco de Sabadell, S.A.	31/05/2018	3,000	3,000	MAX(EURIBOR 3M; 0.3%)	31/05/2023	Euros	Retail
Banco de Sabadell, S.A.	07/09/2018	750,000	750,000	1.63%	07/03/2024	Euros	Institutional
Banco de Sabadell, S.A.	14/11/2018	1,000	1,000	MAX(EURIBOR 3M; 1.1%)	14/11/2023	Euros	Retail
Banco de Sabadell, S.A.	14/11/2018	2,500	2,500	MAX(EURIBOR 3M; 1.5%)	14/11/2025	Euros	Retail
Banco de Sabadell, S.A.	28/03/2019	—	601,415	0.70%	28/03/2022	Euros	Retail
Banco de Sabadell, S.A.	10/05/2019	1,000,000	1,000,000	1.75%	10/05/2024	Euros	Institutional
Banco de Sabadell, S.A.	22/07/2019	1,000,000	1,000,000	0.88%	22/07/2025	Euros	Institutional
Banco de Sabadell, S.A.	27/09/2019	500,000	500,000	1.13%	27/03/2025	Euros	Institutional
Banco de Sabadell, S.A. (*)	07/11/2019	500,000	500,000	0.63%	07/11/2024	Euros	Institutional
Banco de Sabadell, S.A. (*)	29/06/2020	—	500,000	1.75%	29/06/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	11/09/2020	500,000	500,000	1.13%	11/03/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	15/10/2020	—	120,000	EURIBOR 3M + 0.646%	15/05/2024	Euros	Institutional
Banco de Sabadell, S.A. (*)	16/06/2021	500,000	500,000	0.875%	16/06/2027	Euros	Institutional
Banco de Sabadell, S.A.	29/11/2021	67,000	67,000	MAX(EURIBOR 12M; 0.77%)	30/11/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	24/03/2022	750,000	—	2.625%	24/03/2025	Euros	Institutional
Banco de Sabadell, S.A.	30/03/2022	120,000	—	3.15%	30/03/2037	Euros	Institutional
Banco de Sabadell, S.A. (*)	08/09/2022	500,000	—	5.375%	08/09/2025	Euros	Institutional
Banco de Sabadell, S.A. (*)	02/11/2022	750,000	—	5.125%	10/11/2027	Euros	Institutional
Banco de Sabadell, S.A. (*)	23/11/2022	75,000	—	5.500%	23/11/2031	Euros	Institutional
Subscribed by Group companies		(25,000)	(25,000)				
Total straight bonds		**8,009,500**	**7,082,715**				

(*) "Maturity/call date" refers to the first call option.

Thousand euro

Issuer	Issue date	Amount 31/12/2022	Amount 31/12/2021	Interest rate ruling as at 31/12/2022	Maturity date	Issue currency	Target of offering
Banco Guipuzcoano, S.A. (*)	18/04/2007	—	25,000	1.70%	18/04/2022	Euros	Institutional
Banco de Sabadell, S.A.	25/07/2012	—	3,000	Underlying benchmark	25/07/2022	Euros	Retail
Banco de Sabadell, S.A.	14/07/2014	10,000	10,000	Underlying benchmark	15/07/2024	Euros	Retail
Banco de Sabadell, S.A.	05/11/2018	10,000	10,000	Underlying benchmark	01/04/2025	Euros	Retail
Banco de Sabadell, S.A.	12/11/2018	3,200	3,200	Underlying benchmark	01/04/2025	Euros	Retail
Banco de Sabadell, S.A.	18/02/2019	—	3,000	Underlying benchmark	18/02/2022	Euros	Retail
Banco de Sabadell, S.A.	04/04/2019		3,000	Underlying benchmark	04/10/2022	Euros	Retail
Banco de Sabadell, S.A.	03/06/2022	8,900	—	MAX (EURIBOR 12M;2.75%)	03/06/2027	Euros	Institutional
Banco de Sabadell, S.A.	01/08/2022	9,200	—	MAX (EURIBOR 12M;4%)	02/08/2027	Euros	Institutional
Total structured bonds		**41,300**	**57,200**				

(*) Company merged with Banco Sabadell.

Thousand euro

Issuer	Issue date	Amount 31/12/2022	Amount 31/12/2021	Average interest rate 31/12/2022	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A. (*)	10/05/2022	1,445,701	903,897	1.18%	Various	Euros	Institutional
Total commercial paper		**1,445,701**	**903,897**				

(*) 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).

Issuer	Issue date	Amount 31/12/2022	Amount 31/12/2021	Interest rate ruling as at 31/12/2022	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	05/10/2012	—	77,400	EURIBOR 3M + 4.80	05/10/2022	Euros	Institutional
Banco de Sabadell, S.A.	26/09/2014	—	250,000	EURIBOR 3M + 0.70	26/09/2022	Euros	Institutional
Banco de Sabadell, S.A.	03/10/2014	38,000	38,000	EURIBOR 3M + 0.68	03/10/2023	Euros	Institutional
Banco de Sabadell, S.A.	05/12/2014	—	100,000	EURIBOR 3 M + 0.40	05/12/2022	Euros	Institutional
Banco de Sabadell, S.A.	04/05/2015	250,000	250,000	EURIBOR 3 M + 0.13	04/05/2023	Euros	Institutional
Banco de Sabadell, S.A.	03/07/2015	50,000	50,000	EURIBOR 3 M + 0.20	03/07/2023	Euros	Institutional
Banco de Sabadell, S.A.	26/01/2016	550,000	550,000	EURIBOR 3M + 0.80	26/01/2024	Euros	Institutional
Banco de Sabadell, S.A.	24/05/2016	50,000	50,000	EURIBOR 3M + 0.535	24/05/2024	Euros	Institutional
Banco de Sabadell, S.A.	10/06/2016	1,000,000	1,000,000	0.63%	10/06/2024	Euros	Institutional
Banco de Sabadell, S.A.	20/10/2016	1,000,000	1,000,000	0.13%	20/10/2023	Euros	Institutional
Banco de Sabadell, S.A.	29/12/2016	250,000	250,000	0.97%	27/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	26/04/2017	1,100,000	1,100,000	1.00%	26/04/2027	Euros	Institutional
Banco de Sabadell, S.A.	21/07/2017	500,000	500,000	0.89%	21/07/2025	Euros	Institutional
Banco de Sabadell, S.A.	21/12/2018	390,000	390,000	1.09%	21/12/2026	Euros	Institutional
Banco de Sabadell, S.A.	30/01/2019	—	1,250,000	EURIBOR 12M + 0.130	30/01/2022	Euros	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	750,000	EURIBOR 12M + 0.074	20/12/2024	Euros	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	750,000	EURIBOR 12M + 0.104	22/12/2025	Euros	Institutional
Banco de Sabadell, S.A.	20/01/2020	1,000,000	1,000,000	0.13%	10/02/2028	Euros	Institutional
Banco de Sabadell, S.A.	23/06/2020	1,500,000	1,500,000	EURIBOR 12M + 0.080	23/06/2025	Euros	Institutional
Banco de Sabadell, S.A.	30/03/2021	1,000,000	1,000,000	EURIBOR 12M + 0.018	30/03/2026	Euros	Institutional
Banco de Sabadell, S.A.	08/06/2021	1,000,000	1,000,000	EURIBOR 12M + 0.012	08/06/2026	Euros	Institutional
Banco de Sabadell, S.A.	08/06/2021	1,000,000	1,000,000	EURIBOR 12M + 0.022	08/06/2027	Euros	Institutional
Banco de Sabadell, S.A.	21/01/2022	1,500,000	—	EURIBOR 12M + 0.010	21/09/2027	Euros	Institutional
Banco de Sabadell, S.A.	30/05/2022	1,000,000	—	1.75%	30/05/2029	Euros	Institutional
Banco de Sabadell, S.A.	12/12/2022	500,000	—	EURIBOR 12M +0.140	12/06/2028	Euros	Institutional
Banco de Sabadell, S.A.	21/12/2022	500,000	—	EURIBOR 3M + 0.600	20/12/2030	Euros	Institutional
Subscribed by Group companies		(8,115,000)	(7,315,000)				
Total mortgage covered bonds		**7,563,000**	**6,540,400**				

Thousand euro

Subordinated liabilities

Subordinated liabilities issued by the Bank as at 31 December 2022 and 2021 are as follows:

Thousand euro

Issuer	Issue date	Amount 31/12/2022	Amount 31/12/2021	Interest rate ruling as at 31/12/2022	Maturity/call date	Issue currency	Target of offering
Banco de Sabadell, S.A.	06/05/2016	500,000	500,000	5.625%	06/05/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	12/12/2018	500,000	500,000	5.375%	12/12/2023	Euros	Institutional
Banco de Sabadell, S.A. (*)	17/01/2020	300,000	300,000	2.000%	17/01/2025	Euros	Institutional
Banco de Sabadell, S.A. (*)	15/01/2021	500,000	500,000	2.500%	15/04/2026	Euros	Institutional
Total subordinated bonds		**1,800,000**	**1,800,000**				

(*) "Maturity/call date" refers to the first call option.

Thousand euro

Issuer	Issue date	Amount 31/12/2022	Amount 31/12/2021	Interest rate ruling as at 31/12/2022	Maturity/call date	Issue currency	Target of offering
Banco de Sabadell, S.A. (*)	18/05/2017	—	750,000	6.500%	18/5/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	23/11/2017	400,000	400,000	6.125%	23/2/2023	Euros	Institutional
Banco de Sabadell, S.A. (*)	15/03/2021	500,000	500,000	5.750%	15/9/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	19/11/2021	750,000	750,000	5.000%	19/11/2027	Euros	Institutional
Total preferred securities		**1,650,000**	**2,400,000**				

(*) Perpetual issue. "Maturity/call date" refers to date of first call option. The aforesaid subordinated securities and undated securities are perpetual, although they may be converted into newly issued Banco Sabadell shares, if either Banco Sabadell or its consolidated group has a Common Equity Tier 1 (CET1) ratio lower than 5.125%, calculated in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council, of 26 June, on prudential requirements for credit institutions and investment firms.

Schedule V – 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 2022 and 2021, respectively, is as follows:

Thousand euro

	2022							
				Secured loans. Carrying amount based on last available valuation. Loan to value				
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**10,068,930**	**27,806**	**404,416**	**21,478**	**8,006**	**—**	**906**	**401,832**
Other financial corporations and individual entrepreneurs (financial business activity)	**3,569,177**	**302,774**	**360,862**	**433,111**	**194,239**	**21,531**	**6,269**	**8,486**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**58,977,122**	**12,172,978**	**5,094,721**	**7,407,846**	**4,513,781**	**2,136,053**	**1,457,980**	**1,752,039**
Construction and real estate development (including land)	3,137,713	1,441,862	159,024	720,244	535,819	160,726	70,348	113,749
Civil engineering construction	965,826	25,764	148,284	140,080	11,224	2,729	973	19,042
Other purposes	54,873,583	10,705,352	4,787,413	6,547,522	3,966,738	1,972,598	1,386,659	1,619,248
Large enterprises	24,009,662	1,537,848	1,544,613	1,745,349	414,164	263,073	320,375	339,500
SMES and individual entrepreneurs	30,863,921	9,167,504	3,242,800	4,802,173	3,552,574	1,709,525	1,066,284	1,279,748
Other households	**41,130,684**	**37,134,823**	**856,792**	**7,886,386**	**10,138,198**	**13,107,918**	**4,131,691**	**2,727,422**
Home loans	36,312,519	35,966,599	294,096	7,064,809	9,751,515	12,847,617	4,021,277	2,575,477
Consumer loans	1,978,387	41,627	146,775	33,157	26,694	46,646	27,288	54,617
Other purposes	2,839,778	1,126,597	415,921	788,420	359,989	213,655	83,126	97,328
TOTAL	113,745,913	49,638,381	6,716,791	15,748,821	14,854,224	15,265,502	5,596,846	4,889,779
MEMORANDUM ITEM **Refinancing, refinanced and restructured transactions**	**3,850,469**	**2,288,063**	**259,775**	**844,812**	**708,339**	**469,491**	**242,143**	**283,053**

Thousand euro

	2021							
				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	**9,396,237**	**33,916**	**553,176**	**13,891**	**11,091**	**—**	**963**	**561,147**
Other financial corporations and individual entrepreneurs (financial business activity)	**3,684,126**	**188,756**	**351,771**	**394,035**	**118,821**	**24,373**	**800**	**2,498**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**59,172,273**	**13,064,488**	**4,237,491**	**6,755,320**	**4,538,181**	**2,552,784**	**1,604,757**	**1,850,937**
Construction and real estate development (including land)	3,534,836	1,574,855	178,333	714,339	497,318	254,913	143,644	142,974
Civil engineering construction	815,049	32,840	21,251	21,996	12,252	2,556	2,803	14,484
Other purposes	54,822,388	11,456,793	4,037,907	6,018,985	4,028,611	2,295,315	1,458,310	1,693,479
Large enterprises	23,306,434	1,701,503	1,448,881	1,912,703	326,359	293,941	419,821	197,560
SMES and individual entrepreneurs	31,515,954	9,755,290	2,589,026	4,106,282	3,702,252	2,001,374	1,038,489	1,495,919
Other households	**40,420,135**	**36,413,535**	**847,454**	**7,726,883**	**9,727,825**	**12,131,899**	**4,435,535**	**3,238,847**
Home loans	35,633,472	35,165,333	320,055	6,950,985	9,302,439	11,841,602	4,287,599	3,102,763
Consumer loans	1,850,892	48,559	156,930	37,384	40,607	55,245	42,441	29,812
Other purposes	2,935,771	1,199,643	370,469	738,514	384,779	235,052	105,495	106,272
TOTAL	**112,672,771**	**49,700,695**	**5,989,892**	**14,890,129**	**14,395,918**	**14,709,056**	**6,042,055**	**5,653,429**
MEMORANDUM ITEM **Refinancing, refinanced and restructured transactions**	**4,817,251**	**2,783,182**	**348,328**	**864,895**	**829,076**	**628,022**	**371,205**	**438,312**

In terms of risks with LTV >80%, these mainly correspond to transactions from acquired entities or business operations in which, as a supplement to the valuation of the transaction, a mortgage guarantee is available to cover that transaction. Similarly, there are other additional reasons for approval, which mainly correspond to solvent borrowers with a proven payment capacity, as well as customers with a good profile who contribute guarantees (personal guarantees and/or pledges) which are additional to the mortgage guarantees already considered in the LTV ratio.

The outstanding balance of refinancing and restructuring transactions as at 31 December 2022 and 2021 is as follows:

Thousand euro

2022	Credit institutions	General governments	Other financial corporations and individual entrepreneurs (financial business activity)	Non-financial corporations and individual entrepreneurs (non-financial business activity)	*Of which: lending for construction and real estate development (including land)*	Other households	Total	Additional information: lending included under non-current assets and disposal groups classified as held for sale
TOTAL								
Not secured with collateral								
Number of transactions	—	13	75	29,018	*797*	22,560	**51,666**	—
Gross carrying amount	—	8,115	24,422	1,721,574	*76,398*	171,035	**1,925,146**	—
Secured with collateral								
Number of transactions	—	1	11	7,900	*1,231*	11,782	**19,694**	—
Gross carrying amount	—	100	1,688	1,909,302	*107,095*	996,303	**2,907,393**	—
Impairment allowances	—	1,049	15,311	736,361	*71,371*	229,349	**982,070**	—
Of which, non-performing loans								
Not secured with collateral								
Number of transactions	—	10	33	14,244	*475*	13,410	**27,697**	—
Gross carrying amount	—	6,938	16,526	854,178	*60,858*	107,575	**985,217**	—
Secured with collateral								
Number of transactions	—	1	5	4,527	*1,125*	5,405	**9,938**	—
Gross carrying amount	—	100	218	855,755	*60,921*	556,027	**1,412,100**	—
Impairment allowances	—	864	15,173	665,609	*69,619*	206,234	**887,880**	—
TOTAL								
Number of transactions	—	14	86	36,918	*2,028*	34,342	**71,360**	—
Gross value	—	8,215	26,110	3,630,876	*183,493*	1,167,338	**4,832,539**	—
Impairment allowances	—	1,049	15,311	736,361	*71,371*	229,349	**982,070**	—

Thousand euro

2021	Credit instituti ons	General governme nts	Other financial corporations and individual entrepreneurs (financial business activity)	Non-financial corporations and individual entrepreneurs (non-financial business activity)	*Of which: lending for construction and real estate development (including land)*	Other households	Total	Additional information: lending included under non-current assets and disposal groups classified as held for sale
TOTAL								
Not secured with collateral								
Number of transactions	—	14	171	35,379	*672*	30,588	**66,152**	—
Gross carrying amount	—	9,055	28,189	2,264,733	*83,276*	269,150	**2,571,127**	—
Secured with collateral								
Number of transactions	—	2	17	8,582	*1,361*	12,206	**20,807**	—
Gross carrying amount	—	203	2,492	2,244,577	*151,329*	1,238,923	**3,486,195**	—
Impairment allowances	—	1,255	16,211	934,432	*71,140*	288,107	**1,240,005**	—
Of which, non-performing loans								
Not secured with collateral								
Number of transactions	—	12	56	17,495	*406*	16,591	**34,154**	—
Gross carrying amount	—	8,133	17,716	957,784	*62,943*	153,676	**1,137,309**	—
Secured with collateral								
Number of transactions	—	1	9	5,421	*1,250*	6,607	**12,038**	—
Gross carrying amount	—	126	627	915,429	*78,500*	666,544	**1,582,726**	—
Impairment allowances	—	1,255	15,975	812,165	*68,246*	252,132	**1,081,527**	—
TOTAL								
Number of transactions	—	16	188	43,961	*2,033*	42,794	**86,959**	—
Gross value	—	9,258	30,681	4,509,310	234,605	1,508,073	**6,057,322**	—
Impairment allowances	—	1,255	16,211	934,432	*71,140*	288,107	**1,240,005**	—

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 2022 and 2021, is as follows:

Thousand euro

Guarantees received	2022	2021
Value of collateral	2,401,641	2,966,865
Of which: securing stage 3 loans	*1,034,165*	*1,152,195*
Value of other guarantees	989,497	1,194,120
Of which: securing stage 3 loans	*337,084*	*311,096*
Total value of guarantees received	**3,391,138**	**4,160,985**

Detailed movements of the balance of refinancing and restructuring transactions during 2022 and 2021 are as follows:

Thousand euro

	2022	2021
Opening balance	6,057,322	4,678,345
(+) Forbearance (refinancing and restructuring) in the period	732,370	2,856,496
Memorandum item: impact recognised on the income statement for the period	*92,476*	*183,320*
(-) Debt repayments	(723,367)	(655,880)
(-) Foreclosures	(8,044)	(13,428)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(87,107)	(128,912)
(+)/(-) Other changes (*)	(1,138,635)	(679,299)
Year-end balance	**4,832,539**	**6,057,322**

(*) Includes transactions no longer classified as forborne (refinanced or restructured) loans, as they meet the requirements for their reclassification as performing (Stage 1) as they have completed the cure period.

The table below shows the value of transactions which, after refinancing or restructuring, have been classified as stage 3 exposures during 2022 and 2021:

Thousand euro

	2022	2021
General governments	—	—
Other legal entities and individual entrepreneurs	**329,510**	**285,404**
Of which: Lending for construction and real estate development	*6,077*	*15,855*
Other natural persons	**60,366**	**166,543**
Total	**389,876**	**451,947**

The average probability of default on current refinanced and restructured transactions broken down by activity as at 31 December 2022 and 2021 is as follows:

%

	2022	2021
General governments (*)	—	—
Other legal entities and individual entrepreneurs	**14**	**13**
Of which: Lending for construction and real estate development	*19*	*12*
Other natural persons	**10**	**10**

(*) Authorisation has not been granted for the use of internal models in the calculation of capital requirements.
Average probability of default calculated as at 30 September 2022.

Concentration risk

Geographical exposure

Global

The breakdown of risk concentration, by activity and at a global level, as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**48,660,689**	**35,722,461**	**3,978,097**	**2,113,512**	**6,846,619**
General governments	**32,544,645**	**26,547,193**	**4,821,397**	**1,144,356**	**31,699**
Central governments	23,775,481	17,828,658	4,771,021	1,144,103	31,699
Other	8,769,164	8,718,535	50,376	253	—
Other financial corporations and individual entrepreneurs	**10,139,025**	**2,455,993**	**2,520,033**	**1,835,480**	**3,327,519**
Non-financial corporations and individual entrepreneurs	**63,858,188**	**53,157,822**	**3,386,051**	**5,522,060**	**1,792,255**
Construction and real estate development	3,260,757	3,131,257	54,640	25,299	49,561
Civil engineering construction	1,040,461	767,633	14,266	236,171	22,391
Other purposes	59,556,970	49,258,932	3,317,145	5,260,590	1,720,303
Large enterprises	28,055,326	20,015,257	1,845,000	4,983,615	1,211,454
SMEs and individual entrepreneurs	31,501,644	29,243,675	1,472,145	276,975	508,849
Other households	**41,229,115**	**37,717,099**	**1,193,172**	**595,615**	**1,723,229**
Home loans	36,312,519	33,177,731	1,170,385	271,741	1,692,662
Consumer loans	1,978,387	1,955,458	8,853	4,041	10,035
Other purposes	2,938,209	2,583,910	13,934	319,833	20,532
TOTAL	**196,431,662**	**155,600,568**	**15,898,750**	**11,211,023**	**13,721,321**

Thousand euro

	2021				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**57,850,425**	**44,527,085**	**4,452,044**	**1,565,114**	**7,306,182**
General governments	**26,813,979**	**22,563,517**	**2,856,899**	**1,174,117**	**219,446**
Central governments	19,199,080	14,949,026	2,856,895	1,173,884	219,275
Other	7,614,899	7,614,491	4	233	171
Other financial corporations and individual entrepreneurs	**8,230,307**	**2,583,534**	**785,391**	**1,744,405**	**3,116,977**
Non-financial corporations and individual entrepreneurs	**63,613,254**	**53,522,883**	**3,318,903**	**4,867,515**	**1,903,953**
Construction and real estate development	3,604,214	3,592,822	3,961	5,113	2,318
Civil engineering construction	912,339	872,392	19,718	5,013	15,216
Other purposes	59,096,701	49,057,669	3,295,224	4,857,389	1,886,419
Large enterprises	26,918,195	18,642,042	2,147,905	4,508,359	1,619,889
SMEs and individual entrepreneurs	32,178,506	30,415,627	1,147,319	349,030	266,530
Other households	**40,525,982**	**37,169,632**	**979,065**	**510,509**	**1,866,776**
Home loans	35,633,472	32,634,462	951,748	217,077	1,830,185
Consumer loans	1,850,892	1,827,372	6,812	5,257	11,451
Other purposes	3,041,618	2,707,798	20,505	288,175	25,140
TOTAL	**197,033,947**	**160,366,651**	**12,392,302**	**9,861,660**	**14,413,334**

By autonomous communities

The breakdown of risk concentration, by activity and at the level of Spanish autonomous communities, as at 31 December 2022 and 2021, respectively, is as follows:

Thousand euro

		2022								
		AUTONOMOUS COMMUNITIES								
	TOTAL	Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**35,722,461**	**5,145**	**1**	**13**	**8**	**2**	**321,644**	**—**	**—**	**1,958,272**
General governments	**26,547,193**	**548,524**	**282,965**	**327,336**	**413,874**	**614,807**	**5,646**	**177,985**	**886,455**	**806,615**
Central governments	17,828,658	—	—	—	—	—	—	—	—	—
Other	8,718,535	548,524	282,965	327,336	413,874	614,807	5,646	177,985	886,455	806,615
Other financial corporations and individual entrepreneurs	**2,455,993**	**3,960**	**1,734**	**3,172**	**1,421**	**689**	**239**	**610**	**11,214**	**805,481**
Non-financial corporations and individual entrepreneurs	**53,157,822**	**2,403,668**	**1,074,060**	**1,354,114**	**2,103,980**	**1,129,040**	**202,875**	**667,933**	**1,181,788**	**17,577,684**
Construction and real estate development	3,131,257	97,474	38,811	43,796	73,749	25,553	7,609	16,082	33,632	1,444,300
Civil engineering construction	767,633	32,037	11,282	21,868	5,224	4,860	4,146	6,674	14,556	156,519
Other purposes	49,258,932	2,274,157	1,023,967	1,288,450	2,025,007	1,098,627	191,120	645,177	1,133,600	15,976,865
Large enterprises	20,015,257	620,602	380,078	383,019	939,637	285,252	72,987	185,712	233,434	6,811,424
SMEs and individual entrepreneurs	29,243,675	1,653,555	643,889	905,431	1,085,370	813,375	118,133	459,465	900,166	9,165,441
Other households	**37,717,099**	**2,498,175**	**536,946**	**1,142,255**	**1,421,342**	**482,578**	**107,949**	**457,513**	**721,572**	**14,762,149**
Home loans	33,177,731	2,262,070	481,365	917,983	1,292,532	428,342	96,231	403,058	615,566	13,092,220
Consumer loans	1,955,458	109,199	23,432	86,952	57,148	30,037	4,652	26,207	43,103	704,818
Other purposes	2,583,910	126,906	32,149	137,320	71,662	24,199	7,066	28,248	62,903	965,111
TOTAL	**155,600,568**	**5,459,472**	**1,895,706**	**2,826,890**	**3,940,625**	**2,227,116**	**638,353**	**1,304,041**	**2,801,029**	**35,910,201**

Thousand euro

	2022								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**—**	**11,345**	**32,841,465**	**2**	**—**	**95,218**	**489,346**	**—**	**—**
General governments	**73,251**	**660,025**	**2,075,230**	**53,136**	**308,543**	**693,533**	**709,949**	**56,001**	**24,660**
Central governments	—	—	—	—	—	—	—	—	—
Other	73,251	660,025	2,075,230	53,136	308,543	693,533	709,949	56,001	24,660
Other financial corporations and individual entrepreneurs	**64**	**3,548**	**1,471,985**	**3,294**	**488**	**124,348**	**16,601**	**7,130**	**15**
Non-financial corporations and individual entrepreneurs	**193,875**	**2,390,791**	**12,671,427**	**1,118,463**	**607,800**	**6,147,151**	**2,121,819**	**191,396**	**19,958**
Construction and real estate development	1,948	94,226	969,667	31,131	11,134	151,542	80,439	9,611	553
Civil engineering construction	2,174	43,328	336,020	14,633	3,006	60,242	47,909	2,279	876
Other purposes	189,753	2,253,237	11,365,740	1,072,699	593,660	5,935,367	1,993,471	179,506	18,529
Large enterprises	51,207	760,651	5,513,613	236,223	235,403	2,390,706	856,139	58,931	239
SMEs and individual entrepreneurs	138,546	1,492,586	5,852,127	836,476	358,257	3,544,661	1,137,332	120,575	18,290
Other households	**128,487**	**869,335**	**4,982,280**	**2,007,359**	**163,368**	**5,951,579**	**1,330,735**	**69,483**	**83,994**
Home loans	115,836	719,953	4,419,742	1,722,108	136,475	5,124,087	1,213,593	57,715	78,855
Consumer loans	5,774	55,763	212,248	144,153	7,420	393,692	42,554	5,610	2,696
Other purposes	6,877	93,619	350,290	141,098	19,473	433,800	74,588	6,158	2,443
TOTAL	**395,677**	**3,935,044**	**54,042,387**	**3,182,254**	**1,080,199**	**13,011,829**	**4,668,450**	**324,010**	**128,627**

Thousand euro

	2021									
	TOTAL	AUTONOMOUS COMMUNITIES								
		Andalusia	Aragón	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**44,527,085**	**5,610**	**8**	**2**	**—**	**2**	**261,670**	**1**	**—**	**1,939,435**
General governments	**22,563,517**	**350,471**	**119,243**	**310,309**	**383,630**	**299,697**	**6,647**	**105,290**	**709,478**	**904,436**
Central governments	14,949,026	—	—	—	—	—	—	—	—	—
Other	7,614,491	350,471	119,243	310,309	383,630	299,697	6,647	105,290	709,478	904,436
Other financial corporations and individual entrepreneurs	**2,583,534**	**4,708**	**2,765**	**3,622**	**1,308**	**635**	**276**	**736**	**14,561**	**858,561**
Non-financial corporations and individual entrepreneurs	**53,522,883**	**2,426,733**	**1,025,622**	**1,488,205**	**2,275,213**	**1,235,553**	**200,097**	**615,232**	**1,096,532**	**18,610,035**
Construction and real estate development	3,592,822	84,280	40,585	46,909	90,043	26,854	10,497	15,220	26,690	1,852,405
Civil engineering construction	872,392	33,172	9,461	20,230	7,502	3,639	5,580	6,740	17,163	143,110
Other purposes	49,057,669	2,309,281	975,576	1,421,066	2,177,668	1,205,060	184,020	593,272	1,052,679	16,614,520
Large enterprises	18,642,042	516,887	313,626	445,067	918,900	346,222	55,190	142,915	197,452	6,964,916
SMEs and individual entrepreneurs	30,415,627	1,792,394	661,950	975,999	1,258,768	858,838	128,830	450,357	855,227	9,649,604
Other households	**37,169,632**	**2,473,452**	**519,222**	**1,134,219**	**1,387,663**	**464,524**	**106,371**	**447,571**	**711,762**	**14,659,984**
Home loans	32,634,462	2,236,373	463,559	907,406	1,262,394	414,661	93,590	395,557	605,419	12,928,884
Consumer loans	1,827,372	104,066	22,678	82,284	51,770	25,668	4,528	21,573	38,289	673,548
Other purposes	2,707,798	133,013	32,985	144,529	73,499	24,195	8,253	30,441	68,054	1,057,552
TOTAL	**160,366,651**	**5,260,974**	**1,666,860**	**2,936,357**	**4,047,814**	**2,000,411**	**575,061**	**1,168,830**	**2,532,333**	**36,972,451**

Thousand euro

	2021								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**—**	**5,136**	**42,024,235**	**2**	**180**	**111,874**	**178,930**	**—**	**—**
General governments	**87,251**	**419,626**	**1,869,909**	**55,766**	**291,266**	**701,521**	**859,215**	**110,090**	**30,646**
Central governments	—	—	—	—	—	—	—	—	—
Other	87,251	419,626	1,869,909	55,766	291,266	701,521	859,215	110,090	30,646
Other financial corporations and individual entrepreneurs	**79**	**4,184**	**1,544,107**	**3,065**	**477**	**127,845**	**16,503**	**84**	**18**
Non-financial corporations and individual entrepreneurs	**171,826**	**2,337,923**	**12,060,239**	**1,128,835**	**600,716**	**5,940,379**	**2,102,023**	**187,386**	**20,334**
Construction and real estate development	2,071	64,311	1,023,028	35,361	20,977	147,474	96,077	9,698	342
Civil engineering construction	2,039	47,318	429,982	12,463	2,607	63,133	65,976	1,815	462
Other purposes	167,716	2,226,294	10,607,229	1,081,011	577,132	5,729,772	1,939,970	175,873	19,530
Large enterprises	19,967	732,143	4,516,853	235,642	205,908	2,242,942	741,046	46,124	242
SMEs and individual entrepreneurs	147,749	1,494,151	6,090,376	845,369	371,224	3,486,830	1,198,924	129,749	19,288
Other households	**116,058**	**797,772**	**4,798,884**	**1,991,705**	**164,434**	**6,018,347**	**1,223,580**	**78,259**	**75,825**
Home loans	102,871	653,530	4,254,796	1,722,280	135,172	5,223,510	1,105,175	58,017	71,268
Consumer loans	5,999	51,799	204,867	125,076	8,238	348,663	41,911	14,150	2,265
Other purposes	7,188	92,443	339,221	144,349	21,024	446,174	76,494	6,092	2,292
TOTAL	**375,214**	**3,564,641**	**62,297,374**	**3,179,373**	**1,057,073**	**12,899,966**	**4,380,251**	**375,819**	**126,823**

Sectoral concentration

The breakdown by activity sector of loans and advances to non-financial corporations is shown below.

Thousand euro

	2022	
	Gross carrying amount	Allowances
Agriculture, livestock farming, forestry and fisheries	835,080	(33,014)
Mining and quarrying	317,187	(7,116)
Manufacturing	9,170,143	(250,072)
Electricity, gas, steam and air-conditioning supply	4,240,866	(78,437)
Water supply	350,914	(3,236)
Construction	4,848,030	(199,788)
Wholesale and retail trade	8,381,271	(247,562)
Transportation and storage	3,532,812	(78,156)
Hotel and catering	3,661,130	(128,690)
Information and communication	2,852,443	(24,621)
Financial and insurance activities	5,203,621	(75,162)
Real estate activities	5,932,621	(129,958)
Professional, scientific and technical activities	2,287,155	(93,756)
Administrative and auxiliary services	2,092,543	(36,170)
Public administration and defence; mandatory social security	377,453	(661)
Education	296,800	(10,046)
Healthcare and social services	833,454	(11,899)
Artistic, leisure and entertainment activities	485,226	(69,884)
Other services	1,009,702	(124,525)
TOTAL	**56,708,451**	**(1,602,753)**

Thousand euro

	2021	
	Gross carrying amount	Allowances
Agriculture, livestock farming, forestry and fisheries	818,567	(36,327)
Mining and quarrying	401,262	(10,712)
Manufacturing	9,208,951	(288,573)
Electricity, gas, steam and air-conditioning supply	3,916,252	(81,405)
Water supply	288,596	(6,204)
Construction	7,605,114	(2,534,963)
Wholesale and retail trade	7,786,321	(280,881)
Transportation and storage	3,534,056	(117,775)
Hotel and catering	4,311,167	(163,550)
Information and communication	3,125,769	(30,848)
Financial and insurance activities	5,195,920	(380,249)
Real estate activities	6,435,026	(164,249)
Professional, scientific and technical activities	2,462,040	(125,418)
Administrative and auxiliary services	2,160,041	(34,224)
Public administration and defence; mandatory social security	346,576	(763)
Education	299,835	(10,525)
Healthcare and social services	701,300	(14,687)
Artistic, leisure and entertainment activities	518,673	(29,030)
Other services	283,811	(18,189)
TOTAL	**59,399,277**	**(4,328,572)**

Sovereign risk exposure

Sovereign risk exposures, broken down by type of financial instrument as at 31 December 2022 and 2021, are as follows:

Thousand euro

	2022										
	Sovereign debt securities						Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	6,434	(135,382)	—	3,163,014	13,289,970	11,113,244	1,798	(9,391)	27,429,687	—	82.3%
Italy	20,284	(79,404)	—	—	3,013,221	—	—	—	2,954,101	—	8.9%
United States	—	—	—	777,201	257,520	233	—	—	1,034,954	—	3.1%
United Kingdom	—	—	—	—	—	6	—	—	6	—	0.0%
Portugal	—	—	—	—	740,688	3,042	—	—	743,730	—	2.2%
Mexico	—	—	—	99,400	—	5	—	—	99,405	—	0.3%
Rest of the world	293,320	—	—	192,610	586,430	13,583	—	—	1,085,943	—	3.3%
Total	320,038	(214,786)	—	4,232,225	17,887,829	11,130,113	1,798	(9,391)	33,347,826	—	100.0%

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes undrawn balances of credit transactions and other contingent risks (1,041 million euros as at 31 December 2022).

(***) Relates to commitments for cash purchases and sales of financial assets.

Thousand euro

	2021										
	Sovereign debt securities						Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	74,979	(46,751)	—	3,583,246	9,476,971	10,486,567	15,323	(16)	23,590,319	—	84.7%
Italy	202,456	—	—	—	2,135,300	—	—	—	2,337,756	—	8.4%
United States	—	—	—	864,988	197,836	233	—	—	1,063,057	—	3.8%
United Kingdom	—	—	—	—	—	21	—	—	21	—	0.0%
Portugal	5	—	—	—	355,552	1,949	—	—	357,506	—	1.3%
Mexico	—	—	—	101,644	—	—	—	—	101,644	—	0.4%
Rest of the world	261,156	—	—	106,623	—	22,859	—	—	390,638	—	1.4%
Total	**538,596**	**(46,751)**	**—**	**4,656,501**	**12,165,659**	**10,511,629**	**15,323**	**(16)**	**27,840,941**	**—**	**100.0%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes undrawn balances of credit transactions and other contingent risks (1,084 million euros as at 31 December 2021).

(***) Relates to commitments for cash purchases and sales of financial assets.

