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. and Subsidiaries

(Together with the consolidated annual financial statements and consolidated directors' report of Banco de Sabadell, S.A. and subsidiaries for the year ended 31 December 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 Consolidated Annual Financial Statements

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

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

REPORT ON THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

Opinion

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

In our opinion, the accompanying consolidated annual financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

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

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

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

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

Key Audit Matters

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

Impairment of loans and advances to customers

See notes 1.3.4.1, 4.4.2 and 11 to the consolidated annual financial statements

Key audit matter	*How the matter was addressed in our audit*
The Group's portfolio of loans and advances to customers reflects a net balance of Euros 158,730 million at 31 December 2022, while allowances and provisions recognised at that date for impairment total Euros 3,020 million. For the purposes of estimating impairment, financial assets measured at amortised cost are classified into three categories (Stage 1, 2 or 3) according to whether a significant increase in credit risk since their initial recognition has been identified (Stage 2), whether the financial assets are credit-impaired (Stage 3) or whether neither of the foregoing circumstances apply (Stage 1). For the Group, establishing this classification is a relevant process inasmuch as the calculation of allowances and provisions for credit risk varies depending on the category in which the financial asset has been included. Impairment is calculated based on models for estimating expected losses, which the Group estimates on both an individual and a collective basis. This calculation entails a considerable level of judgement as this is a significant and complex estimate. Allowances and provisions for credit risk determined individually consider estimates of future business performance and the market value of collateral provided for credit transactions. In the case of allowances and provisions calculated collectively, expected losses are estimated using internal models that use large databases, different macroeconomic scenarios, parameters to estimate provisions, segmentation criteria and automated processes, which are complex in their design and implementation and require past and present information and future forecasts to be considered. The Group regularly conducts tests of its internal models in order to improve their predictive capabilities based on actual historical experience.	Our audit approach in relation to the Group's estimate of impairment of loans and advances to customers due to credit risk mainly consisted of assessing the methodology applied to calculate expected losses, particularly as regards the methods and assumptions used to estimate exposure at default, probability of default and loss given default; and determining the future macroeconomic scenarios. We also assessed the mathematical accuracy of the calculations of expected losses and the reliability of the data used. To this end, we brought in our credit risk specialists. Our procedures related to the control environment focused on the following key areas: – Identifying the credit risk management framework and assessing the compliance of the Group's accounting policies with the applicable regulations. – Evaluating the appropriateness of the classification of the loans and advances to customers portfolio based on credit risk, in accordance with the criteria defined by the Group, particularly the criteria for identifying and classifying refinancing and restructuring transactions. – Assessing the relevant controls relating to the monitoring of transactions. – Evaluating whether the internal models for estimating both individual and collective allowances and provisions for credit risk, and for the management and valuation of collateral, are functioning correctly. – Assessing whether the aspects observed by the Internal Validation Unit in its periodic reviews and in the tests of the models used to estimate collective allowances and provisions for impairment have been taken into consideration. – Evaluating the integrity, accuracy and updating of the data used and of the control and management process in place.

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

Impairment of loans and advances to customers See notes 1.3.4.1, 4.4.2 and 11 to the consolidated annual financial statements	
Key audit matter	*How the matter was addressed in our audit*
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 Group operates. Calculating expected credit risk losses therefore entails greater uncertainty and requires a higher degree of judgement, primarily as regards estimating macroeconomic scenarios, and the Group has supplemented 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 Group's loans and advances to customers portfolio, and thus of the related allowance and provision for impairment, as well as on the relevance of the process for classifying these financial assets for the purpose of estimating impairment thereon and the subjectivity and complexity of calculating expected losses.	Our tests of detail on the estimated expected losses included the following: – With regard to the impairment of individually significant transactions, we analysed the appropriateness of the discounted cash flow models used by the Group. We also selected a sample from the population of significant transactions and assessed the appropriateness of both the credit risk classification and the corresponding allowance and provision recognised. – With respect to the allowances and provisions for impairment estimated collectively, we evaluated the methodology used by the Group, assessing the integrity and accuracy of the input balances for the process and whether the calculation engine is functioning correctly by replicating the calculation process, taking into account the segmentation and assumptions used by the Group. – We evaluated the methods and assumptions used to estimate exposure at default, probability of default and loss given default. – We considered the macroeconomic scenario variables used by the Group in its internal models to estimate expected losses. 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 Group at 31 December 2022. Likewise, we analysed whether the disclosures in the notes to the consolidated annual financial statements were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Group.

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

Recoverability of goodwill See notes 1.3.12 and 16 to the consolidated annual financial statements	
Key audit matter	*How the matter was addressed in our audit*
At 31 December 2022 the Group has recognised goodwill totalling Euros 1,027 million, from the acquisition of certain entities and businesses in Spain. This goodwill is allocated to the group of cash-generating units (CGUs) that comprise the Banking Business Spain operating segment. At 31 December 2022 the Group's assessment determined that there was no impairment of recognised goodwill. Testing of goodwill for impairment requires the cash-generating units (or groups of cash-generating units) to which goodwill is allocated to be determined, and also requires identification of indications of impairment in each of the CGUs comprising a group of CGUs, calculation of their carrying amount and estimation of the recoverable amount of the CGUs (or groups of CGUs). Among other aspects, this estimate entails financial projections that take into account, inter alia, expected trends in macroeconomic variables and their impact on the future business of the CGUs (or groups of CGUs), the internal circumstances of the Group and its competitors, and trends in discount rates. Due to the high level of judgement and subjectivity of the assumptions and valuation techniques used for its estimate, the recoverability of goodwill has been considered a key audit matter.	Our audit procedures included analysing the key processes and controls established by management relating to the Group's process for identifying the group of CGUs to which goodwill is allocated, and to management's assessment of potential goodwill, which has been subject to review by an independent expert engaged by the Group. With the collaboration of our specialists in corporate business valuation and financial projections, we performed procedures of detail including the following: – Assessing the existence of indications of impairment of each of the CGUs that comprise the group of CGUs to which goodwill is allocated. – Evaluating the reasonableness of the methodology used by management to analyse goodwill impairment, performing procedures on the reliability of the information used to calculate the recoverable amount of the group of CGUs comprising the Banking Business Spain operating segment. We also evaluated the reasonableness of the main assumptions considered, including the financial projections used by the Group. – Analysing the sensitivity of certain assumptions to changes that are considered reasonable. Likewise, we analysed whether the disclosures in the notes to the consolidated annual financial statements were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Group.

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

Other Information: Consolidated Directors' Report

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital files of Banco de Sabadell, S.A. and its subsidiaries for 2022 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated annual financial statements for the aforementioned year and the XBRL files tagged by the Bank, which will form part of the annual financial report.

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

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

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

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

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 of the Group 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. AND COMPANIES FORMING BANCO SABADELL GROUP

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

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

Contents: Banco Sabadell Group consolidated annual financial statements and consolidated directors' report for the year ended 31 December 2022

Consolidated annual financial statements for the year ended 31 December 2022

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2022 and 2021

Thousand euro

Assets	Note	2022	2021 (*)
Cash, cash balances at central banks and other demand deposits (**)	**7**	**41,260,395**	**49,213,196**
Financial assets held for trading		**4,017,253**	**1,971,629**
Derivatives	10	3,600,122	1,378,998
Equity instruments	9	—	2,258
Debt securities	8	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		**77,421**	**79,559**
Equity instruments	9	23,145	14,582
Debt securities	8	54,276	64,977
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		**5,802,264**	**6,869,637**
Equity instruments	9	179,572	184,546
Debt securities	8	5,622,692	6,685,091
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		*1,977,469*	*1,530,351*
Financial assets at amortised cost		**185,045,452**	**178,869,317**
Debt securities	8	21,452,820	15,190,212
Loans and advances	11	163,592,632	163,679,105
Central banks		162,664	170,881
Credit institutions		4,700,287	6,141,939
Customers		158,729,681	157,366,285
Memorandum item: loaned or pledged as security with sale or pledging rights		*6,542,504*	*3,554,788*
Derivatives – Hedge accounting	**12**	**3,072,091**	**525,382**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**(1,545,607)**	**(3,963)**
Investments in joint ventures and associates	**14**	**515,245**	**638,782**
Joint ventures		—	—
Associates		515,245	638,782
Assets under insurance or reinsurance contracts		**—**	**—**
Tangible assets	**15**	**2,581,791**	**2,776,758**
Property, plant and equipment		2,282,049	2,397,490
For own use		2,272,705	2,394,698
Leased out under operating leases		9,344	2,792
Investment properties		299,742	379,268
Of which: leased out under operating leases		*281,707*	*379,268*
Memorandum item: acquired through finance leases		*897,903*	*1,017,016*
Intangible assets	**16**	**2,484,162**	**2,581,421**
Goodwill		1,026,810	1,026,457
Other intangible assets		1,457,352	1,554,964
Tax assets		**6,851,068**	**7,027,123**
Current tax assets		206,561	319,596
Deferred tax assets	39	6,644,507	6,707,527
Other assets	**17**	**479,680**	**619,715**
Insurance contracts linked to pensions		89,729	116,453
Inventories		93,835	142,713
Rest of other assets		296,116	360,549
Non-current assets and disposal groups classified as held for sale	**13**	**738,313**	**778,035**
TOTAL ASSETS		**251,379,528**	**251,946,591**

(*) Shown for comparative purposes only.

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

Notes 1 to 43 and accompanying Schedules I to VI form an integral part of the consolidated balance sheet as at 31 December 2022.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2022 and 2021

Thousand euro

Liabilities	Note	2022	2021 (*)
Financial liabilities held for trading		**3,598,483**	**1,379,898**
Derivatives	10	3,374,036	1,323,236
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		**232,529,932**	**235,179,222**
Deposits		203,293,522	209,306,598
Central banks	18	27,843,687	38,250,031
Credit institutions	18	11,373,390	8,817,114
Customers	19	164,076,445	162,239,453
Debt securities issued	20	22,577,549	21,050,955
Other financial liabilities	21	6,658,861	4,821,669
Memorandum item: subordinated liabilities		*3,477,976*	*4,243,712*
Derivatives – Hedge accounting	**12**	**1,242,470**	**512,442**
Fair value changes of the hedged items in portfolio hedge of interest rate risk		**(959,106)**	**19,472**
Liabilities under insurance or reinsurance contracts		**—**	**—**
Provisions	**22**	**644,509**	**886,138**
Pensions and other post employment defined benefit obligations		63,384	86,020
Other long term employee benefits		170	650
Pending legal issues and tax litigation		89,850	76,848
Commitments and guarantees given		176,823	190,591
Other provisions		314,282	532,029
Tax liabilities		**226,711**	**204,924**
Current tax liabilities		112,994	81,159
Deferred tax liabilities	39	113,717	123,765
Share capital repayable on demand		**—**	**—**
Other liabilities	**17**	**872,108**	**768,214**
Liabilities included in disposal groups classified as held for sale		**—**	**—**
TOTAL LIABILITIES		**238,155,107**	**238,950,310**

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying Schedules I to VI form an integral part of the consolidated balance sheet as at 31 December 2022.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2022 and 2021

Thousand euro

Equity	Note	2022	2021 (*)
Shareholders' equity	**23**	**13,840,724**	**13,356,905**
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		21,548	19,108
Retained earnings		5,859,520	5,441,185
Revaluation reserves		—	—
Other reserves		(1,365,777)	(1,201,701)
Reserves or accumulated losses of investments in joint ventures and associates		163,853	235,453
Other		(1,529,630)	(1,437,154)
(-) Treasury shares		(23,767)	(34,523)
Profit or loss attributable to owners of the parent		858,642	530,238
(-) Interim dividends		(112,040)	—
Accumulated other comprehensive income	**24**	**(650,647)**	**(385,604)**
Items that will not be reclassified to profit or loss		(29,125)	(41,758)
Actuarial gains or (-) losses on defined benefit pension plans		(1,969)	917
Non-current assets and disposal groups classified as held for sale		—	—
Share of other recognised income and expense of investments in joint ventures and associates		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income		(27,156)	(42,675)
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		(621,522)	(343,846)
Hedge of net investments in foreign operations [effective portion]		119,348	157,741
Foreign currency translation		(476,030)	(481,266)
Hedging derivatives. Cash flow hedges reserve [effective portion]		(64,224)	(30,163)
Fair value changes of debt instruments measured at fair value through other comprehensive income		(180,199)	(11,724)
Hedging instruments [not designated elements]		—	—
Non-current assets and disposal groups classified as held for sale		—	—
Share of other recognised income and expense of investments in joint ventures and associates		(20,417)	21,566
Minority interests [Non-controlling interests]	**25**	**34,344**	**24,980**
Accumulated other comprehensive income		—	—
Other items		34,344	24,980
TOTAL EQUITY		**13,224,421**	**12,996,281**
TOTAL EQUITY AND TOTAL LIABILITIES		**251,379,528**	**251,946,591**

Memorandum item: off-balance sheet exposures			
Loan commitments given	**26**	**27,460,615**	**28,403,146**
Financial guarantees given	**26**	**2,086,993**	**2,034,143**
Other commitments given	**26**	**9,674,382**	**7,384,863**

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying Schedules I to VI form an integral part of the consolidated balance sheet as at 31 December 2022.

Consolidated income statements of Banco Sabadell Group

For the years ended 31 December 2022 and 2021

Thousand euro

	Note	2022	2021 (*)
Interest income	28	4,988,603	4,147,549
Financial assets at fair value through other comprehensive income		68,608	49,034
Financial assets at amortised cost		4,499,843	3,734,977
Other interest income		420,152	363,538
(Interest expenses)	28	(1,189,877)	(722,093)
(Expenses on share capital repayable on demand)		—	—
Net interest income		**3,798,726**	**3,425,456**
Dividend income		2,609	1,262
Profit or loss of entities accounted for using the equity method	14	122,167	100,280
Fee and commission income	29	1,742,311	1,661,610
(Fee and commission expenses)	29	(252,103)	(194,069)
Gains or (-) losses on financial assets and liabilities, net	30	231,612	157,045
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		13,227	340,985
Financial assets at amortised cost		(9,190)	323,840
Other financial assets and liabilities		22,417	17,145
Gains or (-) losses on financial assets and liabilities held for trading, net		204,691	(183,555)
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		204,691	(183,555)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		(4,157)	4,466
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		(4,157)	4,466
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		—	—
Gains or (-) losses from hedge accounting, net		17,851	(4,851)
Exchange differences [gain or (-) loss], net	30	(127,971)	187,174
Other operating income	31	121,554	154,732
(Other operating expenses)	32	(458,867)	(467,362)
Income from assets under insurance or reinsurance contracts		—	—
(Expenses on liabilities under insurance or reinsurance contracts)		—	—
Gross income		**5,180,038**	**5,026,128**

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying Schedules I to VI form an integral part of the consolidated income statement for 2022.

Consolidated income statements of Banco Sabadell Group

For the years ended 31 December 2022 and 2021

Thousand euro

	Note	2022	2021 (*)
(Administrative expenses)		(2,337,415)	(2,780,890)
(Staff expenses)	33	(1,391,608)	(1,776,797)
(Other administrative expenses)	33	(945,807)	(1,004,093)
(Depreciation and amortisation)	15, 16	(545,091)	(526,514)
(Provisions or (-) reversal of provisions)	22	(96,821)	(87,566)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	34	(839,579)	(959,507)
(Financial assets at fair value through other comprehensive income)		(182)	697
(Financial assets at amortised cost)		(839,397)	(960,204)
Profit/(loss) on operating activities		**1,361,132**	**671,651**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		(12,200)	(9,428)
(Impairment or (-) reversal of impairment on non-financial assets)	35	(61,116)	(105,967)
(Tangible assets)		(37,098)	(65,483)
(Intangible assets)		—	(1,570)
(Other)		(24,018)	(38,914)
Gains or (-) losses on derecognition of non-financial assets, net	36	(17,369)	71,121
Negative goodwill recognised in profit or loss		—	—
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	37	(27,801)	(7,388)
Profit or (-) loss before tax from continuing operations		**1,242,646**	**619,989**
(Tax expense or (-) income related to profit or loss from continuing operations)	39	(373,256)	(81,282)
Profit or (-) loss after tax from continuing operations		**869,390**	**538,707**
Profit or (-) loss after tax from discontinued operations		—	—
PROFIT OR (-) LOSS FOR THE YEAR		**869,390**	**538,707**
Attributable to minority interest [non-controlling interests]	25	10,748	8,469
Attributable to owners of the parent		858,642	530,238
Earnings (or loss) per share (euros)	**3**	**0.13**	**0.08**
Basic (euros)		0.13	0.08
Diluted (euros)		0.13	0.08

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying Schedules I to VI form an integral part of the consolidated income statement for 2022.

Consolidated statements of recognised income and expenses of Banco Sabadell Group

For the years ended 31 December 2022 and 2021

Thousand euro

	Note	2022	2021 (*)
Profit or loss for the year		**869,390**	**538,707**
Other comprehensive income	**24**	**(265,043)**	**137,445**
Items that will not be reclassified to profit or loss		12,633	22,661
Actuarial gains or (-) losses on defined benefit pension plans		(4,123)	2,299
Non-current assets and disposal groups held for sale		—	—
Share of other recognised income and expense of investments in joint ventures and associates		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income		17,114	18,312
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		—	—
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		—	—
Income tax relating to items that will not be reclassified		(358)	2,050
Items that may be reclassified to profit or loss		(277,676)	114,784
Hedge of net investments in foreign operations [effective portion]		(38,393)	(54,100)
Valuation gains or (-) losses taken to equity		(38,393)	(54,100)
Transferred to profit or loss		—	—
Other reclassifications		—	—
Foreign currency translation		5,238	255,804
Translation gains or (-) losses taken to equity		5,238	255,804
Transferred to profit or loss		—	—
Other reclassifications		—	—
Cash flow hedges [effective portion]		(52,125)	(103,229)
Valuation gains or (-) losses taken to equity		(26,671)	(244,346)
Transferred to profit or loss		(25,493)	141,119
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		(230,451)	(14,112)
Valuation gains or (-) losses taken to equity		(207,699)	1,300
Transferred to profit or loss		(22,752)	(15,412)
Other reclassifications		—	—
Non-current assets and disposal groups held for sale			—
Valuation gains or (-) losses taken to equity		—	—
Transferred to profit or loss		—	—
Other reclassifications		—	—
Share of other recognised income and expense of investments in joint ventures and associates		(41,985)	(5,567)
Income tax relating to items that may be reclassified to profit or (-) loss		80,040	35,988
Total comprehensive income for the year		**604,347**	**676,152**
Attributable to minority interest [non-controlling interests]		10,748	7,928
Attributable to owners of the parent		593,599	668,224

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying Schedules I to VI form an integral part of the consolidated statement of recognised income and expenses for 2022.

Consolidated statements of total changes in equity of Banco Sabadell Group

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 attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Closing balance 31/12/2021	**703,371**	**7,899,227**	**—**	**19,108**	**5,441,185**	**—**	**(1,201,701)**	**(34,523)**	**530,238**	**—**	**(385,604)**	**—**	**24,980**	**12,996,281**
Effects of corrections of errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of changes in accounting policies	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Opening balance 01/01/2022	**703,371**	**7,899,227**	**—**	**19,108**	**5,441,185**	**—**	**(1,201,701)**	**(34,523)**	**530,238**	**—**	**(385,604)**	**—**	**24,980**	**12,996,281**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**858,642**	**—**	**(265,043)**	**—**	**10,748**	**604,347**
Other equity changes	**—**	**—**	**—**	**2,440**	**418,335**	**—**	**(164,076)**	**10,756**	**(530,238)**	**(112,040)**	**—**	**—**	**(1,384)**	**(376,207)**
Issuance of ordinary shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of preference shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Exercise or expiration of other equity instruments issued	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of debt to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dividends (or shareholder remuneration)	—	—	—	—	(168,809)	—	—		—	(112,040)	—	—	—	(280,849)
Purchase of treasury shares	—	—	—	—	—	—	—	(86,457)	—	—	—	—	—	(86,457)
Sale or cancellation of treasury shares	—	—	—	—	—	—	4,537	97,213	—	—	—	—	—	101,750
Reclassification of financial instruments from equity to liability	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reclassification of financial instruments from liability to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers among components of equity				—	530,238	—	—	—	(530,238)	—	—	—	—	—
Equity increase or (-) decrease resulting from business combinations	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share based payments	—	—	—	2,440	—	—	—	—	—	—	—	—	—	2,440
Other increase or (-) decrease in equity	—	—	—	—	56,906	—	(168,613)	—	—	—	—	—	(1,384)	(113,091)
Closing balance 31/12/2022	**703,371**	**7,899,227**	**—**	**21,548**	**5,859,520**	**—**	**(1,365,777)**	**(23,767)**	**858,642**	**(112,040)**	**(650,647)**	**—**	**34,344**	**13,224,421**

Notes 1 to 43 and accompanying Schedules I to VI form an integral part of the consolidated statement of total changes in equity for 2022.

Consolidated statements of total changes in equity of Banco Sabadell Group

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

Shown for comparative purposes only.

Notes 1 to 43 and accompanying Schedules I to VI form an integral part of the consolidated statement of total changes in equity for 2022.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2022 and 2021

Thousand euro

	Note	2022	2021 (*)
Cash flows from operating activities		**(6,627,920)**	**12,338,823**
Profit or loss for the year		869,390	538,707
Adjustments to obtain cash flows from operating activities		1,854,121	1,700,666
Depreciation and amortisation		545,091	526,514
Other adjustments		1,309,030	1,174,152
Net increase/decrease in operating assets		(8,795,849)	(3,826,355)
Financial assets held for trading		(2,045,624)	707,207
Non-trading financial assets mandatorily at fair value through profit or loss		2,137	34,638
Financial assets designated at fair value through profit or loss		—	—
Financial assets at fair value through other comprehensive income		914,235	(181,941)
Financial assets at amortised cost		(7,063,285)	(5,416,431)
Other operating assets		(603,312)	1,030,172
Net increase/decrease in operating liabilities		(488,059)	13,851,502
Financial liabilities held for trading		2,218,585	(1,273,950)
Financial liabilities designated at fair value through profit or loss		—	—
Financial liabilities at amortised cost		(1,899,289)	16,348,950
Other operating liabilities		(807,355)	(1,223,498)
Cash payments or refunds of income taxes		(67,523)	74,303
Cash flows from investing activities		**(64,796)**	**419,591**
Payments		(435,324)	(505,679)
Tangible assets	15	(238,939)	(225,626)
Intangible assets	16	(194,638)	(276,141)
Investments in joint ventures and associates	14	(1,747)	(3,912)
Subsidiaries and other business units		—	—
Non-current assets and liabilities classified as held for sale		—	—
Other payments related to investing activities		—	—
Collections		370,528	925,270
Tangible assets		96,547	444,505
Intangible assets		—	—
Investments in joint ventures and associates	14	210,300	63,086
Subsidiaries and other business units		—	—
Non-current assets and liabilities classified as held for sale		63,681	417,679
Other collections related to investing activities		—	—

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying Schedules I to VI form an integral part of the consolidated cash flow statement for 2022.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2022 and 2021

Thousand euro

	Note	2022	2021 (*)
Cash flows from financing activities		**(1,236,880)**	**1,095,286**
Payments		(1,338,630)	(723,022)
Dividends		(280,849)	—
Subordinated liabilities	4	(750,000)	(443,497)
Redemption of own equity instruments		—	—
Acquisition of own equity instruments		(86,457)	(64,378)
Other payments related to financing activities		(221,324)	(215,147)
Collections		101,750	1,818,308
Subordinated liabilities		—	1,750,000
Issuance of own equity instruments		—	—
Disposal of own equity instruments		101,750	68,308
Other collections related to financing activities		—	—
Effect of changes in foreign exchange rates		**-23,205**	**174,594**
Net increase (decrease) in cash and cash equivalents		**(7,952,801)**	**14,028,294**
Cash and cash equivalents at the beginning of the year	**7**	**49,213,196**	**35,184,902**
Cash and cash equivalents at the end of the year	**7**	**41,260,395**	**49,213,196**

	Note	2022	2021 (*)
Memorandum item			
CASH FLOWS CORRESPONDING TO:			
Interest received		4,869,638	4,144,382
Interest paid		1,029,597	1,209,006
Dividends received		2,609	1,262
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Cash on hand	7	686,258	704,105
Cash equivalents in central banks	7	39,236,780	47,741,021
Other demand deposits	7	1,337,357	768,070
Other financial assets		—	—
Less: bank overdrafts repayable on demand		—	—
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**41,260,395**	**49,213,196**
Of which: held by Group entities but not available for the Group		—	—

(*) Shown for comparative purposes only.

Notes 1 to 43 and accompanying Schedules I to VI form an integral part of the consolidated cash flow statement for 2022.

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

1.2 Basis of presentation and changes in accounting regulations

The Group's consolidated annual financial statements for 2022 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU-IFRS) applicable at the end of 2022, taking into account Bank of Spain Circular 4/2017 of 27 November as well as other provisions of the financial reporting regulations applicable to the Group and considering the formatting and mark-up requirements established in Commission Delegated Regulation EU 2019/815, in order to fairly present the Group's equity and consolidated financial situation as at 31 December 2022 and the results of its operations, recognised income and expenses, changes in equity and cash flows (all consolidated) in 2022.

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

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

<u>Standards and interpretations issued by the International Accounting Standards Board (IASB) that entered into force in 2022</u>

In 2022, the standards indicated hereafter, which have entered into force and been adopted by the European Union, have been applied by the Group for the first time:

Standards	Titles
Amendments to IAS 16, IAS 37 and IFRS 3 and annual improvements to IFRS 2018-2020	Narrow-scope amendments

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

On one hand, these are amendments made in relation to proceeds received before the intended use of an asset governed by IAS 16 "Property, plant and equipment", the cost of fulfilling an onerous contract pursuant to IAS 37 "Provisions" and references made in IFRS 3 "Business combinations" to the Conceptual Framework for Financial Reporting. The annual improvements to IFRS 2018-20 have also entailed making minor amendments to IFRS 1 "First-time adoption of IFRS", IFRS 9 "Financial instruments", IFRS 16 "Leases" and IAS 41 "Agriculture". The entry into force of these changes has had no significant impact for the Group.

Standards and interpretations issued by the IASB not yet in force

At 31 December 2022, the most significant standards and interpretations that have been published by the IASB but which have not been applied when preparing these consolidated annual financial statements, either because their effective date is subsequent to the date thereof or because they have not yet been endorsed by the European Union, are as follows:

Standards and Interpretations	Title	Mandatory for years beginning:
Approved for application in the EU		
IFRS 17	Insurance contracts	1 January 2023
Amendments to IFRS 17	Initial application of IFRS 17 and IFRS 9: Comparative Information	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023
Amendments to IAS 8	Definition of accounting estimates	1 January 2023
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023
Not approved for application in the EU		
Amendments to IAS 1	Presentation of financial statements: - Classification of liabilities as current or non-current - Non-current liabilities with covenants	1 January 2024
Amendments to IFRS 16	Lease liabilities in sale and leaseback transactions	1 January 2024

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

Approved for implementation in the EU

IFRS 17 "Insurance contracts"

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

In accordance with this standard, insurance contracts combine components of financial instruments and service contracts. Furthermore, many insurance contracts generate cash flows that vary substantially and have a long duration. In order to provide useful information on these aspects, IFRS 17:

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

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

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

The impact at the date of entry into force of this regulation (1 January 2023) entails, in approximate terms, a reduction of between 0.9% and 1.2% of the Group's consolidated equity and of between 12 and 16 basis points in the Group's fully-loaded Common Equity Tier 1 (CET1) ratio.

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

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

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

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

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

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

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

Amendments to IAS 8 "Definition of accounting estimates"

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

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

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

Not approved for application in the EU

Amendments to IAS 1 "Presentation of financial statements"

Classification of liabilities as current or non-current

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

Non-current liabilities with covenants

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

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

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

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

Judgements and estimates

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

The main judgements and estimates relate to the following:

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

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

1.3 Accounting principles and policies and measurement criteria

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

1.3.1 Consolidation principles

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

Subsidiaries

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

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

- Power: an investor has power over an investee when that investor holds rights which provide them with the ability to lead significant activities, i.e. those that significantly affect the investee's returns.

- Returns: an investor is exposed, or is entitled, to variable returns due to their involvement in the investee when the returns obtained from such involvement may vary depending on the investee's economic performance. The investor's returns may be only positive, only negative, or both positive and negative.

- Relationship between power and returns: an investor controls an investee if the investor not only has power over the investee and is exposed, or is entitled, to variable returns due to their involvement with the investee, but also has the ability to use that power to influence the returns obtained due to their involvement with the investee.

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

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

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

Joint ventures

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

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

The Group has not held investments in joint ventures in 2022 and 2021.

Associates

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

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

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

Structured entities

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

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

– Analysis of the influence of the Group over the significant activities of the entity that could have an influence on the amount of its returns.

– Implicit or explicit commitments of the Group to provide financial support to the entity.

– Identification of the entity's manager and analysis of the remuneration scheme.

– Existence of removal rights (possibility of dismissing managers).

– Significant exposure of the Group to the variable returns on the entity's assets.

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

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

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

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

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

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

1.3.2 Business combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in measurements occurring subsequent to initial recognition for reasons other than those mentioned above are treated 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 Group's intentions for an individual instrument, rather, it is determined for a group of instruments.

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

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

- Business model whose objective is to sell financial assets.

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

Contractual cash 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 Group's business.

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

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

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

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

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

These financial assets primarily correspond to debt securities.

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

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

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

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

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

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

A financial asset is classified in the portfolio of financial assets at fair value through profit or loss whenever the business model used by the Group for its management or 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 consolidated income statement, making a distinction, in the case of non-derivative instruments, between the portion attributable to returns accrued on the instrument, which are recognised either as "Interest income", applying the effective interest rate method, or as dividends, depending on their nature, and the remaining portion, which is recognised as gains or (-) losses on financial assets and liabilities under the corresponding heading.

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

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

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

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

Hybrid financial instruments

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

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

When the host contract of a hybrid financial instrument is a financial liability, the embedded derivatives of that contract are 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 Group are instruments whose payments of principal and/or interest are indexed to specific equity instruments (generally, shares of listed companies), to a basket of shares, to stock market indices (such as IBEX and NYSE), or to a basket of stock market indices.

The fair value of the Group's financial instruments as at 31 December 2022 and 2021 is indicated in Note 6.

1.3.4 Impairment of financial assets

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

- In the case of debt instruments, including loans and debt securities, a negative impact on future cash flows estimated at the time the transaction was executed, due to the materialisation of credit risk.
- In the case of off-balance sheet exposures that carry credit risk, inflows that are expected to be lower than the contractual cash flows that are due if the holder of a loan commitment draws down the loan or, in the case of financial guarantees given, inflows that are expected to be lower than the payments that are scheduled to be made.
- In the case of investments in joint ventures and associates, a situation in which their carrying amount cannot be recovered.

1.3.4.1 Debt instruments and off-balance sheet exposures

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

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

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

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

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

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

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

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

Definition of classification categories

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

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

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

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

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

  - For reasons other than borrower arrears: transactions which do not meet the conditions for classification as write-offs or stage 3 as a result of borrower arrears, but for which there are reasonable doubts as to the likelihood of obtaining the estimated cash flows of the transaction, as well off-balance sheet exposures not classified as stage 3 as a result of borrower arrears whose payment by the Group is likely but whose recovery is doubtful. This category includes transactions that were classified as stage 3 as a result of borrower arrears, but as they do not present amounts more than 90 days past due they remain in this category for a probation period before reclassification as standard exposures under special monitoring (stage 2).

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

- Write-off:

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

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

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

Purchased or originated credit-impaired transactions

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

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

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

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

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

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

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

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

Transaction classification criteria

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

- Automatic criteria;

- Criteria based on indicators (triggers); and

- Specific criteria for refinancing transactions.

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

Furthermore, to enable an early identification of any significant increase in credit risk or vulnerabilities, or any transaction impairment, the Group establishes different triggers for significant and non-significant borrowers. The details for each borrower group are described in the sections on Individual assessment and Collective assessment, respectively. In particular, non-significant borrowers are assessed by means of a process which aims to identify any significant increase in credit risk since the transaction was first approved and which could result in losses greater than those incurred on other similar transactions classified as stage 1. For significant borrowers, on the other hand, there is an automated system of triggers in place that generates a series of alerts, which serve to indicate, during a borrower's assessment, that a decision needs to be made with regard to their classification.

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

Individual assessment

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

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

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

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

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

The system of triggers 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 to the same borrower or to companies 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 Group carries out an annual review of the reasonableness of its thresholds and of the credit risk captured in the individual assessments carried out using these thresholds.

Collective assessment

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

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

– Systemic: macroeconomic characteristics shared by all exposures.

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

– Idiosyncratic: aspects specific to each transaction or borrower.

With this specification, the Group is able to measure the 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 Group 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 taking the annualised lifetime PD under the economic and idiosyncratic circumstances at the time the provision is calculated, and comparing it against 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 for the increase in annualised lifetime PD, indicating stage 2 classification, have been calibrated using historical data with the aim of maximising efficient and early detection of arrears at 30 days, refinancings and defaults, thereby maximising risk discrimination among borrowers and/or transactions classified as stage 1 and 2.

The thresholds for significant 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 current 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, borrowers included in the watchlist identified according to risk and all transactions that have a 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.

In the case of TSB, the multiplier of lifetime PD upon approval relative to current lifetime PD is also used, complemented with an absolute increase in PD calculated specifically for each portfolio. Both of these thresholds must be reached in order for an exposure to be reclassified as stage 2. In 2022 and 2021, the threshold for the multiplier of current PD relative to PD upon approval applied to all portfolios has been set at 2, while absolute thresholds have ranged from 10 to 770 basis points in both years, with the exception of overdrafts, which only use an absolute threshold of 400 basis points.

Refinancing and restructuring transactions

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

– Refinancing transaction: transaction which, irrespective of the borrower or guarantees involved, is approved or used for economic or legal reasons related to 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 Group 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 that would be applied in the market, on the date of such amendment, to transactions 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: they may be based on an inadequate business plan, they may have specific clauses such as long grace periods, or they may have amounts written off as they are considered to be non-recoverable. The algorithm then changes the initial classification depending on the established cure periods. Reclassification into a lower risk category will only be considered if evidence exists of a continuous and significant improvement in the recovery of the debt over time; therefore, the act of refinancing does not in itself produce any immediate improvements.

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

- It is concluded, having reviewed the borrower's assets and financial position, that the borrower is unlikely to experience financial difficulties.
- A minimum of two years have passed since the date of the restructuring or refinancing or, if later, since the date of reclassification to the stage 3 category.
- The borrower has paid the instalments of principal and interest accumulated since the date of the refinancing or restructuring or, if later, since the date of reclassification to the stage 3 category.
- The borrower has no other transactions with amounts more than 30 days past due at the end of the probation period.

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.

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

1.3.4.1.2 Credit loss allowances

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

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

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

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

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

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

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

- Credit ratings (for companies): in general, credit risks undertaken with companies are rated using a rating system based on the internal estimate of their probability of default (PD). The rating model estimates the risk rating in the medium term, based on qualitative information provided by risk analysts, financial statements and other relevant information. The rating system is based on factors that predict the probability of default over a one-year period. It has been designed for different segments. The rating model is reviewed annually based on the analysis of 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 management 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 problem and 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 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.

At 31 December 2022 and 2021, the main forecast variables considered for Spain and the United Kingdom are those shown below:

%

	31/12/2022									
	Spain					United Kingdom				
	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
GDP growth										
Baseline scenario	1.3	2.0	2.0	1.8	1.7	-1.3	-0.2	1.0	1.3	1.4
Alternative scenario 1	4.4	4.4	2.5	2.0	2.0	-0.4	0.8	1.3	1.3	1.4
Alternative scenario 2	-1.1	0.1	1.6	1.8	1.7	-2.5	-1.4	1.0	1.3	1.4
Unemployment rate										
Baseline scenario	12.7	12.4	12.1	11.9	11.7	4.4	5.2	5.0	4.6	4.2
Alternative scenario 1	11.6	10.2	9.0	8.6	8.4	3.8	3.8	3.8	3.8	3.8
Alternative scenario 2	15.6	16.7	15.8	14.9	14.2	5.4	6.3	5.7	5.0	4.5
House price growth (*)										
Baseline scenario	1.0	1.6	2.0	2.0	2.0	-3.3	-5.1	0.7	1.9	2.5
Alternative scenario 1	3.0	3.6	3.8	3.6	3.6	-0.9	-2.3	0.7	2.9	3.7
Alternative scenario 2	-2.6	-1.6	2.0	2.0	2.0	-3.4	-11.1	-0.5	4.3	4.3

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

%

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

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

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

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

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

12-month expected credit losses are defined as:

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

Where:

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

Lifetime expected credit losses are defined as:

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

Where:

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

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

The Group 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 Group to determine impairment loss allowances.

Individual allowance estimates

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

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

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

- Discounted cash flow method (going concern): debtors who are estimated to be able to generate future cash flows through their own business activity, thereby allowing them to fully or partially repay the debt owed through the 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 Group, in accordance with IFRS 9, mainly takes the following aspects into account:

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

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

Segmentation of models

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

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

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

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

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

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

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

Risk drivers

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

Guarantees

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

Under no circumstances will guarantees whose effectiveness 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 Group has collateral valuation criteria for assets located in Spain that are in line with prevailing legislation. In particular, the Group applies criteria for the selection and hiring of appraisers that are geared towards assuring their independence and the quality of the appraisals. All of the appraisers used are appraisal companies that have been entered in the Bank of Spain Special Register of Appraisal Firms, and the appraisals are carried out in accordance with the criteria established in Order ECO/805/2003 on rules for the appraisal of real estate and particular rights for specific financial purposes.

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

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

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

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

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

1.3.4.2 Investments in joint ventures and associates

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

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

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

The Group determines the value in use of each interest held based on its net asset value, or based on estimates of 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 consolidated income statement for the year in which they materialise and subsequent recoveries are recognised in the consolidated income statement for the year in which they are recovered.

1.3.5 Hedging transactions

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

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

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

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

Hedges are applied 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 consolidated income statement, with a balancing entry under the headings of the consolidated balance sheet in which the hedged item is included, or under the heading "Derivatives – Hedge accounting", as appropriate.

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

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

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

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

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

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

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

1.3.6 Financial guarantees

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

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

In the particular case of long-term guarantees given in cash to third parties under service contracts, when the Group guarantees a particular level or volume in terms of the provision of such services, it initially recognises those guarantees at 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 consolidated income statement for the period in which the service is provided. Subsequently, the Group applies analogous criteria to debt instruments measured at amortised cost.

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

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

1.3.7 Transfers and derecognition of financial instruments from the balance sheet

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

Note 4 provides details of asset transfers in effect at the end of 2022 and 2021, indicating those that did not involve the derecognition of the asset from the consolidated balance sheet.

1.3.8 Offsetting of financial instruments

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

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

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

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

Specifically, real estate or other non-current assets received by the Group for the full or partial settlement of debtors' payment obligations are treated as non-current assets held for sale, unless the Group has decided to make continued use of 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 held for sale. For all of these assets, the Group has specific units that focus on the management and sale of real estate assets.

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

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

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

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

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

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

1.3.10 Tangible assets

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

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

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

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

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

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

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

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

For real estate investments, the Group uses appraisals carried out by third parties entered i n 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 consolidated income statement for the year in which they are incurred.

1.3.11 Leases

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

Leases in which the Group acts as lessee

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

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

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

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

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

- Fixed payments, less any lease incentives payable.
- Variable payments that depend on an index or rate.

– Amounts expected to be paid for residual value guarantees given to the lessor.

– The exercise price of a purchase option if the Group is reasonably certain to exercise that option.

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

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

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

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

– The amount of the initial measurement of the lease liability, as described above.

– Any lease payments made at or before the lease commencement date, less any incentives received.

– Any initial direct costs.

– An estimate of costs to be incurred in dismantling and removing the leased asset, restoring the site on which it is located or restoring the asset to the condition required by the terms and conditions of the lease.

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

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

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

Sale and leaseback

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

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

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

Leases in which the Group acts as lessor

Finance leases

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

Operating leases

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

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

1.3.12 Intangible assets

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

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

Goodwill

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

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

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

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

- Estimates of macroeconomic variables and other financial parameters.

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

- Discount rate (post-tax): the present value of future dividends, from which a value in use is obtained, is calculated using the Institution’s cost of capital (Ke), from the standpoint of a market participant, as a discount rate. To determine the cost of capital, the CAPM (Capital Asset Pricing Model) is used in accordance with the formula: “$Ke = Rf + \beta (Pm) + \alpha$”, where: Ke = Required return or cost of capital, Rf = Risk-free rate, β = Company’s systemic risk coefficient, Pm = Market premium and α = Non-systemic risk premium.

- Growth rate used to extrapolate cash flow projections beyond the period covered by the most recent forecasts: this is based on long-term estimates for the main macroeconomic figures and key business variables, and bearing in mind the existing financial market circumstances and outlooks at all times.

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

Other intangible assets

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

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

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

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

1.3.13 Inventories

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

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

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

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

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

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

1.3.14 Own equity instruments

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

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

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

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

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

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

On the other hand, compound financial instruments, which are 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 right to convert them into equity instruments of the issuing entity), are recognised at issuance, separating their component parts and presenting them according to their substance.

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

1.3.15 Remuneration in equity instruments

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

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

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

1.3.16 Provisions, contingent assets and contingent liabilities

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

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

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

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

1.3.17 Provisions for pensions

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

Defined contribution plans

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

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

Defined benefit plans

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

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

Pension plan

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

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

– Disability or incapacity arising in certain circumstances.

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

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

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

Insurance contracts

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

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

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

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

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

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

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

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

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

Internal funds

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

Accounting record of defined benefit obligations

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

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

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

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

Pension commitments are recognised in the following way:

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

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

Actuarial assumptions

The most relevant financial/actuarial assumptions used in the measurement of pension commitments at 31 December 2022 and 2021 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).

1.3.18 Foreign currency transactions and exchange differences

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

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

- Monetary assets and liabilities are translated at the closing rate, defined as the average spot exchange rate as at the reporting date.
- Non-monetary items measured at historical cost are translated at the exchange rate ruling on the acquisition date.
- Non-monetary items measured at fair value are translated at the exchange rate ruling on the date on which the fair value was determined.
- Income and expenses are translated at the exchange rate ruling 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 consolidated income statement. However, for exchange differences arising in non-monetary items measured at fair value where the fair value adjustment is recognised under the heading “Accumulated other comprehensive income” in the consolidated statement of equity, a breakdown is given for the exchange rate component of the remeasurement of the non-monetary item.

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

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

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

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

1.3.19 Recognition of income and expenses

Interest income and expenses and other similar items

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

Commissions, fees and similar items

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

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

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

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

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

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

Non-financial income and expenses

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

Deferred payments and collections

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

Levies

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

Deposit guarantee schemes

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

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

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

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

Single Resolution Fund

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

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

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

1.3.20 Corporation tax

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

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

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

Deferred tax assets and deferred tax liabilities relate to taxes expected to be payable or recoverable arising from differences between the carrying 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 39).

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

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

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

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

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

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

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

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

1.3.21 TLTRO III programme

Against the backdrop of Covid-19, the European Central Bank announced measures designed to mitigate the impact arising from this situation, including the TLTRO III programme, which offers favourable conditions for banks to borrow funds. More specifically, the TLTRO III programme 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 Group 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 IFRS 9.

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 4.4.3.1).

1.3.22 Consolidated statement of recognised income and expenses

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

As such, this statement shows:

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

1.3.23 Consolidated statement of total changes in equity

This statement sets out all changes in the Group's equity, including those arising from accounting changes and 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 consolidated equity, grouping changes together by type in the following items:

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

1.3.24 Consolidated cash flow statement

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

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

- Cash flows: inflows and outflows of cash and cash equivalents, where 'cash equivalents' are short-term, highly liquid investments with a low risk of changes in value. For these purposes, in addition to cash, deposits held with central banks and demand deposits held with credit institutions are also classified as cash components or equivalents.
- Operating activities: typical day-to-day activities of the Group and other activities that cannot be classified as investing or financing activities.
- Investing activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents or in operating activities.
- Financing activities: activities that result in changes in the size and composition of consolidated equity and of liabilities that do not form part of operating activities.

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

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

1.4 Comparability

The information presented in these consolidated annual financial statements corresponding to 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 Group's consolidated annual financial statements for 2021.

Note 2 – Banco Sabadell Group

Subsidiaries and associates as at 31 December 2022 and 2021 are listed in Schedule I, along with their registered offices, primary activities, the Bank's percentage shareholding in each, key financial data and the consolidation method used (full consolidation or equity method) in each case.

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

A description is provided hereafter of the business combinations, acquisitions and sales or liquidations which are most representative of investments in the capital of other entities (subsidiaries and/or investments in associates) made by the Group during 2022 and 2021. Schedule I also includes details of changes in the scope of consolidation in each financial year and the results obtained by the Group on the disposal of its subsidiaries and associates.

Changes in the scope of consolidation in 2022

Additions to the scope of consolidation:

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

Exclusions from the scope of consolidation:

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

Changes in the scope of consolidation in 2021

Additions to the scope of consolidation:

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

Exclusions from the scope of consolidation:

- On 29 April 2021, Banco Sabadell and 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. This transaction was closed on 30 November 2021 after obtaining the necessary authorisations.

  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. The transaction added 10 basis points to the Group's fully-loaded Common Equity Tier 1 (CET1) ratio. The Group earned 41,907 thousand euros in profit on this transaction, which was recognised under the "Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations" heading of the consolidated income statement (see Note 37).

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

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

Other significant transactions in 2022

The Group made no other significant transactions worth mentioning in 2022. Nevertheless, 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.

Other significant transactions in 2021

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

The transaction will generate net profit of 75 million euros, of which 59 million euros were recognised on the consolidated 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”). The remaining 16 million euros will be accrued in the consolidated income statement over a period of 10 years from the date the transaction is closed (see Note 36).

Note 3 – Shareholder remuneration and earnings per share

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

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

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 4 – 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.

4.1. 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 European 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 invasion of 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, the agreement of the Council of Ministers introduced certain amendments 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, 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 2022, 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 16.

4.2 Key milestones during the year

4.2.1 The Group's risk profile during the year

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

4.2.2 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.

Performance of the main solutions offered in the United Kingdom

In the United Kingdom, the main solutions offered during 2020 and 2021 to help SMEs during the Covid-19 pandemic were government-guaranteed loans to companies, known as BBLs (Bounce Back Loans). These loans have been benefitting from extensions (Pay-as-you-Grow) introduced by the government during the year, facilitating repayment conditions for customers. The exposure to these loans as at 2022 year-end amounted to 379 million pounds, representing 64% of the business customer portfolio (546 million pounds as 31 December 2021, representing more than 75% of the business customer portfolio). In response to the more recent cost-of-living crisis, regulators and financial Institutions in the country have focused on establishing adequate communication channels, tools and training to support and proactively help their customers, in particular those in vulnerable situations.

4.3 General principles of risk management

Global Risk Framework

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

- Follow a structured and consistent approach to risk throughout the Group.
- Foster an open and transparent culture with regard to risk management and control, encouraging the involvement of the entire organisation.
- Facilitate the decision-making process.
- Align the accepted risk with the risk strategy and the risk appetite.
- Understand the risk environment in which it operates.
- Ensure, following the guidelines of the Board of Directors, that critical risks are identified, understood, managed and controlled efficiently.

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

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

4.3.1 Global Risk Framework Policy

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

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

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

Global Risk Framework principles

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

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

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

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

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

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

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

  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.

4.3.2 Risk Appetite Framework (RAF)

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

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

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.

4.3.3 Risk Appetite Statement (RAS)

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

Qualitative aspects of the RAS

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

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

Quantitative aspects of the RAS

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

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

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

4.3.4 Specific policies for the different material risks

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

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

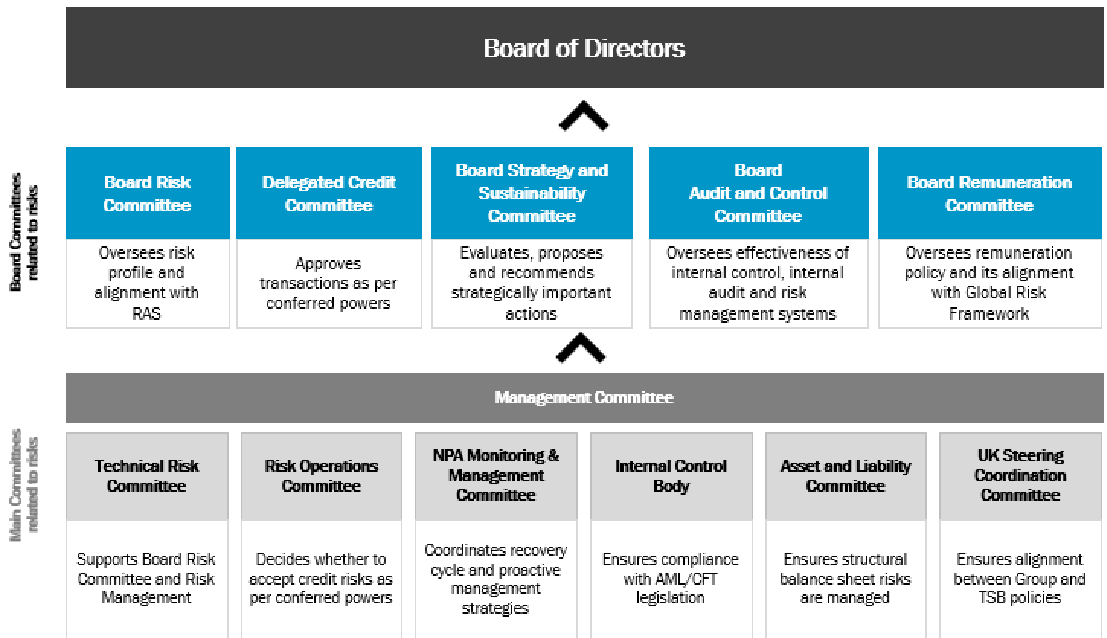
4.3.5 Overall organisation of the risk function

Governance structure

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

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

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



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

– The participation and involvement of the Group's governing bodies and Senior Management in decisions regarding risks, and also in their supervision and control.

– The alignment of targets and objectives at all levels, monitoring their achievement and implementing corrective measures where necessary.

– The existence of an adequate management and control environment for all risks.

Organisation

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

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

– First line of defence: responsible for maintaining adequate and effective internal control and implementing corrective actions to rectify deficiencies in its processes and controls. The responsibilities attributed to this line under the Global Risk Framework are as follows:

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

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

  • Implement 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.

4.4 Management and monitoring of the main material risks

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

4.4.1 Strategic risk

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

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

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

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

Strategic risk includes the management and control of four risks:

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

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

- Reputational risk: 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.

4.4.1.1 Solvency risk

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

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

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

4.4.1.2 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.

4.4.1.3 Reputational risk

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

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

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

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

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

4.4.1.4 Environmental risk

The 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.

<u>Environmental risk management</u>

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).

4.4.2. Credit risk

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

4.4.2.1 Credit risk management framework

Acceptance and monitoring

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

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

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

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

The implementation of advanced risk management methodologies also benefits the process as it ensures that proactive measures can be taken once a risk has been identified. Of vital importance in this process are tools such as credit rating systems for companies and credit scoring systems for 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 consolidated annual financial statements.

Real estate credit risk management

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

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

The Bank has established three strategic 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 consolidated annual financial statements.

4.4.2.2. Risk management models

Credit ratings

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

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

The percentage distribution by credit rating of Banco Sabadell’s portfolio of companies as at 31 December 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%	27.70%	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.

4.4.2.3. Credit risk exposure

The table below shows the distribution, by headings of the consolidated balance sheet, of the Group's maximum gross credit risk exposure as at 31 December 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**	**592,631**
Equity instruments	9	—	2,258
Debt securities	8	417,131	590,373
Non-trading financial assets mandatorily at fair value through profit or loss		**77,421**	**79,559**
Equity instruments	9	23,145	14,582
Debt securities	8	54,276	64,977
Financial assets at fair value through other comprehensive income		**5,923,703**	**6,999,326**
Equity instruments	9	301,011	314,235
Debt securities	8	5,622,692	6,685,091
Financial assets at amortised cost		**188,068,718**	**182,173,414**
Debt securities	8	21,453,031	15,190,212
Loans and advances	11	166,615,687	166,983,202
Derivatives	**10, 12**	**6,672,213**	**1,904,380**
Total credit risk due to financial assets		**201,159,186**	**191,749,310**
Loan commitments given	26	27,460,615	28,403,146
Financial guarantees given	26	2,086,993	2,034,143
Other commitments given	26	9,674,382	7,384,863
Total off-balance sheet exposures		**39,221,990**	**37,822,152**
Total maximum credit risk exposure		**240,381,176**	**229,571,462**

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

4.4.2.4. Credit risk mitigation

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

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

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

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

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

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

Assets assigned under the same transactions amounted to 417,982 thousand euros (694,554 thousand euros as at 31 December 2021) and are included by type under the repos heading in Notes 18 and 19.

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

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

Thousand euro

	2022	**2021**
Value of collateral	97,340,958	97,877,766
Of which: securing stage 2 loans	*8,515,648*	*6,740,264*
Of which: securing stage 3 loans	*2,046,793*	*2,291,061*
Value of other guarantees	17,180,550	17,315,699
Of which: securing stage 2 loans	*2,635,673*	2,886,141
Of which: securing stage 3 loans	*1,080,167*	*604,726*
Total value of guarantees received	**114,521,508**	**115,193,465**

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 57.2% of total gross performing lending items granted to customers (58.6% 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 (see Note 5).

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

4.4.2.5. Credit quality of financial assets

As stated earlier, in general terms, the Group uses internal models to rate most borrowers (or transactions) through which credit risk is incurred. These models have been designed considering the best practices proposed by the New Basel Capital Accord (NBCA). However, not all portfolios in which credit risk is incurred have internal models, partly due to the fact that these models can only be reasonably designed if a minimum level of experience with cases of non-payment is available. The 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 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	11.34	—	19,000
A		12,337	38	0.03	—	12,375
BBB		86,246	220	4.33	*1*	86,470
BB		23,747	520	2	*2*	24,269
B		21,667	3,827	18.62	*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 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 4.4.2.2 of these consolidated annual financial statements.

For borrowers included within business in Spain whose coverage has been assessed using internal models as at 31 December 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.

Details of the PD and LGD parameters for exposures in the business of the subsidiary TSB as at 31 December 2022 and 2021 are shown below:

%

	31/12/2022							
	Average ECL parameters for on-balance sheet exposures							
	Stage 1		Stage 2		Stage 3		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Secured loans	0.34%	3.48%	3.50%	7.97%	100.00%	3.07%	1.44%	4.01%
Credit cards	0.89%	84.08%	5.47%	78.63%	100.00%	51.72%	3.71%	82.53%
Current accounts	0.50%	69.85%	8.76%	67.52%	100.00%	56.78%	3.58%	69.35%
Loans	1.36%	81.02%	5.96%	82.23%	100.00%	80.45%	3.99%	81.21%

%	31/12/2022							
	Average ECL parameters for off-balance sheet exposures							
	Stage 1		Stage 2		Stage 3		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Secured loans	0.83%	4.31%	0.00%	0.00%	0.00%	0.00%	0.83%	4.31%
Credit cards	0.89%	84.08%	5.47%	78.63%	100.00%	51.72%	3.71%	82.53%
Current accounts	0.50%	69.85%	8.76%	67.52%	100.00%	56.78%	3.58%	69.35%
Loans	1.36%	81.02%	5.96%	82.23%	100.00%	80.45%	3.99%	81.21%

%	31/12/2021							
	Average ECL parameters for on-balance sheet exposures							
	Stage 1		Stage 2		Stage 3		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Secured loans	0.21%	2.41%	4.61%	4.48%	100.00%	1.89%	1.28%	2.21%
Credit cards	1.00%	84.90%	9.25%	83.70%	100.00%	67.76%	3.80%	84.44%
Current accounts	0.82%	69.65%	7.71%	70.40%	100.00%	68.56%	3.52%	69.68%
Loans	2.21%	81.35%	8.28%	82.70%	100.00%	80.75%	4.58%	81.52%

%	31/12/2021							
	Average ECL parameters for off-balance sheet exposures							
	Stage 1		Stage 2		Stage 3		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Secured loans	0.55%	4.89%	0.00%	0.00%	0.00%	0.00%	0.55%	4.89%
Credit cards	1.00%	84.90%	9.25%	83.70%	100.00%	67.76%	3.80%	84.44%
Current accounts	0.82%	69.65%	7.71%	70.40%	100.00%	68.56%	3.52%	69.68%
Loans	2.21%	81.35%	8.28%	82.70%	100.00%	80.75%	4.58%	81.52%

In the case of the United Kingdom, the parameters in general show an improvement compared to 2021, in line with the economic recovery in 2022 compared to previous years, in which negative impacts on PD and LGD materialised as a result of the economic situation.

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).

The NPL ratio, broken down by lending segment as at 31 December 2022 and 2021, is set out below:

%	2022	Proforma 2022 (*)	2021	Proforma 2021 (*)
Real estate development and construction	6.95	6.99	9.79	9.86
Non-real estate construction	7.06	7.07	11.95	11.97
Corporates	2.02	2.02	2.35	2.35
SMEs and self-employed	7.62	7.66	6.40	6.43
Individuals with 1st mortgage guarantee	2.08	2.86	2.50	3.60
Banco Sabadell Group NPL ratio	**3.41**	**4.13**	**3.65**	**4.44**

(*) Corresponds to the NPL ratio excluding TSB.

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

4.4.2.6. Concentration risk

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

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

Concentration risk can be caused by two risk subtypes:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As at 31 December 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.

4.4.2.7. Counterparty credit risk

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

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

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

The following tables show the breakdown of exposures by credit rating and by the geographical areas in which the Group operates, as at 31 December 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	183,975,718	149,279,832
Settled through clearing houses	*114,649,971*	*96,403,417*
Total	**184,955,251**	**151,279,769**

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

Thousand euro

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

Thousand euro

	2021				
	Financial assets subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee received		Net amount
			Cash	Securities	
Financial assets	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	1,603,160	1,338,552	278,944	—	(14,336)
Repos	4,935,785	—	22,350	4,927,409	(13,974)
Total	**6,538,945**	**1,338,552**	**301,294**	**4,927,409**	**(28,310)**

Thousand euro

	2021				
	Financial liabilities subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee given		Net amount
			Cash	Securities	
Financial liabilities	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	1,744,351	1,338,552	596,202	159,273	(349,676)
Reverse repos	5,454,650	—	37,643	5,680,214	(263,207)
Total	**7,199,001**	**1,338,552**	**633,845**	**5,839,487**	**(612,883)**

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	5,367,736	1,148,242
Derivative financial liabilities settled through a clearing house	3,204,917	949,365

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.

4.4.2.8 Assets pledged in financing activities

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

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

Thousand euro

	2022	2021
Fully derecognised from the balance sheet:	**693,853**	**808,862**
Securitised mortgage assets	116,868	118,986
Other securitised assets	319,468	397,367
Other financial assets transferred	257,517	292,509
Fully retained on the balance sheet:	**7,753,225**	**6,950,706**
Securitised mortgage assets	7,087,569	6,721,857
Other securitised assets	665,656	228,849
Total	**8,447,078**	**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 consolidated balance sheet. As at 31 December 2022 and 2021, there was no significant financial aid from the Group for unconsolidated securitisations.

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

4.4.3. Financial risks

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

4.4.3.1 Liquidity risk

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

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

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

Liquidity management

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

The Group follows a structure based on Liquidity Management Units (LMUs) to manage its liquidity. Each LMU is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, working together with the Group's corporate functions. At present, 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.

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

Banco Sabadell Group has a system of metrics and thresholds which are provided in the RAS and which define the appetite for liquidity risk, previously approved by the Board of Directors. This system enables liquidity risk to be assessed and monitored, ensuring the achievement of strategic objectives, adherence to the risk profile, as well as compliance with regulations and supervisory guidelines. Within the Group-level monitoring of liquidity metrics, there are metrics established at the Group level and calculated on a consolidated basis, metrics established at the Group level and rolled out to each Group LMU, as well as metrics established at the LMU level to reflect specific local characteristics.

Both the metrics defined in the Banco Sabadell Group RAS and those defined in the local RAS of subsidiaries are subject to governance arrangements relating to the approval, monitoring and reporting of threshold breaches, as well as remediation plans established in the RAF on the basis of the hierarchical level of each metric (these are classified into three tiers).