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 in terms of their intended purpose, rather than by the debtor's NACE code. This implies, for example, that if a debtor is (a) a real estate company, but uses the financing for a purpose other than construction or real estate development, it is not included in this table. 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

	2022		
	Gross carrying amount	**Surplus above value of collateral**	**Impairment allowances (*)**
Lending for construction and real estate development (including land) (business in Spain)	**2,360**	**578**	**123**
Of which: non-performing	*189*	*82*	*97*

Million euro

	2021		
	Gross carrying amount	**Surplus above value of collateral**	**Impairment allowances (*)**
Lending for construction and real estate development (including land) (business in Spain)	**2,389**	**607**	**135**
Of which: non-performing	*218*	*93*	*111*

(*) 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***	**2022**	**2021**
Write-offs (*)	21	15

Million euro

Memorandum item	**2022**	**2021**
Loans to customers, excluding General Governments (business in Spain) (carrying amount)	94,258	94,554
Total assets (total business) (carrying amount)	195,621	197,188
Allowances and provisions for exposures classed as stage 2 or stage 1 (total operations)	710	3,437

(*) 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 2022	Gross carrying amount 2021
Not secured with real estate	**802**	**580**
Secured with real estate	**1,558**	**1,809**
Buildings and other completed works	772	835
Housing	567	596
Other	205	239
Buildings and other works in progress	654	784
Housing	621	751
Other	34	33
Land	132	190
Consolidated urban land	95	154
Other land	37	36
Total	**2,360**	**2,389**

The figures presented do not show the total value of guarantees received, but rather the net carrying amount of the associated exposure.

Guarantees received associated with lending for construction and real estate development are shown hereafter, for both periods:

Million euro

Guarantees received	**2022**	**2021**
Value of collateral	1,518	1,737
Of which: securing stage 3 loans	*66*	*88*
Value of other guarantees	347	321
Of which: securing stage 3 loans	*19*	*13*
Total value of guarantees received	**1,865**	**2,058**

The breakdown of loans to households for home purchase for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

	2022	
	Gross carrying amount	***Of which: stage 3 exposures***
Loans for home purchase	**35,379**	**778**
Not secured with real estate	591	*29*
Secured with real estate	34,788	*749*

Million euro

	2021	
	Gross carrying amount	***Of which: stage 3 exposures***
Loans for home purchase	**34,625**	**921**
Not secured with real estate	546	*45*
Secured with real estate	34,079	*876*

The tables below show mortgage-secured lending to households for house purchases broken down by the loan-to-value ratio from the most recent appraisal available of transactions recorded by credit institutions (business in Spain):

Million euro

	2022	
	Gross value	***Of which: non-performing***
LTV ranges	**34,788**	***749***
LTV <= 40%	*6,594*	*117*
40% < LTV <= 60%	*9,432*	*153*
60% < LTV <= 80%	*12,402*	*192*
80% < LTV <= 100%	*3,993*	*130*
LTV > 100%	*2,367*	*157*

Million euro

	2021	
	Gross value	***Of which: non-performing***
LTV ranges	**34,079**	**876**
LTV <= 40%	6,411	*120*
40% < LTV <= 60%	8,978	*180*
60% < LTV <= 80%	11,564	*208*
80% < LTV <= 100%	4,288	*160*
LTV > 100%	2,838	*208*

The table below gives details of assets foreclosed or received in lieu of debt by the Bank for transactions recorded by credit institutions within Spain:

Million euro

	2022	
	Gross carrying amount	**Allowances**
Real estate assets acquired through lending for construction and real estate development	**237**	**55**
Completed buildings	218	47
Housing	131	29
Other	87	18
Buildings under construction	2	1
Housing	2	1
Other	—	—
Land	17	7
Developed land	8	3
Other land	9	4
Real estate assets acquired through mortgage lending to households for home purchase	**507**	**142**
Other real estate assets foreclosed or received in lieu of debt	**24**	**5**
Capital instruments foreclosed or received in lieu of debt	**—**	**—**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**8,625**	**7,870**
Financing to institutions holding assets foreclosed or received in lieu of debt	**1,133**	**2**
TOTAL	**10,526**	**8,074**

Million euro

	2021	
	Gross carrying amount	**Allowances**
Real estate assets acquired through lending for construction and real estate development	**258**	**58**
Completed buildings	235	49
Housing	148	31
Other	87	18
Buildings under construction	3	1
Housing	3	1
Other	—	—
Land	20	8
Developed land	10	4
Other land	10	4
Real estate assets acquired through mortgage lending to households for home purchase	**551**	**148**
Other real estate assets foreclosed or received in lieu of debt	**24**	**5**
Capital instruments foreclosed or received in lieu of debt	**3**	**—**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**5,548**	**5,145**
Financing to institutions holding assets foreclosed or received in lieu of debt	**4,270**	**2,608**
TOTAL	**10,654**	**7,964**

Loans and advances subject to statutory and sector moratoria and financing granted subject to government guarantee schemes and operations modified in accordance with the Code of Good Practice

Information concerning loans and credit granted by the Group that are subject to statutory or sector moratoria, as well as financing granted that has benefited from the government guarantee schemes established to enable the Group's customers to cope with the impact of Covid-19, as at 31 December 2022 and 2021, is set out below:

Thousand euro

	31/12/2022						
	Gross carrying amount	With no breaches	*Of which: refinanced exposures*	*Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*	With breaches	*Of which: refinanced exposures*	*Of which: less than 90 days past due*
Loans and advances subject to moratoria	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Of which: Households	—	—	—	—	—	—	—
Of which: Secured by residential property	—	—	—	—	—	—	—
Of which: Non-financial corporations	—	—	—	—	—	—	—
Of which: SMEs	—	—	—	—	—	—	—
Of which: Secured by commercial property	—	—	—	—	—	—	—

Thousand euro

	31/12/2022						
	Accumulated impairment, accumulated negative changes in fair value due to credit risk	With no breaches	*Of which: refinanced exposures*	*Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*	With breaches	*Of which: refinanced exposures*	*Of which: less than 90 days past due*
Loans and advances subject to moratoria	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Of which: Households	—	—	—	—	—	—	—
Of which: Secured by residential property	—	—	—	—	—	—	—
Of which: Non-financial corporations	—	—	—	—	—	—	—
Of which: SMEs	—	—	—	—	—	—	—
Of which: Secured by commercial property	—	—	—	—	—	—	—

Thousand euro

	31/12/2021						
	Gross carrying amount	With no breaches	*Of which: refinanced exposures*	*Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)*	With breaches	*Of which: refinanced exposures*	*Of which: less than 90 days past due*
Loans and advances subject to moratoria	**74,964**	**73,501**	***52,126***	***53,820***	**1.463 (*)**	***1,394***	***1,394***
Of which: Households	*7,506*	*6,133*	*650*	*2,073*	*1,373*	*1,366*	*1,366*
Of which: Secured by residential property	*2,804*	*1,549*	*528*	*977*	*1,255*	*1,255*	*1,255*
Of which: Non-financial corporations	*67,458*	*67,368*	*51,476*	*51,747*	*90*	*29*	*29*
Of which: SMEs	*67,458*	*67,368*	*51,476*	*51,747*	*90*	*29*	*29*
Of which: Secured by commercial property	*51,936*	*51,875*	*40,532*	*40,649*	*61*	*—*	*—*

(*) Of which 1.4 million euro correspond to stage 3 transactions.

Thousand euro

	31/12/2021						
	Accumulated impairment, accumulated negative changes in fair value due to credit risk	**With no breaches**	***Of which: refinanced exposures***	***Of which: Instruments with significant increase in credit risk since initial recognition but not credit-impaired (Stage 2)***	**With breaches**	***Of which: refinanced exposures***	***Of which: less than 90 days past due***
Loans and advances subject to moratoria	**(2,371)**	**(2,223)**	**(2,172)**	**(2,187)**	**(147)**	***(131)***	***(131)***
Of which: Households	*(153)*	*(29)*	*(5)*	*(20)*	*(124)*	*(119)*	*(119)*
Of which: Secured by residential property	*(129)*	*(14)*	*(1)*	*(14)*	*(115)*	*(115)*	*(115)*
Of which: Non-financial corporations	*(2,218)*	*(2,194)*	*(2,166)*	*(2,168)*	*(23)*	*(12)*	*(12)*
Of which: SMEs	*(2,218)*	*(2,194)*	*(2,166)*	*(2,168)*	*(23)*	*(12)*	*(12)*
Of which: Secured by commercial property	*(1,634)*	*(1,622)*	*(1,603)*	*(1,604)*	*(11)*	—	—

Thousand euro

	31/12/2022							
				Remaining validity period of moratoria				
	Gross carrying amount	**Of which: subject to legislative moratoria**	**Of which: expired**	**Less than 3 months**	**3 to 6 months**	**6 to 9 months**	**9 to 12 months**	**More than 12 months**
Loans and advances subject to moratorium (granted)	**2,683,047**	**303,079**	**2,683,047**	**—**	**—**	**—**	**—**	**—**
Of which: Households	*2,373,549*	*5,657*	*2,373,549*	—	—	—	—	—
Of which: Secured by residential property	*2,117,037*	*412*	*2,117,037*	—	—	—	—	—
Of which: Non-financial corporations	*309,498*	*297,422*	*309,498*	—	—	—	—	—
Of which: SMEs	*279,666*	*267,591*	*279,666*	—	—	—	—	—
Of which: Secured by commercial property	*279,675*	*268,228*	*279,675*	—	—	—	—	—

Thousand euro

	31/12/2021							
				Remaining validity period of moratoria				
	Gross carrying amount	**Of which: subject to legislative moratoria**	**Of which: expired**	**Less than 3 months**	**3 to 6 months**	**6 to 9 months**	**9 to 12 months**	**More than 12 months**
Loans and advances subject to moratorium (granted)	**3,076,643**	**355,659**	**3,001,679**	**49,720**	**25,243**	**—**	**—**	**—**
Of which: Households	*2,713,907*	*6,306*	*2,706,401*	*7,506*	—	—	—	—
Of which: Secured by residential property	*2,386,385*	*448*	*2,383,581*	*2,804*	—	—	—	—
Of which: Non-financial corporations	*362,736*	*349,353*	*295,279*	*42,214*	*25,243*	—	—	—
Of which: SMEs	*322,862*	*309,479*	*255,405*	*42,214*	*25,243*	—	—	—
Of which: Secured by commercial property	*324,847*	*312,456*	*272,911*	*26,693*	*25,243*	—	—	—

Thousand euro

	31/12/2022		
			Maximum amount of the guarantee that can be considered
	Gross carrying amount	***Of which: refinanced***	**Public financial guarantees received**
Newly originated loans and advances subject to public guarantee schemes	**7.371.720 (*)**	**782,989**	**5,526,243**
Of which: Households	*670,923*	—	—
Of which: Secured by residential property	—	—	—
Of which: Non-financial corporations	*6,700,798*	*740,342*	*5,030,321*
Of which: SMEs	*5,051,028*	—	—
Of which: Secured by commercial property	*26,901*	—	—

(*) Of which 514 million euro correspond to stage 3 transactions.

Thousand euro

	31/12/2021		
	Gross carrying amount	*Of which: refinanced*	Maximum amount of the guarantee that can be considered
			Public financial guarantees received
Newly originated loans and advances subject to public guarantee schemes	**8.710.852 (*)**	**909,595**	**6,537,730**
Of which: Households	*794,971*	—	—
Of which: Secured by residential property	—	—	—
Of which: Non-financial corporations	*7,915,881*	*859,645*	*5,942,435*
Of which: SMEs	*5,916,272*	—	—
Of which: Secured by commercial property	*34,650*	—	—

(*) Of which 309 million euro correspond to stage 3 transactions.

In 2022, in accordance with the Code of Good Practice, Banco Sabadell has modified a total of 2,238 ICO Covid transactions that had an outstanding principal amount of 300 million euros on the date of modification. Of these modifications, 2,235 consisted of loan term extensions, for an amount of 300 million euros, and 3 write-offs, for an amount of 217 thousand euros, with no conversions of profit participation loans having been carried out.

As at 31 December 2021, in accordance with the Code of Good Practice, Banco Sabadell had modified a total of 718 transactions that had an outstanding principal amount of 127 million euros on the date of modification. The total amount corresponded to loan term extensions, with no conversion of profit participation loans and/or write-downs carried out.

Schedule VI – Detailed individual income statement - Business in Spain for the 2022 and 2021 financial years (Statement FI 2.E)

Thousand euro

	2022	2021
Profit or (-) loss for the year	**591,205**	**222,606**
Profit or (-) loss after tax from continuing operations	**591,205**	**222,606**
Profit or (-) loss before tax from continuing operations	**792,053**	**245,216**
Total operating income, net	**3,584,684**	**3,697,681**
Interest income	2,884,034	2,615,960
Financial assets held for trading	1,524	—
Non-trading financial assets mandatorily at fair value through profit or loss	982	487
Financial assets designated at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	56,826	40,822
Financial assets at amortised cost	2,532,881	2,170,144
Derivatives - Hedge accounting, interest rate risk	44,948	11,684
Other assets	1,923	161
Interest income on liabilities	244,950	392,662
(Interest expenses)	(719,583)	(625,262)
(Financial liabilities held for trading)	—	—
(Financial liabilities designated at fair value through profit or loss)	—	—
(Financial liabilities at amortised cost)	(476,760)	(431,641)
(Derivatives - Hedge accounting, interest rate risk)	(130,665)	(15,234)
(Other liabilities)	—	—
(Interest expense on assets)	(112,158)	(178,387)
(Expenses on share capital repayable on demand)	—	—
Dividend income	104,496	72,568
Financial assets held for trading	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	1,777	1,193
Investments in subsidiaries, joint ventures and associates accounted for using the equity method and others	102,719	71,375
Fee and commission income	1,472,747	1,386,806
(Fee and commission expenses)	(215,987)	(163,408)
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	(10,920)	322,377
Financial assets at fair value through other comprehensive income	11,157	214
Financial assets at amortised cost	(21,742)	320,430
Financial liabilities at amortised cost	(335)	1,733
Other	—	—
Gains or (-) losses on financial assets and liabilities held for trading, net	205,300	(164,398)
Gains or (-) losses on trading financial assets and liabilities, net	—	—
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(3,625)	4,521
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	—	—
Gains or (-) losses on non-trading financial assets and liabilities, net	—	—
Gains or (-) losses from hedge accounting, net	13,006	(2,230)
Exchange differences [gain or (-) loss], net	(134,026)	180,642
Gains or (-) losses on derecognition of investments in subsidiaries, joint ventures and associates, net	—	—
Gains or (-) losses on derecognition of non-financial assets, net	25,360	102,933
Other operating income	50,175	50,541
(Other operating expenses)	(86,293)	(83,369)

	2022	2021
(Administrative expenses)	(1,639,559)	(1,993,694)
(Staff expenses)	(875,789)	(1,239,260)
(Other administrative expenses)	(763,770)	(754,434)
(Cash contributions to resolution funds and deposit guarantee schemes) (*)	(213,418)	(203,832)
(Depreciation and amortisation)	(185,604)	(208,562)
(Property, plant and equipment)	(158,182)	(162,483)
(Investment properties)	(2,607)	(2,300)
(Goodwill)	(24,700)	(36,524)
(Other intangible assets)	(115)	(7,255)
Modification gains or (-) losses, net	—	—
Financial assets at fair value through other comprehensive income	—	—
Financial assets at amortised cost	—	—
(Provisions or (-) reversal of provisions)	(64,380)	(201,518)
(Payment commitments to resolution funds and deposit guarantee schemes)	—	—
(Commitments and guarantees given)	7,017	(104,129)
(Other provisions)	(71,397)	(97,389)
(Increases or (-) decreases of the fund for general banking risks, net)	—	—
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	(719,779)	(789,569)
(Financial assets at fair value through other comprehensive income)	(182)	646
(Financial assets at amortised cost)	(719,597)	(790,215)
(Impairment or (-) reversal of impairment of investments in subsidiaries, joint ventures and associates)	62,371	(54,438)
(Impairment or (-) reversal of impairment on non-financial assets)	(10,573)	(53,417)
(Property, plant and equipment)	(1,991)	(52,088)
(Investment properties)	(8,582)	(1,329)
(Goodwill)	—	—
(Other intangible assets)	—	—
(Other)	—	—
Negative goodwill recognised in profit or loss	—	—
Share of the profit or (-) loss of investments in subsidiaries, joint ventures and associates accounted for using the equity method	—	—
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(21,689)	52,565
(Tax expense or (-) income related to profit or loss from continuing operations)	(200,848)	(22,610)
Extraordinary profit or (-) loss, after tax	—	—
Extraordinary profit or loss, before tax	—	—
(Tax expense or (-) income related to extraordinary profit or loss)	—	—
Profit or (-) loss after tax from discontinued operations	—	—
Profit or (-) loss before tax from discontinued operations	—	—
(Tax expense or (-) income related to discontinued operations)	—	—
Attributable to minority interest [non-controlling interests]	—	—
Attributable to owners of the parent	591,205	222,606

Directors' Report for the year ended 31 December 2022

1 – BANCO SABADELL GROUP

Banco de Sabadell, S.A. (hereinafter, also referred to as Banco Sabadell, the Bank 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 group of entities which it controls directly or indirectly and which comprise, together with the Bank, Banco Sabadell Group. Banco Sabadell is comprised of 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 2022:

- Banking business Spain, which groups together the Retail, Business and Corporate banking business units, where Retail and Business banking are managed under the same Branch Network:

  - Retail Banking: offers financial products and services to individuals for personal use. These include investment products and medium- and long-term finance, such as consumer loans, mortgages and leasing or rental services, as well as short-term finance. Funds come mainly from customer deposits and current accounts, savings insurance, mutual funds and pension plans. The main services also include payment methods such as cards and insurance linked to consumer loans and mortgages.

  - Business Banking: offers financial products and services to companies and self-employed persons. These include investment and financing products, such as working capital products, loans and medium- and long-term financing. It also offers customised structured finance and capital market solutions, as well as specialised advice for businesses. Funds mainly come from customer deposits, current accounts and mutual funds. The main services also include collection/payment methods such as cards and PoS terminals, as well as import and export services.

  - Corporate Banking (CIB): 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 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 presence abroad 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 company of a group of companies that, as at 31 December 2022, numbered a total of 88. Of these, aside from the parent company, 68 are considered subsidiaries and 19 are considered associates (as at 31 December 2021, there were 96 companies, including 73 subsidiaries and 22 associates).

1.1 Mission, values and business model

Mission and values

Banco Sabadell helps people and businesses to bring their projects to life, anticipating their needs and taking care to help them make the best economic decisions. It does this through socially and environmentally responsible management.

This is Banco Sabadell's *raison d'être*: to help its customers make the best financial decisions so that they may see their personal or business projects take shape. To that end, it gives customers the benefit of the opportunities offered by big data, digital capabilities and the expert knowledge of its specialist managers.

The Bank, and those who form part of it, share the values that help make it possible to fulfil this mission.

Banco Sabadell delivers on its mission by being 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 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 and by adopting an initiative-based, proactive approach to the relationship. The Bank offers a comprehensive range of products and services, competent and highly qualified personnel, an IT platform with ample capacity to support future growth, and a relentless focus on quality.

Since the financial crisis of 2008, the Spanish banking industry has been involved in an unprecedented process of consolidation. The need for higher capital levels, stricter requirements in terms of provisions, the economic recession and pressures on the capital markets have been some of the factors that have forced Spanish financial institutions to merge and, by doing so, gain scale advantages, maximise efficiency and strengthen their balance sheets.Over the last eleven years, Banco Sabadell has expanded its geographical footprint and increased its market share in Spain through a number of acquisitions, the most significant of which was 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 Caixa d'Estalvis del Penedès, Banco Gallego and Lloyds España.

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, including 9% in trade credit, 9% in business lending, 6% in investment funds, 5% in securities trading and 17% in PoS turnover.

With regard to international business, Banco Sabadell has always been a benchmark. This has not changed in 2022 and 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 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.

The main factors at play in 2022 were the conflict in Ukraine, the energy crisis in Europe, new upside inflation surprises, the interest rate hikes introduced by central banks and the management of Covid-19 in China. All these factors have resulted in a gradual deterioration of the growth-inflation mix, driving many economies into stagflation towards the end of the year. Covid-19 has become less prominent as a factor influencing the economy and financial markets in an environment in which the reduced severity of the latest variants of the virus has been confirmed. In most countries, Covid-19 has been transitioning to an endemic phase, the main exception being China. Generally, 2022 was a very negative year for financial assets, both equities and fixed income.

Against this background, Banco Sabadell significantly increased its net profit year-on-year. The Group's increased net profit was mainly driven by solid core results (net interest income + fees and commissions – recurrent costs), which improved as a result of increased net interest income, higher income from fees and commissions, and the cost reduction effort.

The reduction in provisions is also noteworthy, both in terms of fewer credit provisions and reduced real estate provisions.

Banco Sabadell conducts its business in an ethical and responsible manner, delivering on its commitment to society by ensuring that 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 plan 2021-2023

The Group's Strategic Plan was presented on 28 May 2021. This plan defined the Group's strategic priorities, which include (i) an increased focus on core businesses in Spain, with different levers of action for each business that will strengthen the Bank's competitive position in the domestic market, and (ii) a significant improvement in the profitability of international businesses, in both the United Kingdom and other geographies. The cost base will also be reduced during the plan to bring it in line with competitive realities. These changes will be implemented based on a more efficient allocation of capital, fostering the Group's growth in those geographies and businesses that offer a higher capital-adjusted return.

In this way, the Strategic Plan sets out a specific strategic approach for each business:

In Retail Banking the approach is to undertake a major transformation, which entails a profound change in the offering and the customer relationship model.

On the supply side, transactional servicing is being made more readily available to customers in a simple and agile way through digital channels. As for the commercial offering of products and services, a fundamentally digital and remote offer is being developed for those products in which the customer wants autonomy, immediacy and convenience, such as consumer loans, accounts and cards. On the other hand, for more complex products such as mortgages, insurance and savings/investment products, where customers require support, specialised product managers are currently being deployed and multi-channel support is offered.

The objective in Retail Banking is to better respond to customers' needs and, at the same time, reduce the cost base of the business.

In Business Banking, the Bank's notable franchise in this segment is being strengthened and specific levers have been established for profitable growth: launch of sectoral solutions for businesses, support for customers in their internationalisation process, expansion of specialised solutions for SMEs, and a comprehensive support plan for Next Generation EU funds. This is reinforced by an optimal risk management framework, complementing the vision of risk and business experts with new business intelligence and data analytics tools.

The objective in Business Banking is to drive growth while preserving risk quality and boosting profitability.

The approach in Corporate Banking Spain is to develop plans to improve customer profitability and increase the contribution of specialised product units to income generation.

The goal in this business is to obtain an adequate profitability for each customer and to satisfy their needs.

TSB has focused its business on what it does best and what it is known for in the market: retail mortgages. TSB has an excellent platform, with a high operational capacity to manage mortgages and a well-established network of financial intermediaries, a key aspect in the UK market where a large proportion of new mortgages are granted through this channel.

TSB's objective is to increase its contribution to the Group's profitability.

In the Group's other international businesses, the priority is to actively manage the capital that the Group allocates to these businesses. In addition, 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 the rest of the foreign branches priority will be given to supporting Spanish customers in their international activity.

Now that 2022 has ended and with the plan in action for over a year, the progress achieved is very significant. Some examples include: deployment of more than 600 specialised managers, 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, digitisation of consumer loans, 100% digital card application process, expansion of pre-approved consumer loans and cards, integration of Sabadell Wallet in the mobile app, optimisation of product campaigns, launch of a customer retention plan, launch of the Sabadell online account... and the list goes on.

The specialised managers now sell 31% of mortgages, 46% of savings and investment products and 69% of insurance. In terms of other products, 47% of new cards are issued through the app, pre-approved loans have increased by 43% year-on-year and, thanks to the digital account, new customers can sign up 100% digitally in less than five minutes.

In Business Banking, 30 specific sectoral offerings have been introduced for business customers and customer acquisition in those sectors has increased by 22% in the year, the risk approval process has been improved and made more specialised and flexible, new improved functionalities have been added in online banking, thus expanding the digital offering and interaction between the customer and Bank/manager. The use of data analytics in risk management has been enhanced to ensure greater discrimination and appropriate channelling of new credit. In terms of capabilities, the middle market team has been bolstered to increase the knowledge base already in use in Corporate Banking.

With regard to costs, a cross-cutting efficiency plan involving Business and Retail banking has been executed, enabling a 3.5% reduction in recurrent costs year-on-year.

In Corporate Banking Spain, greater focus has been placed on continuous monitoring of customer profitability.

For its part, in line with the strategic goals, TSB has grown its market share in mortgages. It too has executed an efficiency plan to reduce costs and adjust the size of its branch network. This plan was completed in the last quarter of 2021, achieving annual savings of 70 million euros.

These actions have enabled TSB to turn around its income statement and, following years of losses, it now contributes positively to the Group’s earnings.

In Mexico the cost base has been reduced and it is focusing on the business areas that it knows best and where it has most growth potential: Corporate Banking and Business Banking. In the other international business lines, the focus has been on supporting Spanish customers abroad and local customers who have a presence in Spain, focusing their growth potential on the most profitable assets.

The key financial targets established were (i) to achieve a return on tangible equity (ROTE) above 6% in 2023, and (ii) to maintain the fully-loaded CET1 capital ratio above 12% throughout the Plan.

The first target has already been achieved and surpassed in 2022, with ROTE of 7.8% at year-end, and the Group’s fully-loaded CET1 capital ratio is also above the target level established in the Plan, at 12.55%.

Beyond 2023, the strategic transformation undertaken will continue to deliver results and, therefore, profitability should continue to improve.

To conclude, the Strategic Plan was conceived on the assumption that the various milestones would be met in the short term and, in that respect, in 2021, all of the targets established for the end of that year were achieved. As regards 2022, the different lines of the income statement have continued on a positive trend and in the right direction to meet the targets for 2023: (i) net interest income grew by +10.9% in the year, (ii) fees and commissions increased by +1.5%, (iii) total costs were below 2.9 billion euros, thanks to the various efficiency plans implemented, (iv) credit cost of risk stood at 44 basis points, and lastly, (v) the capital ratio stood at 12.55% with an MDA buffer of 399 basis points.

Furthermore, with the aim of increasing shareholder remuneration, and on the strength of the Group's improved profitability, the Board agreed to put forward a proposal to the Annual General Meeting to raise the payout ratio to 50%, to be paid from 2022 earnings, combining a cash dividend with a share buyback. This share buyback is conditional upon obtaining the relevant mandatory authorisations.

1.3 Banco Sabadell share performance and shareholders

The share capital of Banco Sabadell amounts to 703,370,587.63 euros, represented by 5,626,964,701 shares of a single class with a par value of 0.125 euros. The number of shares in the Bank has remained unchanged for more than five years as the Group has no remuneration policies that could have a dilutive effect on the current share capital and rights to convert preferred securities issued as contingently convertible into newly issued ordinary shares of the Bank (AT1) have not been exercised. Nor has the Group implemented any other corporate actions that could have an effect on current share capital.

The main factors at play in 2022 were the conflict in Ukraine, new upside inflation surprises, the hawkish tone of central banks and the management of Covid-19 in China. All these factors have resulted in a gradual deterioration of the growth-inflation mix, driving many economies close to stagflation.

Covid-19 was less prominent as a factor influencing the economy and financial markets in an environment in which the reduced severity of the latest variants of the virus was gradually confirmed. In most countries, Covid-19 has been transitioning to an endemic phase, the main exception being China.

Generally, 2022 was a very negative year for the financial markets because these factors have led to a sharp downturn in prospects for economic growth. Most financial assets recorded heavy losses in 2022. In fact, it was the worst year in several decades if we consider the combined performance of fixed income and equities. The volatility of securities was particularly high due to the sharp repricing of official interest rates in the markets.

Liquidity conditions and market depth were at their lowest levels since the global financial crisis, which exacerbated market swings. Corporate and peripheral risk premiums have recorded significant upturns, reaching levels not seen since the pandemic. The euro has depreciated substantially against the dollar, to levels not seen since 2002.

The central banks have focused on fighting inflation, prioritising this objective in view of signs of an economic slowdown and slumps in the financial markets. With that aim in mind, the monetary authorities have tightened monetary policy, in line with the high levels of inflation.

In the Eurozone, the European Central Bank took significant steps to normalise its monetary policy. It increased interest rates by 250 basis points, bringing the deposit rate into positive territory for the first time since 2012. In fact, at one meeting it implemented the highest interest rate hike in its history (75 basis points). The European Central Bank also discontinued its quantitative easing programmes and began to discuss quantitative tightening.

As a result of these heightened inflationary expectations, banking sector results trended in the direction of a return to normal levels, driven by interest rate rises implemented by the central banks, which supported the capacity of the financial sector to intervene in the economy. Although banks have increased their interest income, funding costs have also become more expensive for them. Nevertheless, on balance the outlook is generally positive and profitability in the banking sector has surpassed pre-pandemic levels.

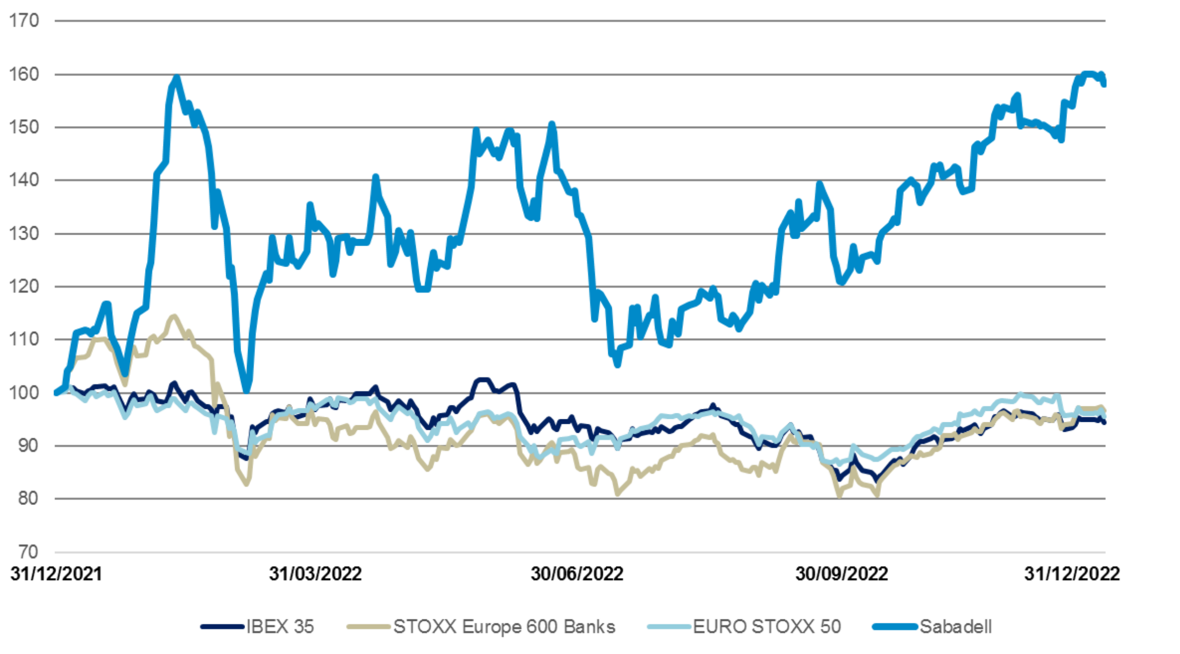
Banco Sabadell's share price performed well, gaining +58% over the year, making it the second best performing IBEX 35 stock in 2022 and the best performing in the 2021/22 period, among the companies that made up the index since the beginning of 2021. On a like-for-like basis, the market revaluation has been above the European banking industry benchmark (STOXX Europe 600 Banks) which depreciated by 3.4%, and also above general indices such as EURO STOXX 50 and IBEX 35 which fell cumulatively by 4.5% and 5.6%, respectively, over the year. The systemic factors mentioned above have had a significant influence on the share price performance. Banco Sabadell's idiosyncratic factors include better-than-expected annual results and a higher contribution of the UK franchise, TSB, to the Group's results. This has been well received by financial analysts and the market in general.

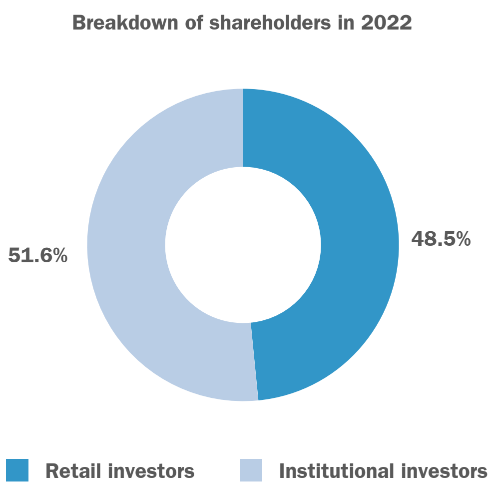
At the end of 2022, 96% of equity analysts covering Banco Sabadell had a Buy or Hold recommendation on the stock.

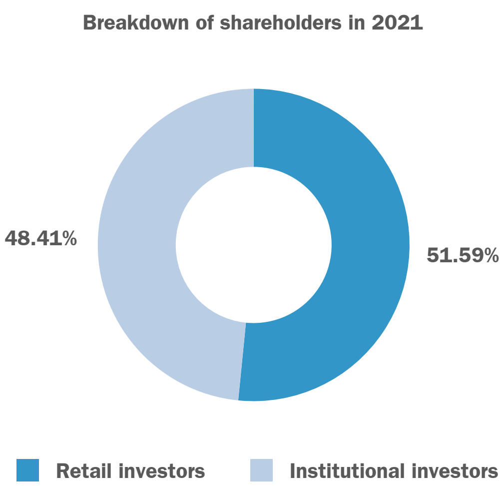
In terms of shareholder structure, in the financial year 2022, institutional shareholders increased in representation with 52% of the Bank’s shares, while minority shareholders hold 48%. Within the Bank's shareholding structure, at year-end 2022, four investor groups reported a holding of more than 3% according to figures reported to the CNMV. The aggregate holding of those four shareholders represents 13.16% of the total share capital; the remaining holdings are free-float capital. The members of the Board of Directors, one of whom is considered to control the voting rights attributed to the shares held by one of the aforesaid investors, hold 3.62% of the Bank's share capital.

Banco Sabadell's market capitalisation stood at 4,927 million euros at year-end, with a price/book value ratio of 0.43.

The graph below shows the evolution of the share price performance over the year:







Analysis of shareholdings at 31 December 2022			
No. 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	45,145	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%**

Analysis of shareholdings at 31 December 2021			
No. of shares	**Shareholders**	**Shares in tranche**	**% of capital**
From 1 to 12,000	179,459	573,130,438	10.19%
From 12,001 to 120,000	45,899	1,427,423,280	25.37%
From 120,001 to 240,000	1,866	307,959,112	5.47%
From 240,001 to 1,200,000	1,039	469,333,426	8.34%
From 1,200,001 to 15,000,000	139	433,432,171	7.70%
More than 15,000,000	30	2,415,686,274	42.93%
TOTAL	**228,432**	**5,626,964,701**	**100.00%**

	Million	Million Euro	Euros	Million Euro	Euros
	Average number of shares (*)	**Profit attributable to the Group**	**Profit attributable to the Group, per share**	**Own funds**	**Book value per share**
2019	5,538	768	0.125	13,172	2.38
2020	5,582	2	—	12,944	2.32
2021	5,586	530	0.080	13,357	2.39
2022	5,594	859	0.134	13,841	2.47

(*) The average number of shares is shown net of the treasury share position.

Share performance

Below are a number of indicators of the Bank's share performance:

	2022	2021	Year-on-year change (%)
Shareholders and trading			
Number of shareholders	218,610	228,432	(4.3)
Total number of shares (million)	5,627	5,627	—
Average daily trading (million shares)	41	33	24.0
Share price (euro)			
Initial	0.592	0.354	—
High	0.950	0.743	—
Low	0.565	0.343	—
Closing	0.881	0.592	—
Market capitalisation (million euro)	4,927	3,306	—
Market ratios			
Earnings per share (EPS) (euro)	0.13	0.08	—
Book value per share (euro)	2.47	2.39	—
P/TBV (price/tangible book value per share)	0.43	0.31	—
Price/earnings ratio (P/E)	6.58	7.69	—

Dividend policy

The Bank's shareholder remuneration policy conforms to the provisions of its Articles of Association. It is proposed by the Board of Directors and is submitted to the Annual General Meeting for approval each year.

In 2022, the Bank paid its shareholders a dividend of 0.03 euros per share from 2021 earnings, through a single cash payment. This payout represented a share price return of 5.1% at year-end 2021.

On 26 October 2022, the Board of Directors agreed to distribute a cash interim dividend of 0.02 euros gross per share from 2022 earnings, amounting to 112 million euros, which was paid out on 30 December 2022. On the same date, the Board of Directors approved an increase of the payout ratio applicable to 2022 results to at least 40%.

On 25 January 2023, the Board of Directors approved the shareholder remuneration policy, which establishes the principles and parameters that should govern the Group's dividend and shareholder remuneration policy. In that same meeting, and in accordance with the aforesaid shareholder remuneration policy, the Board of Directors agreed to submit a proposal to the Annual General Meeting to increase of the payout ratio to 50%, to be paid out of 2022 earnings, combining a cash dividend with a share buyback. This share buyback is conditional upon obtaining the relevant mandatory authorisations. This resulted in a total distributable amount of 430 million euros, representing a dividend yield of 8.7% on the share price at the end of 2022.

To reach the aforesaid payout level, the Board of Directors will ask the Annual General Meeting to approve the distribution of a supplementary gross cash dividend, from 2022 earnings, of 0.02 euros per share, payable in April 2023. As a result, cash dividend remuneration in the year would reach 0.04 euros per share or 225 million euros, representing a share price return, based on share price at the end of 2022, of 4.5% and an increase of 33.3% on the cash dividend distributed in 2021.

Furthermore, the Board of Directors agreed to submit a proposal to the Annual General Meeting regarding a share buyback in the amount of 204 million euros, which would be equivalent to close to 4% of the market capitalisation as at the end of 2022 and which, subject to obtaining the mandatory authorisations, would complement the shareholder remuneration paid out of the earnings for 2022.

Credit rating

In 2022, 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 18 May 2022, DBRS Ratings GmbH maintained Banco Sabadell's long-term rating of A (Low), improving the outlook from negative to stable, in order to reflect the lower impact that the Covid-19 crisis is expected to have on Banco Sabadell's operating environment in both Spain and the United Kingdom. The short-term was also unchanged, remaining at R-1 (Low). The full rating review report was published on 7 July.

On 30 June 2022, Fitch Ratings affirmed Banco Sabadell's long-term rating of BBB- with a stable outlook, reflecting the Group's adequate capitalisation and risk diversification and its challenges in relation to profitability and keeping cost of risk contained. They indicated that the factors that had a negative outlook (asset quality and profitability) have stabilised. The short-term rating was maintained at F3. The full rating review report was published on 15 July.

On 20 October 2022, S&P Global Ratings revised and improved Banco Sabadell's long- and short-term ratings from BBB-/A-3 to BBB/A-2 with stable outlook. It also revised and upgraded the Bank's senior preferred debt rating from BBB- to BBB, and its long-term resolution counterparty rating from BBB to BBB+. This rating improvement stems from the accumulation of a buffer of subordinated products that can absorb losses. Other credit ratings remained unchanged. The stable outlook reflects progress achieved with the Strategic Plan and the expectation that the Bank will continue to deliver on that plan and improve the solidity and profitability of the franchise. The full rating review report was published on 21 November.

On 7 November 2022, Moody's Investors Service affirmed its ratings of Banco Sabadell's long-term deposits and long-term senior debt at Baa2 and Baa3, respectively, upgrading the outlook from stable to positive, suggesting the possibility of a rating upgrade in the next 12-18 months if Banco Sabadell continues to improve its profitability on the strength of increased net interest income and the containment of operating costs and credit provisions. The short-term rating was also unchanged, remaining at P-2. The full rating review report was published on 21 December.

During 2022, Banco Sabadell has maintained continuous interaction 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 and 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	07/07/2022
S&P Global Rating	BBB	A-2	Stable	21/11/2022
Moody´s Investors Service	Baa3	P-2	Positive	21/12/2022
Fitch Ratings	BBB-	F3	Stable	15/07/2022

1.4 Corporate governance

Banco Sabadell has a solid corporate governance structure which ensures effective and prudent management of the Bank and which prioritises ethical, sound and transparent governance, taking into consideration the interests of shareholders, customers, employees and society in all 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 the section "Corporate Governance and Remuneration Policy - Internal Governance Framework" on the website).

As required by Article 540 of the Spanish Capital Companies Act, the Annual Corporate Governance Report for the year 2022 has been prepared, which, in accordance with Article 49 of the Spanish Commercial Code, forms part of the Directors' Report accompanying the 2022 annual financial statements. It includes a section on the extent to which the Bank adheres to the recommendations on corporate governance currently in force in Spain.

In line with previous years, Banco Sabadell has once again opted to prepare the Annual Corporate Governance Report in free PDF format in order to explain and publicise, with maximum transparency, the main aspects contained therein.

Annual General Meeting 2022

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 Regulations, and those business decisions that the Board of Directors considers to be of vital importance for the Bank's future and for the interests of the shareholders.

The Annual General Meeting of Shareholders has adopted its own Regulations, which sets out the principles and basic rules of action (available on the corporate website under "Shareholders' General Meeting – Regulations of the Shareholders' Meeting") and safeguards shareholder rights and transparency.

In the Annual General Meeting, shareholders may cast one vote for every thousand shares that they possess or represent. The Policy on 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 after 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.

In order to improve and encourage shareholder participation, the following key aspects have been implemented:

- Extension of shareholders' methods of participation in the Annual General Meeting of 24 March 2022, which they were able to attend in person or remotely through a live broadcast, and at which they were able to vote on motions on the agenda and speak during question time.
- Provision of new electronic channels through Banco Sabadell's websites (corporate website and BSOnline) and the mobile app (BSMóvil) so that shareholders could delegate and cast their vote in advance of the Annual General Meeting.

The Annual General Meeting held on 24 March 2022, on second call, approved all the items on the agenda, including the annual financial statements and corporate management for the 2021 financial year and, as regards appointments, the ratification and appointment of Luis Deulofeu Fuguet as Independent Director, as well as the re-election as members of the Board of Directors of Pedro Fontana García, George Donald Johnston III and José Manuel Martínez Martínez as Independent Directors and of David Martínez Guzmán as Proprietary Director.

Furthermore, in 2022, reinforcing its commitment to transparency, the Bank submitted for the approval of the Annual General Meeting a Supplement to the Banco Sabadell Director Remuneration Policy for the years 2021-2023, with the aim of developing and expanding the information available on certain aspects of that Policy that were introduced by Law 5/2021, of 12 April, which came into force subsequent to the Policy's approval.

For the second 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 by Eventsost.

An external consultant verified the procedures established for the preparation and celebration of the 2022 Annual General Meeting and rendered a favourable opinion on compliance with the procedures. In particular, the consultant noted the developments observed over the last two years at Banco Sabadell's Annual General Meeting, particularly the aforementioned measures introduced to facilitate the participation of shareholders by electronic means.

Information regarding the 2022 Annual General Meeting of Shareholders 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 for the Annual General Meeting, the Board of Directors is the highest decision-making body of the Bank 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, and it delegates the management of ordinary business matters to the Chief Executive Officer.

The Board of Directors is subject to well-defined, transparent rules of governance, particularly 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.

At its meeting of 26 May 2022, the Board of Directors appointed Laura González Molero as an Independent Director to replace José Ramón Martínez Sufrategui. Having received the corresponding regulatory authorisations, Laura González Molero accepted the role on 19 September 2022.

The composition of the Board of Directors as at 31 December 2022 is as follows:

Board composition

	Position
Josep Oliu Creus	Chair
Pedro Fontana García	Deputy Chairman
César González-Bueno Mayer	Sabadell Group CEO
Anthony Frank Elliott Ball	Lead Independent Director
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	Director
David Martínez Guzmán	Director
José Manuel Martínez Martínez	Director
Alicia Reyes Revuelta	Director
Manuel Valls Morató	Director
David Vegara Figueras	Director-General Manager
Miquel Roca i Junyent	Non–Director Secretary
Gonzalo Barettino Coloma	Non-Director Deputy Secretary

As at 31 December 2022, the Board of Directors is formed by fifteen members: its Chairman, ten Independent Directors, two Executive Directors, one Other External Director and one Proprietary Director. The composition of the Board has an appropriate balance between the various categories of Director.

The composition of the Board of Directors is diverse and efficient. 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 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. The latest review was carried out on 29 September 2022, in light of the changes that took place within the Board of Directors. The diversity of the Board of Directors increased in 2022 in terms of the gender of its members and the knowledge, skills and experience they bring, which have been reinforced in the following areas: retail and corporate banking, financial and capital markets, risk management and control, governance, anti-money laundering and counter-terrorist financing, responsible business and sustainability, international experience, consultancy, regulatory and supervisory bodies, communications and institutional relations.

The Director Selection Policy of Banco Sabadell of 25 February 2016 (most recently amended on 29 September 2022) sets out the principles and criteria to be taken into account in the selection processes and, consequently, in the assessment of the initial and ongoing suitability of Board members, as well as the reappointment of members of this administrative body to ensure their appropriate succession, the continuity of the Board of Directors and its collective suitability.

The process to select candidates for Directorships and to reappoint existing Directors is governed by the principle of diversity, fostering diversity within the Board of Directors so that its composition reflects a diverse collective, and ensuring that the selected members bring a wide range of qualities and competencies to provide diverse points of view and experience, and to promote independent opinions and sound decision-making within the Board of Directors.

The Board of Directors should ensure that the procedures to select its members apply the principle of diversity and that they promote diversity with respect to issues such as age, gender, disability, geographical provenance, or professional training and experience, and other aspects that may be deemed appropriate to ensure a suitable and diverse composition of the Board of Directors. Those procedures should be free of any implicit bias that might lead to discrimination and, in particular, they should facilitate the selection of female directors so that a balanced presence of women and men on the Board may be achieved.

The appointment of Independent Director Laura González Molero increases female representation on the Board and brings different and complementary abilities to those already existing in the Board of Directors. As at year-end 2022, 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 represent 33% of the Board of Directors, fulfilling the Bank’s commitment as set out in Sabadell’s Commitment to Sustainability for the financial year 2022. They represent 40% of Independent Directors in line with the proposal of the Directive of the European Parliament and of the Council on improving the gender balance among non-executive directors of listed companies and related measures.

The Board of Directors has a Lead Independent Director who, in accordance with the Articles of Association, may request meetings of the Board of Directors, request the inclusion of new items on the agenda, coordinate and assemble Non-Executive Directors, articulate the opinions of External Directors and manage, as applicable, the regular assessment of the Chairman of the Board of Directors. The Lead Independent Director also coordinates the Succession Plan for the Chairman and CEO approved in 2016 and updated in January 2022 and, in practice, chairs any meetings with investors or proxy advisors.

To ensure a better and more diligent performance of its general supervisory duties, the Board of Directors is bound to directly exercise the responsibilities established under law, including:

- those that derive from generally applicable good corporate governance rules;
- approving the company’s general strategy;
- appointing and, as necessary, removing directors of the various subsidiaries;

- identifying the company's main risks and implementing and monitoring suitable internal control and reporting systems;
- setting policies on the reporting and disclosure of information to shareholders, the markets and the general public;
- establishing the policy on treasury stock, which the General Meeting of Shareholders determines, where appropriate;
- approving the Annual Corporate Governance Report;
- authorising the company's operations with Directors and significant shareholders which might present conflicts of interests; 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 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 their rules of composition, functioning and responsibilities (see the section of the corporate website "Corporate Governance and Remuneration Policy – Regulations of the Committees"), and develop and complete the rules of operation and basic functions set out in the Articles of Association and in the Regulations of the Board of Directors.

The Board Committees have sufficient resources to perform their duties, can draw on external advice and are entitled to obtain information about any aspect of the Institution, with unrestricted access to Senior Management and Group executives and to any type of information or documentation at the Bank's disposal in connection with the matters within their remit.

At its meeting of 29 September 2022, the Board of Directors approved the appointment of Laura González Molero as a voting member of the Board Audit and Control Committee and as voting member of the Board Remuneration Committee, replacing José Ramón Martínez Sufrategui.

The composition and number of meetings of these Board committees as at 31 December 2022 are shown in the table below:

Composition of the Committees

Position	Strategy and Sustainability	Delegated Credit	Audit and Control	Appointments & Corporate Governance	Remuneration	Board Risk
Chair	Josep Oliu Creus	Pedro Fontana García	Mireya Giné Torrens	José Manuel Martínez Martínez	Aurora Catá Sala	George Donald Johnston III
Member	Luis Deulofeu Fuguet	Luis Deulofeu Fuguet	Pedro Fontana García	Anthony Frank Elliott Ball	Anthony Frank Elliott Ball	Aurora Catá Sala
Member	Pedro Fontana García	María José García Beato	Laura González Molero	Aurora Catá Sala	George Donald Johnston III	Alicia Reyes Revuelta
Member	María José García Beato	César González-Bueno Mayer	Manuel Valls Morató	Mireya Giné Torrens	Laura González Molero	Manuel Valls Morató
Member	César González-Bueno Mayer (*)	Alicia Reyes Revuelta				
Member	José Manuel Martínez Martínez					
Secretary non-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 2022	13	41	11	11	9	15

(*) Member for strategy matters only.

Board Strategy and Sustainability Committee

The Board Strategy and Sustainability Committee, which is formed by five Directors, two Other External Directors and three Independent Directors, is chaired by the Chairman of the Board of Directors. In matters of strategy, the Chief Executive Officer will participate in the meetings with the right to speak and vote, and, for this purpose, the Committee will be composed of six members.

In relation to strategy, the Board Committee's main responsibilities are to evaluate and propose to the Board of Directors strategies for the company's business growth, development, diversification or transformation, and to inform and advise the Board of Directors in 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 relevant technological transformations. It also studies and puts forward recommendations and improvements to the strategic plans and updated versions that may be brought before the Board of Directors at any time, and it issues and submits to the Board an annual report setting out the proposals, assessments, studies and work carried out during the year.

In the area of sustainability, the Board Committee has the following competencies: review the Bank's sustainability and environmental policies; inform the Board of Directors of possible modifications and periodic updates of the sustainability strategy; review the definition and modification of diversity and integration, human rights, equal opportunity and reconciliation policies and periodically assess their degree of fulfilment; review the Bank's social action strategy and its sponsorship and patronage plans; review and report on the Bank's Non-Financial Disclosures Report prior to its review and report by the Board Audit and Control Committee and its subsequent sign-off by the Board of Directors; and receive information relating to reports, letters or communications from external supervisory bodies within the scope of this Board Committee's competencies.

Delegated Credit Committee

The main duties of the Delegated Credit Committee, which is formed by five Directors, one Executive, one Other External and three Independent Directors, 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 sphere of competence that may be required of it by the Board of Directors. Additionally, it shall be responsible for all duties ascribed to it by Law, the Articles of Association and the Regulations of the Board of Directors.

Board Audit and Control Committee

The Board Audit and Control Committee comprises four Independent Directors and the Chairwoman is an expert in auditing. It meets at least once per quarter. Its main functions are to oversee the efficacy of the Bank's internal control, internal audit and risk management systems; supervise the process of drafting and presenting regulated financial disclosures; advise on the Bank's annual and interim financial statements, liaise with external auditors, and ensure that suitable measures are taken to address any conduct or methods that might be inappropriate. 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 main responsibilities of the Board Appointments and Corporate Governance Committee, of which four Independent Directors are members, are to ensure compliance with the qualitative composition of the Board of Directors, assessing the suitability, skills and experience required of the members of the Board of Directors; to submit proposals for the appointment of Independent Directors and report on proposals for the appointment of the remaining Directors; to report on proposals for the appointment and removal of senior executives and the Identified Staff; to report on the basic conditions of the contracts of Executive Directors and senior executives; and to examine and organise the succession of the Chairman of the Board and the CEO of the Bank and, if appropriate, make proposals to the Board to ensure that such succession takes place in an orderly and planned manner. The Board Committee should also set a target for representation of the under-represented gender 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 Bank'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; reporting to the Board of Directors on the Annual Corporate Governance Report for its approval and annual publication; supervising, within its sphere of competence, the Bank'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 Bank's activities.

Board Remuneration Committee

Made up of four Independent Directors, the main responsibilities of the Board Remuneration Committee 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 conditions of Executive Directors, and to ensure compliance therewith. Additionally, it provides information for the Annual Report on Directors' 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 main functions of the Board Risk Committee, which comprises four Independent Directors, are to supervise and exercise oversight to ensure that all the risks of the Bank and its consolidated group are accepted, controlled and managed appropriately, 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 the Board Committee's own terms of reference.

Chairman of the Bank

Article 55 of the Articles of Association stipulates that the Chairman shall perform his duties as a non-Executive Director. The Chairman is the Bank's highest representative and is entrusted with the rights and obligations inherent to such representation. The Chairman, through the performance of his duties, is ultimately responsible for the effective operation of the Board of Directors and, as such, he represents the Bank in all matters and signs on its behalf, convenes and chairs meetings of the Board of Directors, sets the meeting agenda, leads discussions and deliberations during Board meetings and ensures the fulfilment of the motions adopted by the Board of Directors.

Chief Executive Officer (CEO)

Pursuant to Article 56 of the Articles of Association, the Chief Executive Officer has primary responsibility for managing and directing the business, and represents the Bank in the absence of the Chairman. The Board of Directors may also permanently delegate to the Chief Executive Officer any powers that may be legally delegated as it sees fit.

Control Units

The Internal Audit Division and the Risk Control and Regulation Division have access to 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 Directors' Remuneration and the Non-Financial Disclosures Report, which form part of this Directors' Report, on the website of the National Securities Market Commission and on Banco Sabadell's corporate website www.grupbancsabadell.com.

1.5 Customers

At times of socio-economic change, as we are experiencing now, Banco Sabadell sees the customer experience as the differentiation lever that gives it a sustainable competitive advantage.

In that respect, the Bank works to offer products and services that adapt to the customer's needs, thus adopting a customer-centric approach, offering a wide range of products for each type of customer. This year, the Bank has focused on communication, striving for clearer and more easily understood messages, and on the introduction of relationship models that are more specialised and fine-tuned to current customer needs and that can facilitate customers' day-to-day interactions with Banco Sabadell.

Understanding the customer at all times during their relationship with Banco Sabadell is key. To achieve this, new methodologies are constantly being developed to enable the Bank to listen to the customer, to measure and assess the main reasons for customer satisfaction and dissatisfaction and how close or far we are from meeting our customers' expectations. The ultimate goal is to implement lines of approach that will not only improve their experience, but also try to exceed their expectations.

These methodologies allow the Bank to transform and adapt processes, making them more customer-centric so as to improve customer experience.

Measuring customer experience

To measure customer experience, Banco Sabadell focuses on obtaining insights that help with decision-making and drive an increasingly customer-centric culture.

The experience is measured by understanding the market, consumers and customers, using a range of qualitative and quantitative research methodologies.

Qualitative analysis

With the aim of better understanding the customer environment and the customers within it, Banco Sabadell carries out a number of qualitative studies and research using different methodologies. The goals of this process include:

- Listening carefully, actively and constantly to what the customer has to say, which enables us to ascertain how they experience their relationship with the Bank at a range of touch points.
- Understanding consumers' concerns, worries and attitudes and their current and future needs.

– Identifying the most emotional and least explicit part of consumer decision-making.

– Defining the value propositions specific to each type of customer.

The techniques used range from conventional in-depth interviews or focus groups, by segments, to more innovative methodologies based on behavioural economics and the detection of consumers' deepest emotions and motivations.

Quantitative analysis

Banco Sabadell also analyses its customers' experience through quantitative surveys. Some are more akin to conventional satisfaction surveys, while others incorporate an emotional component: to make the organisation aware of the importance of considering customers in decision-making, so as to make meaningful improvements.

1. Net Promoter Score (NPS)

The Net Promoter Score (NPS), considered to be the key market benchmark for measuring customer experience, enables Banco Sabadell to compare its performance to that of its competitors and even that of companies in other industries, at both the domestic and international levels. The NPS is measured in the main customer segments, products and relationship channels.

Banco Sabadell Spain data

Ranking

Retail	HNW	SMEs	Businesses
3rd	3rd	3rd	2nd

Source: Accenture benchmarking of major Spanish financial institutions (2022 data).

In light of digital transformation, the measurement of customer satisfaction through digital channels has become more important. The NPS of the app for the retail segment is 40%.

TSB data

– NPS banking: +4.6

– NPS mobile app: +55.5

– NPS branch: +61.6

– NPS contact centre: +38.4

– NPS internet banking: +16.0

Source: Internal NPS tracking studies, December 2022 13-Week Rolling score

The results obtained in 2022 show a positive trend in customer satisfaction in relation to the use of the channels.

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 our NPS, both in terms of KPIs and in terms of our position relative to other banks.

2. Satisfaction surveys

At present, there are a number of different indicators related to customer experience, some closer to the conventional concept of customer satisfaction and others that incorporate more emotive aspects.

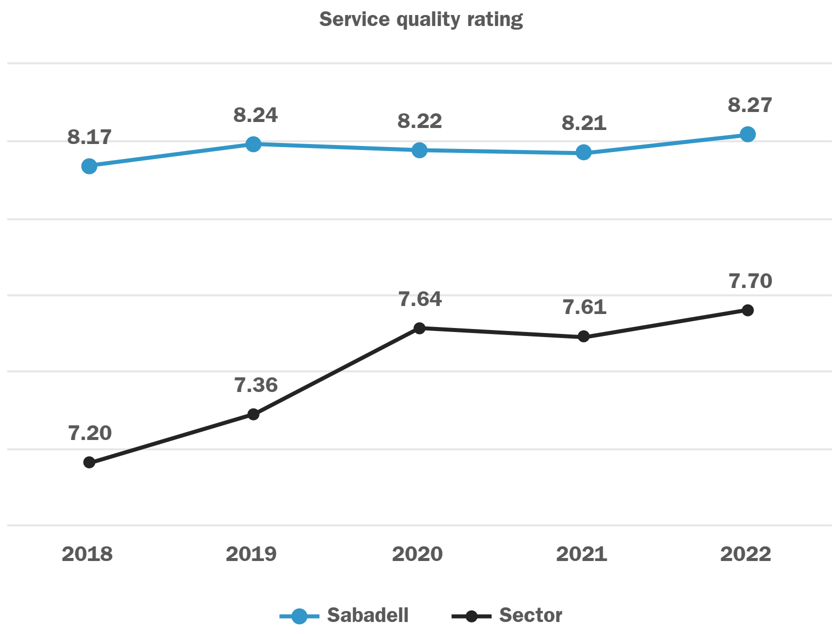
The overall customer experience measurement and management model of Banco Sabadell Spain is based on different indicators obtained from around 700,000 surveys and at more than 20 touch points. The results of the various surveys enable the Bank to ascertain the level of satisfaction of its customers and to identify areas where specific processes and contact channels could be improved. For each of these surveys, the Bank sets itself quality targets and monitors the results continuously.

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 has reached a significant point, and this is precisely why the Bank has focused its efforts on the measurement of customer satisfaction and improvement of the customer experience with BSOnline Particulares for individuals, BSOnline Empresas for businesses, the mobile app, etc. In particular, we note the outstanding results of the call centre, which has seen an improvement of more than 6% in its rating over the last year, bringing the rating for customer care from managers above +8.9.

3. Branch quality surveys

In addition to analysing customer perceptions, Banco Sabadell carries out objective studies using techniques such as ‘Mystery Shopping’, whereby an independent consultant performs a pseudo-purchase to gauge the quality of service and the commercial approach applied by the sales team to potential customers.

EQUOS RCB (Stiga), the benchmark survey of service quality in Spanish financial institutions, is conducted using 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 regulations for 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 complaints and claims received from customers and users of Banco Sabadell’s financial services and those of the institutions associated with it: BanSabadell Financiación, E.F.C., S.A.U., 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 deal appropriately 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. The Banco Sabadell regulations for the protection of customers and users of financial services ensure compliance with the above-mentioned requirements.

In 2022, 41,887 complaints and claims were received: 38,726 in the Customer Care Service (SAC), 2,547 through the Customer Ombudsman, 579 through the Bank of Spain and 35 through the CNMV. A total of 31,191 complaints have been accepted and resolved; a further 10,141 were not accepted for processing as they did not meet the requirements set forth in the regulations.

See Note 38 to the 2022 annual financial statements for further details.

Multi-channel strategy

Banco Sabadell has a fully consolidated multi-channel strategy, which combines the best of the digital world with enhanced specialisation and value-added personal relations. This makes it possible to forge a relationship with the customer that is tailored to their real needs and built on trust and expertise. In this way, a winning combination is achieved to give customers optimal service, as they can operate through digital channels for daily banking (BSOnline, BSMóvil, Direct Branch, social networks, ATM network) and use face-to-face channels for specialist advice (national and international branch network).

Digitisation and the continuous provision of new capabilities on digital channels, incorporating new functionalities to operate and apply for products and services remotely, has been key to achieving this, as has the deployment of specialists throughout the branch network.

Branch network

Banco Sabadell ended 2022 with a network of 1,461 branches (220 TSB branches), indicating a net reduction of 132 branches with respect to 31 December 2021.

Of the total Banco Sabadell and Group branch network, 903 branches operate under the Sabadell brand (including 25 business banking branches and 2 corporate banking branches); 63 as SabadellGallego (including 3 business branches); 85 under the SabadellHerrero brand in Asturias and León (3 business banking branches); 63 as SabadellGuipuzcoano (5 business banking branches); 11 as SabadellUrquijo; 85 branches under the Solbank brand; and 251 offices that make up the international network, of which 220 are in TSB and 15 in Mexico.

Region	Branches	Region	Branches
Andalusia	108	Valencia	217
Aragon	25	Extremadura	5
Asturias	68	Galicia	63
Balearic Islands	37	La Rioja	7
Canary Islands	25	Madrid	111
Cantabria	4	Murcia	69
Castilla-La Mancha	18	Navarra	9
Castilla y León	37	Basque Country	50
Catalonia	355	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

The number of ATMs in the self-service network in Spain as at 31 December 2022 is 2,561, comprising 1,741 in-branch ATMs and 820 out-of-branch ATMs. In 2021, the number of ATMs has decreased by 4% due to branch closures and application of the new ATM model defined in 2021.

In terms of ATM transactions carried out in 2022, the downward trend observed the year before continued. A total of 84 million transactions were carried out, indicating a 4% reduction in the total number of ATM transactions.

A change in customer behaviour has been observed over the past year, with the number of transactions carried out at ATMs decreasing, while the value of such transactions has been increasing.

In terms of the most common types of transactions, namely deposits and withdrawals of cash, in both cases similar volumes to those of the previous year were recorded, but in terms of transaction amounts, these increased by 7.5% and by 2%, respectively.

In 2022, efforts were focused on continuously improving the overall availability of the ATM network and enhancing customer experience.

In particular, approximately 540 ATMs were overhauled in 2022, providing an opportunity to standardise functionalities across the ATM network. Other initiatives in the year included the implementation of cash recycling, the introduction of dynamic drawers that allow the type of banknotes available at each ATM to be customised according to needs, a new distribution of ATM drawers to increase the capacity of the deposit-taking drawers, the availability of ATMs and, lastly, the introduction of the new option to send a transaction receipt, and receipts for BSO/BSM transactions, via email.

BSOnline and BSMóvil

In 2022, the ratio of digital retail customers reached 59.7%, increasing by 3.4 percentage points relative to the previous year.

In addition, the frequency of connection per customer, usage and contracting through digital channels has also continued to grow, as detailed below.

In 2022, the Bank continued to develop new digital capabilities to offer customers a better service through the website and the app. Both have helped to improve customer experience, boost digital sales and achieve the strategic plan targets.

BSOnline (bancosabadell.com website)

Although more digital customers use the Banco Sabadell app, visits to the BSOnline website and the frequency of BSOnline use have remained the same. The customer website maintains an average of 6 million logins per month, and is used predominantly for banking operations and transactions.

In BSOnline Empresas for businesses, improvements have been introduced in terms of ease-of-use and the transactionality and percentage of users who connect on a daily basis have increased. The main new features introduced this year are:

- New browsing pathways achieved through a welcome page and more intuitive and functional menus.
- New interfaces to facilitate day-to-day financial management (e.g. display and management of files, management of PoS invoices and remittances, requests for and management of pre-booked appointments, etc.).
- The expansion of the digital offering (e.g. new line of payments for financing needs).

The award received from *Global Finance* magazine, which considers the Banco Sabadell website for business customers as the best in Europe, is also noteworthy.

New features of note in BSOnline Particulares for individuals are the new functionalities launched, which have increased digital sales, and the adoption of new online operations related to financial products:

- In mortgages, as part of the plan to develop tools to facilitate remote mortgage applications, an online mortgage simulator and a new mortgages portal have been developed, giving customers an initial benchmark offer (instalments, terms, initial down payment, etc.) for mortgage applications and their subsequent approval, with no need to visit a branch.
- With regard to loans, the Bank continues to improve the pre-approved digital loan offering, increasing the amount that customers can request online without paperwork and without needing to visit a branch, thereby achieving a year-on-year increase of +36% in loans taken out online.
- The latest innovation in payment methods for the 100% online application process is the immediate card issue feature; now customers are offered the option of using the card from the moment of digital request, without having to wait for receipt of the physical card.

Growing adoption and usage of BSMóvil

This year work has been carried out to improve the customer experience for individuals using the app. By listening carefully to their suggestions we have incorporated improvements in usability and have significantly improved the app’s stability and performance. All this has contributed to more widespread adoption of the Banco Sabadell app by users, with an increasing trend of individuals using the app, who now number 2.3 million. Frequency of access has increased by 3% compared with the previous year, with an average of 20.5 monthly logins per customer in the retail segment.

All of the aforementioned new features on the website are also available in the app. We should also highlight the growth of Bizum: use is up by 20% relative to the previous year and is 0.8 percentage points above the market rate. The launch of Google Pay has allowed customers to use Google Wallet to activate Banco Sabadell cards and they can pay using their mobile devices instead of doing so through the near-field communication (NFC) facility, enabling the migration of customers who currently use this service to Google Pay or Samsung Pay and achieving this objective of simplifying mobile payment services, as well as extending their use to wearable devices.

In the process of making improvements and listening to customers, the opportunity has been identified to incorporate all of the Sabadell Wallet operations in the main app, thereby improving and simplifying the digital experience. Now with a single app customers can send or receive money via Bizum, use Instant Money (a service that allows cardless cash pick-up at an ATM by simply using a 6-digit keycode) or block their card if they suspect it has been stolen or lost.

In the business segment, the use of BSMóvil Empresas has stepped up a gear, with year-on-year growth of 20% in the number of logins in 2022. The most noteworthy improvements include:

- Easier access between BSMóvil Particulares (retail app) and BSMóvil Empresas (business app) for more than 150,000 customers with different user profiles.
- The new functionality to sign multiple files from the app.

Digital onboarding

Finally, we should highlight a major area of progress this year: the launch of the digital onboarding process, which allows potential customers to register as a Banco Sabadell customer and open an account, completely digitally, marking the beginning of a new way of interacting with our customers. In addition, the new Sabadell Online Account allows the Bank to position itself as a benchmark in retail banking as it is 100% free and digital.

Direct Branch

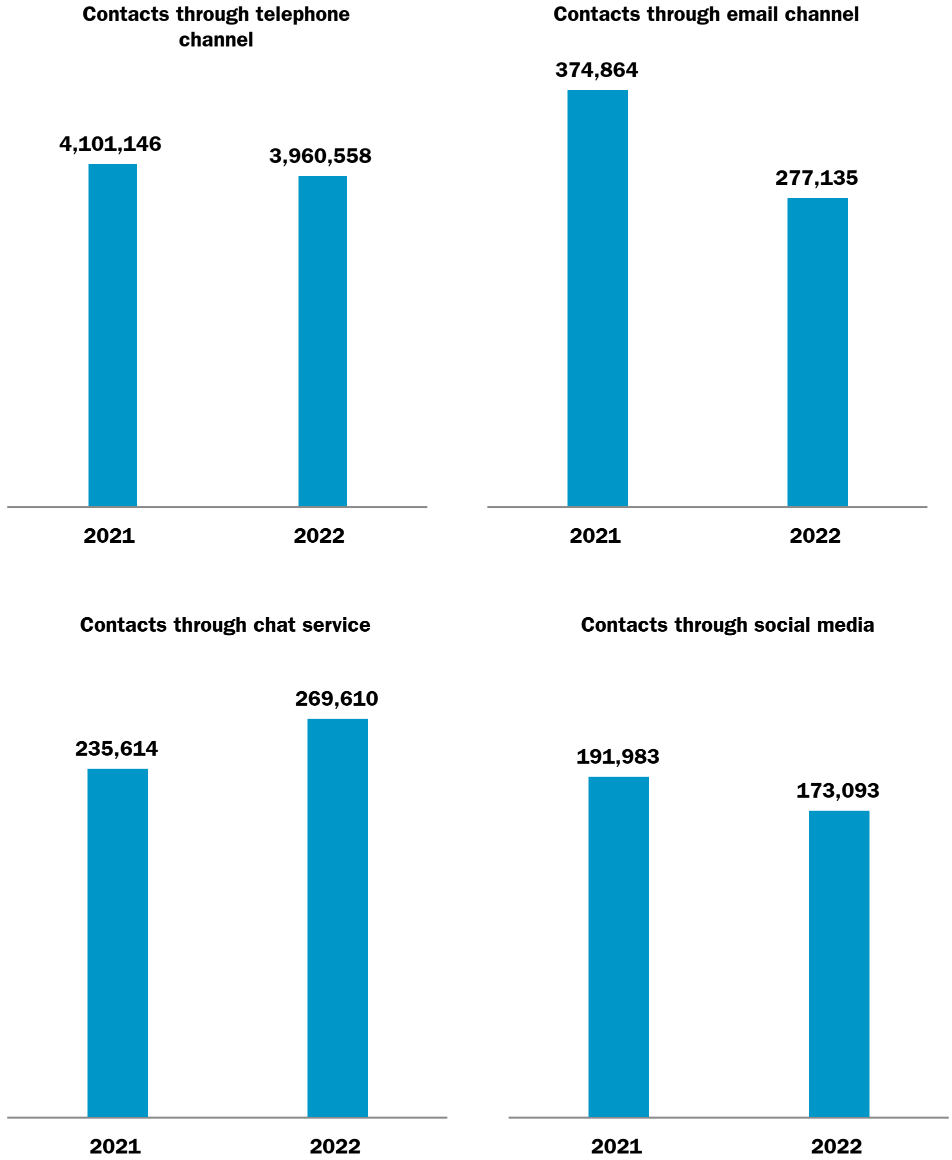
During 2022, Direct Branch contacts decreased by 4% compared to those recorded in 2021, and numbered 4.6 million.

The service channel that has experienced the greatest growth this year has been the chat feature. Telephone consultations accounted for 85% of total contacts across all channels, followed by e-mail, 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 93%, followed by the SLA for chat at 98% and the SLA for the e-mail channel at 85%. Banco Sabadell received over 173,000 mentions in social media, and the SLA was 98%.

Highlights of 2022:

- Creation of the customer care service for senior and vulnerable customers in February, with its own telephone number and a specific procedure adapted to the customer profile.
- The launch of the new online account aimed at attracting digital customers.
- 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.



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 currently has a presence in five social media channels: Twitter, Facebook, LinkedIn, YouTube and Instagram, with 20 different profiles at the national level, and it has one of the best digital reputations in the financial sector.

Social media are among the main channels for engaging with our customers 24/7, both for handling banking queries and for broadcasting institutional and business messages, marketing campaigns and general interest messages.

Banco Sabadell currently has approximately 600,000 followers. Nearly 300,000 mentions of the brand were monitored or handled in 2022.

A key success factor is 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. Social media are used to announce and webcast a large number of sponsored events and other initiatives in which we play an active role, and those that took place through digital platforms became particularly important this year. They include results presentations, the Annual General Meeting, the Barcelona Open Banc Sabadell Trofeo Conde de Godó tennis tournament, a superb example of digital coverage, as well as the South Summit and the Banco Sabadell Foundation research awards.

In line with the initial objectives, Banco Sabadell closely tracks trends, social conversations associated with the Bank, and audiences, and it uses the results to develop a strategy to expand and strengthen its presence, impact and engagement. This growth is evidenced by follower numbers in new channels such as Instagram, the collection of opinions and responses in mobile app markets, opinions expressed in industry forums and, this year, analysis and interaction of our branches in Google Maps reviews.

The Bank continues to expand its digital presence in fast-growing channels such as Instagram and LinkedIn, and continues with its segment-based specialisation through profiles related to such areas as the press (@SabadellPrensa, @SabadellPremsa and @SabadellPress), the Banco Sabadell Foundation (@FBSabadell), @BStartup aimed at entrepreneurs, @InnoCells in support of new business and the digital transformation, and @Sabadell_Help, which is specifically for customer service.

Digital transformation and customer experience

Banco Sabadell's digital transformation approach and priorities

In line with the new Strategic Plan presented in 2021, the digital transformation priorities are focused on improving customer experience in terms of both product offerings and quality of service received.

To that end, efforts have focused on the continuous development of digital onboarding through the improvement of the value proposition and contractual simplification, on expanding the card offer and online card application process, providing a digital loan and improving pre-approved loans, launching a digital mortgage platform, and on performing a thorough overhaul of the browsing experience and adding new functionalities in BSOnline Empresas for businesses.

InnoCells

InnoCells has a multidisciplinary team capable of addressing challenges and projects end-to-end, through reflection and execution, enabling it to maximise the impact for Banco Sabadell Group and enhance the customer experience.