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

The risk of each LMU is also monitored on a daily basis through the Structural Treasury Report, which measures 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 consolidated 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	3,681,237	37,009,112	563,743	18	1,043	51	1,206	—	3,986	**41,260,395**
Financial assets at fair value through other comprehensive income	—	124,536	86,954	855,454	777,596	582,648	196,407	244,104	2,934,565	**5,802,264**
Debt securities	—	124,536	86,954	855,454	777,596	582,648	196,407	244,104	2,754,993	**5,622,692**
Loans and advances	—	—	—	—	—	—	—	—	—	**—**
Customers	—	—	—	—	—	—	—	—	—	**—**
Financial assets at amortised cost	3,371,931	8,590,617	4,437,359	11,540,390	9,820,139	10,505,170	10,274,823	11,211,714	115,293,310	**185,045,452**
Debt securities	—	236,772	44,310	1,403,285	1,371,253	1,126,338	459,093	1,935,711	14,876,058	**21,452,820**
Loans and advances	3,371,932	8,353,845	4,393,049	10,137,104	8,448,886	9,378,833	9,815,730	9,276,002	100,417,252	**163,592,632**
Central banks	2,221	160,443	—	—	—	—	—	—	—	**162,664**
Credit institutions	978,063	2,341,986	428,487	753,460	131,473	83	175	34	66,525	**4,700,287**
Customers	2,391,648	5,851,416	3,964,561	9,383,645	8,317,413	9,378,751	9,815,555	9,275,968	100,350,726	**158,729,681**
Total assets	**7,053,167**	**45,724,266**	**5,088,056**	**12,395,862**	**10,598,777**	**11,087,869**	**10,472,437**	**11,455,817**	**118,231,861**	**232,108,111**
LIABILITIES										
Financial liabilities at amortised cost	119,453,858	47,461,256	4,223,087	24,152,729	12,151,025	9,370,909	3,903,867	4,233,378	7,579,822	**232,529,932**
Deposits	113,012,257	47,375,927	2,719,435	22,548,986	7,666,937	6,556,190	650,136	1,855,757	907,897	**203,293,522**
Central banks	43,223	—	—	17,223,750	4,939,290	4,974,464	—	662,961	—	**27,843,687**
Credit institutions	843,529	7,506,691	901,048	714,986	329,534	136,998	160,605	117,597	662,402	**11,373,390**
Customers	112,125,507	39,869,236	1,818,387	4,610,250	2,398,113	1,444,728	489,531	1,075,199	245,495	**164,076,445**
Debt securities issued	6,213	66,725	1,486,936	1,590,320	4,477,376	2,807,926	3,248,767	2,371,575	6,521,711	**22,577,549**
Other financial liabilities	6,435,388	18,605	16,717	13,422	6,712	6,793	4,964	6,046	150,214	**6,658,861**
Total liabilities	**119,453,858**	**47,461,256**	**4,223,087**	**24,152,729**	**12,151,025**	**9,370,909**	**3,903,867**	**4,233,378**	**7,579,822**	**232,529,932**
Trading and Hedging derivatives										
Receivable	—	46,863,268	9,509,600	24,047,648	22,014,057	9,609,213	9,828,147	7,123,277	33,292,235	**162,287,446**
Payable	—	34,864,873	10,226,762	22,347,484	25,943,323	10,464,426	9,068,820	7,440,695	40,138,871	**160,495,254**
Contingent risks										
Financial guarantees	33,551	39,680	102,916	389,668	188,159	163,372	58,470	50,582	1,060,594	**2,086,993**

(*) For details of maturities of issues aimed at institutional investors, see the section entitled "Funding strategy and evolution of liquidity in 2022" in this note.

Thousand euro

2021										
Time to maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
ASSETS										
Cash, balances at central banks and other demand deposits	43,287,519	5,323,980	595,040	121	7	1,476	2	1,186	3,866	**49,213,196**
Financial assets at fair value through other comprehensive income	—	33,689	163,585	149,509	811,365	787,051	511,205	132,308	4,280,926	**6,869,637**
Debt securities	—	33,689	163,585	149,509	811,365	787,051	511,205	132,308	4,096,380	**6,685,091**
Loans and advances	—	—	—	—	—	—	—	—	—	**—**
Customers	—	—	—	—	—	—	—	—	—	**—**
Financial assets at amortised cost	2,913,878	7,419,781	3,327,551	10,538,647	12,003,901	10,165,453	11,122,305	10,510,625	110,867,176	**178,869,317**
Debt securities	—	214,269	—	501,837	1,099,888	1,010,560	981,452	131,712	11,250,496	**15,190,212**
Loans and advances	2,913,878	7,205,512	3,327,551	10,036,810	10,904,014	9,154,893	10,140,853	10,378,913	99,616,681	**163,679,105**
Central banks	104,066	66,815	—	—	—	—	—	—	—	**170,881**
Credit institutions	806,766	3,755,350	75,104	775,331	623,260	7,714	311	44	98,060	**6,141,939**
Customers	2,003,046	3,383,347	3,252,447	9,261,479	10,280,754	9,147,180	10,140,543	10,378,869	99,518,621	**157,366,285**
Total assets	**46,201,397**	**12,777,450**	**4,086,175**	**10,688,277**	**12,815,274**	**10,953,980**	**11,633,511**	**10,644,119**	**115,151,968**	**234,952,150**
LIABILITIES										
Financial liabilities at amortised cost	112,437,439	47,456,749	4,091,224	8,649,275	32,257,737	10,991,361	9,761,839	2,538,505	6,995,092	**235,179,222**
Deposits	107,866,967	47,380,609	3,118,324	5,832,223	29,467,405	6,466,431	7,113,160	1,062,777	998,703	**209,306,598**
Central banks	1,896	159,006	—	—	26,583,000	4,960,694	6,545,435	—	—	**38,250,031**
Credit institutions	598,147	4,925,571	723,784	710,162	712,193	177,218	138,140	167,065	664,835	**8,817,114**
Customers	107,266,924	42,296,032	2,394,540	5,122,061	2,172,213	1,328,518	429,586	895,712	333,868	**162,239,453**
Debt securities issued	(1,090)	54,733	956,082	2,804,401	2,784,337	4,519,573	2,644,956	1,472,131	5,815,833	**21,050,955**
Other financial liabilities	4,571,563	21,407	16,818	12,651	5,994	5,358	3,724	3,598	180,556	**4,821,669**
Total liabilities	**112,437,439**	**47,456,749**	**4,091,224**	**8,649,275**	**32,257,737**	**10,991,361**	**9,761,839**	**2,538,505**	**6,995,092**	**235,179,222**
Trading and Hedging derivatives										
Receivable	—	37,657,192	12,793,414	17,066,751	11,655,363	11,102,861	17,367,136	7,210,749	35,423,997	**150,277,464**
Payable	—	27,076,014	11,677,128	21,519,242	16,033,022	12,528,729	17,085,968	7,210,312	37,374,924	**150,505,339**
Contingent risks										
Financial guarantees	1,009	42,947	71,565	321,960	133,084	78,916	44,775	34,319	1,305,569	**2,034,143**

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

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

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

The information provided is static and does not reflect foreseeable funding needs.

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

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

- Transactions are placed in different time brackets according to their contractual maturity date.
- Demand liabilities are included in the “on demand” tranche, without taking into account their type (stable 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 Group had no instruments in addition to those regulated by master agreements associated with the arrangement of derivatives and repos/reverse repos.
- The Group did not have any instruments which allow the Institution to decide whether to settle its financial liabilities using cash (or another financial asset) or through the submission of its own shares as at 31 December 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 (*)		**164,140**	**3.9 %**	**1.1 %**	**1.9 %**	**3.2 %**	**89.9 %**
Deposits with agreed maturity		15,690	39.5 %	8.2 %	19.3 %	33.0 %	— %
Sight accounts	19	147,540	— %	— %	— %	— %	100.0 %
Retail issues		910	33.9 %	58.4 %	5.6 %	2.1 %	— %

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

Million euro / %

	Note	2021	3 months	6 months	12 months	>12 months	No mat.
Total on-balance sheet customer funds (*)		**162,020**	**3.5 %**	**1.4 %**	**1.5 %**	**2.7 %**	**90.9 %**
Deposits with agreed maturity		13,623	36.7 %	13.8 %	17.1 %	32.4 %	— %
Sight accounts	19	147,268	— %	— %	— %	— %	100.0 %
Retail issues		1,129	62.9 %	33.9 %	3.2 %	— %	— %

(*) Includes customer deposits (excl. repos) and other liabilities placed via the branch network: 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 Group and those sold but not under management are provided in Note 27 to these consolidated annual financial statements.

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

In 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	30/03/2022	120	15
Mortgage covered bonds 2/2022	ES0413860802	Institutional	30/05/2022	1,000	7
Issue of Straight Non-Preferred Bonds 2/2022 CNMV	ES03138603I4	Institutional	03/06/2022	8.9	5
Issue of Straight Non-Preferred Bonds 3/2022 CNMV	ES0213860358	Institutional	01/08/2022	9.2	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 16 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 or with the Bank of England, in the case of TSB Bank, the rest of the securities were placed in capital markets. As at 31 December 2022, the nominal balance of 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.

4.4.3.2. Market risk

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

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

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

The items of the consolidated balance sheet as at 31 December 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	**251,379,528**	**2,670,824**	**248,708,704**	
Cash, cash balances at central banks and other demand deposits	41,260,395	—	41,260,395	Interest rate
Financial assets held for trading	4,017,253	2,670,824	1,346,429	Interest rate
Non-trading financial assets mandatorily at fair value through profit or loss	77,421	—	77,421	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	5,802,264	—	5,802,264	Interest rate; credit spread
Financial assets at amortised cost	185,045,452	—	185,045,452	Interest rate
Derivatives – Hedge accounting	3,072,091	—	3,072,091	Interest rate
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(1,545,607)	—	(1,545,607)	Interest rate
Investments in joint ventures and associates	515,245	—	515,245	Equity
Other assets	13,135,014	—	13,135,014	—
Liabilities subject to market risk	**238,155,107**	**2,149,776**	**236,005,331**	
Financial liabilities held for trading	3,598,483	2,149,776	1,448,707	Interest rate
Derivatives – Hedge accounting	1,242,470	—	1,242,470	Interest rate
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(959,106)	—	(959,106)	Interest rate
Financial liabilities at amortised cost	232,529,932	—	232,529,932	Interest rate
Other liabilities	1,743,328	—	1,743,328	—
Equity	**13,224,421**	**—**	**13,224,421**	

Thousand euro

31/12/2021				
	On-balance sheet balance	Trading activity	Other	Main market risk factor in "Other"
Assets subject to market risk	**251,946,591**	**1,754,670**	**250,191,921**	
Cash, cash balances at central banks and other demand deposits	49,213,196	—	49,213,196	Interest rate
Financial assets held for trading	1,971,629	1,754,670	216,959	Interest rate; credit spread
Non-trading financial assets mandatorily at fair value through profit or loss	79,559	—	79,559	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	6,869,637	—	6,869,637	Interest rate; credit spread
Financial assets at amortised cost	178,869,317	—	178,869,317	Interest rate
Derivatives – Hedge accounting	525,382	—	525,382	Interest rate
Investments in joint ventures and associates	638,782	—	638,782	Equity
Other assets	13,779,089	—	13,779,089	—
Liabilities subject to market risk	**238,950,310**	**1,180,734**	**237,769,576**	
Financial liabilities held for trading	1,379,898	1,180,734	199,164	Interest rate
Derivatives – Hedge accounting	512,442	—	512,442	Interest rate
Financial liabilities at amortised cost	235,179,222	—	235,179,222	Interest rate
Other liabilities	1,878,748	—	1,878,748	—
Equity	**12,996,281**	**—**	**12,996,281**	

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)	1.30	2.42	0.90	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	**2.75**	**4.81**	**2.10**	**2.89**	**5.39**	**1.15**

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. Specifically, each BSMU has sufficient autonomy to choose the management target that it will pursue, although all BSMUs should follow the principles and critical parameters set by the Group, adapting them to the specific characteristics of the region in which they operate.

- The existence of a transfer pricing system.

- The set of systems, processes, metrics, limits, reporting arrangements and governance arrangements included within the IRRBB strategy must comply with regulatory precepts at all times.

As defined in the IRRBB Management and Control Policy, the first line of defence is undertaken by the various BSMUs, which report to their respective local Asset and Liability Committees. Their main role is to manage interest rate risk, ensuring it is assessed on a recurrent basis through management and regulatory metrics, taking into account the modelling of the various balance sheet totals and the level of risk taken.

The metrics developed to control and monitor the Group's structural interest rate risk are aligned with the market's best practices and are implemented consistently across all BSMUs, based on the results obtained from the exercise carried out to identify sub-risks and assess their materiality mentioned previously, and by each of the local asset and liability committees. The diversification effect between currencies and BSMUs is taken into account when disclosing overall figures.

The 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.

- 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.

- Net interest margin sensitivity: dynamic metric that measures the impact of interest rate fluctuations over different time horizons. It is obtained by comparing the net interest margin over given time horizon in the baseline scenario, which would be the one obtained from implied market rates, against the one obtained in a scenario of instant disruption, always considering the result obtained in the least favourable scenario. This metric supplements the economic value of equity sensitivity.

- Economic value of equity sensitivity: static metric that measures the impact of interest rate fluctuations. It is obtained by comparing the economic value of the balance sheet in the baseline scenario against the one obtained in a scenario of instant disruption, always considering the result obtained in the least favourable scenario. This is done by calculating the present value of interest rate-sensitive items as an update in the risk-free yield curve, on the reference date, of future payments of principal and interest without taking into account mark-ups, in line with the Group's IRRBB management strategy. This metric supplements the net interest margin sensitivity.

- 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, in the annual planning exercises, measurements are carried out that include assumptions regarding the evolution of the balance sheet based on the forward-looking scenarios of the Group's Financial Plan, referring to scenarios of interest rates, volumes and margins.

Furthermore, in accordance with the Group's corporate principles, all BSMUs regularly carry out stress tests, which allow them to forecast high-impact situations with a low probability of occurrence that could place BSMUs in a position of extreme exposure in relation to interest rate risk, and they also consider mitigating actions for such situations. The stress test is complemented with reverse stress tests which aim to identify the scenarios capable of producing a particular impact within a pre-established range of values.

The following table gives details of the Group's interest rate gap 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	41,797,003	920,472	1,438,829	125,651	—	—	—	—	44,281,955
Loans and advances	24,331,743	19,232,160	40,248,534	19,007,600	13,430,353	10,564,714	10,073,683	20,016,175	156,904,962
Debt securities	1,219,034	450,395	2,078,877	1,769,818	1,496,546	620,315	2,825,650	17,658,927	28,119,562
Other assets	—	—	—	—	—	—	—	—	—
Total assets	**67,347,780**	**20,603,027**	**43,766,240**	**20,903,069**	**14,926,899**	**11,185,029**	**12,899,333**	**37,675,102**	**229,306,479**
Money Market	36,299,672	352,799	2,153,181	133,675	2,964	8,256	—	10,096	38,960,643
Customer deposits	122,637,719	3,113,055	10,248,158	7,513,006	5,980,224	5,372,466	5,938,140	507,717	161,310,485
Issues of marketable securities	3,083,924	2,925,321	1,853,628	3,510,000	3,908,110	2,457,000	3,118,100	2,145,025	23,001,108
Of which: Subordinated liabilities	—	*400,000*	*500,000*	—	*300,000*	*1,500,000*	*750,000*	*15,025*	*3,465,025*
Other liabilities	55,015	122,537	277,700	217,712	144,908	130,335	113,172	670,277	1,731,656
Total liabilities	**162,076,330**	**6,513,712**	**14,532,667**	**11,374,393**	**10,036,206**	**7,968,057**	**9,169,412**	**3,333,115**	**225,003,892**
Hedging derivatives	**11,271,252**	**(6,214,446)**	**550,236**	**283,019**	**1,334,541**	**1,383,868**	**1,086,452**	**(9,694,922)**	**—**
Interest rate gap	**(83,457,298)**	**7,874,869**	**29,783,809**	**9,811,695**	**6,225,234**	**4,600,840**	**4,816,373**	**24,647,064**	**4,302,586**

Thousand euro

2021									
Time to maturity	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	51,444,557	642,925	536,886	560,946	—	—	—	—	53,185,314
Loans and advances	21,535,549	17,995,202	44,644,079	21,591,930	13,065,877	10,720,014	8,498,091	18,379,384	156,430,126
Debt securities	857,839	486,726	237,455	1,824,255	1,546,186	1,494,251	972,214	13,124,187	20,543,113
Other assets	—	—	—	—	—	—	—	—	—
Total assets	**73,837,945**	**19,124,853**	**45,418,420**	**23,977,131**	**14,612,063**	**12,214,265**	**9,470,305**	**31,503,571**	**230,158,553**
Money Market	44,399,516	68,987	726,837	562,504	11,387	10,632	9,396	9,521	45,798,780
Customer deposits	120,591,033	3,273,525	9,927,201	6,240,826	5,196,402	4,045,350	4,747,226	5,769,470	159,791,033
Issues of marketable securities	3,268,999	2,336,211	2,137,459	2,539,000	3,510,000	2,658,110	2,457,000	3,350,025	22,256,804
Of which: Subordinated liabilities	—	—	*1,150,000*	*500,000*	—	*300,000*	*1,500,000*	*765,025*	4,215,025
Other liabilities	67,713	182,548	343,475	180,694	157,013	129,087	114,763	680,161	1,855,454
Total liabilities	**168,327,261**	**5,861,271**	**13,134,972**	**9,523,024**	**8,874,802**	**6,843,179**	**7,328,385**	**9,809,177**	**229,702,071**
Hedging derivatives	**21,026,307**	**(3,048,310)**	**(1,768,615)**	**(9,450,677)**	**(1,689,870)**	**655,000**	**1,488,242**	**(7,212,077)**	**—**
Interest rate gap	**(73,463,008)**	**10,215,271**	**30,514,834**	**5,003,429**	**4,047,390**	**6,026,086**	**3,630,161**	**14,482,316**	**456,479**

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%	(6.0)%
GBP	2.6%	1.0%
USD	1.1%	(0.2)%
MXN	0.1%	(0.1)%

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 their ongoing monitoring to ensure the suitability of those assumptions. Further progress has also been made with the definition, from a Group perspective, of the methodological and modelling criteria and principles relating to customers' behavioural options to enable greater standardisation and coordination with the different BSMUs, and stress testing procedures have also been reinforced.

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 2022. 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, where they have gone 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 (BoE) 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).

4.4.3.3. Structural foreign exchange risk

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

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

Foreign exchange risk is monitored regularly and reports are sent to supervisory bodies on existing risk levels and on compliance with the limits set forth by the Board of Directors. The main monitoring metric is currency exposure, which measures the maximum potential loss that the open structural position could produce over a 1-month time horizon, with a 99% confidence level and in stressed market conditions.

Compliance with, and the effectiveness of, the Group's targets and policies are monitored and reported on a monthly basis to the Board Risk Committee.

The Bank's Financial Division, through the Asset and Liability Committee (ALCO), designs and executes strategies to hedge structural FX positions in order to achieve its objectives in relation to the management of structural foreign exchange risk.

The most prominent permanent investments in non-local currencies are 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 1,170 million as at 31 December 2021 to 1,278 million as at 31 December 2022. In relation to this position, as at 31 December 2022, a buffer of 33% of total investment is maintained.

In terms of permanent investments in Mexican pesos, the capital buffer has gone from 10,003 million Mexican pesos as at 31 December 2021 (of a total exposure of 14,572 million Mexican pesos) to 9,253 million Mexican pesos as at 31 December 2022 (of a total exposure of 15,261 million Mexican pesos), representing 61% 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 1,890 million pounds sterling as at 31 December 2021 to 1,998 million pounds sterling as at 31 December 2022), representing 17% of the total investment made (excluding intangibles).

Currency hedges are continuously reviewed in light of market movements.

The exchange value in euros of assets and liabilities in foreign currencies maintained by the Group as at 31 December 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:	**11,230,828**	**57,349,488**	**4,111,351**	**72,691,667**
Cash, cash balances at central banks and other demand deposits	606,605	5,963,971	1,044,938	7,615,514
Debt securities	1,136,840	2,775,734	423,855	4,336,429
Loans and advances	9,210,413	45,410,799	2,375,221	56,996,433
Central banks and Credit institutions	70,704	514,160	165,627	750,491
Customers	9,139,709	44,896,639	2,209,594	56,245,942
Other assets	276,970	3,198,984	267,337	3,743,291
Liabilities denominated in foreign currency:	**6,962,558**	**53,016,847**	**3,118,316**	**63,097,721**
Deposits	6,671,410	48,123,748	3,044,677	57,839,835
Central banks and Credit institutions	1,120,977	6,373,980	331,899	7,826,856
Customers	5,550,433	41,749,768	2,712,778	50,012,979
Other liabilities	291,148	4,893,099	73,639	5,257,886

Thousand euro

	2021			
	USD	**GBP**	**Other currencies**	**Total**
Assets denominated in foreign currency:	**10,063,410**	**57,229,033**	**3,577,568**	**70,870,011**
Cash, cash balances at central banks and other demand deposits	464,724	5,825,313	863,459	7,153,496
Debt securities	1,158,570	3,862,850	478,752	5,500,172
Loans and advances	8,255,149	46,259,554	1,987,782	56,502,485
Central banks and Credit institutions	49,286	258,741	39,984	348,011
Customers	8,205,863	46,000,813	1,947,798	56,154,474
Other assets	184,967	1,281,316	247,575	1,713,858
Liabilities denominated in foreign currency:	**7,606,360**	**53,111,696**	**2,476,766**	**63,194,822**
Deposits	7,405,911	49,911,932	2,410,628	59,728,471
Central banks and Credit institutions	1,559,034	6,757,419	292,431	8,608,884
Customers	5,846,877	43,154,513	2,118,197	51,119,587
Other liabilities	200,449	3,199,764	66,138	3,466,351

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 3,021 million euros, of which 1,877 million euros corresponded to permanent equity holdings in pounds sterling, 808 million euros corresponded to permanent equity holdings in US dollars and 288 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 39 million euros, of which 62% would correspond to the pound sterling, 27% to the US dollar and 10% to the Mexican peso.

4.4.4. Operational risk

Operational risk is defined as the risk of incurring losses due to inadequacies or failures of processes, staff or internal systems or due to external events. This definition includes but is not limited to legal risk, model risk and information and communications technology (ICT) risk and excludes strategic risk and reputational risk.

The management of operational risk is decentralised and devolved to process managers throughout the organisation. The processes that they manage are indicated in the corporate process flowchart, which facilitates the integration of data according to the organisational structure. The Group has a central unit that specialises in the management of operational risk, whose main duties are to coordinate, oversee and promote the identification, assessment and management of risks by the process managers, based on the management model adopted by Banco Sabadell Group.

Senior Management and the Board of Directors are directly involved and effectively take part in managing this risk by approving the management framework and its implementation as proposed by the Board Risk Committee (formed of Senior Management members from different functional areas within the Institution) and by ensuring that regular audits are carried out of the application of the management framework and of the reliability of the reported information, as well audits of the internal validation tests of the operational risk model. Operational risk is managed through two main courses of action:

The first course of action is based on the analysis of processes, the identification of risks associated with those processes that may result in losses, and a qualitative assessment of the risks and the associated controls. The foregoing are carried out jointly between process managers and the central operational risk unit. This provides an assessment of the future exposure to risk in terms of expected and unexpected losses and also allows trends to be foreseen and the corresponding mitigating actions to be adequately planned.

This is complemented by the identification, monitoring and active management of the risk through the use of key risk indicators. These allow warnings to be established, which alert the Institution to any increase in this exposure, and also enable it to identify the causes of that increase and measure the effectiveness of the implemented controls and improvements.

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

4.4.4.1 Technology risk

In recent years, the importance, complexity and use of technology and data have increased even further in banking processes, especially in remote channels (online banking) as a result of the impact of Covid-19. 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.

4.4.4.2 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:

- Setting the Institution’s tax strategy.
- Approving investments and operations of all types which are considered to be strategic or to carry considerable tax risk due to their high monetary value or particular characteristics, except when such approval corresponds to the Annual General Meeting.
- Approving the creation and acquisition of shareholdings in special purpose entities or entities registered in countries or territories classified as tax havens.
- Approving any transaction which, due to its complexity, might undermine the transparency of the Institution and its Group.

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

4.4.4.3 Compliance risk

As regards compliance risk, one of the core aspects of the Group's policy, and the foundation of its organisational culture, is strict compliance with all legal provisions, meaning that the achievement of business objectives must be compatible, at all times, with adherence to the law and the established legal system.

To 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 5 – Minimum own funds and capital management

Minimum own funds requirements

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

Regulation CRR-II and Directive CRD-IV entered into force on 27 June 2019 and have been implemented in successive stages since that date, although most of the provisions are applicable as from 28 June 2021.

The Spanish government transposed Directive CRD-V into national law through Royal Decree-Law 7/2021, of 27 April, Royal Decree 970/2021, of 8 November, and Circular 5/2021, of 22 December.

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

In particular, the European Commission, the European Central Bank and the EBA provided clarity as regards the application of the flexibility already embedded in Regulation (EU) 575/2013 by issuing interpretations and guidance on the application of the prudential framework in the context of Covid-19.

This guidance included the European Central Bank (ECB) announcement, released on 18 June 2021, that euro area credit institutions that it directly supervises could continue to exclude certain central bank exposures from the leverage ratio, given the continuing presence of exceptional macroeconomic circumstances due to the Covid-19 pandemic. As a result, the leverage ratio relief originally authorised in September 2020, which was due to end on 27 June 2021, was extended until 31 March 2022. On 10 February 2022, the European Central Bank announced that it would not extend this measure beyond 31 March 2022.

In addition, in line with the ECB's communication dated 18 June 2021, credit institutions were able to exclude certain exposures to central banks from the leverage ratio until 31 March 2022.

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

In this regard, on 2 February 2022, Banco Sabadell received the decision of the European Central Bank concerning the minimum prudential requirements applicable to the Bank as from 1 March 2022, as a result of the Supervisory Review and Evaluation Process (SREP). On a consolidated basis, Banco Sabadell was required to keep a phase-in Common Equity Tier 1 (CET1) ratio of at least 8.46% and a phase-in Total Capital ratio of at least 12.90%. These ratios include the minimum required by Pillar 1 (8%, of which 4.50% corresponds to CET1), the Pillar 2R (2.15%, of which 1.21% must be covered with CET1), the capital conservation buffer (2.50%), the requirement applicable due to the Bank's status as an 'other systemically important institution' (0.25%), and the requirement arising from the calculation of the counter-cyclical capital buffer which, as at December 2021, was 0%. Following this decision, the capital requirement was lowered by 10 basis points compared to 2021.

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

As at 31 December 2022, the Group's phase-in CET1 capital ratio stands at 12.67% (12.50% as at 31 December 2021) and a phase-in total capital ratio of 17.08% (17.98% as at 31 December 2021); therefore, the capital requirements indicated in the preceding points are being comfortably met.

The following table sets out the minimum prudential requirements applicable to Banco Sabadell following the Supervisory Review and Evaluation Process (SREP) for the years 2021-2023:

	2023	2022	2021
Pillar 1 CET1	4.50%	4.50%	4.50%
Pillar 2 Requirement	1.21%	1.21%	1.27%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic buffer	0.25%	0.25%	0.25%
Countercyclical buffer	0.19%	0.00%	0.00%
Common Equity Tier 1 (CET1) ratio	**8.65%**	**8.46%**	**8.52%**
Dates of communication of the SREP outcome	14/12/2022	2/2/2022	23/11/2020

On a standalone basis, the requisite Common Equity Tier 1 (CET1) ratio resulting from the 2022 SREP was 8.21% and the required Total Capital ratio was 12.65%. This requirement included the minimum required by Pillar 1 (8%, of which 4.50% corresponds to CET1), the Pillar 2R (2.15%, of which 1.21% must be covered with CET1), the capital conservation buffer (2.50%) and the requirement arising from the calculation of the specific counter-cyclical capital buffer which, as at December 2021, was 0%.

On 14 December 2022, Banco Sabadell received the decision of the European Central Bank concerning the minimum prudential requirements applicable to the Bank as from 1 January 2023, as a result of the Supervisory Review and Evaluation Process (SREP). On a standalone basis, Banco Sabadell is required to keep a phase-in Common Equity Tier 1 (CET1) ratio of at least 8.35% and a phase-in Total Capital ratio of at least 12.79%. These ratios include the minimum required by Pillar 1 (8%, of which 4.50% corresponds to CET1), the Pillar 2R (2.15%, of which 1.21% must be covered with CET1), the capital conservation buffer (2.50%) and the requirement arising from the calculation of the counter-cyclical capital buffer which, as at December 2022, was 0.14%.

As at 31 December 2022, Banco Sabadell's CET1 capital ratio stands at 13.30%, and its phase-in Total Capital ratio at 17.58%; consequently, with regard to standalone capital requirements, it also comfortably exceeds the SREP requirements.

Requirements related to the restructuring and resolution of credit institutions

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

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

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

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

In that sense, the preamble of Law 11/2015 defines a resolution process as a unique administrative process, which would manage the insolvency of those credit institutions and investment firms that cannot be undertaken through bankruptcy liquidation for reasons of public interest and financial stability. In order to achieve the aforementioned objectives, the BRRD envisages a series of instruments at the disposal of the relevant resolution authority, including a bail-in mechanism. For these purposes, the BRRD introduces a minimum requirement of own funds and eligible liabilities (MREL) that organisations must comply with at all times in order to ensure their loss-absorbing capacity is sufficient to guarantee the effective implementation of the resolution mechanisms and that, under the current regulatory environment, would be expressed as the amount of own funds and eligible liabilities as a percentage of the total liabilities and own funds of the organisation.

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

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

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

In May 2021, the SRB published the MREL Policy under the Banking Package, which integrates the regulatory changes of the aforesaid resolution framework reform. The new SRB requirements are based on balance sheet data as at December 2021 and set two binding MREL targets: the final MREL target to be binding on 1 January 2024 and an interim target to be met by 1 January 2022. The latter corresponds to an intermediate level that allows for a linear build-up by institutions of their MREL capacity. Therefore, its calibration depends on the institution's MREL capacity at the time of calibration and its final target.

On 10 January 2023, Banco Sabadell received a communication from the Bank of Spain regarding the decision made by the Single Resolution Board (SRB) concerning the minimum requirement for own funds and eligible liabilities (MREL) and the subordination requirement applicable on a consolidated basis.

The requirements that must be met as from 1 January 2024 are as follows:

- The minimum requirement for own funds and eligible liabilities (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 does not introduce changes on the following intermediate requirements that must be met as 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 capital used by the Institution to meet the combined buffer requirement (CBR), comprising the capital conservation buffer, the systemic risk buffer and the counter-cyclical buffer, will not be eligible to meet its MREL and subordination requirements expressed in terms of the TREA.

Banco Sabadell already meets the requirements that apply from 1 January 2024 onwards, which are in line with Banco Sabadell's expectations and with its funding plans. In 2022, the Bank issued 1,463 million euros of MREL-eligible senior non-preferred debt and 750 million euros of senior preferred debt.

	MREL Requirement		**Subordination Requirement**	
	% TREA	**% LRE**	**% TREA**	**% LRE**
Requirement 1 January 2022	21.05%	6.22%	14.45%	6.06%
Requirement 1 January 2024	22.22%	6.36%	17.23%	6.36%
MREL 31 December 2022 (*)	23.41%	8.26%	18.81%	6.82%

(*) The RWAs percentage does not include capital used to meet the CBR (2.93% as at Dec 2022 and estimated at 3.11% for 2024).

Capital management

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

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

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

The Group carries out frequent backtesting exercises on its IRB models, at least once a year. These backtesting exercises are independently reviewed by the Internal Validation unit and reported for their monitoring to the internal governing bodies, such as the Technical Risk Committee and the Board Risk Committee (delegated Board committees). Additionally, the backtesting results that affect the risk parameters and the main conclusions drawn from these results, taking into account the criteria established by the EBA in its Disclosure Guidelines, are included in the annual Pillar III Disclosures report.

Banco Sabadell Group prepares an internal capital adequacy assessment process (ICAAP) on a consolidated basis continuously throughout the year, in order to carry out a full assessment of the risks taken by the Group and generate a relevant, updated, all-encompassing and prospective understanding of the adequacy of the levels of capital.

The ICAAP is developed under a solid governance framework, with high involvement from Senior Management. The Board of Directors is the highest body responsible for its review and approval.

Banco Sabadell Group develops the ICAAP from an all-encompassing perspective, so as to generate an assessment of the adequacy of the level of internal capital, taking into account the Group's structure and business model from different perspectives.

The ICAAP process is seen as a complementary tool to Basel Pillar 1 (regulatory capital), which first analyses the Group's business model within its economic, financial and regulatory environment, and its short- and medium-term sustainability and feasibility. The Group's business model involves the acceptance of risks and, therefore, the definition of a risk profile. As part of the ICAAP, an identification is made of the material risks derived from the Group's activities and a self-assessment is carried out of the inherent and residual risk entailed by such risks after considering the risk governance, management and control systems.

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

In addition, the ICAAP includes forward-looking analyses using a 3-year time horizon (or even a 30-year time horizon in the case of scenarios designed to forecast climate risk). These analyses are carried out under a baseline economic scenario, but also under plausible but unlikely adverse scenarios (stress tests), which are relevant to the Group and, therefore, reflect adverse situations that may have a particular effect on the Group. The baseline forecast includes the Group's business and financial plans. These forecasts are carried out to verify whether the performance of the business, risk and income statement in the event of potential adverse scenarios could pose a risk to the Group's solvency based on the available own funds or the Group's compliance with its Risk Appetite Statement. As a result of these exercises, the Bank can detect weaknesses and propose, if necessary, action plans that mitigate the identified risks.

Forward-looking analyses under adverse scenarios are supplemented by reverse stress tests, which identify idiosyncratic characteristics of the Group that may pose a relevant risk to its solvency if they were to materialise.

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

The Group has implemented an analytical system of risk-adjusted return on capital (RAROC), which provides an assessment of the capital required and allows measuring the return obtained from the transaction and customer level down to the business unit level, enabling uniform comparisons to be made, as well as its inclusion in the transaction pricing process.

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

For more information on capital management, see the Pillar III Disclosures report, published annually, which is available on the Group's website (www.grupobancosabadell.com), in the section on Information for shareholders and investors / Financial information.

Eligible capital and capital ratios

As at 31 December 2022, the Group's eligible capital amounted to 13,587 million euros (14,501 million euros as at 31 December 2021), representing a surplus of 3,175 million euros (4,014 million euros as at 31 December 2021), as shown below:

Thousand euro

	2022	2021	Year-on-year change (%)
Capital	703,371	703,371	—
Reserves (includes profit attributable to the Group, net of dividends)	12,838,901	12,519,248	2.55
Valuation and transitional adjustments	(544,155)	(148,352)	266.80
Deductions	(2,915,365)	(2,994,734)	(2.65)
CET1 capital	**10,082,751**	**10,079,533**	**0.03**
CET1 (%)	12.67	12.50	1.36
Preference shares, convertible bonds and deductions	1,650,000	2,400,000	(31.00)
Additional Tier 1 capital	**1,650,000**	**2,400,000**	**(31.00)**
AT1 (%)	2.07	2.98	(30.54)
Tier 1 capital	**11,732,751**	**12,479,533**	**(5.98)**
Tier 1 (%)	14.75	15.47	(4.65)
Tier 2 capital	**1,855,001**	**2,021,270**	**(8.23)**
Tier 2 (%)	2.33	2.51	(7.17)
Capital base	**13,587,753**	**14,500,802**	**(6.30)**
Minimum capital requirement	10,412,415	10,486,962	(0.71)
Capital surplus	**3,175,338**	**4,013,840**	**(20.89)**
Total capital ratio (%)	**17.08**	**17.98**	**(5.01)**
Risk weighted assets (RWAs)	**79,553,809**	**80,645,593**	**(1.35)**

Common Equity Tier 1 (CET1) capital accounts for 74.20% of eligible capital. Deductions are mainly comprised of intangible assets, goodwill and deferred tax assets. The impact of applying, as from June 2020 onwards, Regulation 2020/873 in the Covid-19 backdrop is deemed transitional. This regulation extends the transitional provisions designed to mitigate the impact of IFRS 9 for two years, allowing institutions to fully add back to their Common Equity Tier 1 capital any increase in new expected credit loss provisions that they recognise after 1 January 2020 for their financial assets that are not credit-impaired.

Tier 1 comprises, in addition to CET1 funds, items that largely make up Additional Tier 1 capital (12.14% of own funds), which are capital items comprised of preferred securities.

Tier 2 capital provides 13.65% of the total capital ratio and is made up largely of subordinated debt.

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 highlighting the improved ratings of businesses, as a result of the improved financial situation and the improvements of house prices in the UK, 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 to 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.

In fully-loaded terms, as at 31 December 2022, the Common Equity Tier 1 (CET1) ratio stood at 12.55% and the total capital ratio stood at 17.02%, both well above the regulatory minima.

The following table shows movements in the various regulatory capital components during 2022 and 2021:

Thousand euro	
CET1 balance as at 31 December 2020	**9,911,107**
Reserves (includes profit attributable to the Group, net of dividends)	241,508
Minority interests	(9,270)
Valuation adjustments	216,115
Deductions and transitory effects	(279,927)
CET1 balance as at 31 December 2021	**10,079,533**
Reserves (includes profit attributable to the Group, net of dividends)	319,654
Minority interests	—
Valuation adjustments	(273,616)
Deductions and transitory effects	(42,819)
CET1 balance as at 31 December 2022	**10,082,751**

Thousand euro	
Additional Tier 1 balance as at 31 December 2020	**1,153,539**
Eligible instruments	1,250,000
Minority interests	(3,539)
Additional Tier 1 balance as at 31 December 2021	**2,400,000**
Eligible instruments	(750,000)
Minority interests	—
Additional Tier 1 balance as at 31 December 2022	**1,650,000**

Thousand euro	
Tier 2 balance as at 31 December 2020	**1,664,708**
Eligible instruments	89,030
Credit risk adjustments	26,773
Minority interests	(4,719)
Deductions and transitory effects	245,478
Tier 2 balance as at 31 December 2021	**2,021,270**
Eligible instruments	(99,745)
Credit risk adjustments	(10,193)
Minority interests	—
Deductions and transitory effects	(56,330)
Tier 2 balance as at 31 December 2022	**1,855,001**

The table below shows the reconciliation of equity and regulatory capital as at 31 December 2022 and 2021:

Thousand euro

	2022	2021
Shareholders' equity	13,840,723	13,356,905
Accumulated other comprehensive income	(650,645)	(385,604)
Minority interests	34,343	24,980
Total equity	**13,224,421**	**12,996,281**
Goodwill and intangibles	(2,144,909)	(2,227,640)
Dividends (*)	(317,281)	(168,809)
DTAs and thresholds for non-monetisable DTAs	(537,712)	(563,837)
Deductions	(124,898)	(117,503)
Other adjustments	(16,871)	161,041
Regulatory accounting adjustments	**(3,141,671)**	**(2,916,749)**
Common Equity Tier 1 capital	**10,082,751**	**10,079,533**
Additional Tier 1 capital	**1,650,000**	**2,400,000**
Tier 2 capital	**1,855,001**	**2,021,270**
Total regulatory capital	**13,587,753**	**14,500,802**

(*) Does not consider interim dividend booked

As at 31 December 2022 and 2021, there is no significant difference between the accounting scope of consolidation and the regulatory scope of consolidation.

Risk-weighted assets (RWAs) for the period stood at 79,554 million euros as at 31 December 2022, which represents a change of -1.35% relative to the previous period due to the variation in credit RWAs. It is also worth noting the improvement in the density of the portfolio due to the update and improved ratings of businesses, as a result of the improved financial situation and the improvements of house prices in the UK. In addition, two securitisations carried out in the period are particularly relevant: the conventional securitisation on consumer loans Sabadell Consumo 2 carried out on 8 July 2022 and the synthetic securitisation Boreas on project finance exposures carried out on 28 September 2022.

The breakdown of risk-weighted assets by type of risk, as at 31 December 2022 and 2021, is shown below:

Thousand euro

	2022		2021	
	Amount	%	Amount	%
Credit risk (*)	70,387,473	88.48 %	72,134,688	89.45 %
Operational risk	8,160,674	10.26 %	7,931,371	9.83 %
Market risk	1,005,662	1.21 %	579,519	0.72 %
Total	**79,553,809**	**100.00 %**	**80,645,578**	**100.00 %**

(*) Includes counterparty credit risk, deferred tax assets and the impact on RWAs of applying additional prudential adjustments required by the supervisor (SSM). Certain impacts linked mainly to the completion of the IRB Repair programme, which the Institution has decided to frontload, are also included. Not taking into account the aforementioned supplements, the credit RWAs amount to 66,859 million euros.

The following table shows the reasons for the variation in credit RWAs occurring during 2022 and 2021:

Thousand euro

	RWA	Capital requirements (*)
Balance as at 31 December 2020	**66,696,247**	**5,335,700**
Change in business volume	869,920	69,594
Asset quality	(764,498)	(61,160)
Changes in models	55,000	4,400
Methodology, parameters and policies	(510,161)	(40,813)
Acquisitions and disposals	(11,021)	(882)
Exchange rate	1,129,734	90,379
Other (**)	2,077,912	166,233
Balance as at 31 December 2021	**69,543,133**	**5,563,451**
Change in business volume	(769,481)	(61,558)
Asset quality	(3,006,475)	(240,518)
Changes in models	951,398	76,112
Methodology, parameters and policies	1,017,559	81,405
Acquisitions and disposals	(446,665)	(35,733)
Exchange rate	(430,845)	(34,468)
Other	—	—
Balance as at 31 December 2022	**66,858,624**	**5,348,690**

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

(*) Calculated as 8% of RWAs.

(**) The increase in the “Other” category is due to the assignment, at a granular level, of a series of add-ons at TSB, which as at December 2020 were reported as “Other risk exposure amounts”.

The table below shows risk-weighted assets for the most significant risk in terms of volume (credit risk), broken down by region, as at 31 December 2022 and 2021:

%

	2022	2021
Spain	64.95 %	65.13 %
Rest of European Union	4.97 %	5.30 %
United Kingdom	18.24 %	18.47 %
Americas	11.08 %	9.98 %
Rest of the world	0.77 %	1.12 %
Total	**100 %**	**100 %**

Includes counterparty credit risk.

The leverage ratio aims to reinforce capital requirements by providing a supplementary measure that is not linked to the level of risk. Article 92 of the CRR-II regulation establishes that a minimum leverage ratio of 3% is required as from June 2021; this percentage is comfortably exceeded by the Group as at 31 December 2022.

The leverage ratio as at 31 December 2022 and 2021 is shown below:

Thousand euro

	2022	2021
Tier 1 capital	11,732,751	12,479,533
Exposure	253,840,350	211,616,215
Leverage ratio	**4.62 %**	**5.90 %**

In 2018, following the entry into force of IFRS 9, the Group opted to apply the transitional arrangements set forth in Regulation (EU) 2017/2395.

During 2022, the leverage ratio decreased by 128 basis points compared to that as at 31 December 2021, mainly due to the voluntary early redemption envisaged in the conditions of the AT1 Preferred Securities 1/2017 issue, whose value amounted to 750 million euros, and to the end of the transitional period that allowed the exclusion of exposures of deposits held at central banks from the leverage ratio. This transitional period began to apply in September 2020 through Decision (EU) 2020/1306, which provided for validity until 27 June 2021. This validity period was subsequently extended until 31 March 2022 through Decision (EU) 2021/1074.

The following table shows the impact that the application of the transitional arrangements in force in 2022 has had on the various capital ratios (in phase-in terms) compared to the impact if the IFRS 9 rules had been applied in full (in fully-loaded terms):

Thousand euro

	2022
Available capital	
Common Equity Tier 1 (CET1) capital	10,082,751
Common Equity Tier 1 (CET1) capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	9,985,006
Tier 1 (T1) capital	11,732,751
Tier 1 (T1) capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	11,635,006
Total capital	13,587,753
Total capital if the IFRS 9 or analogous ECL transitional arrangements had not been applied	13,546,337
Risk weighted assets	
Total risk weighted assets	79,553,809
Total risk weighted assets if the IFRS 9 or analogous ECL transitional arrangements had not been applied	79,568,639
Capital ratios	
Common Equity Tier 1 (CET1) capital (expressed as percentage of risk exposure amount)	12.67 %
Common Equity Tier 1 (CET1) capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	12.55 %
Tier 1 (T1) capital (expressed as percentage of risk exposure amount)	14.75 %
Tier 1 (T1) capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	14.62 %
Total capital (expressed as percentage of risk exposure amount)	17.08 %
Total capital (expressed as percentage of risk exposure amount) if the IFRS 9 or analogous ECL transitional arrangements had not been applied	17.02 %
Leverage ratio	
Total exposure measure corresponding to leverage ratio	253,840,350
Leverage ratio	4.62 %
Leverage ratio if the IFRS 9 or analogous ECL transitional arrangements had not been applied	4.59 %

The main impact arising from the application of these transitional arrangements has been the inclusion of 98 million euros in CET1, which partly mitigates the decrease in equity resulting from the entry into force of IFRS 9, due to the increase in accounting provisions. The impact generated a reduction in risk-weighted assets of 15 million euros.

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

Note 6 – Fair value of assets and liabilities

Financial assets and financial liabilities

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

When there is no market price for a particular financial asset or financial liability, the fair value is estimated from the values established for similar instruments in recent transactions or, alternatively, by using mathematical valuation models that have been suitably tested by the international financial community. When using these models, the particular characteristics of the financial asset or financial liability to be valued are taken into account, particularly the different types of 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 Group's main financial assets and financial liabilities are recognised on the accompanying consolidated balance sheets and their corresponding fair values is shown below:

Thousand euro

		2022		2021	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Cash, cash balances at central banks and other demand deposits	7	41,260,395	41,260,395	49,213,196	49,213,196
Financial assets held for trading	8,9,10	4,017,253	4,017,253	1,971,629	1,971,629
Non-trading financial assets mandatorily at fair value through profit or loss	8	77,421	77,421	79,559	79,559
Financial assets designated at fair value through profit or loss		—	—	—	—
Financial assets at fair value through other comprehensive income	9	5,802,264	5,802,264	6,869,637	6,869,637
Financial assets at amortised cost	8	185,045,452	178,139,213	178,869,317	184,223,595
Derivatives – Hedge accounting	12	3,072,091	3,072,091	525,382	525,382
Total assets		**239,274,876**	**232,368,637**	**237,528,720**	**242,882,998**

Thousand euro

	Note	2022		2021	
		Carrying amount	Fair value	Carrying amount	Fair value
Liabilities:					
Financial liabilities held for trading	10	3,598,483	3,598,483	1,379,898	1,379,898
Financial liabilities designated at fair value through profit or loss		—	—	—	—
Financial liabilities at amortised cost	18, 19, 20, 21	232,529,932	221,121,599	235,179,222	234,493,250
Derivatives – Hedge accounting	12	1,242,470	1,242,470	512,442	512,442
Total liabilities		**237,370,885**	**225,962,552**	**237,071,562**	**236,385,590**

Financial instruments at fair value

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

Thousand euro

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

Thousand euro

	Note	2022			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		224,447	3,374,036	—	3,598,483
Derivatives	10	—	3,374,036	—	3,374,036
Short positions		224,447	—	—	224,447
Deposits with credit institutions		—	—	—	—
Financial liabilities designated at fair value through profit or loss		—	—	—	—
Derivatives – Hedge accounting	12	—	1,242,470	—	1,242,470
Total liabilities		**224,447**	**4,616,506**	**—**	**4,840,953**

Thousand euro

	Note	2021			
		Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		592,631	1,378,998	—	1,971,629
Derivatives	10	—	1,378,998	—	1,378,998
Equity instruments	9	2,258	—	—	2,258
Debt securities	8	590,373	—	—	590,373
Loans and advances – Customers		—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss		18,361	1,541	59,657	79,559
Equity instruments	9	14,544	38	—	14,582
Debt securities		3,817	1,503	59,657	64,977
Loans and advances		—	—	—	—
Financial assets designated at fair value through profit or loss		—	—	—	—
Debt securities		—	—	—	—
Loans and advances – Credit institutions		—	—	—	—
Financial assets at fair value through other comprehensive income		6,594,926	133,287	141,424	6,869,637
Equity instruments	9	2,402	106,378	75,766	184,546
Debt securities	8	6,592,524	26,909	65,658	6,685,091
Loans and advances		—	—	—	—
Derivatives – Hedge accounting	12	—	525,382	—	525,382
Total assets		**7,205,918**	**2,039,208**	**201,081**	**9,446,207**

Thousand euro

	Note	2021			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		56,662	1,323,236	—	1,379,898
Derivatives	10	—	1,323,236	—	1,323,236
Short positions		56,662	—	—	56,662
Deposits with credit institutions		—	—	—	—
Financial liabilities designated at fair value through profit or loss		—	—	—	—
Derivatives – Hedge accounting	12	—	512,442	—	512,442
Total liabilities		**56,662**	**1,835,678**	**—**	**1,892,340**

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 5.31% of the total, and their adjustment for credit and debit risks represents 17.30% of their fair value as at 31 December 2022 (4.74% 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 consolidated balance sheets, are shown below:

Thousand euro	Assets	Liabilities
Balance as at 31 December 2020	**160,606**	**—**
Valuation adjustments recognised in profit or loss (*)	4,231	—
Valuation adjustments not recognised in profit or loss	5,015	—
Purchases, sales and write-offs	(30,874)	—
Net additions/removals in Level 3	58,927	—
Exchange differences and other	3,176	—
Balance as at 31 December 2021	**201,081**	**—**
Valuation adjustments recognised in profit or loss (*)	3,662	—
Valuation adjustments not recognised in profit or loss	10,115	—
Purchases, sales and write-offs	(44,502)	—
Net additions/removals in Level 3	(4,957)	—
Exchange differences and other	1,865	—
Balance as at 31 December 2022	**167,264**	**—**

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

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	—	58,890	—	37	—	—
Derivatives	—	—	—	—	—	—
Liabilities:						
Financial liabilities held for trading	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	—	—	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Total	**—**	**58,890**	**—**	**37**	**—**	**—**

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 to have an active market; therefore, their valuation was obtained from market prices.

Transfers from Level 1 to Level 3 in 2021 were due to the fact that the markets in which these instruments (mainly asset-backed securities) are traded were no longer considered to have an active market; therefore, their value was hence calculated using valuation techniques in which one of the main significant inputs (early redemption rate) 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 consolidated balance sheets:

Thousand euro

	2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets at amortised cost:				
Debt securities	19,264,376	778,098	207,034	20,249,508
Loans and advances	2,776,939	20,211,002	134,901,764	157,889,705
Total assets	**22,041,315**	**20,989,100**	**135,108,798**	**178,139,213**

Thousand euro

	2022			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Financial liabilities at amortised cost (*):				
Deposits	—	188,065,858	3,772,522	191,838,380
Debt securities issued	18,674,324	3,950,033	—	22,624,357
Total liabilities	**18,674,324**	**192,015,891**	**3,772,522**	**214,462,737**

(*) As at 31 December 2022, the Group had other financial liabilities amounting to 6,658,861 thousand euros.

Thousand euro

	2021			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets at amortised cost				
Debt securities	14,559,083	716,151	67,830	15,343,063
Loans and advances	—	25,446,544	143,433,988	168,880,532
Total assets	**14,559,083**	**26,162,695**	**143,501,818**	**184,223,595**

Thousand euro

	2021			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Financial liabilities at amortised cost (*)				
Deposits	—	204,979,429	3,101,017	208,080,446
Debt securities issued	16,490,631	5,097,385	3,119	21,591,135
Total liabilities	**16,490,631**	**210,076,814**	**3,104,136**	**229,671,581**

(*) As at 31 December 2021, the Group had other financial liabilities amounting to 4,821,669 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 values of real estate assets do not differ significantly from the fair values of these assets (see Notes 13, 15 and 17).

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

Valuation techniques are generally used by all appraisal companies based on the type of each real estate asset.

As per regulatory requirements, in the valuation techniques used, 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 Group's portfolio are the following:

– Completed works: valued in comparable terms, based on updates to income or the statistical model (Level 2).

– Works in progress: valued using the cost method as a sum of the land value and the value of the work carried out (Level 3).

– Land: valued using the residual method (Level 3).

Determination of the fair value of real estate assets

The following tables show the main real estate assets broken down 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	—	672,441	—	672,441
Branches and offices, retail establishments and other real estate	—	943,251	—	943,251
Land and building plots	—	5,351	25,031	30,382
Work in progress	—	—	2,585	2,585
Total assets	**—**	**1,621,043**	**27,616**	**1,648,659**

Thousand euro

	2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Housing	—	809,601	—	809,601
Branches and offices, retail establishments and other real estate	—	1,014,204	—	1,014,204
Land and building plots	—	—	30,440	30,440
Work in progress	—	—	3,966	3,966
Total assets	**—**	**1,823,805**	**34,406**	**1,858,211**

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 Group's possession is very fragmented, and they are very varied, both in terms of location and in terms of the stage of development of the urban infrastructure and the possibility of future development. For this reason, no quantitative information can be provided regarding the unobservable variables affecting the fair value of these types of assets.

Movements in the balances of real estate assets classified as Level 3 in 2022 and 2021 are shown below:

Thousand euro

	Housing	Branches and offices, retail establishments and other real estate	Land, building plots and work in progress
Balance as at 31 December 2020	**—**	**—**	**39,342**
Purchases	—	—	11,360
Sales	—	—	(8,704)
Impairments recognised on income statement (*)	—	—	(6,502)
Net additions/removals in Level 3	—	—	(1,090)
Balance as at 31 December 2021	**—**	**—**	**34,406**
Purchases	—	—	329
Sales	—	—	(5,084)
Impairments recognised on income statement (*)	—	—	(1,796)
Net additions/removals in Level 3	—	—	(239)
Balance as at 31 December 2022	**—**	**—**	**27,616**

(*) Relates to assets retained on the balance sheet as at 31 December 2022 and 2021.

During 2022 and 2021, certain real estate assets have been transferred between the different valuation levels, due to the transformation of assets that were in the process of construction into finished products.

The following table shows a comparison between the value at which the Group's real estate assets were recognised under the headings "Non-current assets and disposal groups classified as held for sale" obtained through foreclosures, "Investment properties" and "Inventories" 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	15	383,975	(84,233)	299,742	354,375	450,644	(71,376)	379,268	468,641
Inventories	17	170,942	(77,107)	93,835	145,728	248,345	(105,632)	142,713	213,470
Non-current assets held for sale		721,078	(183,927)	537,151	854,546	788,711	(208,322)	580,389	913,787
Total		**1,275,995**	**(345,267)**	**930,728**	**1,354,649**	**1,487,700**	**(385,330)**	**1,102,370**	**1,595,898**

(*) Cost less accumulated depreciation.

The fair values of real estate assets valued by appraisal companies and included in the headings "Non-current assets and disposal groups classified as held for sale", "Investment properties" and "Inventories" in 2022 are as follows:

Thousand euro

Appraisal firm	Non-current assets held for sale	Investment properties	Inventories
Afes Técnicas de Tasación, S.A.	—	104	—
Alia Tasaciones, S.A.	23,384	21,291	6,984
CBRE Valuation Advisory, S.A.	121,537	1,211	10,107
Eurovaloraciones, S.A.	42,178	59,891	11,242
Gestión de Valoraciones y Tasaciones, S.A.	2,257	301	82
Gloval Valuation, S.A.U.	154,210	5,854	16,268
Ibertasa, S.A.	61	—	—
Sociedad de Tasación, S.A.	103,020	137,808	22,462
Tabimed Gestión de Proyectos, S.L.	412	—	—
Tasalia Sociedad de Tasación, S.A.	—	—	60
Tasiberica, S.A.	—	—	191
Tecnitasa Técnicos en Tasación, S.A	9,905	1,408	1,272
Tinsa Tasaciones Inmobiliarias, S.A.	25,054	53,668	4,724
UVE Valoraciones, S.A.	4,712	—	—
Valoraciones Mediterráneo, S.A.	50,214	17,927	20,175
Other	207	279	268
Total	**537,151**	**299,742**	**93,835**

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

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

The composition of this asset heading on the consolidated balance sheets as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	**2021**
By nature:		
Cash	686,258	704,105
Cash balances at central banks	39,236,780	47,741,021
Other demand deposits	1,337,357	768,070
Total	**41,260,395**	**49,213,196**
By currency:		
In euro	33,644,881	42,059,700
In foreign currency	7,615,514	7,153,496
Total	**41,260,395**	**49,213,196**

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 8 - Debt securities

Debt securities reported in the consolidated 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	54,276	64,977
Financial assets designated at fair value through profit or loss	—	—
Financial assets at fair value through other comprehensive income	5,622,692	6,685,091
Financial assets at amortised cost	21,452,820	15,190,212
Total	**27,546,919**	**22,530,653**
By nature:		
Central banks	—	—
General governments	27,099,465	21,361,299
Credit institutions	1,271,290	689,449
Other sectors	486,731	393,424
Stage 3 assets	73	73
Impairment allowances	(211)	—
Other valuation adjustments (interest, fees and commissions, other)	(1,310,429)	86,408
Total	**27,546,919**	**22,530,653**
By currency:		
In euro	23,210,490	17,030,481
In foreign currency	4,336,429	5,500,172
Total	**27,546,919**	**22,530,653**

In May 2021, the Group decided to sell debt instruments which had a carrying amount of 3,735 million euros and which were recognised on the consolidated balance sheet under the heading “Financial assets at amortised cost”, by arranging forward sale contracts that were settled in the third quarter of 2021. The results obtained from these disposals were recognised under the heading “Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net – Financial assets at amortised cost” of the consolidated income statement (see Note 30). These sales were carried out as part of a series of actions undertaken to improve the Group’s future profitability while preserving its solvency, including the restructuring announced in Spain in the third quarter of 2021 (see Note 33). The Group considered that these sales, while not speculative in nature, 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 consolidated 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 11.

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	5,867,885	6,699,715
Fair value (*)	5,622,692	6,685,091
Accumulated losses recognised in equity	(298,718)	(88,999)
Accumulated capital gains recognised in equity	54,864	75,525
Value adjustments made for credit risk	(1,339)	(1,150)

(*) Includes net impairment losses in the consolidated income statements for 2022 and 2021, in the amount of -182 and 697 thousand euros, of which, -742 and -677 thousand euros correspond to allowances, and 560 and 1,374 thousand euros correspond to provision reversals, respectively (see Note 34).

Details of exposures held in public debt instruments included under the "Financial assets at fair value through other comprehensive income" heading, as at 31 December 2022 and 2021, are as follows:

Thousand euro

	2022	2021
Amortised cost	5,472,721	6,466,128
Fair value	5,226,075	6,446,213
Accumulated losses recognised in equity	(291,636)	(88,156)
Accumulated capital gains recognised in equity	45,097	68,347
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	20,295,771	14,457,615
Credit institutions	970,492	647,363
Other sectors	186,768	85,234
Impairment allowances	(211)	—
Total	**21,452,820**	**15,190,212**

Note 9 – Equity instruments

Equity instruments reported in the consolidated balance sheets as at 31 December 2022 and 2021 are broken down as follows:

Thousand euro

	2022	2021
By heading:		
Financial assets held for trading	—	2,258
Non-trading financial assets mandatorily at fair value through profit or loss	23,145	14,582
Financial assets at fair value through other comprehensive income	179,572	184,546
Total	**202,717**	**201,386**
By nature:		
Resident sector	176,474	165,405
Credit institutions	8,484	6,659
Other	167,990	158,746
Non-resident sector	15,034	18,548
Credit institutions	—	—
Other	15,034	18,548
Participations in investment vehicles	11,209	17,433
Total	**202,717**	**201,386**
By currency:		
In euro	202,189	199,778
In foreign currency	528	1,608
Total	**202,717**	**201,386**

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

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

Thousand euro

	2022	2021
Acquisition cost	241,468	257,714
Fair value	179,572	184,546
Accumulated capital losses recognised in equity at reporting date	(146,236)	(149,044)
Accumulated capital gains recognised in equity at reporting date	84,340	75,876
Transfers of gains or losses within equity during the year	(6,799)	(868)
Recognised dividends from investments held at the end of the year	2,609	1,239

Note 10 – 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	14,807	29,019	29,019
Interest rate risk	2,954,325	2,943,405	981,743	919,688
Foreign exchange risk	552,656	340,033	218,470	224,868
Other types of risk	78,334	75,791	149,766	149,661
Total	**3,600,122**	**3,374,036**	**1,378,998**	**1,323,236**
By currency:				
In euro	2,060,859	1,740,524	1,061,444	1,027,833
In foreign currency	1,539,263	1,633,512	317,554	295,403
Total	**3,600,122**	**3,374,036**	**1,378,998**	**1,323,236**

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 Swap	2,940,879	1,104,366
Currency options	126,794	37,819
Interest rate options	85,552	27,143
Index and securities options	14,807	29,019
Currency forwards	425,861	180,651
Fixed income forwards	6,229	—
Equity forwards	—	—
Interest rate forwards	—	—
Total derivatives on asset side held for trading	**3,600,122**	**1,378,998**
Liabilities		
Swaps, CCIRS, Call Money Swap	2,984,512	1,050,442
Currency options	126,486	42,520
Interest rate options	33,640	11,644
Index and securities options	14,807	36,282
Currency forwards	213,547	182,348
Fixed income forwards	1,044	—
Equity forwards	—	—
Interest rate forwards	—	—
Total derivatives on liability side held for trading	**3,374,036**	**1,323,236**

As at 31 December 2022, the Group holds embedded derivatives that have been separated from their host contracts and recognised under the heading “Financial liabilities held for trading – Derivatives” of the consolidated balance sheet in the amount of 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 11 – Loans and advances

Central banks and credit institutions

The breakdown of the headings “Loans and advances – Central banks” and “Loans and advances – Credit institutions” of the consolidated balance sheets as at 31 December 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	4,862,951	6,312,820
Total	**4,862,951**	**6,312,820**
By nature:		
Deposits with agreed maturity	1,055,449	1,165,623
Repos	3,255,069	4,938,372
Hybrid financial assets	—	—
Other	546,896	206,013
Stage 3 assets	—	1
Impairment allowances	(2,777)	(2,063)
Other valuation adjustments (interest, fees and commissions, other)	8,314	4,874
Total	**4,862,951**	**6,312,820**
By currency:		
In euro	4,112,460	5,964,809
In foreign currency	750,491	348,011
Total	**4,862,951**	**6,312,820**

Customers

The breakdown of the heading "Loans and advances – Customers" (General governments and other sectors) of the consolidated 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	158,729,681	157,366,285
Total	**158,729,681**	**157,366,285**
By nature:		
Overdrafts, etc.	3,369,675	2,875,764
Commercial loans	7,489,183	6,049,554
Finance leases	2,226,514	2,106,263
Secured loans	92,751,597	94,313,424
Other term loans	50,293,284	49,567,028
Stage 3 assets	5,460,665	5,698,077
Impairment allowances	(3,020,279)	(3,302,033)
Other valuation adjustments (interest, fees and commissions, other) (*)	159,042	58,208
Total	**158,729,681**	**157,366,285**
By sector:		
General governments	10,072,272	9,401,011
Other sectors	146,057,981	145,511,022
Stage 3 assets	5,460,665	5,698,077
Impairment allowances	(3,020,279)	(3,302,033)
Other valuation adjustments (interest, fees and commissions, other) (*)	159,042	58,208
Total	**158,729,681**	**157,366,285**
By currency:		
In euro	102,483,739	101,211,811
In foreign currency	56,245,942	56,154,474
Total	**158,729,681**	**157,366,285**
By geographical area:		
Spain	98,957,073	98,017,676
Rest of European Union	4,680,628	4,534,782
United Kingdom	46,088,800	47,126,912
Americas	10,556,298	9,284,318
Rest of the world	1,467,161	1,704,629
Impairment allowances	(3,020,279)	(3,302,032)
Total	**158,729,681**	**157,366,285**

(*) Other valuation adjustments of financial assets classed as stage 3 amount to 29,222 thousand euros as at 31 December 2022 and 30,443 thousand euros as at 31 December 2021.