InnoCells adds key capabilities for the Group:

– Digital leadership: coordinating the Bank's digital innovation capabilities and providing a strategic vision from the ecosystem on key business aspects by identifying leading practices in the market.

– Strategic design and customer vision: evolving the value proposition towards the delivery of customer-centric digital experiences. Addressing the challenges holistically and incorporating customers' voices throughout the process: understanding users and their problems, proposing new products and services or amending existing processes, and validating solutions with users.

– Agile technology development: scaling the Bank's organisational capabilities by adopting new agile work methodologies that enhance delivery capacity and continuous learning in projects.

– Strategic alliances: combining internal innovation with external capabilities, actively participating in the innovation ecosystem and collaborating on a large scale with startups that complement the Banco Sabadell value proposition and enable it to reduce time-to-market and offer new services or features to customers.

– Driving technology architecture capabilities: developing new technology capabilities to improve productivity and connecting with third parties on a large scale.

– Capacity multiplier: designing, implementing and delivering key business projects for the Group.

Main deliveries in 2022

InnoCells contributed to Banco Sabadell's digital offer and to improving customer experience by both developing projects from scratch and adapting existing processes or exploring new environments.

Some recent examples of retail banking with a high impact on customers' user experience are:

Daily banking – Continuous improvement

Activation of the first three streams of the daily banking application, which continues to improve the perception of the Bank among customers in the online sphere, with high-impact initiatives in the areas and operations used most recurrently and those receiving more visits in our digital channels, especially BSMóvil. The Bank is thereby succeeding in reducing the digital gap and managing to make the experience of digital users as good as or better than in a bricks-and-mortar branch:

– Speed up: a stream focused on accelerating the continuous delivery of improvements to the customer experience in BSMóvil.

– Operations and access: a stream focused on improving the customer journey to access the app and carry out the most frequent transactions in BSMóvil.

– Digitisation: a stream aimed at improving the rate of our customers' digitisation.

Digital onboarding

Onboarding potential customers is a gateway to the sale of other products available in the Banco Sabadell portfolio. This project involves the implementation of digital onboarding capacity for new customers. Following the first phase, it is now possible for customers to:

– Register immediately through a 100% digital process.

– Sign up for the "digital package": Expansión Digital account, Expansión Savings account, debit card and remote banking.

– Receive simplified legal acceptance and contract documentation.

– Gain access to the account, card and app in minutes (SLA: in one hour max).

Rollout of the mutual fund holders platform

At its current phase, this consists mainly of transferring all mutual funds distribution operations from the current mutual funds platform to the securities platform. Firstly, the access points for subscribing any type of mutual fund have been unified, and the sale of third-party funds has been enabled.

Rollout of the support portal for documentation provision and follow-up (customer/manager)

A simulation platform has been rolled out, together with a documentation upload function and a feature to follow up with customers showing interest in mortgage products.

This platform pre-filters leads, transferring the lead to CRM via the campaigns manager. Once in CRM, and based on the current "Digital Leads" solution, Banco Sabadell will apply a management strategy to those leads based on the capacities of existing Sales & Marketing tools, so that they will be managed in an organised and efficient manner in direct management, avoiding any wastage of leads due to ineffective follow-up.

The Direct Management managers can use the new platform for follow-up purposes, to contact the customer (by chat, email, push notifications, wall posts) and even to compile the different documents needed to initiate the usual internal mortgage process.

Reactive digital loan

This is one of the Institution's pivotal projects, as the objective is to provide retail customers with self-service capabilities in the consumer loan product segment, aiming for a 100% digital customer experience using the website and the app. The plan is to roll it out to customers during the first quarter.

Adobe Target in digital processes

Content customisation in line with the customer's profile in the digital channel is key to improving transaction conversion rates. This project incorporates the integration of the Adobe Target application in BSMóvil, providing the ability to apply changes in the content displayed to the customer, independently and without requiring changes to be applied by the technology division.

New Sabadell online account

Banco Sabadell continues to pursue the implementation of its new digital offering, which will be a multi-product offer comprising a current account, the Expansión savings account, mutual funds, securities, a debit card and pre-approved card credit, and the Expansión credit line.

Immediate card activation

The aim is to enable cards to be applied for, generated and activated immediately through instant selling (self-service) following signing of documentation.

This project has been prioritised in the Strategic Plan for retail customers and its current scope involves:

- Creating a catalogue to make it easier for customers to become familiar with and compare Banco Sabadell products and to highlight the cards recommended for each customer.

- Enabling the application for debit and credit cards by retail customers, for sole account holders, through our digital channels.

- Allowing the immediate activation of cards for use in secure e-commerce and XPay transactions, without having to wait for receipt of the physical card.

- Defining and establishing the experience and detailed functional design of expansions of scope and subsequent phases.

Bizum in BSMóvil

The project takes the services and operations available up to now in BSWallet and brings them together in BSMóvil, so that day-to-day banking can be managed using a single app. The migration of mobile payments through near-field communication (NFC) is not within the scope of this project, but it will be implemented in the first half of the current year.

- All Bizum operations are included (onboarding, portability, calendar, money transfers, single and multiple requests, QRBizum Payment and access to Bizum keycode for eCommerce).

- Instant Money 2.0

- Cards (see PIN, activate/deactivate cards, sign up for Apple Pay, block card, see payments, etc.)

With regard to Business Banking and Network, *Global Finance* magazine selected Banco Sabadell's Business Banking website as the best in Europe in 2022. Some recent examples of projects with a significant customer impact are:

BSMóvil dual login

The aim of the initiative is to facilitate the identification of customers that have two profiles (BSMóvil for individuals and BSMóvil for businesses). Users that have signed up with biometrics can access both profiles through the app.

Redesign of the home page of BSOnline Empresas for businesses

New, more useful and functional home page for BSOnline Empresas for businesses. The ease-of-use and user experience is being improved to enable the display of information of interest to the customer directly from the home page.

Online Payments Line

The purpose of the project is to provide a new drawdown facility in BSOnline. Business customers that have an active payments line will be able to use the credit line to meet their day-to-day needs: payments of taxes, salaries and suppliers.

New browsing facility in BSOnline Empresas for businesses

We continue to improve the browser and menus in BSOnline Empresas for businesses, making it easier for customers to find the operations they need.

Additionally, InnoCells has executed, from the Collaboration area, both pilots and proofs of concept with third parties (seeking to accelerate the digital transformation of the business through the incorporation of products, services and differential third-party technologies, focusing mainly on the Fintech ecosystem), as well as participation in projects framed within the strategic line of Financing.

The following are particularly noteworthy:

– Participation in the Request for Proposal (RFP) for a solution for the loyalty and rewards system, with a system related to payments in member stores (analysing solutions such as Triple), offering added value to both retail and business customers of the Bank.

– Analysis and creation of a proposal for the development of the savings system and automatic rules to accelerate it, through value propositions such as Coinscrap, analysing different integration systems that have already been developed in other institutions.

– Full leverage of the Group's assets, such as the rollout of a customer acquisition campaign for Sabadell Consumer Finance to offer InstantCredit to current customers of Banco Sabadell.

– Analysis and participation in the RFP for the "financial move" service, inviting customers who access the Institution via the digital onboarding route to complete the value proposition by transferring the direct debits, salary payments, etc., that they have with their current bank to Banco Sabadell, thereby creating a valued customer from the outset. The final solution (analysed with third parties such as Finleap) will ultimately be approached through internal development, with a proposal to leverage and build on Banco Sabadell's existing capabilities.

– Creation of a framework for collaboration with third parties that will facilitate decision-making on market proposals based on a series of relevant factors, such as strategic alignment, business fit, costs and implementation lead times.

– Participation in the Proof of Concept (POC) for the digital euro, with the support of Spanish financial infrastructure players (Iberpay, Redsys and Bizum) and the main Spanish banks. The aim is to carry out an in-depth analysis of the technical, operational and business implications that its market entry would involve, and how it would co-exist with the digital payment instruments currently used by European citizens.

– Orchestration and active collaboration in two projects launched by the strategic line of Financing (ongoing):

  - Reactive Digital Loan: Management and rollout of the first phases of the project and activation of Family&Friends, prior to rollout to customers.

  - Sabadell Consumer Finance – Instant Credit: Implementation of the project, according to scope, underpinned by three key pillars: evolution of the InstantCredit digital journey, balancing capacity to obtain an omni-channel GlobalCredit solution, and improvement of risk models for transaction approval processes.

    The initiative was recognised in the Forbes innovation awards.

In addition, the area of collaboration with third parties maintains continuous interaction with the startup ecosystem (collaboration with BStartup and Sabadell Venture Capital and participation in various events, such as SouthSummit, 4YFN, webinars, etc.) and a specific portal is available (www.partnerships.innocells.io) to centralise and receive value propositions that may be of interest to the Group in an orderly fashion. In 2022 more than 20 contacts were managed.

1.6 New work model

In 2020, SmartWork was created, stemming from the need to create a different work model adapted to the prevailing environment and that would prepare Banco Sabadell to continue growing in the future. In 2022, this developed into SmartWork 2.0, a new blended work model suited to the current environment, with new tools (Office 365) and new capabilities (mobile, WiFi, etc.).

To support the workforce in their adoption of this model and help them learn to take advantage of the best of both worlds (on-site and remote), a series of differential actions impacting working arrangements, technology, equality and well-being have been implemented. These actions include, among others:

- More technology, to enable staff to work even more efficiently, with tools such as the SmartApp, new screens, and new smartphones or Office 365 accessible from all environments.
- Training support with live events (start of the new season of SmartBreaks) and training courses (e.g. inclusive leadership).
- Digital spaces, such as the SmartSite or the Equality and Diversity Space, where employees can find comprehensive information about the model.
- Health and well-being, with initiatives that have an impact on people's health, such as Reto Yoga 21 Días (21-Day Yoga Challenge) and the cycle of health conferences held in collaboration with Sanitas.

The work environment in the branch network has been upgraded, with technology and processes that increase efficiency and that better connect the Bank with its customers.

2 – ECONOMIC, SECTORAL AND REGULATORY ENVIRONMENT

Economic and financial environment

The main factors at play in 2022 were the conflict in Ukraine, the energy crisis in Europe, further upside inflation surprises, the interest rate hikes introduced by central banks and the management of Covid-19 in China. All these factors resulted in a gradual deterioration of the growth-inflation mix, driving many economies into stagflation towards the end of the year. Covid-19 became less prominent as a factor influencing the economy and financial markets in an environment in which the reduced severity of the latest variants of the virus was gradually confirmed. In most countries, Covid-19 transitioned to an endemic phase, the main exception being China. Generally, 2022 was a very negative year for financial assets, both equities and fixed income.

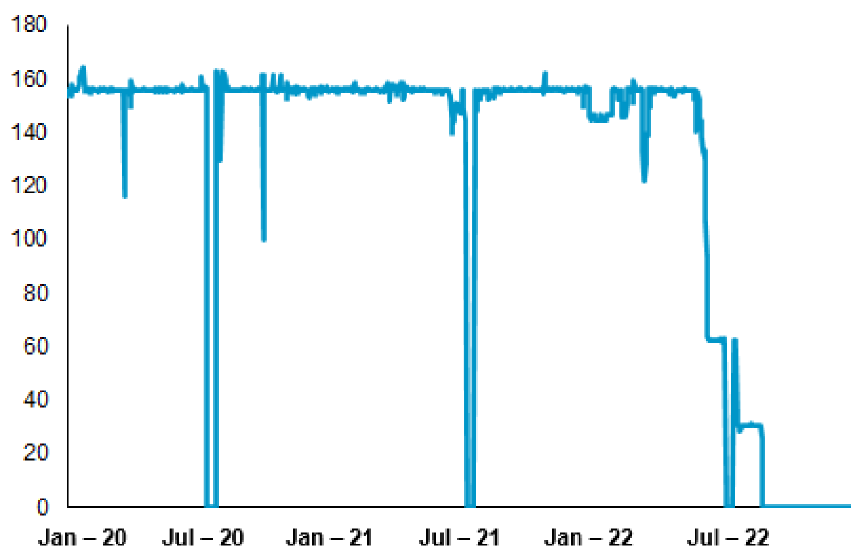
Conflict in Ukraine

The war between Russia and Ukraine was one of the year's defining events for financial markets. Russia invaded Ukraine at the end of February. Early on in the war, Russia succeeded in occupying certain key regions in Ukraine, but after the summer Ukrainian troops made gains in a counteroffensive and were able to recover part of the occupied territory. Russia responded by annexing the regions occupied by its troops, holding referendums in those regions, and it threatened to use nuclear weapons. The response by Western countries to Russia's aggression was emphatic, as they agreed to impose unprecedented economic and financial sanctions on Russia and refused to recognise Russia's annexation of the occupied Ukrainian territories.

With regard to energy, Russia gradually reduced its gas supplies to Europe, eventually completely and indefinitely cutting off the flow of gas through Nord Stream 1, the pipeline that connects Germany and Russia, in early September. This fuelled fears that there would be strict energy rationing during the winter, with dire consequences for the European economy, and it also caused the price of natural gas to skyrocket to an all-time high. Against this backdrop, European countries took measures to reduce their energy dependence on Russia. They reduced their gas consumption and increased their imports of liquefied natural gas. This, together with an unusually mild autumn, allowed European countries to build up their gas reserves ahead of the winter to 100% capacity.

European countries also announced different measures designed to protect households and companies from the dramatic increase in the cost of energy. These measures notably included, among others, windfall taxes for energy firms, the proceeds of which will be used to compensate consumers, as well as price caps for gas and electricity.

Russian gas flows through Nord Stream 1 (thousands m3/day). Source: Bloomberg.

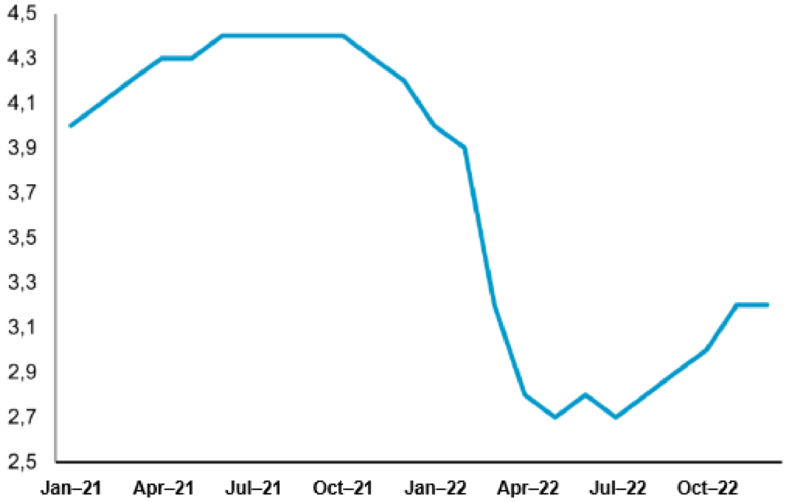


Economic activity and inflation

The global economy deteriorated over the year due to the consequences of the conflict in Ukraine, persistently high inflation and tighter financial conditions. The conflict mostly affected European countries due to their stronger links to Russia and their high energy dependence on the latter. The United States, for its part, proved more resilient to the consequences of the conflict, although activity in this country also began to drop as a result of interest rate hikes and high inflation.

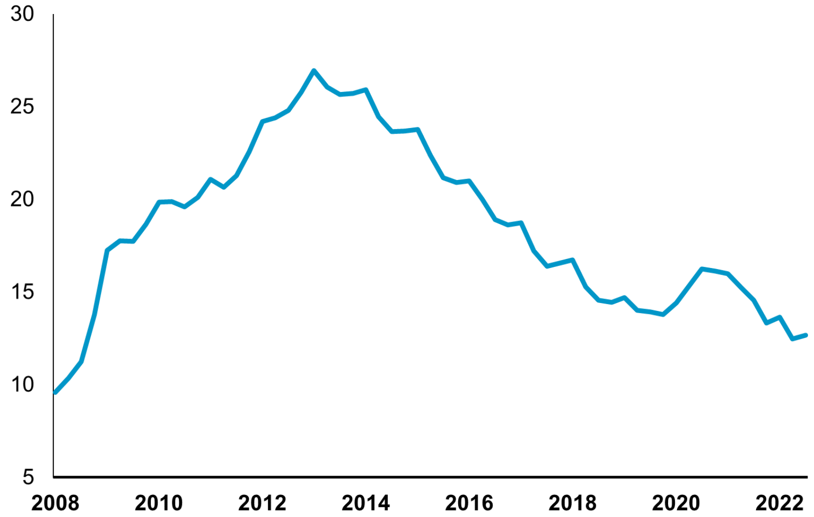
In the Eurozone, activity was robust in the first half of the year, driven by the post-Covid economic reopening and tourism. In the latter part of the year, however, the economy was weighed down by high energy prices, fears of energy rationing and tougher monetary policy. In the United Kingdom, activity also slowed during the year in reaction to higher inflation, interest rate hikes and the deteriorating confidence of households, with GDP contracting in the third quarter of 2022. In the United States, GDP performed poorly in the first half of the year, hampered by foreign trade and the accumulation of inventories, while consumption and the labour market remained steady. Domestic demand began to slow down significantly towards the end of the year, as a result of rapidly rising interest rates. This tightening also began to have a negative impact on the country's real estate sector.

Forecasts of economic growth in the Eurozone in 2022 (year-on-year change,%). Source: Consensus Economics.



In Spain, the start of the year was marked by the spread of the Omicron variant of the coronavirus. Although this did not result in the imposition of severe restrictions, it did have a negative effect on the confidence of economic operators and on activity. A little later in the year, the outbreak of war in Ukraine once again deteriorated economic sentiment and drove up the inflationary pressures that had begun to emerge in 2021. Nevertheless, the Spanish economy picked up throughout the second quarter of 2022 and the labour market in particular proved to be resilient, supported by the reopening of the economy and the recovery of tourism-related activities. In the third quarter of 2022, uncertainty affected lending, particularly lending to the construction sector, while the deteriorating situation of trade partners eroded the growth of exports. In spite of persistent inflation, private consumption performed well, supported by the government measures introduced to deal with the energy crisis and approved during the months following the outbreak of the war in Ukraine. The labour market reflected the economic slowdown experienced in the third quarter of 2022, although it remained relatively steady in the last few months of the year, while the unemployment rate remained at its lowest level since 2008.

Unemployment rate in Spain (%). Source: Instituto Nacional de Estadística, INE (Spanish Office for National Statistics).



Over the year, the Spanish government extended existing measures and rolled out new ones to deal with the energy crisis and the ensuing high levels of inflation. These measures notably included extensions of electric and thermal social bonds, an increase of the minimum living income, and a sector-based direct aid scheme for firms. Alongside these measures, taxes on electricity were reduced, fuel discounts were introduced and the ‘Iberian exception’ was launched, allowing Spain and Portugal to cap the price of the gas used to generate electricity.

In terms of economic policy, it is also worth mentioning the progress made in rolling out the Next Generation European funds. In 2022, calls for proposals for financial aid and tenders were published considerably earlier than usual, although the allocation and execution of these funds nevertheless fell short of the government’s expectations. By way of example, in one major tender process for strategic projects for economic recovery and transformation (*proyectos estratégicos para la recuperación y transformación económica*, or PERTE) relating to electric vehicles, only 30% of the available funds were ultimately allocated. In spite of this, the government continued to deliver on the milestones and reforms agreed with the European Commission to ensure it received the scheduled disbursements.

Emerging economies proved resilient to developments of the conflict in Ukraine, high inflation, rapid monetary tightening and the strength of the dollar. To a certain extent, this was because monetary tightening in these countries had begun earlier than in developed economies, which generally served to support emerging currencies. They also benefited from the increased price of commodities, as most of those countries are exporters of these products. However, risks remained in economies with weaker fundamentals.

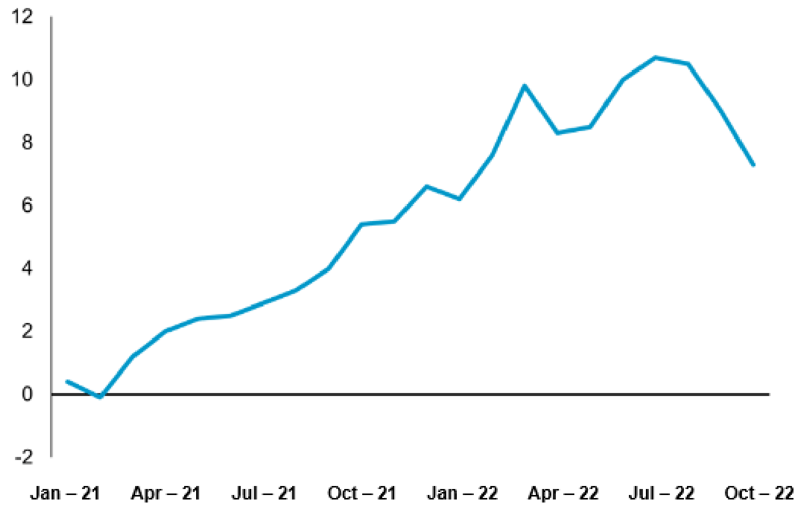
In the case of China, the economy was entirely constrained by the zero-Covid policy. The lockdown measures very evidently hampered activity and, as a result, economic growth fell considerably short of the Chinese government’s target. In light of the situation, the country’s authorities announced various different measures designed to support activity and, at the end of the year, after large-scale protests among citizens, the Chinese government practically abandoned its zero-Covid policy. In Mexico, economic activity was resilient to the consequences of the conflict, thanks to the country’s limited exposure to Ukraine. The country benefited from the trade war between the United States and China, which significantly boosted its trade and relations with the United States. Activity was also supported by the improvement of global supply chains, which in turn served to support the recovery of production and contributed to the sustained growth of consumption, driven by the high levels of savings accumulated during the pandemic, the sharp growth of remittances and the strength of the labour market. Mexico was able to recover pre-Covid GDP levels in the third quarter of 2022, much earlier than anticipated.

Inflation was the macroeconomic variable that aroused the most interest in 2022. For a good part of the year, inflation surprised to the upside, rebounding to its highest level in several decades in the main developed economies, while inflationary pressures became widespread across components. The conflict in Ukraine led to a surge of energy and commodity prices and new disruptions to some production chains, as a result of the sanctions imposed on Russia by Western countries. Global supply chains were also affected by China’s zero-Covid policy in the first half of the year.

In the Eurozone, inflation reached record-high levels, driven in particular by the price of energy and food, although inflationary pressures became increasingly widespread across components throughout the year. In the United Kingdom, inflation climbed to its highest level since the 1980s. The spike in prices of energy and transport was particularly severe, although significant price increases took place across the board. The substantial tightening of the labour market and the growth of wages, which went significantly beyond pre-Covid levels, also contributed to high inflation. In the same way, in the United States, inflation reached a four-decade high, with widespread inflationary pressures across components. In addition, the strength of the labour market and the steady growth of wages served to rein in the growth of inflation, in spite of the significant monetary tightening implemented.

In Spain, inflation trended upwards until August, reaching its highest level since 1984. This increase in inflation was initially driven by higher energy prices, particularly those of electricity, which later filtered through to a wider range of products. Food prices also became significantly higher, while the recovery of tourism drove up prices in the third quarter of 2022. Inflation began to ease off in the last few months of the year due to base effects and reduced pressure on energy prices.

HICP for Spain (year-on-year change in %). Source: Instituto Nacional de Estadística, INE (Spanish Office for National Statistics).

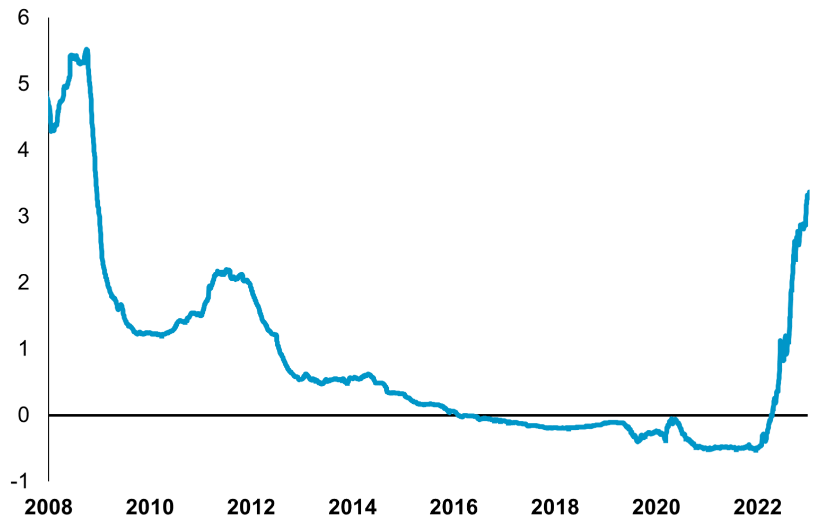


Monetary policy

Central banks focused more on tackling inflation and less on the signs of economic slowdown and slumps in financial markets. With that aim in mind, monetary authorities introduced widespread interest rate hikes, in line with the high levels of inflation.

In the Eurozone, the European Central Bank took significant steps to normalise its monetary policy. It increased interest rates by 250 basis points (thus far), bringing the deposit rate into positive territory for the first time since 2012. In fact, it implemented the largest interest rate hike in its history (75 basis points) in two consecutive meetings. The European Central Bank also discontinued its asset purchase programmes and it announced that as of spring 2023 it would no longer reinvest all of the principal payments from maturing securities.

12M Euribor (%). Source: Bloomberg



In the United States, the Federal Reserve (Fed) launched its most aggressive rate hike cycle in several decades, raising the Fed funds rate by 425 basis points to 4.25%-4.50% in just eight months, including four consecutive hikes of 75 basis points. The Fed also appeared intent on keeping interest rates at very restrictive levels for some time. In the meantime, halfway through the year, the Fed began its quantitative tightening process.

In the United Kingdom, the Bank of England (BoE), which had already begun its rate hike cycle in December 2021, raised rates in all of its monetary policy meetings of 2022, gradually increasing the scale of its rate hikes and giving rise to the most aggressive rate hike cycle of recent decades. The BoE also stopped reinvesting the proceeds of maturing bonds from its quantitative easing programme in March and began actively selling assets in November. Between September and October, the BoE was forced to make emergency interventions in the long-term public debt markets in order to safeguard financial stability and, more specifically, to indirectly help pension funds. This all took place following the sharp movements of government bond yields that took place upon the unveiling of the 'mini budget', which envisaged major tax cuts and ultimately led to the downfall of the government under Liz Truss.

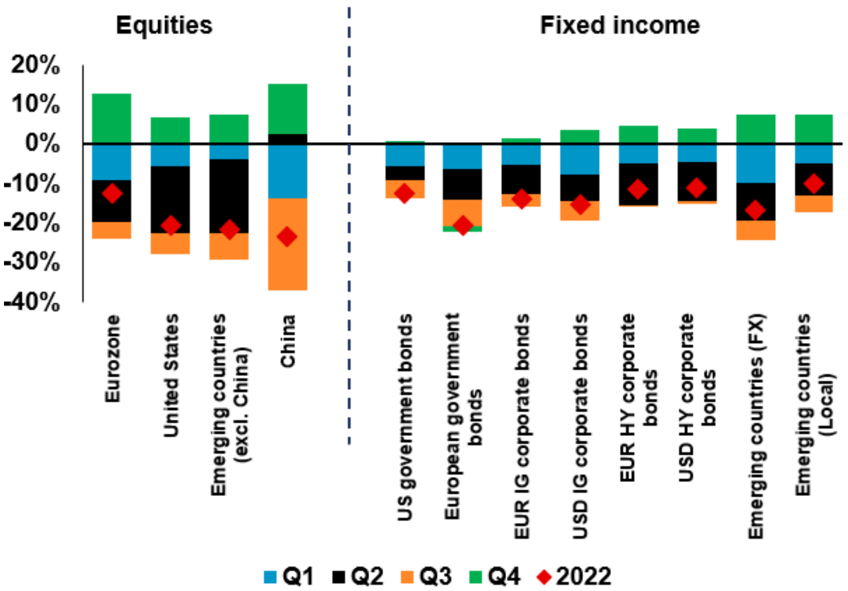
In emerging countries, aggressive and widespread rate increases continued in 2022. In the case of Mexico, the central bank (Banxico) continued with its rate hike cycle launched in 2021, accelerating the rate hikes and emulating the movements of the Fed. Banxico raised the official rate to 10.50%, accumulating 650 basis points of rate hikes in little more than a year. This level marked a new record and the most restrictive level since Banxico established its inflation-targeting scheme in 2008. In the meantime, in other emerging countries (such as Brazil and Colombia), central banks began to allude to an imminent end of the restrictive cycle after raising interest rates to a 10-year and 20-year high, respectively. The main exceptions to this policy were China, whose central bank maintained an accommodative tone, easing liquidity reserves, using and creating new liquidity facilities and introducing measures to support business lending, and Turkey, whose central bank cut the official rate, disregarding the high levels of domestic inflation, which climbed to over 80%.

Financial markets

Financial markets were particularly hard hit by interest rate hikes across the globe and also by the conflict in Ukraine and the ongoing zero-Covid policy in China, all of which led to a considerable deterioration of economic growth forecasts. Most financial assets recorded heavy losses in 2022. The volatility of markets was particularly high due to the sharp repricing of official interest rates in the markets. Liquidity conditions and market depth fell to their lowest levels since the global financial crisis, which exacerbated market swings. Corporate and peripheral risk premiums recorded significant upturns, reaching levels not seen since the pandemic. The euro depreciated substantially against the dollar, to levels not seen since 2002.

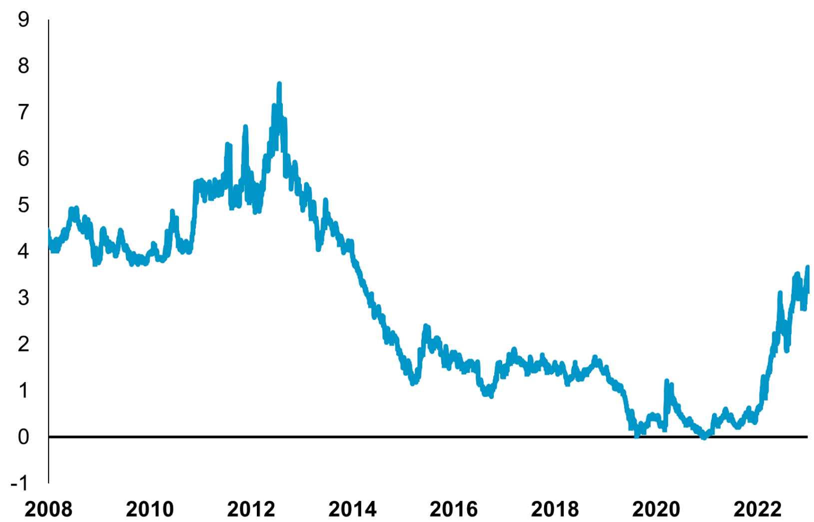
Long-term government bond yields rebounded by more than 200 basis points on both sides of the Atlantic, reaching levels not seen since 2008 in the United States and since 2011 in Germany. This increase in bond yields was mostly driven by high inflation and the interest hikes introduced by central banks. In the United Kingdom, the unveiling of its most expansionary fiscal plan since 1972 triggered a major sell-off of UK gilts after the summer, which led to considerable liquidity problems in some pension funds and forced the BoE to intervene in the public debt market. This movement was almost fully reversed later, when Liz Truss resigned and Rishi Sunak, the new Prime Minister, announced a more orthodox fiscal plan.

Returns on several fixed-income and equity assets (in %, by quarter and YTD). Source: Bloomberg



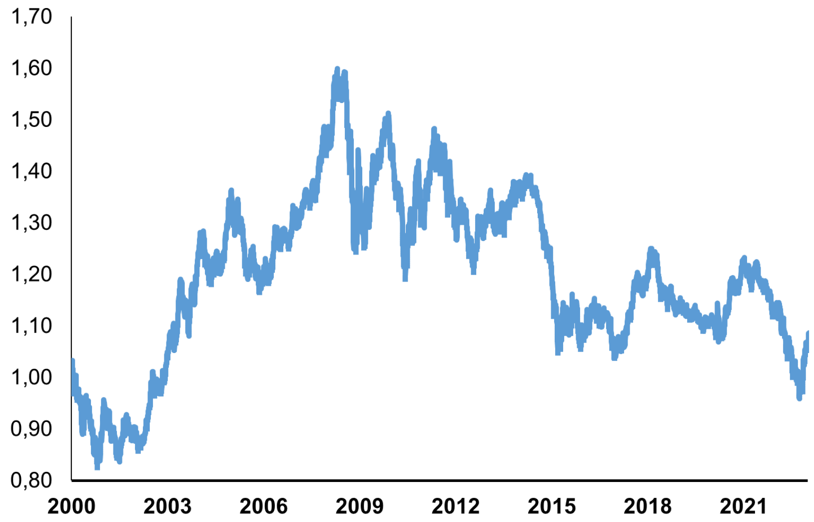
Peripheral sovereign debt risk premiums also rebounded throughout the year, although they remained at contained levels. The spread's widening was influenced by the withdrawal of the ECB's accommodative measures, although the subsequent announcement of an asset purchase programme that could be activated in an emergency served to contain the rebound of premiums. In the case of Italy, the increase of the risk premium was also temporarily affected by the increased political noise resulting from the snap elections, which put an end to the government led by former ECB president Mario Draghi. The aforesaid elections were won by the centre-right coalition with Giorgia Meloni, of Brothers of Italy, at the helm. The pro-European stance and the fiscal responsibility of the new Italian executive reduced uncertainty and put the financial markets at ease.

Spanish 10-year government bond yields (%). Source: Bloomberg.



Regarding the currencies of developed countries, the dollar appreciated steadily to reach a multi-decade high. The US currency benefited from the aggressive stance adopted by the Fed, the energy crisis in Europe and concerns over global economic growth. In its currency pair with the euro, the dollar appreciated by 16%, reaching levels not seen since 2002. Later, China's abandonment of its zero-Covid policy and the ECB's interest rate hikes served to halt the depreciation of the euro. The pound sterling, in its currency pair with the euro, gradually depreciated from the middle of the second quarter of 2022 onwards as the effects of inflation and rising interest rates on UK activity became increasingly apparent. The pound was also hit particularly hard, albeit briefly, by the mini-budget episode at the end of September.

USD/EUR. Source: Bloomberg.



Equity markets posted especially poor performance, weighed down by the sharp interest rate hikes and negative news regarding the conflict in Ukraine, as well as forecasts of global economic growth. The majority of global stock indices posted heavy losses in 2022. For instance, the Stoxx 600 tumbled by almost 13% compared to the end of the previous year (although its largest decline saw it plunge by more than -20%), while the S&P 500 posted a 19% correction (having fallen in excess of -25%). These were the greatest losses recorded in a single year since 2018 and 2008, respectively. The IBEX 35, which had already been trailing in the previous year, recorded a smaller decline of -5.6% in 2022.

In the financial markets of emerging countries, sovereign risk premiums climbed slightly in response to fears of a global recession as a result of the sharp tightening of financial conditions, but they remained far from their peaks. Domestic bond yields rebounded to their highest in several decades. The fact that monetary tightening in emerging economies had begun earlier than in developed economies generally served to support emerging currencies. The Mexican peso proved even more resilient than other emerging currencies, thanks to the interest rate hikes introduced by Banxico.

Cryptoassets, for their part, continued to move further into the spotlight given the dramatic collapse during the year of several key players in this ecosystem. It is particularly worth mentioning the downfall of stablecoin TerraUSD in May, which caused important hedge funds such as Three Arrows Capital and the Celsius platform to file for bankruptcy, in addition to the collapse of the fourth largest cryptocurrency exchange platform in the world, FTX, in November, which also ended up filing for bankruptcy after trying and failing to secure a bailout by other platforms. These events, together with the interest rate hikes implemented by central banks, resulted in plummeting quoted prices across several cryptoassets in 2022. Fortunately, the impact of these events remained contained within the crypto ecosystem and did not spill over into the traditional financial system, partly because the supply of financial services in the crypto ecosystem was fairly small and partly because the interconnections between both systems were still fairly limited. In any event, the authorities warned that it is vital that cryptoassets be regulated, as these could grow very rapidly and the interconnections with the traditional financial system could increase and even pose a systemic threat to financial stability.

Financial sector environment

Banking industry environment

In relation to the global banking industry, the outbreak of war in Ukraine prompted some banks with greater exposure to Ukraine and Russia to reduce their exposure to these countries and increase provisions although, in general, the overall exposure of international banks to these economies was small to begin with. Over the year, banks generally maintained adequate levels of capitalisation. In the main developed economies, CET1 ratios remained above the minimum levels required by regulations and, according to the authorities, they were expected to continue that way 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. The profitability of the banking industry surpassed pre-pandemic levels. In terms of liquidity, TLTRO III funds continued to provide considerable support, although the ECB's announcements regarding tougher conditions of TLTROs led to banks making plans to repay the amounts borrowed early, requiring them to make changes to their funding structures going forward.

Arrears during the Covid crisis did not perform as they typically do in a recessionary cycle, thanks, among other things, to the swift and decisive response of economic policy. The aggregate NPL ratio in the Eurozone fell during the first nine months of 2022 to 1.8%, while in Spain it dropped to 2.7%. The inflow of loans under special monitoring (stage 2) was moderate during the year. In spite of resilient asset quality, the exposures to certain businesses in the sectors hardest hit by the spike in energy prices recorded a degree of impairment. In terms of provisions, the authorities continued to advise caution in the face of the rebound of inflation and the expected deterioration of economic activity. They also stressed that the behaviour of arrears during Covid-19 should not be seen as a reference and that, in the current environment, in particular bearing in mind the interest rate hikes, there was a risk that arrears might rebound in the future.

With regard to the Spanish banking industry, the Bank of Spain (BoS) signalled that banks are facing the current environment (of economic slowdown, high inflation and extraordinary uncertainty) with solvency levels greater than those they had prior to the pandemic, in addition to lower NPL ratios. It also highlighted the fact that profitability was back to pre-pandemic levels (ROE was 10.5% up to September 2022) and that cost of capital was above average (7%). Furthermore, institutions' level of capital exceeded the level observed prior to the pandemic. However, the current environment increases the risks of credit impairment and of further tightening of financing conditions. The Bank of Spain warned that a greater portion of the benchmark rate hikes would likely be passed through to the cost of deposits, and that the payment capacity of households and firms would be affected by increased borrowing costs and the slowdown of their income, which could push up banking costs in terms of impairment allowances. It therefore recommended adopting a prudent policy for provisioning and capital planning to enable the increase in profits that is taking place at present to be used to build up the resilience of the industry so that it may be better equipped to deal with any losses that occur in the medium term as a result of the negative development of economic growth.

Financial stability and macroprudential policy

Throughout 2022, financial authorities declared that the risks to global financial stability had been increasing due to the high geopolitical risk, generating considerable uncertainty, in addition to the risks of higher inflation and the risk of an economic recession. They also showed concern over higher interest rates, which contributed to a substantial toughening of financial conditions and which could impact on the private sector's ability to service its debt. Furthermore, falling asset prices and volatile markets, together with future shocks, all have the potential to amplify the vulnerabilities associated with asset valuation, borrowing by households and firms, leverage in the financial sector and funding risks.

The considerable growth of the non-bank financial sector (NBFS) in recent years and the absence of a complete regulatory framework continued to open the door for the accumulation of vulnerabilities in this sector. These structural vulnerabilities and the interconnections between the NBFS and the banking industry pose a risk to financial stability. Various episodes throughout the year revealed the sensitivity of the NBFS to shocks (e.g. pension funds in the United Kingdom). Throughout 2022, the authorities showed particular concern over certain open-ended investment funds, which had accumulated risk exposures in recent years and whose liquidity positions were very tight. Even though investment funds in Spain had more comfortable liquidity positions, the authorities believed that Spanish investment funds and Spanish banks could both be affected by the exposures and corrections in these segments where the risks had accumulated. The progress made both on a global scale and in Europe with the development of a regulatory and macroprudential framework for this sector was scant in 2022.

In Europe, the authorities continued to express their concerns over the impact that a sluggish mortgage market was having on the financial stability of certain countries, although towards the end of the year they believed that there were signs that the trend was starting to change in this sector. In the residential segment, this concern centred around countries with pre-pandemic vulnerabilities in that sector (e.g. Germany), while in the commercial segment the focus was placed on the lack of recovery of lower quality assets. Against this backdrop, the ECB recommended that national authorities adopt macroprudential policies in the real estate sector.

Covid-19 presented a challenge for macroprudential policy, which also complemented fiscal and monetary policies. The review of the framework on a European scale, which may well be completed in 2023, could result in a recalibration of capital buffers. At the same time, several countries have started to rebuild their released capital buffers, to ensure they have room for manoeuvre should downside risks materialise and in the event the economies require support from the financial sector. The United Kingdom, France and Germany announced that they were increasing their countercyclical capital buffer (CCyB) by between 0.5% and 1%. In Spain, the CCyB was kept at 0%, as the BoS believed that the imbalances were contained and the activation of the CCyB could become pro-cyclical and slow lending.

Banking Union and Capital Markets Union

The progress made in the area of European integration was limited in 2022, in a context of war in Ukraine and amid a spike in energy prices and inflation. Efforts were put towards taking measures to mitigate the impacts of the current environment.

The Eurogroup meeting of June 2022 culminated in an agreement to work on completing the Banking Union. It was agreed that an immediate step would be to strengthen the common framework for bank crisis management and national deposit guarantee schemes (CMDI framework). Subsequently, action would be taken to review the state of the Banking Union and identify in a consensual manner possible further measures with regard to the other elements of the Banking Union. The European Deposit Insurance Scheme (EDIS) has been shelved for now. The Eurogroup also reiterated its commitment to making progress on the Capital Markets Union.

Despite the temporary standstill in European banking integration, financial authorities in the region stated that they believed that further progress should be made on European financial integration and they highlighted the positive effects of cross-border mergers.

Challenges for the banking industry

Sustainability was a prominent feature of supervisory agendas in 2022. The results of the ECB climate stress test showed that the majority of banks still had no climate risk stress testing framework in place and there were many that had not yet included climate risk in their credit models and still more that did not consider climate risk as a variable when granting loans. They also called attention to the high level of dependence that banks have on the income from greenhouse gas-intensive firms, the heterogeneous impact of physical risk across banks in the Eurozone and the lack of robust strategies to deal with transition risks. The results had no direct impact on capital requirements. In a separate exercise, the ECB also reviewed banks' level of compliance with supervisory expectations. The results showed that banks still did not adequately manage climate and environmental risks in the manner required by the ECB. The ECB consequently set staggered deadlines for banks to progressively meet the expectations set out in its Guide by the end of 2024. In the United States, the Fed announced that it would be carrying out a pilot climate scenario analysis exercise involving large banks in 2023. The data regarding climate risks continued to be one of the key challenges of 2022 and, although progress was made with regard the disclosure of information, there was still plenty of room to improve transparency.

Some progress was made on the regulatory agenda on climate risks, but more intensive action will be taken in 2023, when the European Banking Authority is due to publish its final report on the role played by climate risks in the prudential framework, and the first drafts of European and global standards for sustainability disclosures will be released.

Digitisation processes continued at an increasingly fast pace, giving rise to several focus areas. On one hand, in spite of the entry of Bigtech in the financial services sector and despite the banking industry's reiterated 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 caused considerable concern was the proliferation of cyberattacks, which were becoming more frequent and more severe.

On the regulatory topic of digitalisation, significant progress was made, with the release of the European regulation on markets in cryptoassets (MiCA), the final approval of which is expected imminently, as well as the Basel Committee's prudential treatment of cryptoasset exposures by banks, which will be favourable only for tokenised traditional assets and for suitably backed and regulated stablecoins. In any event, the regulatory developments in this regard continue to be scant and more effort is urgently needed to regulate these exposures on a global scale.

Regarding the digital currencies of central banks, projects were gradually implemented, especially in China and the Eurozone, while implementation was still in its early stages in the United States. In particular, the ECB publicly disclosed some of the features being considered for the design of the digital euro, such as a cap or ceiling on individual holdings and the need to make it attractive enough that economic operators will adopt it, but at the same time ensuring it does not threaten the viability of other private innovations. Significant progress was also 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).

Outlook for 2023

Increased concern over economic growth should be expected in 2023. Once the impact of recent events (energy crisis and rate hikes) starts to gradually materialise, economic stagnation is expected to return and economic figures in certain countries may even be negative for several quarters. The Eurozone and the United States may experience a mild economic recession. Conversely, the economic reopening of China will serve to support global activity. The landscape will be particularly complex for emerging countries due, among other factors, to high interest rates.

Inflation could remain at high levels for much of 2023 due to the energy crisis in Europe and specific domestic factors in the United Kingdom and the United States, such as the situation with regard to labour markets and salaries. Inflation expectations will remain firmly anchored thanks to the response of central banks.

In terms of economic policy, central banks will likely maintain an orthodox stance and, given the high level of inflation, they will probably set and keep interest rates at levels above monetary neutrality and move ahead with their balance sheet reduction policies.

With regard to financial markets, financial conditions are expected to remain tight based on what was observed in 2022. In any event, long-term government bond yields are expected to be more stable, although they will also be affected by the increased scrutiny of economic growth. Peripheral countries' risk premiums could remain at relatively contained levels.

Spain would be in a more safeguarded position than the rest of Europe in this environment and its experience could therefore be relatively more favourable. The three main pillars of growth would be the robust balance sheets of economic agents (households and companies), the return to a normal growth momentum of the sectors hardest hit by the pandemic (such as tourism) and the use of the Next Generation European funds. The government measures introduced to counteract the energy price increase could also support economic activity.

Within the financial environment, further progress is expected on the global regulatory framework for activities linked to cryptoassets.

3 – FINANCIAL INFORMATION

3.1 Key figures in 2022

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:

		2022	2021	Year-on-year change (%)
Income statement (million euro)	**(A)**			
Net interest income		3,799	3,425	10.9
Gross income		5,180	5,026	3.1
Pre-provisions income		2,298	1,719	33.7
Profit attributable to the Group		859	530	61.9
Balance sheet (million euro)	**(B)**			
Total assets		251,380	251,947	(0.2)
Gross performing loans to customers		156,130	154,912	0.8
Gross loans to customers		161,750	160,668	0.7
On-balance sheet customer funds		164,140	162,020	1.3
Off-balance sheet customer funds		38,492	41,678	(7.6)
Total customer funds		202,632	203,698	(0.5)
Funds under management and third-party funds		225,146	224,968	0.1
Equity		13,224	12,996	1.8
Shareholders' equity		13,841	13,357	3.6
Ratios (%)	**(C)**			
ROA		0.34	0.22	
RORWA		1.08	0.66	
ROE		6.31	4.05	
ROTE		7.76	5.05	
Cost-to-income		45.12	55.33	
Risk management	**(D)**			
Stage 3 exposures (million euro)		5,814	6,203	
Total NPAs exposures (million euro)		6,971	7,565	
NPL ratio (%)		3.41	3.65	
NPL (Stage 3) coverage ratio, with total provisions		55.0	56.3	
NPA coverage ratio (%)		52.3	53.1	
Capital management	**(E)**			
Risk-weighted assets (RWA) (million euro)		79,554	80,646	
Common Equity Tier 1 phase-in (%)	(1)	12.67	12.50	
Tier 1 (phase-in) (%)	(2)	14.75	15.47	
Total capital ratio (phase-in) (%)	(3)	17.08	17.98	
Leverage ratio (phase-in) (%)		4.62	5.90	
Liquidity management	**(F)**			
Loan-to-deposit ratio (%)		95.6	96.3	
Shareholders and shares (as of reporting date)	**(G)**			
Number of shareholders		218,610	228,432	
Total number of shares (million)		5,627	5,627	
Share price (euro)		0.881	0.592	
Market capitalisation (million euro)		4,927	3,306	
Earnings (or loss) per share (EPS) (euros)		0.13	0.08	
Book value per share (euro)		2.47	2.39	
P/TBV (price/tangible book value per share)		0.43	0.31	
Price/earnings ratio (P/E)		6.58	7.69	
Other information				
Branches		1,461	1,593	
Employees		18,895	20,070	

(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

	2022	2021	Year-on-year change (%)
Interest income	4,989	4,148	20.3
Interest expenses	(1,190)	(722)	64.8
Net interest income	**3,799**	**3,425**	**10.9**
Fees and commissions (net)	1,490	1,468	1.5
Core revenue	**5,289**	**4,893**	**8.1**
Gains or (-) losses on financial assets and liabilities and exchange differences	104	344	(69.9)
Equity-accounted income and dividends	125	102	22.9
Other operating income and expenses	(337)	(313)	7.9
Gross income	**5,180**	**5,026**	**3.1**
Operating expenses	(2,337)	(2,781)	(15.9)
Staff expenses	(1,392)	(1,777)	(21.7)
Other general administrative expenses	(946)	(1,004)	(5.8)
Depreciation and amortisation	(545)	(527)	3.5
Total costs	(2,883)	(3,307)	(12.8)
Memorandum item:			
Recurrent costs	(2,883)	(2,988)	(3.5)
Non-recurrent costs	—	(320)	(100.0)
Pre-provisions income	**2,298**	**1,719**	**33.7**
Provisions for loan losses	(825)	(950)	(13.2)
Provisions for other financial assets	(111)	(97)	15.0
Other provisions and impairments	(96)	(178)	(46.1)
Capital gains on asset sales and other revenue	(23)	126	–
Profit/(loss) before tax	**1,243**	**620**	**100.4**
Corporation tax	(373)	(81)	359.2
Profit or loss attributed to minority interests	11	8	26.9
Profit attributable to the Group	**859**	**530**	**61.9**
Memorandum item:			
Average total assets	257,692	245,313	5.0
Earnings per share (euros)	0.13	0.08	

The average exchange rate used for TSB's income statement is 0.8532 (0.8594 in 2021).

Net interest income

Net interest income in 2022 amounted to 3,799 million euros, representing year-on-year growth of 10.9%, due to a higher-yielding loan book, improved fixed-income revenue, as well as strong growth of volumes, where it is particularly worth mentioning the growth of mortgages at TSB; all these facts served to offset the higher cost of capital markets.

Consequently, the net interest margin as a percentage of average total assets stood at 1.47% in 2022 (1.40% in 2021).

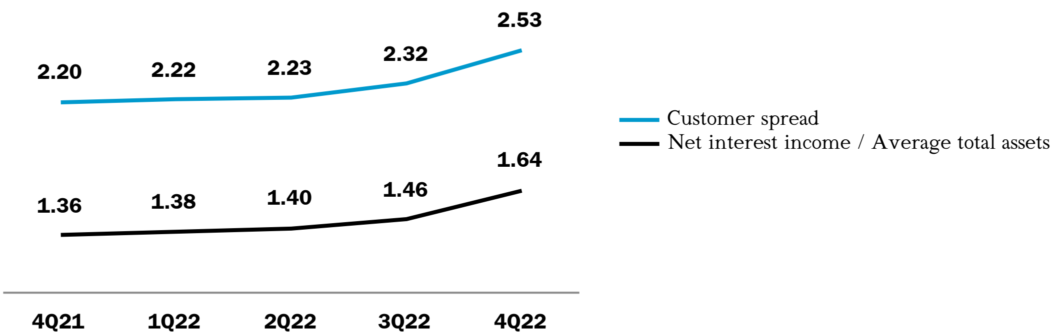
The breakdown of net interest income for the years 2022 and 2021, as well as the different components of total investment and funds, was as follows:

Thousand euro

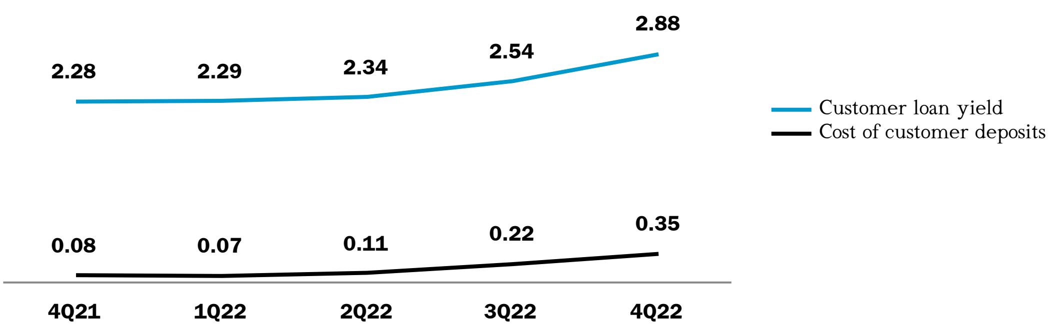
	2022			2021			Change		Effect		
	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Volume	Days
Cash, central banks and credit institutions	53,538,412	208,485	0.39	48,693,390	(124,460)	(0.26)	4,845,022	332,945	333,136	(191)	—
Loans and advances to customers	157,870,419	3,965,858	2.51	152,176,194	3,513,182	2.31	5,694,225	452,676	294,806	157,870	—
Fixed-income portfolio	26,229,512	289,924	1.11	24,991,737	154,224	0.62	1,237,775	135,700	122,946	12,754	—
Subtotal	**237,638,343**	**4,464,267**	**1.88**	**225,861,321**	**3,542,946**	**1.57**	**11,777,022**	**921,321**	**750,888**	**170,433**	**—**
Equity portfolio	903,212	—	—	1,044,020	—	—	(140,808)	—	—	—	—
Property, plant and equipment and intangible assets	4,820,868	—	—	5,178,470	—	—	(357,602)	—	—	—	—
Other assets	14,329,341	180,022	1.26	13,229,640	39,565	0.30	1,099,701	140,457	—	140,457	—
Total capital employed	**257,691,764**	**4,644,289**	**1.80**	**245,313,451**	**3,582,511**	**1.46**	**12,378,313**	**1,061,778**	**750,888**	**310,890**	**—**
Central banks and credit institutions	48,310,994	8,713	0.02	46,243,711	328,381	0.71	2,067,283	(319,668)	(334,115)	14,447	—
Customer deposits	162,393,140	(309,002)	(0.19)	154,609,681	(135,354)	(0.09)	7,783,459	(173,648)	(139,206)	(34,442)	—
Capital markets	22,304,397	(316,115)	(1.42)	22,776,801	(265,876)	(1.17)	(472,404)	(50,239)	(46,445)	(3,794)	—
Subtotal	**233,008,531**	**(616,404)**	**(0.26)**	**223,630,193**	**(72,849)**	**(0.03)**	**9,378,338**	**(543,555)**	**(519,766)**	**(23,789)**	**—**
Other liabilities	11,491,130	(229,160)	(1.99)	8,953,529	(84,206)	(0.94)	2,537,601	(144,954)	—	(144,954)	—
Own funds	13,192,103	—	—	12,729,729	—	—	462,374	—	—	—	—
Total funds	**257,691,764**	**(845,564)**	**(0.33)**	**245,313,451**	**(157,055)**	**(0.06)**	**12,378,313**	**(688,509)**	**(519,766)**	**(168,743)**	**—**
Average total assets	**257,691,764**	**3,798,725**	**1.47**	**245,313,451**	**3,425,456**	**1.40**	**12,378,313**	**373,269**	**231,122**	**142,147**	**—**

Financial revenues or costs deriving from the application of negative interest rates are recognised as a function of the nature of the related asset or liability. The credit institutions line under liabilities refers to negative interest on the balance of liabilities with credit institutions, the most significant item being TLTRO III revenues.

Quarterly evolution of net interest income (%)



Quarterly evolution of customer spread (%)



Gross income

Net fees and commissions amounted to 1,490 million euros as at the end of 2022, representing year-on-year growth of 1.5%, driven by service fees, where it is particularly worth mentioning the higher levels of card transactions and of banknote and foreign currency exchange, and also driven by fees related to risk transactions.

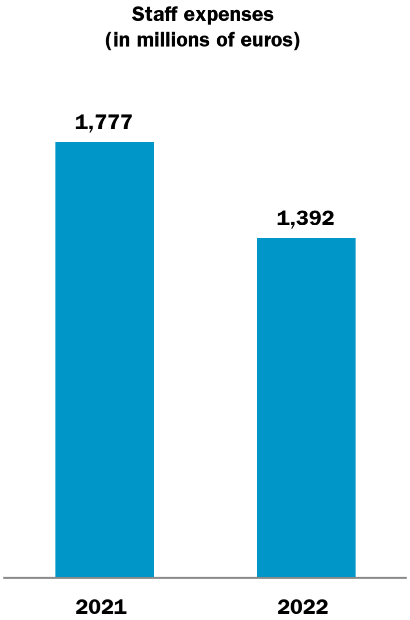
Gains/(losses) on financial assets and liabilities and exchange differences amounted to 104 million euros, while at the end of 2021 this item amounted to 344 million euros, as it mainly included 324 million euros of gains on sales from the amortised cost portfolio conducted to fund the second phase of the efficiency plan executed in Spain.

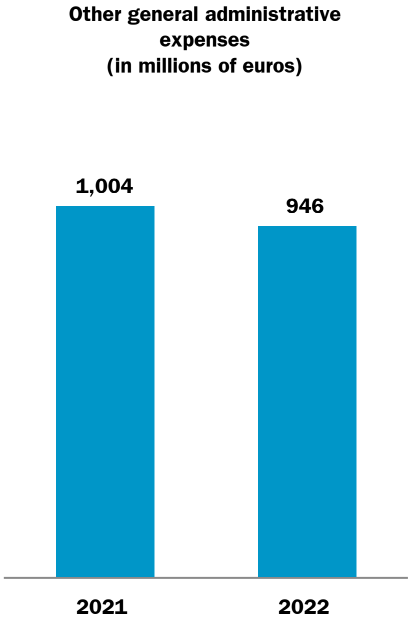
Dividends received and earnings of companies consolidated under the equity method together amounted to 125 million euros, compared with 102 million euros in 2021, after recognising generally higher earnings from the insurance business.

Other operating income and expenses amounted to 337 million euros, compared with 313 million euros in 2021. Particularly worthy of note in this heading are the contributions to deposit guarantee schemes, amounting to 129 million euros throughout the year (in line with the previous year), with Banco Sabadell's individual contribution amounting to 114 million euros, the contribution to the Single Resolution Fund of 100 million euros (88 million euros in the previous year) and the payment corresponding to the tax on deposits of credit institutions (*Impuesto sobre Depósitos de las Entidades de Crédito*, IDEC) of 35 million euros (33 million euros in the previous year). In addition, during this financial year it is worth noting the negative impact of 57 million euros stemming from the fine received by TSB for the migration of its IT platform, which was partially offset with 45 million euros (gross) of insurance claims.

Pre-provisions income

Total costs followed a positive trend, amounting to 2,883 million euros as at the end of 2022, representing a 12.8% reduction from the figure as at the end of 2021, which included 320 million euros of non-recurrent costs arising from the efficiency plans carried out in Spain and the United Kingdom. Not including this impact, recurrent costs fell by 3.5% year-on-year, driven by savings on staff expenses delivered by the efficiency plans and also by a reduction of general expenses.





The cost-to-income ratio stood at 45.1% in 2022, compared to 55.3% in 2021.

As at the end of 2022, core results (net interest income + fees and commissions – recurrent costs) amounted to 2,406 million euros, increasing by 26.3% year-on-year as a result of the steady growth of net interest income and fees and commissions, as well as the recorded reduction of costs.

Total provisions and impairments amounted to 1,032 million euros as at the end of 2022, compared to 1,225 million euros at the end of the previous year, representing a year-on-year reduction of 15.7% thanks to fewer credit provisions and the reduction of real estate provisions.

Gains on asset sales and other revenue amounted to -23 million euros as at the end of 2022. The change from the end of the previous year is due to the fact that the previous year mainly included 83 million euros (gross) from the sale of the depository business and 42 million euros (gross) from the sale of the BanSabadell Renting business.

Profit attributable to the Group

After deducting corporation tax and minority interests, net profit attributable to the Group amounted to 859 million euros as at the end of 2022, representing a year-on-year increase of 61.9% that is mainly the result of improved core revenue, cost savings and the booking of fewer provisions.

3.3 Balance sheet

Million euro

	2022	2021	Year-on-year change (%)
Cash, cash balances at central banks and other demand deposits	41,260	49,213	(16.2)
Financial assets held for trading	4,017	1,972	103.8
Non-trading financial assets mandatorily at fair value through profit or loss	77	80	(2.7)
Financial assets designated at fair value through profit or loss	—	—	–
Financial assets at fair value through other comprehensive income	5,802	6,870	(15.5)
Financial assets at amortised cost	185,045	178,869	3.5
Debt securities	21,453	15,190	41.2
Loans and advances	163,593	163,679	(0.1)
Investments in joint ventures and associates	515	639	(19.3)
Tangible assets	2,582	2,777	(7.0)
Intangible assets	2,484	2,581	(3.8)
Other assets	9,596	8,946	7.3
Total assets	**251,380**	**251,947**	**(0.2)**
Financial liabilities held for trading	3,598	1,380	160.8
Financial liabilities designated at fair value through profit or loss	—	—	–
Financial liabilities measured at amortised cost	232,530	235,179	(1.1)
Deposits	203,294	209,307	(2.9)
Central banks	27,844	38,250	(27.2)
Credit institutions	11,373	8,817	29.0
Customers	164,076	162,239	1.1
Debt securities issued	22,578	21,051	7.3
Other financial liabilities	6,659	4,822	38.1
Provisions	645	886	(27.3)
Other liabilities	1,382	1,505	(8.2)
Total liabilities	**238,155**	**238,950**	**(0.3)**
Shareholders' equity	13,841	13,357	3.6
Accumulated other comprehensive income	(651)	(386)	68.7
Non-controlling interests	34	25	37.5
Equity	**13,224**	**12,996**	**1.8**
Total equity and total liabilities	**251,380**	**251,947**	**(0.2)**
Loan commitments given	27,461	28,403	(3.3)
Financial guarantees given	2,087	2,034	2.6
Other commitments given	9,674	7,385	31.0
Total memorandum accounts	**39,222**	**37,822**	**3.7**

The EUR/GBP exchange rate used for the balance sheet is 0.8869 as of 31 December 2022.

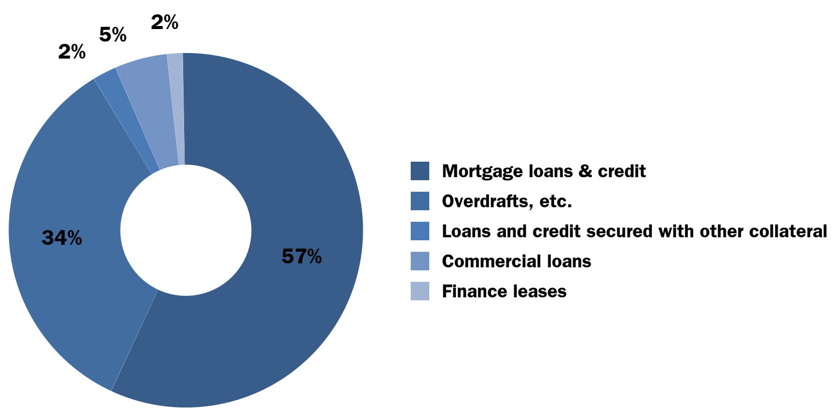
Gross performing loans to customers ended the year 2022 with a balance of 156,130 million euros, representing an increase of 0.8% year-on-year. At constant exchange rates, this increase was 2.0%. Home equity loans formed the largest single component of gross loans and receivables, amounting to 89,340 million euros as at 31 December 2022 and representing 57% of total gross performing loans to customers.

Million euro

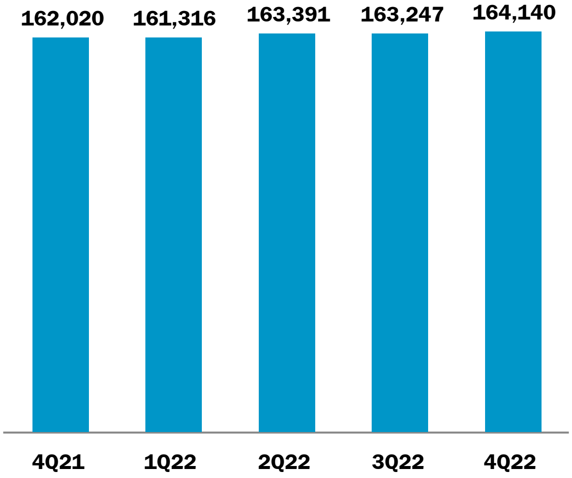
	2022	2021	Year-on-year change (%)
Mortgage loans & credit	89,340	90,718	(1.5)
Loans and credit secured with other collateral	3,412	3,596	(5.1)
Commercial loans	7,489	6,050	23.8
Finance leases	2,227	2,106	5.7
Overdrafts, etc.	53,663	52,443	2.3
Gross performing loans to customers	**156,130**	**154,912**	**0.8**
Assets classified as stage 3 (customers)	5,461	5,698	(4.2)
Accruals	159	58	173.2
Gross loans to customers, excluding repos	**161,750**	**160,668**	**0.7**
Repos	—	—	–
Gross loans to customers	**161,750**	**160,668**	**0.7**
NPL and country-risk provisions	(3,020)	(3,302)	(8.5)
Loans and advances to customers	**158,730**	**157,366**	**0.9**

The EUR/GBP exchange rate used for the balance sheet is 0.8869 as of 31 December 2022.

The composition of loans and advances to customers by type of product is shown in the following chart (not including stage 3 assets or accrual adjustments):



On-balance sheet customer funds

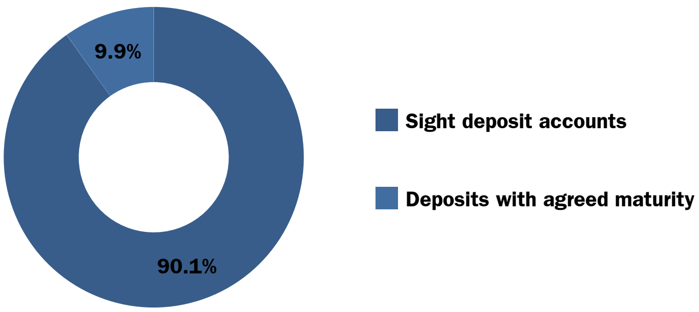


As at the end of 2022, on-balance sheet customer funds amounted to 164,140 million euros, compared to 162,020 million euros as at the end of 2021, increasing by 1.3% due to both the positive evolution of term deposits and the growth of sight deposit accounts.

Sight deposit balances amounted to 147,540 million euros, increasing by 0.2% year-on-year.

Term deposits came to a total of 16,141 million euros, growing by 9.0% compared to the end of 2021.

The breakdown of customer deposits as at 2022 year-end is shown below:



Total off-balance sheet customer funds amounted to 38,492 million euros as at the end of 2022, falling by -7.6% year on-year, impacted by financial market volatility, particularly in mutual funds.

Total funds under management as at 31 December 2022 amounted to 225,146 million euros, compared to 224,968 million euros as at 31 December 2021, representing a year-on-year increase of 0.1%, as the growth of on-balance sheet customer funds was counteracted by the aforesaid reduction of off-balance sheet funds.

Million euro

	2022	2021	Year-on-year change (%)
On-balance sheet customer funds (*)	**164,140**	**162,020**	**1.3**
Customer deposits	164,076	162,239	1.1
Current and savings accounts	147,540	147,268	0.2
Deposits with agreed maturity	16,141	14,813	9.0
Repos	405	60	–
Accrual adjustments and hedging derivatives	(9)	98	–
Bonds and other marketable securities	19,100	16,822	13.5
Subordinated liabilities (**)	3,478	4,229	(17.8)
On-balance sheet funds	**186,654**	**183,290**	**1.8**
Mutual funds	22,581	24,593	(8.2)
Managed funds	—	—	–
Investment companies	703	1,365	(48.5)
UCITS sold but not managed	21,878	23,228	(5.8)
Asset management	3,532	3,795	(6.9)
Pension funds	3,182	3,525	(9.7)
Personal schemes	2,065	2,300	(10.2)
Workplace schemes	1,112	1,219	(8.8)
Collective schemes	5	6	(10.6)
Insurance products sold	9,197	9,765	(5.8)
Off-balance sheet customer funds	**38,492**	**41,678**	**(7.6)**
Funds under management and third-party funds	**225,146**	**224,968**	**0.1**

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

(**) Refers to outstanding subordinated debt securities.

The EUR/GBP exchange rate used for the balance sheet is 0.8869 as of 31 December 2022.

Non-performing assets have decreased over the year 2022. The quarterly performance of these assets in 2022 and 2021 is shown below:

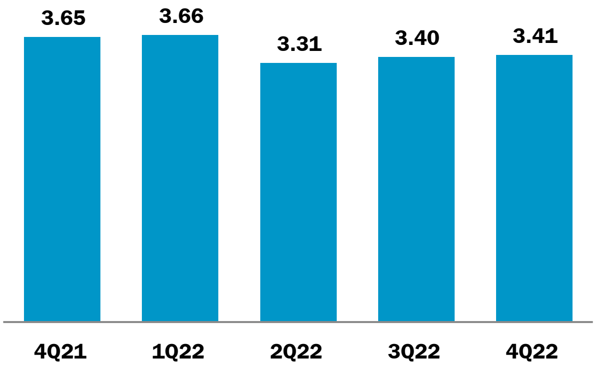
Million euro

	2022				2021			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net ordinary increase in balance of stage 3 assets	153	(421)	208	68	415	1	139	287
Change in real estate assets	(63)	(22)	(68)	(53)	6	(9)	3	(11)
Ordinary net increase in NPAs + real estate	**89**	**(443)**	**140**	**15**	**420**	**(8)**	**142**	**276**
Write-offs	146	74	92	83	95	133	129	89
Ordinary quarter-on-quarter change in balance of stage 3 assets and real estate	**(56)**	**(517)**	**48**	**(68)**	**325**	**(142)**	**13**	**187**

As a result of the reduction of exposures classified as stage 3, the NPL ratio reached 3.41% as at 2022 year-end, compared to 3.65% as at 2021 year-end (decrease of 25 basis points). The coverage ratio of exposures classified as stage 3 with total provisions as at 31 December 2022 was 55.0% compared to 56.3% one year earlier, while the coverage ratio of foreclosed real estate assets stood at 38.3% as at 31 December 2022, compared to 38.2% at the end of the previous year.

As at 31 December 2022, the balance of exposures classified as stage 3 in Banco Sabadell Group amounted to 5,814 million euros (including contingent exposures) and declined by 389 million euros in 2022.

NPL ratio (*) (%)



(*) Calculated including contingent exposures.

The trend followed by the Group's coverage ratios is shown in the table below:

Million euro

	2021				2022			
	1Q	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Exposures classified as stage 3	6,127	5,995	6,004	6,203	6,210	5,714	5,830	5,814
Total provisions	3,453	3,378	3,477	3,495	3,456	3,159	3,214	3,200
NPL (Stage 3) coverage ratio, with total provisions	**56.4**	**56.3**	**57.9**	**56.3**	**55.7**	**55.3**	**55.1**	**55.0**
Stage 3 provisions	2,335	2,374	2,513	2,553	2,560	2,263	2,273	2,292
NPL coverage ratio of stage 3 (%)	**38.1**	**39.6**	**41.9**	**41.2**	**41.2**	**39.6**	**39.0**	**39.4**
Non-performing real estate assets	1,379	1,370	1,373	1,362	1,299	1,277	1,209	1,157
Provisions for non-performing real estate assets	510	511	508	520	494	499	470	443
Non-performing real estate coverage ratio (%)	**37.0**	**37.3**	**37.0**	**38.2**	**38.0**	**39.1**	**38.9**	**38.3**
Total non-performing assets	7,507	7,365	7,377	7,565	7,508	6,991	7,039	6,971
Provisions for non-performing assets	3,963	3,889	3,985	4,014	3,950	3,658	3,684	3,644
NPA coverage ratio (%)	**52.8**	**52.8**	**54.0**	**53.1**	**52.6**	**52.3**	**52.3**	**52.3**

Includes contingent exposures.

3.4 Liquidity management

In 2022, the funding gap widened, driven mainly by a greater increase in customer funds than in lending. Funding in capital markets increased, with senior non-preferred debt being the item with the greatest net increase, in order to keep an adequate level of own funds and eligible liabilities above the applicable regulatory requirement or MREL (Minimum Requirement for own funds and Eligible Liabilities). The Group's loan-to-deposit (LTD) ratio as at 31 December 2022 was 95.6%.

The Institution has made use of the various issuance windows to access capital markets at different times of the year, in a market environment characterised by the war in Ukraine and monetary policy tightening, with widespread credit spread widening across all instruments. Maturities and early repayments in capital markets over the year amounted to 3,097 million euros. On the other hand, Banco Sabadell executed five issues under the prevailing Fixed Income Programme amounting to a total of 1,638 million euros, specifically the following: one issue of straight non-preferred green bonds on 30 March 2022 for a total amount of 120 million euros and a 15-year tenor, one issue of mortgage covered bonds on 30 May 2022 for an amount of 1 billion euros and a 7-year tenor, one issue of straight non-preferred bonds on 3 June 2022 for an amount of 8.9 million euros and a 5-year tenor, one issue of straight non-preferred bonds on 1 August 2022 for an amount of 9.2 million euros and a 5-year tenor, and one issue of mortgage covered bonds on 21 December

2022 for an amount of 500 million euros and an 8-year tenor. Similarly, under the EMTN Programme, Banco Sabadell executed four issues amounting to a total of 2,075 million euros, specifically the following: one green senior non-preferred debt issue on 24 March 2022 for an amount of 750 million euros and a 4-year tenor with an option for Banco Sabadell to call early in the third year, one senior non-preferred debt issue on 8 September 2022 for an amount of 500 million euros and a 4-year tenor with an option for Banco Sabadell to call early in the third year, one green senior preferred debt issue on 10 November 2022 with a 6-year tenor and an option for Banco Sabadell to call early in the fifth year for an amount of 750 million euros, and one green senior non-preferred debt issue on 23 November 2022 for an amount of 75 million euros and a 10-year tenor with an option for Banco Sabadell to call early in the ninth year.