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

Finance leases

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

Thousand euro

	2022	2021
Finance leases		
Total gross investment	2,410,412	2,318,186
Impairment allowances	(98,827)	(97,017)
Interest income	51,607	49,667

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	2,255,402	2,141,325
Residual value	155,010	176,861
Gross investment in the lease	**2,410,412**	**2,318,186**
Unearned financial income	(183,898)	(152,922)
Net investment in the lease	**2,226,514**	**2,165,264**

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

Thousand euro

	2022	2021
Up to 1 year	502,389	583,536
1-2 years	528,719	439,266
2-3 years	398,780	340,963
3-4 years	264,057	233,268
4-5 years	171,803	154,164
More than 5 years	389,654	390,128
Total	**2,255,402**	**2,141,325**

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 298,466 thousand euros (346,159 thousand euros as at 31 December 2021). Of this total, over 74% of the balance as at 31 December 2022 (75% 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	31/12/2022	31/12/2021
Debt securities	28,808,314	22,444,172
Loans and advances	147,334,819	148,895,098
Customers	142,483,973	142,607,101
Central banks and Credit institutions	4,850,846	6,287,997
Total stage 1	**176,143,133**	**171,339,270**
By sector:		
General governments	37,166,529	30,758,253
Central banks and Credit institutions	6,122,136	6,977,447
Other private sectors	132,854,468	133,603,570
Total stage 1	**176,143,133**	**171,339,270**
Stage 2		
Debt securities	49,173	—
Loans and advances	13,652,848	12,326,943
Customers	13,646,280	12,304,932
Central banks and Credit institutions	6,568	22,011
Total stage 2	**13,702,021**	**12,326,943**
By sector:		
General governments	5,207	4,057
Central banks and Credit institutions	6,568	22,010
Other private sectors	13,690,246	12,300,876
Total stage 2	**13,702,021**	**12,326,943**
Stage 3		
Debt securities	73	73
Loans and advances	5,460,665	5,698,078
Customers	5,460,665	5,698,077
Central banks and Credit institutions	—	1
Total stage 3	**5,460,738**	**5,698,151**
By sector:		
General governments	8,122	9,632
Central banks and Credit institutions	—	1
Other private sectors	5,452,615	5,688,518
Total stage 3	**5,460,738**	**5,698,151**
Total stages	**195,305,892**	**189,364,364**

Movements of gross values, excluding valuation adjustments, of assets subject to impairment by the Group 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	**167,548,321**	**11,280,620**	**5,319,947**	***174,204***	**184,148,888**
Transfers between stages	(3,796,767)	2,205,398	1,591,369	—	—
Stage 1	5,440,672	(5,345,852)	(94,820)	—	—
Stage 2	(8,899,067)	9,238,131	(339,064)	—	—
Stage 3	(338,372)	(1,686,881)	2,025,253	—	—
Increases	54,828,535	917,933	508,382	*4,800*	56,254,850
Decreases	(49,465,456)	(2,370,468)	(1,283,738)	*(29,655)*	(53,119,662)
Transfers to write-offs	(683)	(1,449)	(474,686)	—	(476,818)
Adjustments for exchange differences	2,225,320	294,909	36,877	*10,417*	2,557,106
Balance as at 31 December 2021	**171,339,270**	**12,326,943**	**5,698,151**	***159,766***	**189,364,364**
Transfers between stages	(5,077,901)	3,536,810	1,541,091	—	—
Stage 1	7,237,830	(7,067,385)	(170,445)	—	—
Stage 2	(11,912,792)	12,560,731	(647,939)	—	—
Stage 3	(402,939)	(1,956,536)	2,359,475	—	—
Increases	64,002,931	1,245,295	447,319	*9,473*	65,695,545
Decreases	(52,904,809)	(3,217,206)	(1,778,439)	*(39,602)*	(57,900,454)
Transfers to write-offs	(319)	(817)	(419,658)	*881*	(420,794)
Adjustments for exchange differences	(1,216,039)	(189,004)	(27,726)	*(7,334)*	(1,432,769)
Balance as at 31 December 2022	**176,143,133**	**13,702,021**	**5,460,738**	***123,184***	**195,305,892**

The breakdown of assets classified as stage 3 by type of guarantee as at 31 December 2022 and 2021 is as follows:

Thousand euro

	31/12/2022	31/12/2021
Secured with a mortgage (*)	2,347,550	2,708,483
Of which: Stage 3 financial assets with guarantees covering all of the risk	*1,571,003*	*1,617,399*
Other collateral (**)	339,516	288,025
Of which: Stage 3 financial assets with guarantees covering all of the risk	*166,371*	*190,379*
Other	2,773,672	2,701,643
Total	**5,460,738**	**5,698,151**

(*) 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

	31/12/2022	31/12/2021
Spain	4,216,505	4,846,743
Rest of European Union	456,072	45,538
United Kingdom	593,793	679,817
Americas	165,292	96,950
Rest of the world	29,076	29,103
Total	**5,460,738**	**5,698,151**

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	**5,191,132**
Additions	**903,346**
Use of accumulated impairment balance	451,678
Directly recognised on income statement	35,855
Contractually payable interests	151,956
Other items	263,857
Disposals	**(195,527)**
Collections of principal in cash from counterparties	(63,553)
Collections of interest in cash from counterparties	(1,817)
Debt forgiveness	(17,847)
Expiry of statute-of-limitations period	—
Forbearance	—
Sales	(108,972)
Foreclosure of tangible assets	(2,510)
Other items	(828)
Exchange differences	**30,891**
Balance as at 31 December 2021	**5,929,842**
Additions	**579,122**
Use of accumulated impairment balance	399,682
Directly recognised on income statement	21,112
Contractually payable interests	155,795
Other items	2,533
Disposals	**(645,432)**
Collections of principal in cash from counterparties	(51,936)
Collections of interest in cash from counterparties	(2,188)
Debt forgiveness	(22,771)
Expiry of statute-of-limitations period	—
Forbearance	—
Sales	(468,369)
Foreclosure of tangible assets	(857)
Other items	(99,311)
Exchange differences	**(15,583)**
Balance as at 31 December 2022	**5,847,949**

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	347,269	377,703
Central banks and Credit institutions	2,773	2,041
Customers	344,496	375,662
Total stage 1	**347,480**	**377,703**
Stage 2		
Debt securities	—	—
Loans and advances	479,941	494,047
Central banks and Credit institutions	4	22
Customers	479,937	494,025
Total stage 2	**479,941**	**494,047**
Stage 3		
Debt securities	—	—
Loans and advances	2,195,845	2,432,345
Central banks and Credit institutions	—	—
Customers	2,195,845	2,432,345
Total stage 3	**2,195,845**	**2,432,345**
Total stages	**3,023,266**	**3,304,096**

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	**11,540**	**590,283**	**448,092**	**453,527**	**1,579,591**	**3,083,032**
Movements reflected in impairment gains/(losses) (*)	**(7,060)**	**114,141**	**(86,142)**	**223,992**	**608,267**	**853,198**
Increases due to origination	—	—	259,110	1,400	76	260,586
Changes due to credit risk variance	(14,852)	159,904	(270,812)	177,536	571,293	623,069
Changes in calculation approach	—	—	—	—	—	—
Other movements	7,792	(45,763)	(74,440)	45,056	36,898	(30,457)
Movements not reflected in impairment gains/(losses)	**(1,885)**	**(139,793)**	**(10,598)**	**(197,849)**	**(310,485)**	**(660,610)**
Transfers between stages	(1,516)	28,135	4,263	(176,866)	145,984	—
Stage 1	—	2,388	167,249	(143,558)	(26,079)	—
Stage 2	8,907	11,211	(150,882)	165,464	(34,699)	1
Stage 3	(10,423)	14,536	(12,104)	(198,772)	206,763	—
Utilisation of allocated provisions	(368)	(167,929)	(14,795)	(20,944)	(427,654)	(631,690)
Other movements (**)	—	—	(66)	(39)	(28,816)	(28,921)
Adjustments for exchange differences	**—**	**(16,169)**	**26,352**	**11,768**	**6,525**	**28,476**
Balance as at 31 December 2021	**2,595**	**548,461**	**377,703**	**491,438**	**1,883,898**	**3,304,096**
Scope additions / exclusions						
Movements reflected in impairment gains/(losses) (*)	**2,256**	**65,735**	**42,051**	**136,575**	**512,023**	**758,640**
Increases due to origination	—	—	267,330	—	—	267,330
Changes due to credit risk variance	4,841	88,109	(68,080)	158,783	521,049	704,702
Changes in calculation approach	—	—	—	—	—	—
Other movements	(2,585)	(22,374)	(157,199)	(22,208)	(9,026)	(213,392)
Movements not reflected in impairment gains/(losses)	**4,830**	**(60,100)**	**(72,352)**	**(153,318)**	**(749,124)**	**(1,030,064)**
Transfers between stages	4,830	6,202	(57,503)	(142,731)	189,202	—
Stage 1	(171)	(246)	98,181	(80,660)	(17,104)	—
Stage 2	9,782	(5,805)	(139,268)	209,346	(74,055)	—
Stage 3	(4,781)	12,253	(16,416)	(271,417)	280,361	—
Utilisation of allocated provisions	—	(91,556)	(39)	(82)	(922,192)	(1,013,869)
Other movements (**)	—	25,254	(14,810)	(10,505)	(16,134)	(16,195)
Adjustments for exchange differences	**29**	**902**	**78**	**(4,463)**	**(5,951)**	**(9,405)**
Balance as at 31 December 2022	**9,710**	**554,998**	**347,480**	**470,232**	**1,640,846**	**3,023,266**

(*) This figure, corresponding to the amortisation charged to results on impaired financial assets derecognised from the asset side of the balance sheet and the recovery of write-offs, has been recognised with a balancing entry under the heading 'Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains' (see Note 34).

(**) Corresponds to credit loss allowances transferred to non-current assets held for sale (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	2,489,789	2,746,076
Rest of European Union	121,016	120,486
United Kingdom	253,629	252,181
Americas	145,458	170,454
Rest of the world	13,374	14,899
Total	**3,023,266**	**3,304,096**

Sensitivity analysis of the key variables of macroeconomic scenarios

An analysis of the sensitivity of the expected loss of the Group and of the main regions 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%

Spain					
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	3.4%	6.6%	1.7%	2.5%
	+ 100 bp	-2.8%	-6.0%	-1.7%	-2.3%
Unemployment rate deviation	+ 100 bp	1.2%	1.6%	0.4%	0.7%
	- 100 bp	-0.5%	-1.2%	-0.4%	-0.5%
House price growth deviation	- 100 bp	1.5%	2.2%	0.6%	0.9%
	+ 100 bp	-0.8%	-2.0%	-0.6%	-0.8%

United Kingdom					
Key explanatory macroeconomic variables	**Change in the variable (*)**	**Impact on stage 1**	**Impact on stage 2**	**Impact on stage 3**	**Total impact**
Unemployment rate deviation (**)	+ 100 bp	2.9%	12.7%	3.9%	7.3%
	- 100 bp	-2.5%	-7.3%	-2.7%	-4.5%
House price growth deviation	- 100 bp	0.2%	0.1%	0.3%	0.2%
	+ 100 bp	-0.2%	-0.1%	-0.3%	-0.2%

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

(**) In the scenario of a change to the UK employment rate, a standard deviation of +/- 100 bps represents the relative standard deviation of the macroeconomic variable 3 times higher than in Spain.

Note 12 – Derivatives - hedge accounting

Hedging management

The main hedges arranged by the Group are described below:

Interest rate risk hedge

Based on the balance sheet position and the market situation and outlooks, interest rate risk mitigation strategies are proposed and agreed upon to adapt this position to the one desired by the Group. With this aim in mind, Banco Sabadell Group establishes interest rate hedging strategies for positions that are not included in the trading book and, to that end, derivative instruments are used, whether fair value or cash flow hedging instruments, and a distinction is made between them depending on the items hedged:

– Macro-hedges: hedges intended to mitigate the risk of balance sheet components.

– Micro-hedges: hedges intended to mitigate the risk of a particular asset or liability.

When a transaction is designated as a hedging operation, it is classified as such from the outset of the transaction or the inception of the instruments included in the hedge, and a document is prepared which covers the hedging strategy, defining it in management and accounting terms, and setting out its governance. The aforesaid document clearly identifies the item or items hedged and the hedging instrument, the risk that it seeks to hedge and the criteria or methodologies followed by the Group to evaluate its effectiveness.

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

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

  The main types of balance sheet items hedged are:

  • Fixed-rate loans included in the lending portfolio.

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

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

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

  If the hedge relates to assets, the Group enters into a fixed-for-floating swap, whereas if the macro-hedge relates to liabilities, it enters into a floating-to-fixed interest rate swap. These derivatives can be traded in cash or as forwards. The hedged risk is the interest rate risk arising from a potential change in the risk-free interest rate that gives rise to changes in the value of the hedged balance sheet items. As such, the hedge will not cover any risk inherent in the hedged items other than the risk of a change in the risk-free interest rate.

  In order to assess the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated monthly variance in the fair value of the hedged item against the accumulated monthly variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that future changes in the fair value of the hedged balance sheet items are offset by future changes in the fair value of the derivative.

– Cash flows: hedging against the exposure to changes in cash flows arising from a particular risk associated with a previously recognised asset or liability, or a forecast transaction that is highly likely to materialise and which could affect the results for the year. They are used to reduce net interest income volatility.

  The main types of balance sheet items hedged are:

  • Floating rate mortgage loans indexed to the mortgage Euribor.

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

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

  If the hedge relates to assets, the Group enters into a floating-to-fixed interest rate swap, whereas if the macro-hedge relates to liabilities, it enters into a fixed-for-floating swap. These derivatives can be traded in cash or as forwards. The hedged risk is the interest rate risk associated with the effect that a potential change in the benchmark interest rate could have on the future interest accrued on hedged balance sheet items. The credit spread and risk premium which, together with the benchmark index, make up the contractual interest rate applicable to the hedged balance sheet items is expressly excluded from the hedge.

In order to assess the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated variance in the fair value of the hedged item against the accumulated variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that the expected cash flows on the hedged items are still highly likely to materialise.

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

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

Hedging of net investments in foreign operations

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

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

2022 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	**8,353,601**	**831,005**	**207,837**	**7,583,852**	**168,282**	**92,692**
Foreign exchange risk	—	—	—	—	—	—
Of liability-side transactions	—	—	—	—	—	—
Of permanent investments	—	—	—	—	—	—
Of non-monetary items	—	—	—	—	—	—
Interest rate risk	4,121,267	790,860	32,908	4,293,666	105,455	25,189
Of liability-side transactions (A)	*65,304*	—	*5,532*	*32,359*	*309*	*879*
Of asset-side transactions (B)	*4,055,963*	*790,860*	*27,376*	*4,261,307*	*105,146*	*24,310*
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	**5,153,957**	**172,117**	**134,543**	**3,553,777**	**20,071**	**44,935**
Foreign exchange risk	—	—	—	—	—	—
Of non-monetary items	—	—	—	—	—	—
Interest rate risk	3,915,860	162,137	3,875	2,756,394	13,923	9,041
Of future transactions (C)	*332,674*	*11,466*	*1,733*	*238,016*	*2,686*	*625*
Of liability-side transactions (A)	*1,155,712*	*147,454*	*1,201*	*376,708*	*11,136*	*6,756*
Of securitisation transactions (D)	*2,427,474*	*3,217*	*941*	*2,141,670*	*101*	*1,660*
Other	—	—	—	—	—	—
Equity risk	63,980	—	640	23,383	—	187
Of liability-side transactions (E)	*63,980*	—	*640*	*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 (C)	*117*	*9,980*	—	—	—	—
Hedge of net investment in foreign operations	**1,217,579**	**31,352**	**—**	**932,919**	**71**	**18,733**
Foreign exchange risk (G)	*1,217,579*	*31,352*	—	*932,919*	*71*	*18,733*
Macrohedges:						
Fair value hedges	**39,183,746**	**2,037,523**	**898,400**	**35,581,142**	**336,958**	**356,082**
Interest rate risk	39,183,746	2,037,523	898,400	35,581,142	336,958	356,082
For funding operations (H)	*15,428,947*	*14,607*	*882,905*	*13,460,963*	*116,215*	*106,676*
For lending operations (I)	*23,754,799*	*2,022,916*	*15,495*	*22,120,179*	*220,743*	*249,406*
Cash flow hedges	**2,050,000**	**94**	**1,690**	**—**	**—**	**—**
Interest rate risk	2,050,000	94	1,690	—	—	—
Of liability-side transactions	—	—	—	—	—	—
Of asset-side transactions (J)	*2,050,000*	*94*	*1,690*	—	—	—
Total	**55,958,883**	**3,072,091**	**1,242,470**	**47,651,690**	**525,382**	**512,442**
By currency:						
In euro	*28,752,613*	*1,303,596*	*935,274*	20,381,698	231,943	353,202
In foreign currency	*27,206,270*	*1,768,495*	*307,196*	27,269,992	293,439	159,240
Total	**55,958,883**	**3,072,091**	**1,242,470**	**47,651,690**	**525,382**	**512,442**

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

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

B. Micro-hedges of transactions involving customer loans, recognised under the heading "Financial assets at amortised cost" and those involving debt securities under the headings "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost".

C. 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.

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

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

G. Hedges against foreign exchange risk on permanent investments currently cover 333 million pounds sterling and 9,253 million Mexican pesos corresponding to interests held in Group entities (213 million pounds sterling and 10,003 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). All of these hedges are carried out through currency forwards.

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

I. Macro-hedges of debt securities classified under the headings "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost", and of fixed-rate mortgage loans granted to customers, recognised under the heading "Financial assets at amortised cost".

J. Macro-hedges of floating rate mortgage loans granted to customers recognised under the heading "Financial assets at amortised cost". The average rate of interest rate swaps used for this hedge was 3.59% 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 Group 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	20,141	—	—	**1,217,579**
Interest rate risk	1,114,907	1,535,196	6,092,608	22,276,713	18,251,449	**49,270,873**
Equity risk	60,038	90,741	408,348	3,539,198	197,989	**4,296,314**
Other risks	—	—	449,000	200,000	525,117	**1,174,117**
Total	**1,635,101**	**2,363,219**	**6,970,097**	**26,015,911**	**18,974,555**	**55,958,883**

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	18,150	—	—	**932,919**
Interest rate risk	242,999	238,016	6,871,995	19,164,433	16,113,758	**42,631,201**
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	**549,896**	**1,224,917**	**7,354,056**	**21,806,265**	**16,716,555**	**47,651,689**

In 2022 and 2021, there were no reclassifications from equity to the consolidated income statement due to cash flow hedges and hedges of net investments in foreign operations for transactions that were ultimately not executed.

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

Thousand euro

	2022				
	Carrying amount of hedged item		Accumulated fair value adjustments in the hedged item		Accumulated amount of adjustments in hedged items for which hedge accounting no longer applies
	Assets	Liabilities	Assets	Liabilities	
Micro-hedges:					
Fair value hedges					
Foreign exchange risk	—	—	—	—	—
Interest rate risk	3,783,282	322,472	(538,313)	(40,517)	(76)
Equity risk	—	2,040,966	—	(92,318)	—
Total	**3,783,282**	**2,363,438**	**(538,313)**	**(132,835)**	**(76)**

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	—	—	—	—	—
Interest rate risk	5,384,640	356,924	(65,713)	(9,377)	3,206
Equity risk	—	1,708,590	—	14,149	(7)
Total	**5,384,640**	**2,065,514**	**(65,713)**	**4,772**	**3,199**

In terms of fair value macro-hedges, the carrying amount of the hedged items recognised in assets and liabilities for 2022 amounted to 78,804,701 thousand euros and 52,078,774 thousand euros, respectively (29,343,668 thousand euros and 60,195,513 thousand euros in 2021, respectively). Similarly, fair value adjustments of the hedged items amounted to -1,545,607 thousand euros and -959,106 thousand euros as at 31 December 2022, respectively (-3,963 thousand euros and 19,472 thousand euros as at 31 December 2021).

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
Micro-hedges	**596,080**	**(599,425)**	**33,932**	**(38,524)**
Fixed-rate assets	735,627	(739,915)	89,231	(94,757)
Capital markets and fixed-rate liabilities	(107,478)	108,411	(18,498)	19,386
Assets denominated in foreign currency	(32,069)	32,079	(36,801)	36,847
Macro-hedges	**1,126,218**	**(1,104,218)**	**297,263**	**(293,854)**
Capital markets and fixed-rate liabilities	(982,993)	990,659	(318,769)	340,540
Fixed-rate assets	2,109,211	(2,094,877)	616,032	(634,394)
Total	**1,722,298**	**(1,703,643)**	**331,195**	**(332,378)**

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

Hedge ineffectiveness in the results for 2022 related to cash flow hedges amounted to losses of 804 thousand euros (losses of 3,668 thousand euros in 2021).

As at 31 December 2022, the Group holds embedded derivatives that have been separated from their host contracts and recognised under the headings “Derivatives – Hedge accounting” on the asset side and on the liabilities side of the consolidated balance sheet in the amount of 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 13 – Non-current assets and disposal groups classified as held for sale

The composition of this heading in the consolidated balance sheets as at 31 December 2022 and 2021 was as follows:

Thousand euro

	2022	2021
Assets	**951,792**	**998,210**
Loans and advances	10,337	67
Customers	10,337	67
Equity instruments	159,748	159,853
Real estate exposure	777,108	838,290
Tangible assets for own use	56,030	44,945
Foreclosed assets	721,078	793,345
Leased out under operating leases	—	—
Rest of other assets	4,599	—
Impairment allowances	**(213,479)**	**(220,175)**
Non-current assets and disposal groups classified as held for sale	**738,313**	**778,035**

Tangible assets for own use relate mainly to commercial premises.

Regarding real estate assets obtained through foreclosures, 93.7% of the balance corresponds to residential properties, 5.8% to industrial properties and 0.5% 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 53 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 4.4.2.1.

The percentage of foreclosed assets sold with financing granted to the buyer in 2022 was 4.9% (in 2021 it was 4.1%). On the date of sale, these properties had a gross asset value of 5.7 million euros in 2022 (9.6 million euros in 2021).

In 2021, the Group recognised its 20% stake in the capital of the associate company Promontoria Challenger I, S.A., an entity controlled by Cerberus, into which the Group transferred a large portion of its real estate exposure in 2019, as a non-current asset held for sale.

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:		
Balances as at 31 December 2020		**1,269,690**
Additions		104,087
Disposals		(495,649)
Transfer of credit losses (*)	11	(28,921)
Other transfers/reclassifications		149,003
Balances as at 31 December 2021		**998,210**
Additions		63,908
Disposals		(114,227)
Transfer of credit losses (*)	11	(16,195)
Other transfers/reclassifications		20,096
Balances as at 31 December 2022		**951,792**
Impairment allowances:		
Balances as at 31 December 2020		**294,150**
Impairment through profit or loss	37	71,148
Reversal of impairment through profit or loss	37	(53,236)
Utilisations		(88,494)
Other transfers/reclassifications		(3,393)
Balances as at 31 December 2021		**220,175**
Impairment through profit or loss	37	48,966
Reversal of impairment through profit or loss	37	(45,542)
Utilisations		(26,170)
Other transfers/reclassifications		16,050
Balances as at 31 December 2022		**213,479**
Net balances as at 31 December 2021		**778,035**
Net balances as at 31 December 2022		**738,313**

(*) Allowance arising from provisions allocated to cover credit risk.

Details of the net carrying amount of transfers shown in the table above are as follows:

Thousand euro

	Note	2022	2021
Loans and advances		10,153	—
Tangible assets	15	(5,941)	(17,099)
Inventories		—	17,605
Equity interests		—	159,853
Other		(166)	(7,963)
Total		**4,046**	**152,396**

Note 14 – Investments in joint ventures and associates

Movements in this heading of the consolidated balance sheets as at 31 December 2022 and 2021 are as follows:

Thousand euro

Balance as at 31 December 2020	**779,859**
Profit/(loss) for the year	100,280
Acquisition or capital increase (*)	3,912
Sale or dissolution	(2,279)
Dividends	(60,824)
Transfer	(160,429)
Impairment, allowances, translation differences and other	(21,737)
Balance as at 31 December 2021	**638,782**
Profit/(loss) for the year	122,167
Acquisition or capital increase (*)	1,747
Sale or dissolution	(49,972)
Dividends	(151,818)
Impairment, allowances, translation differences and other	(45,661)
Balance as at 31 December 2022	**515,245**

(*) See consolidated cash flow statement.

The section of the cash flow statement "Cash flows from investing activities – Collections – Investments in joint ventures and associates" shows 210,300 thousand euros, of which 49,972 thousand euros correspond to sales or dissolutions, 151,818 thousand euros to dividends charged and 8,510 thousand euros to derecognitions and settlements included in the breakdown shown in Schedule I. Furthermore, the section "Cash flows from investing activities – Payments – Investments in joint ventures and associates" of this statement shows 1,747 thousand euros, which correspond to the acquisitions and capital increases carried out during 2022.

The main investee companies included for the first time in the balance sheet and those no longer in the balance sheet in 2022 y 2021 are indicated in Schedule I.

As at 31 December 2022 and 2021, no support agreements or other type of significant contractual commitment had been provided by the Bank or its subsidiaries to associates.

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

Thousand euro

	2022	2021
Group investment in associates (Schedule I)	220,505	267,469
Contributions due to retained earnings	349,187	391,492
Value adjustments	(54,447)	(20,179)
Total	**515,245**	**638,782**

Set out below are the most relevant financial data for the associate, BanSabadell Vida, S.A., as at 31 December 2022 and 2021, through which the Bank extends its customer offering via the distribution of insurance products through its branch network:

Thousand euro

	BanSabadell Vida (*)	
	2022	**2021**
Total assets	*8,808,926*	10,418,907
Of which: financial investments	*7,802,671*	*9,455,504*
Total liabilities	8,209,481	9,745,468
Of which: technical provisions	*8,561,133*	*8,929,810*
Profit/(loss) of Vida's technical account	125,764	115,465
Of which: premiums earned during the year	*1,053,473*	*1,239,765*
Of which: claims paid during the year	*(1,276,160)*	*(1,227,205)*
Of which: technical financial yield	*155,337*	*156,927*

(*) Figures taken from BanSabadell Vida accounts without taking into consideration consolidation adjustments nor the Group's percentage holding.

As at 31 December 2022 and 2021, the carrying amount of the investment in BanSabadell Vida, S.A. amounted to 266,155 thousand euros and 289,861 thousand euros, respectively. Furthermore, as at these dates, the aggregate carrying amount of investments in associates not considered individually significant was of 249,090 thousand euros and 348,921 thousand euros, respectively.

Note 15 – Tangible assets

The composition of this heading in the consolidated balance sheets as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022				**2021**			
	Cost	**Depreciation**	**Impairment**	**Net amount**	**Cost**	**Depreciation**	**Impairment**	**Net amount**
Property, plant and equipment	**4,082,057**	**(1,754,760)**	**(45,248)**	**2,282,049**	**4,173,480**	**(1,706,114)**	**(69,876)**	**2,397,490**
For own use:	4,061,108	(1,743,155)	(45,248)	2,272,705	4,168,101	(1,703,527)	(69,876)	2,394,698
Computer equipment and related facilities	727,049	(483,483)	—	243,566	710,316	(471,866)	—	238,450
Furniture, vehicles and other facilities	956,696	(572,885)	—	383,811	1,005,308	(598,167)	—	407,141
Buildings	2,258,790	(675,671)	(45,248)	1,537,871	2,309,743	(619,881)	(66,328)	1,623,534
Work in progress	31,501	—	—	31,501	63,495	(6,013)	(3,548)	53,934
Other	87,072	(11,116)	—	75,956	79,239	(7,600)	—	71,639
Leased out under operating leases	20,949	(11,605)	—	9,344	5,379	(2,587)	—	2,792
Investment properties	**438,398**	**(54,423)**	**(84,233)**	**299,742**	**504,952**	**(54,308)**	**(71,376)**	**379,268**
Buildings	438,004	(54,423)	(83,922)	299,659	504,558	(54,308)	(71,067)	379,183
Rural property, plots and sites	394	—	(311)	83	394	—	(309)	85
Total	**4,520,455**	**(1,809,183)**	**(129,481)**	**2,581,791**	**4,678,432**	**(1,760,422)**	**(141,252)**	**2,776,758**

Movements in the balance under this heading during 2022 and 2021 were as follows:

Thousand euro

	Note	Own use - Buildings, work in progress and other	Own use - Computer equipment, furniture and related facilities	Investment properties	Leased out under operating leases	Total
Cost:						
Balances as at 31 December 2020		**2,481,133**	**1,797,048**	**429,367**	**358,749**	**5,066,298**
Additions (*)		222,489	113,553	7,331	—	343,373
Disposals		(237,770)	(202,541)	(22,589)	(353,979)	(816,879)
Transfers		(46,197)	(296)	90,843	—	44,350
Exchange rate		32,819	7,861	—	610	41,290
Balances as at 31 December 2021		**2,452,478**	**1,715,625**	**504,952**	**5,380**	**4,678,432**
Additions		99,878	123,020	190	15,852	238,940
Disposals		(79,904)	(156,271)	(111,219)	—	(347,394)
Transfers		(68,553)	6,077	44,477	—	(17,999)
Exchange rate		(26,536)	(4,704)	—	(283)	(31,523)
Balances as at 31 December 2022		**2,377,363**	**1,683,747**	**438,400**	**20,949**	**4,520,456**
Accumulated depreciation:						
Balances as at 31 December 2020		**597,746**	**1,084,290**	**38,610**	**85,456**	**1,806,102**
Additions		142,693	142,888	10,572	5	296,158
Disposals		(115,494)	(160,490)	(2,167)	(83,184)	(361,335)
Transfers		(5,754)	(1,105)	7,293	—	434
Exchange rate		14,303	4,451	—	310	19,064
Balances as at 31 December 2021		**633,494**	**1,070,034**	**54,308**	**2,587**	**1,760,423**
Additions		129,684	137,613	9,616	9,514	286,427
Disposals		(56,639)	(149,642)	(11,937)	—	(218,218)
Transfers		(10,436)	1,387	2,436	—	(6,613)
Exchange rate		(9,317)	(3,023)	—	(496)	(12,836)
Balances as at 31 December 2022		**686,786**	**1,056,369**	**54,423**	**11,605**	**1,809,183**
Impairment losses:						
Balances as at 31 December 2020		**17,144**	**—**	**42,665**	**8**	**59,816**
Impairment through profit or loss	35	58,580	—	36,180	—	94,760
Reversal of impairment through profit or loss	35	(211)	—	(29,066)	—	(29,277)
Utilisations		(10,472)	—	(385)	(8)	(10,865)
Transfers		4,836	—	21,981	—	26,817
Balances as at 31 December 2021		**69,877**	**—**	**71,375**	**—**	**141,251**
Impairment through profit or loss	35	2,078	—	58,163	—	60,241
Reversal of impairment through profit or loss	35	(162)	—	(22,981)	—	(23,143)
Utilisations		(4,596)	—	(34,407)	—	(39,003)
Transfers		(21,948)	—	12,084	—	(9,864)
Balances as at 31 December 2022		**45,249**	**—**	**84,234**	**—**	**129,482**
Net balances as at 31 December 2021		**1,749,108**	**645,591**	**379,268**	**2,793**	**2,776,758**
Net balances as at 31 December 2022		**1,645,329**	**627,378**	**299,742**	**9,344**	**2,581,791**

(*) Items reported in 'Own use - Buildings, work in progress and other' in 2021 included 117,747 thousand euros of revaluations and new right-of-use assets corresponding to leased properties in which the Group acted as lessee.

Of the net carrying amount of "Transfers" shown in the previous table for 2022, -1,522 thousand euros, -7,463 thousand euros correspond to reclassifications to the heading "Inventories" (see Note 17), and 5,941 thousand euros to reclassifications of assets from or to the heading "Non-current assets and disposal groups classified as held for sale". In 2021, the net carrying amount of "Transfers" that amounted to 17,099 thousand euros corresponded in full to reclassification of assets from or to the heading "Non-current assets and disposal groups classified as held for sale" (see Note 13).

Specific information relating to tangible assets as at 31 December 2022 and 2021 is shown hereafter:

Thousand euro

	2022	2021
Gross value of tangible assets for own use in use and fully depreciated	440,137	481,244
Net carrying amount of tangible assets of foreign operations	369,759	401,094

Lease contracts in which the Group 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 Group acts as lessee, in the amount of 1,293,944 thousand euros, which have accumulated depreciation of 396,041 thousand euros and are impaired in the amount of 38,657 thousand euros as at the aforesaid date (1,341,931 thousand euros as at 31 December 2021, which had accumulated depreciation of 324,916 thousand euros and were impaired in the amount of 36,666 thousand euros as at that date).

The cost recognised in the consolidated income statement for 2022 for the depreciation and impairment of right-of-use assets corresponding to leased tangible assets in which the Group acts as lessee amounted to 96,017 thousand euros and 1,991 thousand euros, respectively (103,155 thousand euros and 36,666 thousand euros, respectively, in 2021).

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

Thousand euro

	2022	2021
Interest expense on lease liabilities	(15,347)	(17,481)
Expense related to short-term low-value leases (*)	(11,592)	(11,537)
Total lease payments in cash (**)	110,950	110,934

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

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

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

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

Thousand euro

	2022	2021
Undiscounted lease payments receivable		
Up to 1 month	1,348	875
1 to 3 months	25,356	25,417
3 to 12 months	76,513	75,769
1 to 5 years	352,018	352,190
More than 5 years	511,547	569,317

Sale and leaseback transactions

Between 2009 and 2012, the Group completed transactions for the sale of properties and simultaneously entered into a lease contract, for the same properties, with the buyers (maintenance, insurance and taxes to be borne by the Bank). The main characteristics of the most significant lease contracts in effect as at the end of 2022 are as follows:

Operating lease contracts	No. properties sold	No. contracts with purchase option	No. contracts without purchase option	Mandatory term
2009	63	26	37	10 to 20 years
2010	379	378	1	10 to 25 years
2011 (acquisition B.Guipuzcoano)	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 consolidated income statement.

Contracts in which the Group acts as lessor

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

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

With regard to the tangible assets leased out under operating leases, the bulk of the operating lease operations corresponded to vehicle leasing and were carried out through the subsidiary BanSabadell Renting, S.L.U. As indicated in Note 2, this subsidiary was sold during 2021 to a non-Group third party.

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

Note 16 – Intangible assets

The composition of this heading in the consolidated balance sheets as at 31 December 2022 and 2021 was as follows:

Thousand euro

	2022	2021
Goodwill:	**1,026,810**	**1,026,457**
Banco Urquijo	473,837	473,837
Grupo Banco Guipuzcoano	285,345	285,345
From acquisition of Banco BMN Penedés assets	245,364	245,364
Other	22,264	21,911
Other intangible assets:	**1,457,352**	**1,554,964**
With a finite useful life:	1,457,352	1,554,964
Private Banking Business, Miami	4,925	8,444
Contractual relations with TSB customers and brand	39,783	84,589
Computer software	1,411,516	1,460,744
Other	1,128	1,187
Total	**2,484,162**	**2,581,421**

Goodwill

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.

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

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

The value in use of the Banking Business Spain operating segment is used to determine its recoverable amount. The valuation method used in this analysis was that of discounting future net distributable profit associated with the activity carried out by the Banking Business Spain operating segment until 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 interest rate hikes by central banks and the new monetary policy environment have led to an increase in the discount rate used to estimate the recoverable amount of CGUs, both in Spain and in the UK. 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.

Contractual relations with TSB customers and brand

The intangible assets associated with the acquisition of TSB include the value of the contractual rights arising from relationships with customers taken over from TSB for demand deposits (core deposits), the initial estimate of which amounted to 353,620 thousand euros. This asset is amortised over 8 years. The valuation of these intangible assets was carried out by calculating the value in use based on the income approach (discounted cash flows) with the multi-period excess earnings technique. To determine whether there is any evidence of impairment, the balance of deposits currently in TSB linked to existing customers at the time of its acquisition by the Bank has been compared against the estimated balance that such customers would have at the end of 2022, forecast at the time of the initial valuation. Based on this comparison, a conclusion can be drawn that there is no evidence of any impairment. The carrying amount of contractual relationships with TSB customers amounted to 17,727 thousand euros as at 31 December 2022 (56,135 thousand euros as at 31 December 2021).

The value of the exclusive right of use of the TSB brand was also estimated at an initial amount of 73,328 thousand euros. The value attributable to this asset was determined through the replacement cost method, consisting of establishing the cost of rebuilding or acquiring an exact replica of the asset in question. This asset is amortised over 12 years. The assessment of the recoverable amount of the TSB CGU included an implicit analysis of the brand and concluded that there is no impairment. The carrying amount of the TSB brand amounted to 22,056 thousand euros as at 31 December 2022 (28,454 thousand euros as at 31 December 2021).

Computer software

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

R&D expenditure in 2022 and 2021 was not significant.

Movements

Movements in goodwill in 2022 and 2021 were as follows:

Thousand euro

	Goodwill	Impairment	Total
Balance as at 31 December 2020	**1,026,105**	**—**	**1,026,105**
Additions	352	—	352
Disposals	—	—	—
Balance as at 31 December 2021	**1,026,457**	**—**	**1,026,457**
Additions	353	—	353
Disposals	—	—	—
Balance as at 31 December 2022	**1,026,810**	**—**	**1,026,810**

Movements in other intangible assets in 2022 and 2021 were as follows:

Thousand euro

	Cost			Amortisation			Impairment			Total
	Developed internally	Other	Total	Developed internally	Other	Total	Developed internally	Other	Total	
Balance as at 31 December 2020	**2,250,521**	**964,486**	**3,215,007**	**(915,893)**	**(727,111)**	**(1,643,004)**	**—**	**(2,025)**	**(2,025)**	**1,569,978**
Additions	236,049	40,092	276,141	(166,853)	(63,502)	(230,355)	(1,570)	—	(1.570) (*)	44,216
Disposals	(63,144)	(172,010)	(235,154)	13,823	155,133	168,956	1,570	2,025	3,595	(62,603)
Other	(22,713)	12	(22,701)	5,937	(3)	5,934	—	—	—	(16,767)
Exchange differences	12,898	29,967	42,865	(2,554)	(20,171)	(22,725)	—	—	—	20,140
Balance as at 31 December 2021	**2,413,611**	**862,547**	**3,276,158**	**(1,065,540)**	**(655,654)**	**(1,721,194)**	**—**	**—**	**—**	**1,554,964**
Additions	187,533	7,105	194,638	(195,655)	(63,009)	(258,664)	—	—	—	(64,026)
Disposals	(27,296)	(83,657)	(110,953)	6,299	77,859	84,158	—	—	—	(26,795)
Other	(6,554)	5,168	(1,386)	(14,115)	(28)	(14,143)	—	—	—	(15,529)
Exchange differences	6,511	(16,611)	(10,100)	2,693	16,145	18,838	—	—	—	8,738
Balance as at 31 December 2022	**2,573,805**	**774,552**	**3,348,357**	**(1,266,318)**	**(624,687)**	**(1,891,005)**	**—**	**—**	**—**	**1,457,352**

(*) See Note 35.

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 1,078,836 thousand euros and 1,141,823 thousand euros, respectively.

Note 17 – Other assets and liabilities

The “Other assets” heading on the consolidated balance sheets as at 31 December 2022 and 2021 breaks down as follows:

Thousand euro

	Note	2022	2021
Insurance contracts linked to pensions	22	89,729	116,453
Inventories	6	93,835	142,713
Rest of other assets		296,116	360,549
Total		**479,680**	**619,715**

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

Movements in inventories in 2022 and 2021 were as follows:

Thousand euro

	Note	Land	Buildings under construction	Completed buildings	Total
Balance as at 31 December 2020		**9,824**	**1,786**	**182,653**	**194,264**
Additions		7,920	255	58,727	66,902
Disposals		(6,006)	(300)	(55,628)	(61,934)
Impairment through profit or loss	35	(4,997)	(381)	(51,763)	(57,141)
Reversal of impairment through profit or loss	35	1,608	156	16,463	18,227
Other transfers	13	60	—	(17,665)	(17,605)
Balance as at 31 December 2021		**8,409**	**1,516**	**132,787**	**142,713**
Additions		802	3,661	8,946	13,409
Disposals		(2,279)	(558)	(42,895)	(45,732)
Impairment through profit or loss	35	(2,459)	(173)	(33,519)	(36,151)
Reversal of impairment through profit or loss	35	996	71	11,066	12,133
Other transfers	15	—	(3,645)	11,108	7,463
Balance as at 31 December 2022		**5,469**	**872**	**87,493**	**93,835**

As at 31 December 2022 and 2021, the amount of inventories associated with debt secured with mortgages is 11,318 thousand euros and 14,626 thousand euros, respectively.

The composition of the “Other liabilities” heading as at 31 December 2022 and 2021 is as follows:

Thousand euro

	31/12/2022	31/12/2021
Other accrual/deferral	577,298	626,157
Rest of other liabilities	294,810	142,057
Total	**872,108**	**768,214**

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

Note 18 – Deposits of central banks and credit institutions

The breakdown of the balance of deposits of central banks and credit institutions in the consolidated balance sheets as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
By heading:		
Financial liabilities at amortised cost	39,217,078	47,067,145
Total	**39,217,078**	**47,067,145**
By nature:		
Demand deposits	378,442	534,995
Deposits with agreed maturity	30,936,695	41,468,444
Repurchase agreements	8,118,516	5,398,905
Other accounts	125,378	114,975
Valuation adjustments	(341,953)	(450,174)
Total	**39,217,078**	**47,067,145**
By currency:		
In euro	31,390,222	38,458,261
In foreign currency	7,826,856	8,608,884
Total	**39,217,078**	**47,067,145**

Note 19 – Customer deposits

The balance of customer deposits on the consolidated balance sheets as at 31 December 2022 and 2021 breaks down as follows:

Thousand euro

	2022	2021
By heading:		
Financial liabilities at amortised cost	164,076,445	162,239,453
Total	**164,076,445**	**162,239,453**
By nature:		
Demand deposits	147,539,675	147,268,436
Deposits with agreed maturity	14,066,824	13,131,887
Fixed term	11,985,933	11,205,749
Non-marketable covered bonds and bonds issued	418,835	1,111,603
Other	1,662,056	814,535
Hybrid financial liabilities (see Notes 10 and 12)	2,074,477	1,680,942
Repurchase agreements	404,866	60,312
Other valuation adjustments (interest, fees and commissions, other)	(9,397)	97,876
Total	**164,076,445**	**162,239,453**
By sector:		
General governments	8,499,245	7,905,699
Other sectors	155,586,597	154,235,878
Other valuation adjustments (interest, fees and commissions, other)	(9,397)	97,876
Total	**164,076,445**	**162,239,453**
By currency:		
In euro	114,063,466	111,119,866
In foreign currency	50,012,979	51,119,587
Total	**164,076,445**	**162,239,453**

Note 20 – Debt securities in issue

The composition of this heading in the consolidated balance sheets as at 31 December 2022 and 2021, by type of issuance, is as follows:

Thousand euro

	2022	2021
Straight bonds/debentures	7,990,800	7,079,915
Straight bonds	7,949,500	7,022,715
Structured bonds	41,300	57,200
Commercial paper	871,896	426,094
Mortgage covered bonds	7,563,000	6,540,400
TSB covered bonds	1,409,356	2,082,640
Asset-backed securities	1,202,846	671,317
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	89,651	50,589
Total	**22,577,549**	**21,050,955**

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 consolidated equity.

Note 21 – Other financial liabilities

The composition of this heading in the consolidated balance sheets as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
By heading:		
Financial liabilities at amortised cost	6,658,861	4,821,669
Total	**6,658,861**	**4,821,669**
By nature:		
Debentures payable	364,207	356,465
Guarantee deposits received	8,992	11,261
Clearing houses	1,032,869	672,355
Collection accounts	3,322,141	2,214,033
Lease liabilities	969,477	1,037,265
Other financial liabilities	961,175	530,290
Total	**6,658,861**	**4,821,669**
By currency:		
In euro	4,913,626	4,294,286
In foreign currency	1,745,235	527,383
Total	**6,658,861**	**4,821,669**

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	28.74	27.30
Ratio of transactions paid (*)	28.72	27.30
Ratio of transactions payable (**)	50.03	17.06
Payments made and pending at year-end (in thousand euro)		
Total payments made	1,131,038	957,417
Total payments outstanding	1,131	127
Payments made in < 60 days (in thousand euro) (***)		
Monetary volume of paid invoices	1,011,940	882,574
Percentage of total amount of payments to suppliers	89	92
Number of invoices paid in < 60 days (***)		
Number of invoices paid	141,339	152,338
Percentage of total number of invoices	92	92

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

(*) The ratio of 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 22 – 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	**99,690**	**3,971**	**114,097**	**195,879**	**569,875**	**983,512**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**(788)**	**(788)**
Interest and similar expenses - pension commitments	**1,010**	**4**	**—**	**—**	**—**	**1,014**
Allowances charged to income statement - staff expenses (*)	**2,859**	**6**	**—**	**—**	**280,390**	**283,255**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**1,305**	**17**	**39,608**	**(9,046)**	**55,682**	**87,566**
Allocation of provisions	39	—	41,093	197,837	57,363	296,332
Reversal of provisions	—	—	(1,485)	(206,882)	(1,681)	(210,048)
Actuarial losses / (gains)	1,266	17	—	—	—	1,283
Exchange differences	**344**	**—**	**—**	**1,629**	**9,349**	**11,322**
Utilisations:	**(8,043)**	**(1,417)**	**(76,857)**	**—**	**(123,363)**	**(209,680)**
Contributions by the sponsor	281	—	—	—	—	281
Pension payments	(8,324)	(1,417)	—	—	—	(9,741)
Other	—	—	(76,857)	—	(123,363)	(200,220)
Other movements	**(11,145)**	**(1,931)**	**—**	**2,129**	**(259,116)**	**(270,063)**
Balance as at 31 December 2021	**86,020**	**650**	**76,848**	**190,591**	**532,029**	**886,138**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**—**	**—**
Interest and similar expenses - pension commitments	**1,958**	**4**	**—**	**—**	**—**	**1,962**
Allowances charged to income statement - staff expenses (*)	**1,152**	**5**	**—**	**—**	**(2,790)**	**(1,633)**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**228**	**(32)**	**45,211**	**(14,258)**	**65,672**	**96,821**
Allocation of provisions	84	—	47,619	191,058	65,672	304,433
Reversal of provisions	—	—	(2,408)	(205,316)	—	(207,724)
Actuarial losses / (gains)	144	(32)	—	—	—	112
Exchange differences	**688**	**—**	**—**	**(305)**	**(6,645)**	**(6,262)**
Utilisations:	**(7,562)**	**(457)**	**(32,209)**	**—**	**(172,876)**	**(213,104)**
Net contributions by the sponsor	612	—	—	—	—	612
Pension payments	(8,174)	(457)	—	—	—	(8,631)
Other	—	—	(32,209)	—	(172,876)	(205,085)
Other movements	**(19,100)**	**—**	**—**	**795**	**(101,108)**	**(119,413)**
Balance as at 31 December 2022	**63,384**	**170**	**89,850**	**176,823**	**314,282**	**644,509**

(*) See Note 33.

The headings “Pensions and other post employment defined benefit obligations” and “Other long term employee benefits” include the amount of provisions for the coverage of post-employment remuneration and commitments undertaken with early retirees and similar commitments.

The heading “Commitments and guarantees given” includes the amount of provisions for the coverage of commitments given and contingent risks arising from financial guarantees or other types of contracts.

During the usual course of business, the Group is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third party experts when necessary and, where appropriate, provisions are recognised under the headings “Pending legal issues and tax litigation” and “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 in Spain 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 33.

– Provisions allocated to provide compensation to certain TSB customers in arrears who received financial support that could have been detrimental to them during the 2013-2020 period. The estimated potential cost of compensation payable, which includes compensatory interest and associated operational costs, amounted to 78 million euros as at 31 December 2022 (65 million euros as at 31 December 2021).

– Provisions to cover the anticipated costs relating to restructuring plans in TSB announced in previous years and pending final implementation amounting to 13 million euros as at 31 December 2022 (28 million euros as at 31 December 2021).

The final disbursement amount and the payment schedule are uncertain due to the difficulties inherent in estimating the factors used to determine the amount of the provisions set aside.

Pensions and similar obligations

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

Thousand euro

	2022	2021	2020	2019	2018
Obligations arising from pension and similar commitments	565,046	739,456	819,789	803,905	768,695
Fair value of plan assets	(501,492)	(652,786)	(716,128)	(697,621)	(667,835)
Net liability recognised on balance sheet	**63,554**	**86,670**	**103,661**	**106,284**	**100,860**

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	**819,789**	**716,128**	**103,661**
Interest costs	4,503	—	4,503
Interest income	—	3,489	(3,489)
Normal cost in year	1,951	—	1,951
Past service cost	914	—	914
Benefits paid	(47,979)	(38,238)	(9,741)
Settlements, curtailments and terminations	(13,352)	(14,618)	1,266
Net contributions by the Institution	—	(181)	181
Actuarial gains or losses from changes in demographic assumptions	—	—	—
Actuarial gains or losses from changes in financial assumptions	(43,340)	—	(43,340)
Actuarial gains or losses from experience	1,369	—	1,369
Return on plan assets excluding interest income	—	(30,845)	30,845
Other movements	15,601	17,051	(1,450)
Balance as at 31 December 2021	**739,456**	**652,786**	**86,670**
Interest costs	12,800	—	12,800
Interest income	—	10,838	(10,838)
Normal cost in year	1,631	—	1,631
Past service cost	(474)	—	(474)
Benefits paid	(47,415)	(38,784)	(8,631)
Settlements, curtailments and terminations	(3,832)	(3,976)	144
Net contributions by the Institution	—	(644)	644
Actuarial gains or losses from changes in demographic assumptions	(1,126)	—	(1,126)
Actuarial gains or losses from changes in financial assumptions	(143,190)	—	(143,190)
Actuarial gains or losses from experience	(4,208)	—	(4,208)
Return on plan assets excluding interest income	—	(131,322)	131,322
Other movements	10,715	12,594	(1,879)
Exchange differences	689	—	689
Balance as at 31 December 2022	**565,046**	**501,492**	**63,554**

The breakdown of Group 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	**5,712**	3.25 %
Total obligations		**565,046**	

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	**7,675**	1.00 %
Total obligations		**739,456**	

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 98.99% of its obligations (98.96% as at 31 December 2021) there is no mortality risk (mortality tables) or profitability risk (interest rate) for the Group. 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 1.3.17 to these consolidated 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	8,572	8,142	8,033	7,616	7,521	8,512	8,216	7,910	7,595	7,274	**79,391**

The fair value of assets linked to pensions recognised on the consolidated balance sheet amounted to 89,729 thousand euros as at 31 December 2022 (116,453 thousand euros as at 31 December 2021) – see Note 17.

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 23 – Shareholders' equity

The breakdown of the balance of shareholders' equity on the consolidated 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	21,548	19,108
Retained earnings	5,859,520	5,441,185
Other reserves	(1,365,777)	(1,201,701)
(-) Treasury shares	(23,767)	(34,523)
Profit or loss attributable to owners of the parent	858,642	530,238
(-) Interim dividends	(112,040)	—
Total	**13,840,724**	**13,356,905**

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 consolidated balance sheets as at 31 December 2022 and 2021 breaks down as follows:

Thousand euro

	2022	2021
Restricted reserves:	**222,820**	**206,665**
Statutory reserve	140,674	140,674
Reserves for treasury shares pledged as security	68,470	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	**4,107,070**	**3,797,366**
Reserves of entities accounted for using the equity method	**163,853**	**235,453**
Total	**4,493,743**	**4,239,484**

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

Other equity

This heading includes share-based remuneration pending settlement which, as at 31 December 2022 and 2021, amounted to 21,548 thousand euros and 19,108 thousand euros, respectively.

Business involving own equity instruments

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

	No. of shares	Nominal value *(in thousand euro)*	Average price *(in euro)*	% Shareholding
Balance as at 31 December 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 equity instruments have been included under the heading "Shareholders' equity – Other reserves" on the consolidated balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to the sale or cancellation of treasury shares.

As at 31 December 2022, TSB holds 60,517 Banco Sabadell shares (233,658 as at 31 December 2021), with a cost of 46 thousand euros (104 thousand euros as at 31 December 2021), which are recorded as treasury shares on the consolidated balance sheet.

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, respectively. Their nominal value as at the aforesaid dates amounts to 383 thousand euros and 2,148 thousand euros, respectively. In both years, 100% of the securities corresponded to Banco Sabadell shares.

Note 24 – Accumulated other comprehensive income

The composition of this heading of consolidated equity as at 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
Items that will not be reclassified to profit or loss	(29,125)	(41,758)
Actuarial gains or (-) losses on defined benefit pension plans	(1,969)	917
Non-current assets and disposal groups classified as held for sale	—	—
Share of other recognised income and expense of investments in joint ventures and associates	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income	(27,156)	(42,675)
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	(621,522)	(343,846)
Hedge of net investments in foreign operations [effective portion] (*)	119,348	157,741
Foreign currency translation	(476,030)	(481,266)
Hedging derivatives. Cash flow hedges [effective portion] (**)	(64,224)	(30,163)
Amount deriving from outstanding operations	(93,562)	(67,193)
Amount deriving from discontinued operations	29,338	37,030
Fair value changes of debt instruments measured at fair value through other comprehensive income	(180,199)	(11,724)
Hedging instruments [not designated elements]	—	—
Non-current assets and disposal groups classified as held for sale	—	—
Share of other recognised income and expense of investments in joint ventures and associates	(20,417)	21,566
Total	**(650,647)**	**(385,604)**

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

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

The breakdown of the items in the statement of recognised income and expenses as at 31 December 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	12,991	(358)	12,633	20,611	2,050	22,661
Actuarial gains or (-) losses on defined benefit pension plans	(4,123)	1,237	(2,886)	2,299	(689)	1,610
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Share of other recognised income and expense of investments in joint ventures and associates	—	—	—	—	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income	17,114	(1,595)	15,519	18,312	2,739	21,051
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	(357,716)	80,040	(277,676)	78,796	35,988	114,784
Hedge of net investments in foreign operations [effective portion]	(38,393)	—	(38,393)	(54,100)	—	(54,100)
Foreign currency translation	5,238	—	5,238	255,804	—	255,804
Hedging derivatives. Cash flow hedges reserve [effective portion]	(52,125)	18,064	(34,061)	(103,229)	33,269	(69,960)
Fair value changes of debt instruments measured at fair value through other comprehensive income	(230,451)	61,976	(168,475)	(14,112)	2,719	(11,393)
Hedging instruments [not designated elements]	—	—	—	—	—	—
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Share of other recognised income and expense of investments in joint ventures and associates	(41,985)	—	(41,985)	(5,567)	—	(5,567)
Total	**(344,725)**	**79,682**	**(265,043)**	**99,407**	**38,038**	**137,445**

Note 25 – Minority interests (non-controlling interests)

The companies comprising this consolidated equity heading as at 31 December 2022 and 2021 are the following:

Thousand euro

	2022			2021		
	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*
BancSabadell d'Andorra, S.A.	—	—	—	—	—	4,700
Aurica Coinvestment, S.L.	38.24 %	33,553	10,009	38.24 %	24,190	4,129
Other	—	791	739	—	790	(360)
Total		**34,344**	**10,748**		**24,980**	**8,469**

The movements in the balance of this heading in 2022 and 2021 were as follows:

Thousand euro

Balances as at 31 December 2020	**71,634**
Valuation adjustments	(541)
Other	(46,113)
Scope additions / exclusions (*)	(52,502)
Percentage shareholding and other	(2,080)
Profit or loss for the year	8,469
Balances as at 31 December 2021	**24,980**
Valuation adjustments	—
Other	9,364
Scope additions / exclusions	—
Percentage shareholding and other	(1,384)
Profit or loss for the year	10,748
Balances as at 31 December 2022	**34,344**

(*) Corresponds, fundamentally, to disposal of stake held in BancSabadell d'Andorra (see Note 2).

The dividends distributed to minority shareholders of Group entities in 2022 amounted to 646 thousand euros and have been distributed by Aurica Coinvestment, S.L. In 2021, they amounted to 2,118 thousand euros: 1,472 thousand euros to BancSabadell d'Andorra, S.A. and 646 thousand euros to Aurica Coinvestment, S.L.

Note 26 – Off-balance sheet exposures

The breakdown of this heading for the years ended 31 December 2022 and 2021 is the following:

Thousand euro

Commitments and guarantees given	Note	2022	2021
Loan commitments given		**27,460,615**	**28,403,146**
Of which, amount classified as stage 2		*1,407,538*	*1,310,996*
Of which, amount classified as stage 3		*82,078*	*84,768*
Drawable by third parties		27,460,615	28,403,145
By credit institutions		43	295
By general governments		1,019,180	1,062,490
By other resident sectors		15,815,706	15,553,771
By non-residents		10,625,686	11,786,590
Provisions recognised on liabilities side of the balance sheet	22	71,698	68,136
Financial guarantees given (*)		**2,086,993**	**2,034,143**
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 (**)	22	26,817	42,417
Other commitments given		**9,674,382**	**7,384,863**
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		6,916,058	7,234,081
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		6,168,418	6,241,315
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	22	78,308	80,038
Total		**39,221,990**	**37,822,152**

(*) 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 4,566,727 thousand euros (5,778,794 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 and 2021 was the following:

Thousand euro

Balances as at 31 December 2020	456,941
Additions	94,214
Disposals	(76,598)
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 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	36,405
Stage 1	4,833	6,317
Stage 2	7,098	5,229
Stage 3	13,234	24,141
Others	395	718
Total	**105,124**	**122,455**

The movement of this coverage during 2022 and 2021, together with the coverage of other loan commitments given is shown in Note 22.

Note 27 – Off-balance sheet customer funds

Off-balance sheet customer funds managed by the Group, those sold but not under management and the financial instruments deposited by third parties as at 31 December 2022 and 2021 are shown below:

Thousand euro

	2022	2021
Managed by the Group:	**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 Group:	**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	**43,286,158**	**47,881,913**
Total	**81,778,518**	**89,559,734**

Note 28 – Interest income and expenses

These headings in the consolidated income statement include interest accrued during the year on all financial assets and liabilities the yield of which, implicit or explicit, is obtained by applying the effective interest rate approach, irrespective of whether they are measured at fair value or otherwise, and using product adjustments due to accounting hedges.

The majority of interest income is generated by the Group's financial assets measured either at amortised cost or at fair value through other comprehensive income.

The 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	4,252,331	3,531,780
Central banks	252,274	23,705
Credit institutions	72,999	31,304
Customers	3,927,058	3,476,771
Debt securities (*)	288,540	215,458
Stage 3 assets	21,840	30,271
Correction of income from hedging operations	151,473	(37,039)
Other interest (**)	274,419	407,079
Total	**4,988,603**	**4,147,549**
Interest expense		
Deposits	(585,695)	(274,684)
Central banks	(99,658)	(5,035)
Credit institutions	(83,742)	(28,365)
Customers	(402,295)	(241,284)
Debt securities issued	(302,023)	(247,818)
Correction of expenses on hedging operations	(147,708)	16,065
Other interest (***)	(154,451)	(215,656)
Total	**(1,189,877)**	**(722,093)**

(*) Includes 20,903 thousand euros in 2022 and 7,987 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	0.39	(0.26)
Debt securities	1.11	0.62
Loans and advances		
Customers	2.51	2.31
Liabilities		
Deposits		
Central banks and Credit institutions	0.02	0.71
Customers	(0.19)	(0.09)
Debt securities issued	(1.42)	(1.17)

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

Note 29 – Fee and commission income and expenses

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

Thousand euro

	2022	2021
Fees from risk transactions	**282,500**	**270,392**
Asset-side transactions	180,403	168,717
Sureties and other guarantees	102,097	101,675
Service fees	**869,794**	**839,528**
Payment cards	256,492	222,539
Payment orders	82,935	74,196
Securities	53,145	66,848
Sight accounts	286,471	293,245
Other	190,751	182,700
Asset management and marketing fees	**337,914**	**357,621**
Mutual funds	122,218	121,734
Sale of pension funds and insurance products	193,833	198,338
Asset management	21,863	37,549
Total	**1,490,208**	**1,467,541**
Memorandum item		
Fee and commission income	1,742,311	1,661,610
Fee and commission expenses	(252,103)	(194,069)
Fees and commissions (net)	**1,490,208**	**1,467,541**

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

"Gains or (-) losses on financial assets and liabilities, net" groups together a series of headings from the consolidated income statement for the years ended 31 December 2022 and 2021, which are shown below:

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	13,227	340,985
Financial assets at fair value through other comprehensive income	22,752	15,412
Financial assets at amortised cost	(9,190)	323,840
Financial liabilities at amortised cost	(335)	1,733
Gains or (-) losses on financial assets and liabilities held for trading, net	204,691	(183,555)
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	(4,157)	4,466
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	—	—
Gains or (-) losses from hedge accounting, net	17,851	(4,851)
Total	**231,612**	**157,045**
By type of financial instrument:		
Net gain/(loss) on debt securities	16,131	346,978
Net gain/(loss) on other equity instruments	(877)	2,396
Net gain/(loss) on derivatives	225,548	(192,370)
Net gain/(loss) on other items (*)	(9,190)	41
Total	**231,612**	**157,045**

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

The breakdown of the heading “Exchange differences [gain or (-) loss], net” of the consolidated income statement for the years ended 31 December 2022 and 2021 is shown below:

Thousand euro

	2022	2021
Exchange differences [gain or (-) loss], net	(127,971)	187,174

During 2022, the Group has carried out sales of certain debt securities which it held in its portfolio of financial assets at fair value through other comprehensive income, generating profits of 22,752 thousand euros (15,412 thousand euros in 2021). 100% of these profits comes from the sale of debt securities held with general governments (4,127 thousand euros in 2021).

In addition, in 2021, the Group sold certain debt securities held in the portfolio of financial assets at amortised cost in order to fortify the Group’s solvency as part of a series of actions taken to improve future profitability and the quality of its balance sheet in response to the economic crisis triggered by Covid-19 (see Notes 8 and 33).

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 consolidated income statement, while the exchange differences generated by debit and credit balances denominated in foreign currencies hedged with these derivatives are recognised under the heading “Exchange differences [gain or (-) loss], net” of the consolidated income statement.

Note 31 – Other operating income

The composition of this heading of the consolidated income statement for the years ended 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
Income from use of investment properties (*)	23,474	25,785
Sales and other income from the provision of non-financial services	11,522	11,382
Other operating income	86,558	117,565
Total	**121,554**	**154,732**

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

The income recognised in “Other operating income” basically corresponds to income from Group entities engaging in non-financial activities (mostly operating leases). The reduction in the balance recorded in this heading for 2022 is mainly due to the fall in income from the vehicle leasing activity following the sale of the BanSabadell Renting, S.L.U. subsidiary, which took place in the second half of 2021, which was partially offset by the income from the insurance policies referred to in Note 32.

Note 32 – Other operating expenses

The composition of this heading of the consolidated income statement for the years ended 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
Contribution to deposit guarantee schemes	(129,157)	(128,883)
Banco Sabadell	(113,832)	(116,341)
TSB	(540)	(879)
BS IBM Mexico	(14,785)	(11,663)
Contribution to resolution fund	(100,151)	(87,977)
Other items	(229,559)	(250,502)
Total	**(458,867)**	**(467,362)**

“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). The balance of this heading decreased due to, among other reasons, the fall in expenses of the vehicle leasing business, following the sale of BanSabadell Renting, S.L.U. in 2021 (See Note 31). Furthermore, on 16 December 2022, the TSB subsidiary reached an agreement with the British regulators regarding the outcome of the investigation into the causes and circumstances that led to the incidents that took place after its IT migration in 2018. This agreement involved a payment from TSB for 48.65 million pounds sterling (approximately, 57 million euros) to the British regulators, which was recorded under this heading, and an estimated impact on capital of 6 basis points on a consolidated basis. However, it is estimated that the insurance policies arranged by the Group will enable this amount and the impact on capital to be offset. In 2022, income amounting to 45 million euros corresponding to compensation arising from the aforesaid arranged insurance policies was recognised under the heading “Other operating income” of the consolidated income statement for 2022 (see Note 31).

Note 33 – Administrative expenses

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

Staff expenses

The staff expenses recognised in the consolidated income statement for the years ended 31 December 2022 and 2021 are as follows:

Thousand euro

	Nota	2022	2021
Payrolls and bonuses for active staff		(1,050,441)	(1,098,835)
Social Security payments		(212,576)	(231,357)
Contributions to defined benefit pension plans	22	(1,157)	(2,865)
Contributions to defined contribution pension plans		(61,560)	(70,132)
Other staff expenses		(65,874)	(373,608)
Of which: restructuring plans in Spain and United Kingdom		—	*(298,272)*
Total		**(1,391,608)**	**(1,776,797)**

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 average workforce for all companies within the Group by category and sex is as follows:

Average number of employees

	2022			2021		
	Men	Women	Total	Men	Women	Total
Senior management	479	208	687	494	190	684
Middle management	1,947	1,381	3,328	2,227	1,363	3,590
Specialist staff	5,307	7,222	12,529	6,024	8,153	14,177
Administrative staff	707	1,817	2,524	739	2,137	2,876
Total	**8,440**	**10,628**	**19,068**	**9,484**	**11,843**	**21,327**

The breakdown of the Group’s average workforce by category as at 31 December 2022 and 2021 with a disability of 33% or more is as follows:

Average number of employees

	2022	2021
Senior management	10	9
Middle management	27	33
Specialist staff	207	238
Administrative staff	78	109
Total	**322**	**389**

As at 31 December 2022 and 2021, the breakdown of the Group's workforce by category and sex is as follows:

Number of employees

	2022			2021		
	Men	Women	Total	Men	Women	Total
Senior management	460	208	668	515	214	729
Middle management	1,944	1,381	3,325	1,988	1,281	3,269
Specialist staff	5,298	7,194	12,492	5,663	7,766	13,429
Administrative staff	683	1,727	2,410	724	1,919	2,643
Total	**8,385**	**10,510**	**18,895**	**8,890**	**11,180**	**20,070**

Of the total workforce as at 31 December 2022, 309 had some form of recognised disability (344 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:

Share-based complementary incentive scheme

TSB's Share Incentive Plan (SIP) provides its employees with the opportunity to own shares in Banco Sabadell and grants, where applicable, shares to certain senior employees as part of their hiring arrangements.

Long-term remuneration scheme

The Board of Directors, in its meeting of 20 December 2018, at the proposal of the 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 was paid 55% in shares of the Bank (using the weighted average price of the last 20 trading sessions of December 2019 to calculate the number of shares) and 45% in cash. The incentive vesting period started on 1 January 2019 and ended on 31 December 2021, and consisted of two sub-periods:

– Individual annual targets measurement period: this is the period from 1 January 2019 to 31 December 2019, in which the annual targets of each beneficiary (composed of Group targets, management targets and individual targets) established to determine the "Adjusted Target" were measured, which was subject to the Risk Correction Factor, with capital (CET1) and liquidity (Liquidity Coverage Ratio) indicators.

– Group multi-year targets measurement period: this is the period from 1 January 2019 to 31 December 2021, in which multi-year Group targets were measured for the purpose of determining the final incentive, which was also subject to the Risk Correction Factor. The Group's multi-year targets were related to the following indicators: total shareholder return (25%), the Group's liquidity coverage ratio (25%), the CET1 capital indicator (25%) and the Group's return on risk-adjusted capital (RoRAC) (25%). The results were 0% relative to total shareholder return, 100% relative to the Group's liquidity coverage ratio, 100% relative to the CET1 capital ratio and 0% relative to the Group's return on risk-adjusted capital (RoRAC). Based on the above, a final pay-out of 50% of the target was determined for management staff who had been allocated to receive this incentive.

In addition to meeting the annual and multi-year targets described above, payment of the incentive 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.

Furthermore, 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 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 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.

Furthermore, 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 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 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 share-based incentive schemes (see Note 1.3.15), the balancing entry for such expenses is recognised in equity in the case of stock options settled with shares (see consolidated statement of total changes in equity – share-based payments), while those settled with cash are recognised in the "Other liabilities" heading of the consolidated balance sheet.

Expenditure recognised in relation to incentive schemes and long-term remuneration granted to employees in 2022 and 2021 is shown below:

Thousand euro

	2022	2021
Settled in shares	4,923	3,962
Settled in cash	693	1,390
Total	**5,616**	**5,352**

Other administrative expenses

The composition of this heading in the consolidated income statement for the years 2022 and 2021 was as follows:

Thousand euro

	2022	2021
Property, plant and equipment	(70,614)	(85,358)
Information technology	(391,562)	(415,128)
Communication	(30,231)	(30,929)
Publicity	(71,601)	(79,452)
Subcontracted administrative services	(112,898)	(113,068)
Contributions and taxes	(114,185)	(130,340)
Technical reports	(26,094)	(32,357)
Security services and fund transfers	(18,375)	(16,899)
Entertainment expenses and staff travel expenses	(9,600)	(4,537)
Membership fees	(5,602)	(5,278)
Other expenses	(95,045)	(90,747)
Total	**(945,807)**	**(1,004,093)**

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 (*)	**2,540**	**2,495**
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
Of which: Audit of the annual accounts of subsidiaries	413	421
Audit-related services	**281**	**283**
Total	**2,821**	**2,778**

(*) 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 (*)	**6,861**	**6,493**
Of which: Audit of the annual accounts of foreign branches	343	302
Of which: Audit of the annual accounts of Group subsidiaries	6,518	6,191
Audit-related services	**192**	**219**
Other services	**383**	**257**
Of which: Other	383	257
Total	**7,436**	**6,969**

(*) Including fees corresponding to the year's audit, irrespective of the date on which that audit was completed.

The main items included under "Audit-related services" correspond to fees related to reports that the auditors are required to produce under the applicable regulations, the issuance of comfort letters and other assurance reports required. Furthermore, "Other services" mainly includes fees related to reviews of the Pillar III Disclosures report and the Non-Financial Disclosures report provided by other companies of the KPMG network.

Finally, the Group engaged auditors other than KPMG to carry out the audits of foreign branches and other Group subsidiaries. Audit and other services provided by those companies amounted to 51 thousand euros and 9 thousand euros in the year ended 31 December 2022, respectively (61 and 5 thousand euros in the year ended 31 December 2021).

All services provided by the auditors and companies forming part of their network comply with the requirements for external auditor independence set forth in the Spanish Audit Law and do not, in any case, include work that is unrelated to auditing.

Other information

The cost-to-income ratio as at 2022 year-end (staff and general expenses/gross income) stood at 45.12% (55.33% in 2021).

Information about the Group's branches and offices is given below:

Number of branches and offices

	2022	2021
Branches and offices	**1,461**	**1,593**
Spain	1,210	1,270
Outside Spain	251	323

Note 34 – Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and modification losses or (-) gains, net

The composition of this heading of the consolidated income statement for the years ended 31 December 2022 and 2021 is as follows:

Thousand euro

	Note	2022	2021
Financial assets at fair value through other comprehensive income		(182)	697
Debt securities	8	(182)	697
Other equity instruments		—	—
Financial assets at amortised cost	11	(839,397)	(960,204)
Debt securities		(190)	73
Loans and advances		(839,207)	(960,277)
Total		**(839,579)**	**(959,507)**

Note 35 – Impairment or (-) reversal of impairment on non-financial assets

The composition of this heading of the consolidated income statement for the years ended 31 December 2022 and 2021 is as follows:

Thousand euro

	Note	2022	2021
Property, plant and equipment for own use	15	(1,916)	(58,369)
Investment properties	15	(35,182)	(7,114)
Goodwill and other intangible assets	16	—	(1,570)
Inventories	17	(24,018)	(38,914)
Total		**(61,116)**	**(105,967)**

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 Group's branch network.

The total allowance for the impairment of investment properties in 2022 and 2021 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 293,266 thousand euros and 381,261 thousand euros in 2022 and 2021, respectively.

Of the total inventory impairment allowances for 2022 and 2021, 1,564 thousand euros and 20,659 thousand euros were allocated based on Level 2 valuations, respectively, and 22,454 thousand euros and 18,255 thousand euros based on Level 3 valuations, respectively. The fair value of impaired assets amounted to 90,614 thousand euros and 138,216 thousand euros at 2022 and 2021 year-end, respectively.

Note 36 – Gains or (-) losses on derecognition of non-financial assets, net

The composition of this heading of the consolidated income statement for the years ended 31 December 2022 and 2021 is as follows:

Thousand euro

	2022	2021
Property, plant and equipment	3,261	(320)
Investment properties	3,072	145
Intangible assets	(35,132)	(36,936)
Interests (*)	11,449	14,575
Other items	(19)	93,657
Total	**(17,369)**	**71,121**

(*) See Schedule I – Exclusions from the scope of consolidation

The "Other items" heading included 84 million euros in 2021 corresponding to profit recognised on the sale of the institutional depository business to BP2S (see Note 2).

The sale of tangible assets under finance leases in which the Group acts as the lessor did not have a material impact on the 2022 and 2021 consolidated income statements.

Note 37 – Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The composition of this heading of the consolidated income statement for the years ended 31 December 2022 and 2021 is as follows:

Thousand euro

	Note	2022	2021
Property, plant and equipment		(25,693)	(63,475)
Gains/losses on sales		(22,269)	(45,563)
Impairment/Reversal	13	(3,424)	(17,912)
Investment properties		—	789
Interests (*)		(1,829)	40,172
Other items		(279)	15,126
Total		**(27,801)**	**(7,388)**

(*) See Schedule I - Companies no longer consolidated.

The impairment of non-current assets held for sale excludes income from the increase in fair value less 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 6). The fair value of impaired assets amounted to 585,758 thousand euros and 452,743 thousand euros at 2022 and 2021 year-end, respectively.

Note 38 – Segment reporting

Segmentation criteria

This section gives information regarding earnings and other indicators of the Group's business units.

For 2022, the criteria that Banco Sabadell Group uses to report on results for each segment are:

- Three regions: Banking Business Spain, United Kingdom and Mexico. Banking Business Spain includes the foreign branches and the representative offices.
- Each business unit is allocated capital equivalent to 12% of its risk-weighted assets and the surplus of own funds is allocated to Banking Business Spain.

In terms of the other criteria applied, segment information is first structured with a breakdown by geographical area and then broken down based on the customers to which each segment is aimed.

The information presented is based on the individual accounting records of each Group company, after all consolidation disposals and adjustments have been made.

Each business unit bears its own direct costs, calculated on the basis of general accounting.

Details of profit attributable to the Group and other key figures for each business unit for the years 2022 and 2021 are shown in the table below, along with a reconciliation of the totals shown in the table with those shown in the consolidated Group accounts:

Million euro

	2022 (*)			
	Banking Business Spain	**Banking Business UK**	**Banking Business Mexico**	**Total Group**
Net interest income	**2,499**	**1,151**	**149**	**3,799**
Fees and commissions (net)	1,344	134	12	1,490
Core revenue	**3,843**	**1,284**	**162**	**5,289**
Net trading income and exchange differences	95	6	3	104
Equity-accounted income and dividends	125	—	—	125
Other operating income/expense	(225)	(95)	(17)	(337)
Gross income	**3,837**	**1,195**	**148**	**5,180**
Operating expenses and depreciation and amortisation	(1,887)	(909)	(86)	(2,883)
Pre-provisions income	**1,951**	**285**	**62**	**2,298**
Provisions and impairments	(920)	(104)	(9)	(1,032)
Capital gains on asset sales and other revenue	(9)	1	(14.041)	(23)
Profit/(loss) before tax	**1,021**	**182**	**39**	**1,243**
Corporation tax	(270)	(95)	(8)	(373)
Profit or loss attributed to minority interests	11	—	—	11
Profit attributable to the Group	**740**	**87**	**31**	**859**
ROTE (net return on tangible equity attributable to the Group)	8.7%	4.2%	6.6%	7.8%
Cost-to-income (general administrative expenses / gross income)	40.3%	63.0%	48.7%	45.1%
NPL ratio	4.2%	1.3%	2.3%	3.4%
Stage 3 exposure coverage ratio (**)	56.2%	42.3%	70.1%	55.0%
Employees	12,991	5,482	422	18,895
Domestic and foreign branches and offices	1,226	220	15	1,461

(*) Exchange rates used in the income statement: GBP 0.8532 (average), MXN 21.0739 (average), USD 1.0538 (average) and MAD 11.1232 (average).

(**) Considering total provisions for losses on transactions in stage 3.

Million euro

	2022 (*)			
	Banking Business Spain	**Banking Business UK**	**Banking Business Mexico**	**Total Group**
Assets	**189,545**	**55,810**	**6,025**	**251,380**
Gross performing loans to customers	108,889	43,110	4,131	156,130
Non-performing real estate assets (net)	713	—	—	713
Liabilities	**179,402**	**53,316**	**5,437**	**238,155**
On-balance sheet customer funds	120,118	40,931	3,090	164,140
Wholesale funding in capital markets	19,444	2,537	—	21,981
Allocated equity	**10,143**	**2,494**	**587**	**13,224**
Off-balance sheet customer funds	**38,492**	**—**	**—**	**38,492**

(*) Exchange rates used in the balance sheet: GBP 0.8869, MXN 20.856, USD 1.066 and MAD 11.1558.

Million euro

	2021 (*)			
	Banking Business Spain	**Banking Business UK**	**Banking Business Mexico**	**Total Group**
Net interest income	**2,302**	**1,011**	**113**	**3,425**
Fees and commissions (net)	1,336	121	11	1,468
Core revenue	**3,638**	**1,132**	**123**	**4,893**
Net trading income and exchange differences	342	2	—	344
Equity-accounted income and dividends	102	—	—	102
Other operating income/expense	(269)	(33)	(10)	(313)
Gross income	**3,812**	**1,101**	**114**	**5,026**
Operating expenses and depreciation and amortisation	(2,276)	(942)	(89)	(3,307)
Pre-provisions income	**1,536**	**159**	**24**	**1,719**
Provisions and impairments	(1,193)	—	(32)	(1,225)
Capital gains on asset sales and other revenue	135	(9)	(0.011)	126
Profit/(loss) before tax	**478**	**150**	**(8)**	**620**
Corporation tax	(58)	(32)	9	(81)
Profit or loss attributed to minority interests	8	—	—	8
Profit attributable to the Group	**412**	**118**	**1**	**530**
ROTE (net return on tangible equity attributable to the Group)	4.0%	5.0%	-1.0%	4.0%
Cost-to-income (general administrative expenses / gross income)	50.2%	71.3%	71.1%	55.3%
NPL ratio	4.6%	1.4%	1.0%	3.7%
Stage 3 exposure coverage ratio (**)	57.6%	38.1%	265.7%	56.3%
Employees	13,855	5,762	453	20,070
Domestic and foreign branches and offices	1,288	290	15	1,593

(*) Exchange rates used in the income statement: GBP 0.8594 (average), MXN 23.9687 (average), USD 1.1865 (average) and MAD 10.4982 (average).

(**) Considering total provisions for losses on transactions in stage 3.

Million euro

	2021 (*)			
	Banking Business Spain	**Banking Business UK**	**Banking Business Mexico**	**Total Group**
Assets	**191,162**	**55,657**	**5,128**	**251,947**
Gross performing loans to customers	107,089	44,050	3,773	154,912
Non-performing real estate assets (net)	842	—	—	842
Liabilities	**181,389**	**53,012**	**4,550**	**238,950**
On-balance sheet customer funds	116,788	42,779	2,453	162,020
Wholesale funding in capital markets	18,090	2,975	—	21,065
Allocated equity	**9,773**	**2,645**	**578**	**12,996**
Off-balance sheet customer funds	**41,678**	**—**	**—**	**41,678**

(*) Exchange rates used in the balance sheet: GBP 0.8403, MXN 23.1438, USD 1.1326 and MAD 10.518.

The Group's average total assets as at 31 December 2022 amounted to 257,691,764 thousand euros (245,313,451 thousand euros as at 31 December 2021).

The types of products and services from which ordinary income is derived are described below for each business unit:

– Banking Business Spain:

  Groups together the Retail Banking, Business Banking and Corporate Banking business units, where individuals and businesses are managed under the same branch network:

  – Retail Banking: offers financial products and services to individuals for personal use. These include investment products and medium- and long-term finance, such as consumer loans, mortgages and leasing or rental services, as well as short-term finance. Funds come mainly from customers' deposits and sight accounts, savings insurance, mutual funds and pension plans. The main services also include payment methods such as cards and insurance combined with consumer loans and mortgages. High value-added products and services are also offered to Private Banking customers.

  – Business Banking: offers financial products and services to companies and self-employed persons. These include investment and financing products, such as working capital products, 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 customers' deposits and sight accounts and mutual funds. The main services also include collection/payment methods such as cards and PoS terminals, as well as import and export services.

  – Corporate Banking (CIB) offers specialised lending services together with a comprehensive offering of solutions, ranging from transaction banking services to more complex and tailored solutions relating to the fields of lending and cash management, as well as import and export activities, among others.

– Banking Business United Kingdom:

  The TSB franchise includes business conducted in the United Kingdom, which includes current and savings accounts, loans, credit cards and mortgages.

– Banking Business Mexico:

  Offers corporate banking and commercial banking financial services.

Details of income from ordinary activities and the pre-tax profit/(loss) generated by each business unit, are set out below for the years 2022 and 2021:

Thousand euro

	Consolidated			
	Income from ordinary activities (*)		Profit/(loss) before tax	
SEGMENTS	**2022**	**2021**	**2022**	**2021**
Banking Business Spain	5,036,309	4,680,955	1,021,395	477,976
Banking Business UK	1,627,943	1,200,385	182,452	150,144
Banking Business Mexico	422,437	240,858	38,799	(8,131)
Total	**7,086,689**	**6,122,198**	**1,242,646**	**619,989**

(*) Includes the following headings from the consolidated income statements: "Interest income", "Dividend income", "Fee and commission income", "Gains or (-) losses on financial assets and liabilities, net" and "Other operating income".

The table below shows the balance of net interest income and net fees and commissions income generated by each business unit as a percentage of the total for 2022 and 2021:

%

	2022				
	Breakdown net interest income and net fees and commissions				
	Customer loans		Customer deposits		Income from services (*)
	% of average balance	% of total yield	% of average balance	% of total cost	% of total balance
SEGMENTS					
Banking Business Spain	69.7 %	63.0 %	73.2 %	54.2 %	90.2 %
Banking Business UK	27.6 %	28.9 %	24.9 %	24.6 %	9.0 %
Banking Business Mexico	2.7 %	8.0 %	1.9 %	21.2 %	0.8 %
Total	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**

(*) Segment percentage of total net fees and commissions.

%

	2021				
	Breakdown net interest income and net fees and commissions				
	Customer loans		Customer deposits		Income from services (*)
	% of average balance	% of total yield	% of average balance	% of total cost	% of total balance
SEGMENTS					
Banking Business Spain	69.1 %	69.1 %	71.5 %	80.0 %	91.0 %
Banking Business UK	28.5 %	25.5 %	26.4 %	6.1 %	8.2 %
Banking Business Mexico	2.4 %	5.4 %	2.1 %	13.9 %	0.8 %
Total	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**

(*) Segment percentage of total net fees and commissions.

Furthermore, a breakdown by geographical area of the “Interest income” heading of the 2022 and 2021 income statements is shown below:

Thousand euro

	Breakdown of interest income by geographical area			
Geographical area	**Standalone**		**Consolidated**	
	2022	**2021**	**2022**	**2021**
Domestic market	2,874,905	2,601,517	2,869,020	2,625,364
International market	268,772	221,413	2,119,583	1,522,185
European Union	44,755	42,689	44,755	42,689
Eurozone	44,755	42,689	44,755	42,689
Non-Eurozone	—	—	—	—
Other	224,017	178,724	2,074,828	1,479,496
Total	**3,143,677**	**2,822,930**	**4,988,603**	**4,147,549**

Section 4 of the Consolidated Directors’ Report gives a more detailed assessment of each of these business units.

Note 39 – Tax situation (income tax relating to continuing operations)

Consolidated tax group

Banco de Sabadell, S.A. is the parent company of a consolidated tax group for corporation tax purposes, in Spain, comprising all the Spanish companies in which the Bank holds an interest that meet the requirements of the Spanish Corporation Tax Law.

The other companies in the accounting group, both those that are Spanish and those not resident in Spain, are taxed in accordance with the tax regulations applicable to them.

Reconciliation

The reconciliation between the Group's corporation tax expense calculated by applying the general tax rate and the expense recognised for this corporation tax in the consolidated income statements is as follows:

Thousand euro

	2022	2021
Profit or loss before tax	**1,242,646**	**619,989**
Corporation tax, applying national tax rate (30%)	**(372,794)**	**(185,997)**
Reconciliation:		
Gains/(losses) on sale of equity instruments (exempt)	(1,239)	3,432
Remuneration of preferred securities	33,112	30,178
Profit/(loss) of entities accounted for using the equity method	38,125	29,079
Difference in effective tax rate on companies outside Spain (*) (**)	(15,447)	33,594
Generated deductions/Non-deductible expenses	(22,640)	1,489
Other	(32,373)	6,943
(Tax expense or (-) income related to profit from continuing operations)	**(373,256)**	**(81,282)**

(*) Calculated applying the difference between the current tax rate for the Group in Spain (30%) and the effective tax rate applied to the Group's profit/(loss) in each jurisdiction.

(**) In 2022, the corporation tax surcharge on the banking sector in the United Kingdom was reduced from 8% to 3%, which resulted in a deferred tax asset reduction of 14.8 million euros, recognised with a balancing entry in higher Corporation Tax expense. In 2021, UK corporation tax on companies was changed, from 19% to 25%, which resulted in a deferred tax asset increase of 17.9 million euros, recognised with a balancing entry in lower Corporation Tax expense.

The tax rate in effect calculated as the ratio of corporation tax expense to the pre-tax profit/(loss) amounted to 30.04% and 13.11% 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	205,979	53,479
Timing difference arising during the year	298,710	349,070
Timing difference arising in previous years	33,704	51,643
Increases	**538,393**	**454,192**
Permanent difference	(328,741)	(375,237)
Timing difference arising during the year	—	—
Timing difference arising in previous years	(177,698)	(235,012)
Decreases	**(506,439)**	**(610,249)**

Deferred tax assets and liabilities

Under current tax and accounting regulations, certain temporary differences should be taken into account when quantifying the relevant tax expense related to profit from continuing operations.

In 2013, Spain made a provision (Royal Decree-Law 14/2013) for tax assets generated by allowances for the impairment of loans and other assets arising from the potential insolvency of debtors not related to the relevant taxable person, as well as those corresponding to contributions or provisions in respect of social welfare systems and, where appropriate, early retirement schemes, to be afforded the status of assets guaranteed by the Spanish State (hereinafter, "monetisable tax assets").

Monetisable tax assets can be converted into credit enforceable against the Spanish Tax Authority in cases where the taxable person incurs accounting losses or the institution is liquidated or legally declared insolvent. Similarly, they can be exchanged for public debt securities, once the 18-year term has elapsed, calculated from the last day of the tax period in which these assets were recognised in the accounting records. To retain the State guarantee, in order to keep their status as monetisable tax assets, deferred tax assets generated before 2016 are subject to an annual capital contribution of 1.5% of the deferred tax assets that meet the legal requirements.

Movements of deferred tax assets and liabilities during 2022 and 2021 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	**5,058,732**	**1,066,199**	**483,831**	**35,975**	**6,644,737**
(Debit) or credit recorded in the income statement	(17,762)	87,183	(13,141)	(6,657)	49,623
(Debit) or credit recorded in equity	—	2,535	—	—	2,535
Exchange differences and other movements	1,422	150	8,136	924	10,632
Balances as at 31 December 2021	**5,042,392**	**1,156,067**	**478,826**	**30,242**	**6,707,527**
(Debit) or credit recorded in the income statement	(47,661)	6,607	(87,366)	(16,385)	(144,805)
(Debit) or credit recorded in equity	—	85,337	—	—	85,337
Exchange differences and other movements	1,147	(5,096)	(771)	1,168	(3,552)
Balances as at 31 December 2022	**4,995,878**	**1,242,915**	**390,689**	**15,025**	**6,644,507**

Thousand euro

Deferred tax liabilities	Total
Balances as at 31 December 2020	**166,518**
(Debit) or credit recorded in the income statement	(14,728)
(Debit) or credit recorded in equity	(30,411)
Exchange differences and other movements	2,386
Balances as at 31 December 2021	**123,765**
(Debit) or credit recorded in the income statement	(10,914)
(Debit) or credit recorded in equity	—
Exchange differences and other movements	867
Balances as at 31 December 2022	**113,718**

The sources of the deferred tax assets and liabilities recognised in the consolidated balance sheets as at 31 December 2022 and 2021 are as follows:

Thousand euro

Deferred tax assets	2022	2021
Monetisable	**4,995,878**	**5,042,392**
Due to credit impairment	3,323,114	3,355,733
Due to real estate asset impairment	1,547,338	1,560,908
Due to pension funds	125,426	125,751
Non-monetisable	**1,242,915**	**1,156,067**
Tax credits for losses carried forward	**390,689**	**478,826**
Deductions not applied	**15,025**	**30,242**
Total	**6,644,507**	**6,707,527**

Deferred tax liabilities	2022	2022
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	50,593	53,536
Total	**113,717**	**123,765**

The breakdown by country of deferred tax assets and liabilities is as follows:

Thousand euro

	2022		2021	
Country	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Spain	6,417,930	104,530	6,461,238	111,904
United Kingdom	82,955	9,187	155,795	11,861
United States	62,754	—	23,781	—
Mexico	70,198	—	60,260	—
Other	10,670	—	6,453	—
Total	**6,644,507**	**113,717**	**6,707,527**	**123,765**

As indicated in Note 1.3.20, according to the information available as at year-end, and the projections taken from the Group's business plan for the coming years, the Group estimates that it will be able to generate sufficient taxable income to offset tax loss carry-forwards within a period of 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 16). 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.

As at 31 December 2022, the Group had deferred tax assets for tax loss carry-forwards and unused deductions of 50.7 million euros not recognised in the balance sheet (generated in financial years prior to the integration of the company giving rise to them into the Spanish tax group). The maximum time limit for applying unused deductions is 2025, while there is no time limit for the application of tax loss carry-forwards.

Years subject to tax inspection

As at 31 December 2022, corporation tax for the consolidated tax group in Spain is open to review for 2015 and subsequent years. In relation to value added tax (VAT) corresponding to entities forming part of the VAT group in Spain, 2016 and subsequent periods are open to review.

The review of all taxes not verified and not required in accordance with the corresponding tax regulations is still pending for other Group entities that are not taxed within the consolidated tax group or the VAT group in Spain.

Procedures

On 11 January 2022, the State Agency for Tax Administration (AEAT by its Spanish acronym) gave notice to Banco Sabadell, as the parent company of the consolidated tax group, 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 consolidated tax group 16/91)	Value added tax	January 2018 to December 2019
Banco de Sabadell, S.A. (parent company of the VAT group 2008/74)	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.	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.

As at 31 December 2022, the Income Tax (*Impuesto sobre la Renta*, or ISR) corresponding to the Mexican subsidiary, Banco Sabadell. S.A. Institución de Banca Múltiple, for the financial year 2018 is currently undergoing an investigation by the Mexican tax authorities (*Servicio de Administración Tributaria*, or SAT); the process is currently at the documentation submission stage.

Ongoing disputes

As at 31 December 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 Group has, in any event, made suitable provisions for any contingencies that it is considered may arise in relation to these procedures.

In relation to items for which the statute of limitations is unexpired, due to potential differences in the interpretation of tax regulations, the results of the tax authority inspections for the years subject to review may give rise to contingent tax liabilities, which it is not possible to quantify objectively. However, the Group considers that the possibility of such liabilities materialising is remote, and if they did materialise, the resulting tax charge would not be such as to have any significant impact on these consolidated annual financial statements.

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 credit institutions or financial credit establishments 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 calendar 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 consolidated income statement for 2023 amounts to approximately 170 million euros.

Note 40 – Related party transactions

In accordance with the provisions of Chapter VII *bis* Related Party Transactions, of the Capital Companies Act, introduced by Law 5/2021, of 12 April, amending the restated text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010, of 2 July, and other financial regulations, with regard to the promotion of long-term shareholder involvement in listed companies, there are no transactions with officers and directors of the company that could be considered relevant, other than those considered to be "related party transactions" in accordance with Article 529 *vicies* of the Capital Companies Act, carried out following the corresponding approval procedure and, where applicable, reported in accordance with Articles 529 *unvicies et seq.* of the aforesaid Capital Companies Act. Those that did take place were performed in the normal course of the company's business or were performed on an arm's-length basis or under the terms 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 31 December 2021, as well as the amount recorded on the consolidated income statements for 2022 and 2021 arising from related party transactions, are shown below:

Thousand euro

	2022				
	Joint control or signif. influence (in B.Sab)	**Associates**	**Key personnel**	**Other related parties (*)**	**TOTAL**
Assets:					
Customer lending and other financial assets	—	139,981	3,917	515,006	**658,904**
Liabilities:					
Customer deposits and other financial liabilities	—	227,023	5,718	75,107	**307,848**
Off-balance sheet exposures:					
Financial guarantees given	—	294	—	15,067	**15,361**
Loan commitments given	—	47	395	296,880	**297,322**
Other commitments given	—	6,499	—	82,913	**89,412**
Income statement:					
Interest and similar income	—	3,467	36	5,646	**9,149**
Interest and similar expenses	—	(18)	(5)	(643)	**(666)**
Return on capital instruments	—	—	—	—	**—**
Fees and commissions (net)	—	137,175	25	(64)	**137,136**
Other operating income/expense	—	5,704	—	1	**5,705**

(*) Includes employee pension plans.

Thousand euro

	2021				
	Joint control or signif. influence (in B.Sab)	Associates	Key personnel	Other related parties (*)	TOTAL
Assets:					
Customer lending and other financial assets	—	173,423	4,774	540,008	**718,205**
Liabilities:					
Customer deposits and other financial liabilities	—	199,883	7,450	87,272	**294,605**
Off-balance sheet exposures:					
Financial guarantees given	—	302	—	10,042	**10,344**
Loan commitments given	—	102	449	108,373	**108,924**
Other commitments given	—	6,749	—	112,112	**118,861**
Income statement:					
Interest and similar income	—	3,625	25	5,004	**8,654**
Interest and similar expenses	—	(76)	1	(20)	**(95)**
Return on capital instruments	—	—	—	—	**—**
Fees and commissions (net)	—	139,930	48	1,444	**141,422**
Other operating income/expense	—	13,538	(1)	1	**13,538**

(*) Includes employee pension plans.

Note 41 – Remuneration of members of the Board of Directors and Senior Management and their respective balances

The following table shows, for the years ended 31 December 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 33), amounted to 1,181 thousand euros in 2022 (1,952 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 Consolidated 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 Consolidated Directors' Report.

The amounts included in the Annual Report on Directors' Remuneration and in the Annual Corporate Governance Report follow the criteria set forth in CNMV Circular 5/2013, amended by 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.

[1] Related-party transactions are governed by their own special regime.

– Have not carried out activities on their own behalf or on behalf of a third party that involve competition with the company, whether on an isolated or potential basis, or that might otherwise place them in permanent conflict with the company's interests.

The Bank has entered into a civil liability insurance policy for 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 42 – 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.

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	0.164
Loans and credit not secured with collateral	7,187	0.172
Demand deposits and payment accounts	20,345	0.486
Payment instruments and electronic money	2,271	0.053
Other payment services	1,978	0.047
Other products/services	2,163	0.052
Other products	1,073	0.026
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 43 – 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)
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	53	(20,789)	(7)	—	1,672	23,891	(44,627)	(7)

Banco Sabadell Group companies as at 31 December 2022 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/ (loss)	Dividends paid	Total assets			
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
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)

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 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. The key figures as at 2022 year-end for BanSabadell Vida, S.A. are included in Note 14 of the consolidated annual financial statements.

Changes in the scope of consolidation in 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

Banco Sabadell Group companies as at 31 December 2021 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/ (loss)	Dividends paid	Total assets			
Sabadell Corporate Finance, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	70	8,078	(131)	—	8,134	9,373	(1,204)	(152)
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	—	100.00	12,036	22,563	(115)	—	61,548	41,296	(8,266)	(115)
Sabadell Information Systems, S.A.U.	Provision of technology services	Sabadell - Spain	100.00	—	40,243	36,312	23,004	—	1,561,069	143,695	(67,662)	15,589
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	1,000	3,824	(2,073)	—	45,555	1,000	(2,651)	(600)
Sabadell Innovation Cells, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	(2,988)	169	—	2,929	3	(3,041)	(320)
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	30,116	813,910	(17,922)	—	888,175	863,895	(19,869)	(8,101)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	100,060	235,327	(1,123)	—	334,842	500,622	(165,235)	(1,123)
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	15,807	(2,406,085)	(36,983)	—	1,151,093	2,147,442	(4,513,277)	(39,337)
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	2,073	122	(2,893)	—	25,235	14,292	(11,836)	(3,154)
Sabadell Securities USA, Inc.	Other financial services	Miami - United States	100.00	—	551	5,266	530	—	6,547	551	4,873	539
Sabadell Strategic Consulting, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	320	168	—	1,018	3	275	213
Sabadell Venture Capital, S. L.U.	Holding	Barcelona - Spain	—	100.00	3	12,061	1,763	—	56,417	3	2,964	582
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico 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	—	—	—

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 (LM) Limited	Other ancillary activities	London - United Kingdom	—	100.00	1	—	—	—	1	—	—	—
TSB Covered Bonds LLP	UCITS, funds and similar financial corporations	London - United Kingdom	—	100.00	1	14	3	—	61	—	14	3
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	100.00	—	3,606	4,858	4,213	2,717	18,542	3,084	5,380	4,213
Urumea Gestión, S.L. 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 amounts 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: Acquisition cost	Fair value of equity instruments issued for the acquisition: Fair value of equity instruments issued for the acquisition	% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
Parque Eólico Casa Vieja S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Parque Eólico Villaumbrales S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Parque Eólico Perales S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Parque Eólico Los Pedrejones S. L.	Associate	15/4/2021	267	—	50.00 %	50.00 %	Indirect	Equity method	a
Aurica Capital Desarrollo, S.G.E.I.C., S.A.	Associate	6/5/2021	248	—	20.00 %	20.00 %	Direct	Equity method	b
Doctor Energy Central Services, S.L.	Associate	5/10/2021	12	—	24.99 %	24.99 %	Indirect	Equity method	a
Portic Barcelona, S.A.	Associate	1/7/2021	486	—	25.00 %	25.00 %	Direct	Equity method	a
Venture Debt SVC, S.L.U.	Subsidiary	24/11/2021	3	—	100.00 %	100.00 %	Indirect	Full consolidation	c
Total newly consolidated subsidiaries			**3**						
Total newly consolidated associates			**1,814**						

(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	—	—
2022	DUNCAN FUNDING 2022 PLC	TSB	1,436,592	—	—
Total			**7,753,225**	**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)
Derecognised due to securitisations	—	—
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	Average residual maturity	Nominal value	Average residual maturity
	(thousand euro)	(years)	(thousand euro)	(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 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.

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 4.4.2.2 "Risk management models". A range of other data and parameters are also taken into account, such as the consistency of the application, ability to pay and the nature of the security provided (as determined by an appraisal carried out by a Bank of Spain-authorised valuation firm which Banco Sabadell's own approval processes will, additionally, have shown to be free of any association with the Group) and considering any supplementary guarantees, the "fit" between the company's working capital and its total sales; the appropriateness of the total amount borrowed from the Group based on the business's capital strength, examinations of internal and external databases of defaulters, etc. 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.

Schedule IV – Details of outstanding issues and subordinate liabilities of the Group

Debt securities in issue

The breakdown of the Group's issues as at 31 December 2022 and 2021 is as follows:

Thousand euro

Issuer	Issue date	Amount		Interest rate ruling as at 31/12/2022	Maturity/call date	Issue currency	Target of offering
		31/12/2022	31/12/2021				
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	0.875%	05/03/2023	Euros	Institutional
Banco de Sabadell, S.A.	26/02/2018	4,000	4,000	MAX(EURIBOR 3M; 0.4%)	27/02/2023	Euros	Retail
Banco de Sabadell, S.A.	16/03/2018	6,000	6,000	MAX(EURIBOR 3M; 0.67%)	17/03/2025	Euros	Retail
Banco de Sabadell, S.A.	03/04/2018	6,000	6,000	MAX(EURIBOR 3M; 0.4%)	03/04/2023	Euros	Retail
Banco de Sabadell, S.A.	31/05/2018	3,000	3,000	MAX(EURIBOR 3M; 0.3%)	31/05/2023	Euros	Retail
Banco de Sabadell, S.A.	07/09/2018	750,000	750,000	1.625%	07/03/2024	Euros	Institutional
Banco de Sabadell, S.A.	14/11/2018	1,000	1,000	MAX(EURIBOR 3M; 1.1%)	14/11/2023	Euros	Retail
Banco de Sabadell, S.A.	14/11/2018	2,500	2,500	MAX(EURIBOR 3M; 1.5%)	14/11/2025	Euros	Retail
Banco de Sabadell, S.A.	28/03/2019	—	601,415	0.700%	28/03/2022	Euros	Retail
Banco de Sabadell, S.A.	10/05/2019	1,000,000	1,000,000	1.750%	10/05/2024	Euros	Institutional
Banco de Sabadell, S.A.	22/07/2019	1,000,000	1,000,000	0.875%	22/07/2025	Euros	Institutional
Banco de Sabadell, S.A.	27/09/2019	500,000	500,000	1.125%	27/03/2025	Euros	Institutional
Banco de Sabadell, S.A. (*)	07/11/2019	500,000	500,000	0.625%	07/11/2024	Euros	Institutional
Banco de Sabadell, S.A. (*)	29/06/2020	—	500,000	1.750%	29/06/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	11/09/2020	500,000	500,000	1.125%	11/03/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	15/10/2020	—	120,000	EURIBOR 3M + 0.646%	15/05/2024	Euros	Institutional
TSB Banking Group Plc (*) (**)	29/12/2020	—	535,536	SONIA + 2.1%	29/06/2022	Pounds sterling	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.	30/3/2022	120,000	—	3.15%	30/03/2037	Euros	Institutional
TSB Banking Group Plc (*)	13/6/2022	507,368	—	SONIA + 2.45%	13/06/2026	Pounds sterling	Institutional
Banco de Sabadell, S.A. (*)	8/9/2022	500,000	—	5.375%	08/09/2025	Euros	Institutional
Banco de Sabadell, S.A. (*)	2/11/2022	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
TSB Banking Group Plc (*)	9/12/2022	281,871	—	SONIA + 3.40%	09/12/2025	Pounds sterling	Institutional
Subscribed by Group companies		(874,239)	(620,536)				
Total straight bonds		7,949,500	7,022,715				

(*) "Maturity/call date" refers to the first call option.

(**) Equivalent amount in EUR as at end December 2022.

Thousand euro

Issuer	**Issue date**	**Amount**		**Interest rate ruling as at 31/12/2022**	**Maturity date**	**Issue currency**	**Target of offering**
		31/12/2022	**31/12/2021**				
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
Subscribed by Group companies							
Total structured bonds		**41,300**	**57,200**				

(*) Company merged with Banco Sabadell.

Thousand euro

Issuer	Issue date	Amount		Average interest rate	Maturity date	Issue currency	Target of offering
		31/12/2022	31/12/2021	31/12/2022			
Banco de Sabadell, S.A. (*)	10/05/2022	1,445,701	903,897	0.00%	Various	Euros	Institutional
Subscribed by Group companies		(573,805)	(477,803)				
Total commercial paper		**871,896**	**426,094**				

(*) Programme with issuance limit of 7,000,000 thousand euros, which can be extended to 9,000,000 thousand euros, registered with Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR).

Thousand euro

Issuer	Issue date	Amount		Interest rate ruling as at 31/12/2022	Maturity date	Issue currency	Target of offering
		31/12/2022	31/12/2021				
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	—	EURBOR 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

Issuer	Issue date	Amount		Interest rate ruling as at 31/12/2021	Maturity date	Issue currency	Target of offering
		31/12/2022	31/12/2021				
TSB Banking Group Plc	7/12/2017	—	595,040	SONIA + 0.372	7/12/2022	Pounds sterling	Institutional
TSB Banking Group Plc	15/2/2019	845,614	892,560	SONIA + 0.870	15/2/2024	Pounds sterling	Institutional
TSB Banking Group Plc	22/6/2021	563,742	595,040	SONIA + 0.370	22/6/2028	Pounds sterling	Institutional
Subscribed by Group companies		—	—				
Total Covered Bonds		**1,409,356**	**2,082,640**				

Securitisations

The following table shows the bonds issued by asset securitisation funds outstanding as at 31 December 2022 and 2021, respectively:

Thousand euro

Year	Name of fund (*)	Types of issue	Issue: Number of securities	Issue: Amount	Outstanding balance of liabilities: 2022	Outstanding balance of liabilities: 2021	Yield
2005	TDA CAM 4, F.T.A	RMBS	20,000	2,000,000	47,009	72,293	EURIBOR 3M + (between 0.09% and 0.24%)
2005	TDA CAM 5, F.T.A	RMBS	20,000	2,000,000	105,476	126,029	EURIBOR 3M + (between 0.12% and 0.35%)
2006	TDA CAM 6, F.T.A	RMBS	13,000	1,300,000	68,970	83,863	EURIBOR 3M + (between 0.13% and 0.27%)
2006	TDA CAM 7, F.T.A	RMBS	15,000	1,500,000	82,944	101,682	EURIBOR 3M + (between 0.14% and 0.3%)
2006	CAIXA PENEDES 1 TDA, F.T.A	RMBS	10,000	1,000,000	31,725	37,882	EURIBOR 3M + 0.14%
2006	FTPYME TDA CAM 4, F.T.A	SMEs	15,293	1,529,300	27,614	33,739	EURIBOR 3M + (between 0.29% and 0.61%)
2007	TDA CAM 8, F.T.A	RMBS	17,128	1,712,800	75,165	87,919	EURIBOR 3M + (between 0.13% and 0.47%)
2007	CAIXA PENEDES PYMES 1 TDA, F.T.A	SMEs	7,900	790,000	300	300	EURIBOR 3M + 0.8%
2007	TDA CAM 9, F.T.A	RMBS	15,150	1,515,000	108,025	124,231	EURIBOR 3M + (between 0.19% and 0.75%)
2017	IM SABADELL PYME 11, F.T	SMEs	19,000	1,900,000	—	3,379	EURIBOR 3M + 0.75%
2022	SABADELL CONSUMO 2, F.T.	CONSUMER	7,591	759,100	655,618	—	EURIBOR 1M + (between 0.87% and 13.25%)
Total securitisation funds					**1,202,846**	**671,317**	

(*) The bonds issued by securitisation funds are listed in the AIAF market.

Subordinated liabilities

Subordinated liabilities issued by the Group 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%	6/5/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	12/12/2018	500,000	500,000	5.38%	12/12/2023	Euros	Institutional
Banco de Sabadell, S.A. (*)	17/01/2020	300,000	300,000	2.00%	17/01/2025	Euros	Institutional
Banco de Sabadell, S.A. (*)	15/01/2021	500,000	500,000	2.50%	15/04/2026	Euros	Institutional
TSB Banking Group Plc (*)	30/03/2021	338,245	357,024	3.45%	30/03/2026	GBP	Institutional
Subscribed by Group companies		(338,245)	(357,024)				
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	6.50%	18/05/2022	Euros	Institutional
Banco de Sabadell, S.A. (*)	23/11/2017	400,000	400,000	6.13%	23/02/2023	Euros	Institutional
Banco de Sabadell, S.A. (*)	15/03/2021	500,000	500,000	5.75%	15/09/2026	Euros	Institutional
Banco de Sabadell, S.A. (*)	19/11/2021	750,000	750,000	5.00%	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.

The issues included in subordinated liabilities, for the purposes of credit priority, are ranked below all of the Group's regular creditors.

For the purpose of complying with the requirements of IAS 7, the table below shows the reconciliation of liabilities derived from funding activities, identifying the components that have entailed their movements:

Thousand euro	
Total subordinated liabilities as at 31 December 2020	**2,873,239**
Newly issued	1,750,000
Amortised	(443,497)
Capitalisation	—
Exchange rate	15,258
Change in subordinated liabilities subscribed by Group companies	5,000
Total subordinated liabilities as at 31 December 2021	**4,200,000**
Newly issued	—
Amortised	(750,000)
Capitalisation	—
Exchange rate	—
Change in subordinated liabilities subscribed by Group companies	—
Total subordinated liabilities as at 31 December 2022	**3,450,000**

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	**10,112,875**	**27,806**	**404,416**	**21,478**	**8,006**	**—**	**906**	**401,832**
Other financial corporations and individual entrepreneurs (financial business activity)	**1,053,004**	**302,774**	**362,324**	**433,339**	**194,881**	**21,854**	**6,451**	**8,573**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**60,962,804**	**13,324,354**	**5,961,022**	**7,596,497**	**4,652,265**	**2,200,628**	**1,546,495**	**3,289,491**
Construction and real estate development (including land)	2,558,107	1,490,609	316,320	756,742	534,819	153,846	147,140	214,382
Civil engineering construction	968,875	25,767	151,094	140,083	11,224	2,729	3,783	19,042
Other purposes	57,435,822	11,807,978	5,493,608	6,699,672	4,106,222	2,044,053	1,395,572	3,056,067
Large enterprises	25,586,942	2,161,488	2,006,076	1,773,688	443,347	276,123	372,204	1,302,202
SMES and individual entrepreneurs	31,848,880	9,646,490	3,487,532	4,925,984	3,662,875	1,767,930	1,023,368	1,753,865
Other households	**85,544,442**	**77,898,980**	**1,384,690**	**17,922,933**	**24,711,578**	**26,895,158**	**6,936,913**	**2,817,088**
Home loans	77,075,115	76,728,550	296,420	17,006,740	24,088,867	26,531,341	6,779,029	2,618,993
Consumer loans	5,440,517	41,627	672,238	126,801	262,036	149,721	74,613	100,694
Other purposes	3,028,810	1,128,803	416,032	789,392	360,675	214,096	83,271	97,401
TOTAL	**157,673,125**	**91,553,914**	**8,112,452**	**25,974,247**	**29,566,730**	**29,117,640**	**8,490,765**	**6,516,984**
MEMORANDUM ITEM **Refinancing, refinanced and restructured transactions**	**4,512,316**	**2,911,059**	**272,013**	**961,790**	**840,122**	**534,705**	**248,379**	**598,076**

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	**9,408,771**	**33,916**	**553,176**	**13,891**	**11,091**	**—**	**963**	**561,147**
Other financial corporations and individual entrepreneurs (financial business activity)	**948,435**	**188,751**	**370,675**	**394,379**	**119,440**	**26,501**	**6,063**	**13,043**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**60,321,572**	**13,494,991**	**5,387,073**	**7,661,213**	**4,648,179**	**2,596,527**	**1,397,013**	**2,579,132**
Construction and real estate development (including land)	2,652,955	1,569,215	320,736	829,524	496,816	248,870	144,481	170,260
Civil engineering construction	819,200	32,852	25,371	26,128	12,252	2,556	2,803	14,484
Other purposes	56,849,417	11,892,924	5,040,966	6,805,561	4,139,111	2,345,101	1,249,729	2,394,388
Large enterprises	24,465,428	1,893,913	1,944,357	1,992,477	332,307	294,649	505,815	713,022
SMES and individual entrepreneurs	32,383,989	9,999,011	3,096,609	4,813,084	3,806,804	2,050,452	743,914	1,681,366
Other households	**86,247,200**	**78,518,084**	**1,316,948**	**16,755,153**	**23,692,853**	**28,115,931**	**7,955,458**	**3,315,637**
Home loans	77,741,032	77,267,421	324,331	15,851,014	23,061,319	27,752,944	7,775,459	3,151,016
Consumer loans	5,387,338	48,559	622,025	164,816	245,859	127,265	74,417	58,227
Other purposes	3,118,830	1,202,104	370,592	739,323	385,675	235,722	105,582	106,394
TOTAL	**156,925,978**	**92,235,742**	**7,627,872**	**24,824,636**	**28,471,563**	**30,738,959**	**9,359,497**	**6,468,959**
MEMORANDUM ITEM **Refinancing, refinanced and restructured transactions**	**5,503,333**	**3,117,314**	**397,856**	**955,550**	**949,483**	**742,577**	**409,411**	**458,149**

In terms of risks with LTV >80%, these mainly correspond to transactions from acquired entities or business operations in which, as a supplement to the valuation of the transaction, a mortgage guarantee is available to cover that transaction. Similarly, there are other additional reasons for approval, which mainly correspond to solvent borrowers with a proven payment capacity, as well as customers with a good profile who contribute guarantees (personal guarantees and/or pledges) which are additional to the mortgage guarantees already considered in the LTV ratio.

Refinancing and restructuring transactions

The outstanding balance of 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**
TOTAL							
Not secured with collateral							
Number of transactions	—	13	77	29,290	*807*	59,586	**88,966**
Gross carrying amount	—	8,115	24,424	1,910,336	*76,455*	245,991	**2,188,866**
Secured with collateral							
Number of transactions	—	1	11	7,936	*1,238*	14,654	**22,602**
Gross carrying amount	—	100	1,688	2,079,054	*180,451*	1,323,929	**3,404,771**
Impairment allowances	—	1,049	15,313	776,751	*79,589*	288,210	**1,081,323**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	—	10	35	14,428	*478*	43,708	***58,181***
Gross carrying amount	—	6,938	16,529	891,441	*60,892*	173,526	***1,088,434***
Secured with collateral							
Number of transactions	—	1	5	4,539	*1,128*	7,202	***11,747***
Gross carrying amount	—	100	218	895,810	*75,145*	759,672	***1,655,800***
Impairment allowances	—	864	15,176	702,017	*74,597*	262,845	***980,902***
TOTAL							
Number of transactions	—	14	88	37,226	*2,045*	74,240	**111,568**
Gross value	—	8,215	26,112	3,989,390	*256,906*	1,569,920	**5,593,637**
Impairment allowances	—	1,049	15,313	776,751	*79,589*	288,210	**1,081,323**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—	—

Thousand euro

	2021						
	Credit institutions	**General governments**	**Other financial corporations and individual entrepreneurs (financial business activity)**	**Non-financial corporations and individual entrepreneurs (non-financial business activity)**	***Of which: lending for construction and real estate development (including land)***	**Other households**	**Total**
TOTAL							
Not secured with collateral							
Number of transactions	—	14	173	35,608	*688*	64,850	**100,645**
Gross carrying amount	—	9,055	28,192	2,571,808	*138,613*	332,020	**2,941,075**
Secured with collateral							
Number of transactions	—	2	17	8,732	*1,367*	14,957	**23,708**
Gross carrying amount	—	203	2,492	2,329,048	*170,870*	1,561,620	**3,893,363**
Impairment allowances	—	1,255	16,215	972,963	*78,863*	340,664	**1,331,097**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	—	*12*	*58*	*17,603*	*410*	*44,497*	***62,170***
Gross carrying amount	—	*8,133*	*17,719*	*977,368*	*64,623*	*210,091*	***1,213,311***
Secured with collateral							
Number of transactions	—	*1*	*9*	*5,543*	*1,253*	*8,417*	***13,970***
Gross carrying amount	—	*126*	*627*	*916,569*	*78,527*	*879,217*	***1,796,539***
Impairment allowances	—	*1,255*	*15,978*	*823,960*	*69,424*	*302,977*	***1,144,170***
TOTAL							
Number of transactions	—	16	190	44,340	*2,055*	79,807	**124,353**
Gross value	—	9,258	30,684	4,900,856	*309,483*	1,893,640	**6,834,438**
Impairment allowances	—	1,255	16,215	972,963	*78,863*	340,664	**1,331,097**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—	**—**

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	2,893,373	3,430,237
Of which: securing stage 3 loans	*1,310,560*	*1,382,700*
Value of other guarantees	1,061,177	1,281,854
Of which: securing stage 3 loans	*376,624*	*316,047*
Total value of guarantees received	**3,954,550**	**4,712,091**

Detailed movements of the balance of refinancing and restructuring transactions during 2022 and 2021 are as follows:

Thousand euro

	2022	**2021**
Opening balance	**6,834,437**	**5,337,617**
(+) Forbearance (refinancing and restructuring) in the period	933,461	3,190,252
Memorandum item: impact recognised on the income statement for the period	*116,365*	*227,263*
(-) Debt repayments	(919,789)	(854,208)
(-) Foreclosures	(8,044)	(13,460)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(105,546)	(137,743)
(+)/(-) Other changes (*)	(1,140,882)	(688,020)
Year-end balance	**5,593,637**	**6,834,438**

(*) Includes transactions no longer classified as refinancing, refinanced or restructured due to meeting the requirements for reclassification from stage 2 to stage 1 exposures (see Note 1.3.4).