With regard to securitisations, Banco Sabadell redeemed the funds IM Sabadell PYME 11, FT and Caixa Penedés 2 TDA, FTA early in June and October, respectively, at the decision of Banco Sabadell as sole bondholder. The multiseller fund TDA 23, FTA was also redeemed early in September, having reached the clean-up call date. New securitisations were also issued during the year. On 13 July 2022, Banco Sabadell sold all of the collateralised tranches of the securitisation fund Sabadell Consumo 2, FT to the market, retaining the uncollateralised tranche, which funded the reserve fund and initial expenses. This is Banco Sabadell's second consumer loan securitisation and it amounted to 750 million euros. On 18 August 2022, TSB issued the fund RMBS Duncan Funding 2022-1 PLC, for 1,333 million pounds sterling. The securities were retained in their entirety and the senior tranche (1.2 billion pounds) is expected to be eligible for liquidity operations with the Bank of England.

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 196% and 270%, respectively, in December 2022. At the Group level, the Institution's LCR remained well above 100% on a stable basis at all times throughout the year, ending 2022 at 234%. As for the Net Stable Funding Ratio (NSFR), which came into force on 28 June 2021, the Institution has remained steadily above the minimum requirement of 100% in all LMUs. As at 31 December 2022, the NSFR was 151% for the TSB LMU, 132% for Banco Sabadell Spain and 138% for the Group.

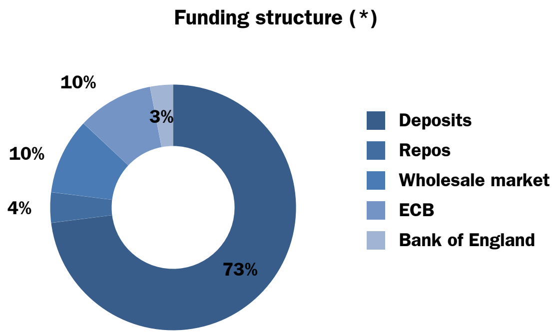
The key figures and basic liquidity ratios reached at the end of 2022 and 2021 are shown here below:

Million euro

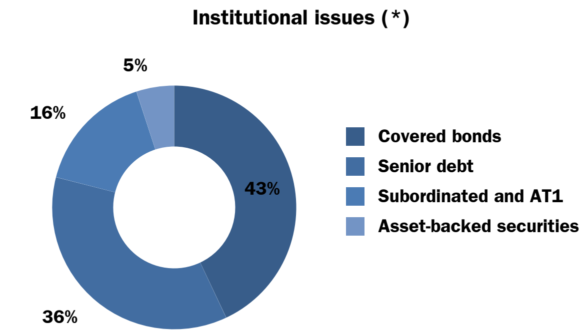
	2022	2021
Gross loans to customers, excluding repos	161,750	160,668
Impairment allowances	(3,020)	(3,302)
Brokered loans	(1,806)	(1,290)
Net loans and advances excluding ATAs, adjusted for brokered loans	**156,924**	**156,076**
On-balance sheet customer funds	164,140	162,020
Loan-to-deposit ratio (%)	**95.6**	**96.3**

The EUR/GBP exchange rate used for the balance sheet is 0.8869 as of 31 December 2022 and 0.8403 as of 31 December 2021.

The main sources of funding as at the end of 2022, broken down by type of instrument and counterparty, are shown below (in %):



(*) Excluding adjustments for accrual and derivatives hedging.



(*) Excluding adjustments for accrual and derivatives hedging.

For further details about the Group's liquidity management, liquidity strategy and liquidity performance during the year, see Note 3 to the 2022 annual financial statements.

3.5 Capital management

Key capital figures and solvency ratios

Thousand euro

	Fully loaded		*Phase in*	
	31/12/2022	**31/12/2021**	**31/12/2022**	**31/12/2021**
Common Equity Tier 1 (CET1) capital	9,985,006	9,859,600	10,082,751	10,079,533
Tier 1 (T1) capital	11,635,006	12,259,600	11,732,751	12,479,533
Tier 1 (T2) capital	1,911,331	2,021,270	1,855,001	2,021,270
Total Tier (Tier 1 + Tier 2) capital	13,546,337	14,280,869	13,587,753	14,500,802
Risk weighted assets	79,568,639	80,689,118	79,553,809	80,645,593
CET1 (%)	12.55%	12.22%	12.67%	12.50%
Tier 1 (%)	14.62%	15.19%	14.75%	15.47%
Tier 2 (%)	2.40%	2.51%	2.33%	2.51%
Total capital ratio (%)	17.02%	17.70%	17.08%	17.98%
Leverage ratio	4.59%	5.80%	4.62%	5.90%

As of 31 December 2022, the main difference between the phase-in and fully-loaded ratios was due to transition to IFRS 9.
In 2018, after the entry into force of IFRS 9, the group chose to apply the transitional provisions established in Regulation (EU) 2017/2395.

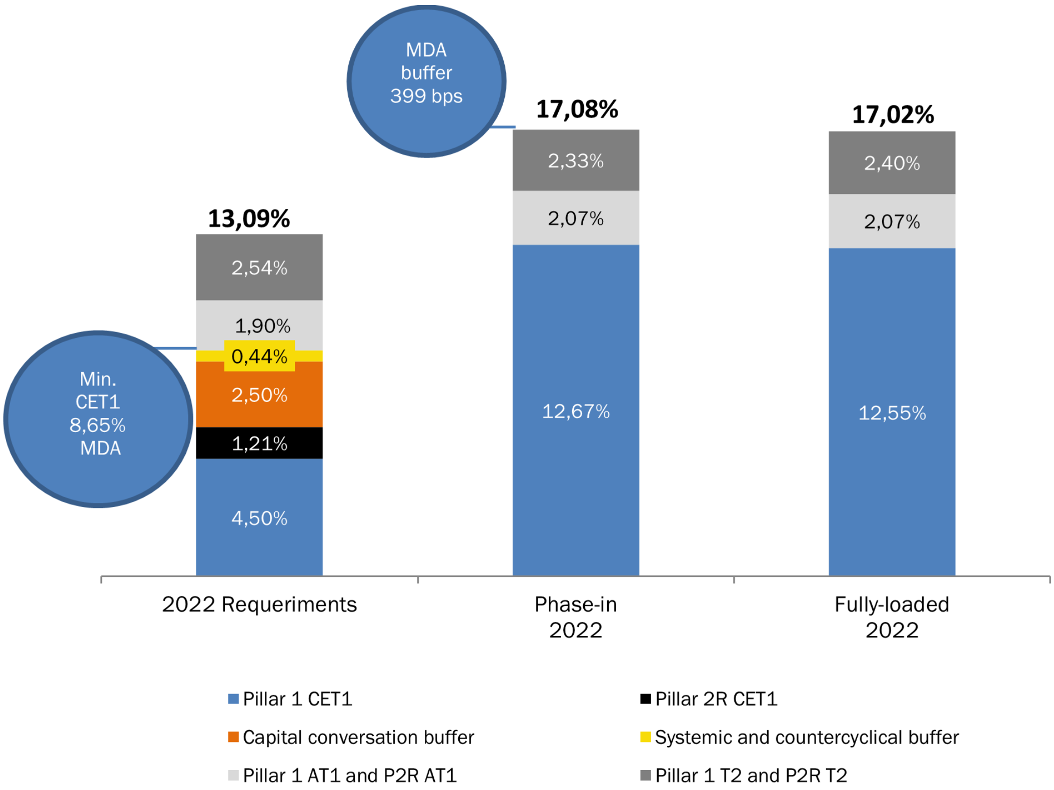
During 2022, the Group decreased its capital base by 735 million euros in fully-loaded terms.

The voluntary early redemption of the full amount of preferred securities envisaged in the conditions of the AT1 Preferred Securities 1/2017 issue, whose value amounted to 750 million euros, took place in 2022.

In terms of risk-weighted assets, over the period two securitisations have been carried out: the traditional consumer loan securitisation Sabadell Consumo 2 executed on 8 July 2022 and the Boreas synthetic securitisation of project finance exposures executed on 28 September 2022. It is also worth calling attention to the improved ratings of businesses, as a result of the improved financial situation and the improvements of house prices in the United Kingdom, both of which had a positive impact on risk-weighted assets. During the period, new PD, LGD and CCF calibrations were implemented for the businesses segments, the Foundation IRB approach began to be used for exposures to corporates and groups and the new rating models were implemented for project finance exposures. Furthermore, after receiving approval from the Supervisor, exposures to financial institutions, which in 2021 were calculated under the Foundation IRB approach, began to be calculated under the Standardised approach. Lastly, in 2022, impacts linked to the completion of the IRB Repair Programme and due to materialise in the short/medium term have been front-loaded.

As a result, the fully-loaded CET1 ratio stood at 12.55% as at year-end 2022.

As at 31 December 2022, the Group had a phase-in CET1 capital ratio of 12.67%, well above the requirement established in the Supervisory Review and Evaluation Process (SREP), which for 2022 was 8.65%, meaning that the aforesaid ratio is 402 basis points above the minimum requirement.



Banco Sabadell received a communication from the Bank of Spain regarding the decision reached by the Single Resolution Board (SRB) concerning the minimum requirement for own funds and eligible liabilities (MREL) and the subordination requirement on a consolidated basis that it is required to meet.

The requirements that must be met from 1 January 2024 are as follows:

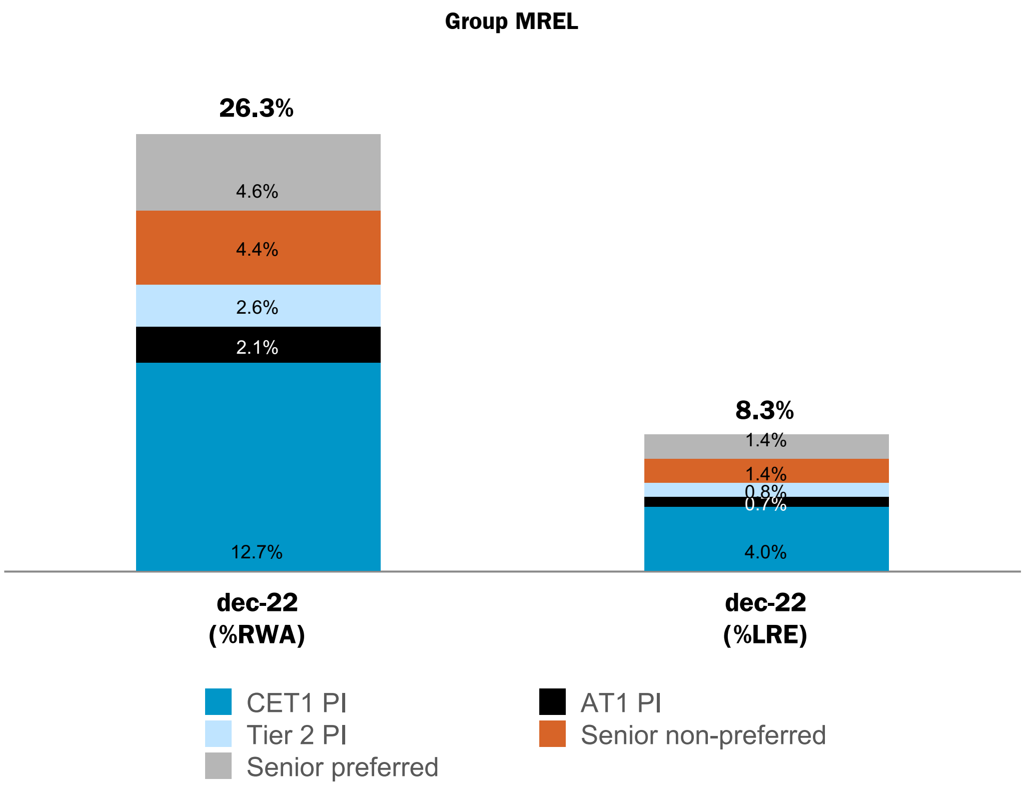
- The minimum MREL is 22.22% of the total risk exposure amount (TREA) and 6.36% of the leverage ratio exposure (LRE).
- The subordination requirement is 17.23% of the TREA and 6.36% of the LRE.

The decision sets out the following interim requirements that must be met from 1 January 2022:

- 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.

The own funds used by the Institution to meet the combined buffer requirement (CBR), which comprises the capital conservation buffer, the systemic risk buffer and the countercyclical capital 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 are consistent with the expectations of Banco Sabadell and in line with its funding plans.



The RWAs percentage includes the capital used to meet the Combined Buffer Requirement (CBR) (2.93% as at 31 December 2022 and estimated at 3.11% 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 2022.

4.1 Banking business Spain

Key figures

Net profit as at the end of 2022 amounted to 740 million euros, representing sharp year-on-year growth, mainly as a result of the good performance of net interest income, the reduction of costs, and the booking of fewer provisions.

Net interest income amounted to 2,499 million euros as at 2022 year-end, growing by 8.6% year-on-year due to higher loan book yields, in turn supported by higher interest rates, the increased contribution of the ALCO portfolio and the good progression of volumes, which all served to offset higher costs in capital markets.

Net fees and commissions amounted to 1,344 million euros, 0.6% higher than at the end of 2021, due to the increase in service fees, on which topic it is particularly worth mentioning the increases in payment card usage and in the exchange of banknotes and foreign currency, and also due to the increased fees received on risk transactions.

Gains/(losses) on financial assets and liabilities and exchange differences amounted to 95 million euros, a reduction compared to the previous year, which included 323 million euros gained on sales from the ALCO portfolio (at amortised cost) executed to fund the second phase of the efficiency plan.

Equity-accounted results and dividends showed year-on-year growth of 22.5% due mainly to the increased contribution of the insurance business.

Other income and expenses were positively impacted by the insurance claim recoveries associated with TSB's IT migration.

Total costs fell by 17.1% year-on-year, as the previous year included 301 million euros of non-recurrent costs related to the efficiency plan carried out. Not including this impact, costs decreased by 4.5% due to both lower staff expenses as a result of the cost savings delivered by the efficiency plans, and due to the recognition of lower general expenses.

Provisions and impairments amounted to -920 million euros, down by 22.9% year-on-year, due to the booking of fewer provisions for both loan losses and real estate assets.

Gains on asset sales and other revenue showed a year-on-year reduction, as the previous year mainly included 83 million euros (gross) from the sale of the depository business and 42 million euros (gross) from the sale of the BanSabadell Renting business.

Million euro

	2022	2021	Year-on-year change (%)
Net interest income	**2,499**	**2,302**	**8.6**
Fees and commissions (net)	1,344	1,336	0.6
Core revenue	**3,843**	**3,638**	**5.6**
Gains or (-) losses on financial assets and liabilities and exchange differences	95	342	(72.3)
Equity-accounted income and dividends	125	102	22.9
Other operating income and expenses	(225)	(269)	(16.6)
Gross income	**3,837**	**3,812**	**0.7**
Operating expenses and depreciation and amortisation	(1,887)	(2,276)	(17.1)
Pre-provisions income	**1,951**	**1,536**	**27.0**
Provisions and impairments	(920)	(1,193)	(22.9)
Capital gains on asset sales and other revenue	(9)	135	(106.9)
Profit/(loss) before tax	**1,021**	**478**	**113.7**
Corporation tax	(270)	(58)	367.1
Profit or loss attributed to minority interests	11	8	26.9
Profit attributable to the Group	**740**	**412**	**79.8**
Cumulative ratios			
ROTE (net profit / average shareholders' equity excluding intangible assets)	8.7 %	4.2 %	
Cost-to-income (general administrative expenses / gross income)	40.3 %	50.2 %	
NPL ratio	4.2 %	4.6 %	
NPL coverage ratio of stage 3 with total provisions	56.2 %	57.6 %	

Performing loans grew by 1.7% year-on-year, due mainly to customer lending, mortgage loans in particular, and business lending.

On-balance sheet customer funds increased by 2.9% year-on-year, supported by sight deposits and term deposits. Off-balance sheet funds fell by -7.6% year-on-year mainly on account of mutual funds, impacted by financial market volatility.

Million euro

	2022	2021	Year-on-year change (%)
Assets	**189,545**	**191,162**	**(0.8)**
Gross performing loans to customers	108,889	107,089	1.7
Non-performing real estate assets (net)	713	842	(15.3)
Liabilities	**179,402**	**181,389**	**(1.1)**
On-balance sheet customer funds	120,118	116,788	2.9
Wholesale funding in the capital markets	19,444	18,090	7.5
Allocated equity	**10,143**	**9,773**	**3.8**
Off-balance sheet customer funds	**38,492**	**41,678**	**(7.6)**
Other indicators			
Employees	12,991	13,855	(6.2)
Branches	1,226	1,288	(4.8)

Within Banking Business Spain, it is worth noting the main business lines, about which information is given here below:

Retail Banking

Business overview

The Retail Banking business unit offers financial products and services to individuals for personal use. These include investment products and medium- and long-term finance, such as consumer loans, home mortgages and leasing or rental services, as well as short-term finance. Funds come mainly from customer deposits and sight deposit accounts, savings insurance, mutual funds and pension plans. The main services also include payment methods such as cards and insurance products in their different forms.

Management milestones in 2022

The efforts made in 2022 have focused on setting the strategic priorities that are allowing the Retail Banking business to be transformed. The aforesaid 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.

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 performance of the mortgage market in 2022 was characterised by a substantial increase in interest rates and high levels of price variability in the system. New lending in Banco Sabadell increased by 4% compared to 2021, giving rise to a market share of new lending of 7.7% (cumulative data for the third quarter of 2022).

In 2022, the distribution model of mortgage specialists has been consolidated, with a total of 220 specialists deployed in the branch network and 40 specialists working remotely. It will continue to be developed over the coming months in order to ensure that this ratio of mortgages generated remotely continues to grow, offering a specialised service designed to improve the experience of customers during the process to take out a mortgage with Banco Sabadell.

Furthermore, the mortgage portal for customers is being rolled out, which makes it possible to digitalise interactions with customers and to provide a platform that can be used to complete the most important steps of the application process remotely and digitally, and also to check the status of transactions in real time.

Consumer loans

The trend followed by consumer loans in 2022 was shaped by continued growth of new lending, whose volume increased by 14% compared to the previous year.

The consumer loans trend in 2022, in line with that established in the Strategic Plan, was characterised by an increased use of digital tools and the growth of online loan applications, particularly in the case of digital pre-approved loans with greater personalisation and more competitive prices.

With regard to short-term financing solutions available to individuals, 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

2022 has been a good year in terms of card purchases, recording growth of 17.8% and reaching record high levels, while card turnover remained stable. Furthermore, payment card borrowing also recovered its growth trend during 2022.

Significant progress has been made on digitisation, with instantly issued payment cards for immediate use through e-commerce and mobile payments, without having to wait to receive the physical card, in both digital and in-branch sales. The percentage of sales carried out through the digital channel reached 38%. In terms of mobile payments, Banco Sabadell cards have been added to GooglePay, complementing the previously available offer through ApplePay and SamsungPay, and their use has increased by over 50% to account for 19.3% of payments in December.

Alternative payment systems such as Bizum still continue to record good levels of uptake, with sharp growth among Banco Sabadell customers in terms of the number of both users and transactions.

Sight deposit accounts

The main offering of retail accounts comprises 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.

In accordance with the Strategic Plan, in early 2022, a digital onboarding process was carried out, which made it possible to grow the digital customer base, improving productivity and customer experience. In less than 10 minutes and with just one contract signing session, new retail customers can register themselves with their mobile phone, quickly and simply, through an integrated onboarding process which, in addition to the Sabadell Online account, also includes a package of products that meet the basic needs of customers: a debit card for payments, the Sabadell Savings account for easy saving, the remote banking service to manage accounts, as well as the alerts and notifications service.

Furthermore, in June, the catalogue of retail accounts was simplified, migrating the Sabadell Expansion Account, the My Family Account, the Experience Account and the Advance Account to the new Sabadell Account and the Sabadell Premium Account, whose main new features include free access, with no requirements, and which, depending on the level of engagement, have a waived or reduced account maintenance fee.

The launch of both the Online Account and the Sabadell Account took place alongside a marketing and communication plan, offering customers clear and transparent explanations about the features of the accounts.

Savings and Investment

Market volatility, interest rates and the invasion of Ukraine weighed on asset performance and, consequently, on mutual fund returns. In spite of this, the equity of mutual funds in the first and second Morningstar quartiles was 70%, with just 3% of assets in the fourth quartile as at the end of December.

As a result, there was a sharp decline among off-balance sheet savings/investment products, concentrated exclusively in those whose assets under management for retail customers had fallen by 3%.

In mutual funds, the main milestones during the year were the following:

1. Strengthen and simplify the supply of mutual funds for retail customers, by incorporating starter products:

- Products with a partial guarantee: in April, two funds were launched (Sabadell Consolida 85, FI and Sabadell Consolida 90, FI), designed specifically for investors who have no experience in financial markets, as these are multi-asset funds with a global investment vocation, which seek to generate returns whilst at the same time offering a high level of capital protection.
- New offering of guaranteed products: launch of the guaranteed funds Sabadell Garantía Fija 18, FI and Sabadell Garantía Fija 19, FI in September and December 2022, respectively.

2. Improve and consolidate new instruments to provide support both for fund managers and, especially, information for customers. During 2022, the support plan was expanded to include more frequent updates sent to customers with information about their investments in funds, in the form of notes and quarterly videos summarising the performance, key investment decisions taken by professionals and the outlooks for the coming months.

With regard to retirement savings products, such as pension plans and Insured Retirement Plans (IRPs), these were affected by the gradual reduction of the limit on tax-deductible amounts. Market performance was also a contributing factor, although the repercussions for the Bank were less severe than for the sector on average, due to its improved position held in products not linked to market performance, such as IRPs with short-term interest rates. Similarly, subscriptions to Insured Retirement Plans with guaranteed long-term interest rates picked up again.

Lastly, the offering of structured products and deposits has been maintained over the year.

It is also worth noting that during 2022 the model of specialists has continued to be rolled out, with Savings and Investment specialists numbering 463 as at the end of 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.

Furthermore, in 2022, the distribution model of specialists has been consolidated, with a total of 197 specialists deployed in the branch network and 87 specialists working remotely.

In 2022, the business has continued to grow in spite of the complicated and uncertain environment that exists at present. 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 (41%) was the result of the agreement with the company Sanitas reached at the end of 2020. Also worthy of note is the positive evolution of Blink insurance products (home insurance and vehicle insurance, which recorded growth of 36% and 23% compared to the previous year), supported by the ability to apply for these products remotely.

It should also be mentioned that towards the end of 2022, the funeral insurance product was brought to market through BanSabadell Seguros Generales, through an agreement with the company Meridiano, a leading institution in this field.

The strategy for the insurance business in Retail Banking consists of offering the best option for protection insurance to the customers of the Bank. To that end, a product offering is proposed, adapted to the needs of each type of customer, so as to improve their experience each time they interact with the Bank and the insurer.

Private Banking

Through SabadellUrquijo Private Banking, Banco Sabadell offers comprehensive solutions to high-net-worth individuals who require specialised advice and attention. It has 175 private bankers, with MiFID II level 2, over 75% of whom are also certified by the European Financial Planning Association. They are distributed across 31 offices and assistance centres to serve those of the Bank's customers with a net worth of over 500 thousand euros located throughout Spain.

2022 will be remembered as one of the most volatile and complex periods of the global economy in the last 40 years. This environment has led the entire SabadellUrquijo Private Banking team to focus on supporting and advising customers at all times. Moreover, the number of in-person sessions on financial markets for customers has been increased to transmit the specialists' message on the outlook for the markets.

In terms of the product offer, the year can be divided in two stages:

1. The year started with inflation as the main macroeconomic problem that was tackled with subsequent interest rate hikes. This hampered the performance of both equities and fixed income. In light of this scenario, the Division proposed hedging strategies against inflation and recommended asset classes with real returns, as well as diversification strategies.

2. During the second half of the year, the markets had already discounted a large portion of the interest rate rises, so the economy moved to a new scenario with: (i) higher and persistent inflation, (ii) higher interest rates, and (iii) slower pace of growth. This environment increased the uncertainty as regards equities, while at the same time new investment opportunities in fixed income securities began to arise. This new scenario has reactivated guaranteed funds and fixed income maturity portfolios, while the Bank remained cautious in the stock markets with more defensive and higher quality recommendations and solid balance sheet positions.

SabadellUrquijo Private Banking has an open architecture with a robust product selection protocol that enables adapting portfolio to customers' objectives. The strategic agreement with Amundi, the first mutual funds manager in Europe, is particularly noteworthy, because it allows customers to enjoy all the capabilities and strengths of the Amundi Group.

In light of such complex environment in the markets, the bespoke discretionary portfolio management service offered by SabadellUrquijo Gestión, SGIIChas become especially relevant this year.

Furthermore, the structured deposit offer has been a very good alternative, providing customers with risk control and a predictable return on their investments.

Finally, alternative investments continue to have a high priority in the product offer, with a rigorous screening protocol.

Beyond aspects concerning the markets, for SabadellUrquijo Private Banking, the year 2022 has also been characterised by a plan to acquire new customers.

The focus on advisory services with positions in SICAVs has been strengthened, helping customers make the best decisions on this regard.

The commitment to sustainability continued with the roll-out of a Responsible Investment Training Plan for private bankers, as well as the creation of the Private Banking's "sustainable corner", from which the Bank aims to develop and encourage ideas that promote care and respect for the environment. In this regard, it has been supported by its strategic partner Amundi.

Once again, the professionalism, approachability and trust on the private bankers have been rated as excellent by customers. This drives the Bank to continue to improve the customer experience and competitive differentiation.

As a result of the new approach to facilitate greater growth of Banco Sabadell's Private Banking business, a change in the organisational structure has been implemented, a seed that will become the new Private Banking model to be fully deployed in 2023 and that will add new value customers, as well as the development of new operational, IT and commercial capabilities and increased investment in brand recognition, enabling further growth and profitability. The success of the implementation of this new model will be the biggest challenge for SabadellUrquijo Private Banking in 2023.

As at 2022 year-end, customers to whom the Bank offers wealth management advice numbered 29,359, with total business figures standing at 32,543 million euros, of which it is worth noting that 29,225 million euros are in funds, with a 39% contribution in mutual funds and SICAVs, while 2,462 million euros are under discretionary management contracts.

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 retail 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 customers.

Activity in 2022 was affected by a shortage of components in the automotive industry, which led to a supply shortage in the market. Nevertheless, the evolution of the company's vehicle business line has been positive compared to the industry, and the growth rates of this and the other business lines remained steady.

In 2022, efforts continued with regard to the focus areas for which work was already underway, such as training, homeowners' associations and sustainability, with new transactions reaching a weight of 23% of the consumer finance line, thus making Sabadell Consumer Finance a standard-bearer within its sector.

On the digital side of things, its “Instant Credit” tool for e-commerce offers an efficient response to both referrers and customers; the number of contracts has tripled and new business has been generated.

In 2022, Sabadell Consumer Finance executed 196,023 new transactions through more than 11,933 points of sale located throughout Spain, which translated into an inflow of new investments amounting to 1,099 million euros, placing the total outstanding exposures of Sabadell Consumer Finance at 1,919 million euros.

Business Banking

Business overview

The Business Banking business unit offers financial products and services to legal persons and natural persons for business purposes, 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 financing solutions, cash surplus management solutions, products and services to guarantee the daily operations of collections and payments through any channel and 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 differs from the competition and allows the Bank to be very close to its customers, gaining extensive knowledge about them, as well as a strong level of engagement.

Large enterprises (turnover > 10 million euros) are basically managed by specialised branches. The rest of the companies (SMEs, Businesses and Self-Employed) are managed from the branches. All of these have access to managers specialised in the segment as well as expert advice from product and/or sector specialists.

All this allows Banco Sabadell to be a trendsetter for all enterprises and a leader in customer experience.

Management milestones in 2022 and priorities for 2023

Management efforts in 2022 focused on the implementation of the priorities for action for the Business Banking business line, within the framework of the Strategic Plan (2021-2023), in coordination with the rest of the Bank and enhancing the value of its branch network.

During 2022, the various actions carried out have focused on offering specialised services to customers and adapting the commercial offer to more specifically meet the needs of the various segments. It is worth noting the particular importance of the sectoral commercial offer for businesses and the self-employed, which has been adapted to the changing and unique needs of each sector. On the other hand, in 2022, the Bank has developed sustainable investment programmes, which focus on self-consumption and Next Generation funds. Another priority aspect was improving the business system and making commercial processes more efficient.

Looking ahead to 2023, the challenges are growth and profitability to meaningfully contribute to the ROE targets of the Strategic Plan. Growth will focus on sustainable investment and on helping companies develop projects within the framework of the European funds. Profitability will be achieved by increasing managers’ specialisation, with superb pricing management and streamlining of processes to be closer to customers and respond quickly to their needs. For the Large Enterprises segment, the Bank has the challenge of strengthening specialisation from a more sectoral perspective, providing more knowledge to its customers, a greater level of professionalism, adding more value and supporting customers by acting as a key player.

The various segments, specialists and commercial products within Business Banking are described below.

Customer segments

Large enterprises

Banco Sabadell has been at the side of large enterprises, providing end-to-end customer management through specialised managers to help them make the best economic decisions and with a pool of specialists who have supported customers depending on their business’ needs.

In an economic environment marked by the complicated international situation, inflation and interest rate hikes, this end-to-end customer management has enabled the Bank to support companies by adapting to these new circumstances. Thus, for those customers with liquidity needs, Banco Sabadell has made available both basic financing solutions and complex solutions with 360° value propositions. And for those customers that are growing, Banco Sabadell has been by their side with specialised lending transactions, typical of middle market, either acting alone or in a pool with other credit institutions.

With regard to sustainability, Banco Sabadell has participated in the market as a key agent in the drive towards a more sustainable economy, providing financing for projects developed by its customers for purposes directly or indirectly linked to environmental, social or governance improvements.

In 2023, the Bank faces the challenge in the segment of strengthening specialisation from a more sectoral perspective, providing more knowledge to its customers, a greater level of professionalism, adding more value and supporting its customers by acting as a key player.

Enterprises

2022 was characterised on one hand by the return to normal after the health emergency, with the end of virtually all Covid-19-related restrictions, and on the other hand, by the sharp rise of inflation. Banco Sabadell has continued to bet on its forward-looking approach and has been by the side of businesses to meet their needs.

The end of restrictions has created the need for companies to jump-start their investment projects that were put on hold during the pandemic, and the return of economic activity to pre-Covid-19 levels entailed the activation of working capital financing needs arising from transactions among companies. To meet these needs and with the unequivocal commitment to support our customers, Banco Sabadell launched several campaigns to drive investment during the year.

The war in Ukraine resulted in a noticeable increase in the price of commodities and energy. Once more Banco Sabadell supported companies as they dealt with this situation and it launched its Sustainable Future programme, accompanying enterprises in their decision-making in order to prevent this increase in costs from affecting their productivity and/or viability. Within the framework of this Sustainable Future programme, Banco Sabadell focused specifically on financing self-consumption solutions for companies, reaching collaboration agreements with important partners in the market such as Iberdrola and EDP.

Towards the end of 2022, with rising inflation and interest rate hikes arising from the upward trend of the Euribor that will cause an increase in the financial debt burden of companies, Banco Sabadell launched a new support action by contacting all companies with greater potential impact and offering liquidity solutions to cushion the impact of rising operating and financial costs.

Within the framework of the Next Generation EU Funds, Banco Sabadell has continued to hold awareness-raising sessions among companies and has actively provided information on the open calls that the government has published and that are best suited to each of them according to their characteristics.

In terms of sustainability, Banco Sabadell has continued to create and offer sustainable financing and investment solutions to companies. In 2022, in addition to green loans, Banco Sabadell has offered companies sustainability-linked loans, which has enabled these companies to include in their management structures sustainable commitments aligned with their own Sustainable Development Goals.

It is worth highlighting that in 2022, Banco Sabadell has continued to evolve its specialisation model, concentrating the management of larger SMEs in branches specialised in this segment and providing more resources to their managers, in order to keep the customer at the heart of the business relationship in which the manager is a key component.

Small Businesses

Banco Sabadell continued to support the daily activities and new projects of self-employed workers, retailers and businesses, focusing on the development of the customer value proposition and making a concerted effort in 2022 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 offer, specifically designed for each activity sector.

The aim is to be able to offer each customer the most suitable solutions based on an even better understanding of the specifics of their daily activities, building products by actively listening to customers and branch managers, professional groups and representatives from industry associations, ensuring that they really meet the needs identified. Currently, the catalogue of specific solutions includes 32 different activity sectors, prioritising those that offer a greater degree of opportunity in the current economic environment.

In line with this sector specialisation and in order to make it tangible and transfer it to the market, during the past year the Bank has consolidated a systematic approach to both customers and potential customers, through the frequent launch of sector campaigns that on one hand drive the commercial momentum of specialist managers and on the other hand help to convey a much clearer and more powerful message of the product offer, by concentrating it on a target with common needs and interests. Examples of this in 2022 include the “Bars and Restaurants” campaign and the “Small Businesses campaign”. Both conveyed the idea of proximity as a common denominator and were supported by an innovative product, the Smart PoS, a smart payment terminal capable of adapting to each user by combining its various available applications, in addition to rewarding the merchants’ customers with free purchases during the campaign period as an additional incentive. These campaigns have increased customer acquisition in these key sectors by 28% and 30%, respectively, compared to the previous year.

On the other hand, during the past year, managers specialised in supporting self-employed workers, retailers and businesses have become the largest and most representative management figure of the entire branch network, thus demonstrating the Bank’s clear vocation for and commitment to a customer segment that especially values proximity and personalised assistance by an expert manager who understands their business. These managers had access to new management support elements designed to better understand the key aspects of each sector to thus provide the best response to the specific needs of each of them.

In parallel and in line with the development and consolidation of customers' new financial services consumption habits, Banco Sabadell has continued to drive the digitalisation of customers, both to respond to their needs for self-service transactions and to enable new products and services to be applied for and managed remotely.

By 2023, the challenges in this segment mainly involve, on one hand, continuing to strengthen specialisation with a clearly differentiated offer for the professional sectors that present more opportunities and improving the training of specialised managers and, on the other hand, implementing a 100% online channel of acquisition and engagement for self-employed customers, which makes it possible to consolidate a digital management model for this segment, minimising reliance on brick-and-mortar branches, but all the while continuing to offer the best experience to each customer.

Institutional businesses

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

To achieve this, it is necessary to have a specialised range of products and services in order to provide a comprehensive value proposition to general governments, financial institutions, insurers, religious organisations and the third sector.

2022 has been a very busy year in all institutional businesses. It is worth noting the high degree of momentum in lending and borrowing activity in an environment in which negative rates have turned positive. In response to these new circumstances, Banco Sabadell strengthened its position in these segments through greater commercial activity, proximity and proposed solutions, resulting in an increase in customer acquisition, business volume and margins through a range of products offering higher value for customers and for the Bank.

Public Institutions

The economic activity of public institutions during 2022 was marked by the importance of governments in the economic recovery. Governments are essential for promoting and channelling the arrival of the European funds and for implementing economic policies at each of the local, regional and national levels.

The result is an increase in assets, stemming from the need to make investments to tackle the economic recovery, and an increase in liabilities, stemming from the additional funds related to the Recovery and Resilience Facility.

During the first half of 2022, some autonomous communities obtained authorisation to refinance the asset-side transactions that they had arranged with the State, thus decreasing their financing costs. As a result, it is the banks that have been granting new loans restructuring this debt.

Banco Sabadell's market shares in lending and deposits were 12.16% and 9.22%, respectively (figures as at end of September 2022). Lending recorded a year-on-year increase of 167 basis points, growing above the system. Deposits were up 93 basis points, a sharper increase than in the system as a whole.

Financial Institutions and Insurers

In terms of investments, 2022 was marked by an environment of geopolitical uncertainty, high rates of inflation, contractionary monetary policies and considerable volatility in the markets. This has led to corrections in financial assets, both in more conservative fixed-income assets and in equities. As a result, investors have turned towards more liquid and less complex assets, which are currently returning to attractive profitability levels. Investors have shown a preference for positions in fixed-income products, such as government bonds, to the detriment of value-added products such as alternative investments.