The table below shows the value of transactions which, after refinancing or restructuring, have been classified as stage 3 exposures during 2022 and 2021:

Thousand euro

	2022	2021
General governments	—	—
Other legal entities and individual entrepreneurs	**374,135**	**297,088**
Of which: Lending for construction and real estate development	*20,280*	*15,882*
Other natural persons	**90,171**	**209,610**
Total	**464,306**	**506,698**

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	**47,918,906**	**34,158,121**	**3,778,817**	**2,613,583**	**7,368,385**
General governments	**36,026,312**	**27,319,509**	**4,865,464**	**1,685,660**	**2,155,679**
Central governments	25,682,763	18,162,012	4,671,930	693,142	2,155,679
Other	10,343,549	9,157,497	193,534	992,518	—
Other financial corporations and individual entrepreneurs	**7,416,023**	**1,367,666**	**2,502,161**	**485,170**	**3,061,026**
Non-financial corporations and individual entrepreneurs	**63,587,639**	**48,156,329**	**3,400,613**	**9,597,141**	**2,433,556**
Construction and real estate development	2,680,945	2,205,881	54,640	286,390	134,034
Civil engineering construction	1,043,510	767,633	14,266	236,171	25,440
Other purposes	59,863,184	45,182,815	3,331,707	9,074,580	2,274,082
Large enterprises	27,398,039	16,773,028	1,859,562	7,549,562	1,215,887
SMEs and individual entrepreneurs	32,465,145	28,409,787	1,472,145	1,525,018	1,058,195
Other households	**86,241,976**	**39,850,415**	**1,193,792**	**612,502**	**44,585,267**
Home loans	77,672,228	33,741,442	1,170,817	282,090	42,477,879
Consumer loans	5,440,517	3,488,618	8,853	6,998	1,936,048
Other purposes	3,129,231	2,620,355	14,122	323,414	171,340
TOTAL	**241,190,856**	**150,852,040**	**15,740,847**	**14,994,056**	**59,603,913**

Thousand euro

	2021				
	TOTAL	**Spain**	**Rest of European Union**	**Americas**	**Rest of the world**
Central banks and Credit institutions	**56,135,227**	**42,901,463**	**4,324,590**	**1,937,097**	**6,972,077**
General governments	**30,944,737**	**23,058,110**	**2,905,921**	**1,521,875**	**3,458,831**
Central governments	22,243,892	15,386,550	2,905,917	492,765	3,458,660
Other	8,700,845	7,671,560	4	1,029,110	171
Other financial corporations and individual entrepreneurs	**3,029,456**	**1,281,242**	**773,852**	**478,222**	**496,140**
Non-financial corporations and individual entrepreneurs	**62,991,664**	**48,323,248**	**3,330,753**	**8,599,608**	**2,738,055**
Construction and real estate development	2,721,772	2,296,122	3,961	300,391	121,298
Civil engineering construction	916,490	872,392	19,718	5,013	19,367
Other purposes	59,353,402	45,154,734	3,307,074	8,294,204	2,597,390
Large enterprises	26,326,637	15,295,916	2,159,755	7,218,989	1,651,977
SMEs and individual entrepreneurs	33,026,765	29,858,818	1,147,319	1,075,215	945,413
Other households	**86,396,456**	**39,304,626**	**979,842**	**515,497**	**45,596,491**
Home loans	77,782,121	33,274,507	952,291	218,760	43,336,563
Consumer loans	5,387,338	3,297,195	6,812	5,521	2,077,810
Other purposes	3,226,997	2,732,924	20,739	291,216	182,118
TOTAL	**239,497,540**	**154,868,689**	**12,314,958**	**13,052,299**	**59,261,594**

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	**34,158,121**	**5,145**	**1**	**13**	**8**	**2**	**349,943**	**—**	**—**	**350,636**
General governments	**27,319,509**	**548,524**	**282,965**	**377,523**	**413,874**	**614,807**	**5,646**	**177,985**	**886,455**	**806,616**
Central governments	18,162,012	—	—	—	—	—	—	—	—	—
Other	9,157,497	548,524	282,965	377,523	413,874	614,807	5,646	177,985	886,455	806,616
Other financial corporations and individual entrepreneurs	**1,367,666**	**4,751**	**1,754**	**3,187**	**1,433**	**941**	**247**	**705**	**11,318**	**496,126**
Non-financial corporations and individual entrepreneurs	**48,156,329**	**2,461,160**	**1,077,323**	**1,355,755**	**2,131,431**	**1,162,785**	**203,928**	**677,576**	**1,191,791**	**13,643,536**
Construction and real estate development	2,205,881	97,474	38,811	43,796	73,749	25,553	7,609	16,082	33,632	519,457
Civil engineering construction	767,633	32,037	11,282	21,868	5,224	4,860	4,146	6,674	14,556	156,519
Other purposes	45,182,815	2,331,649	1,027,230	1,290,091	2,052,458	1,132,372	192,173	654,820	1,143,603	12,967,560
Large enterprises	16,773,028	631,451	380,888	383,933	956,528	295,167	73,266	186,787	235,303	4,383,584
SMEs and individual entrepreneurs	28,409,787	1,700,198	646,342	906,158	1,095,930	837,205	118,907	468,033	908,300	8,583,976
Other households	**39,850,415**	**2,814,410**	**562,841**	**1,168,698**	**1,467,079**	**615,733**	**116,407**	**510,091**	**781,608**	**15,385,484**
Home loans	33,741,442	2,305,080	487,577	937,797	1,305,843	436,697	99,189	408,621	626,088	13,366,915
Consumer loans	3,488,618	381,060	41,462	93,342	89,192	154,546	10,152	73,193	91,257	1,049,933
Other purposes	2,620,355	128,270	33,802	137,559	72,044	24,490	7,066	28,277	64,263	968,636
TOTAL	**150,852,040**	**5,833,990**	**1,924,884**	**2,905,176**	**4,013,825**	**2,394,268**	**676,171**	**1,366,357**	**2,871,172**	**30,682,398**

Thousand euro

	2022								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**—**	**11,345**	**32,841,524**	**2**	**—**	**100,128**	**499,374**	**—**	**—**
General governments	**73,251**	**660,025**	**2,464,005**	**53,136**	**308,543**	**693,533**	**709,949**	**56,001**	**24,659**
Central governments	—	—	—	—	—	—	—	—	—
Other	73,251	660,025	2,464,005	53,136	308,543	693,533	709,949	56,001	24,659
Other financial corporations and individual entrepreneurs	**93**	**3,729**	**778,585**	**3,310**	**488**	**24,084**	**29,769**	**7,130**	**16**
Non-financial corporations and individual entrepreneurs	**197,915**	**2,404,086**	**12,870,370**	**1,122,284**	**608,933**	**4,755,150**	**2,080,952**	**191,396**	**19,958**
Construction and real estate development	1,948	94,226	969,667	31,131	11,134	151,009	80,439	9,611	553
Civil engineering construction	2,174	43,328	336,020	14,633	3,006	60,242	47,909	2,279	876
Other purposes	193,793	2,266,532	11,564,683	1,076,520	594,793	4,543,899	1,952,604	179,506	18,529
Large enterprises	51,207	756,107	5,625,249	236,223	236,299	1,469,595	812,271	58,931	239
SMEs and individual entrepreneurs	142,586	1,510,425	5,939,434	840,297	358,494	3,074,304	1,140,333	120,575	18,290
Other households	**151,499**	**975,804**	**5,433,400**	**2,050,394**	**168,933**	**6,116,889**	**1,375,881**	**71,251**	**84,013**
Home loans	116,510	734,267	4,494,023	1,734,407	139,664	5,177,257	1,233,510	59,076	78,921
Consumer loans	27,443	146,638	567,330	174,643	9,796	502,475	67,443	6,017	2,696
Other purposes	7,546	94,899	372,047	141,344	19,473	437,157	74,928	6,158	2,396
TOTAL	**422,758**	**4,054,989**	**54,387,884**	**3,229,126**	**1,086,897**	**11,689,784**	**4,695,925**	**325,778**	**128,646**

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	**42,901,463**	**5,610**	**8**	**2**	**—**	**2**	**290,083**	**1**	**—**	**270,562**
General governments	**23,058,110**	**350,471**	**119,243**	**360,503**	**383,630**	**299,697**	**6,647**	**105,290**	**709,478**	**904,436**
Central governments	15,386,550	—	—	—	—	—	—	—	—	—
Other	7,671,560	350,471	119,243	360,503	383,630	299,697	6,647	105,290	709,478	904,436
Other financial corporations and individual entrepreneurs	**1,281,242**	**5,325**	**2,810**	**3,642**	**1,323**	**837**	**287**	**833**	**14,705**	**536,990**
Non-financial corporations and individual entrepreneurs	**48,323,248**	**2,477,885**	**1,027,327**	**1,490,319**	**2,294,312**	**1,261,855**	**201,262**	**625,905**	**1,106,996**	**14,226,345**
Construction and real estate development	2,296,122	84,280	40,585	46,909	90,043	26,854	10,497	15,220	26,690	556,249
Civil engineering construction	872,392	33,172	9,461	20,230	7,502	3,639	5,580	6,740	17,163	143,110
Other purposes	45,154,734	2,360,433	977,281	1,423,180	2,196,767	1,231,362	185,185	603,945	1,063,143	13,526,986
Large enterprises	15,295,916	520,792	312,677	446,085	932,259	351,140	55,657	143,991	199,151	4,413,074
SMEs and individual entrepreneurs	29,858,818	1,839,641	664,604	977,095	1,264,508	880,222	129,528	459,954	863,992	9,113,912
Other households	**39,304,626**	**2,764,232**	**547,729**	**1,163,902**	**1,435,534**	**596,049**	**114,198**	**496,557**	**773,274**	**15,321,766**
For house purchase	33,274,507	2,285,812	470,373	929,102	1,276,716	424,622	96,902	401,705	617,482	13,241,197
Consumer loans	3,297,195	344,663	42,835	89,927	85,105	147,048	9,043	64,404	86,338	1,020,198
Other purposes	2,732,924	133,757	34,521	144,873	73,713	24,379	8,253	30,448	69,454	1,060,371
TOTAL	**154,868,689**	**5,603,523**	**1,697,117**	**3,018,368**	**4,114,799**	**2,158,440**	**612,477**	**1,228,586**	**2,604,453**	**31,260,099**

Thousand euro

	2021								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**—**	**5,136**	**42,024,234**	**2**	**180**	**116,748**	**188,895**	**—**	**—**
General governments	**87,251**	**419,626**	**1,876,784**	**55,766**	**291,266**	**701,521**	**859,215**	**110,090**	**30,646**
Central governments	—	—	—	—	—	—	—	—	—
Other	87,251	419,626	1,876,784	55,766	291,266	701,521	859,215	110,090	30,646
Other financial corporations and individual entrepreneurs	**99**	**4,380**	**655,805**	**3,107**	**477**	**27,658**	**22,862**	**84**	**18**
Non-financial corporations and individual entrepreneurs	**176,135**	**2,348,363**	**12,190,026**	**1,133,579**	**601,156**	**4,889,933**	**2,063,837**	**187,401**	**20,612**
Construction and real estate development	2,071	64,311	1,023,028	35,361	20,977	146,930	96,077	9,698	342
Civil engineering construction	2,039	47,318	429,982	12,463	2,607	63,133	65,976	1,815	462
Other purposes	172,025	2,236,734	10,737,016	1,085,755	577,572	4,679,870	1,901,784	175,888	19,808
Large enterprises	19,967	726,793	4,587,849	235,642	205,908	1,392,587	705,700	46,124	520
SMEs and individual entrepreneurs	152,058	1,509,941	6,149,167	850,113	371,664	3,287,283	1,196,084	129,764	19,288
Other households	**139,718**	**900,696**	**5,226,038**	**2,038,198**	**171,896**	**6,183,773**	**1,274,889**	**80,285**	**75,892**
For house purchase	103,585	669,564	4,339,875	1,735,994	138,787	5,283,696	1,128,245	59,509	71,341
Consumer loans	28,185	137,929	533,090	157,659	12,085	451,813	69,924	14,684	2,265
Other purposes	7,948	93,203	353,073	144,545	21,024	448,264	76,720	6,092	2,286
TOTAL	**403,203**	**3,678,201**	**61,972,887**	**3,230,652**	**1,064,975**	**11,919,633**	**4,409,698**	**377,860**	**127,168**

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	1,076,502	(42,865)
Mining and quarrying	369,936	(7,452)
Manufacturing	9,868,505	(256,971)
Electricity, gas, steam and air-conditioning supply	4,785,320	(86,295)
Water supply	352,310	(3,257)
Construction	4,233,888	(173,834)
Wholesale and retail trade	8,944,060	(256,582)
Transportation and storage	3,794,633	(79,969)
Hotel and catering	4,592,388	(143,964)
Information and communication	1,836,754	(25,602)
Financial and insurance activities	4,595,168	(83,165)
Real estate activities	6,779,311	(162,317)
Professional, scientific and technical activities	2,358,265	(95,985)
Administrative and auxiliary services	1,670,244	(36,732)
Public administration and defence; mandatory social security	378,164	(664)
Education	321,192	(10,179)
Healthcare and social services	937,181	(12,758)
Artistic, leisure and entertainment activities	511,259	(78,890)
Other services	1,043,584	(126,549)
Total	**58,448,664**	**(1,684,030)**

Thousand euro

	2021	
	Gross carrying amount	Allowances
Agriculture, livestock farming, forestry and fisheries	1,012,584	(42,464)
Mining and quarrying	493,468	(12,852)
Manufacturing	9,571,740	(295,943)
Electricity, gas, steam and air-conditioning supply	4,366,081	(90,250)
Water supply	525,395	(10,470)
Construction	4,337,141	(197,600)
Wholesale and retail trade	8,276,117	(289,990)
Transportation and storage	3,807,434	(123,248)
Hotel and catering	5,257,216	(177,921)
Information and communication	1,851,024	(36,135)
Financial and insurance activities	4,207,742	(111,808)
Real estate activities	7,093,051	(165,108)
Professional, scientific and technical activities	2,537,007	(125,444)
Administrative and auxiliary services	2,009,404	(36,096)
Public administration and defence; mandatory social security	347,411	(769)
Education	311,378	(10,631)
Healthcare and social services	747,882	(15,428)
Artistic, leisure and entertainment activities	545,161	(30,968)
Other services	323,455	(20,191)
Total	**57,620,691**	**(1,793,316)**

Sovereign risk exposure

Sovereign risk exposures, broken down by type of financial instrument and applying the criteria required by the EBA, as at 31 December 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 (**)	*Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value to equity*	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	6,434	(135,382)	—	3,196,334	14,028,933	11,113,371	—	1,903	(9,021)	28,202,572	—	76.6%
Italy	20,284	(79,404)	—	—	3,057,287	—	—	—	—	2,998,168	—	8.1%
United States	—	—	11,851	833,134	257,520	233	—	—	—	1,102,737	—	3.0%
United Kingdom	—	—	—	575,289	1,524,614	24,077	—	—	—	2,123,980	—	5.8%
Portugal	—	—	—	—	740,688	3,042	—	—	—	743,730	—	2.0%
Mexico	—	—	—	428,712	100,303	43,904	—	—	—	572,919	—	1.6%
Rest of the world	293,320	—	—	192,611	586,427	13,508	—	—	—	1,085,866	—	2.9%
Total	**320,038**	**(214,786)**	**11,851**	**5,226,080**	**20,295,772**	**11,198,135**	**—**	**1,903**	**(9,021)**	**36,829,972**	**—**	**100%**

(*) Sovereign 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 (**)	*Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value to equity*	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	74,979	(46,751)	—	3,807,149	9,747,536	10,486,762	—	15,323	(16)	24,084,982	—	75.3%
Italy	202,456	—	—	49,021	2,135,300	—	—	—	—	2,386,777	—	7.5%
United States	—	—	2,727	887,114	197,875	233	—	—	—	1,087,949	—	3.4%
United Kingdom	—	—	—	1,284,232	1,921,159	34,011	—	—	—	3,239,402	—	10.1%
Portugal	5	—	—	—	355,552	1,949	—	—	—	357,506	—	1.1%
Mexico	—	—	—	311,831	100,194	12,499	—	—	—	424,524	—	1.3%
Rest of the world	261,156	—	—	106,623	—	22,704	—	—	—	390,483	—	1.2%
Total	**538,596**	**(46,751)**	**2,727**	**6,445,970**	**14,457,616**	**10,558,158**	**—**	**15,323**	**(16)**	**31,971,623**	**—**	**100%**

(*) Sovereign exposure positions shown in accordance with EBA criteria.

(**) Includes 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)	**2,527**	**578**	**123**
Of which: risks classified as stage 3	*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)	**2,554**	**607**	**135**
Of which: risks classified as stage 3	*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)	91,064	90,569
Total assets (total business) (carrying amount)	251,380	251,947
Allowances and provisions for exposures classed as stage 2 or stage 1 (total operations)	908	942

(*) 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	**969**	**745**
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	**2,527**	**2,554**

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	1,506	1,727
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	**1,853**	**2,048**

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	**35,934**	**780**
Not secured with real estate	596	*29*
Secured with real estate	35,338	*751*

Million euro

	2021	
	Gross carrying amount	***Of which: stage 3 exposures***
Loans for home purchase	**35,253**	**924**
Not secured with real estate	553	*44*
Secured with real estate	34,700	*880*

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: stage 3 exposures***
LTV ranges	**35,338**	***751***
LTV <= 40%	6,679	*118*
40% < LTV <= 60%	9,573	*153*
60% < LTV <= 80%	12,608	*193*
80% < LTV <= 100%	4,096	*130*
LTV > 100%	2,382	*157*

Million euro

	2021	
	Gross value	***Of which: stage 3 exposures***
LTV ranges	**34,700**	**880**
LTV <= 40%	6,500	*120*
40% < LTV <= 60%	9,112	*180*
60% < LTV <= 80%	11,783	*210*
80% < LTV <= 100%	4,443	*160*
LTV > 100%	2,862	*210*

Lastly, the table below gives details of assets foreclosed or received in lieu of debt by the consolidated Group entities, for transactions recorded by credit institutions within Spain, as at 31 December 2022 and 2021:

Million euro

	2022			
	Gross carrying amount	**Allowances**	***Gross value (*)***	***Allowances (*)***
Real estate assets acquired through lending for construction and real estate development	**487**	**158**	***531***	***215***
Completed buildings	448	140	*485*	*188*
Housing	269	71	*286*	*95*
Other	179	69	*199*	*93*
Buildings under construction	4	1	*5*	*3*
Housing	3	1	*5*	*3*
Other	—	—	—	—
Land	35	16	*41*	*24*
Developed land	19	8	*22*	*12*
Other land	16	8	*19*	*12*
Real estate assets acquired through mortgage lending to households for home purchase	**522**	**136**	***598***	***218***
Other real estate assets foreclosed or received in lieu of debt	**24**	**5**	***27***	***10***
Capital instruments foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
Financing to institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
TOTAL	**1,032**	**299**	**1,157**	**443**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

Million euro

	2021			
	Gross carrying amount	**Allowances**	***Gross value (*)***	***Allowances (*)***
Real estate assets acquired through lending for construction and real estate development	**639**	**204**	***686***	***264***
Completed buildings	594	185	*631*	*236*
Housing	378	114	*400*	*145*
Other	216	71	*230*	*91*
Buildings under construction	5	2	*7*	*4*
Housing	5	2	*6*	*4*
Other	—	—	—	—
Land	40	17	*48*	*24*
Developed land	23	9	*30*	*13*
Other land	17	8	*19*	*11*
Real estate assets acquired through mortgage lending to households for home purchase	**566**	**154**	***646***	***242***
Other real estate assets foreclosed or received in lieu of debt	**24**	**5**	***30***	***13***
Capital instruments foreclosed or received in lieu of debt	**3**	**—**	**—**	**—**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
Financing to institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
TOTAL	**1,232**	**363**	**1,362**	**520**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

The table below sets out the reconciliation between assets foreclosed or received in lieu of debt and real estate assets considered non-performing by the Group as at 31 December 2022 and 2021:

Million euro

	2022		
	Gross value	**Allowances**	**Net book value**
Total real estate portfolio in the national territory (in books)	**1,032**	**299**	**734**
Total operations outside the national territory and others	1	1	1
Provision allocated in original loan	174	174	—
Credit risk transferred in portfolio sales	(51)	(30)	(21)
Total non-performing real estate	**1,157**	**443**	**713**

Million euro

	2021		
	Gross value	**Allowances**	**Net book value**
Total real estate portfolio in the national territory (in books)	**1,229**	**363**	**867**
Total operations outside the national territory and others	7	3	5
Provision allocated in original loan	194	194	—
Credit risk transferred in portfolio sales	(69)	(40)	(29)
Total non-performing real estate	**1,362**	**520**	**842**

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	**197,135**	**195,611**	***52,126***	***53,927***	**1.524 (*)**	***1,394***	***1,408***
Of which: Households	*8,100*	*6,666*	*650*	*2,180*	*1,434*	*1,366*	*1,380*
Of which: Secured by residential property	*2,804*	*1,549*	*528*	*977*	*1,255*	*1,255*	*1,255*
Of which: Non-financial corporations	*189,034*	*188,945*	*51,476*	*51,747*	*90*	*29*	*29*
Of which: SMEs	158,210	*158,121*	*51,476*	*51,747*	*90*	*29*	*29*
Of which: Secured by commercial property	*51,936*	*51,875*	*40,532*	*40,649*	*61*	—	—

(*) Of which 1.5 million euro correspond to stage 3 transactions.

Thousand euro

	31/12/2021						
	Accumulated impairment, accumulated negative changes in fair value due to credit risk	**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	**(3,258)**	**(3,072)**	**(3,054)**	**(2,172)**	**(2,201)**	***(186)***	***(67)***
Of which: Households	*(210)*	*(48)*	*(29)*	*(5)*	*(34)*	*(163)*	*(44)*
Of which: Secured by residential property	*(129)*	*(14)*	—	*(1)*	*(14)*	*(115)*	—
Of which: Non-financial corporations	*(3,048)*	*(3,025)*	*(3,025)*	*(2,166)*	*(2,168)*	*(23)*	*(23)*
Of which: SMEs	*(2,964)*	*(2,941)*	*(2,941)*	*(2,166)*	*(2,168)*	*(23)*	*(23)*
Of which: Secured by commercial property	*(1,634)*	*(1,622)*	*(1,622)*	*(1,603)*	*(1,604)*	*(11)*	*(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)	**6,794,789**	**4,374,169**	**6,794,789**	**—**	**—**	**—**	**—**	**—**
Of which: Households	*6,457,307*	*4,050,901*	*6,457,307*	—	—	—	—	—
Of which: Secured by residential property	*6,073,476*	*3,947,439*	*6,073,476*	—	—	—	—	—
Of which: Non-financial corporations	*337,217*	*323,004*	*337,217*	—	—	—	—	—
Of which: SMEs	*307,376*	*293,172*	*307,376*	—	—	—	—	—
Of which: Secured by commercial property	*282,878*	*271,431*	*282,878*	—	—	—	—	—

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)	**8,544,562**	**5,641,866**	**8,347,428**	**171,892**	**25,243**	**—**	**—**	**—**
Of which: Households	*8,021,621*	*5,258,623*	*8,013,520*	*8,100*	—	—	—	—
Of which: Secured by residential property	*7,457,730*	*5,060,563*	*7,454,926*	*2,804*	—	—	—	—
Of which: Non-financial corporations	*522,591*	*382,892*	*333,557*	*163,791*	*25,243*	—	—	—
Of which: SMEs	*451,817*	*343,018*	*293,606*	*132,967*	*25,243*	—	—	—
Of which: Secured by commercial property	*329,570*	*317,178*	*277,634*	*26,693*	*25,243*	—	—	—

Thousand euro

	31/12/2022		
	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	**7.824.731 (*)**	**783,440**	**5,978,744**
Of which: Households	*830,511*	—	—
Of which: Secured by residential property	—	—	—
Of which: Non-financial corporations	*6,991,468*	*740,600*	*5,320,481*
Of which: SMEs	*5,341,435*	—	—
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	**9.362.892 (*)**	**909,670**	**7,189,136**
Of which: Households	*1,014,618*	—	—
Of which: Secured by residential property	—	—	—
Of which: Non-financial corporations	*8,345,090*	*859,706*	*6,371,037*
Of which: SMEs	*6,345,176*	—	—
Of which: Secured by commercial property	*34,650*	—	—

(*) Of which 341 million euro correspond to stage 3 transactions.

In 2022, in accordance with the Code of Good Practice, Banco Sabadell has modified a total of 1,520 ICO Covid transactions that had an outstanding principal amount of 173 million euros on the date of modification. Of these modifications, 1,517 consisted of loan term extensions, for an amount of 173million 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 – Annual banking report

INFORMATION REQUIRED UNDER ARTICLE 89 OF DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 26 JUNE 2013

This information has been prepared pursuant to Article 89 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and the transposition thereof into Spanish national legislation in accordance with Article 87 and Transitional Provision 12 of Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions, published in the Official State Gazette of 27 June 2014.

In accordance with the above regulations, the following information is presented on a consolidated basis and corresponds to the end of the 2022 financial year:

Thousand euro

	Turnover	No. of employees on a full time equivalent basis	Profit or loss before tax	Corporation tax
Spain	3,635,992	12,541	844,000	(223,405)
United Kingdom	1,166,902	5,157	196,267	(101,533)
Mexico	147,110	432	42,705	(9,856)
United States	184,299	240	144,311	(34,614)
Other	45,735	88	15,363	(3,848)
Total	**5,180,038**	**18,458**	**1,242,646**	**(373,256)**

As at 31 December 2022, the return on Group assets, calculated by dividing the consolidated gains/(losses) for the year by total assets on the consolidated balance sheet, amounts to 0.34%.

The name, geographical location and nature of the business activity of the companies operating in each jurisdiction are set out in Schedule I to these Group consolidated annual financial statements.

As can be seen in Schedule I, the main activity carried out by the Group in the different jurisdictions in which it operates is banking, and fundamentally commercial banking through a wide range of products and services for large and medium-sized enterprises, SMEs, retailers and self-employed workers, professional groups, other individuals and bancassurance.

For the purposes of this information, business turnover is regarded as the gross income recognised on the consolidated income statement at 2022 year-end. Data on full-time equivalent staff have been obtained from the workforce of each company/country as at the end of 2022.

The amount of public subsidies and aid received is not material.

Consolidated 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.

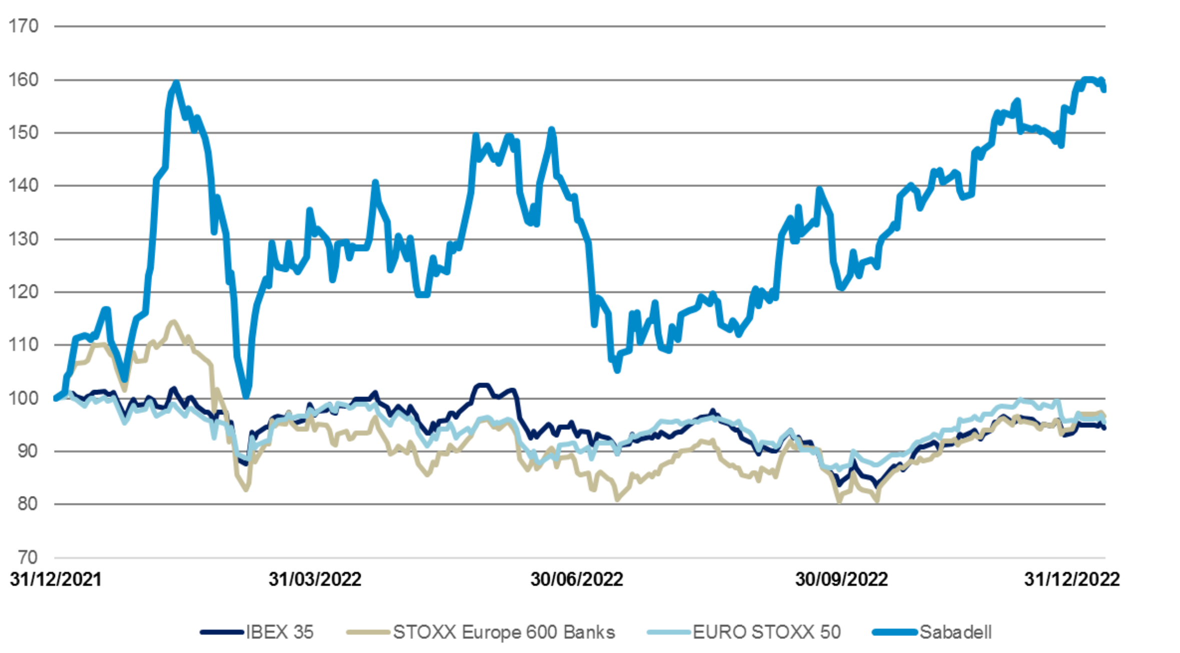
Banco Sabadell's share price performed well, gaining +58% over the year, making it the second best performing IBEX 35 stock in 2022 and the best performing in the 2021/22 period, among the companies that made up the index since the beginning of 2021. On a like-for-like basis, the market revaluation has 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.

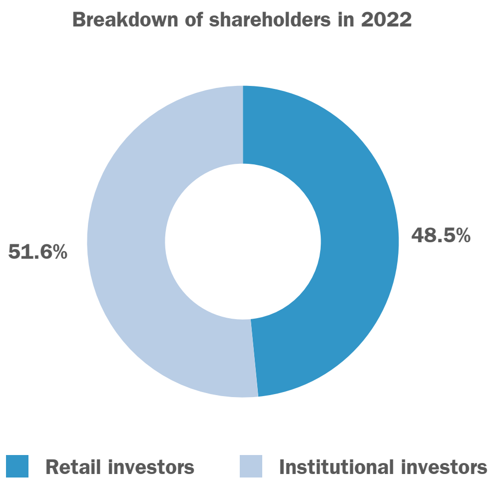
At the end of 2022, 96% of equity analysts covering Banco Sabadell had a Buy or Hold recommendation on the stock.

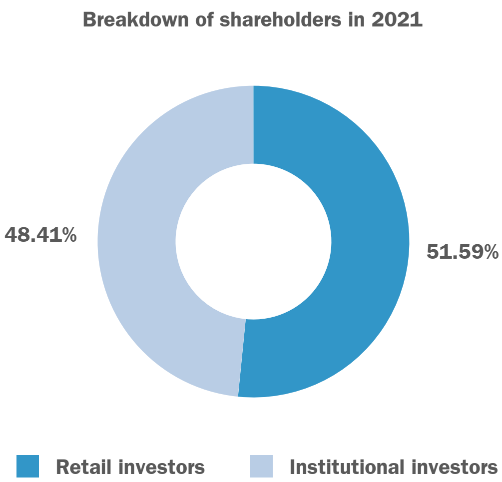
In terms of shareholder structure, in the financial year 2022, institutional shareholders increased in representation with 52% of the Bank’s shares, while minority shareholders hold 48%. Within the Bank's shareholding structure, at year-end 2022, four investor groups reported a holding of more than 3% 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, Banco Sabadell Group has prepared the Annual Corporate Governance Report for the year 2022, which, in accordance with Article 49 of the Spanish Commercial Code, forms part of the Directors' Report accompanying the 2022 consolidated 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.

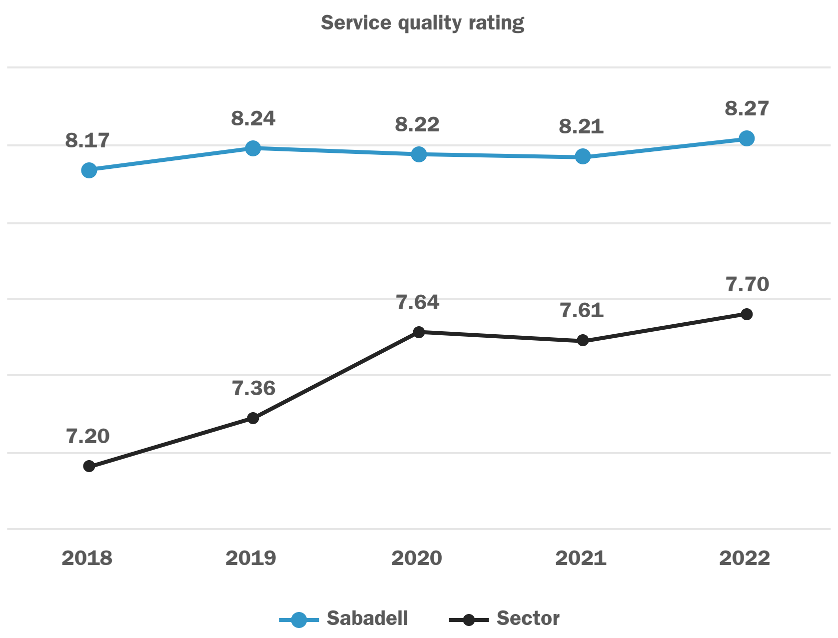
The overall customer experience measurement and management model of Banco Sabadell Spain is based on different indicators obtained from around 700,000 surveys and at more than 20 touch points. The results of the various surveys enable the Bank to ascertain the level of satisfaction of its customers and 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 42 to the 2022 consolidated 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

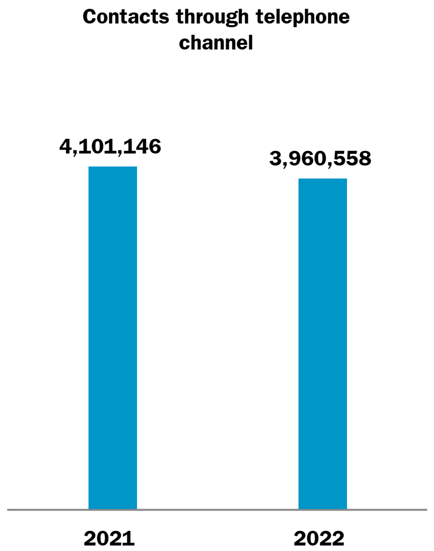
During 2022, Direct Branch contacts decreased by 4% compared to those recorded in 2021, and numbered 4.6 million.

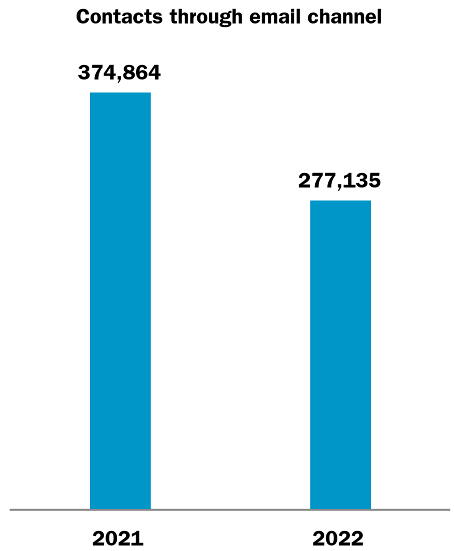
The service channel that has experienced the greatest growth this year has been the chat feature. Telephone consultations accounted for 85% of total contacts across all channels, followed by e-mail, chat and social media. The graph below shows the contacts recorded, by channel.

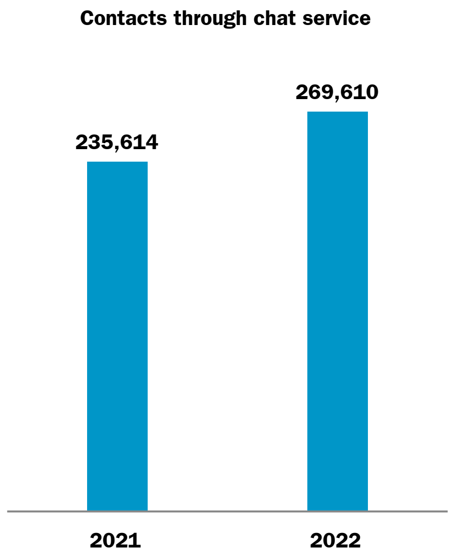
As regards service levels, the Service Level Agreement (SLA) percentage for telephone enquiries was above 93%, followed by the SLA for chat at 98% and the SLA for the e-mail channel at 85%. Banco Sabadell received over 173,000 mentions in social media, and the SLA was 98%.

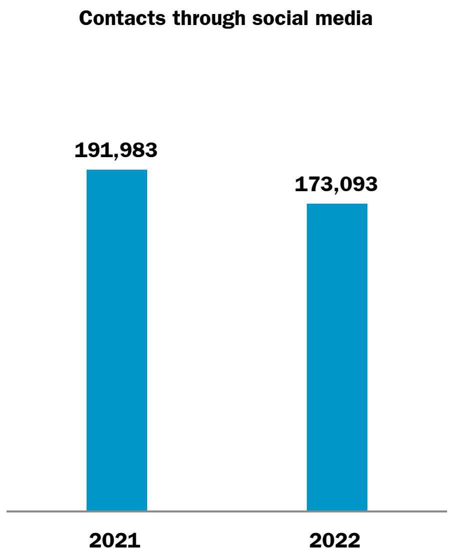
Highlights of 2022:

- 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.

<u>Digital transformation and customer experience</u>

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.

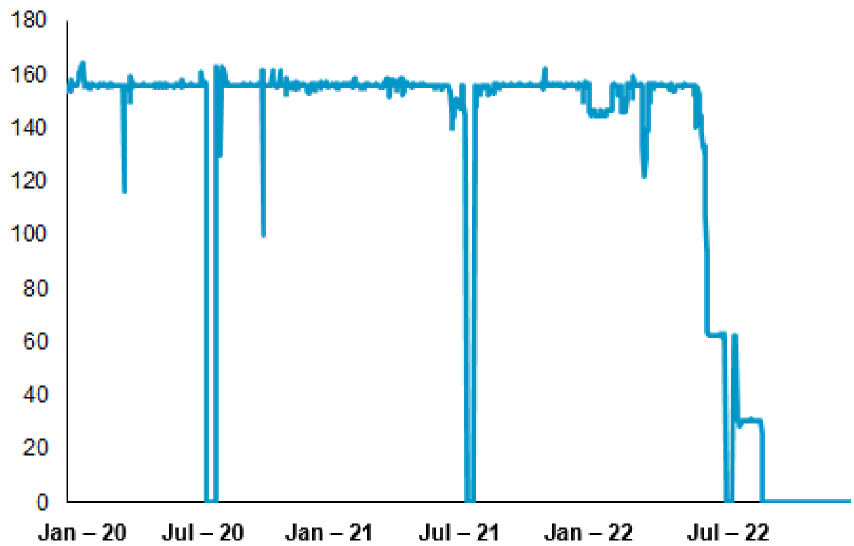
Conflict in Ukraine

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.

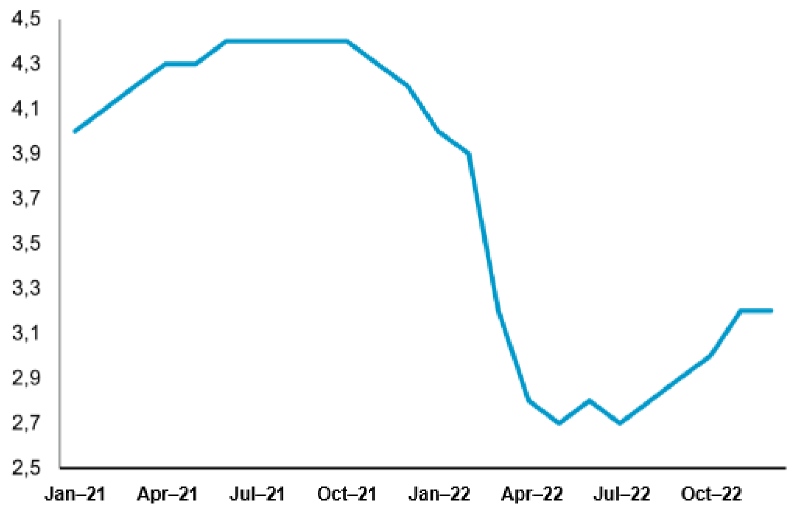


Economic activity and inflation

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.

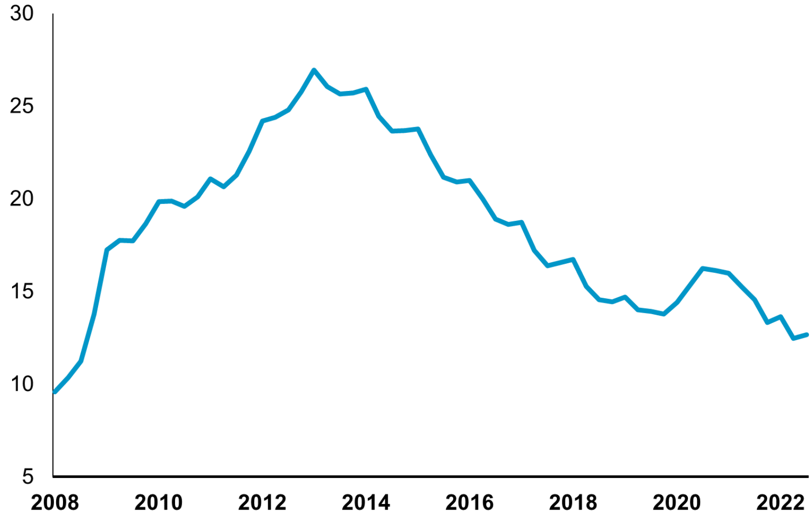
In the Eurozone, activity was robust in the first half of the year, driven by the post-Covid economic reopening and tourism. In the latter part of the year, however, the economy was weighed down by high energy prices, fears of energy rationing and tougher monetary policy. In the United Kingdom, activity 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.

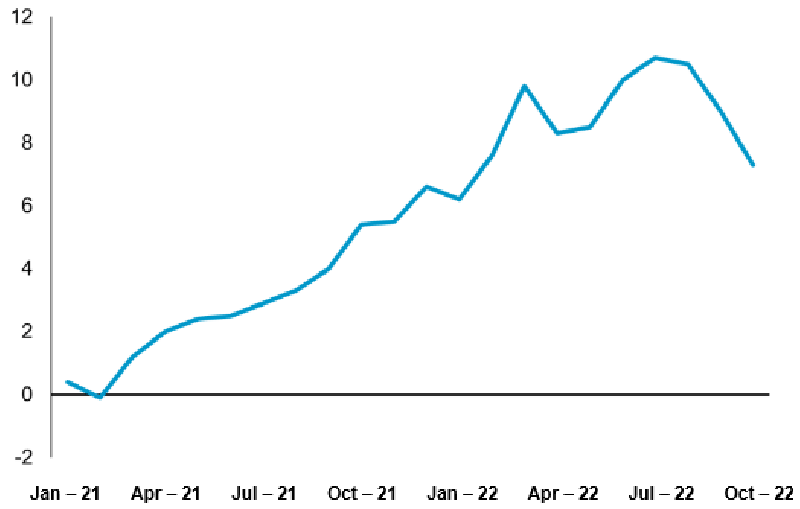
In the case of China, the economy was entirely constrained by the zero-Covid policy. The lockdown measures very evidently hampered activity and, as a result, economic growth fell considerably short of the Chinese government's target. In light of the situation, the country's authorities announced various 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).

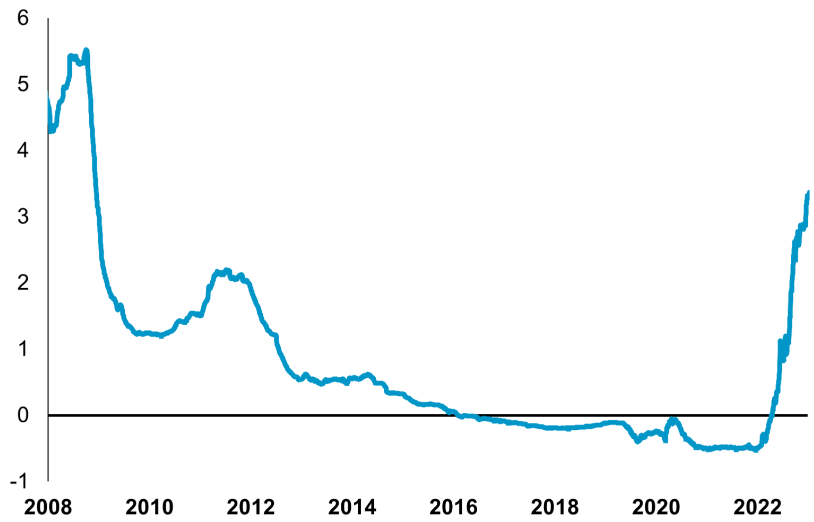


Monetary policy

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.

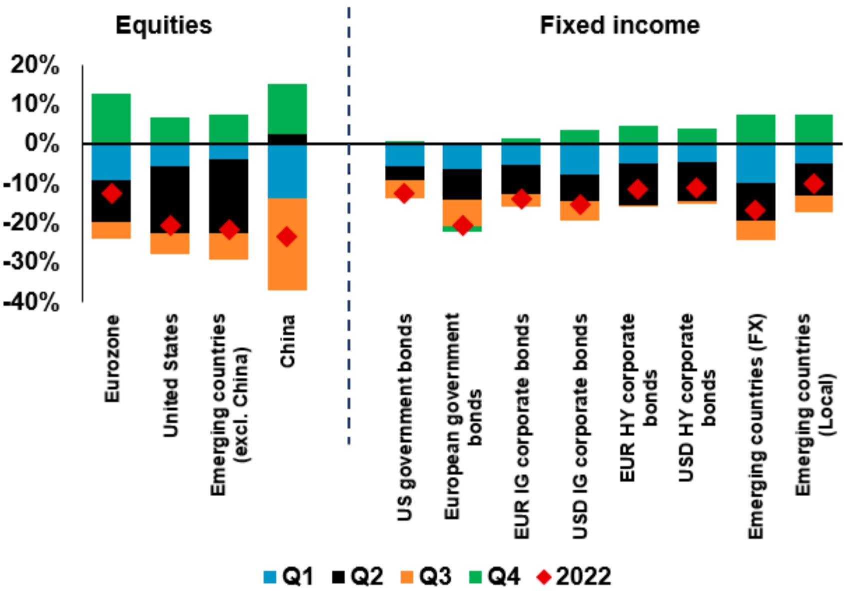
In emerging countries, aggressive and widespread rate increases continued in 2022. In the case of Mexico, the central bank (Banxico) continued with its rate hike cycle launched in 2021, accelerating the rate hikes and emulating the movements of the Fed. Banxico raised the official rate to 10.50%, accumulating 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.

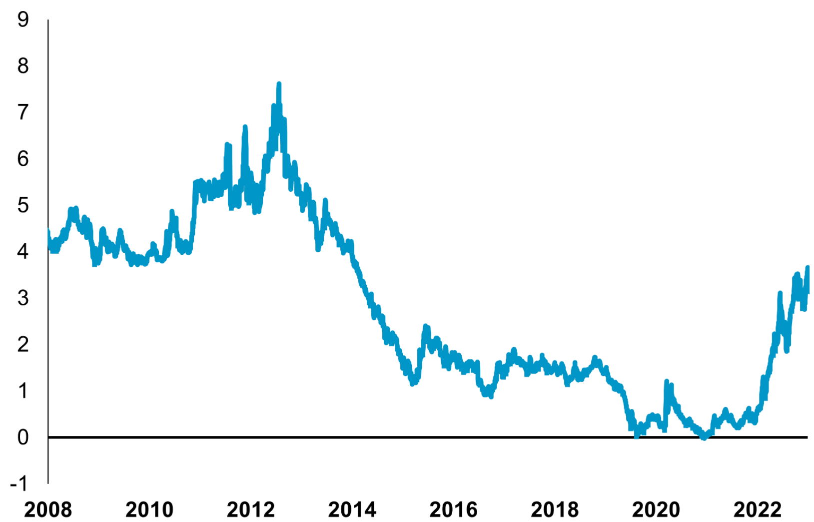
Long-term government bond yields rebounded by more than 200 basis points on both sides of the Atlantic, reaching levels not seen since 2008 in the United States and since 2011 in Germany. This increase in bond yields was mostly driven by high inflation and the interest hikes introduced by central banks. 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



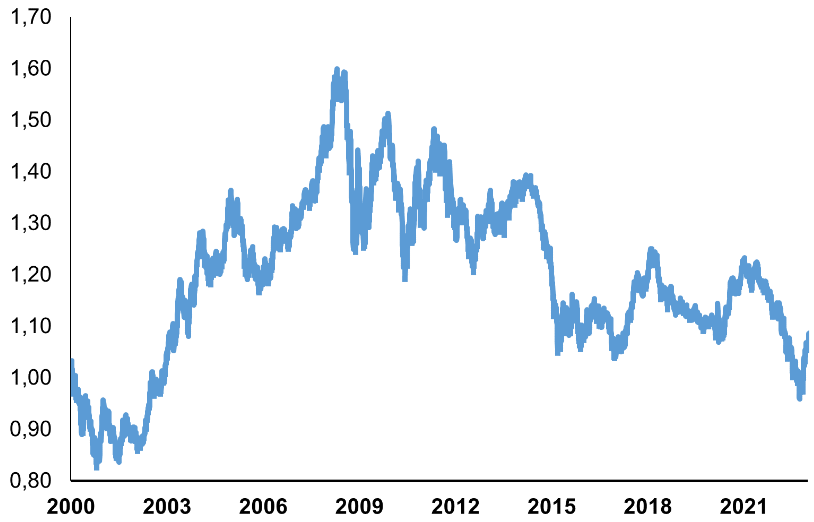
Peripheral sovereign debt risk premiums also rebounded throughout the year, although they remained at contained levels. The spread's widening was influenced by the withdrawal of the ECB's accommodative measures, although the subsequent announcement of an asset purchase programme that could be activated 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).

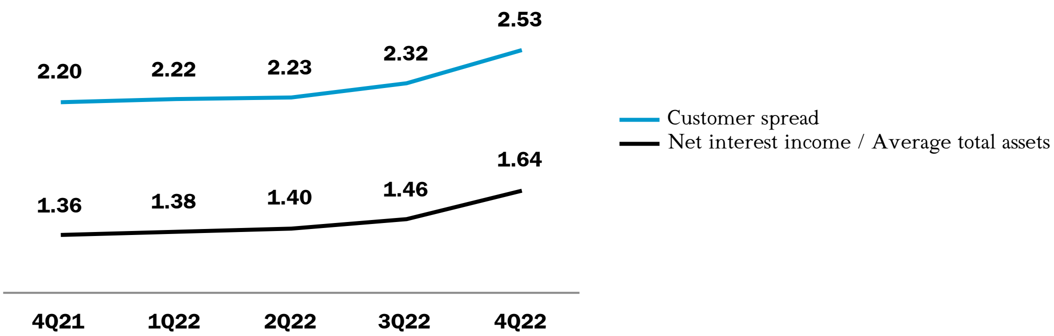
The breakdown of net interest income for the years 2022 and 2021, as well as the different components of total investment and funds, was as follows:

Thousand euro

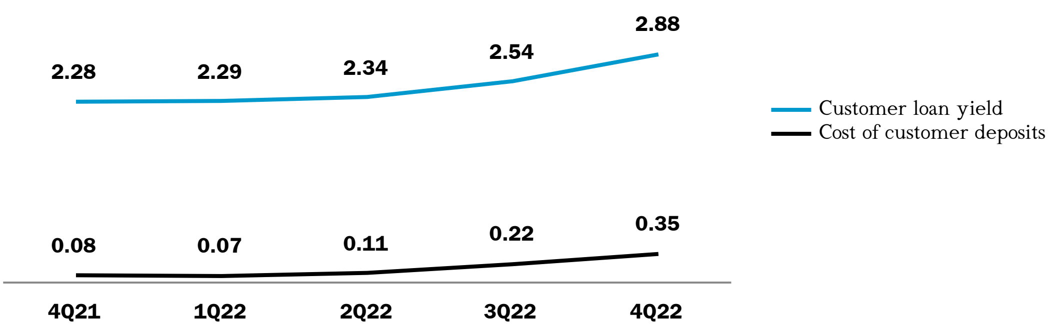
	2022			2021			Change		Effect		
	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Volume	Days
Cash, central banks and credit institutions	53,538,412	208,485	0.39	48,693,390	(124,460)	(0.26)	4,845,022	332,945	333,136	(191)	—
Loans and advances 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.

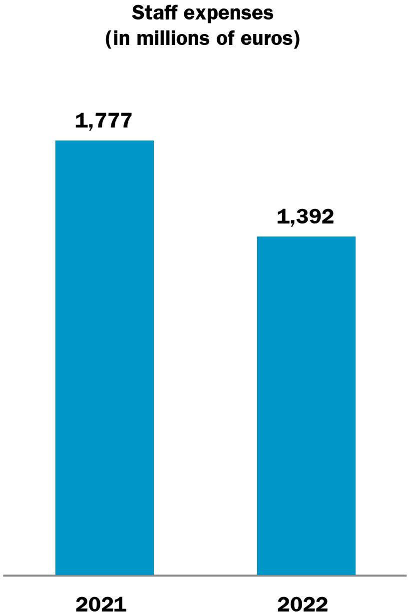
Gains/(losses) on financial assets and liabilities and exchange differences amounted to 104 million euros, while at the end of 2021 this item amounted to 344 million euros, as it mainly included 324 million euros of gains on sales from the amortised cost portfolio conducted to fund the second phase of the efficiency plan executed in Spain.

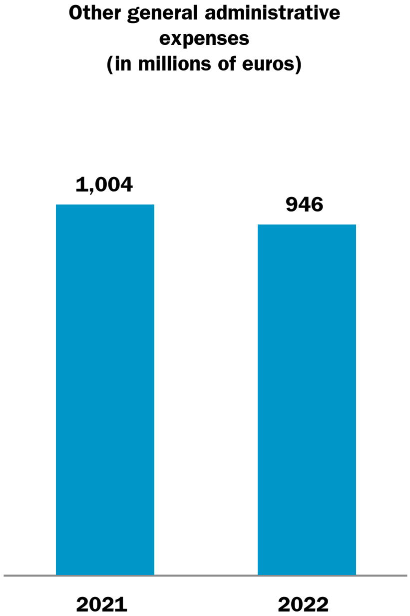
Dividends received and earnings of companies consolidated under the equity method together amounted to 125 million euros, compared with 102 million euros in 2021, after recognising generally higher earnings from the insurance business.

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**

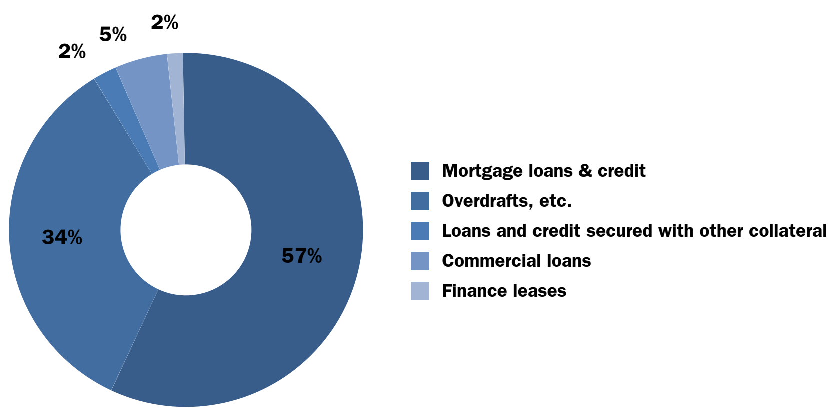
The EUR/GBP exchange rate used for the balance sheet is 0.8869 as of 31 December 2022.

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.

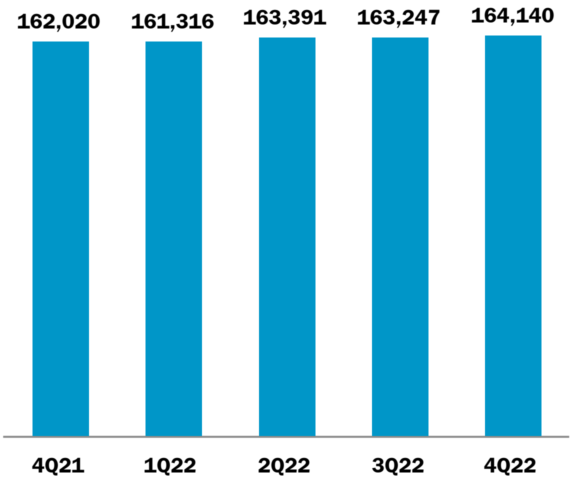
Million euro	2022	2021	Year-on-year change (%)
Mortgage loans & credit	89,340	90,718	(1.5)
Loans and credit secured with other collateral	3,412	3,596	(5.1)
Commercial loans	7,489	6,050	23.8
Finance leases	2,227	2,106	5.7
Overdrafts, etc.	53,663	52,443	2.3
Gross performing loans to customers	**156,130**	**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

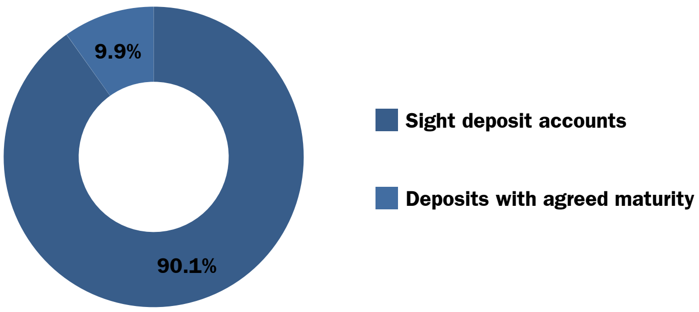


As at the end of 2022, on-balance sheet customer funds amounted to 164,140 million euros, compared to 162,020 million euros as at the end of 2021, increasing by 1.3% due to both the positive evolution of term deposits and the growth of sight deposit accounts.

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.

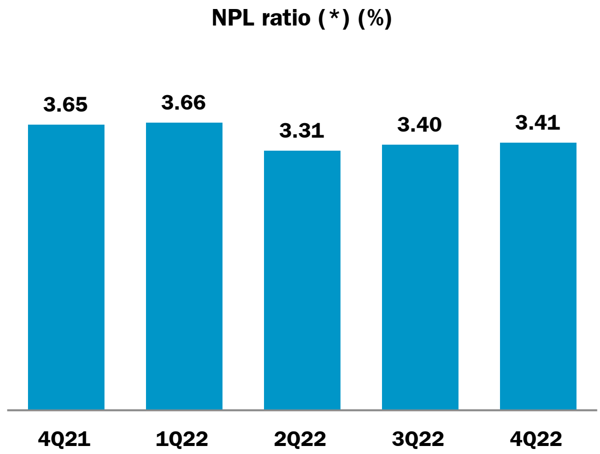
Non-performing assets have decreased over the year 2022. The quarterly performance of these assets in 2022 and 2021 is shown below:

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.



(*) 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:

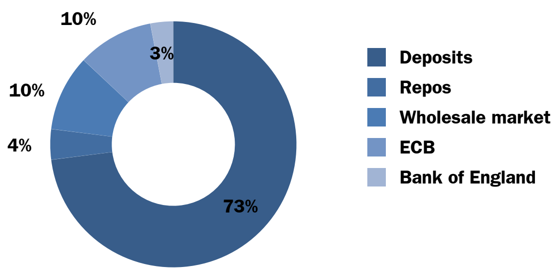
Million euro

	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.

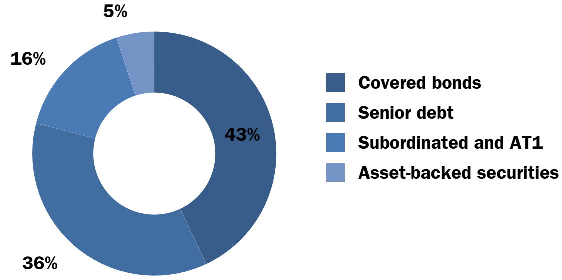
The main sources of funding as at the end of 2022, broken down by type of instrument and counterparty, are shown below (in %):

Funding structure (*)



(*) Excluding adjustments for accrual and derivatives hedging.

Institutional issues (*)



(*) 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 4 to the 2022 consolidated 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.

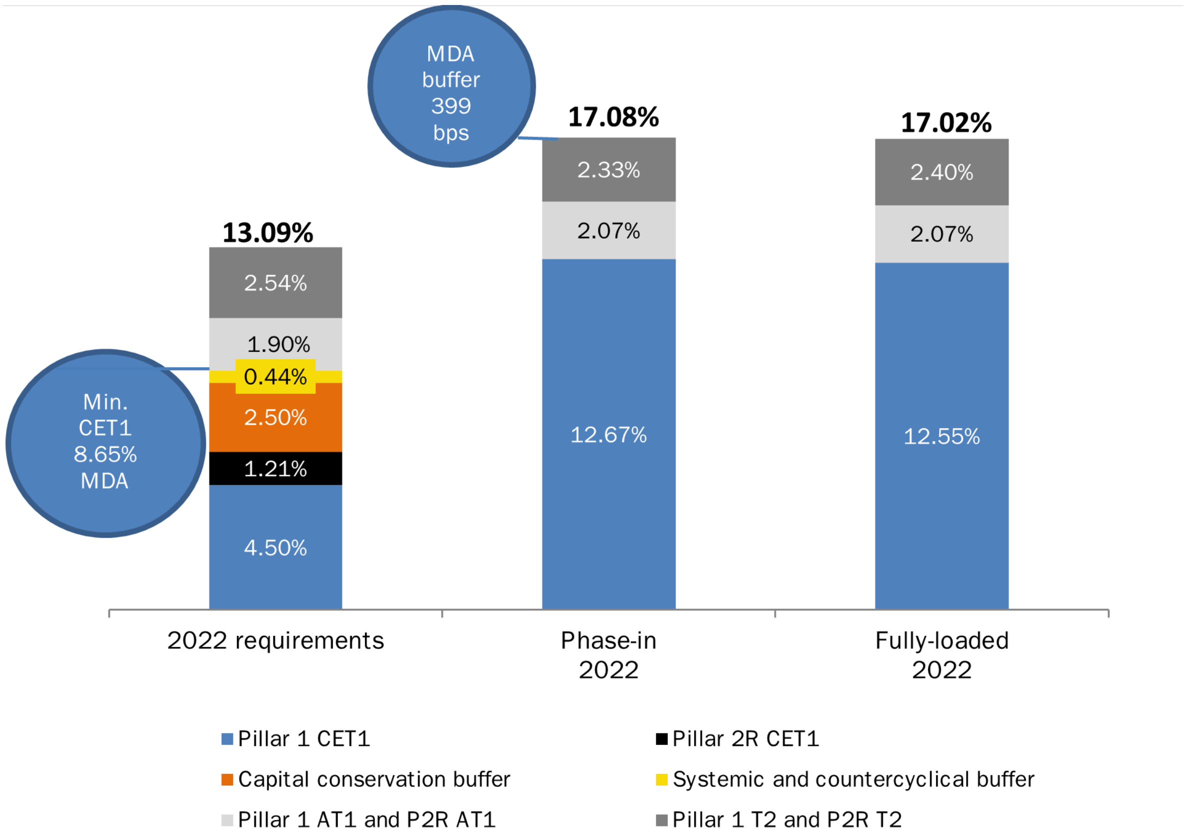
During 2022, the Group decreased its capital base by 735 million euros in fully-loaded terms.

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.

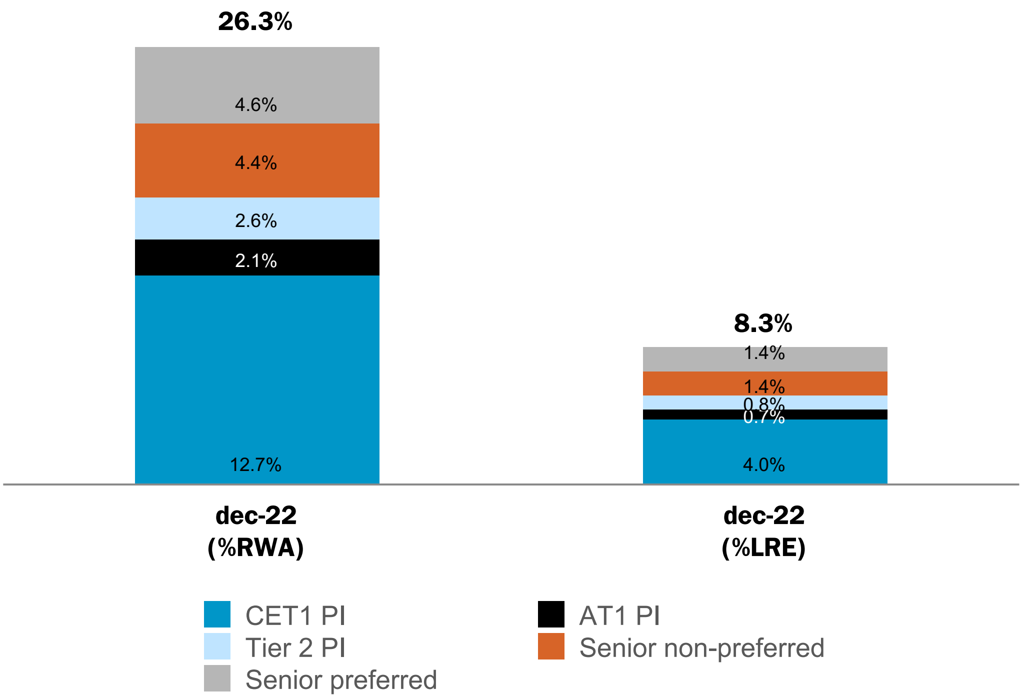
The decision sets out the following interim requirements that must be met from 1 January 2022:

- 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.

Group MREL



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.

<u>Sabadell Associates</u>

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

<u>Structured Finance</u>

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	—

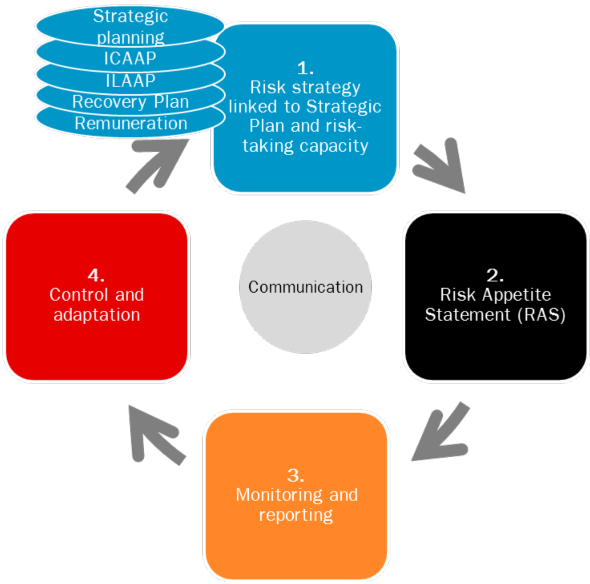
5 - RISKS

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 4 to the consolidated 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 23 to the consolidated 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 Law 11/2018, of 28 December, on non-financial and diversity disclosures, Banco Sabadell Group has drawn up a Non-Financial Disclosures Report for 2022, which, in accordance with Article 44 of the Spanish Commercial Code, forms part of this report and is attached as a separate document.

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 consolidated annual financial statements and the consolidated Directors' Report and is sent separately to the CNMV. From the date of publication of the consolidated annual financial statements and the consolidated Directors' Report, the ACGR is available on the CNMV's website (www.cnmv.es) and on the corporate website of Banco Sabadell Group (www.grupbancsabadell.com).

Annual Report on Directors' Remuneration

The Annual Report on Directors' Remuneration (ARDR) 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 consolidated annual financial statements and the consolidated Directors' Report and is sent separately to the CNMV. From the date of publication of the consolidated annual financial statements and the consolidated Directors' Report, the ARDR is available on the CNMV's website (www.cnmv.es) and on the corporate website of Banco Sabadell Group (www.grupbancsabadell.com).

Glossary of terms on alternative performance measures

In the presentation of its results to the market, and for the purpose of monitoring the business and decision-making processes, the Group uses performance indicators pursuant to the generally accepted accounting regulations (EU-IFRS), and also uses other unaudited measures commonly used in the banking industry (Alternative Performance Measures, or APMs) as monitoring indicators for the management of assets and liabilities, and the financial and economic situation of the Group, which facilitates its comparison with other institutions.

Following the ESMA guidelines on APMs (ESMA/2015/1415 of October 2015), the purpose of which is to promote the use and transparency of information for the protection of investors in the European Union, the Group presents in this section the definition, calculation and reconciliation for each APM.

Performance measure	Definition and calculation	Use or purpose
Gross performing loans to customers	Includes gross customer loans and advances, excluding repos, accrual adjustments and stage 3 assets.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Gross loans to customers	Includes loans and advances to customers excluding impairment allowances.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
On-balance sheet customer 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**

Non-Financial Disclosures Report for the year ended 31 December 2022

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Non-Financial Disclosures Report

1. Introduction

The Non-Financial Disclosures Report[1] for Banco de Sabadell, S.A. (hereinafter, "Banco Sabadell", "the Bank" or "the Institution"), which includes information on a consolidated and individual basis of Banco Sabadell Group (hereinafter, "the Group"), is set out below.

Banco Sabadell Group's banking business operates under the following brands:

- Banco Sabadell is the Group's main brand. This is the leading brand in the Spanish market providing services to individuals and corporates.
- TSB is the Group's leading brand in the United Kingdom. It became part of the Group in 2015 to provide greater competitiveness and serve an increasing number of customer needs, thus improving the banking experience in this country.
- Banco Sabadell Mexico is the brand under which the Bank operates in Mexico, where the Group opened its first representative office in 1991.

Furthermore, Banco Sabadell Group carries out part of its social action through Sogeviso, a subsidiary engaged in managing some of the complexities of social housing, and the Banco Sabadell Private Foundation, whose mission is to promote outreach, training and research activities in the educational, scientific and cultural fields, and to foster and support young talent.

Information on the company, its business model, organisation, markets, objectives and strategies, as well as the main factors and trends which may impact on the Group's business performance, is described in the Consolidated Directors' Report.

The perimeter covered by the Non-Financial Disclosures Report is the entire Banco Sabadell Group. When the reported information does not cover the entire perimeter, this is clearly indicated.

This report has been developed in compliance with the general provisions published in Law 11/2018, of 28 December, and information relating to taxonomically eligible exposures is compliant with the Taxonomy Regulation (EU Regulation 2020/852), which came into effect in January 2022. In addition, this report also takes into account the non-binding guidelines published by the European Commission on its Guidelines on Non-Financial Reporting (2017/C 215/01), its supplement on reporting climate-related information (2019/C 209/01) and the Global Reporting Initiative (GRI)[2] reference framework. This report has been prepared with reference to the GRI Standards.

The main updates include:

- The materiality analysis carried out in 2021 has been updated in accordance with the latest GRI update.
- It includes decarbonisation pathways in line with the Institution's commitment to the Net-Zero Banking Alliance.
- The carbon footprint of the Institution's financed portfolio is disclosed.
- Information on vulnerable customers has been expanded.

Furthermore, this report seeks to specify the actions carried out and the progress made in accordance with the disclosure standards established by:

- The Principles for Responsible Banking[3] of the United Nations Environment Programme Finance Initiative (UNEP FI).
- Task Force on Climate-related Financial Disclosures (TCFD).

This report may refer to or include full or partial data or information contained in other Group reports.

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[1] Part of the Consolidated Directors' Report 2022.
[2] These requirements are listed in Annex 2 - Table of contents Law 11/2018.
[3] The UNEP FI's Impact Analysis Tool has been used for the first time to measure the impact of the Institution and its environment from a 'double materiality' perspective.

2. Governance

The governance system and the organisation of the different decision-making levels are both being continuously improved and adapted to the needs that are emerging from the new sustainability environment.

Board of Directors

With the exception of matters falling within the sole remit of the Shareholders' Meeting, the Board of Directors is the highest decision-making body in the Bank and its consolidated Group as, under the law and the Articles of Association, it is entrusted with administering and representing the Bank. The Board of Directors acts mainly as an instrument of supervision and oversight, and it delegates the management of ordinary business matters to the CEO. To ensure better and more diligent performance of its general supervisory duties, the Board is directly responsible for approving the Institution's general strategies. It also approves its policies, and is therefore responsible for establishing principles, commitments and targets in the area of sustainability, and for including them into the Institution's strategy.

Sustainability played an important role within Banco Sabadell's business purpose and strategy in 2022. By defining the Institution's overall strategy, business objectives and risk management framework, the Board of Directors takes account of environmental aspects, including climate, environmental, social and governance risks, and monitors them effectively.

In February 2022, the Board of Directors updated the Sustainability Policy, aiming to provide a framework for all of the Institution's activities and organisation within ESG[4]parameters, which incorporate environmental, social and governance factors in decision-making and, at the same time, based on those parameters, to respond to the needs and concerns of all of its stakeholders. The Sustainability Policy establishes out the basic principles on which the Banco Sabadell Group relies to address the challenges posed by sustainability, and it defines the pertinent management parameters, as well as the organisation and governance structure necessary for its optimal implementation.

Board Committees

The Board Strategy and Sustainability Committee, established in 2021, is formed of five Directors (two Other External Directors and three Independent Directors) and is chaired by the Chairman of the Board of Directors. This Board Committee met 13 times in 2022.

In matters of strategy, the Chief Executive Officer may speak and vote at meetings, to which end the Committee is deemed to have six members.

On sustainability, the Committee has the following duties:

- Analysing and advising the Board of Directors on the Institution's sustainability and environmental policies.
- Advising the Board of Directors on possible amendments and regular updates of the sustainability strategy.
- Analysing the definition and, as necessary, amending diversity and integration, human rights, equal opportunities and work-life balance policies and evaluating their degree of fulfilment on a regular basis.
- Review the Bank's social action strategy and its sponsorship and patronage plans.
- Reviewing and reporting on the Institution's Non-Financial Disclosures Report before the Audit and Control Committee reviews and reports on it and it is subsequently authorised by the Board of Directors.
- Receiving information in connection with reports, written communiqués or communications from external supervisory bodies within the scope of this Committee's competencies.

In addition, in 2021 the Board Appointments and Corporate Governance Committee also took on duties in relation to advising the Board of Directors on the internal corporate policies and regulations, as well as

[4] Environmental, Social and Governance.

overseeing the compliance with corporate governance rules and the disclosures to shareholders and investors, proxy advisors and other stakeholders.

Internal Committees

The Management Committee regularly monitors the Sustainable Finance Plan and updates to the regulatory framework and it is also in charge of overseeing the aforesaid plan and resolving any incidents.

In addition, the Sustainability Committee, established in 2020 and chaired since 2021 by the Deputy General Manager and head of the Sustainability and Efficiency Division, is the body in charge of establishing the Bank's Sustainable Finance Plan and monitoring its execution, defining and publicising the general principles of action in sustainability matters and promoting the development of projects and initiatives, as well as of managing any alerts that may arise in relation to ongoing initiatives or any developments in the regulatory, supervisory or other environments. It is made up of 15 members (ensuring the representation of several areas, including Sustainability, Risk, Finance, Business, Technology & Operations, Communication, Research Service, Organisation and Resources) and it meets once a month. This composition of the Sustainability Committee covers all functional areas, which enables the cross-cutting establishment and implementation of the Sustainable Finance Plan and, therefore, the execution of the Institution's ESG strategy. The Sustainability Committee met 13 times in 2022.

Organisation

The Sustainability Division was created in 2021 and is the unit in charge of defining and managing the responsible banking strategy of Banco Sabadell Group, including the implementation of ESG criteria in such a way as to ensure that they are applied in all of the Bank's business units, affiliates and international subsidiaries. The Sustainability and Efficiency Manager is also a Deputy General Manager, a member of the Institution's Management Committee, and reports directly to the Chief Executive Officer.

In 2022, the organisation has focused on embedding the ESG risk strategy in its day-to-day operations, in its control arrangements and in the development of models and scenarios that consider these risks. As progress was made on performing sustainability-related tasks and on incorporating ESG risks into risk processes, it became apparent that new specialist resources were necessary. For this reason, the organisational structure based on a system of three lines of defence has been gradually modified in order to include the new skills and competencies required in relation to ESG:

- In terms of the 1LoD[5], the business areas of both Corporate Banking and Business Banking have been strengthened with the creation of specific units that coordinate with the commercial teams to define new sustainable financing solutions for customers, identifying trends and new products. Furthermore, the Financing teams have been strengthened with the addition of specialists in charge of gathering the necessary information to perform risk assessments during origination and monitoring processes. Similarly, the risk teams have also seen an enhancement of their capabilities to perform the relevant ESG tasks within Portfolio Management and ESG Analysis.

  In order to meet the growing regulatory and supervisory demands, the Research and Models teams have also been strengthened. These are the teams that add climate scenarios to the stress testing models and the ICAAP (Internal Capital Adequacy Assessment Process).

- In the same way, the 2LoD has been reinforced, specifically the Compliance, Credit Risk Control and Internal Control teams.

- In terms of the 3LoD, the role of the Financial Audit Division has been expanded and it is now also responsible for performing sustainability audits' tasks.

[5] Line of Defence.

3. Sabadell's Commitment to Sustainability

3.1 ESG framework

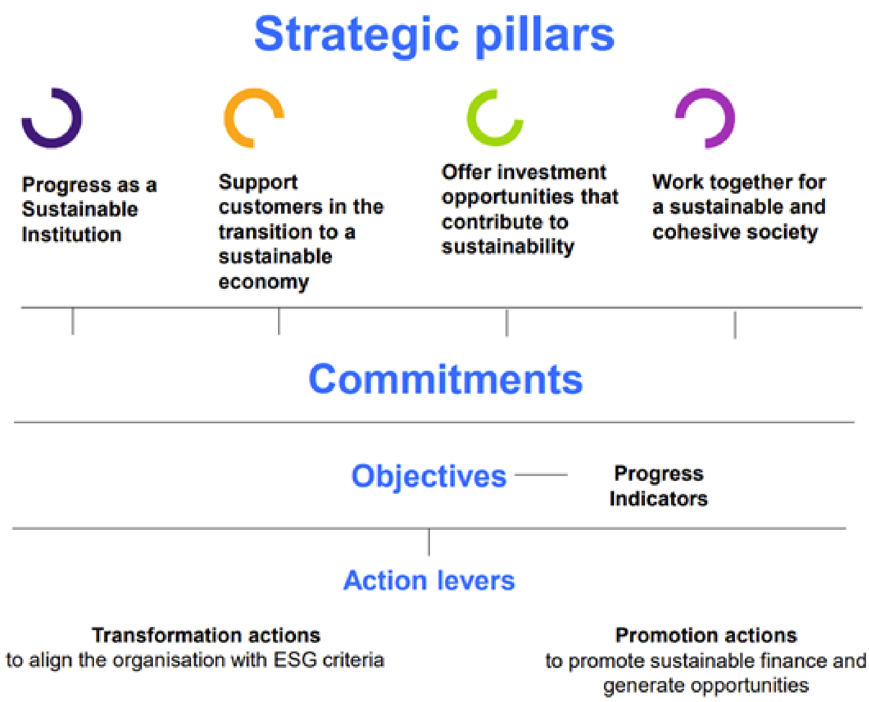
Solid in its commitment to sustainability and to accelerating the economic and social transformation that contribute to sustainable development and the fight against climate change, the Bank has established 'Sabadell's Commitment to Sustainability'. Underpinned by four strategic pillars, this framework sets out the Bank's sustainability strategy and forward-looking vision with ESG goals and commitments, aligned with the UN Sustainable Development Goals (SDGs), and establishing levers for transformation and promotion actions. The main lines of action of this ESG framework are the following:

- Progress as a sustainable institution: the Bank focuses on achieving greenhouse gas (GHG) emissions neutrality, promoting diversity, safeguarding talent, and continuing to incorporate ESG criteria in its governance, as well as participating in the most relevant ESG alliances.

- Support customers in the transition towards a sustainable economy: to do so, the Bank is making progress with mapping out decarbonisation pathways, supporting customers in their transition to specialised solutions in renewable energies, energy efficiency and sustainable mobility, and setting sectoral standards that limit controversial activities and/or those with a negative impact on social and environmental development.

- Offer investment opportunities that contribute to sustainability: in the investor ecosystem, the Bank focuses on increasing savings and investment opportunities that contribute to sustainability, rolling out a wide range of social, ethical, green and sustainable bonds and funds, both its own and those of third parties.

- Work together for a sustainable and cohesive society: in its commitment to society, the Bank believes that it is essential to take an active role to improve financial education, move forward inclusion, reduce social vulnerability to the minimum, and ensure security in transactions and exchanges of information.



A preliminary report on this framework was presented at the Annual General Meeting of March 2022, and the disclosure of that report culminated in the creation of a "Sustainable Commitment" section on the Group's corporate website. Up until the publication of this report, the disclosure of updates has been carried out fundamentally on the Bank's digital channels with the hashtag #SabadellCompromisoSostenible.

To complement this, the Bank continues to make progress with its Sustainable Finance Plan, as an operational tool to confront new developments and needs generated by changes in the regulatory and supervisory environment, which have an impact on business strategy and the business model, governance, risk management and disclosure.

All of these actions and goals established in Sabadell's Commitment to Sustainability form the Bank's ESG roadmap.

Remuneration linked to Sustainability

The commitment to sustainability and the involvement of the Bank's staff in the delivery of the Institution's ESG goals are factors reflected in the attainment of the Group's objectives. Through the synthetic sustainability indicator (SSI), established in 2020, Key Performance Indicators (KPIs) for ESG matters are included and linked to the variable remuneration of employees, forming part of the Group objectives with a weight of 10%. This indicator is regularly monitored by the Sustainability Committee which incorporates updates of these indicators in its periodic review. The metrics that make up this indicator to measure sustainability include four types of indicators:

a. A market-led assessment, carried out by ESG rating agencies, of the information disclosed.

b. The degree of progress in the achievement of actions set out in the Sustainable Finance Plan.

c. The commitment to diversity in relation to the increased presence of women in various management positions.

d. In relation to the environment and the channelling of resources through the volume of sustainable financing (in accordance with the EU taxonomy).

Banco Sabadell's ESG frameworks in other geographies

It is also worth noting that TSB and Banco Sabadell Mexico have continued to develop their own commitments to sustainability in line with those of Banco Sabadell:

TSB's Do What Matters Plan

With origins stretching back to the start of the savings bank movement, TSB has always focused on generating social value as well as economic returns. The Do What Matters 2025 plan[6], first introduced in 2020, and strengthened in 2022, was all about how to take forward those commitments today.

Named after one of TSB's core behaviours – do what matters – and an integral part of the business strategy, "Do What Matters" brings together its social and environmental commitments to deliver a long-lasting and meaningful impact for its customers, colleagues, suppliers, and communities and to build on its credentials as a responsible business.

Thus the plan is focused on three key areas: essential business elements[7], people[8] and planet[9]. It has eight long-term goals focused on social and financial inclusion, fair commercial practices and support for a transition towards a greener planet.

[6] https://www.tsb.co.uk/do-what-matters/
[7] https://www.tsb.co.uk/do-what-matters/essentials/
[8] https://www.tsb.co.uk/do-what-matters/people/
[9] https://www.tsb.co.uk/do-what-matters/planet/

This framework provides robust governance while ensuring transparency in reporting and compliance with regulatory and voluntary codes of practice. Additionally, TSB works in partnership with different expert organisations to ensure that its actions comply with independent standards and commitments, such as the Good Business Charter[10], the United Nations Global Compact and The Prince's Responsible Business Network[11]. To support the achievement of the planet's goals, TSB has also joined the Science Based Targets initiative, become a signatory to the Net-Zero Banking Alliance (NZBA) and a supporter of the Task Force on Climate-related Financial Disclosures (TCFD).

All this allows TSB to focus on those key initiatives that reflect its role in society and link in with its business purpose.

Banco Sabadell Mexico

As part of Banco Sabadell Group, Banco Sabadell Mexico has developed its business ethically and responsibly, gearing its commitment to the environment and society so that its activities positively impact on people and avoid negatively affecting the natural environment. Therefore, since 2021, there is a Social and Environmental Policy in place, a Sustainability Committee and a Sustainability Division.

In 2022, Banco Sabadell Mexico continued to progress with its commitment to sustainability through the implementation of its Environmental and Social Policy, which has been changed to adhere to the Banco Sabadell Group Sustainability Policy, and has made progress in terms of sustainable financing and climate risk management.

In terms of ESG milestones, Banco Sabadell Mexico has incorporated the Group's Eligibility Guide, which is aligned with the European Union taxonomy, for use as a tool to determine which activities facilitate the transition of its portfolio towards a more environmentally or socially sustainable economy. On the other hand, it continues to build on the implementation of its Environmental and Social Risk Administration System (known as SARAS by its Spanish acronym), which seeks to identify and manage environmental and social risks associated with its customers' activities.

In the context of its partnerships, during the year Banco Sabadell Mexico has reaffirmed its commitment to sustainable development by signing the "Declaration in favour of the development of environmental, green and sustainable finance in the Mexican banking sector", promoted by the Green Finance Advisory Council (*Consejo Consultivo de Finanzas Verdes* or CCFV) and the Association of Mexican Banks (*Asociación de*

[10] The Good Business Charter is an accreditation scheme that recognises businesses that behave responsibly in ten areas, including fair salary payments, not offering zero-hours contracts, prompt payment of suppliers, promoting diversity and inclusion, ensuring that employees' voices are heard in the Boardroom, and establishing firm plans to achieve emissions neutrality.
[11] The Prince's Responsible Business Network is a Business in the Community (BITC) initiative that helps companies to address a wide range of essential questions to build a fairer society and a more sustainable future.

Bancos de México or ABM). Banco Sabadell Mexico has also become an active member of the Sustainability Commission of the Spanish Chamber of Commerce in Mexico (known as CAMESCOM by its Spanish acronym), forming part of a working group whose aim is to highlight and promote good practice demonstrated by Spanish investment in Mexico, as well as implementing new business models focused on social responsibility.

In terms of communication, Banco Sabadell Mexico has engaged in digital communication on social networks in the context of ESG and Banco Sabadell's Commitment to Sustainability, and has also taken part in the main climate change information forums (including a webinar on businesses and climate change; a workshop on Business Sustainability Basics through the Spanish Chamber of Commerce in Mexico (CAMESCOM, by its Spanish acronym) ; and a virtual forum entitled Sustainable transition: the path to a new economy).

3.2 Initiatives and alliances

Cross-cuttingly and in line with its Commitment to Sustainability, Banco Sabadell continues to forge alliances with other sectors and is part of the most relevant international initiatives to combat climate change and promote social development, such as:

- Since 2005, with the signature of the adherence to the corporate responsibility initiative of the **United Nations Global Compact**, and the ten principles in the areas of human rights, labour, environment and anti-corruption.

- The signature of the **Equator Principles**, since 2011, which incorporate social and environmental criteria in the funding of large-scale project finance and corporate loans.

- Adherence to the **United Nations Principles for Responsible Banking**, the first global framework of reference that defines the role and responsibilities of the banking industry in ensuring a sustainable future, to that end reinforcing the alignment with the SDGs in relation to the Paris Agreement.

- Ratification of the **Collective Commitment to Climate Action**, whose goals serve to further reduce the carbon footprint of balance sheets.

- Adherence to the **Task Force on Climate-related Financial Disclosures (TCFD)** for the disclosure of risks and opportunities related to climate change.

- Signatory of the **Carbon Disclosure Project (CDP)** for action against climate change.

- Adherence in October 2021 to the **Net-Zero Banking Alliance (NZBA)**, an international alliance convened by the United Nations Environment Programme Finance Initiative (UNEPFI), through which the Bank commits to aligning its lending and investment portfolios with net-zero emissions by 2050, in line with the targets of the Paris Climate Agreement.

- Adherence in May 2022 to the **Partnership for Carbon Accounting Financials (PCAF[12])**, with the aim of measuring and disclosing the CO_2 emissions of its credit and investment portfolios using a standardised approach.

The ESG framework of Sabadell's Commitment to Sustainability includes the global sustainability undertakings that it has subscribed and the transformation and promotion actions, both those implemented by the Group and those planned for the future, which aim to accelerate ecological transition, reinforce the fight against climate change and support social development, reinforcing and in turn addressing priority matters arising in that respect. This framework is aligned with the UN SDGs[13] and focuses on those where it has the greatest capacity to influence due to its systemic interrelationships, type of activity and capacity to make an impact. In this respect, although the goal of this Institution also involves a contribution to all of the SDGs, the following have been given priority:

[12] The Partnership for Carbon Accounting Financials (PCAF) is a collaboration among financial institutions from all over the world, launched in 2019, to measure and disclose the CO_2 emissions of their credit and investment portfolios using a standardised approach PCAF participants work together to develop the Global Greenhouse Gas (GHG) Accounting and Reporting Standard for the financial industry. For more information, see https://carbonaccountingfinancials.com/Industries

[13] For more details on the contribution to all SDGs, see Annex 5 - SDG alignment.

Affordable and clean energy.

Decent work and economic growth.

Industry, innovation and infrastructure.

Climate action.

Peace, justice and strong institutions.

3.3 Materiality

In 2022, a review has been carried out of the materiality analysis performed in 2021, which involved establishing a list of material topics for the Group with the aim of listening to stakeholders. This review was carried out with the aim of updating the Group's perspective in the materiality matrix and to adapt to the increasingly demanding regulatory requirements and market environment in this respect. Similarly, the method of prioritising relevant aspects based on their importance has been replaced with a method based on the impact they generate, in line with the requirements of "GRI 3: Material Topics 2021", published in October 2021.

The objective of this analysis is to identify and prioritise ESG aspects[14] of relevance to the Group and its stakeholders, with three aims:

- Recognise the ESG priorities on which Banco Sabadell Group should focus its attention, taking into consideration risks, opportunities, impacts and trends.
- Strengthen the relationship with different stakeholders and outline the impacts and expectations with regard to ESG.
- Address the reporting needs arising from legal requirements and from analysts and indices, as well as the demands of shareholders, investors and other stakeholders, with a common and simple language.

Methodology

Banco Sabadell has conducted and updated its materiality analysis, in accordance with the GRI disclosure standards and with the regulators' current recommendations, incorporating the double materiality perspective:

- Non-financial Reporting Directive (NFRD) and its transposition to Spanish law (Law 11/2018 on Non-Financial Information and Diversity).
- The requirements of the EU's Corporate Sustainability Reporting Directive 2022/2464 (CSRD) have also been taken into account.
- Report on CNMV oversight of the annual financial statements for 2020 and main areas for review in the financial statements for the following year of the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores* or CNMV).
- Considerations of materiality in financial reporting of the European Securities and Markets Authority (ESMA), published in October 2022.

[14] Relevant aspects: those that can reasonably be considered important when it comes to reflecting organisations' economic, environmental, and social impacts, or that influence the decisions of stakeholders. (GRI Standards).

To that end, in 2021 priority stakeholders, whose demands and requirements were included in the materiality analysis, were identified, namely: employees, suppliers, customers, investors, rating agencies, society, regulators and supervisory authorities, and economic operators. Following this interaction with different stakeholders, the relevance of all matters related to ESG was analysed, both from the perspective of stakeholders and that of the Group, and is described below. The material aspects and their definition are set out in section 3.3.1. of this document.

In a second stage of the materiality analysis process, carried out in 2021 and updated in 2022, Banco Sabadell Group combines the analysis of stakeholder expectations with the identification of impacts from a double materiality perspective. The double materiality process aims to identify the impacts of environmental and social matters on the Group, and of the Group on its stakeholders, which are assessed to obtain a holistic view of the relevance of the impacts of each material aspect on sustainability issues.

To that end, Banco Sabadell Group has identified the actual and potential impacts that it causes or to which it contributes through its activities. The identification of impacts, by relevant aspect, are detailed in section 3.3.2. of this document.

Based on these identified impacts, and with the aim of prioritising them, the Group has carried out a quantitative assessment in which it consulted different areas of the Bank by means of questionnaires on the relevance of these impacts, which were answered according to pre-defined scales.

Actual and potential positive impacts were evaluated based on the following attributes:

- Probability: understood as the probability that the impact materialises
- Scale and scope: the scale of an impact refers to how beneficial it is or could be, and the scope refers to how far-reaching it is or could be.

On the other hand, actual and potential negative impacts were evaluated based on the following attributes:

- Probability: understood as the probability that the impact materialises
- Severity: determined by the level of severity of the impact, the extent of the impact and the degree of difficulty involved in counteracting or repairing the resulting damage.

The result of this analysis has made it possible to complete the double materiality approach which is presented in section 3.3.2 of this document, and to update the Materiality matrix, which is set out in section 3.3.3. Three levels of priority have been established for the results, level 1 being that which is of greatest impact for the Group and which includes the following material aspects: (i) Corporate Governance, (ii) Value Creation and Solvency, (iii) Ethics and Integrity, (iv) Climate Change and Environmental Risks (v) Sustainable Finance and Investment.

3.3.1 Definition of Material Topics

The topics that the Bank has deemed material in its analysis are defined below:

Material topics		Definition
Governance		
1.	Corporate governance	Compliance with best practice in Good Corporate Governance and ESG Governance. Including, among other aspects: structure and diversity of governing bodies, their evaluation and remuneration, functions in terms of ESG (setting non-financial targets, oversight, establishing commitments, etc.).
2.	Transparency and data management	Mechanisms to ensure effective and transparent communication with stakeholders to enable expectations to be managed and to identify and address their requirements through established dialogue mechanisms, as well as reporting of financial and non-financial information.
3.	Risk management and cybersecurity	Identification, assessment and management of the operational risks to which the Group is exposed. Includes financial risks (credit, market, liquidity and structural) and non-financial risks (cybersecurity, reputation, health and safety, among others).
4.	Customer satisfaction and digitisation	Operations implemented by the Bank in order to achieve the highest possible quality and attain excellence in the provision of services (meeting customer expectations) and improvement of the customer experience (digitisation, special and adapted advisory measures, etc.), based on responsible and transparent marketing.
5.	Corporate culture	Corporate principles and actions aimed at improving the image and business trajectory of Banco Sabadell, which is reflected in employees' pride in belonging to the Group, and in the corporate reputation as perceived by stakeholders.
6.	Ethics and integrity	Compliance with the national and international legislation in force in all countries in which the Group operates, as well as the specific commitments undertaken by the organisation in its corporate policies and in its code of conduct.
7.	Responsible supply chain	Extension to the supply chain of the Group's own commitment to socially responsible practices and of its undertaking to uphold workers' rights, freedom of association and environmental rights.
8.	Value creation and solvency	Maintaining good economic performance to ensure profitability and value creation for shareholders and investors.
Environmental		
9.	Sustainable finance and investment[15]	Identification and development of a range of financial products and services that consider ESG aspects in their design, management and marketing.
10.	Climate and environment: risks	Identification and management of risks associated with climate change and the environment, complying with best practice, the regulations in force and supervisory expectations.
11.	Internal environmental footprint	Impact on the environment stemming from Banco Sabadell's activity, and the eco-efficiency initiatives and own emissions management that the company has implemented to reduce it.
12.	Commitments and partnerships in environmental	Initiatives, certifications and commitments to which Banco Sabadell has subscribed with the aim of improving environmental management. Includes awareness activities and training in environmental topics carried out by the Institution.
Social		
13.	Diversity, Inclusion and Equality	Actions and initiatives proposed to eliminate discrimination in the workplace on the basis of gender, race, age, ethnicity, religion, disability or for any other reason. These include: reducing the gender pay gap, producing plans and protocols to foster diversity and equality (work-life balance, flexibility of working hours, working from home and the right to disconnect), and the inclusion of vulnerable groups, among other things.
14.	Quality employment and talent management	Promotion of quality employment, fostering professional development and attraction and retention of talent. This aspect includes: training plans, promotion of wellbeing, employees' health and safety and all initiatives geared towards these aims (performance appraisal, pay and promotion, internal mobility, etc.).
15.	Social commitment and Human Rights	Commitment to the development of local communities through corporate volunteering activities, collaboration with voluntary sector projects and/or direct donations. This aspect includes Banco Sabadell Group commitments and actions related to protecting Human Rights.

[15] Topic with environmental and social impacts.

3.3.2 Double Materiality

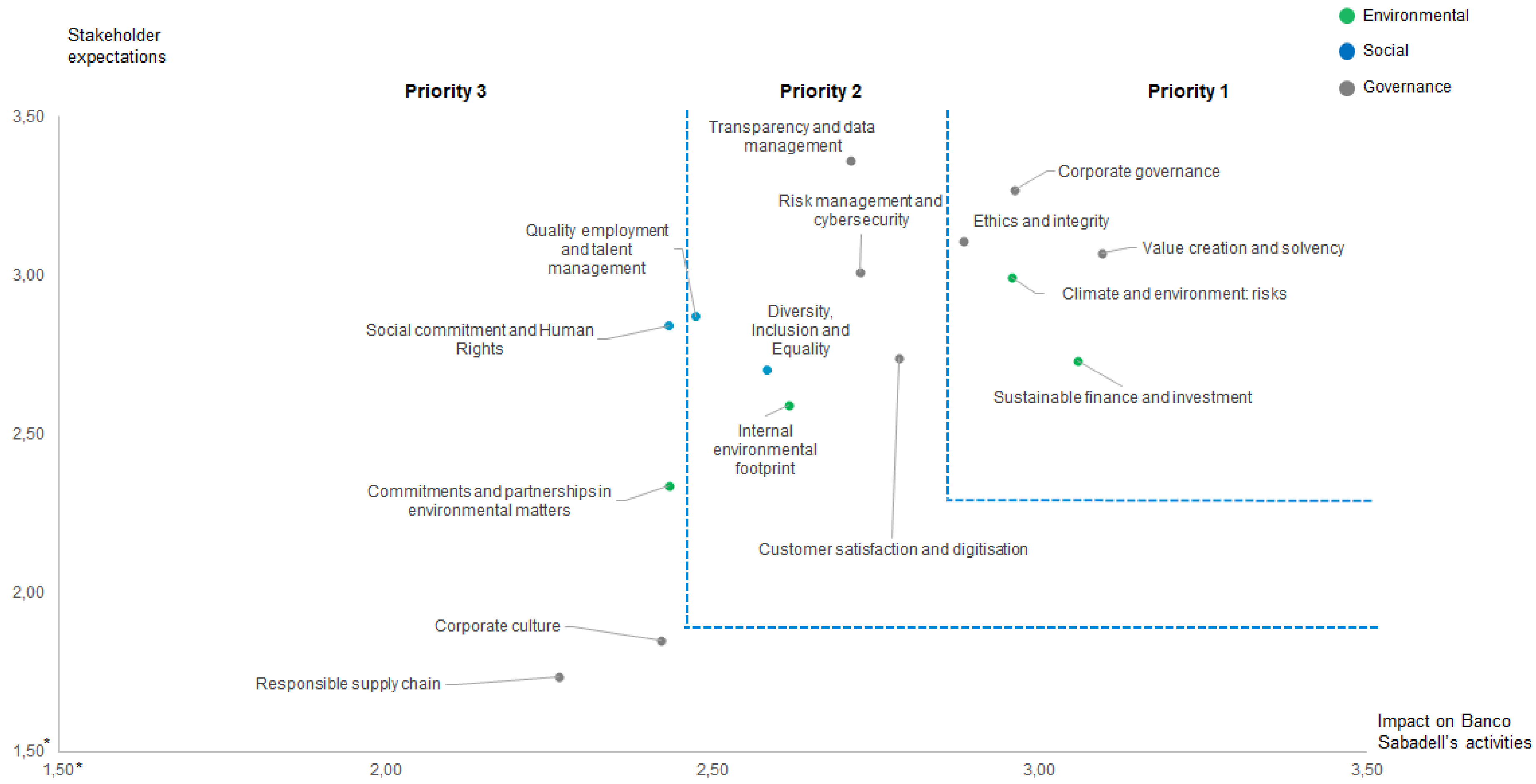
With the aim of ensuring that the materiality analysis is comprehensive, in 2022 the identification of the main impacts was updated, according to the double materiality perspective of the impact of the environment on the Group and that of the Group on its stakeholders, in line with the guidelines of the main bodies that regulate in this regard (i.e. EU, CNMV and ESMA). The update in 2022 included a list of impacts for all material aspects.

Double materiality approach			
Material topics		**Social and environmental impact on Banco Sabadell**	**Impact of Banco Sabadell on its Stakeholders**
Governance			
1.	Corporate governance	Appropriate management of this aspect enables the promotion of diversity and heterogeneity of skills in the governing bodies. Furthermore, it enables alignment with the requirements of supervisors/ regulators in terms of corporate governance. Managing this aspect requires greater internal control and a higher level of reporting.	This aspect allows the Group to generate value and greater reliability in business management for shareholders and investors, in addition to generating a perception of greater strength and resilience before the regulators.
2.	Transparency and data management	Management of this aspect reduces future exposure to risks and possible economic sanctions related to transparency and data management. More stringent demands in the management of this aspect requires continuous improvement of systems, communication channels and internal control of data and data verification, as well as continuous investment in security and good data management.	The management of this aspect reduces the risk of a breach of regulations, and enables a relationship of trust to be built with the Supervisory authorities. On the other hand, it involves increasing the data requirements for customers, suppliers and other stakeholders.
3.	Risk management and cybersecurity	Correct management of this aspect allows the Institution to meet its business objectives, maintain its solvency, liquidity, profitability and asset quality position, and generate trust among regulators, investors, customers and society. The management of this aspect requires continuous investment by Banco Sabadell Group in employee training, and directly affects financial performance.	The correct management of this aspect enables capital protection, generating trust and security among stakeholders. Insufficient management of this aspect directly affects the right to privacy of customers, suppliers and other stakeholders, and generates financial impacts.
4.	Customer satisfaction and digitisation	Correct management of this aspect allows the Institution to attract new customers and develop their loyalty, which encourages long-lasting relationships built on trust, and in turn increases Group profits. The digitisation process enables the Group to be more efficient and reduce the environmental impact of its activities. Managing this aspect requires continuous investment in innovation and the development of new solutions based on employee training, new technologies and the digitisation of services that meet customer expectations.	The management of this aspect has a direct impact on customers, meeting their demands for financial products and services with an accessible and specialised service. In addition, digital solutions offer them tailored and personalised services, with greater availability. However, there may be difficulties accessing groups that are not familiar with the digital environment and an increased level of demand may need to be addressed, as well as specialisation of employees and suppliers.

Double materiality approach			
Material topics		**Social and environmental impact on Banco Sabadell**	**Impact of Banco Sabadell on its Stakeholders**
5.	Corporate culture	This aspect allows the Institution to protect itself from possible conduct risks or conflicts of interest, and in turn reduce loss of human and intellectual capital. Although this aspect requires continuous updating of policies and internal codes of conduct in order to align them with market expectations and those of society.	The corporate culture generates a feeling of belonging and increased job satisfaction among employees, as well as a better customer experience and greater confidence among society.
6.	Ethics and integrity	Ensuring ethical conduct and compliance with regulations has an impact on the Group's reputation and on its stakeholder relationships, underpinned by an ethical and fair approach to business that is also respectful of legal considerations.	Correct management of this aspect generates a feeling of pride and belonging among employees and customers. This improves the reputation of Banco Sabadell Group and builds trust among regulators, investors and society.
7.	Responsible supply chain	The management of this aspect improves supply chain management and control. It requires, in turn, a more demanding approach to the control and approval of suppliers, generating a possible price increase as supply would be confined to sustainable suppliers.	A responsible supply chain generates greater confidence among society and among customers. On the other hand, tougher supplier contracting conditions could lead to a loss of suppliers.
8.	Value creation and solvency	The attainment of solvency objectives has an impact on the Group's market positioning, allowing it to attract and retain capital. It also reduces its vulnerability to risks that could affect Banco Sabadell, and generates confidence among stakeholders.	Proper management of this aspect has a positive impact on all stakeholders, as it generates wealth, social value, security and confidence in capital protection, for both investors and customers.
Environmental			
9.	Sustainable finance and investment	This aspect allows the Institution to identify business and investment opportunities in new markets, and to develop a range of new products and services and, by doing so, create a new source of income. In addition, it allows the Bank to position itself in relation to competitors that include sustainability in their business model and strategy. This aspect may give rise to more demanding ESG requirements for funding or investment in certain sectors and activities. It also requires new plans to promote products and services in the medium- to long-term.	This aspect allows the Institution to increase the range of sustainable financial products and services, as well as products and services that contribute to a positive social impact through, amongst other things, financial inclusion, and thereby support and satisfy customers, shareholders and investors who have a greater appetite for ESG aspects. Supporting customers in this respect has a positive effect on the Group's reputation, differentiating the Institution in the market place as a more sustainable business that is more firmly committed to the environment and to society. On the other hand, it may make it more difficult for customers in carbon-intensive sectors to transition, and could increase customer information needs.
10.	Climate and environment: risks	Correct management of this aspect allows the Group to reduce its future exposure to climate-related and environmental risks, improving the Banco Sabadell's reputation and relationships with its stakeholders and allowing it to remain aligned with regulatory requirements in this regard. The management of this aspect requires continuous investment by Banco Sabadell Group to continue to develop a high level of market monitoring, constant improvements to information systems, specialised training plans for employees and the hiring of qualified profiles.	This aspect allows the Institution to incentivise investment in sectors and products aligned with ecological transition, generating greater confidence among investors and society. The management of climate change and environmental risks may involve greater control and tougher funding conditions for those activities that carry more risk.

Double materiality approach			
Material topics		**Social and environmental impact on Banco Sabadell**	**Impact of Banco Sabadell on its Stakeholders**
11.	Internal environmental footprint	The reduction of the internal environmental footprint through appropriate management and control reduces future exposure to risks related to GHG emissions limits, and improves energy efficiency by reducing the associated resources required.	This aspect enables the Institution to increase confidence among an increasingly climate-aware society, and generate a positive environmental impact by reducing Group emissions.
12.	Commitments and partnerships in environmental matters	The Group's adhesion to environmental commitments and partnerships, and its implementation of the corresponding initiatives and goals, enables it to gain greater knowledge of best practice in the market, improving its management of environmental matters and generating a competitive advantage and differentiation in the market place. This aspect involves increased demand in terms of resources to monitor and meet environmental goals, and in terms of reporting.	This aspect allows the Group to create value for investors and shareholders through partnerships and by meeting environmental goals, while generating confidence and visibility among customers and society through a more sustainable and transparent business.
Social			
13.	Diversity, Inclusion and Equality	The achievement of diversity targets has a positive impact by attracting and retaining human and intellectual capital, generating value within the Bank and improving productivity. Management of these aspects entails greater demand for resources to update internal standards and policies, prepare regulations, develop control and training models, and carry out more stringent monitoring to ensure that the targets related to diversity, inclusion and equality are met.	Appropriate management of these aspects reduces inequality, generating a feeling of pride and belonging among employees.
14.	Quality employment and talent management	Ensuring high quality employment makes it possible to attract and retain human capital, improve employee productivity and, in addition, allows the Institution to better align employees' capacities with its objectives and strategic lines. Management of this aspect requires training, updating and greater flexibility of standards and internal policies, as well as greater human resources to position the Institution as a benchmark among its competitors.	This aspect allows employees to manage their professional career with tailored plans, producing greater stability and professional wellbeing. In addition, it enables the Institution to improve its image and reputation and boosts confidence among society.
15.	Social commitment and Human Rights	Proper management of this aspect allows the identification of new investment opportunities that cover the needs of vulnerable groups. In addition, it is a way of differentiating retail banking through financial inclusion. It allows the Institution to ensure alignment with international conventions for the protection of human rights. On the other hand, this aspect requires greater monitoring of specific products and services to cover the needs of vulnerable groups. Furthermore, it involves greater demand for the development of corporate volunteering programmes and the promotion of social action activities.	This aspect allows new products and services to be developed that contribute to a positive impact through inclusion and financial education for vulnerable groups. In addition, it allows for the implementation of social programmes that support the development of certain communities. This aspect may limit access to suppliers due to more stringent requirements demanded from suppliers in this regard.

3.3.3 Materiality Matrix



*The range of permitted values in both axes is from 0 to 4. In this graph, only figures of 1.5 up to 3.5 are shown, for better display.

3.3.4 Engagement with Principles for Responsible Banking

In 2022, Banco Sabadell also carried out an analysis to identify the positive and negative impacts arising from its financing activities, in line with the requirements of the Principles for Responsible Banking of the United Nations Environment Programme Finance Initiative (UNEP FI). This analysis enabled the Institution to identify the environmental, social and economic impacts (positive and negative) associated with both the Retail Banking portfolio and the Business and Corporate Banking portfolio.

The result of this analysis prompted Banco Sabadell to prioritise two areas of impact on account of their relevance in both analyses: Climate and environment, and Education and financial inclusion.

Both areas of impact that have been prioritised are aligned with the results obtained in this materiality analysis. In this respect, the areas prioritised in the Impact Analysis, namely, Climate and environment, and Inclusion and financial education, relate directly to at least three of the relevant aspects for which positive and negative impacts were identified according to the double materiality perspective (i.e. the environment on the Institution and the Institution on stakeholders). The area of climate and environment is closely related to the relevant aspects of Climate and environment, Sustainable finance and investment, and the topic of Commitments and partnerships in environmental matters. On the other hand, the area of inclusion and financial education is directly related to the relevant aspects of Social commitment and Human Rights, Sustainable finance and investment, and Customer satisfaction and digitisation.

4. Commitment to climate and the environment

In the current context of climate change and in its capacity as a financial institution, the Bank believes it has a fundamental role to play in the transition towards a sustainable economy and in the achievement of the goals established in the Paris Agreement and the 2030 Agenda. To that end, Banco Sabadell has an ESG action framework (section 3. Sabadell's Commitment to Sustainability), which is aligned with the SDGs and in which climate action (SDG 13) is one of the priority SDGs of its corporate strategy.

4.1 Environmental risk governance

The governance of environmental risks (understood to be those stemming from climate change and environmental degradation) is defined by the Environmental Risk Policy approved in 2021 and revised in December 2022. The aim of the Policy is to define the guidelines for managing and controlling the risk associated with climate change and environmental degradation. To that end, the principles and critical parameters applicable to significant aspects are specified.

Specifically, the Board of Directors and the Board Committees and Internal Committees of the Bank indicated here below are responsible for supervising, with a pre-established frequency, the most significant aspects with regard to risks associated with climate and environmental degradation:

- Board of Directors: in relation to the environmental risk management and control duties, the Board is ultimately responsible for embedding this type of risk into the general strategy and for establishing the necessary mechanisms for its review. Its duties range from monitoring environmental risk to approving and reviewing the organisational and functional framework for managing, controlling and reporting on this risk, approving the associated policies and reviewing them on an annual basis. In addition, it is worth noting that in February 2022 the Board of Directors received specific training on climate risk management, the impact deriving from climate risks, policies and rules on the topic, as well as measurement metrics such as the carbon footprint and decarbonisation pathways.

- Board Strategy and Sustainability Committee: responsible for analysing and reporting to the Board of Directors on environmental risk policies and for reporting to the Board of Directors on any amendments or periodic updates of the environmental risk strategy. It is also responsible for supervising the model for identifying, controlling and managing risks and opportunities in relation to sustainability including, where applicable, environmental risks.

- Board Risk Committee: responsible for supervising and ensuring that all of the Group's risks are properly taken, controlled and managed, and for reporting to the Board of Directors on the performance of its duties.

- Board Audit and Control Committee: its main duty is to supervise the effectiveness of the Group's internal control, internal audit and risk management systems, coordinating as required with the Board Risk Committee. Environmental risks, among other aspects, are included.

- Management Committee: this is the most senior management body of the Institution and it is responsible, among other things, for all matters related to the development of the business in the various regions, as well as matters arising from financial planning and financial activity, those relating to organisation and human resources, technology and all other aspects related to day-to-day business management.

- Sustainability Committee: this management body is responsible for establishing and promoting the Bank's Sustainable Finance Plan and monitoring its execution, as well as defining and disclosing the general action principles related to sustainability and promoting the development of related projects and initiatives. Its duties include reporting on a regular basis to the Management Committee and reporting, at least once a year, to the Board Strategy and Sustainability Committee on the progress made with the Sustainability Plan and its initiatives. It meets on a monthly basis to monitor the most relevant topics in relation to ESG. On a regular basis, the Corporate Sustainability Report is submitted to the Sustainability Committee and then subsequently to different bodies within the Bank.

- Technical Risk Committee: this is the management body responsible for supervising the management and control of the Institution's risks and which supports the Board Risk Committee in performing its duties. Every month, the Credit Risk Dashboard is submitted, which includes, among other things, details about the evolution of the Institution's exposure to activities classified as carbon-related, intensive, green and social, the carbon footprint of the loan book, as well as monitoring indicators of new lending items.

4.2 Climate-related and environmental strategy

In 2022, the Institution has taken one step further towards its goal of fighting climate change and it has unveiled its first decarbonisation targets for 2030 (Portfolio Alignment section) and its ambition to provide support, advice and sustainable finance to individuals and above all to companies, focusing specifically on those in sectors that are the most CO_2 emissions-intensive on a global scale.

In keeping with its ESG framework and its role as a financial institution, the Group addresses climate-related and environmental topics from a two-fold perspective (internal and external), considering in its climate-related and environmental strategy:

1) The potential impacts of climate-related and environmental risk on financial activity. Its strategy is based on:

    a. Identifying, measuring and managing the risks related to climate change and environmental degradation (section 4.3 Environmental risk management).

        - With regard to the identification of climate-related risks (section 4.3.1 Risk identification), the Bank has been including in its annual review a qualitative approach that strengthens the materiality assessment of the impact of environmental risks (physical and transition risks).

        - With regard to measurement and quantification (section 4.3.2. Assessment and measurement), the Bank has carried out, on one hand, an exercise to focus on climate scenarios, allowing it to obtain a first quantitative estimate at 30 years so as to calculate the expected impairment loss on the portfolio. In addition, the Institution has taken part in the Supervisor's climate stress test, which includes the measurement of potential impacts and the level of progress made to adapt and mitigate its financial activity. On the other hand, the Institution continues to make progress on the calculation of the carbon footprint of its financed portfolio, using the Partnership for Carbon Accounting Financials (PCAF) methodology.

        - With regard to the management of climate-related and environmental risk (section 4.3.3 Integration into management procedures), the Bank aims to: (i) continue building on its knowledge and classification according to the environmental and climate-related impact in its activity, in addition to including initiatives to improve the quality of information, and (ii) take action to mitigate the impact of these risks (sectoral standards and establishment of decarbonisation pathways for specific sectors).

    b. Identifying and leveraging opportunities related to the transition to a sustainable economy (section 5. Commitment to sustainable finance):

        - Increasing exposure to green financial assets, as they are a key factor in achieving decarbonisation targets. In this regard, the Institution in the implementation of financing solutions in the different businesses through Green and Social Loans (GSLs) and Sustainability-Linked Loans (SLLs).

        - Advising and responding to the challenges of transition of all customers (large enterprises and corporations, SMEs and individuals) by:

            1. Offering strategic support, identifying the most appropriate sustainable finance solutions.

            2. Promoting the energy transition through solutions and agreements with partners from different sectors.

            3. Offering ESG investment opportunities.

- Managing with greater knowledge and specialisation, leveraging teams specialising in sustainability. Internally promoting the development of new solutions with the involvement of employees, such as the first internal sustainability hackathon. On an external basis, fostering ecological research through the Marine Sustainability Award, promoted by the Bank and its Foundation.

2) The impacts that the Group generates directly on the environment through its processes and facilities (section 4.4. Environmental management and impact). Its strategy in this regard consists of:

   a. Reducing own greenhouse gas (GHG) emissions and other sources of pollution, through:

      - Environmental management of its facilities
      - Reduction of own consumption
      - Actions in the circular economy and waste management

   b. Offsetting its own emissions.

      Compared to 2021, Banco Sabadell has approved an expansion of its offsetting scope to include all its 2022 Scope 1, 2 and 3[16] emissions in Spain, Mexico and the USA, by purchasing credits in a carbon capture project in Spain.

      TSB, for its part, has offset its 2022 Scope 1 and 2 emissions through reforestation projects in Bolivia and will invest in forests and woodland in the United Kingdom to offset its future emissions.

Portfolio Alignment

In 2022 Banco Sabadell published its first decarbonisation targets[17] for 2030. With this action the Bank, on one hand, based on the targets established in the Paris Agreement, prioritises the transition of its lending portfolio, focusing on the transformation of large enterprises in the Power Generation, Oil and Gas, Cement and Coal industries and, on the other hand, it continues to move forward in its commitment to the leading climate partnerships, such as the Net-Zero Banking Alliance (NZBA) promoted by UNEP FI, and in setting decarbonisation pathways to reduce the carbon footprint of its lending and invested portfolio in order to achieve net zero by 2050.

Decarbonisation targets

In this first year, the Bank has prioritised the setting of targets for 2030 for the four sectors with the biggest climate impact and it has taken into account the Net Zero Emissions by 2050 Scenario published by the International Energy Agency (IEA), which establishes decarbonisation pathways for different sectors that are consistent with limiting the global temperature rise to 1.5 degrees centigrade above pre-industrial levels. In this regard, the Bank is following a sectoral approach, focusing on the stage of each sector's production chain where transition is most likely to reduce the overall volume of greenhouse gas emissions. Specifically, the Bank focuses its targets on:

- Electricity: businesses whose main activity is the generation of electricity.
- Oil and Gas: businesses associated with upstream and downstream hydrocarbons (including refining activity).
- Cement: focusing on companies with manufacturing activities.
- Coal: companies with activities related to coal mining.

[16] The Scope 3 emissions that will be offset include supplies (water, paper and plastic), waste and business travel. This offsetting does not include emissions associated with the financed portfolio (category 15).
[17] https://www.grupbancsabadell.com/corp/en/sustainability/commitment-to-sustainability.html

Sector	Emissions scope	Reference scenario	Metric	Base year 2020	Target 2030	% total reduction 2020-2030
Electricity	1 and 2	IEA Net Zero 2050	Kg CO_2e / MWh	61	85-45	-
Oil & Gas	1, 2 and 3	IEA Net Zero 2050	Mt CO_2e	6.3	4.9	-23%
Cement	1 and 2	IEA Net Zero 2050	Kg CO_2e / tonne cement	660	510	-23%
Coal	n/a	IEA Net Zero 2050	Million euros (€)	3	~0	-100%

Notes about methodology applied: Base year and 2030 targets data are based on the large corporations segment. To determine industry commitments based on the reduction of emissions intensity (electricity and cement), average emissions intensity has been calculated based on emissions and output attributed according to the amount of financing granted.The commitments have been determined based on the methodology of the Science-Based Targets initiative (SBTi) and the pathway indicated in the reference scenario for the oil & gas, cement and coal industries.

Identification of impacts in the establishment of targets

To set targets and identify the levers of transformation in carbon-intensive sectors, it is vital to understand their origin and progression. To that end, the patterns described below have been identified:

- In the electricity sector: the Bank's current baseline is 61 kg CO_2e/MWh, far below the level of intensity envisaged in the reference scenario (IEA NZE 2050) for the base year. This intensity is even lower than the targets established for 2030 by the main European peers and is within the intensity range expected in the reference scenario approximately for 2036-2037. This situation is the result of the Bank's specialisation in renewable energy that it began in the 1990s by financing and investing in renewables projects, particularly those based on wind and solar technology. Against this backdrop, the Bank aims to maintain the intensity of its CO_2 emissions at a range of between 85-45 kg CO_2e/MWh in order to ensure that it remains by the side of all its customers during their transition process. This strategy is aligned with the REPowerEU plan and the ambitious energy targets of the European Union in relation to the buildout of renewable electricity generation. The Bank will continue to take action with the same diligence it always has, undertaking to remain a standard-bearer for financing and investing in energy and technology that can serve as alternatives to fossil fuels.

- In Oil & Gas: the Bank has set itself the target of reducing total emissions associated with positions in this industry by 23%, in line with the reference scenario. It plans to achieve this reduction mainly by supporting companies in this industry as they implement their transition plans, whose main levers include producing low-carbon products (such as, for example, green hydrogen, e-fuels, biofuels), boosting their electricity generation business and improving the efficiency of emissions-intensive processes. These plans typically have emissions reduction targets that are generally aligned with this ambition.

- In the cement sector: the Bank has set itself the target of reducing the emissions intensity per tonne of cement produced by 23%, in line with the reference scenario. The measures with which it plans to achieve this reduction include, among others, supporting customers as they implement the transition plans published by organisations in their respective sectors, such as the roadmap of Spain's association of cement manufacturers (Oficemen), which among other things considers the buildout of renewable electricity generation, the use of low-carbon fuels and the improved efficiency of current production processes as a necessary path towards the industry's climate neutrality.

- In the coal sector: in line with expectations as a member of the Net-Zero Banking Alliance (NZBA), the Bank will have no exposure to coal mining activities in 2030.

Upcoming milestones

In its next steps, Banco Sabadell plans to continue setting additional interim targets for the rest of the carbon-intensive sectors identified by the Net-Zero Banking Alliance (NZBA). The Bank will also report on the progress made with the commitments it has undertaken and it will unveil an action plan to ensure it meets the aforesaid targets.

4.3 Environmental risk management

Environmental risks can be associated with two types of factors that act as risk drivers: 'physical factors' and 'transition factors'. Physical and transition risks are closely interlinked. Specifically, it is estimated that physical risks will be reduced once the transition policies have been implemented and vice versa, i.e. if no actions are taken to transition, physical risks will increase. There is therefore a trade-off between physical risks and transition risks depending on how and when policies are implemented to facilitate the transition towards a sustainable economy.

This aspect is key, as physical and transition risks have the potential to produce significant impacts for the real economy (institutions and households) and for the wider financial system. Ultimately, they could also affect the social stability and solvency of the countries that are most vulnerable due to their exposure to environmental risks.

Is it therefore worth pointing out that the Group currently identifies environmental risks (those related to the climate and environmental degradation) according to whether they are transition risks or physical risks. Specifically, climate-related risks are measured broken down by transition and physical drivers, while risks associated with environmental degradation (other non-climate-related factors) are measured in aggregate form, without distinguishing between the nature of the drivers in question (transition or physical).

4.3.1 Risk identification

Physical risks

Physical risks could have several consequences; for instance, they could destroy physical assets or render them unusable, or they could disrupt the business, with the ensuing risk of a loss of value of collateral, due to the impeachment of commercial or residential properties serving as guarantee for loans, or they could put borrowers at risk of failing to meet their payment obligations due to being unable to use their assets or due to disruptions of the production and supply activities of companies that generate proceeds with which to meet payment obligations. In parallel, they could result in the emergence of potentially significant effects of climate change on various socio-economic variables, including mortality, migrations, job offers or productivity (and therefore on GDP).

Therefore, physical factors or 'physical risks' identify the following types of risks (non-comprehensive list):

Environmental physical drivers		**Description**
Acute	Greater severity of extreme weather phenomena, such as: (i) heat waves (ii) cold snaps, (iii) forest fires, (iv) cyclones / hurricanes / typhoons / storms / tornadoes, (v) droughts, (vi) heavy rainfall, (vii) flooding, and (viii) landslides and subsidence.	Reduction of income due to reduced production capability (e.g. shutdown in production, in the supply chain or transportation difficulties). Direct losses due to damage to assets.
Chronic	Changes in rain patterns and extreme climate variability. Impacts on exposures with sensitivity to (i) changing average temperatures, (ii) heat stress and thawing of permafrost, (iii) changing wind patterns, (iv) changing patterns and amounts of rainfall, (v) water stress, (vi) land and coastal erosion, (vii) land degradation and (viii) rising sea levels.	Loss of value of customers' assets serving as guarantees due to their being located in areas affected by these risks (desertification, rising temperatures, rising sea levels, among others).
	Gradual loss of services of ecosystems (water and food production, climate control and disease prevention, support for the pollination of crops and cultural benefits).	Decline of production and/or profitability of customers who depend on ecosystem services.

Following this definition, during 2021, Banco Sabadell Group conducted a preliminary estimation of the impacts arising from these climate events on its loan portfolio taking into account:

- the probability of occurrence of physical risks: using risk maps to assign a probability of occurrence;
- the severity of those risks should they occur: understood as the impact that would arise if physical risk were to materialise, estimated at a sectoral level for the business lending portfolio and in terms of the location of the collateral for the mortgage portfolio.

This way, the Group has developed a methodology internally which distinguishes between acute and chronic events in line with the three orderly transition, disorderly transition and hot house world scenarios of the NGFS (Network for Greening the Financial System)[18] and adapted to a time horizon of 30 years.

This makes it possible to assess those that could have a more significant impact on its portfolio, based on the location and activities of customers. Using this data, the Group identified a total of 16 events (8 acute and 8 chronic) that could affect the loan portfolio. A preliminary impact analysis was carried out for 11 of them, estimating the impact that they would have on the Spanish portfolio: **Floods, Fires, Rising sea levels, Droughts, Hot spots, Landslides, Maximum temperatures, Minimum temperatures, Rainfall and thaws, Fog and dust, Storms, winds and gales**.

The impacts of physical risk are classified as 'No risk', 'Low', 'Moderate', 'High' or 'Very High'. In this analysis, the impact is rated taking into account a 30-year time horizon, meaning that the portfolio could be impacted by the detected events in the medium or long term.

These risks are currently being monitored under the orderly transition scenario, which is considered the most likely scenario.

On the other hand, in 2022, the Bank has continued to work on measuring physical risk and events associated therewith in the different geographies in which it operates. To that end, this year it has continued to work on the assessment through work groups with the teams in the different geographies in which the Bank operates, and a system has been put in place to automatically update that estimate on a regular basis.

Based on this assessment, the most severe physical risks in the portfolio are forest fires, floods resulting from severe storms, as well as coastal floods and rising sea levels in Spain, while hurricanes are added to the list in the case of Mexico and Miami (United States). Using this methodology, the Bank's exposure associated with 'very high' physical risk is 2%.This impact analysis measures the risk inherent in the portfolio and not the residual risk, as the controls currently in place to mitigate it are not considered, nor is the existence of cover, such as home insurance and/or the existence of the Spanish Insurance Compensation Consortium (*Consorcio de Compensación de Seguros*), among other things.

With regard to TSB, taking into account that the loan portfolio is comprised mainly of mortgage assets, the main physical risks (in the medium and long term) are floods, subsidence and coastal erosion.