The Financial Institutions and Insurers unit has continued to roll out the value-added proposition for these institutions, with a special focus on adapting the offer towards plain vanilla products. Therefore, with the new environment of positive interest rates, the Financial Institutions unit has adapted the interest offered on accounts in this segment, immediately after the first interest rate hike by the European Central Bank. On the other hand, for fixed-income products, the Bank has taken advantage of investors' interest for private issues of floating bonds (with a minimum rate) and for sustainable issues. At the same time, the senior debt fund has positioned itself with interesting transactions, while in terms of Private Equity, the participation of several institutional investors in the launch of the Aurica IV Private Equity fund is particularly noteworthy.

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 specialised advice on financial assets.

During the year, the second edition of the university-level qualification of Financial Adviser to religious institutions and third-sector organisations was launched for employees and customers belonging to these groups. A total of 206 students (127 customers and employees of RI and TS, 9 from other sectors and 70 Sabadell employees) are currently enrolled on the course. This year the course was open to professionals from all sectors and a wide range of scholarships were made available covering up to 80% of the enrolment fee. The enrolment for the third edition, which will take place from 30 January to 30 June 2023, is now open.

Secure donation collection facilities have been increased by 4% using the “DONE” system which has contactless technology built in. Banco Sabadell had 928 donation collection devices installed and operational as at 2022 year-end, including donation lecterns, digital collection boxes and votive stands.

The Religious Institutions and Third Sector Division has coordinated the delivery of grants for charitable causes of the Sabadell Inversión Ética y Solidaria, FI fund, managed by Sabadell Asset Management, and it also managed the payments made together with beneficiary offices and entities. This year, for the 29 charitable projects of the 28 entities selected by the Ethics Committee in 2021, a total of 343 thousand euros has been awarded, bringing the cumulative figure since 2006 to over 2.4 million euros. Furthermore, in 2022, the Ethics Committee selected a total of 27 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, health and education. Sabadell Asset Management will distribute this aid to these projects in 2023.

Segment specialists

Franchising

Banco Sabadell is a leader in the Franchising segment, where it has more than 26 years of experience reaching agreements with the foremost franchising brands, which refer potential customers wishing to open new franchises in Spain.

Banco Sabadell offers specific customised financing, transactionality and protection solutions via the branch network with the support of a team of franchise managers specialised by sector.

Banco Sabadell works closely with the Spanish Franchisors' Association and was the first bank to secure a partnership with this association and together they drive this business model. This year, the Bank has participated in various virtual coffee chats with the Spanish Franchisors' Association and it has also continued to be present at the franchise fair Expofranquicias, in fairs organised by FranquiShop and in various virtual fairs. Sabadell was recognised as the first financial institution to collaborate in the franchise sector by the Online Franchise Fair in which the Bank has actively participated, as well as sponsoring topics such as the Madrid Franchise Report, the Franchise Case Law Observatory, participations in specialised radio programmes, articles in the press and magazines, collaboration with various expert franchise consultancies and an endless number of actions that the Bank has published on social media and which reinforce the Institution's renown and leadership in this business model.

The franchise market is a growing sector and is better able to withstand the impact of the health crisis due to the support of large franchisor brands. The Bank has more than 1,100 brands with referral agreements and almost 8,000 franchised customers.

Agriculture Segment

In 2022, Banco Sabadell's agriculture segment, which includes the agricultural, livestock, fisheries and forestry production sub-sectors and has more than 300 specialised branches, has 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 through its personalised customer support, led to a 13% increase in business volume compared to 2021. The Bank continues to earn the trust of its customers, whose number increased by 7% compared to the previous year.

During 2022, Banco Sabadell's agriculture segment has participated in nine fairs of the agri-food sector and has sponsored 37 events throughout the nation.

Banco Sabadell's agriculture segment has the clear objective of being by the side of customers in the 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 is the first financial institution to receive the "Q seal of Tourism Quality", granted by the Institute for Spanish Tourism Quality, cementing its position as a leader and trendsetter in this sector, offering expert advice coupled with the very highest quality standards.

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

Within the value proposition, especially aimed at providing a specific solution to each customer, and taking into account the situation of complete inactivity that the sector has gone through due to the Covid-19 health crisis, which forced the closure of all establishments by decree, a large part of the activity has focused on the Support Plan, reviewing the entire hotels portfolio, identifying the specific situation of each customer and offering a specific solution for each need, providing a complete range of solutions, from the most basic ones such as grace periods and moratoria, debt injection, ICO and ICO investment lines, to others greater in scale such as divestment in establishments, replacement of operators and sale of production units.

The Tourism Business Division also received institutional accolade from 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 (CEOE, by its acronym in Spanish) 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 welcomed 112,000 visitors and 8,937 companies.

Professional Associations and Associate Banking

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 specialised managers in order to meet the needs of its members through a range of tailored and differentiated financial products and services. During 2022, the Bank has participated in many events and sessions organised by these professional associations and bodies.

Furthermore, given the special relationship with the professional associations of property managers in Spain and to leverage the opportunity offered by the Next Generation EU Funds for the refurbishment of dwellings, professional forums have been organised for property managers throughout the country, within the framework of the strategic objective concerning sustainability.

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

Corporate Pensions

By means of its Corporate Pensions unit, Banco Sabadell Group offers solutions and responses to customers to help them better implement, manage and develop their welfare schemes through pension plans and group insurance policies.

During 2022, the Bank has made progress in the development and launch of Sabadell Flex Empresa, a fully digital flexible remuneration platform that enables companies to optimise their remuneration model at a very low cost. Worthy of note is the inclusion, in the last quarter of 2022, of the health insurance product in the mix of options available on the online platform and which, together with the Flexible Remuneration Retirement Plan, comprise a savings solution that makes it possible for executives or employees to maximise their savings and increase their net disposable income through fiscal optimisation. Furthermore, the Bank has seen great demand for joint life-cycle plans – with an investment profile adapted to age – among small and medium-sized companies.

Looking ahead at 2023, the Bank expects that demand for welfare schemes will continue to increase after the changes introduced by the publication of Law 12/2022, of 30 June, on regulating the promotion of employee pension plans. Thanks to the Bank's experience in innovative and life-cycle solutions, the Institution is poised to contribute to the development of new types of plans and funds that this new regulation defines such as, among others, employee pension plans streamlined for self-employed workers.

Real Estate Business

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

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

2022 was marked by rising costs of commodities (steel, cement, aluminium); however, the Real Estate Business Division has granted 1,913 million euros (a 6.7% increase compared to the previous year) with a margin of 49.25 million euros which is similar to the previous year.

The Investment Property Division focuses on boosting new transactions and home deliveries so as to minimise the potential negative impact, as well as monitoring sales in progress.

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

BStartup

BStartup by Banco Sabadell is the pioneering and benchmark financial service in Spanish banking for startups and scaleups. It is a unique project of Banco Sabadell that provides these companies with a 360° service of specialised banking and equity investment and that is part of the innovative entrepreneurial ecosystem of our country.

Specialised banking is based on a team of dedicated relationship managers for startups and scaleups in those territorial divisions with the highest concentration of this type of companies, as well as on a specific risk management process, specific products and a team of specialists that drive the business throughout Spain.

As at 2022 year-end, BStartup had 4,412 startup customers. They are very engaged, very internationalised customers, often with very complex transactions. The accelerated growth of many of these companies reaffirms the belief upon which the service was launched in 2013, i.e. that the great companies of the future would emerge from among these companies. Turnover reached 1,019 million euros (333 million euros of assets and 687 million euros of liabilities), with a 3.56% increase, and the trading margin increased by 34.34% compared to last year.

In 2022, BStartup's specialisation has been given a definite boost. The Catalonia Territorial Division manages all Business Banking and Network startup customers from the main branch in Barcelona, with six managers and one representative, all of them exclusively engaged in startups, scaleups and their investors. Moreover, all large startups have also been assigned to a single specialised relationship manager in terms of Large Enterprises Banking. This Territorial Division also has a risk analyst dedicated exclusively to this segment. Within the Central Territorial Division, in the Madrid autonomous community, a BStartup representative and a new specialised relationship manager have joined this year, meaning that there are now four exclusively dedicated BStartup enterprise managers located in the main Madrid branch, where most startups in this autonomous community are based. The main branch of the Eastern Territorial Division is located in Valencia and has a fully dedicated startup manager, and the Bank expects to bring on board a new branch manager at the beginning of 2023. The other regions still have 23 BStartup branches with relationship managers that without working exclusively in this segment regularly receive specialised training and have a specific risk management process in place.

Equity investment mainly targets early-stage digital and technology companies with strong growth potential and innovative, scalable business models. During the whole year, the Bank has invested 950 thousand euros in nine startups. BStartup invests in all types of sectors, but maintains its two investment verticals. Thus, in 2022, BStartup opened the second application process for BStartup Green to invest in startups that, using technology or digitalisation, are able to facilitate the transition to a more sustainable world (from the perspective of the energy transition, industry 4.0, smart cities and the circular economy). 122 companies have applied for this second edition. The fifth edition of BStartup Health also took place during 2022, which strengthens the Bank's position as a leader in investments in early-stage science-to-market health startups in Spain. This year, applications for 127 projects were received. With the nine new companies associated with the projects, BStartup10's portfolio of investees today numbers 64, already yielding significant returns and very positive valuations. During the year, there was one exit with significant capital gains.

During the year, the Bank was very active at the main events of the entrepreneurial ecosystem. BStartup's team has organised or actively participated in 100 entrepreneurship events throughout Spain. This, coupled with all the previous activity, continues to reinforce Banco Sabadell's reputation and positioning as a leading bank for scaleups and startups. As a reference indicator, BStartup has had 1,264 mentions in various media (offline and online press), has amassed 13,788 followers on Twitter, and BStartup has been one of the main topics of conversation about the Bank on social media every month, always with a positive sentiment.

Companies Hub

The Companies Hub is Banco Sabadell's business hub, an instrument of communication of the Institution with SMEs, businesses and the self-employed, under a single brand based on valuable business content that is of great use to its customers and that at the same time highlights the specialisation in enterprises of Banco Sabadell, as well as its proximity to its customers. The Companies Hub is a hybrid environment that combines:

- A digital space where companies can connect with everything that matters to them through workshops and webinars led by the Bank's experts and leading external figures – inspiring and engaging sessions in which business experiences and relevant and current content 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 like financing, internationalisation or startups.

All the activities organised at the Companies Hub, mainly in the form of workshops and webinars, are disseminated in other media such as articles, news or videos that can be accessed through the press and social media. The content generated around the Companies Hub is an instrument for the dissemination of the Bank's knowledge and expertise.

2022 has seen the consolidation of the blended model launched in 2020, which combines on-site presence in Valencia with a virtual presence across Spain. A new website and brand image were also launched this year.

The major thematic areas are established and agreed upon based on the Strategic Plan during the Editorial Committee held every six months. This year, the sessions have revolved around the following topics:

- The series of conferences "Inspiring Stories" with success stories from large customers interviewed by Banco Sabadell's employees who know them well. This year, seven sessions were organised: four in the Eastern Territorial Division (Ale Hop, Pikolinos, Grupo Saona and Chocolates Valor), one in the Central Territorial Division (Grupo García Carrión), one in the Northern Territorial Division (Bodegas Faustino) and another one in the Southern Territorial Division (Scalpers).

- Business financing: sessions on different financing needs, explaining the various instruments available and providing case studies, which have received excellent feedback from customers.

- The regular series of conferences on various very practical and topical aspects related to the Next Generation EU Funds and the opportunity they represent for the transformation of our economy.

- The series of conferences on enterprise digitalisation.
- The series of conferences on sustainability in order to generate awareness among SMEs of the need to have a sustainability strategy in place and provide information and tools to get started.
- The series of conferences on internationalisation solutions and information: holding a couple of sessions every month with new and interesting topics for the Bank's customers led by the Internationalisation Division.
- The monthly series of conferences "The World to Come" (*El Mundo que Viene*), discussing the trends of various sectors such as tourism, hospitality, agriculture, trade, etc.
- And many other sessions on a variety of topics such as business contingencies and insurance, trends in human resources, tax news, macroeconomic environment, leadership, public speaking, current topics such as companies and the metaverse, etc.

In 2022, the project kept intact the number of webinars as well as the impact generated by the Companies Hub in the entire territory, allowing the Bank to continue to reach a large number of companies and self-employed workers.

In total, 111 webinars have been held, in which 24,612 companies and self-employed workers have taken part.

In addition, on 2 June, face-to-face sessions in the physical space of the Companies Hub Valencia were restarted as normal, and 20 face-to-face events were held (in collaboration with other entities and the Bank's own sessions).

The space was also rented out to business entities on 50 occasions and meeting rooms were booked for corporate customers on 360 occasions. A total of 5,068 people took part in various activities at the Bank's physical space (our own sessions, collaborations, space rentals, meeting room bookings, advisory sessions and potential customers and additional traffic).

Thus, the total number of activities held at the Companies Hub this year amounted to 181, with 29,680 participants.

The assessments of the sessions continue to reflect the great reception and acceptance of the contents by the participating companies, with an overall rating of 8.93 out of 10, with 46% of the participants rating them with a 10.

In addition, 86 videos summarising the sessions were made for dissemination on the Bank's social media, and more than 35 articles and news items were published in different branded content 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 has generated 702 mentions in social media and offline and online media, reaching a total audience of 1.4 million users.

Sabadell Associates

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

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

- Profit margin (in millions of euros): 263 (9% of the total).
- Mortgages (new agreements): 12,251 (34% of the total).
- Customer acquisition: 43,026 (10% of the total).
- AutoRenting vehicle leases (new agreements): 474 (9% of the total).
- Mutual funds (average balance in millions of euros): 1,469 (6% of the total).

Commercial products

Business services

Payment methods

During the past year, payment methods' turnover has significantly increased due to greater national consumption and international tourism. At Banco Sabadell, PoS turnover has reached record levels with a year-on-year increase of +33% in transactions and +45% in profit margin. The Bank also stood out from among its peers, increasing its market share by +8.23% year-on-year to 17.23% at the end of 3Q22.

The Bank has maintained its policy of offering an advanced and personalised service to retailers and, to that end, has strengthened its network of PoS and e-commerce specialists. In addition, the PAYCOMET subsidiary, specialised in digital payments, has continued to roll out innovative products and services.

In May, Banco Sabadell launched to the market Smart PoS, a terminal featuring Android technology that, in addition to payments, enables the use of third-party applications (loyalty, order management, tax free, etc.). Unlike the product offer of other competitors, the solution has an app store that offers customers a user experience similar to that of their smartphones. As a result, product uptake has been very high. As at year-end, 29,153 Smart PoS devices had been installed at shops and stores.

The use of corporate cards has also intensified, processing +27.6% more in purchases and +11.4% more in profit margin than in the previous year.

In addition, 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. This process of analysis currently underway aims to reinforce the competitive advantage and expand its value proposition in this area.

Company insurance

During 2022, the Bank has made progress in the development of the value proposition for businesses and the self-employed. The aim is to make Banco Sabadell a leader in company insurance. The Institution has worked together with the company insurance specialists who are in daily contact with customers to focus on the most demanded product enhancements with the aim of achieving a comprehensive and competitive product offering and of providing quality service. Special emphasis was placed on health insurance products for companies, in the form of social benefits and flexible remuneration, and this focus will continue in the coming year. The emphasis was also placed on the core products of company insurance, civil liability, multi-risk and the whole range of specialised products.

During the year, company insurance specialists received more training to provide a high quality experience to insurance customers in the enterprise, business and self-employed segments. This effort will continue through 2023, with a strong focus on product and regulation training and support for servicing existing insurance policies.

Business loans

Working capital loans have recovered to pre-pandemic levels thanks to the increase in business activity. This increase has resulted in companies facing a growing need for working capital loans in order to cover their usual payments and collections. In annual terms, the volume of working capital loans has grown by 24% compared to 2021.

Specialised lending solutions such as factoring and primarily reverse factoring have greater importance among the various credit lines used by companies. As a result, reverse factoring activity saw a year-on-year rise of 32%.

It is important to note a new working capital product that was launched in 2022: the Online Payment Line. This digital product will help self-employed workers and businesses to fund their regular payments such as payrolls, taxes and supplier payments.

The volume of new loans to corporates, SMEs and the self-employed was lower than in the previous year as a result of the current uncertainty.

Loans for sustainable projects are one of Management's priorities and this year the Bank has continued to arrange transactions with ECO products and, in addition, it has incorporated a better offer for these transactions, which will enable the Institution to achieve its objectives of strengthening its commitment and undertaking to support customers in the transition towards a more sustainable economy.

In 2022, more than 1.3 billion euros of green loans have been mobilised, mainly used in energy-efficient construction projects, renewable energies and self-consumption, sustainable mobility and efficient water and waste management.

Leasing and rental of capital goods

The rental of capital goods in 2022 has seen year-on-year growth of 1% in agreements and of 40% in volume, which bring us very close to pre-pandemic levels. This growth is mainly focused on the road transport and equipment sectors.

In terms of leases, the change in volume compared to the previous year was of 11%. The branch network this year has produced a higher volume of new leases compared to 2021 which, together with some one-off transactions, has led to total investment of 724 million euros as at the end of 2022.

Vehicle leases

The year saw the impact of the sale of the vehicle leasing subsidiary to ALD Automotive at the end of 2021, which entailed a complex migration and integration process.

At the same time, there were several negative impacts that have affected the vehicle leasing product such as the lack of stock due to the ongoing semiconductor crisis, prices of commodities affected by the war in Ukraine and the end of the moratorium on the registration tax rebate.

Nevertheless, the objective of establishing the new IT platform and keeping a competitive offer in terms of both volume and terms and conditions was achieved, so that the end of the year was similar to 2021.

It is worth noting that the focus was on maintaining the mobility of all users, and this has been achieved thanks to the meticulous work carried out between the two institutions, which can be considered very satisfactory.

In the last quarter of 2022, the managers' activity resumed and the foundations were laid for the Relaunch Plan scheduled for 2023.

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 cooperation agreements that enable it to meet the financing needs of its customers.

These agreements include both national bodies (ICO, mutual guarantee societies and/or autonomous community entities) and supranational entities such as the EIB (European Investment Bank) and the EIF (European Investment Fund).

In the case of ICO, the Bank has once again adhered to the ICO Mediation lines, with a notable increase in new agreements compared to previous years, and it is the leading institution in the preparation of the Sustainability Questionnaire proposed by this body. 89% of the questionnaires have been completed and 71% of these are sustainable.

Through its adherence to the Agreement of the Spanish Council of Ministers, the Bank will allow its customers to extend the term of their ICO Covid-19 lines, thus providing a more favourable repayment schedule.

Banco Sabadell has also adhered to the ICO Ukraine line, which will enable the Institution to offer financing to all customers affected by the increase in energy prices as a result of the conflict in Ukraine.

The agreements signed with all the mutual guarantee societies (MGS) operating in Spain have also been reviewed, adapting them to the current needs of the market and including new products, such as the Industrialisation Support Programme whereby, through the support of the Next Generation funds, customers obtain financing, in which part of the interest rate and fees are subsidised, enabling the cost of this funding to be much lower than the standard conditions offered by mutual guarantee societies and institutions.

During 2022, there was a very large number of applications for the various EIB lines made available to customers, which has made it necessary to work quickly on new lines with this body, which will be available at the start of 2023.

In addition and through its BSCapital division, the Institution has signed an agreement with the European Investment Bank to provide growth-stage startups with venture debt.

As regards the EIF, Banco Sabadell Group has adhered to the Invest EU guarantee programme, which will allow banks to offer financing to companies with a guarantee from this body.

The aim for 2023 continues to be the launch of new lines and agreements with public bodies, which will enable the Bank to offer customers products with the best terms and conditions to fund their projects.

International

This year, the Bank had to support companies more closely to manage the geopolitical challenges encountered in various markets, as it was a very changing environment globally and Banco Sabadell focused on supporting and proactively managing the needs of customers:

- How to manage ongoing transactions with Russia and Belarus to be able to receive export payments and manage imports so that international sanctions are duly complied with.
- The management of operations with Algeria from Spanish companies that had ongoing transactions in this market for their correct payment as a result of the closure of the Algerian market to Spanish exports during the second half of 2022.
- Change of operations in Egypt, promoting the purchase or import of products, preferably with documentary credits, supporting customers to start this type of transactions in the country.

In terms of digital International Business solutions, the following aspects stand out in the 2022 financial year:

- Roll out of Direct L/C, issuance of import documentary credits in digital format through BSOnline.
- Introduction of the new version of Sabadell Forex, which mainly seeks to streamline and facilitate access to customers through BSOnline.
- New International Business website, which seeks to improve positioning and deliver a better customer experience for internationalised or foreign trade companies.

An agreement has also been reached with ICEX Spain, a Spanish public entity that seeks to jointly promote the internationalisation of Spanish companies.

At the business level, the Bank has supported Spanish companies in this financial year, with notable increases in foreign trade, maintaining its position in Spain as leader in export documentary credits (34.4% market share) and export remittances (36.1% market share), and keeping customers' confidence in the teams of International Business managers as a support lever to increase their business abroad.

Furthermore, the new foreign exchange and interest rate benchmarks have been included as substitutes for the Libor in force to date. All foreign currency financing products now incorporate the new benchmarks.

Corporate & Investment Banking

Business overview

Corporate & Investment Banking (CIB) offers financial solutions and advisory services to large corporations and financial institutions, both Spanish and foreign, through branches throughout Spain and in 15 other countries.

CIB is one of the three core units of the Bank, together with Retail Banking and Business Banking, a division structured by differentiating the needs of customers and the capabilities of each of the three banking business lines to provide the best service to them.

CIB structures its activity around two pillars: the customer pillar, whose aim is to serve its natural customers across the entire spectrum of their financial needs, defined by their nature and which includes the large Corporate Banking corporations, financial institutions, Private Banking in the USA, and the venture capital business developed through BSCapital and, secondly, the Specialised Businesses unit, which groups together the activities of Structured Finance, Treasury, Investment Banking and Trading, Custody and Research, whose aim is to advise, design and execute tailor-made transactions that anticipate the specific financial needs of its customers, whether companies or individuals, extending its scope from large corporations to smaller companies and customers, insofar as its solutions are the best response to increasingly complex financial requirements. In 2022, CIB added a new specialised business unit, the CIB Sustainability unit, focused on offering sustainable product solutions and ESG advice to CIB customers.

Management milestones in 2022 and priorities for 2023

CIB has maintained its objective of prioritising the delivery of value to customers and thereby contributing to their future growth and performance. In this endeavour, it has continued to innovate and boost its specialist capabilities, fundamentally in the areas of Investment Banking and Structured Finance, which are now able to meet 100% of its customers' financial requirements. The Bank's teams are also constantly expanding their international reach, always focusing on those markets in which its customers invest or have commercial interests.

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

– Know-how through specialisation. The Corporate Banking teams, located in the different countries in which the Bank operates, have not only the specialisation of the large corporations segment but also the knowledge and penetration differentiated by sectors of activity in order to be able to better understand and serve customers according to their own and their sector's singularities.

– Coordination. Large corporations require special solutions that are the result of involving several of the Bank's areas (specialist teams or even teams from different regions). Coordination of all these teams is pivotal for providing and adding value to its customers.

– Specialisation. CIB has units that develop tailor-made products for large corporations and financial institutions (Corporate Finance, Project Finance, Project Bonds, Operation Syndication, Commercial Paper Programmes, Debt Issuance, M&A, Asset Finance, Derivatives, Risk Hedging, etc.). The units responsible for developing these customised products are cross-cutting across the entire Banco Sabadell Group, also extending their capabilities to the Business and Institutional Banking segment.

– Innovation. This is the last, but by no means the least important, of the key areas. Transitioning from idea to action is vital to evolve in such a dynamic and demanding market as that of specialised financing and large corporations. The Bank creates the necessary spaces and mechanisms for its teams to dedicate part of their time to innovation, understood in its broadest sense: innovation in products, in operations and also in the way it collaborates and interacts.

As regards the measurement of the main figures regarding the performance of Corporate & Investment Banking, the focus is placed on monitoring the income statement (monitoring net profit overall and the main revenue items in particular), return on capital (RAROC), strict risk tracking and monitoring, as well as early action when faced with early signs of potential impairment.

Customer Pillar

Corporate Banking Europe

Corporate Banking is the customer unit within CIB in charge of managing the segment of large corporations which, because of their size, complexity and unique features, require a tailor-made service in which the more traditional financial product range and transaction banking services are supplemented by specialised units; the result is a comprehensive solution model for their needs. The business model is based on close strategic relations with customers, providing them with end-to-end solutions that are tailored to their needs, to that end taking into account the specific features of their economic activity sector and the markets in which they operate.

This unit also includes a series of branches and offices abroad, notably in London, Paris, Casablanca and Lisbon, from where the international activity of the Bank's domestic customers is supported and served, and the international business of Corporate Banking is carried out.

In addition, this customer unit integrates the activity carried out by BSCapital, which carries out the Group's venture capital and private equity activities, managing the industrial (non-real estate) investees. Its activity is articulated through the acquisition of temporary shareholdings in companies, with the aim of maximising the return on its investments. In addition, it also offers support to companies through alternative financing (senior debt fund, venture debt or mezzanine loans).

In 2022, the Bank has actively supported its customers in the return to normal activity after the pandemic and focused 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 changes in the economy, mainly during the second half of 2022, in an environment of rising inflation and the ensuing increase in interest rates in the various markets in which its customers operate.

Corporate Banking lending levels in Spain increased by 6.2% to 7.403 million euros. In the international arena, the evolution of the business was also characterised by the focus on optimising the Group's capital consumption, combined with improved profitability, lowering investment positions in the rest of EMEA by -2.0%.

As for profitability, Corporate Banking Spain had a ROTE of 12.0% (+257 basis points compared to December 2021) as at December 2022.

Meanwhile, BSCapital has actively managed the portfolio during 2022, carrying out its traditional activities of equity and debt, realising investment, divestment and portfolio revaluation transactions. One of the actions carried out by Aurica Capital Desarrollo was the first closing of the new Aurica IV fund, in which Banco Sabadell is anchor investor, conducting its first investments. A new framework for action for industrial mezzanine debt with a 3-year investment horizon has been approved and the first transactions have already been carried out.

BSCapital has continued to use the guarantee schemes granted by the European Investment Fund (EIF), with a high use rate. Furthermore, the EIF has approved the InvestEU guarantee product for revolving loans, venture debt and mezzanine loans, which is expected to be available starting in 2023.

The Bank has invested heavily in renewable energies, mainly in Spain and always within its scope of action. It has also divested some assets.

BSCapital will continue to prioritise equity and debt investments, with the support of international organisations such as the EIB and the EIF, while continuing to manage the current portfolio with the same standards as in previous years and with the clear objective of creating long-term value in mind.

As regards renewables, financing opportunities will continue to be sought, aligned with the new investment framework, and potential sales of assets in Spain and Latin America will be analysed.

The venture debt activity and the rotation of the venture capital portfolio will be supported by seeking divestments with capital gains, and Crisae will continue with the origination and execution of transactions (mobilisation of funds raised).

2023 poses a series of challenges, among which are the interest rate hikes that have already taken place in 2022 and the inflationary environment that directly affects consumption and manufacturing. Corporate Banking is supporting its customers in facing these challenges both at the national and international level, with a product offer that covers 100% of their financing requirements, both in 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 pillars of the management of this unit, which will also focus next year on optimising capital consumption, with the aim of increasing the return on capital employed.

Corporate Banking and Private Banking USA

Banco Sabadell has been operating in the United States for almost 30 years through an international full branch managed from Miami and through Sabadell Securities USA, incorporated in 2008 and operational since then. These business units together manage the international corporate banking and private banking business 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 capacity and experience 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 those products and services that may be required by professionals and companies of any size. To supplement its structure in Miami, the Bank has representative offices in New York, Peru, Colombia and the Dominican Republic.

Sabadell Securities USA 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, responding to their needs by providing investment advice in the capital markets.

2022 unfolded in a financial environment that compounded a sharp rise of interest rates with widespread falls in fixed-income and equity markets.

In this environment, the branch's positioning with a balance of interest rate-sensitive assets coupled with discipline in controlling the cost of deposits allowed it to increase its net interest margin. In addition, the Bank faced the challenge of defending loan volumes while maintaining an adequate level of capital. With a forward-looking approach, processes were deployed that improved the flow of data required for the calculation of regulatory capital, including the correct reflection of contractual guarantees and the appropriate allocation of existing mitigating factors.

The operational improvement plan continued to be implemented during the year, achieving productivity improvements that were successful in keeping operating costs stable compared to 2021, despite rising inflation. Moreover, the project to update the IT platform (Project Aspire) continued to be implemented in order to enhance the capabilities available both to customers and to business and support units. The Bank expects to complete this project in 2023.

The combination of the increase in net interest margin, the optimisation of capital employed and the exercise of discipline when controlling operating costs allowed the branch to increase its profitability (ROTE) from 10% at 2021 year-end to 24% this year, maintaining its position as one of the most profitable units within the Bank.

Turning to financial figures, during the 2022 financial year, the volume of business managed stood at 14.2 billion US dollars, representing a decrease of 2.3%. The decline largely stemmed from capital market valuations, which had a negative impact on private banking business volumes. Off-balance sheet customer assets under management declined by 15% to stand at around 4.1 billion US dollars at year-end. Meanwhile, the balance of loans increased by 9%, to around 6.3 billion US dollars, and customer deposits decreased by 3%, standing at 3.8 billion US dollars at year-end.

Net interest income stood at 154 million US dollars, up 27% year-on-year, mainly due to higher market interest rates. Net fees and commissions were almost 44 million US dollars, down 7% compared to 2021 if windfall profits are excluded. Gross income increased by 13%, exceeding 198 million US dollars for the year, while administrative and amortisation costs remained stable, despite including investments in the IT platform. Net profit for the year was 90.7 million US dollars, up 21% from 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.

The Structured Finance activity focuses on the study, design, origination and syndication of corporate finance products and operations, acquisitions, 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 level, as well as being active in the primary and secondary syndicated loans 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. Thus, it ensures optimal support of customers in their internationalisation processes, in coordination with the Group's international network of branches, subsidiaries and investees.

In 2022, Banco Sabadell, thanks to its policy of supporting customers and adapting to their needs so as to seek the best responses to their credit requirements within the possibilities offered by the credit markets in the specific macroeconomic environment, maintained its benchmark position in the business banking segment in Spain – an activity that is being exported to other regions. In this context, Structured Finance ranked fourth in the MLA rankings for syndicated loans and fifth in Project Finance in the Spanish market.

MLA league table for syndicated loans in the Spanish market in 2022:

Million euro

Ranking	Mandated Lead Arranger	Deal Value	Number of transactions
1	Santander	6,306	109
2	BBVA	5,758	103
2	CaixaBank	5,805	103
4	Banco de Sabadell	2,675	56
5	BNP Paribas	3,643	37
6	Credit Agricole CIB	2,975	31
7	SG Corporate & Investment Banking	2,939	30
8	ING	1,798	23
9	Abanca Corporacion Bancaria	745	20
9	Intesa Sanpaolo SpA	2,074	20

Source: Dealogic

MLA league table for project finance in the Spanish market in 2022:

Million euro

Ranking	Mandated Lead Arranger	Deal Value	Number of transactions
1	Santander	777	16
2	Abanca Corporacion Bancaria	311	8
2	ING	311	8
2	SG Corporate & Investment Banking	445	8
5	Banco de Sabadell	321	7
5	BBVA	361	7
5	BNP Paribas	663	7
8	CaixaBank	840	6
8	Credit Agricole CIB	203	6
10	Bankinter	117	4

Source: Dealogic

The Bank's top priority continues to be supporting customers by designing long-term financing structures for new projects, acquisitions, internationalisation, etc., as well as syndicated transactions that guarantee stable and complete debt for debt management where appropriate, assessing the positive potential of possible solutions combined with investment banking products.

Treasury and Markets

Treasury and Markets is responsible, on one hand, for 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 current liquidity, as well as managing and complying with its regulatory ratios. It also manages the risk of trading activity in interest rate, foreign exchange and fixed-income products, mainly due to flows of transactions with customers, both internal and external, originated through the activity of the distribution units themselves and the activity arising from short-term liquidity management.

In 2022, the Treasury and Markets Division further developed the digitalisation and optimisation of its transactions with customers by enhancing the Sabadell Forex currency application, expanding its range of services and improving customer experience. Furthermore, the range of products and solutions offered by the division continued to increase, 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.

Looking ahead to the new financial year 2023, it is expected that the activity related to currency products will continue to be a central pillar of the strategy and, in this regard, projects related to the Sabadell Forex platform will be launched to provide differential value-added services to customers. As regards the institutional customer segment, efforts will continue to be made to expand the international investor base for capital market products. In trading, the aim is to continue to build up the capacity to manage risk on the Bank's own books, reducing hedges with other entities and continuing to develop collateral management in order to take the fullest advantage of it.

Investment Banking

Investment Banking (IB) is the CIB Division that coordinates the channelling of institutional investors' liquidity to Banco Sabadell customers, through both debt products and capital instruments. Furthermore, via its M&A (Mergers & Acquisitions) area, it gives advice on company acquisitions and sales, mergers and the incorporation of new shareholders.

During 2022, the Investment Banking team was very active in the origination of public issues, notably participating in corporate, public sector and financial issuer transactions, both in long-term and short-term financing. One of the markets in which the Bank was most active was that of commercial paper programmes, participating in programmes from 50 different issuers.

One of the core pillars of this activity is the closing of niche transactions, such as project bonds, securitisations or direct lending, with a view to becoming a leader in the ESG segment.

IB continues to focus on offering tailor-made financing solutions, in bond or loan format, in various sectors, from real estate and infrastructure to renewable energy project finance and corporate finance in the domestic middle market segment.

During a complex year for the activity in equity capital markets, Banco Sabadell has continued to support its customers, participating as co-bookrunner in Atrys Health's capital increases through an accelerated private placement of 72.4 million euros.

The Bank was very active in Mergers and Acquisitions (M&A), successfully completing several transactions, including advising on the sale of the photovoltaic tracker manufacturer STI Norland to the US NASDAQ-listed group Array Technologies, to create the world leader in its segment; advising the US fund KPS Capital through its investee Siderforgerossi on the acquisition of the Euskalforging Group, one of Europe's leading manufacturers of flanges and large diameter rings for the offshore wind sector; advising on the sale of Colegio Meres to the British group Cognita; the sale of two 100 MW wind farms to the Italian group PLT Energía; and the sale of several portfolios of photovoltaic and wind projects to the Altano Energy and CIMD groups.

IB's strategy for 2023 is to consolidate, maintain and improve the quality standards in this activity, mainly in the process of channelling institutional financing to SME customers, as well as to conclude the commercialisation of two large projects: the Senior Debt Fund and the institutional factoring initiative.

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, as a mere intermediary.

It has a Research Department, whose aim is to provide guidance and recommendations regarding investments in equity and credit markets for customers. To this end, they produce podcasts, webinars, videos, daily reports, sector reports, company reports, etc.

Enhancements were made to the online platforms throughout 2022, in line with the new strategic objectives of Banco Sabadell Group, based on the pillars of sustainability, digitalisation and customer focus. These enhancements, which will continue over the next few years, will considerably increase the level of service offered to customers, with more information during and after transactions and greater support in decision-making.

The Bank has been able to verify a very high percentage of equity execution transactions carried out through self-service channels, with 93% 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.

During 2022, a new campaign to drive the dedicated access and intermediation service through the Bank's equity trading desk was launched, to meet the liquidity needs of Spanish companies listed not only on Spanish stock exchanges but also on other international markets. In addition, training events/seminars for companies were resumed, providing greater visibility to the custody and agent bank, liquidity provider, research and investment banking services that Banco Sabadell offers.

The main objective for 2023 is to increase the volumes of intermediation in equity markets, both Spanish and international, through the following levers of action: optimise the online customer experience by redesigning the Sabadell Broker platform, integrating more information from Research with improved and more sophisticated intermediation capabilities and services; 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 wide range of retail banking services and products to individuals and small and medium-sized enterprises in the UK. TSB has a multi-channel distribution model, which includes fully digital capabilities (internet and mobile), telephony channels and a network of branches located throughout Great Britain.

This 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 this end, TSB will combine 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 2022

TSB's relentless focus on its customers and delivering its Money Confidence purpose has been instrumental in its response to the cost-of-living crisis. The successful early execution of the 2019 growth strategy means TSB is in good shape not only to weather this latest economic storm, but also to continue its momentum to be a stronger and better bank.

Despite the uncertain economic environment, TSB has continued to perform strongly. In 2022, TSB continued to improve the service offered to customers across all channels which, in turn, has supported growth. In December 2022, TSB reached an agreement with UK regulators regarding the conclusions of the investigation into the causes and circumstances of the incidents that arose following the migration of TSB's IT platform, which required TSB to pay 48.65 million pounds sterling to UK regulators. The actions TSB has taken in the years since to be truly customer-focused has created strong future foundations. Growth in both customer lending and deposit balances was solid, but more muted than in previous years, and is evidence of management action to navigate the volatile and competitive retail banking markets during the year. TSB has continued to grow income and reduce costs, and its capital and liquidity remain strong and stable.