Transition risks

Transition risks are those arising from the financial impact that activity decarbonisation processes have on companies. These risks can take the form of:

Environmental transition drivers		**Description**
Legal and regulatory	Increase in the cost of emissions or the use of natural resources.	Risk of borrowers failing to fulfil their payment obligations, particularly those with non-performing assets or belonging to sectors particularly exposed to transition risks.
	Increase in requirements concerning the monitoring, control and reporting of climate-related and environmental disclosures.	Increase in resources dedicated to the analysis, reporting and integration of transition and environmental protection plans for companies' activity. Potential increase in regulatory capital requirements for risks associated with climate change.
	Change in regulations of existing products and services.	Forecast increase in environmental demands going forward and lack of preparation in some sectors.
Technology	Substitution of existing products and services with other more efficient or less polluting ones.	Potential for companies being pushed out of their respective activities due to a lack of innovation or a failure to adopt technologies that promote the green transition compared to competitors.
	Failure to invest in new technologies. Costs of transitioning to low-emissions technology.	Technological changes depend on the availability of technology, in turn associated with investment in R&D, meaning that this aspect will determine the survival of some companies, especially those smaller in size.

[18] For more information about the scenarios used, see section "Climate scenarios and stress test" of chapter 4.3.2.

Environmental transition drivers		Description
Market	Changes in consumers' preferences and/or tastes in relation to the transition towards a more sustainable economy.	Risk of losing market share as a result of failing to offer sustainable products or due to poor ESG performance.
	Increased cost of commodities.	Reduction of income due to increased costs of commodities in certain carbon-intensive industries.
Reputational	Stigmatisation of a sector, company or product.	Loss of customers' solvency due to poor reputation as a result of the lack of a sustainable strategy or due to an incident or poor ESG ratings by a third party.
	Exclusions from investing in certain sectors due to market pressures.	Loss of trust among the general public.

Following this definition, Banco Sabadell Group has internally developed heat maps at a sub-sector level, aligned with the three scenarios (orderly transition, disorderly transition and hot house world) of the Network for Greening the Financial System (NGFS)[19] and the recommendations of UNEP-FI and adapted to a time horizon spanning 30 years.

Based on this, all the activities of the loan portfolio have been classified according to their sensitivity to climate transition risk, taking into account the impacts envisaged in each scenario in terms of income, expenses and low-carbon capex. Nevertheless, these risks are currently monitored under the orderly transition scenario, as this is considered the most likely scenario.

It is worth noting that the heat maps were updated in 2022 in order to obtain the impacts stemming from transition risk with a greater level of granularity. Thus, the Bank currently has the capacity to identify the transition risk of each separate activity within a single sector. This is important for sectors involving a variety of activities that differ considerably where emissions are concerned. One example of this is cattle rearing and rice growing, which both form part of the agriculture and livestock farming sector, as they are associated with higher levels of emissions intensity than the other activities within that same sector.

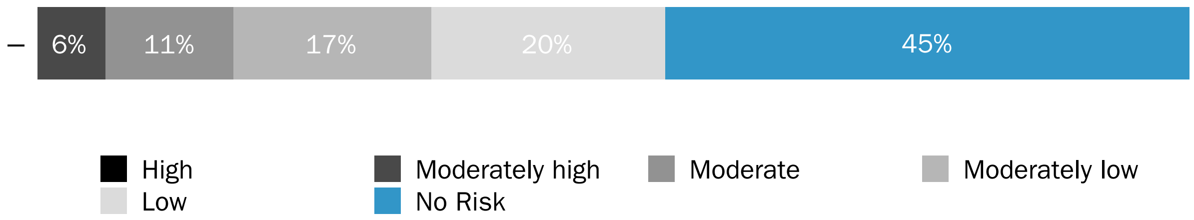
In the case of transition risk, the impact has been considered in terms of revenues, costs and low-carbon capex. Impacts are classified as 'positive' for activities in which the transition may indeed have a positive effect on one or more parameters, as 'No risk', 'Low', 'Moderately low', 'Moderate', 'Moderately high', or as 'High' which includes, for instance, the activities most affected by transition risk such as coking plants. In this analysis, the impact is rated taking into account a 30-year time horizon, meaning that the portfolio could be impacted by the detected events in the medium or long term. This impact analysis measures the inherent risk of the portfolio and not the residual risk, as the controls currently in place to mitigate it are not considered.

The Group's most affected portfolio is its portfolio of companies, although as shown in the chart[20], the Bank currently has no exposure to the segment with the highest transition risk ('High'). This exercise has also cast a light on the limited weight of sectors with higher transition risk (aviation, marine, mining, automotive, oil and extractive industries), which play a secondary role in terms of exposure within the Institution's portfolio, as well as the high percentage of exposure classified as green in the electricity sector, which is thanks to the efforts made by the Institution to be a leader in terms of renewables funding.

As regards TSB, the main transition risks stem from the low energy performance of the properties on which the mortgage loans are secured and the cost of improving the energy rating of the properties (in the short, medium and long term).

[19] For more information about the scenarios used, see section "Climate scenarios and stress test" of chapter 4.3.2.
[20] It has not been possible to classify companies not identified with an economic activity code (which represent 1% of the total) according to their transition risk.

Distribution of the transition risk on the companies portfolio (%)



Lastly, as an embodiment of the Bank's commitment to the transition of emissions-intensive industries, the Bank currently has the largest market share of sustainability-linked loans in sectors classified as having 'Moderately high' transition risk.

Environmental degradation risk

In 2022, the first assessment of the risk associated with environmental degradation of the business risk portfolio was carried out, based on the UNEP-FI methodology. To that end, each NACE[21] code was assigned an environmental impact (rated as low, medium or high), obtained based on the consolidation of the following five non-climate-related environmental factors:

- Management of water resources: risk of water resources becoming contaminated, and their management.
- Impact on biodiversity: negative effects on species and natural spaces.
- Pollution and use of land: risk of land becoming contaminated or degraded, as well as the use associated therewith.
- Air quality: risk of air being polluted with non-GHG gases, which could potentially affect ecosystems and people's health.
- Management of resources and waste: generation of waste (hazardous or otherwise) in large quantities and with intensive use of natural resources.

The total environmental degradation risk score consolidates the risk associated with each of these factors. It is worth noting that at present environmental degradation risk (as well as the five factors) is not broken down by drivers (transition and physical).

4.2% of the business portfolio has been rated as having a 'High' environmental degradation risk[22]. At a sectoral level, environmental degradation risk is concentrated in certain sectors, such as electricity and gas, transport, and the chemical, oil and extractive industries, which results in these companies having a much more negative impact.

Lastly, to ensure that the measurement of the evolution of these risks is supervised, since September 2022 the portfolio's exposure to climate-related and environmental risk has been monitored on a quarterly basis. The reports are sent to the Bank's Sustainability Committee and to the Technical Risk Committee (TRC).

Qualitative materiality analysis

Environmental risk should be understood as the risk of incurring losses as a result of the impacts of environmental risk factors (associated with climate change and environmental degradation) and which are transmitted through two types of risk drivers, which can be categorised as physical risks or transition risks.

In this regard, the Bank has created a matrix of transmission channels which identifies how the environmental risk factors impact on traditional risks.

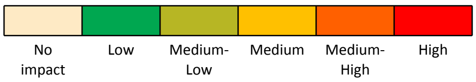
[21] European classification of economic activities (NACE by its French acronym).
[22] Part of the portfolio could in turn also be affected by climate transition risk, therefore the percentages of each one cannot be added together directly.

Every year, the Institution reviews the materiality analysis of the impact of environmental risks (physical and transition risks), identifying all possible factors that can transmit these risks, evaluating them according to a scale of impact intensity and taking different time horizons into account (based on the criteria established by the supervisory body). This exercise takes place for all risks included in the Global Risk Framework considered to be directly impacted by environmental risk. Specifically, credit risk, market risk, operational risk and liquidity risk are assessed. It is thought that, in the case of reputational risk, the effect is indirect, as it originates through the impact and management of the aforementioned risks.

Indicators are used that allow the intensity of the impact of physical and transition risks on both customers/counterparties and on the Bank to be measured according to an impact intensity scale that goes from low to high and taking into account different time horizons (in years - short-term: 1-3, medium-term: 4-5; long-term: >5).

The results of the qualitative materiality analysis, by type of risk, are shown below. This is a preliminary risk assessment, without considering the controls implemented or the success of the mitigating factors that the Institution has in place or which are in the process of being implemented under the Sustainable Finance Plan.

	ST	MT	LT
PHYSICAL RISK			
Credit			
Market			
Liquidity			
Operational			
TRANSITION RISK			
Credit			
Market			
Liquidity			
Operational			



The results of the updated analysis carried out in Q4 2022 showed that the most affected risk was credit risk, followed to a lesser extent by operational risk. With regard to credit risk, the long-term impact stemming from acute physical risks was revised upwards, while the medium-term impact from transition risks due to technological factors was revised downwards.

4.3.2. Assessment and measurement

Climate scenarios and stress test

All activities of the loan portfolio have been classified according to their sensitivity to transition risk and physical risk, taking into account the impacts envisaged in the three scenarios used to forecast them:

- Orderly transition: In the Orderly Transition scenario (RCP[23] scenario 2.6), early and decisive action is taken to be carbon-neutral by 2070; as a result, the average temperature of the planet in 2100 is no more than 2°C higher than in the pre-industrial era. To that end, the "Immediate 2 degrees" climate scenario of the NGFS (Network for Greening the Financial System) is considered for transition risk, forecast using the Remind and Magpie models.

- Disorderly transition: In the Disorderly Transition scenario (RCP scenario 4.5), action to combat climate change is delayed by 10 years. This means that sharper action needs to be taken between 2030 and 2050 in order to achieve carbon neutrality before 2070. To that end, the "Delayed 2 degrees" climate scenario of the NGFS is considered for transition risk, forecast using the Remind and Magpie models.

- Hot House World: In the Hot House World scenario (RCP scenario 6.0), only currently implemented policies designed to fight climate change are preserved. Emissions continue to rise at the current

[23] *Representative Concentration Pathways*

pace and the target warming of <= 2ºC before 2100 is not met. The impact stemming from transition risk is non-existent (NGFS Current Policies).

This has enabled the Institution to make progress on its first bottom-up quantitative estimation with a 30-year time horizon using a structural model that can be used to carry out a quantitative calculation of expected impairment loss on the portfolio.

The characteristics of the scenarios used internally by the Bank are the same as those presented by the European Central Bank in its climate stress test of 2022[24], with the exception of the 1-year physical risk flood scenario. This has been replaced with a 1-year physical risk scenario based on severe forest fires, in an attempt to include a more damaging systemic scenario for the Spanish economy and for the Group than the flooding scenario envisaged by the ECB.

The main sources used to develop the climate scenarios are the scenarios published by the NGFS in September 2022 and the forecasts made by the ECB in its 2022 climate stress test. Similarly, the forest fire scenario has been developed based on the forest fire risk index created by the European Forest Fire Information System (EFFIS, a body of the European Commission) and academic literature on this topic.

In 2022, Banco Sabadell took part in the climate risk stress tests conducted by the European Central Bank. To that end, it also used its own framework of climate risk stress testing, which establishes the basic characteristics of the aforesaid tests, including their integration in the Internal Capital Adequacy Assessment Process (ICAAP).

During these stress tests, forecasts are made of climate risk in order to measure the sensitivity of the Group’s credit risk to transition and/or physical risks linked to climate change and to possible transition pathways towards a decarbonised economy. The impact of physical and transition risks on the Group’s solvency position is limited, from both a regulatory perspective and an internal perspective. Environmental risk has a limited impact on internal capital requirements due mainly to the time horizon over which it materialises.

Emissions of the financed portfolio

Emissions of the financed portfolio account for the largest proportion of the Group’s Scope 3 emissions. Therefore, since 2021, Banco Sabadell Group has calculated the carbon footprint of its financed portfolio using the Platform Carbon Accounting Financials (PCAF) methodology. PCAF is a global alliance of financial institutions that work together to develop and implement a harmonised and global approach to measure and report emissions associated with their loans and investments.

As part of this alliance, 16 institutions established the design of the Global GHG Accounting and Reporting Standard for the Financial Industry, which aims to harmonise the accounting of greenhouse gas emissions. Banco Sabadell became a member of the PCAF in June 2022. The measurement of emissions of the financed portfolio using this standard is a key step for financial institutions to assess the transition risks associated with climate change, set objectives aligned with the Paris Agreement and develop effective strategies to decarbonise the economy.

As regards the PCAF methodology, Banco Sabadell Group has applied the methodology envisaged in the Standard mentioned above, which has been devised mainly for financial institutions that want to measure and share their GHG emissions financed through their loans and investments, and which allows the following asset classes to be measured:

- Listed stocks and corporate bonds
- Corporate loans and unlisted stocks
- Project finance
- Commercial real estate
- Mortgages
- Consumer loans for vehicle purchase

[24] In addition to the scenarios described above, two short-term physical risk scenarios and one short-term disorderly transition scenario are used for the ECB stress test.

Additionally, the Bank has estimated the emissions of sovereign wealth funds.

Based on this methodology, the Group has calculated its carbon footprint (Scope 1 and 2) for approximately 95% of its financed portfolio[25]. The portfolios not calculated are those for which no calculation or estimation standards or methodologies exist, such as public sector lending, consumer loans for purposes other than vehicle purchase, and private banking lending, among others. It is worth noting that in 2022 the Group has continued to improve its calculation model to obtain more reliable and complete results, all of which have been submitted to the Sustainability Committee. The main improvements are the following:

– increase of data coverage due to the inclusion within the perimeter of exposures of foreign branches and Banco Sabadell's subsidiary in Mexico, in terms of both business lending and project finance;

– incorporation of actual emissions data with regard to business risk as well as floor area and energy certificates, both real and estimated by appraisal firms, leading to an improved estimate of data quality (DQ)[26];

– incorporation of emissions factors set out in PCAF standard in cases for which no information is reported by the borrower.

The emissions intensity of the financed portfolio in terms of Scope 1 and 2 in 2022 was 82.67 tCO_2eq/€m with an average DQ of 3.77. The segment that contributes the most to the footprint is the business portfolio (approximately 75%), followed by mortgage lending.

To ensure that the carbon footprint of the financed portfolio is monitored and supervised, since September 2022 the portfolio's exposure to climate-related and environmental risk has been monitored on a quarterly basis and reported to the Bank's Sustainability Committee and to the Technical Risk Committee (TRC). Similarly, in the last quarter of 2022, the calculation of the carbon footprint of the financed portfolio was audited with the participation of an independent third party.

4.3.3 Integration into management procedures

Effective integration of environmental risks into management arrangements requires a strategy and set of regulations that establish the guidelines, targets and limits required at different points of the credit approval workflow.

For this reason, the Group has an environmental and social risk framework that establishes the Group's position, stating that it aims to avoid financing activities considered to have a high environmental risk. At the same time, the Group fosters green financing, using to that end an Eligibility Guide that outlines the activities deemed to be sustainable (in environmental and social terms), in alignment with the EU Taxonomy Regulation.

In parallel, as part of the financial sector, the Group promotes the transition of companies and businesses, steering the financing according to the nature of the activities and making it easier for agents in polluting industries who work to improve their ESG performance to transition to a more sustainable model. With this aim in mind, the Management Guidelines for ESG risks have been defined, through which the Group aims to limit access to funding for polluting companies with poor ESG performance. To classify large enterprises according to their ESG performance, the Group is defining an indicator internally.

Lastly, it is worth pointing out that the Bank, in parallel to all of the initiatives intended to integrate environmental risks into management arrangements, has a series of initiatives underway to improve the quality of the information on which it bases its decisions (databases, customer data gathering projects, among others).

Environmental and social risk framework

Banco Sabadell Group has a public framework of environmental and social risks that is applicable to new loan transactions granted to groups or companies with turnover in excess of 200 million euros and to projects for which over 5 million euros have been borrowed. This framework consolidates the set of applicable criteria that aim to limit the financing of customers or projects that the Institution considers to be

[25] The calculation includes the mainstream business of the subsidiary TSB, which represents 98% of its portfolio.
[26] The PCAF methodology provides scores for rating the quality of the data used (Data Quality, DQ), which go from 1 (highest data quality) to 5 (lowest data quality).

contrary to the transition to a sustainable economy or to lack alignment with international regulations or best practices in the industry.

The environmental and social risk framework is developed in stages in order to adapt the applicable criteria to the trends of the various sectors, the regulatory and economic environment and the Group's performance. Currently, the Bank has a first set of standards approved and implemented in 2020-2021 and it has approved a second set that will be implemented between 2022 and 2023.

The first set of the Group's sectoral standards particularly affected the energy and mining industries. They were validated by the Sustainability Committee in 2020 and approved by the Group's Risk Operations Committee and implemented in the Institution's systems during 2021. The scope of these standards included the funding of new transactions carried out to grant lending for the following types of projects[27]:

- Coal mining (new and expansion)
- Asbestos mining, processing and trade
- New coal-fired power plants
- New nuclear power plants
- Arctic oil, gas exploration and production
- Oil sands exploration and production

The second set of standards approved in December 2021 introduced over 40 additional rules, which can be categorised as general criteria and specific criteria, which can apply to either customers or projects:

- The applicable general criteria, which have a cross-cutting impact on all sectors and which were included in the second set, follow international standards such as the Global Compact and the principles of the International Labour Organisation (ILO), among others.
- The applicable specific criteria (with standards at the customer and project levels), on one hand, include additional standards for sectors already considered in the first set (i.e. mining and energy) and, on the other hand, they introduce standards for new sectors such as defence, infrastructure and agriculture.

The effective implementation of the standards is based on the inclusion of their analysis in the routine processes for customer onboarding, acceptance of transactions and approval of new products. The standards applicable to projects have already been implemented, while those applicable to customers will be implemented in 2023.

In the specific case of Banco Sabadell Mexico, as part of the Environmental and Social Policy, the Institution has developed the Environmental and Social Risk Management System (*Sistema de Administración de Riesgos Ambientales y Sociales*, or SARAS), which serves as a guide to promote sustainable economic growth through the identification, assessment and management of environmental and social risks arising from the activities and projects financed by the Bank. This system is fully aligned with the operational and credit processes of Banco Sabadell Group, national laws and international standards. The SARAS process is mandatory for infrastructure projects of the various sectors financed by Banco Sabadell Mexico with traditional loans, syndicated loans and financial intermediaries amounting to 5 million US dollars or more.

Lastly, as mentioned, the implementation of the standards included in the environmental and social framework are already in place at the transaction level and they will be fully in place at the customer level during 2023. To ensure they are implemented correctly, the Bank has a specialised tool used for screening any disputes associated with the counterparties and backed by the services provided by a reputable third-party supplier[28].

[27] In addition to the activities impacting the environmental transition, the Group abstains from establishing trade relations with links to 'controversial weapons' and/or with 'countries subject to arms embargoes' to avoid the potential use of these weapons for the commission of crimes or serious human rights violations. This point is described in section 9. Commitment to human rights.

[28] An external tool has been acquired for research, ratings and analysis of data concerning environmental, social and governance (ESG) factors of institutional investors and firms.

EU Taxonomy

The European Union took a further step as promoter of the energy transformation and the decarbonisation of the economy. In line with the objectives of the fight against climate change, it established the Taxonomy Regulation (Regulation (EU) 2020/852), which was the first step towards obliging firms to disclose the proportion of their activities that are considered green or social, according to this regulation.

This regulation, which establishes requirements for the classification and reporting of sustainable activities, is a key aspect for the integration of ESG aspects into the Group's ordinary activity, as well as being a strategic aspect for the Group. For this reason, it is regularly monitored by the Technical Risk Committee and the Sustainability Committee.

This is why, back in 2020, Banco Sabadell Group developed its own Eligibility Guide in accordance with the EU Taxonomy of green activities and based on the Social Bond Principles in relation to social matters pending release of the EU's social taxonomy. This led to the first implementation phase of the internal eligibility guide to identify eligible activities based on the Taxonomy, as well as those considered to be taxonomy-compliant or in alignment with the Taxonomy. As a result of this work, the Group's systems currently include a process for tagging priority green products, which allows the entire management cycle of those products to be traced and ensures their alignment with the taxonomy's requirements. As described earlier, given that this is a key strategic aspect for the Bank, work has been underway since 2020 to keep the Eligibility Guide in line with regulatory updates and to implement it in operating systems. For this reason, since 2020, two additional phases have been carried out, which are explained here below.

The second phase consisted of updating the Eligibility Guide according to the latest Delegated Act in relation to the taxonomy, of July 2021. In addition, the Bank worked to align the guide to eligible activities with the first draft of the social taxonomy. In June 2021, a new feature was introduced in the corporate systems to allow transactions to be tagged as sustainable, so that they can be not only identified, but also duly justified in accordance with the Bank's Eligibility Guide and, therefore, aligned with EU Taxonomy criteria. It is worth noting that this implementation went hand in hand with a specific training course that focused on promoting the identification and documentation of transactions that meet the criteria of the Bank's Eligibility Guide.

Lastly, in January 2022, the guide was updated to include energy activities related to natural gas and nuclear energy, set out in the Complementary Climate Delegated Act of the European Commission.

Thanks to this work, in accordance with the disclosure requirements established by Delegated Regulation (EU) 2021/2178 of the European Commission, of 6 July 2021, the following information is disclosed, as at 2022 year-end:

Among the obligations of the aforesaid regulation is that of reporting, within the Non-Financial Disclosures Report of financial institutions, the proportion in their total assets of exposures to Taxonomy-eligible and Taxonomy non-eligible economic activities.

Based on the current EU Taxonomy, Banco Sabadell Group has an eligible portfolio of 43% of total assets as at 2022 year-end.

In order to identify and segment exposures deemed 'eligible' within the Group's exposures, the following eligibility criteria are applied to loans in the business and retail portfolio:

- Business risk: Exposures to companies with (NACE) activities included in the Banco Sabadell Eligibility Guide (activities for which there are technical criteria defined in the EU Taxonomy to determine whether they can be considered sustainable) are deemed eligible. There are two criteria whereby a NACE code is included in the Banco Sabadell Eligibility Guide, the main one being the inclusion of the same in the NACE list proposed by the European Commission in its "EU Taxonomy Compass document - Annex 1: List of activities and NACE codes assigned". In addition, there is an additional criterion which is an activity that is not listed by the European Commission, but that is included in Annex 1 of the Delegated Taxonomy Regulation.

- Retail mortgage risk: All exposures to individuals secured with a first or second property are deemed eligible, as the purpose of these loans is included within the EU Taxonomy. By the same token, exposures to individuals secured with other types of assets (garages, cellars, etc.) are not included.

- Vehicle financing risk: All vehicle financing exposures are deemed eligible, as this purpose is included within the EU Taxonomy.

Compliance with any of the three criteria described above results in the classification of the exposure as 'eligible'. On a complementary basis, the remaining exposures that do not meet any of the above criteria are considered 'non-eligible'.

In addition, the remaining information to be disclosed is included in Annex 4: Taxonomy indicators.

Climate-related and environmental performance of the loan book

Since September 2021, all of the Group's transactions that are submitted to or revised by the Delegated Credit Committee have an advanced ESG assessment to identify the most significant ESG risks of the counterparty. This assessment takes into account the type of exposure that the Bank has to customers and, in particular, the customers' ESG performance, considering not only the intrinsic risk of their activity, but also their attitude towards and management of these risks, as well as external ESG ratings, ESG plans or strategies and their comparative position compared to peers in their respective sectors. The Delegated Credit Committee is therefore able to incorporate non-financial factors into its decisions.

During 2022, efforts have been made to build on this advanced assessment in order to automate factors and incorporate new ones. An indicator is being designed for large enterprises, which will make it easier to screen borrowers in terms of climate-related and environmental risks, with improved uses in both business and risks, thus enabling improved integration in policies and tools.

On the other hand, management guidelines for smaller businesses are different from those for larger firms; therefore, since 2021 an ESG indicator has been in place that has been adapted to companies according to their size. The indicator in question is an integrated questionnaire used when interacting with customers in order to advise them on their transition towards more sustainable models and increase the exposure to green financial assets. Using the results of the questionnaire as a basis, an indicator has been developed that can identify the degree of customers' sensitivity to sustainability, as the indicator allows companies to be classified according to ESG criteria.

ESG risk management guidelines

In order to limit the Bank's exposure to transition risk and, at the same time, support emissions-intensive companies in their transition to sustainable activity, the ESG Risk Management Guidelines have been defined. These Guidelines limit the origination of funding transactions for corporates and projects with carbon-related activities (greenhouse gas emissions-intensive) and with low ESG performance and/or a poor attitude to ESG. This way, the Bank will be able to continue funding the transition of emissions-intensive companies if they have made sufficient progress in their management and have medium or advanced ESG performance.

With regard to the evaluation of companies' management and performance, at present the Bank classifies companies based on the advanced ESG assessment that is escalated to the Delegated Credit Committee, according to the criteria described in the previous heading.

Initiatives to improve the quality of environmental information

Given the limited ESG information reported and disclosed by companies, as well as the lack of historical records and lack of uniformity between the information reported on those risks and their monitoring metrics, it is vital to have access to better ESG data in order to identify, manage, classify and monitor risks associated with climate change.

For this reason, since 2020, Banco Sabadell Group has been taking various actions to increase the quantity and quality of ESG data about customers. There are two particular areas on which it has taken action in 2022 that are worth mentioning:

Real estate collateral: with the support of a third-party supplier, since 2021 batch uploading processes of the energy ratings of residential real estate and commercial real estate (CRE) of the portfolio have been carried out. It is worth highlighting that, since the second quarter of 2020, the Group has been capturing this data for its newly originated mortgage loans. On the other hand, due to the calculation of the carbon footprint of the Bank's mortgage and CRE portfolio, the Bank has been working to gather information about actual useful surface areas of the assets it has financed.

Business risk: in 2021 a task force was held to gather environmental data from customers (ESG KYC - Know Your Customer), as the first pilot project for the CO_2 emissions-intensive portfolio, which included, among other things, the capture of actual emissions data (Scope 1, 2 and 3) as well as additional data such as energy consumption, % of renewables consumption, emissions prevented (where applicable), external ESG ratings, environmental targets and sectoral emissions intensity KRIs (Key Risk Indicators).

Furthermore, in 2022 work has continued to improve information. On one hand, the calculation of the carbon footprint of the financed portfolio involved gathering actual data of borrowers' emissions, as well as the information needed to calculate the attribution factor.

On the other hand, the Group has created an indicator for large enterprises through which it has begun to gather information from customers through a team specialising in ESG risks. In order to begin gathering information, in the fourth quarter of 2022 a supplier was hired to do a batch upload of the main borrowers' ESG information.

Lastly, due to the definition of the Bank's decarbonisation strategy, work has been carried out to capture data regarding the emissions, production and transition plans of the main borrowers. First, attempts were made to obtain this information from public sources and, where this was not possible, customers were contacted to request that information.

In addition to this work to gather external information from customers, the Bank also works internally to centralise ESG information through a thematic sustainability datamart in order to provide a single point of access to all those who require it. In order to ensure the internal control of the information managed, a person is assigned to be directly responsible for the information, and users of the information are also defined. Based on the assigned responsibilities, a series of tasks are established to ensure the quality and uniformity of the information.

Control, Supervision and Monitoring of the sustainable portfolio

The Bank has different policies and procedures in place and it also takes action to foster sustainable financing. To ensure the aforesaid policies, procedures and actions are implemented correctly, one key tool it uses is the monitoring of the sustainable portfolio.

To consolidate the information that is to be monitored, the Bank continuously works to tag green and social transactions and to identify them as soon as they are originated. As of today's date, all green activities have been fully tagged, both those aligned with the taxonomy and those linked to sustainability. With regard to the social portfolio, tagging is either done by the account manager or, alternatively, specific products are tagged. At present, work is still underway to update the systems with the requirements of the internal Eligibility Guide for social activities. This all makes it possible to trace green and social activities throughout their entire life cycle, for the purpose of their monitoring and reporting.

In the same way, other variables are monitored on a monthly basis that are key to the transition of the Bank's portfolio, such as:

- The exposure of the Bank's portfolio to carbon-intensive or carbon-related sectors.
- New lending for green activities, carbon-intensive activities or carbon-related activities.

At the same time, the Institution establishes and develops specific RAS[29] metrics and indicators in the different risk management and control frameworks at the portfolio level, which makes it possible to adapt environmental KRIs to the types of risks and assets that are financed in each one.

With regard to monitoring, the Credit Risk Dashboard is submitted on a regular basis to the Technical Risk Committee and to the Sustainability Committee and includes, among other things, information regarding the progression of the exposures classified as carbon-related, emissions-intensive, green and social, in addition to indicators for monitoring new lending items.

For details about performance on this topic, see section 5. Commitment to sustainable finance.

[29] Risk Appetite Statement.

Credit rating models

Currently, the credit rating model for large enterprises and groups[30] already includes an environmental risk factor. The project finance rating model also collects information on environmental risk.

4.3.4 Equator Principles

Since 2011, the Group has adopted the Equator Principles, an international voluntary policy, standard and guide framework, coordinated by the International Finance Corporation (IFC), a sister organisation of the World Bank, which aims to identify, assess and manage environmental and social risks relating to project finance of 10 million US dollars or more and corporate loans related to projects of more than 50 million US dollars. Through the Equator Principles standards, a social and environmental assessment of the potential impacts of the project is carried out by an independent expert.

During 2022, a total of 21 new structured finance projects incorporating the Equator Principles were signed, 81% of which are renewable energy projects.

Sector	Number of projects	Category	Country	Region	Designated country	Independent review
Renewable energies	4	B	USA	Americas	Yes	Yes
	10	B	Spain	Europe	Yes	Yes
	1	C	Portugal*	Europe	Yes	Yes
	1	B	Portugal	Europe	Yes	Yes
	1	B	United Kingdom	Europe	Yes	Yes
Gas	1	A	USA	Americas	Yes	Yes
Infrastructures	2	C	USA	Americas	Yes	Yes
	1	C	Spain	Europe	Yes	Yes

The categorisation of three renewable energy transactions potentially eligible for inclusion is currently being validated/certified.
*One of the projects in Portugal includes three sub-projects (two category C and one category B).

4.4. Environmental management and impact

Banco Sabadell Group has embedded its environmental, social and governance commitments in its strategy. This change of approach to activity, organisation and processes is based on the transition towards a sustainable economy and sustainable development, on the basis of the 2030 Agenda, the Sustainable Development Goals, the 2015 Paris Agreement against climate change and the European Green Pact, to move towards an emissions-neutral economy.

The integration of environmental commitments puts the Institution in a stronger position from which take on the new challenge of sustainability, on which the Bank has designed its governance model and organisational structure. The Bank fosters responsible policies and practices among its staff, to stimulate environmental protection and build a fairer and more respectful society. Again this year, the Banco Sabadell Annual General Meeting held on 24 March 2022 was certified as sustainable by the company Econep Consultes S.L. (Eventsost), as it was considered that sustainability criteria were met throughout the entire life cycle of the Annual General Meeting.

The organisation has aligned its business objectives with the SDGs, setting different key courses of action. In particular, the commitment to good environmental management requires, among other things, actions to move towards neutrality in terms of the greenhouse gases released into the atmosphere. In this transition towards emissions neutrality, Banco Sabadell has renewed the ISO 14001 certification of its Environmental Management System in its six corporate buildings in Spain, where 20.07 % of the workforce worked as at the end of 2022.

It also requires decisive action to be taken to reduce the Institution's carbon footprint, through activities aimed at reducing its own consumption. Of these, particular note should be taken of the technological advances made to achieve digital interconnection between employees, achieving a substantial reduction of business travel, in addition the actions taken to improve the maintenance of HVAC systems in the Group, to reduce fluorinated gas leaks, which are highly intensive in terms of greenhouse gas emissions released into the atmosphere.

[30] Enterprises whose individual balance sheet shows sales of more than 200 million euros and consolidating groups with sales of more than 200 million euros and loans granted by Banco Sabadell of more than 25 million.

With regard to training activities on ESG for employees, the Group has undertaken the commitment to continue developing its specific training on ESG. Through the *Universidad Carlos III de Madrid*, a certification in sustainable finance is issued, which includes topics about the environment and the fight against climate change, among other topics on financial and social matters. In 2022, the module on sustainable finance was completed by 649 employees. In addition, during 2022, specific on-site training sessions have taken place, to convey the vision of sustainability applied to the business to managers in the branch network and to other specialist roles in corporate buildings.

In Campus, the online training space for Group employees, in addition to the sustainable finance certification programme, employees can also access an introductory course on sustainability, a course on the circular economy and its application in the financial sector, and another operational course on sustainable financing products. A detailed explanation about the training is provided in section 6.3 Training.

In the United Kingdom, TSB sets out its goals in relation to environmental management in its Do What Matters Plan 2025 which, among other aspects, focuses on reducing the Institution's impact on the environment and on supporting customers, employees and other stakeholders to help them make sustainable decisions.

It is worth noting that, in 2022, the Group has started to measure the environmental impact of its business in Mexico and the USA (Miami) by calculating their GHG emissions released into the atmosphere, thereby including the carbon footprint of Banco Sabadell Group in all of the geographies in which it is present.

4.4.1 Carbon footprint

The CO_2 emissions of the Group in its geographies (Spain, UK, Mexico and USA) amounted to 8,103 tonnes (market-based data). If one considers the Group's emissions (ex-Mexico and ex-USA, of which no past emissions data is available), there was a reduction of 3.9% compared to 2021 and a reduction of 60.3% compared to 2019.

	Group (all geographies)[31]	**Group (ex-Mexico and ex-USA)**			
CO_2 emissions in tonnes ($t.CO_2$)	**2022**	**2022**	**2021**	**2020**	**2019**
Scope 1: Direct activities	4,039	3,981	4,975	4,747	5,263
Scope 2: Indirect activities					
Market-based [32]	526	7	10	26	3,971
Location-based [33]	15,138	14,619	17,297	17,356	20,964
Scope 3: Other indirect activities	3,539	2,994	2,281	3,311	8,357
Total emissions generated					
Total market-based	8,103	6,982	7,266	8,084	17,591
Total location-based	22,715	21,594	24,552	25,414	34,584
Total emissions generated per employee (market-based)	**0.43**	**0.39**	**0.38**	**0.40**	**0.86**

Data for 2020 and 2021 include the effects of Covid-19. In 2020, corporate buildings and branches were closed for three months, with employees working from home. For the remainder of 2020 and 2021, corporate buildings alternated between periods of 50% occupancy (with staff taking shifts) and periods of voluntary on-site presence, resulting in an average occupancy reduction of 80%. This in turn resulted in a reduction of consumption, waste generation and business travel.

4.4.2 Offsetting

In 2022, Banco Sabadell approved increasing the offsetting scope compared to 2021 to include all Scope 1, 2 and 3[34] emissions in Spain, Mexico and the USA by purchasing credits in a carbon capture project in the forest of Carballedo (Pontevedra, Spain) to recover degraded land and create a biodiverse forest. The project will also have a social impact, as 80% of the workers belong to vulnerable groups and 50% of the workforce are women from the surrounding rural areas. The total CO_2 emissions that will be offset comes to 5,542 tCO_2 equivalent.

TSB, for its part, has offset its Scope 1 and 2 emissions carried out in 2022, which amounted to 1,669 tCO_2 equivalent, through Forest Carbon's ArBolivia reforestation project (Plan Vivo afforestation), through

[31] Comparisons with previous years will not include data for Mexico and USA, as the Bank has not been able to calculate historical data for their carbon footprints.
[32] Emissions associated with energy supplies calculated based on the emissions certificates of energy resellers.
[33] Emissions associated with energy supplies calculated by applying the country's energy mix as the emissions rate.
[34] The Scope 3 emissions that will be offset include supplies (water, paper and plastic), waste and business travel. This offsetting does not include emissions associated with the financed portfolio (category 15).

which TSB has planted more than 55,800 trees and will invest in forests and woodland in the United Kingdom to offset its future emissions.

The Group maintains its commitment to fighting against climate change, embodied in its aim of being carbon-neutral in its operations, which it undertook upon becoming a member of the Net-Zero Banking Alliance in 2021.

4.4.3 Details of emissions and sustainable use of resources

Further details on CO_2 emissions for each region are included below, as well as details about the resource management carried out:

Report on Banco Sabadell Spain's greenhouse gases (t.CO_2)	2022	2021	2020	2019
Scope 1 emissions:	**2,312**	**2,802**	**2,703**	**3,113**
Consumption of gases [35]	754	787	630	872
Leaks of refrigerated gases [36]	1,514	1,984	2,031	2,091
Fleet of company vehicles [37]	43	31	42	150
Scope 2 emissions:				
Electricity - market-based	7	10	26	18
Electricity - location-based	11,661	13,026	13,054	15,436
Scope 1 and 2, market-based	**2,319**	**2,812**	**2,729**	**3,131**
Scope 1 and 2, location-based	**13,973**	**15,828**	**15,757**	**18,549**
Scope 3 emissions:	**2,103**	**1,538**	**1,941**	**5,607**
Water [38]	105	156	125	157
Paper [39]	451	473	482	818
Plastic [40]	11	14	40	221
Waste [41]	63	75	67	81
Business travel [42]	1,473	820	1,227	4,330
Travel by aeroplane	*655*	*245*	*410*	*2,150*
Travel by train	*35*	*14*	*38*	*249*
Travel by car	*782*	*561*	*779*	*1,931*
Total emissions (Scope 1, 2 & 3), market-based	**4,422**	**4,350**	**4,670**	**8,738**
Total emissions (Scope 1, 2 & 3), location-based	**16,076**	**17,366**	**17,698**	**24,156**

In Spain, as at the end of 2022, the reduction of CO_2 emissions compared to 2019 was 25.9% for Scope 1 and 2 and 62.5% for Scope 3. With regard to Scope 1, the most significant impact on the reduction of carbon emissions came from fluorinated gas leaks, with 27.6% of emissions, mainly due to the process involving the restructuring the branches in the branch network and improvements in the HVAC systems. In terms of Scope 3, paper consumption and business travel, with a reduction of 44.9% and 66.0% respectively, were the factors that had the biggest impact on the reduction of CO_2 emissions compared to 2019. These figures largely reflect the success of the initiatives rolled out to reduce the use of materials in the office, as well as plans to regulate business travel.

With the entire determination to support and accelerate economic and environmental transformations, Banco Sabadell has undertaken the commitment to reduce its carbon footprint by 2025, taking 2019[43]as the base year, by 14.2% for its Scope 1 and 2 emissions, and by 48.3% for its Scope 3 emissions (except category 15).

[35] Conversion factors: Diesel, Propane Gas and Natural Gas based on Inventories Report GHG 1990-2019, and GHG 1990-2020 Spain. Version according to year.
[36] Conversion factors: Leaks of fluorinated gases based on the practical guide for the calculation of greenhouse gas (GHG) emissions of the Catalan Office for Climate Change. Version according to year.
[37] Data refer to business trips and do not include travel from home to the workplace. Conversion factors: Fleet of vehicles based on DEFRA (Government GHG Conversion Factors for Company Reporting). Version according to year.
[38] Conversion factors: Water consumption based on the practical guide for the calculation of greenhouse gas (GHG) emissions of the Catalan Office for Climate Change. Version according to year.
[39] Conversion factors: Paper consumption based on DEFRA. Version according to year.
[40] Conversion factors: Plastic consumption based on DEFRA. Version according to year.
[41] Conversion factors: Waste based on DEFRA. With the exception of paper and cardboard, glass and organic waste, which have been calculated based on the Calculation of GHG Emissions from Municipal Waste Management (OECC). Version according to year.
[42] Data refer to business trips and do not include travel from home to the workplace. Conversion factors: Travel by aeroplane, train and car based on DEFRA. Version according to year.
[43] 2019 is considered the base year because it is the last year without Covid-19 restrictions.

CO_2 emissions reduction targets	Scope 1+2	Scope 3	Total emissions
Spain (targets 2019-2025)	-14.2%	-48.3%	-36.1%

Total CO_2 emissions in Spain in 2022 were 1.66% higher than in 2021, due to the increase in business travel, as business activity gradually returned to normal following the pandemic. Consequently, the CO_2 emissions reduction targets established for 2025 continue to adequately reflect the efforts made to reduce the Institution's emissions, acting on its commitment to the environment.

Report on TSB's greenhouse gases (t.CO_2) [44]	2022	2021	2020	2019
Scope 1 emissions:	**1,669**	**2,173**	**2,044**	**2,150**
Consumption of gases	1,493	2,027	1,962	1,883
Leaks of refrigerated gases	171	140	49	103
Fleet of company vehicles	5	6	33	164
Scope 2 emissions:				
Electricity - market-based	0	0	0	3,953
Electricity - location-based	2,958	4,271	4,302	5,528
Scope 1 and 2, market-based	**1,669**	**2,173**	**2,044**	**6,103**
Scope 1 and 2, location-based	**4,627**	**6,444**	**6,346**	**7,678**
Scope 3 emissions:	**891**	**743**	**1,370**	**2,750**
Water	17	20	53	70
Paper	409	536	905	1,318
Waste	19	27	39	29
Business travel [45]	447	160	373	1,333
Travel by aeroplane	*305*	*89*	*166*	*654*
Travel by train	*53*	*22*	*29*	*162*
Travel by car [46]	*89*	*49*	*178*	*517*
Total emissions (Scope 1, 2 & 3), market-based	**2,561**	**2,916**	**3,414**	**8,853**
Total emissions (Scope 1, 2 & 3), location-based	**5,519**	**7,187**	**7,716**	**10,428**

Since 2021, TSB has been keeping detailed information about its Scope 3 water consumption, paper consumption and waste. Scope 2 emissions (for SECR[47]) include only direct commercial electricity supplies[48].

TSB's reduction of its emissions in 2022 compared to its emissions in 2019 is due to various factors, notably including the branch network concentration process, the launch of the energy efficiency programme and paperless processes and the continuation of blended work arrangements following the Covid-19 pandemic.

TSB continues to acquire 100% renewable energy, which has contributed to a general reduction of its market-based Scope 1 and 2 emissions of 72.6% in 2022 compared to 2019. TSB is committed to continuing to purchase renewable energy and has plans to explore other biofuels and to reduce its total energy consumption.

In 2022, the USA (Miami branch) and Banco Sabadell Mexico began to keep records of their carbon footprint, breaking down the information according to each Scope. No carbon footprint data prior to 2022 is available, therefore these geographies will not be taken into account in the Group's comparisons of its carbon footprint in relation to previous periods.

[44] The conversion factors have been calculated based on DEFRA. Version according to year. In addition, the figures for 2019 through 2021 have been recalculated under new calculation criteria in TSB, taking into account the branch and building closures between 2019 and 2021.

[45] In line with the Group's reporting criteria, the relative emissions during hotel stays that TSB reports in its standalone accounts are not included.

[46] Emissions from rental cars and employee-owned vehicles where TSB is responsible for purchasing the fuel.

[47] Streamlined Energy and Carbon Reporting (SECR) regulation in the United Kingdom for large unlisted organisations on reporting greenhouse gas emissions.

[48] A small amount of domestic or cross-charged consumption from landlords is not included, but TSB is working on improvements for the next reporting period.

Report on the USA's greenhouse gases ($t.CO_2$) [49]	2022
Scope 1 emissions:	**3**
Gases	3
Scope 2 emissions:	
Electricity - market-based	282
Electricity - location-based	282
Scope 1 and 2 - market-based	285
Scope 1 and 2 - location-based	285
Scope 3 emissions:	**220**
Water	2
Paper	1
Business travel	217
Travel by aeroplane	*217*
Total emissions (Scope 1, 2 & 3) - market-based	**505**
Total emissions (Scope 1, 2 & 3) - location-based	**505**

Report on Mexico's greenhouse gases ($t.CO_2$) [50]	2022
Scope 1 emissions:	**55**
Fleet of company vehicles	55
Scope 2 emissions:	
Electricity - market-based	237
Electricity - location-based	237
Scope 1 and 2 - market-based	291
Scope 1 and 2 - location-based	291
Scope 3 emissions:	**324**
Water	5
Paper	1
Business travel	318
Travel by aeroplane	*291*
Travel by car	*27*
Total emissions (Scope 1, 2 & 3) - market-based	**615**
Total emissions (Scope 1, 2 & 3) - location-based	**615**

Neither Mexico nor USA have a renewable origin certification for their indirect emissions stemming from the consumption of electricity purchased from a reseller (Scope 2), therefore market-based and location-based emissions data coincide. These emissions will be offset as explained in section 4.4.2 Offsetting.

Details of the Group's emissions, by scope

Scope 1 - Direct activities:

This scope includes emissions generated by facilities through the use of fuel such as diesel (including that used by mobile branches in Spain), propane gas, natural gas, as well as leaks of fluorinated greenhouse gases and the fleet of company vehicles (excluding travel between home and the work centre).

Acting on its public commitment to sustainability, Banco Sabadell Group is making progress with its sustained reduction of proprietary emissions. As at the end of 2022, Banco Sabadell had managed to reduce its overall Scope 1[51] emissions by 24% compared to 2019.

Gases

Data relating to gases correspond to the use of fuel such as propane gas, natural gas and diesel (including that used by mobile branches in Spain).

In 2022, propane gas consumption in Spain amounted to 844 m^3, compared to 682 m^3 in 2021 and 486 m^3 in 2019 – a 24% increase compared to 2021 and a 74% increase compared to 2019. Propane gas is

[49] The conversion factors have been calculated based on DEFRA, except for Scope 2, where they have been calculated using IEA. Version according to year.
[50] The conversion factors have been calculated based on DEFRA, except for Scope 2, where they have been calculated using IEA. Version according to year.
[51] Reduction calculated for Spain and the United Kingdom. Mexico and USA are not included as no historical data is available.

only used to provide additional heating in one branch, which is located in a mountainous region where low temperatures in winter require it to be used in order to prevent the gas from freezing.

In the UK, Mexico and the USA, propane gas is not used in any of the branches or corporate buildings.

On the other hand, the consumption of natural gas in Spain is limited to three of the corporate buildings, and used to reinforce the HVAC system, both to provide heat and for dehumidification purposes, while in the United Kingdom it is used in winter across practically all branches and corporate buildings. In 2022, consumption in Spain amounted to 299,312 m^3, compared to 233,467 m^3 in 2021 and 257,920 m^3 in 2019 – a decrease of 2% compared to 2021 and of 11% compared to 2019.

In the United Kingdom, consumption amounted to 724,673 m^3, compared to 990,367 m^3 in 2021 and 919,368 m^3 in 2019 – a reduction of 27% compared to 2021 and of 21% compared to 2019.

Similarly, TSB has also launched a new training module on Energy Efficiency for employees, called *Do What Matters for the Environment*, to complement and build on existing training. The aim of the new module is to educate employees on energy waste and to equip them with practical tools to reduce energy consumption in the workplace and at home.

No natural gas is consumed in Mexico or the USA, as their HVAC systems run entirely on electricity.

Finally, consumption of diesel in Spain amounted to 5,418 litres, compared to 13,016 litres in 2021 and 14,246 litres in 2019 – a reduction of 58% compared to 2021 and of 62% compared to 2019. Between the end of 2020 and early 2021, a large-scale top-up of diesel tanks took place to prevent potential supply shortages in the future, which reduced the need for diesel refuelling during 2022. In 2023, it is hoped that consumption will also be reduced, as the Bank's data servers will be physically moved from its own facilities to the facilities of the IT infrastructure supplier.

In the UK, diesel consumption amounted to 8,487 litres in 2022 compared to 5,931 litres in 2021 and 8,802 litres in 2019 – an increase of 43% and a reduction of 4%, respectively.

In the UK, diesel is mainly used for generators in corporate buildings, as well as in heating systems in some remote island locations. In 2022, TSB launched the Energy Optimisation programme, with training provided by an Energy Management team from the company managing the facilities. This programme will involve a review of all possible ways in which energy can be reduced, in order to implement improvements in all facilities over the coming years.

In Mexico, there are no records of diesel consumption while in the USA, consumption amounted to 1,140 litres in 2022, due to the use of a genset in one of its corporate buildings (MLOC).

<u>Fluorinated gases</u>

The figures relating to fluorinated gases correspond to leaks of F-gases due to breakdowns of HVAC systems in corporate buildings and branches. In Mexico, no fluorinated gas leaks in HVAC equipment were recorded, as the refrigeration system uses water circuits. In the case of Miami, no fluorinated gas leaks were recorded in 2022 in any of the machinery in its facilities.

In 2022, fluorinated gas leaks in Spain amounted to 860 kg, compared to 934 kg in 2021 and 1,144 kg in 2019 – a reduction of 8% and 25%, respectively. In the UK, on the other hand, fluorinated gas leaks amounted to 82 kg in 2022 compared to 68 kg in 2021 and 53 kg in 2019 – an increase of 21% and 55%, respectively.

To reduce these leaks, every year the Bank upgrades its air conditioning systems, introducing more efficient equipment (thus also reducing Scope 2 emissions) that uses gas with a lower environmental impact. Furthermore, the 24% reduction in the branch network that occurred between 2021 and 2022 also had an impact on the reduction of emissions due to fluorinated gas leaks.

The Bank is firmly committed to reducing its direct carbon footprint; therefore, in the coming years, it will continue to periodically review its facilities, both machines and other fixtures (pipes, connections, shut-off valves), in order to detect any possible faults. Similarly, the Bank will continue to identify the machines with the most breakdowns to include them in the replacement project. This analysis will also make it possible to detect which models have the most faults in order to adjust the policy for the purchase of new equipment accordingly.

Company vehicles

In Spain, business journeys in 2022 amounted to a total of 249 thousand kilometres compared to 178 thousand kilometres in 2021 and 832 thousand kilometres in 2019 – an increase of 40% and a reduction of 70%, respectively.

In the UK, business journeys in 2022 amounted to a total of 141 thousand kilometres compared to 64 thousand kilometres in 2021 and 1,426 thousand kilometres in 2019 – an increase of 122% and a reduction of 90%, respectively. TSB offers only fully electric vehicles to employees who have opted into the company car scheme and 79% of TSB's vehicle fleet is now fully electric. In 2023, TSB will explore different improvement options, such as the installation of electric vehicle charging facilities in corporate buildings.

In Mexico, records of CO_2 emissions from company vehicles are not kept in kilometres but rather in terms of petrol consumption. In 2022, total petrol consumption in vehicles controlled by the Bank amounted to 17,196 litres.

In the USA, there is no fleet of company vehicles under the criteria applicable to Scope 1 GHG emissions.

Scope 2 - Indirect activities:

This scope includes emissions generated by the consumption of electricity.

Electricity consumption

The consumption of electricity in Spain in 2022 amounted to 59,398 MWh, compared to 66,214 MWh in 2021 and 77,842 MWh in 2019 – a reduction of 10% and 24%, respectively. As at the end of 2022, 99.96% of the energy consumed came from 100% renewable sources. In Spain, from 2023 onwards, the total consumption of electric power will be from 100% renewable sources. In the UK, on the other hand, electricity consumption amounted to 15,297 MWh in 2022 compared to 20,094 MWh in 2021 and 20,947 MWh in 2019 – a reduction of 24% and 27%, respectively.

In Spain, throughout 2022, 98.96% (58,777 MWh) of the electricity used was acquired from a single reseller (Cepsa), with all the energy used certified to have come from renewable sources, while the remaining 0.05% (28 MWh) was acquired from another reseller whose electricity is not all from renewable sources. The 7 tonnes of CO_2e corresponding to Scope 2 emissions (market-based) in 2022 for Spain correspond to the consumption of electricity from non-renewable sources.

1.0% of the total electric power consumed in Spain was self-generated through the photovoltaic panels installed in the corporate buildings at Sant Cugat del Vallès.

	2022	2021	2020	2019
Consumption of electricity provided by Cepsa and Nexus Renovables, 100% REGO (% supplied out of total electricity in Spain)	98.96%	99.14%	99.91%	99.95%
Consumption of electricity provided by other resellers without REGO (% supplied out of total electricity in Spain)	0.05%	0.06%	0.09%	0.05%
Self-consumption (% of total electricity) in Spain	1.00%	0.79%	0.00%	0.00%

Thanks to these photovoltaic panels, 592,394 kWh did not have to be purchased from resellers and was instead generated by the Institution's systems for own use in the corporate buildings at Sant Cugat del Vallès. With this electricity generation, Banco Sabadell has reduced its energy dependence on third parties as it is able to use its own systems to generate 8% of the energy needed for this building to operate.

In addition, in order to reduce its energy consumption, Banco Sabadell continues with its ongoing consumption assessment programme at its branches and corporate buildings to detect changes and actions that help improve consumption efficiency:

- As indicated in relation to Scope 1, every year a programme takes place to replace air-conditioning equipment with more energy-efficient models where appropriate.
- The project to replace the lighting at branches with LED (Light Emitting Diode) technology is still in progress, to ensure that all branches are equipped with LED lighting and thus reduce consumption (corporate buildings are already 100% equipped with LED lighting).

- The majority of the branch network is equipped with a centralised low energy consumption HVAC and lighting system, as well as light activation systems for billboard advertising adapted to daylight hours.

- Corporate buildings are equipped with motion-sensitive lighting systems and LED lights. In these corporate buildings and larger branches, HVAC installations are equipped with energy recovery systems.

In the UK, the supply of electricity continues to be 100% from renewable sources, thus contributing significantly to the strategy for attaining carbon neutrality by not generating market-based Scope 2 emissions.

TSB also continues to develop efficiency measures to reduce electricity consumption. In 2022, a scheme to replace old inefficient lightbulbs with more energy-efficient LED equivalents was completed. As at the end of 2022, the cost of reactive maintenance tasks to replace lightbulbs had already been noticeably reduced, and work continues to monitor cost savings and the reduction of energy usage.

The Bank is looking to install a photovoltaic self-generation plant at its logistics hub in Polinyà before the end of 2025. An annual 1% reduction in in the energy acquired from the main reseller is estimated by 2025.

In Mexico, electricity consumption in 2022 amounted to 595 MWh, while in Miami consumption reached 737 MWh. These two geographies do not have a renewable origin certification for their electricity production.

	Group (all geographies)	Group (ex-Mexico and ex-USA)			
Total electricity consumption	**2022**	**2022**	**2021**	**2020**	**2019**
Total electricity consumption (MWh)	76,028	74,695	86,308	84,281	98,789

Scope 3 - Other indirect activities:

This scope includes other indirect activities in which emissions from the consumption of water, paper, plastic and waste management are quantified, as are those from travel by aeroplane, train and car (except company vehicles).

Water

Water consumption includes water for sanitary use, irrigation and catering in corporate buildings. In 2022, water consumption in Spain amounted to 265,892 m^3, compared to 395,036 m^3 in 2021 and 396,260 m^3 in 2019 – a decrease of 33% compared to both periods.

As for the UK, water consumption amounted to 39,289 m^3, compared to 47,238 m^3 in 2021 and 66,398 m^3 in 2019 – a reduction of 17% and 41%, respectively.

In Mexico[52], water consumption in 2022 amounted to 11,688 m^3, while in Miami consumption reached 3,826 m^3.

The process to reduce the number of branches in the branch network has had a significant impact on the reduction of consumption in Spain and in the UK.

100% of the water used comes from the supply network. The Group’s headquarters are located in urban areas where the water collected and discharged is done so through the urban network.

With regard to eco-efficiency measures, bathroom facilities and taps are fitted with water-saving mechanisms. The headquarters in Sant Cugat have a deposit that collects rainwater and greywater to reuse it as irrigation water. At the same time, the landscaped areas are comprised of native plants with low irrigation needs.

During the 2022-2025 period, the WC discharge system is being gradually replaced with dual flush toilets to reduce the consumption of water for sanitary use. An annual 1% reduction in emissions is estimated by 2025, associated with this initiative.

[52] Consumption on a pro-rata basis according to number of floors occupied by the Bank in the respective buildings.

Paper

The Group's daily activities require the regular use of paper. Paper consumption in Spain in 2022 amounted to 610 tonnes, compared to 640 tonnes in 2021 and 1,030 tonnes in 2019 – a reduction of 5% and 41%, respectively. While in the UK, paper consumption amounted to 445 tonnes in 2022 compared to 583 tonnes in 2021 and 1,439 tonnes in 2019 – a reduction of 24% and 69%, respectively.

In order to reduce paper consumption, a series of measures have been implemented, such as (i) the set-up of a 24-hour service for customers through remote channels and digital platforms, (ii) the use of tablets and digital systems in branches, which allow customers to sign documents digitally and thus eliminate the use of pre-printed documents, and (iii) introduce default printing settings in the Institution's printers for double-sided printing.

	2022	2021	2020	2019
Recycled paper used in branches and corporate buildings in relation to total paper consumption (white and recycled) in Spain (%)	100%	100%	100%	99.98%
Recycled paper used in corporate buildings in Spain with a postal service (courier) in relation to total paper consumption (white and recycled) (%)	100%	100%	100%	99.98%

The Group has also continued with the programme to reduce correspondence and simplify contractual documentation, helping to reduce paper consumption. This programme started in 2019. The progressive digitisation of customer profiles and the consolidation of the model of a single monthly account statement have enabled a reduction of 40.7% compared to 2019. Among the initiatives with the greatest impact that have been carried out, it is worth highlighting the following:

- Simplification of pre-contractual and contractual documents about the Bank's products.
- Further development of digital solutions in relation to signing for transactions, issuing certificates and customer correspondence.
- Greater digitisation of internal operating processes.

The conventional paper used by the Bank is certified to international standards ISO 9001 and ISO 14001 on quality and environmental management systems, and its production is chlorine-free under the criteria of the FSC (Forest Stewardship Council), with a Blue Angel certification and an EU Ecolabel.

In the UK, TSB had set the target of reducing paper consumption by 25% by 2022 year-end compared to 2019. To that end, several initiatives have been launched to digitalise processes and leaflets, reduce the use of postal mail for customer correspondence and reduce printing.

	Group (all geographies)	Group (ex-Mexico and ex-USA)			
Paper consumption	**2022**	**2022**	**2021**	**2020**	**2019**
Paper consumption (DIN A4 format) during the year (tonnes)	1,058	1,055	1,223	1,636	2,469

During 2023, the zero paper project will continue to be promoted across the organisation. This project seeks to digitalise all of the Bank's processes to reduce paper consumption to zero. An annual 2% reduction in emissions is estimated by 2025.

In Mexico, paper consumption in 2022 amounted to 1.4 tonnes, while in Miami consumption reached 1.5 tonnes.

Plastic

Plastic consumption is attributable to the materials purchased for various uses. Plastic consumption in Spain in 2022 amounted to 3.4 tonnes, compared to 4.5 tonnes in 2021 and 71.1 tonnes in 2019 – a reduction of 23% and 95%, respectively.

To reduce plastic consumption, the Bank has been applying a series of measures since 2020 designed to eliminate plastic in the products it purchases for various uses:

- Elimination of plastic in certain desk and/or common use materials.

- Elimination of coin blister packs.
- Elimination of blue bag for documents requiring urgent digitisation.
- Elimination of bankbook covers.
- Replacement of the plastic film in event blue bags with brown kraft paper.
- Replacement of plastic coffee spoons with wooden spoons.
- Replacement of the plastic window in envelopes with a transparent paper window.
- Manufacture of cash transfer bags with a mixture of recycled (80%) and virgin (20%) plastic.
- Manufacture of shrink film from 56% sugar cane (bio-based material).
- Replacement of corporate pens (100% plastic) with an alternative manufactured with kraft paper and wheatpaste.

During the 2022-2025 period, the various materials used by the Bank that contain plastic will be gradually analysed and replaced with sustainable materials. In Spain, an annual 2% reduction in emissions is estimated.

In the UK, plastic consumption amounted to 112.4 tonnes. It was not possible to keep records of plastic consumption in the UK subsidiary until 2022, therefore no historical data is available to analyse changes and trends.

The Group is working to explore and, if necessary, implement the necessary capabilities to measure the plastic consumption of its subsidiaries in Mexico and Miami.

<u>Waste management</u>

Waste can be classified as either non-hazardous waste or hazardous waste. Non-hazardous waste includes: scrap metal, inert plastic, bulky general waste, incandescent light bulbs, paper and cardboard, glass, organic waste, grease trap and wood. Hazardous waste includes: chemical containers, absorbents (filters), lead batteries, oils, fluorescent lamps, electronic equipment, batteries and aerosols.

In 2022, in Spain, general waste was reduced by 32% and 40% compared to 2021 and 2019, respectively, due mainly to the reduced travel to workstations in the corporate buildings as a result of telecommuting, and also due to the Bank's restructuring process. In the UK, waste was reduced by 30% and 35% compared to 2021 and 2019, respectively, also mainly due to the situation mentioned for Spain.

The Group is analysing the resources needed to keep records of the volume of waste generated in Mexico and Miami, so that it may soon have data available for disclosure in relation to tonnes of waste and CO_2 emissions.

Section 4.4.4 Circular economy and waste management includes more details on waste management and emissions.

<u>Business travel</u>

Business travel includes journeys by aeroplane, train and car.

In Spain, business journeys in 2022 amounted to a total of 11,940 thousand kilometres compared to 6,058 thousand kilometres in 2021 and 34,586 thousand kilometres in 2019 – an increase of 97% and a reduction of 65%, respectively.

At the start of 2020, before the State of Emergency was declared in Spain, the Bank reviewed its business travel policy, laying down new guidelines to limit travel to only journeys strictly necessary due to business needs and to prevent travel for internal meetings, encouraging the use of the remote and electronic solutions available.