Executing the strategy

TSB's customer service is improving 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.

In 2022, TSB:

- remained the only bank in the UK with a Fraud Refund Guarantee, refunding over 98% of customers who are innocent victims of fraud, compared to an industry average of 56%. Over 80% of fraud victims were refunded within 5 days or less;
- rewarded active customers with 1.3 million pounds in cashback payments, while 630,000 customers opened a new savings account, more than double the previous year. TSB customers have enjoyed the benefits of the Spend & Save account features, with over 36.5 million pounds rounded up into Savings Pots using the 'Save the Pennies' feature on its award-winning current account;
- helped 13,000 first-time buyers get onto the property ladder and supported over 30,000 customers switching to a new mortgage. TSB continues to deliver a leading mortgage service, with a broker trust rating of 87% – TSB's highest score to date (and increased from 72% at the start of 2021);

- further strengthened its digital banking offer, improving the look and feel of the Internet banking proposition and added features to its TSB Mobile Banking App. New customers can now open a Spend & Save current account in less than ten minutes through the App and apply for a credit card or a loan, and manage their cards. Customers can also access fintech partners such as ApTap, Wealthify and Farewill from their TSB Mobile App;

- upgraded a further 84 branches this year to create more inviting spaces for customers, whilst reducing the branch footprint to 220. Self-serve deposit capability and video banking options have been expanded, allowing customers greater flexibility in how and when they bank. The branch network is complemented by over 40 'pop-ups' serving communities across Great Britain, and TSB is an active participant in the Cash Access Group Banking Hubs sectoral initiative, a programme that aims to create banking hubs in the country's most remote communities;

- established early warning indicators to assist customers before they get into financial difficulty which, combined with almost 2,000 hours of cost-of-living training for TSB employees, helped over 2,100 customers get back on track after struggling with payments. The 'Money Worries' pages on TSB's website, which contains information of interest to those who are concerned about their financial situation, has been visited over 100,000 times.

As regards its next steps, TSB has drawn up an ambitious three-year plan to take forward its Money Confidence purpose. The strategy has four key areas of focus, centred around service excellence, customer focus, simplification and efficiency and doing what matters for people and the planet, reflecting the growing expectations of its customers with regard to the Bank's values.

The strategy has been set against a fluid economic backdrop. The battle to control inflation while returning the UK economy to a sustainable growth trajectory will be challenging, and it is sensible to anticipate that the continued impact that the rising cost of living is having on its customers will also have an effect on the Bank. Its robust capital and liquidity position means that TSB is well placed to navigate these headwinds and continue to support the customers, employees and communities it serves.

The regulatory landscape for financial services is also set to undergo important changes in the years ahead with the introduction of the FCA's new Consumer Duty. TSB's customer focus, high standards of governance and commitment to responsible business practices mean that the Bank is well placed to deliver on this to continue to improve outcomes for customers.

Key figures

Net profit stood at 87 million euros as at 2022 year-end, impacted by -57 million euros (net) stemming from the agreement to pay a fine to UK regulators for the incidents following the IT platform migration, recorded in the last quarter of 2022.

Net interest income totalled 1,151 million euros, 13.8% higher than the previous year, supported by the growth of mortgage volumes and the interest rate hikes.

Net fees and commissions increased by 11.0% year-on-year, mainly due to higher service fees, particularly card fees.

Total expenses stood at -909 million euros, a year-on-year decrease of -3.5%, as in the previous year this item had been impacted by -19 million euros of non-recurrent costs as a result of the efficiency plan. Not including this impact, expenses decreased by -1.5%, due to both improved staff expenses and lower general expenses.

Provisions and impairment amounted to -104 million euros, increasing in year-on-year terms mainly due to the release of provisions in the previous year.

Corporation tax included an impact of -15 million euros as at 2022 year-end, as a result of the effects on deferred tax assets following the review of the UK Bank Levy, which was reduced from 8% to 3%. On the other hand, +23 million euros were booked under the same item due to the corporation tax increase as at 2021 year-end.

Million euro

	2022	2021	Year-on-year change (%)
Net interest income	**1,151**	**1,011**	**13.8**
Fees and commissions (net)	134	121	11.0
Core revenue	**1,284**	**1,132**	**13.5**
Gains or (-) losses on financial assets and liabilities and exchange differences	6	2	127.7
Equity-accounted income and dividends	—	—	-
Other operating income and expenses	(95)	(33)	186.4
Gross income	**1,195**	**1,101**	**8.5**
Operating expenses and depreciation and amortisation	(909)	(942)	(3.5)
Pre-provisions income	**285**	**159**	**79.6**
Provisions and impairments	(104)	—	102,632.7
Capital gains on asset sales and other revenue	1	(9)	(108.7)
Profit/(loss) before tax	**182**	**150**	**21.5**
Corporation tax	(95)	(32)	197.6
Profit or loss attributed to minority interests	—	—	-
Profit attributable to the Group	**87**	**118**	**(26.2)**
ROTE (net profit / average shareholders' equity excluding intangible assets)	4.2 %	4.5 %	
Cost-to-income (general administrative expenses / gross income)	63.0 %	71.3 %	
NPL ratio	1.3 %	1.4 %	
NPL coverage ratio of stage 3 with total provisions	42.3 %	38.1 %	

Lending dropped by -2.1% year-on-year, negatively affected by the depreciation of the pound. At a constant exchange rate, this item increased by 3.3% due to the growth of the mortgage portfolio.

Similarly, on-balance sheet customer funds decreased by -4.3% year-on-year, due to the depreciation of the pound, while at a constant exchange rate, they grew by 1.0% due to a larger volume of term deposits.

Million euro

	2022	2021	Year-on-year change (%)
Assets	**55,810**	**55,657**	**0.3**
Gross performing loans to customers	43,110	44,050	(2.1)
Liabilities	**53,316**	**53,012**	**0.6**
On-balance sheet customer funds	40,931	42,779	(4.3)
Wholesale funding in the capital markets	2,537	2,975	(14.7)
Allocated equity	**2,494**	**2,645**	**(5.7)**
Off-balance sheet customer funds	**—**	**—**	**-**
Other indicators			
Employees	5,482	5,762	(4.9)
Branches	220	290	(24.1)

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 region which presents a clear opportunity, as it is an attractive market for the banking business, and a market 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 started operations in early 2016.

The rollout of business capabilities considers the two vehicles mentioned above and the following business lines:

- Corporate Banking, focusing on corporations and large enterprises: three main branches (Mexico City, Monterrey and Guadalajara) and sector-specific specialisation.

- Business Banking, which mimics the Group's original business banking model: launched in 2016, it has been expanding ever since.

Management priorities in 2022

The performance of the Mexican subsidiaries (Banco Sabadell and SabCapital) has been positive, since it exceeded the expectations for the year, largely due to the increase in benchmark rates and the superb management of costs and administrative and operating expenses by the entities.

During 2022, the Mexican subsidiaries continued to focus on growth, financial self-sufficiency and profitability. It is worth highlighting the following initiatives implemented during the year:

- In Corporate Banking, Banco Sabadell's Fiduciary Division and the transaction of derivative financial instruments were consolidated, enabling a more comprehensive service to be offered to the structured finance segment, thus strengthening the link with customers.

- In Business Banking, the Bank continued to enhance its transactional capabilities, an initiative that will continue in 2023. Initiatives in the commercial model and an incentive scheme seek to boost banker productivity and efficiency and to continue offering an outstanding service, which has been a distinctive feature since this segment was created.

- The digital Personal Banking segment was completely closed at the start of the year to focus on corporate and business banking segments, in which the greatest competitive advantages are achieved to improve the Bank's profitability.

A financial planning exercise was conducted in 2022 in line with that of the Group to determine the main strategic courses of action for Banco Sabadell in Mexico that will generate greater value for the Group's Mexican franchise. To summarise, these concern the enhancement of ROE by increasing the generation of income without capital consumption (through the generation of higher income from fees and commissions and fostering new business lines, such as derivatives, currency trading, trusts, etc.), as well as improved funding costs.

On 6 July 2022, HR Ratings ratified the long-term and short-term credit ratings in Mexican national scale, keeping the long-term rating of HR AA+ with a stable outlook and also keeping the short-term rating of HR1, which is based on the fact that the Bank has maintained better asset quality indicators compared to those of the Mexican financial system and most niche banks in Mexico.

Key figures

Net profit as at 2022 year-end amounted to 31 million euros, a strong year-on-year growth supported mainly by the improvement of net interest income and the reduction of provisions.

Net interest income amounted to 149 million euros, increasing by 32.4% year-on-year, due to the interest rate hike and the appreciation of the Mexican peso.

Net fees and commissions amounted to 12 million euros as at 2022 year-end, growing by 1 million euros relative to the previous year due to more commercial activity.

Total expenses amounted to -86 million euros, thus falling by -3.5% year-on-year, mainly due to improved general expenses that offset the increase in amortisations and depreciations.

Provisions and impairment were below the previous year's levels due to an improvement in the loan book, as well as payments received from single-name customers.

The item "Capital gains on asset sales and other revenue" includes write-offs of technology assets.

Million euro

	2022	2021	Year-on-year change (%)
Net interest income	**149**	**113**	**32.4**
Fees and commissions (net)	12	11	17.2
Core revenue	**162**	**123**	**31.1**
Gains or (-) losses on financial assets and liabilities and exchange differences	3	—	3,921.7
Equity-accounted income and dividends	—	—	—
Other operating income and expenses	(17)	(10)	-
Gross income	**148**	**114**	**30.2**
Operating expenses and depreciation and amortisation	(86)	(89)	(3.5)
Pre-provisions income	**62**	**24**	**154.3**
Provisions and impairments	(9)	(32)	(73.0)
Capital gains on asset sales and other revenue	(14)	—	-
Profit/(loss) before tax	**39**	**(8)**	**(577.2)**
Corporation tax	(8)	9	(187.2)
Profit or loss attributed to minority interests	—	—	-
Profit attributable to the Group	**31**	**1**	**6,141.3**
ROTE (net profit / average shareholders' equity excluding intangible assets)	6.6 %	0.1 %	
Cost-to-income (general administrative expenses / gross income)	48.7 %	71.1 %	
NPL ratio	2.3 %	1.0 %	
NPL coverage ratio of stage 3 with total provisions	70.1 %	265.7 %	

Performing loans grew by 9.5% year-on-year, supported by the appreciation of the Mexican peso and the US dollar. Considering a constant exchange rate, this increase was 1.4%.

Similarly, on-balance sheet customer funds increased by 26.0% year-on-year, supported by the appreciation of these currencies. At a constant exchange rate, growth was 14.6%.

Million euro

	2022	2021	Year-on-year change (%)
Assets	**6,025**	**5,128**	**17.5**
Gross performing loans to customers	4,131	3,773	9.5
Real estate exposure (net)	—	—	—
Liabilities	**5,437**	**4,550**	**19.5**
On-balance sheet customer funds	3,090	2,453	26.0
Allocated equity	**587**	**578**	**1.6**
Off-balance sheet customer funds	**—**	**—**	**—**
Other indicators			
Employees	422	453	(6.8)
Branches	15	15	—

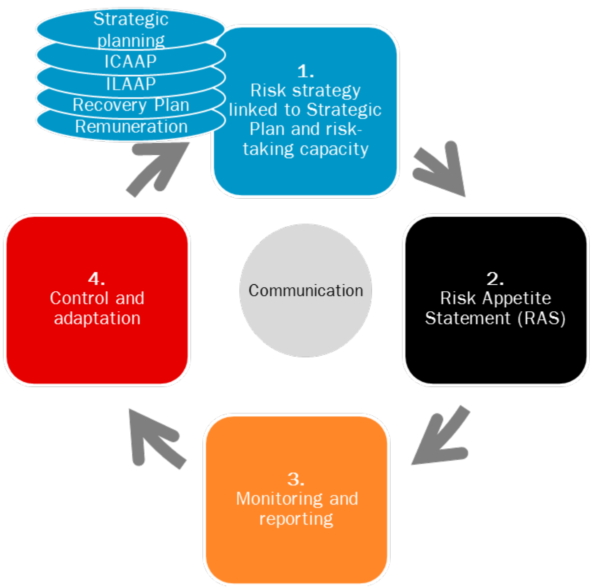
5 - RISKS

In 2022, Banco Sabadell Group continued to strengthen its Global Risk Framework by making improvements in line with best practices 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 adaptation systems are in place to ensure compliance:

Strategic risk management and control processes



Main 2022 milestones in risk management and control

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 2022 are set out below:

Strategic risk

Definition: the risk of losses (or negative impacts in general) 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.

Key 2022 milestones:

(i) Strategy and reputation

– Supporting customers in the transition to a more digital model and in the adoption of good practices and initiatives in terms of greater consumer protection.

– The Bank has finished implementing the Efficiency Plan, with a significant cost reduction that has contributed to an improvement in the cost-to-income ratio and levels of profitability in excess of the target disclosed to the market for 2023.

– The performance of the Bank's business and its results are reflected in various reputational indicators, including the stock market performance, which is above the average of Spanish banks.

(ii) TSB

– Throughout 2022, TSB has been completing the actions of its Strategic Business Plan to improve profitability and efficiency.

(iii) Improvement in the capital position

– The CET1 ratio improved to 12.55% in fully-loaded terms as at 2022 year-end, driven significantly by organic capital creation. Generalised fulfilment of regulatory capital requirements.

– Total capital remained stable, ending 2022 at 17.02%, and the leverage ratio decreased from 5.81 to 4.59% year-on-year (in fully-loaded terms).

(IV) Profitability

– The Group's net profit amounted to 859 million euros as at the end of 2022. It is particularly worth mentioning the good performance of core results (net interest income + fees and commissions – recurrent costs), which showed a 26.3% increase year-on-year, as a result of the good performance of net interest income and the growth in fees and commissions, as well as the cost reduction.

– The Group achieved a year-end ROTE of 7.8%, exceeding the May 2021 guidance of ROTE >6% by 2023.

Credit risk

Definition: 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.

Key 2022 milestones:

(i) Non-performing assets:

– Decrease in the NPL ratio in the year, from 3.7% to 3.4%, due to a reduction in stage 3 assets as a result of an improved credit quality.

(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 and shows a downward trend.

– Similarly, in terms of individual concentration, the metrics relating to concentration of large exposures do show a slight upward trend but nevertheless remain within the target level. The credit ratings of top segments improve significantly as more recent balance sheets with a more diluted impact of the health crisis are introduced.

– Geographically speaking, the portfolio is positioned in the most dynamic regions, both in Spain and worldwide. International exposure accounts for 36% of the loan book.

(iii) Lending performance

– Performing loans continue to increase year-on-year in all geographies, factoring out the impact of the performance of currencies, with annual growth figures of 1.7% in Spain, 3.3% in the UK (TSB) and 1.4% in Mexico.

– In Spain, the year-on-year growth is primarily driven by loans to individuals (the increase in the mortgage portfolio is noteworthy) and by business loans.

(IV) TSB lending performance

– In TSB, at a constant exchange rate, annual growth was 3.3%, supported by the positive evolution of the mortgage book.

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 2022 milestones:

(i) Robust liquidity position

– Solid liquidity position, where the LCR (Liquidity Coverage Ratio) stands at 234% at the Group level (196% at TSB LMU and 270% at Banco Sabadell Spain) and the NSFR (Net Stable Funding Ratio) stands at 138% at the Group level (151% at TSB LMU and 132% at Banco Sabadell Spain) both at 2022 year-end, after having optimised the funding sources with access to long-term financing, having borrowed 22 billion euros from the ECB and 6,201 million euros from the Bank of England, as well as increasing the funding gap in 2022.

– The loan-to-deposit (LtD) ratio as at 2022 year-end was 95.6% with a balanced retail funding structure.

– Moreover, Banco Sabadell has fulfilled the capital markets issuance plan, which it had set for itself for 2022, with strong investor appetite. This allowed it to optimise the associated financing 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, where in particular the euro interest rates went from negative to positive. The variable rate loan book has gradually included the revaluation of benchmark indices (mainly the 12-month Euribor). On the liabilities side, there is a customer deposit base, predominantly comprising sight deposit accounts.

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.

Operational risk remains a material risk for the Group, with impacts that, although acceptable, have increased in recent years due to the problems associated with conduct risk. The current scenario of high awareness and increased regulatory pressure, aimed especially at providing greater protection for consumers and vulnerable customers, places conduct risks as the main focus of attention. Its current relevance and the expectation that this scenario will likely continue requires the focus to remain fixed on these risks, monitoring their evolution and adequately monitoring the planned mitigation measures.

The focus remains on complaints related to floor clauses, mortgage application and arrangement fees, high interest charges associated with revolving credit cards and appropriate assistance for vulnerable customers, especially in the UK, given the demanding regulatory environment. The creation of the new financial customer protection authority planned for the first few months of 2023 could have an impact on the complaints received, as it facilitates this process. The materialisation of conduct risk involves a potential reputational risk for the Institution, although it remains in line with the sector.

Compliance risk

Compliance risk, which is part of operational risk, is 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 the banking business, minimising the possibility of any infringements occurring and ensuring that any that do occur are identified, reported and dealt with diligently.

Main milestones of 2022:

(I) Continue to promote a culture of ethics and compliance among employees

Compliance has developed a training model that contributes to:

(i) learning for the compliance team, as its employees can obtain official compliance certifications and participate in courses and events.

(ii) learning for the entire Institution, through training courses aimed at the branch network and other divisions, as well as Senior Management, and the design of compliance courses and follow-up on their completion.

(iii) the compliance culture, in relation to which it is worth highlighting: (a) the role of the Regulatory School, which symbolises a change of paradigm, a friendly, pleasant and very graphic space in which to convey mandatory and regulatory standards, (b) the daily distribution to all employees who are part of Compliance of relevant news that may be of interest in their areas of work, (c) the weekly sending of communications to all the Bank's employees by Human Resources, which include relevant aspects related to Compliance, and (d) the quarterly sending of a newsletter from Risk Control and Regulation with relevant news on compliance.

(ii) Planning and monitoring

The Compliance function establishes, applying the principle of proportionality in accordance with the nature, volume and complexity of its activities, a compliance programme which includes a detailed schedule of its activities. This programme covers all services provided and activities carried out by the Institution and defines its priorities based on the assessment of compliance risk and in coordination with the Risk Control function.

In order to guarantee the effectiveness of the Programme, Monitoring Plans have been drawn up, which include two types of information: those that illustrate the activities carried out from a quantitative perspective, with KPIs linked to the operational execution of the programme, and those that deal with qualitative variables.

(iii) Relationship with supervisors

Management maintains constant interaction with the main authorities supervising the Bank's activities.

All requests received from the various supervisors have been dealt with within the established deadlines.

(IV) Evolution of the Senior Management reporting model

Compliance has adapted its Senior Management reporting model during 2022. To this end, the number of reports has been increased, as has their frequency.

For more details on the corporate risk culture, the global risk framework and the overall organisation of the risk function, as well as the main risks, see Note 3 to the annual financial statements for 2022.

6 – OTHER MATERIAL INFORMATION

6.1 R&D and innovation

The Group's technological activities continued to respond to the specific needs of each region, particularly the digital transformation in Spain, as well as the performance of the new IT platform and the rollout of the new application development model. The main drivers for these improvements have been efficiency, quality and productivity. At TSB and Banco Sabadell Mexico, efforts continued to focus on improving business capabilities and achieving operational efficiency.

In the domestic context

A key aspect in 2022 was the rollout of new 100% digital products and processes, as well as the improvement in operational efficiency. In addition, the resilience and innovation of the IT platform has continued to be strengthened by adapting it to the latest market trends.

Within Retail and Business Banking, it is worth mentioning the consolidation of the digital onboarding process, which has enabled the fully digital acquisition of new customers without the involvement of the branch network, using the latest technological trends in the market, such as face recognition. The Bank also continues to expand the range of fully digital products, including mortgages and loans.

As regards the branches, of particular note was the renewal of the ATM fleet, deploying the new self-serve capabilities in most of the branch network. The Bank has also implemented new communication protocols at the branches that enhance and activate new ways to serve customers remotely.

Furthermore, in 2022, the evolution of the technological enablers continued, including the improvement in the Proteo4 architecture, which reduces the time-to-market of new features and facilitates the rollout of cloud-based applications, and the implementation of a cloud-based platform for the data consumption of the most frequently used transactions. This enables a more efficient and scalable use of the IT platform, reducing its reliance on legacy systems. In this same area, the Discovery programme completed the migration to the new data centres, improving the performance and resilience of IT services and streamlining their management.

In the area of development services, Project Dingle has been executed, through which IT services and developments that had to date been provided by the 140 existing suppliers were transferred to three main suppliers, with a substantial improvement in efficiency and in the quality and agility of the development function, maintaining the knowledge and control of the Bank's critical services.

Another noteworthy aspect is the use of RPA (Robotics Process Automation) technologies to make branch network and back-office processes more efficient, and as a result, employees have been able to focus on more value-added tasks for the Institution. It is also important to note the use of artificial intelligence to strengthen and anticipate the detection of fraud attempts and to have new and more accurate risk assessment models to help managers make decisions.

In the international context

TSB's activities have focused on the improvement of the digital catalogue of products, e.g. the use of cheques on mobile phones and the online new loan application process. The specific digital features for business banking have also been enhanced. Initiatives to improve the scalability and resilience of the IT platform have been implemented as well.

Banco Sabadell Mexico has focused on the ongoing development of programmes to enhance the operational efficiency of its IT platform.

6.2 Acquisition and sale of treasury shares

See Note 22 to the annual financial statements.

6.3 Average period of payment to suppliers

The average period of payment to suppliers (days payable outstanding) by consolidated entities based in Spain was 28.74 days (17.29 days in the case of the Bank).

6.4 Material post-closing events

No material events meriting disclosure have occurred since 31 December 2022.

6.5 Other reports related to the Directors' Report

Non-Financial Disclosures Report

In accordance with the provisions of Act 11/2018, of 28 December, on non-financial and diversity disclosures, Banco Sabadell Group has drawn up the consolidated Non-Financial Disclosures Report for 2022, which, in accordance with article 44 of the Commercial Code, is attached as a separate document to the 2022 consolidated directors' report. The separate information corresponding to Banco Sabadell, S.A. is contained in that separate document attached to the consolidated directors' report, which will be filed with the Alicante Mercantile Registry.

Annual Corporate Governance Report

The Annual Corporate Governance Report (ACGR) corresponding to the 2022 financial year is 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 annual financial statements and the Directors' Report and is sent separately to the CNMV. From the date of publication of the annual financial statements and the Directors' Report, the ACGR is available on the CNMV's website (www.cnmv.es) and on the corporate website of Banco Sabadell Group (www.grupbancsabadell.com).

Annual Report on Directors' Remuneration

The Annual Report on Directors' Remuneration (ARDR) corresponding to the 2022 financial year is an integral part of the Directors' Report in accordance with the provisions of the Spanish Capital Companies Act. This report is signed off by the Board of Directors on the same date as the annual financial statements and the Directors' Report and is sent separately to the CNMV. From the date of publication of the 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 funds	Includes customer deposits (ex-repos) and other liabilities sold by the branch network (Banco Sabadell straight bonds, commercial paper and others).	Key figure in the Group's consolidated balance sheet, the performance of which is monitored.
On-balance sheet funds	Includes the following accounting sub-headings: customer deposits, debt securities 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) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end. Average total assets: arithmetic mean calculated as the sum of the daily balances for the reference period and divided by the number of days in said period.	A measure commonly used in the financial sector to determine the accounting return on Group assets.
RORWA	Profit attributable to the Group / risk-weighted assets (RWAs). 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) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end. Risk-weighted assets: total assets of a credit institution, multiplied by its respective risk factors (risk weights). Risk factors reflect the perceived level of risk of a particular asset class.	A measure commonly used in the financial sector to determine the accounting return on risk-weighted assets.
ROE	Profit attributable to the Group / average shareholders' equity. The numerator 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) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year.	A measure commonly used in the financial sector to determine the accounting 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) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end. The denominator excludes intangible assets and goodwill of investees. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year.	Additional measure of the accounting 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 and the Single Resolution Fund and the Spanish tax on deposits of credit institutions, 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 and the Single Resolution Fund and the Spanish tax on deposits of credit institutions, except at year-end.	One of the main indicators of efficiency or productivity of banking activity.
Exposures classified as stage 3	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) 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. Calculated as impairment of loans and advances to customers (including provisions for guarantees given) / total exposures classified as stage 3 (including guarantees given classified as stage 3).	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and shows the stage 3 provisions that the Institution has allocated for loans classified as stage 3.
Stage 3 coverage ratio	Percentage of stage 3 exposures that is covered by stage 3 provisions. Calculated as impairment of stage 3 customer loans and advances (including provisions for stage 3 guarantees given) / total stage 3 exposures (including guarantees given classified as stage 3).	It is one of the main indicators used in the banking 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 the impairment fund of customer loans and advances (including provisions of guarantees given) plus the 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) 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) 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)	The ratio between provisions for loan losses / loans to customers and 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)	The ratio between total provisions and impairments / loans to customers, 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-deposit 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 average number of shares outstanding as at the reporting date.	It is an economic market measurement or market ratio that indicates the total value of a company according to its market price.
Earnings per share (EPS)	Calculated by dividing the net profit (or loss) attributable to the Group by the average number of shares outstanding as at the reporting date. The numerator considers the straight-line annualisation of profit (or loss) earned to date adjusted by the amount of the Additional Tier 1 coupon recognised in shareholders' equity, after tax. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end.	It is an economic measurement or market ratio that indicates a company's profitability, and it is one of the measurements used most frequently to assess institutions' performance.
Book value per share	Book value / average number of shares as at the reporting date. The book value is the sum of shareholders' equity, adjusted to account for the accrual to date of contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end.	It is an economic market measurement or market ratio that indicates the book value per share.

TBV per share	Tangible book value / average number of shares outstanding as at the reporting date. The tangible book value is the sum of shareholders' equity adjusted to account for intangible assets and goodwill of investees, as well as the accrual to date of contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) and the Spanish tax on deposits of credit institutions (IDEC), except at year-end.	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 (P/E)	Share price or value / net earnings per share.	Economic measurement or market ratio commonly used by the market to determine a company's ability to generate future earnings.

Equivalence of headings from the income statement of businesses and management units that appear in Note 38 on "Segment information" and in the Directors' Report with those of the consolidated income statement (*)

Net fees and commissions:

- Fee and commission income.
- (Fee and commission expenses).

Core revenue:

- Net interest income.
- Fee and commission income.
- (Fee and commission expenses).

Other operating income and expenses:

- Other operating income.
- (Other operating expenses).

Operating expenses, depreciation and amortisation:

- (Administrative expenses).
- (Depreciation and amortisation).

Pre-provisions income:

- Gross income.
- (Administrative expenses).
- (Depreciation and amortisation).

Provisions and impairments:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains).
- (Provisions or (-) reversal of provisions).
- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding gains or (-) losses on the sale of equity holdings and other items).
- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (including only gains or losses on sale of investment properties).

Provisions for loan losses:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains).
- (Provisions or (-) reversal of provisions) (including only commitments and guarantees given).

Provisions for other financial assets:

- (Provisions or (-) reversal of provisions) (excluding commitments and guarantees given).

Other provisions and impairments:

- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding gains or (-) losses on the sale of equity holdings and other items).
- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (including only gains or losses on sale of investment properties).

Capital gains on asset sales and other revenue:

- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (excluding gains or losses on sale of investment properties).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (including only gains or (-) losses on the sale of equity holdings and other items).

(*) Headings in the consolidated income statement expressed in brackets denote negative figures.

APMs reconciliation (data in million euros, with the exception of those shown in percentages).

BALANCE SHEET	31/12/2022	31/12/2021
Gross loans to customers / Gross performing loans to customers		
Loans and credit secured with mortgages	89,340	90,718
Loans and credit secured with other collateral	3,412	3,596
Commercial loans	7,489	6,050
Finance leases	2,227	2,106
Overdrafts, etc.	53,663	52,443
Gross performing loans to customers	**156,130**	**154,912**
Stage 3 assets (customers)	5,461	5,698
Accrual adjustments	159	58
Gross loans to customers, excluding repos	**161,750**	**160,668**
Repos	—	—
Gross loans to customers	**161,750**	**160,668**
Impairment allowances	(3,020)	(3,302)
Loans and advances to customers	**158,730**	**157,366**
On-balance sheet customer funds		
Financial liabilities at amortised cost	232,530	235,179
Non-retail financial liabilities	68,390	73,159
Deposits - central banks	27,844	38,250
Deposits - credit institutions	11,373	8,817
Institutional issues	22,514	21,270
Other financial liabilities	6,659	4,822
On-balance sheet customer funds	**164,140**	**162,020**
On-balance sheet funds		
Customer deposits	164,076	162,239
Sight deposit accounts	147,540	147,268
Deposits with agreed maturity including deposits redeemable at notice and hybrid financial liabilities	16,141	14,813
Reverse repos	405	60
Accrual adjustments and hedging derivatives	(9)	98
Borrowings and other marketable securities	19,100	16,822
Subordinated liabilities (*)	3,478	4,229
On-balance sheet funds	**186,654**	**183,290**
Off-balance sheet customer funds		
Mutual funds	22,581	24,593
Assets under management	3,532	3,795
Pension funds	3,182	3,525
Insurance products sold	9,197	9,765
Off-balance sheet customer funds	**38,492**	**41,678**
Funds under management and third-party funds		
On-balance sheet funds	186,654	183,290
Off-balance sheet customer funds	38,492	41,678
Funds under management and third-party funds	**225,146**	**224,968**

(*) Subordinated liabilities in connection with debt securities.

BALANCE SHEET	31/12/2022	31/12/2021
Other assets		
Derivatives - Hedge accounting	3,072	525
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(1,546)	(4)
Tax assets	6,851	7,027
Other assets	480	620
Non-current assets and disposal groups classified as held for sale	738	778
Other assets	**9,596**	**8,946**
Other liabilities		
Derivatives - Hedge accounting	1,242	512
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(959)	19
Tax liabilities	227	205
Other liabilities	872	768
Liabilities included in disposal groups classified as held for sale	—	—
Other liabilities	**1,382**	**1,505**

INCOME STATEMENT	31/12/2022	31/12/2021
Customer spread		
Loans and advances to customers (net)		
Average balance	157,870	152,176
Profit/(loss)	3,966	3,513
Rate (%)	2.51	2.31
Customer deposits		
Average balance	162,393	154,610
Profit/(loss)	(309)	(135)
Rate (%)	(0.19)	(0.09)
Customer spread	**2.32**	**2.22**
Other operating income and expenses		
Other operating income	122	155
Other operating expenses	(459)	(467)
Income from assets under insurance or reinsurance contracts	—	—
Expenses on liabilities under insurance or reinsurance contracts	—	—
Other operating income and expenses	**(337)**	**(313)**

	31/12/2022	31/12/2021
Pre-provisions income		
Gross income	5,180	5,026
Administrative expenses	(2,337)	(2,781)
Staff expenses	(1,392)	(1,777)
Other general administrative expenses	(946)	(1,004)
Depreciation and amortisation	(545)	(527)
Pre-provisions income	**2,298**	**1,719**
Total provisions and impairments		
Impairment or reversal of impairment on investments in joint ventures and associates	(12)	(9)
Impairment or reversal of impairment on non-financial assets, adjusted	(58)	(106)
Impairment or reversal of impairment on non-financial assets	(61)	(106)
Gains or losses on sale of investment properties	3	—
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, adjusted	(26)	(63)
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(28)	(7)
Gains or losses on the sale of equity holdings and other items	2	(55)
Other provisions and impairments	**(96)**	**(178)**
Provisions or reversal of provisions	(97)	(88)
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	(840)	(960)
Provisions for loan losses and other financial assets	**(936)**	**(1,047)**
Total provisions and impairments	**(1,032)**	**(1,225)**
Capital gains on asset sales and other revenue		
Gains or losses on derecognition of non-financial assets, net	(17)	71
Gains or losses on the sale of equity holdings and other items	(2)	55
Gains or losses on sale of investment properties	(3)	—
Capital gains on asset sales and other revenue	**(23)**	**126**

PROFITABILITY AND EFFICIENCY	31/12/2022	31/12/2021
ROA		
Average total assets	257,692	245,313
Consolidated profit or loss for the year	869	539
ROA (%)	**0.34**	**0.22**
RORWA		
Risk-weighted assets (RWAs)	79,554	80,646
Net profit attributable to the Group	859	530
RORWA (%)	**1.08**	**0.66**
ROE		
Average shareholders' equity	13,598	13,106
Net profit attributable to the Group	859	530
ROE (%)	**6.31**	**4.05**
ROTE		
Average shareholders' equity (excluding intangible assets)	11,061	10,508
Net profit attributable to the Group	859	530
ROTE (%)	**7.76**	**5.05**
Cost-to-income ratio		
Gross income	5,180	5,026
Administrative expenses	(2,337)	(2,781)
Cost-to-income ratio (%)	**45.12**	**55.33**
Depreciation and amortisation	(545)	(527)
Cost-to-income ratio with amortisation/depreciation (%)	**55.65**	**65.80**

RISK MANAGEMENT	31/12/2022	31/12/2021
Stage 3 exposures		
Assets classified as stage 3 (including other valuation adjustments)	5,491	5,729
Guarantees given classified as stage 3 (off-balance sheet)	324	475
Stage 3 exposures	**5,814**	**6,203**
Stage 3 coverage ratio, with total provisions		
Provisions for loan losses	3,200	3,495
Exposures classified as stage 3	5,814	6,203
Stage 3 coverage ratio, with total provisions (%)	**55.0 %**	**56.3 %**
Stage 3 coverage ratio		
Provisions for stage 3 loan losses	2,292	2,553
Exposures classified as stage 3	5,814	6,203
Stage 3 coverage ratio (%)	**39.4 %**	**41.2 %**
Non-performing assets		
Exposures classified as stage 3	5,814	6,203
Non-performing real estate assets	1,157	1,362
Non-performing assets	**6,971**	**7,565**
NPA coverage ratio		
Provisions for non-performing assets	3,644	4,014
Non-performing assets	6,971	7,565
NPA coverage ratio (%)	**52.3 %**	**53.1 %**
Non-performing real estate coverage ratio		
Provisions for non-performing real estate assets	443	520
Non-performing real estate assets	1,157	1,362
Non-performing real estate coverage ratio (%)	**38.3 %**	**38.2 %**
NPL ratio		
Exposures classified as stage 3	5,814	6,203
Gross loans to customers, excluding repos	161,750	160,668
Guarantees given (off-balance sheet)	9,003	9,268
NPL ratio (%)	**3.4 %**	**3.7 %**
Credit cost of risk		
Gross loans to customers, excluding repos	161,750	160,668
Guarantees given (off-balance sheet)	9,003	9,268
Provisions for loan losses	(825)	(950)
NPL expenses	(82)	(118)
Credit cost of risk (bps)	**44**	**49**
Total cost of risk		
Gross loans to customers, excluding repos	161,750	160,668
Guarantees given (off-balance sheet)	9,003	9,268
Non-performing real estate assets	1,157	1,362
Total provisions and impairments	(1,032)	(1,225)
Total cost of risk (bps)	**60**	**72**

LIQUIDITY MANAGEMENT	31/12/2022	31/12/2021
Loan-to-deposit ratio		
Net loans and advances excluding ATAs, adjusted for brokered loans	156,924	156,076
On-balance sheet customer funds	164,140	162,020
Loan-to-deposit ratio (%)	**95.6 %**	**96.3 %**

SHAREHOLDERS AND SHARES	31/12/2022	31/12/2021
Average number of shares (million)	5,594	5,586
Listed price	0.881	0.592
Market capitalisation (million euros)	**4,927**	**3,306**
Profit attributable to the Group, adjusted	748	430
Profit attributable to the Group	859	530
Adjustment for accrued AT1	(110)	(101)
Average number of shares (million)	5,594	5,586
Earnings per share (euros)	**0.13**	**0.08**
Shareholders' equity	13,841	13,357
Average number of shares (million)	5,594	5,586
Book value per share (euros)	**2.47**	**2.39**
Shareholders' equity	13,841	13,357
Intangible assets	2,484	2,607
Tangible book value (shareholders' equity, adjusted)	11,357	10,750
Average number of shares (million)	5,594	5,586
TBV per share (euros)	**2.03**	**1.92**
Listed price	0.881	0.592
TBV per share (euros)	2.03	1.92
P/TBV (price/tangible book value per share)	**0.43**	**0.31**
Listed price	0.881	0.592
Earnings per share (euros)	0.13	0.08
Price/earnings ratio (P/E)	**6.58**	**7.69**