It is not possible to draw a fair comparison between the numbers of kilometres in 2021 and the numbers in 2022, given the restrictions imposed due to the Covid-19 pandemic. Compared to 2019, as a pre-pandemic reference year, the data for 2022 in Spain reflected the large positive effect that the review of the Group's business travel policy has had on the Institution's carbon footprint.

In this regard and considering the gradual easing of restrictions, business travel is expected to decrease and reduce emissions by 43% in 2023 compared to 2019.

As regards commuting journeys, a sustainable mobility model will continue to be promoted with the creation of new parking spaces at corporate buildings for private electric vehicles, bikes, scooters, etc.

For the 2022-2025 period, an annual 5% reduction in emissions is expected in Spain by 2025 with the implementation of new measures every year that enable the Bank to establish and achieve ongoing emissions reduction targets.

For the UK, in line with the Group's reporting criteria, the relative emissions during hotel stays that TSB reports in its standalone accounts are not included. In terms of other items, business journeys in 2022 amounted to a total of 3,291 thousand kilometres in TSB compared to 1,220 thousand kilometres in 2021 and 14,756 thousand kilometres in 2019 – an increase of 170% and a reduction of 78%, respectively. The target had been to reduce business travel by 50% compared to 2019.

The Covid-19 pandemic has largely contributed to the 66% reduction of emissions compared to 2019. In addition, TSB has undertaken to promote new alternative means of transport, such as the inclusion in company benefits of an additional grant for the purchase of electric bicycles, as well as new ways of working to keep reducing emissions.

In 2022, business travel in Mexico and Miami came to 1,727 thousand kilometres and 1,183 thousand kilometres, respectively.

Other actions

In Spain, the Bank certified its Barcelona hub branch with the Spanish Green Building Council seal during 2022.

Moreover, to mitigate the environmental impact of its suppliers, it will encourage the use of electric vehicles for the various logistics services and the use of ecological ink among the printing companies that collaborate with the Bank.

In the UK, TSB has been identifying the potential reduction in CO_2 emissions for third-party products and services. Furthermore, since 2021, TSB has included new sustainability requirements in its procurement processes.

4.4.4 Circular economy and waste management

Waste management in Spain in 2022 amounted to 806 tonnes, compared to 1,192 tonnes in 2021 and 1,353 tonnes in 2019 – a reduction of 32% and 40%, respectively.

In the UK, waste management amounted to 839 tonnes in 2022 compared to 1,200 tonnes in 2021 and 1,283 tonnes in 2019 – a reduction of 30% and 35%, respectively. Recycling continues to be a key part of the approach adopted by TSB, which has renewed its commitment to attaining a 90% recycling target in its Do What Matters Plan 2025. In 2022, the general recycling rate at TSB was 79%.

Banco Sabadell Group has internal procedures in place to ensure that 100% of paper and plastic is removed and recycled by authorised waste management firms. Corporate buildings and branches are equipped with facilities for the separation and collection of packaging, organic matter and batteries.

Specific control mechanisms exist for waste management in branches due to be closed or merged. Surplus computer equipment and furniture in good condition at branches or work centres due to be closed or merged are donated by the Bank to NGOs and local non-profit organisations.

Among the actions taken by the Bank to reduce the waste that it generates, it is worth noting the programmes to reduce paper consumption and the associated waste (which accounts for the largest volume of waste).

Breakdown of waste (W) in Spain and UK [53]	2022		2021		2020		2019	
	Waste t.	Emissions $t.CO_2$	Waste t.	Emissions $t.CO_2$	Waste t.	Emissions $t.CO_2$	Waste t.	Emissions $t.CO_2$
Total non-hazardous waste [54]	1,634	82.0	2,383	101.1	2,614	105.5	2,633	110.1
Total hazardous waste [55]	11	0.19	9	0.24	8	0.29	2	0.05
Total waste	**1,646**	**82.2**	**2,392**	**101.3**	**2,621**	**105.8**	**2,636**	**110.2**

In line with the rest of the targets to reduce the carbon footprint by 2025, the Bank will continue to reduce paper waste by reducing its usage.

In addition, there are plans, expected to be completed by 2025, to create a new centralised waste room to reduce waste generation and to install an organic matter composting plant at the main Sant Cugat headquarters to reduce all organic waste. A 9% reduction is estimated for 2025, compared to 2019.

[53] Conversion factors used for waste based on DEFRA 2021 (Waste Disposal), with the exception of paper, glass and organic waste in Spain, which are based on (OECC) calculation of GHG emissions from municipal waste management. In the UK, a breakdown of hazardous and non-hazardous waste for 2019 and 2020 is not available and thus data only includes total waste. The Group is analysing the resources needed to keep records of the volume of waste generated in Mexico and Miami, so that it may soon have data available for disclosure in relation to tonnes of waste and CO_2 emissions.

[54] In Spain non-hazardous waste includes: scrap metal, inert plastic, bulky general waste, incandescent light bulbs, paper and cardboard, glass, organic waste, grease trap and wood. The top 3 waste products in 2022 were paper and cardboard with waste of 609 t (34.33 $t.CO_2$), bulky general waste with waste of 65.84 t (0.59 $t.CO_2$) and organic waste with waste of 78.7 t (27.87 $t.CO_2$).

[55] In Spain hazardous waste includes: chemical containers, absorbents (filters), lead batteries, oils, fluorescent lamps, electronic equipment, batteries and aerosols. The two biggest waste products were electronic equipment with waste of 2.71 t and emissions of 0.02 $t.CO_2$ and absorbent filters with waste of 0.79 t and emissions of 0.01 $t.CO_2$.

5. Commitment to sustainable finance

The Group promotes sustainable financing and investment to drive forward the transition towards a more sustainable model and a low-carbon economy, offering customers and investors the best possible solutions. In 2021, the Bank committed to mobilise €65,000M in sustainable finance by 2025. To date, it has mobilised more than €25bn, including €14.8bn in 2022.

To deliver on this commitment, and in order to encourage social and financial inclusion and contribute to environmental conservation and climate change mitigation, the Bank has:

- Financing solutions in the different businesses:

  To bring processes for loan approval, portfolio management and reporting tasks in line with international standards on sustainable financing "Green Loan Principles" and "Sustainability-Linked Loan Principles" issued by the Loan Market Association and the "Green Bond Principles" and "Sustainability-Linked Bond Principles" issued by the International Capital Market Association (ICMA), in 2020 the following types of financing were defined, according to the intended use of the funds:

  - Green and Social Loans (GSLs), in which the use of the funds is the main criterion for determining the green, social or sustainable nature. In general, this type of financing is preferable as it generates a positive direct impact on the environment and/or society. This type of financing is closely related to Banco Sabadell's Eligibility Guide, whose main reference is the EU Taxonomy, and to the green bonds issued by the Bank in recent years under the SDG Bond Framework. This category mainly includes Project Finance transactions related to renewable energy, customers whose business activities are aligned with the EU Taxonomy and bond issuances and private placements intended to fund a specific green and/or social project (further details provided in the corresponding sections).

    To promote GSL transactions, the Bank has approved discounts that allow it to offer better prices to customers.

    The rollout of the Next Generation EU Recovery Funds are expected to significantly boost this type of financing (section 5.1.4 Next Generation EU provides more details on the actions that the Bank is taking in relation to the aforesaid funds).

  - Sustainability-Linked Loans (SLLs), relating to the type of financing that incentivises the achievement of sustainability targets, linking the transaction price to the evolution of one or more KPIs. This category does not require the funds to be used for any specific purpose. It is considered essential for the selected indicators to be relevant and central for customers, as this enables their sustainability strategy to gain more traction.

- Investment in renewable energies through Sinia Renovables subsidiary (further details provided in section 5.2 Sinia Renovables).

- Issuance of own sustainability bonds (more details in section 5.3 Issuance of sustainability bonds).

- Sustainable savings and responsible investment solutions (more details in section 5.4 Sustainable savings and responsible investment solutions)

5.1 Commitment to sustainable financing solutions for the CIB business, Companies and Individuals

5.1.1 Sustainable financing solutions for the Corporate & Investment Banking business

As at year-end 2022, the Bank has participated in 64 sustainable financing and investment transactions, with a total value of 35,165 million euros, in the area of Corporate & Investment Banking (CIB) (which includes corporate business and investment banking transactions). A significant part of this activity was carried out in Spain, complemented by work carried out in other geographies where the Bank is present.

	No. of Transactions	Total Volume	Bank Participation
Corporate Banking	50	30,695	2,209
Investment Banking	14	4,470[56]	n.a.
Total CIB	**64**	**35,165**	**2,209**

At the organisational level, the “Sustainable Finance and ESG Advisory” team has been set up. This team has cross-cutting scope in CIB and its main aim is to promote the range of sustainable financing and investment solutions and support customers with their environmental transition.

The information shown in the table above is explained here below:

Corporate Banking

In the area of corporate banking, 50 transactions were signed, amounting to 2,209 million euros, a 30% improvement on the figure reported in 2021. Of these, 11 transactions are considered to involve Green and Social Loans (GSLs) given their alignment with the EU Taxonomy, for a volume of 379 million euros, and another 39 are Sustainability-linked Financing (SLF) transactions for a total amount of 1,830 million euros.

In both cases, the transactions are the subject of continuous monitoring, jointly with the customers involved and with sustainability agencies, through the KPIs defined in the financing agreement in each case.

Sustainable financing is prioritised as a way of supporting customers. To this end, customised proposals are formulated according to customers’ needs, their sustainability strategy and factors specific to their industry.

Investment Banking

In 2022, Banco Sabadell participated in the placement of green and sustainable bonds in the capital markets, as Joint Lead Manager, in the following public issuances for customers:

- Acciona Energía, for 500 million euros in green bond format, with a 10-year maturity and 1.375% coupon, issued in January.
- Comunidad de Madrid, sustainable bond for 1 billion euros, with a 10-year maturity and 1.723% coupon, issued in March.
- Junta de Andalucía, a sustainable bond for 500 million euros, with a 10-year maturity and 2.4% coupon, issued in May.

The Bank also participated in four (4) sustainable merger and acquisition transactions for a total value of 720 million euros.

Furthermore, during 2022, it participated in various Banco Sabadell[57] green bond issues, such as:

- Joint Lead Manager in two Banco Sabadell green issuances for 750 million euros each (March and November).
- Sole Bookrunner in Banco Sabadell green issuances, for 120 million euros issued in March and for 75 million euros issued in November.

5.1.2 *Project Finance*

The world of renewable energies has not been immune to the current situation, having been affected both by inflation which has raised costs, and by increased funding costs in the second half of the year, compounded by a simultaneous increase in electricity prices. This volatility of electricity prices has highlighted the importance of renewables as a source of energy that is clean as well as cheaper than other sources. This is why society at large has stepped up its commitment to renewables and Banco Sabadell has continued to support the financing of renewable energy plants.

[56] Includes 1,695 million euros of own green bond issuances.
[57] For a more detailed breakdown of Banco Sabadell green bond issues, see 5.3 Issuance of sustainability bonds.

Overall, this environment has served to consolidate European objectives to combat climate change and improve energy efficiency, embodied, at European level, by the European Commission's "Fit for 55" package of measures and, at national level, by Spain's Integrated National Energy and Climate Plan. However, 2022 has been characterised by a delay in projects obtaining the necessary licenses to commence construction of Ready to Build (RTB) projects, and also by fewer refinancing transactions for Feed-in Tariff (FIT) transactions[58]. For this reason, the volume of renewable financing is lower than last year, dropping from 1,108 million euros to 655 million euros, mainly on account of the absence of FIT transactions which represented 354.7 million euros last year.

Over the year, 26 transactions were executed, mobilising 655 million euros. In terms of renewable projects executed in the geographical regions in which the Institution operates, in 2022 there have been four renewables projects in the United States (99 million euros), two in Portugal (20 million euros) and 20 in Spain (536 million euros).

Country	# Transactions	Amount	%
Spain	20	536	82%
Portugal	2	20	3%
USA	4	99	15%
TOTAL	**26**	**655**	100%

Data in millions of euros.

With regard to the types of technology financed, the number of photovoltaic projects is particularly noteworthy compared with other technologies. In previous years, financing was distributed across wind energy and photovoltaic projects, but this year there has been a lack of significant wind energy projects in Spain. As a result, photovoltaic plants represented 88% of total financing at 575 million euros. With regard to wind energy plants, these represented 12% of total financing at 79 million euros.

Technology	# Transactions	Amount	%
Wind	4	79	12%
Photovoltaic	22	575	88%
Other	0	0	—%
TOTAL	**26**	**655**	100%

Data in millions of euros.

Lastly, in relation to transactions in Spain and Portugal, Banco Sabadell has continued to be a leader in the sector in terms of the execution of Project Finance transactions. It is worth noting that in 2022, all projects executed were greenfield projects, providing additional capacity for the production of clean energy in the Spanish energy system. Also of note in the year was the interest of renewables developers in financing projects whose revenues come from sales to the market without using a Power Purchase Agreement (PPA[59]) with a third party as a hedge. In terms of their breakdown, financing has been given to three projects through auctions in 2020 (3% of the total), to nine projects whose income structure includes energy forwards or PPAs (42% of the total), one Construction Loan project (3% of total) and nine projects whose income is obtained exclusively through the wholesale market (52% of the total). Overall, Banco Sabadell has contributed by financing 1,149 MW of attributable renewable installed capacity in the system, after the construction of plants, which will produce sufficient electricity to satisfy the demand of approximately 589,500 households in Spain and will offset the equivalent of 252,844 tonnes of CO_2 each year they are in use.

Type	# Transactions	Amount	%
FIT Peninsula	0	0	—%
PPA Spanish Government	3	16	3%
Merchant with PPA	9	232	42%
Merchant without PPA	9	291	52%
Construction Loan	1	17	3%
TOTAL	**22**	**556**	**100%**

Data in millions of euros.

[58] Feed-in Tariff (FIT) transactions are those in which the unit price is agreed with the government for a specified period of time.
[59] Power Purchase Agreement (PPA): an energy purchase and sale agreement.

5.1.3 Sustainable financing solutions for retail customers and businesses

Sustainable financing is one of the main tools used to promote a clean and circular economic model, which reduces CO_2 emissions and contributes to protecting the environment.

In the case of individuals and SMEs, Banco Sabadell offers its customers a range of solutions geared towards energy saving, offering solutions for home purchases and home renovations, sustainable mobility and the installation of renewable energy systems.

The actions and solutions offered to customers are described below:

Support and financing solutions for individuals

Support for individuals

At Banco Sabadell we support customers in the transition towards a sustainable economy.

The Bank has a clear aim to promote the use of renewable energies by offering financial support, whilst consolidating its commitment to sustainability and energy efficiency.

A clear example of this is the collaboration agreement signed between the Bank and Solar Profit, a company that sells world-class solar panels, aimed at retail customers seeking to install solar panels in their homes. The agreement offers turnkey installations, through a fully digital process. The entire project is taken in hand, including customised design, installation, and managing the application process for permits, grants and subsidies.

Other initiatives in line with the Bank's objective of achieving a more efficient and responsible domestic economy are commercial actions to promote renovation projects that improve energy efficiency in customers' households, proactively offering access to financing with more advantageous conditions.

In addition, Banco Sabadell continues to work on its objective of reducing its environmental impact by offering customers two types of cards: a physical card, manufactured using biodegradable PVC, and a digital card, thus avoiding the use of plastic altogether and offering customers an opportunity to do their bit in this challenge.

Green financing solutions for individuals

Green mortgages

Banco Sabadell currently offers a reduced price across its entire mortgage range to incentivise the purchase, construction or renovation of homes with energy certification B or higher.

In 2022, the volume of Mortgages with sustainable certification was more than 540 million euros.

Sabadell green renovation loans

The aim of the Sabadell green renovation loan is to encourage home renovations and/or purchases that improve the sustainability and or energy saving capacity of a main or secondary residence. The Bank offers financing, with attractive conditions, for improvements of openings (windows and doors), upgrades of heating or cooling systems to make them more efficient, and purchases of household appliances with an energy efficiency rating of A or higher.

TSB, for its part, markets the 'Green Additional Borrowing' mortgage, launched in June 2021, which helps customers to refurbish their homes to obtain more energy efficient consumption and, by doing so, reduce their environmental impact and the amount of money they spend on their energy bills. TSB plans to launch other green products for its customers next year.

ECO car loan (2022)

The Bank offers the '*Préstamo Coche ECO*' (ECO car loan), aimed at retail customers, which enables the purchase of 'zero emissions' or 'ECO' labelled vehicles with very attractive conditions, contributing to the adoption of cleaner vehicles that are adapted to the new low-emissions zones in Spain's largest cities.

Social financing solutions for individuals

In the area of social financing, and due to the economic impact of higher interest rates, Banco Sabadell has proactively offered solutions to customers with variable-rate mortgages who may be experiencing difficulties, in addition to customers who meet the vulnerability criteria in accordance with the Code of Good Practice, with the aim of helping these customers to meet their obligations, relieve their financial burden and avoid default situations.

With regard to vulnerable customers, it should also be noted that:

- Customers at risk of financial exclusion, who have refugee status (holders of red or white asylum seeker's card) or who have scant resources, may register free of charge for a Banco Sabadell Basic Payment Account and access free services, such as: cash withdrawals, national transfers and transfer to EU countries, direct debits, or the use of electronic banking, among other things.

- Specific benefits aimed at customers aged above 65 years, such as the issue and renewal of a commission-free passbook and free transfers throughout Spain and the EEA[60] carried out at a branch. Furthermore, if the customer is a pensioner and has income of less than 10,000 euros per year, they may access certain additional subsidies and benefits.

- A customer service model that is sensitive to the needs of vulnerable customers (due their age, reduced mobility or other restrictive factors) and/or non-digital customers (with no access to remote banking), with specific protocols in place for these groups, to address specific situations, such as branch closures, changes to the usual services offered, or certain transactions that may be risky for them, such as cash withdrawals at branches, offering them a differentiated service that is adapted to their specific abilities and needs.

- Application of the Code of Good Practice when granting financing which protects the interests of customers by ensuring that they select the product that best suits their needs and financial capacity, paying special attention to vulnerable customers (people who, due to their physical or mental capacities, their personal needs or their economic, educational or social circumstances, find themselves unable to work or unable to function on equal terms with other consumers due to being in a helpless or vulnerable situation).

- Application of the Code of Good Practice to restructure mortgage loans for vulnerable customers. The code was recently updated and made more flexible to address the needs of low income mortgage customers.

Support and sustainable financing solutions for businesses

Support for businesses

In order to help businesses achieve a better understanding of sustainability, a series of webinars were organised through the Bank's *Business Hub* which, drawing on examples of good practice implemented by customers and experts, dealt with aspects related to the carbon footprint, renewable energies, energy efficiency and the UN Sustainable Development Goals.

The annual visit to companies now includes a conversation about sustainability, providing customers with the necessary background information and explaining the benefits of moving towards sustainability, and proposing financing solutions for projects that enable greater energy efficiency and a reduction in their carbon footprint.

Green financing

During 2022, more than 1,100 million euros were mobilised to fund companies engaged in green operations or projects, mainly through loans, leasing and rentals. This financing is intended for projects that are aligned with the Bank's Eligibility Guide, primarily:

- Construction and real estate
- Energy
- Mobility

[60] Transfers within the European Economic Area.

- Water and Waste

With the aim of helping companies to execute their sustainable projects more efficiently, Banco Sabadell has entered into a number of agreements with partners in a variety of sectors so as to offer turnkey solutions:

- Photovoltaic self-consumption: The Bank has partnerships in place with Iberdrola and EDP Solar to provide a comprehensive offering that includes both photovoltaic systems and maintenance & upgrade services to ensure an optimal installation to suit the customer's requirements.

- Building renovations: The Bank has partnerships in place with Rehabiterm and Agentia R+ as renovation agent, in which it leads the entire project, including management of government subsidies. In this specific area, Banco Sabadell has a 30% market share in the homeowners' associations segment, and has agreements in place with 100% of homeowner association managers.

Award for most sustainable transaction: The Spanish Association of Leasing and Renting recognised Banco Sabadell four times in 2022 in the category of "Most sustainable transaction of the month" in the months of February, March, May and June.

Sustainability-linked financing

Banco Sabadell has been offering sustainability-linked financing (ESG loans) to Corporate Banking customers for some years, with great success. In 2022, this product was rolled out to other business customers with the aim of contributing to their sustainability strategy, offering them guidance on the most appropriate goals for their business and their needs.

As of the date of this report, in 2022, the Bank has mobilised more than 500 million euros in sustainability-linked financing for business and SME customers, to fund green purposes only, primarily focused on the reduction of their CO_2 emissions.

Mobility solutions

Since the disposal of the vehicle leasing subsidiary which took place in December 2021, in 2022 Sabadell Renting has continued to focus its business on sustainable mobility. This has not been an easy task given the difficulties sourcing vehicle supplies due to general issues affecting the automotive industry, such as the semiconductors crisis and the scarcity of raw materials, particularly steel, which has led to a significant reduction in vehicle production.

These setbacks have meant that the range of ECO vehicles (hybrid and electric vehicles with the DGT 'ECO' or 'Zero Emissions' environmental label) have accounted for 44% of the full range of models offered, compared with 42% in the previous year, with at least three sustainable vehicle models featured in the range all year round.

Despite this, new contracts for ECO vehicles have increased year-on-year from 8% in 2021 to 29% in 2022. Sustainability solutions have been given greater visibility though direct communications with Banco Sabadell customers during the year and, in 2023, Sabadell will continue to promote ECO vehicles, with particular focus on the electric range, and with specific campaigns aimed at Banco Sabadell Group employees.

In 2022, emphasis was also placed on the digital offer, both through Banco Sabadell's own channels and through external distribution and dissemination channels. The remote sales circuit, in which customers can choose their vehicle and sign up for a leasing contract without having to visit a branch and with a fully-digital process, has now taken root.

In terms of used vehicle sales, there has been a significant increase in the sale of small- and medium-sized vehicles. This offer consists of vehicles less than four years old that contribute to the renewal of the vehicle fleet and to the environmental improvement of urban environments.

The objective for 2023 is to continue growing, both the range and the number of contracts for ECO models, thereby contributing to a clear transition towards sustainability mobility for both customers and employees.

Social financing

In the area of social financing, we highlight our objective to promote and maintain employment by providing financing for micro-entities.

In 2022, micro-entities were granted more than 4,800 million euros in funding, mainly through loans and credit, thereby helping to maintain employment and facilitating the development and progress of the business and industrial fabric of each region.

5.1.4 Next Generation EU

Financial institutions have the responsibility to complement the funds made available by European institutions in order to repair the damage caused by the pandemic as much as possible and progress towards a more sustainable economy. It is also essential to provide the maximum possible capillarity to the programme of European funds in order to ensure that it is rolled out to the entire business world, including SMEs.

To that end, various specific products are made available to businesses in order to advance subsidies, supplement them if they do not cover the entire investment, or to provide the authorities with any guarantees they may require.

At Banco Sabadell, the aim is to support businesses on this journey and, to do so, several campaigns have been launched to disseminate information about subsidies and to offer turnkey solutions that include a value proposition from the main market partners in each of the key areas involved in subsidies and financing or involved with the guarantee that may be needed to develop the related projects.

- **Business digitisation:** on 15 March last year, the Spanish government opened the deadline to apply for the first KIT digital grants, a support programme for companies managed by Red.es, whose total investment amounts to 500 million euros. This first call for applications was addressed to SMEs with between 10 and 49 employees, and it has since been complemented by new calls for applications aimed at business with fewer than 10 employees.

  With the aim of helping customers to take advantage of these support measures, an agreement has been reached with Masmóvil to provide digitisation solutions for those businesses.

- **Photovoltaic self-consumption:** This involves a package of government aid amounting to 1,320 million euros, which is intended to promote self-consumption and energy storage, and renewable power systems. This provides an opportunity for businesses to carry out investment projects aimed at self-consumption, and they are able to benefit from the complementary financing offered by Banco Sabadell.

  In this respect, the agreements with key market players, such as Iberdrola and EDP Solar, allow us to offer customers turnkey solutions complemented by the funding that they may require to take up the offer.

- **Home renovations:** The Next Generation EU funds offer grants for home or office renovations linked to energy efficiency and renewable energies projects. The main beneficiaries of these grants are homeowners' associations. The amount of the grant will vary depending on the savings achieved by the renovation.

Participation in 'PERTE' projects[61]*:*

Strategic projects for economic recovery and transformation (*proyecto estratégico para la recuperación y transformación económica* or PERTE) are a new feature, conceived as a way of promoting and coordinating high-priority projects that are strategic in nature due to their impact on economic growth, employment or the competitiveness of a given sector. They are intended to serve as a connecting node between public and private initiatives by providing a predictable legal framework with which to develop innovative and collaborative solutions.

The most developed PERTE at the time of writing this report is the Connected Electric Vehicle project, which is focused on strengthening value chains in the automotive industry. This set of initiatives includes the

[61] Strategic Projects for Economic Recovery and Transformation (*Proyectos Estratégicos para la Recuperación y Transformación Económica* or PERTE).

promotion of electric vehicles, the distribution of charging points, and incentives for electric vehicle purchases.

The Institution holds conversations with the companies that lead the main projects and with participating SMEs, to offer them financing and the guarantees they may need to carry out their projects.

5.2 Sinia Renovables

At year-end 2022, Sinia Renovables, Banco Sabadell's division for investment in renewable energies and sustainability, has investments in operation, construction and development projects with an overall installed capacity of 1,139 MW, of which the portion attributable to Sinia through its direct shareholding is 342.0 MW, equivalent to the generation of 754.0 GWh of sustainable electricity each year. This power generation, assuming all projects are in operation, would be enough to satisfy the average annual consumption of approximately 230,469 households.

Renewable electricity attributable to Sinia, based on the entirety of its portfolio in operation, in which it holds a direct equity interest, is 157 GWh/year. This renewable energy prevents the emission of around 22,061 tonnes of CO_2 equivalent per year, equivalent to the average annual consumption of approximately 48,159 households[62].

In 2022, Sinia has launched the Alternative Green Equity Solution, a hybrid financial product that provides a solution for many small developers who currently have renewable energy projects at the ready-to-build stage but are unable to build them, operate them, and eventually become Independent Power Producers (IPPs), due to a lack of financial resources and unavailability of funding. In 2022, Sinia Renovables has mobilised more than 110 million euros, between invested capital and funding.

These figures position the Group as one of the financial sector's top investors in renewable energy projects.

In addition, the main actions taken during the year are set out below:

- Sinia currently holds investments in wind energy projects in operation in Mexico equivalent to 247.3 MW installed capacity, in the Tamaulipas and Baja California regions. In Peru, it disposed of two wind farms in the northeast of the country with total installed capacity of 36.8 MW. And in Chile, it has maintained its investment in a 103.5 MW photovoltaic plant in the north of the country.

- With regard to assets in operation in the Spanish market, Sinia has maintained its investment in two wind farms in Navarre with a combined 93.6 MW capacity, a 10.5 MW wind farm in Tarragona, and 8.56 MW of photovoltaic self-consumption facilities which distributes surplus energy to different autonomous communities.

- With regard to assets under development at year-end 2022, Sinia holds investments in assets with total installed capacity of 530.0 MW located throughout Catalonia, Galicia, and Castilla y Leon, among other regions, including both photovoltaic plants and wind farms.

- In terms of construction, Sinia has investments in a total 145 MW distributed throughout Castilla y Leon, Galicia, Valencia, Castilla La Mancha and Catalonia, among other regions.

- It continues to hold 25% of the first franchiser of engineering firms engaged in photovoltaic self-consumption and electric vehicle charging points in Spain, called Doctor Energy, in order to help the company accelerate its growth.

- It continues with its second and third investments in the industrial self-consumption sector, through the provision of finance and the acquisition of a 10% stake in 15 plants with overall volume of 19.34 MW, and another 10% stake in 10 plants with additional volume of 5.29 MW.

5.3 Issuance of sustainability bonds

In July 2020, Banco Sabadell published the Framework for the issuance of bonds linked to Sustainable Development Goals (SDGs), which serves as the reference document for the issuance of green, social and sustainability bonds. This Framework is aligned with the European Union Taxonomy and complies with the voluntary guidelines issued by ICMA (International Capital Market Association).

[62] The conversion factor for this calculation is based on data from the Spanish Office for National Statistics (*Instituto Nacional de Estadística* or INE).

- **Green bonds** are intended to finance eligible green project categories, focusing on projects with environmental benefits, such as reduction of greenhouse gas emissions, pollution prevention and climate change adaptation.
- **Social bonds** are designed to finance eligible social project categories, focusing on the generation of social benefits by providing access to essential services, facilitating social inclusion and promoting the creation and maintenance of employment.
- **Sustainability bonds** are aimed at providing finance for a combination of green and social projects as described above.

The funds obtained by issuing these types of bonds are used to fully or partially finance or refinance new, existing or future loans or projects that meet the eligibility criteria established in the Framework.

In 2022, Banco Sabadell has issued four green bonds. In March, two green issuances of non-preferred senior debt were carried out, one for 750 million euros with a coupon of 2.625% and a 4-year maturity with an option to call early at 3 years, and one for 120 million euros with a coupon of 3.15% and a 15-year maturity. In November, a further two green issuances were carried out, one of senior debt for 750 million euros with a coupon of 5.125% and a 6-year maturity with an option to call early at 5 years, and one of non-preferred senior debt for 75 million euros with a coupon of 5.5% and a 10-year maturity with an option to call early at 9 years. Including the bonds issued in 2022, Banco Sabadell has accumulated 2,815 million euros in green issuances, of which 2,695 million euros remain outstanding.

Based on the provisions of the Framework for the issuance of bonds linked to Sustainable Development Goals (SDGs), a report has been prepared, for the green bonds issued in 2021, on the allocation of funds to eligible projects and the impact generated by those projects. This report has been reviewed by an independent expert. The report is available on the corporate website under the heading "Green Bonds Report 2022".

5.4 Sustainable savings and responsible investment solutions

In the area of investment, both pension fund manager BanSabadell Pensiones EGFP S.A. in 2012 and, since 2016, Aurica Capital, a venture capital enterprise that invests in Spanish companies with plans to expand in foreign markets, have adopted the United Nations Principles for Responsible Investment (PRI) in the investment manager category. Pension funds individually subscribed to the PRIs by BanSabadell Pensiones EGFP S.A. include BanSabadell Pentapensión Empresa FP, the Banco Sabadell Employees' Pension Fund MF2000, the Banco Sabadell Employees' Pension Fund GM, BanSabadell 18 FP, and the Pension Fund of Compañía de Servicios de Bebidas Refrescantes, a soft drinks company in Spain.

In mutual funds, Banco Sabadell maintains its strategic alliance with Amundi, Europe's leading asset manager, committed to sustainable investment since its creation. Amundi has been a signatory of the United Nations Principles for Responsible Investment (PRI) since 2006.

At the end of 2022, 20 Sabadell Asset Management mutual funds (€8,850.3M) promote environmental or social characteristics, meaning that they are classified as Article 8 funds[63] under the European SFDR (Sustainable Finance Disclosure Regulation). When combined with the other Amundi mutual funds distributed by Banco Sabadell, this means that €11,136.9M, the 88.2%[64] of Banco Sabadell customer assets invested in non-guaranteed Sabam/Amundi mutual funds, promote environmental or social characteristics or have environmental or social objectives (Article 8 or Article 9 of SFDR[65]).

In 2023, the offering of savings/investment products that meet sustainability criteria will continue to be expanded, following a key breakthrough in 2022. Mutual funds will continue to be the focus of attention, as they are the investment product most frequently chosen and contracted by customers. Based on this year's target of around 75%, it is anticipated that assets under management meeting ESG criteria will reach 77%.

[63] Article 8 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (known as SFDR), which governs transparency of the promotion of environmental or social characteristics in pre-contractual disclosures and transparency of sustainable investments in pre-contractual disclosures, respectively.
[64] Assets invested in different asset management companies of the Amundi group, not including guaranteed mutual funds. Including these assets, the percentage is 68%.
[65] Articles 8 and 9 of Regulation (EU) 2019/2088 of the European Parliament and of the Council.

Banco Sabadell recognises the importance of the investment products and services sector in financing a more sustainable economy. Within this commitment, and in order to foster best practices in relation to investment in 2022, training sessions on ESG investment have continued for all customer-facing staff who may have an advisory role. In the same vein, a course was carried out in 2022 for those in more specialist roles in relation to Savings/Investment, in order to further explore ESG investment, with topics such as the integration of ESG criteria, financial returns and regulation.

The Banco Sabadell Policy on Integrating ESG Risks in Savings/Investment Products was updated in 2022 with the latest progress made in this regard, and initial evidence of its application, as defined in 2021. This policy is enshrined within Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector. The process consists of four stages. The first stage corresponds to the analysis of evidence submitted by the companies or partners to which the Institution has delegated tasks related to the management of products of which the Institution is a Financial Market Participant, or to the selection of products that it offers in its capacity as Financial Advisor. The second stage involves reviewing the offering defined for the different segments, including sustainability risks within the decision-making variables, to be submitted to the Working Group of the Advisory Offering. In a third stage the decisions taken by the Technical Product Committee are ratified. Lastly, the fourth stage involves monitoring the information to be disclosed in accordance with Regulation 2019/2088. It should be noted that in 2022 changes to the advice and discretionary portfolio management models were implemented, in line with the objective set forth in the Sustainable Finance Plan, to introduce customers' sustainability preferences into those models, as from 2 August 2022. In this respect, customers are asked to answer new questions to find out their preferences in terms of sustainability aspects related to their investments and financial assets, which serves to update the Institution's tools in this regard. Specific training has also been arranged to explain these changes and prepare the network managers so that they are able to communicate terms associated with sustainability to customers.

With regard to BanSabadell Pensiones, in recent years various actions have been carried out to encourage the development of socially responsible investment among its pension plans, and it was one of the first institutions to offer an ethical and charitable pension plan which, in addition to investing according to socially responsible criteria, also made a donation to fund selected projects. In 2018, Bansabadell Pensiones, jointly with Banco Sabadell and the Spanish Workers' Commissions (*Comisiones Obreras* - CCOO) signed an agreement in relation to the socially responsible investment (SRI) clause, to include in the statements of investment policy principles of occupational pension funds. BanSabadell Pensiones currently manages nine pension funds that explicitly incorporate a socially responsible investment (SRI) mandate in their investment policy, with assets of 979.5 million euros as at year-end 2022.

In terms of the integration of sustainability risks in investment-related decisions at Sabadell Seguros, the asset management process integrates quantitative and qualitative ESG criteria. To this end, ESG ratings issued by specialised ESG rating agencies are used. These allow the risks and opportunities associated with short- and long-term investments to be identified. Certain tools are also used in the process that detect reputational alerts related to the companies and assets that form part of its investments. It is also worth noting that exclusion policies are applied, which dictate that no investments should be made in controversial sectors (weapons, thermal coal, etc.). To analyse sustainability risk controls in investment portfolios, the ESG Footprint Committee was created, which is responsible for supervising sustainability risks and verifying the correct implementation of the sustainability risk policy by each investment manager.

Similarly, Sabadell Seguros has been a participant of the Q-Impact fund since July 2021, in order to contribute to the global energy transition challenge and create professional opportunities for vulnerable groups.

Q-Impact invests in companies in growth and expansion stages that mitigate problems of social inclusion and ecological transition in Spain. In the social sphere, the fund primarily focuses on companies which promote the employability of young people and reduce youth unemployment, which work towards the inclusion of those with different abilities and vulnerable groups, and improve the lives of people with different abilities and the elderly through adapted products and remote assistance services. With regard to ecological transition, the fund focuses on catalysing investment in underserved markets, as well as on organic agriculture, sustainable technology and related sectors: renewable generation on islands and financing of self-consumption and energy efficiency.

As at September 2022, the Q-Impact fund had obtained the following results: In its financial valuation, it has reached an Internal Rate of Return (IRR) of 17%. With regard to its social and environmental impact, 54% of the impact target has been reached, which means the impact of companies has increased since the Bank's entry in the fund.

In terms of protection insurance, the aim of companies is to promote the development of products and services that create social value and foster environmental protection.

Similarly, the Bank wants to offer insurance products that help it honour its commitment and fulfil its responsibility to the environment. To this end, a number of its products include services and benefits that promote the fight against climate change.

Travel has become less frequent, consequently reducing greenhouse gas emissions, thanks to video valuations in Auto Protection and Home Protection insurance and 24-hour video consultations in Health Protection provided by Sanitas.

Home Insurance also takes into account the needs of customers concerned about climate change, offering coverage for accidental breakages of the sheets of glass of any solar panels that they have installed and which are fixed to the fabric of the building of their homes and for their exclusive use. Any charging points for electric vehicles installed and fixed in their (owned) garage are also considered part of the fabric of the building.

On the other hand, Auto Insurance offers special coverage for electric vehicles, such as roadside assistance in the event of a breakdown, accident or low battery; coverage for the theft of the charging cable or plug; as well as coverage for damage to third parties caused by faults when charging the vehicle (with the Civil Liability coverage).

5.5 Green financing and funding lines with multilateral development banks in Mexico

Green financing in Mexico

In 2022, Banco Sabadell in Mexico granted green finance amounting to approximately 65 million euros, involving the following main funding destinations:

- Renewable energy projects;
- Sustainable transport;
- Construction projects using energy efficient materials.
- Installation and maintenance of renewable energy technologies (photovoltaic panels) in the industrial and agricultural sectors;

Lines of credit with multilateral development banks

Since 2019, Banco Sabadell Mexico has had access to a 10-year line of credit of 100 million US dollars granted by International Finance Corporation (IFC), a member of the World Bank Group, to promote the development of sustainable tourism and construction in Mexico. These funds are granted to customers seeking to promote the development of sustainable projects.

This partnership with the IFC has boosted sustainable financing, with loans being granted to the hotel industry to promote sustainable tourism in the country. These projects meet over 90% of the environmental requirements of the Rainforest Alliance, which bases its certification criteria on energy efficiency, reduced water consumption and control of greenhouse gas emissions.

Sabadell Mexico also has an 8-year line of credit of 50 million dollars with the German Development Finance Institution (DEG), which aims to promote sustainable projects aimed at environmental protection, including investments in energy efficiency, measures to reduce greenhouse gas emissions, and devices for facilities and equipment for the rational management of water and waste, among others.

Since July 2021, all infrastructure projects that have received 5 million US dollars or more in funds from the IFC and the DEG are evaluated by Banco Sabadell Mexico's SARAS system, which identifies the environmental and social impacts and risks associated with customers' activities. At the end of these evaluations, an Action Plan is drawn up designed to help mitigate the identified impacts and risks, which the customer undertakes to carry out.

6. Commitment to people

6.1 Workforce information

Banco Sabadell has a committed and professional workforce geared towards helping people and companies make the best economic decisions. Banco Sabadell has policies and procedures in place aimed at developing talent, fostering the commitment of its workforce and encouraging diversity and inclusion.

As at year-end 2022, Banco Sabadell Group's workforce consists of 18,895 employees distributed across the various regions in which it operates, practically all of whom have permanent contracts (99.0%). The average age of the workforce is 44 years, with an average length of service in the organisation of 16 years. This workforce is diverse in terms of both geographical distribution (33.2% are in international locations) and gender (55.6% are women).

Banco Sabadell Group employees: Breakdown by professional category, age, country and nationality

	2022			2021		
Professional category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Senior management	460	208	668	515	214	729
Middle management	1,944	1,381	3,325	1,988	1,281	3,269
Specialist staff	5,298	7,194	12,492	5,663	7,766	13,429
Administrative staff	683	1,727	2,410	724	1,919	2,643
Total	**8,385**	**10,510**	**18,895**	**8,890**	**11,180**	**20,070**

Group data as at 31/12/2022. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

	2022			2021		
Age range	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Under 31	1,080	1,209	2,289	1,113	1,245	2,358
Between 31 and 49	4,682	6,290	10,972	5,093	7,012	12,105
Over 49	2,623	3,011	5,634	2,684	2,923	5,607
Total	**8,385**	**10,510**	**18,895**	**8,890**	**11,180**	**20,070**

Group data as at 31/12/2022.

	2022			2021		
Country	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Spain	5,796	6,828	12,624	6,157	7,310	13,467
United Kingdom	2,168	3,343	5,511	2,291	3,507	5,798
Mexico	266	166	432	278	185	463
Other regions	155	173	328	164	178	342
Total	**8,385**	**10,510**	**18,895**	**8,890**	**11,180**	**20,070**

Group data as at 31/12/2022. Workforce in the United Kingdom includes employees at TSB and at Banco Sabadell's London branch.

Nationality	2022	2021
Spanish	66.0%	66.4%
British	27.3%	27.4%
Mexican	2.2%	2.3%
United States	1.1%	1.1%
Other nationalities	3.3%	2.8%
Total	**100%**	**100%**

Group data as at 31/12/2022.

In 2022, the Group's workforce has been reduced by 5.9%, going from 20,070 employees to the current 18,895 employees. This reduction includes part of the commitment to efficiency of the strategic plan, embodied in the collective dismissal agreement reached between the Bank and 100% of workers' legal representatives. The Bank continues to engage in a process to adapt to the transformation of the environment (customer digitisation, new ways of working, disruptive technology, etc.) in order to build the best possible future for the workforce, customers and other stakeholders.

The redundancy scheme that envisaged the gradual dismissal of 1,603 Banco Sabadell employees ended in June 2022. In accordance with legal requirements, but with conditions far superior to those provided in law, all of these employees were offered the option to be enrolled in the different programmes included in a Social Plan, which had a dual commitment: to find new employment for all those affected (Relocation Programme) and, on the other hand, to provide effective guidance and emotional support to those who needed it during this personal and professional transition (Silver Programme). The programmes were offered effectively to all those affected by the dismissal and, during the 12 months following their launch, a total of 487 people (30% of those affected) have made use of them. Of those who made use of the programmes, 356 were enrolled in the Relocation Programme and 131 in the Silver Programme.

As part of these programmes, the support given was tailored to the needs of each particular case, achieving a labour market insertion rate of 61% of participants interested in finding a new position during this period.

The activities and professional support provided by Banco Sabadell were given an average overall rating of 4.8 out of 5, with those surveyed rating it as a comprehensive service that was very useful during their professional and personal transition.

Breakdown of staff departures from the Group due to dismissal

There were 1,228 staff departures in 2022, 25% less than in 2021, when they numbered 1,648. The data below reflect the staff departures that took place under the redundancy scheme that ended in June 2022:

	2022			2021		
Professional category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Senior management	33	8	41	16	5	21
Middle management	136	34	170	70	24	94
Specialist staff	357	621	978	398	520	918
Administrative staff	20	19	39	66	549	615
Total	**546**	**682**	**1,228**	**550**	**1,098**	**1,648**

Group data as at 31/12/2022. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

	2022			2021		
Age range	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Under 31	26	12	38	28	40	68
Between 31 and 49	176	457	633	108	259	367
Over 49	344	213	557	414	799	1,213
Total	**546**	**682**	**1,228**	**550**	**1,098**	**1,648**

Group data as at 31/12/2022.

Voluntary turnover

The voluntary turnover rate (VTR[66]) of the Group (ex-TSB) in 2022 was 2.5%. In Spain, the voluntary turnover rate was 1.7%, increasing by 0.8 p.p., leavers mainly profiles highly sought after in the market (Data, Regulatory and Corporate Banking).

	2022		2021	
Age range	**National**	**International**	**National**	**International**
Under 31	13.9%	21.8%	9.1%	19.8%
Between 31 and 49	1.3%	17.2%	0.8%	10.6%
Over 49	0.2%	4.2%	0.2%	1.4%
Total	**1.7%**	**14.7%**	**0.9%**	**9.9%**

Group (ex-TSB) data as at 31/12/2022. ‘International’ includes Mexico, foreign branches and representative offices.

	2022		2021	
Gender	**National**	**International**	**National**	**International**
Men	2.4%	14.9%	1.2%	12.3%
Women	1.1%	14.4%	0.7%	7.0%
Total	**1.7%**	**14.7%**	**0.9%**	**9.9%**

Group (ex-TSB) data as at 31/12/2022. ‘International’ includes Mexico, foreign branches and representative offices.

Involuntary turnover

The involuntary turnover rate (ITR[67]) of the Group (ex-TSB) was 1.1%. In Spain, the involuntary turnover rate was 1.0%.

	2022		2021	
Age range	**National**	**International**	**National**	**International**
Under 31	2.4%	3.8%	2.1%	6.4%
Between 31 and 49	0.5%	2.7%	0.8%	4.8%
Over 49	1.7%	6.3%	2.5%	7.0%
Total	**1.0%**	**3.7%**	**1.4%**	**5.5%**

Group (ex-TSB) data as at 31/12/2022. ‘International’ includes Mexico, foreign branches and representative offices. Includes those leaving due to dismissals or for other involuntary reasons. Does not include those leaving due to restructuring processes.

[66] Rate that measures those leaving the Group (ex-TSB) on a voluntary basis.
[67] Rate that measures those leaving the Group (ex-TSB) on an involuntary basis.

	2022		2021	
Gender	**National**	**International**	**National**	**International**
Men	1.3%	4.1%	1.6%	5.8%
Women	0.8%	3.3%	1.3%	5.2%
Total	**1.0%**	**3.7%**	**1.4%**	**5.5%**

Group (ex-TSB) data as at 31/12/2022. 'International' includes Mexico, foreign branches and representative offices. Includes those leaving due to dismissals or for other involuntary reasons. Does not include those leaving due to restructuring processes.

Types of contracts in the Group

Practically all Group employment contracts (99.0%) are permanent contracts, and only 182 are temporary.

Number of contracts, by type:		**2022**			**2021**	
Type of contract and gender	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Permanent	8,304	10,409	18,713	8,817	11,061	19,878
Temporary	81	101	182	73	119	192
Total	**8,385**	**10,510**	**18,895**	**8,890**	**11,180**	**20,070**

Group data as at 31/12/2022.

Number of contracts, by type:		**2022**			**2021**	
Type of contract and professional category	**Permanent**	**Temporary**	**Total**	**Permanent**	**Temporary**	**Total**
Senior management	666	2	668	727	2	729
Middle management	3,319	6	3,325	3,258	11	3,269
Specialist staff	12,405	87	12,492	13,337	92	13,429
Administrative staff	2,323	87	2,410	2,556	87	2,643
Total	**18,713**	**182**	**18,895**	**19,878**	**192**	**20,070**

Group data as at 31/12/2022. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

Number of contracts, by type:		**2022**			**2021**	
Type of contract and age range	**Permanent**	**Temporary**	**Total**	**Permanent**	**Temporary**	**Total**
Under 31	2,178	111	2,289	2,306	52	2,358
Between 31 and 49	10,911	61	10,972	12,009	96	12,105
Over 49	5,624	10	5,634	5,563	44	5,607
Total	**18,713**	**182**	**18,895**	**19,878**	**192**	**20,070**

Group data as at 31/12/2022.

6.2 Commitment to talent

Banco Sabadell Group aspires to provide its employees with an ideal place in which to develop their careers. To make this possible, the Group has a solid talent management model, a framework of professional opportunities within the Group (internal mobility, promotions and training) and the ability to attract the best external talent.

6.2.1 Talent management model

Banco Sabadell's talent management model seeks to manage talent and foster employee loyalty, applying the principles of meritocracy, development of internal potential, and diversity. To prioritise the development of internal talent, the focus is placed on developing the potential of each person, and employees are offered the possibility of new career opportunities and professional advancement in Banco Sabadell Group.

The main processes used to identify and unlock the potential talent of each employee are the following:

- Annual Appraisal of Performance and Potential: (for employees without variable remuneration). This is a structured process designed to identify internal talent and measure potential. It appraises the performance, capabilities and potential of employees and offers a chance to ascertain their professional ambitions and to define their development plan. This year, improvements have been detected and introduced in the process, such as improved access, additional information about the training and targets of each person and, above all, adding future roles and moving forward with the individual career development plan needed to complete the appraisal and to foster the development of the entire workforce. Based on the results of the annual appraisal, actions are defined for employees with the best performance and greatest potential, providing them with professional opportunities, access to special training and events for their personal development throughout the year. It is the basis used for making decisions regarding their professional career in processes such as internal mobility, training or salary-related actions, and also for decisions made by the Employee Appraisal Committees and the Managerial Performance Evaluation Committee.

- Individual Qualitative Appraisal: (for employees with variable remuneration). This appraisal is based on two key pillars: internal equity and meritocracy. The Individual Qualitative Appraisal appraises the contribution made by each person and the way in which they have achieved this, using 10 elements (which vary depending on the level of responsibility), as well as their potential. This appraisal counts as 20% of the individual targets of the employee.

  One of these elements relates to adequate risk management and compliance, analysing whether employees assess, weigh and determine the risks that exist in their activity and whether they take them into account in an appropriate manner when making decisions. The appraisal also assesses whether employees are familiar with and comply with the Group's internal standards and also with regulations applicable to their area of activity, and whether they convey the need to comply with the foregoing to those working alongside them.

- Management Appraisal (180º): Every year, teams appraise the performance of their line managers, focusing on six key elements. This process is visible to the line manager and considered in their appraisal. The line manager is also given feedback about the results obtained, while the people manager keeps track of them. The following elements are appraised:

  - Communicate effectively and regularly share the relevant information of the organisation about topics concerning the division, their area of activity, and the entire organisation, helping employees understand the new competitive environment.

  - Coordinate effectively with those working alongside them and promote teamwork and collaboration both within and outside the division.

  - Focus on productivity and the efficient use of time, helping employees to prioritise and work in an effective and flexible manner in a changing environment. Be in line with the Group's commitments on the topic of ESG and adequately manage risk and compliance.

  - Delegate, empower and guide the team for autonomous decision-making, encouraging employees to be non-conformist, so as to anticipate their needs and develop in order to offer the best possible solutions.

  - Monitor the work of both individuals and the team as a whole on a regular basis, ensuring that there is individual accountability.

  - Take ownership of professional development and advancement: monitor the development plan on a regular basis, give constructive feedback and recognise achievements.

- Employee Appraisal Committees: Employee Appraisal Committees meet on an annual basis to run talent diagnostics and analyses using data about the workforce, in addition to all elements of human capital for each general/territorial division. Every year, through the Employee Appraisal Committees, a comprehensive picture is obtained about the workforce and talent in each division, thus making it possible to take objective, meritocratic and collective decisions.

- Managerial Performance Evaluation Committee: This Committee meets on an annual basis with the Bank's Management Committee. In order to decide on changes to senior management staff, approving proposals for promotions to or demotions from that group. Promotions to senior management take place taking into account as fundamental criteria both the assessment of positions and the assessment of talent, as well as the size of this group, which should be in keeping with the structure and the established targets and commitments in relation to diversity. The resulting talent maps are fundamental elements for managing internal talent, based on strategic needs and meritocracy.

- Key Function Holder Substitute Map: the ‘key roles’ identified to date are reviewed every year, as a result of changes in the organisational structure, and the substitute pool is updated.

In Banco Sabadell, meritocracy is key to developing talent in a sustainable way in the long term. The talent management model prioritises the promotion of employees who achieve the expected results whilst putting the Bank’s values into practice on a daily basis. Promotions to roles with greater responsibility are validated by internal bodies, with the support of the People Division.

Other regions:

TSB has not used individual performance ratings since 2020. The Institution has developed a management process designed to improve performance and foster development through regular conversations between employees and line managers. Employees who achieve their personal targets and objectives, demonstrate the core behaviours and who regularly meet or go beyond the expectations of their role will be eligible for annual variable remuneration.

Similarly, for those in the highest echelons of the Institution, the evaluation takes place using an individual comprehensive scorecard. This scorecard includes individual financial and non-financial metrics that are established and linked to the Primary Corporate Objectives of TSB and the Group.

In 2022, TSB has continued to actively identify and develop talent, building strong and diverse sources for its management.

Those identified are given access to the coaching system for senior roles, through which they gain access to sound development plans and management coaching, as well as access to internal and external opportunities and events for development. The skills development programmes help candidates to develop skills to promote internal mobility.

Similarly, TSB’s mentoring programme continues to give employees access to networking opportunities in the banking industry. In 2022, more than 300 employees have taken part in the programme, which consists of six schemes, three of which connect employees with participants outside of TSB, while the other three focus on building internal connections throughout the Bank.

In Mexico, the talent management processes described above for Spain also apply to the subsidiary, which carries out an Annual Appraisal of Performance and Potential and where the Employee Appraisal Committee and Managerial Performance Evaluation Committee meetings take place every year, as does the review of the Key Function Holder Substitute Map, to align it with the Group’s talent management model.

6.2.2 Attracting talent

Once the staff restructuring process was complete, from March 2022 onwards the greatest challenge in relation to the attraction of both internal and external talent involved the creation of teams with the necessary skills and capabilities to meet the strategic objectives of the Group.

With regard to the attraction of external talent, in Spain, 469 new employees were hired, with the following profiles: financial analysts (regulatory quantitative) (27%), data specialists (23%), business specialists (22%), technologists and other profiles such as project managers (11%) and specialised technicians (17%).

Similarly, in relation to attracting talent, 314 vacancies have been filled internally.

New permanent hires in Banco Sabadell Group: Breakdown by professional category, age and gender

	2022		2021	
Professional category	**National**	**International**	**National**	**International**
Senior management	2	0	4	0
Middle management	39	13	121	16
Specialist staff	423	89	231	90
Administrative staff	5	0	11	0
Total	**469**	**102**	**367**	**106**

Group (ex-TSB) data as at 31/12/2022. 'International' includes Mexico, foreign branches and representative offices. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

	2022		2021	
Age range	**National**	**International**	**National**	**International**
Under 31	305	47	293	41
Between 31 and 49	159	50	67	59
Over 49	5	5	7	6
Total	**469**	**102**	**367**	**106**

Group (ex-TSB) data as at 31/12/2022. 'International' includes Mexico, foreign branches and representative offices.

	2022		2021	
Gender	**National**	**International**	**National**	**International**
Men	261	60	244	64
Women	208	42	123	42
Total	**469**	**102**	**367**	**106**

Group (ex-TSB) data as at 31/12/2022. 'International' includes Mexico, foreign branches and representative offices.

Talent incubators

Young talent programmes are a key way of incorporating the skills and knowledge necessary to achieve business goals and to ensure the transformation of the Institution. Two scholarship programmes have been launched in 2022: the first edition of the CIB Internship Programme, and a new edition of the Internship Programme, taken up by 20 and 97 students, respectively. The aim of these programmes is to offer these students a period of practical learning by placing them either at the corporate headquarters or in the branch network.

The Banking Sales Graduate Programme (Plan Cantera) has also continued this year, which aims to establish preliminary training with basic content for commercial roles (Commercial Managers) and to provide essential training for regulatory certifications. The participants (210) who joined in 2021 to become business specialists have all achieved the established objectives. Participants have also successfully completed the training programmes for commercial skills and the certifications for the correct marketing and sale of financial products.

The people who form part of the Graduate Data Science Programme have taken part in several projects involving advanced data analytics and the use of modelling technologies of the business units, as well as activities organised outside the Institution. One example of these initiatives is the Datathon, held in collaboration with the Spanish National Organisation for the Blind (ONCE) and Microsoft, in order to foster the social impact and provide analytical capabilities aimed at improving their projects.

Both programmes (Banking Sales Graduate Programme and Graduate Data Science) have specific proposals and pathways for training and development, and they also aim to create a sense of belonging in the Institution.

Lastly, it is worth mentioning the end of the Young Talent 2019 programme, a 3-year programme to attract young talent that focused on financial areas and roles in control and compliance.

These talent programmes contribute to increasing gender diversity and they strengthen the Institution's commitment to young employees as they develop their talent and professional careers. They also help to convey an image of a pioneering bank with a clear course of action going forward.

Employer brand

Banco Sabadell has a staff selection process that ensures the application of objective criteria, assessing the professionalism of staff and the extent to which they are suited to their roles, as well as their potential for development in the company. Keeping a close relationship with universities continues to be a key factor in attracting talent and building a strong employer brand. This year, this has been achieved by participating in a variety of events at top universities. The Bank has also continued to be present in the main careers fairs of the country.

Banco Sabadell's use of LinkedIn has also been another key factor in finding talent, particularly young talent and digital profiles, through campaigns with organic and sponsored content. Its company page on this social network has more than 163,100 followers as of this year, a figure that represents a 15% increase on the previous year's figure.

Banco Sabadell continues to be among the top 100 places to work in Spain, according to the prestigious employer reputation monitor MercoTalento, occupying the 42nd spot on the ranking.

6.2.3 Leadership programmes

Managers are the backbone of the Group's development and they play a fundamental role. They guide people, generating environments of collaboration and agility, developing the business with the customer in mind. The Bank is evolving its culture and ways of working to be more agile and exciting and for this to happen it leans on managers as a lever of change.

Corporate Management Programme

The Corporate Management Programme, for people promoted to the role of director or unit head with direct reports and who have held that role for 1.5 years or less, continues to offer a training pathway for managers focusing on skills, collaboration and values. The programme focuses on the culture of the consolidated Bank and on a development pathway for the manager in question, based on a meritocratic model that places the best people as leaders and drivers of change and innovation. It is a blended programme that combines on-site and online content and which lasts 15 weeks in total, with an estimated 60 hours dedicated to in-person sessions, online courses and hours assigned to the project.

Between September 2021 and February 2022, a total of 91 managers completed this pathway. In addition, a further 149 managers completed this pathway between March and November of 2022.

In the most recent editions, the approach of the project has been changed to align it with the Eres Manager project, improving the networking sessions with People (HR). The key ideas to be conveyed during the programme relate to both a cross-sectoral approach in terms of the diversity of the members of the work teams, and to the nature of their experiences. At the same time, they concern the generation of greater self-knowledge, the development of skills, and abilities to manage people.

Career Acceleration Programme

The goal of this programme is to prepare the leaders who will tackle the challenges of the future. In 2022, a new edition of the CAP was held, with a total of 103 participants (56% of whom were women), all upcoming senior managers of the Bank, which lasted 18 months.

The programme was designed with the aim of accelerating the career development of upcoming directors considered to have great potential and who represent the values and attitudes that the Bank seeks to promote, making it easier to attain the necessary diversity that it is seeking to achieve among senior managers.

Participants focused on five different levers:

- Self-knowledge: each participant completed a 360° questionnaire designed to paint a picture of the behaviours that they exhibit on a day-to-day basis, in addition to several group workshops on self-knowledge to develop their self-awareness and personal and relational self-management, as well as various sessions led by an individual coach, to help them draw up a subsequent development plan

("My Map"), to provide an insight into their strengths, opportunities for improvement and suggestions for their development.

- Training: participants completed four modules on Leadership Development imparted with the partner ESADE (*Escuela Superior de Administración y Dirección de Empresas*), which took a total of 85 hours per participant and which focused on four aspects: Global perspective, Leadership vision, Functional vision, Cross-cutting vision. The purpose of the training was to make participants ready for a career jump, generating energy for change and a vision for the future in the organisation.

- Banco Sabadell perspective: quarterly meetings were held with senior executives, in addition to sporadic meetings with the different general divisions. This perspective brings everyone in the Bank closer together, allowing those in executive levels to become more familiar with the know-how and culture of the Bank in other areas.

- Mentoring: a systematic process to assign mentors to mentees and which consists of seven internal mentoring sessions. The aim is to help participants to create their own professional growth and career development plan, further empowering participants in their professional trajectory. For the mentoring process, both mentors and mentees received a guide and had access to a help and assistance service.

- New challenges: working and thinking 'outside the box', through different assignments or participations in several activities, such as corporate volunteering. Establishing development assignments, taking on new challenges outside their area of responsibility and exposing participants to roles that are different from their usual ones.

Senior Manager Development Programme

Programmes for senior managers have continued in 2022, including the Senior Manager Development Programme, for those who attain the role of Top Manager, in order to support them as they transition to their new role and to prepare them for the changing business environment, focusing particularly on the specific challenges of their new position.

The talent strategy allows the Institution to have the necessary talent in order to achieve the objectives it sets itself, ensuring the existence of the necessary skills, an improved fit between the person and their role, and equal opportunities.

The programme follows a 'learning by doing' approach and aims to build networks within senior management, offering networking opportunities and visibility. Participants are required to take on more leadership than their current role requires them to, conveying the vision and values of the Institution. To that end, the key challenges of the programme focus on how participants approach managing their team as a leader of managers and as the main person responsible for the environment within the team and their commitment to their work, on the creation of spaces of trust within their area of responsibility, offering teams feedback and working on team development and, lastly, they focus on contextualising decision-making from the broadest possible perspective, understanding and establishing relationships with other corporate areas.

It includes a 360º appraisal process and various group coaching sessions, with groups of 5/6 people, to complement the training sessions. The 360º processes are carried out based on the skills previously identified by Banco Sabadell as being necessary for the performance of the managerial role. Depending on the specific skills in question, a self-assessment takes place, along with evaluations by managers, peers and other assessors. All of these evaluations culminate in an individual report, shared with each participant, so that they may put together their individual development plan based on the skills that need to be developed. The partner working on the 360º tool is Korn Ferry International, a leading global partner for management solutions, while the provider of the overall programme is CCL (Center for Creative Leadership), a standard-bearer for leadership on an international scale.

In 2022, a new edition of the programme took place in 100% on-site format, in which 70 senior managers took part and rated the programme very highly.

Eres Manager

The '*Eres Manager*' training programme was rolled out in 2021. It is a growth and development programme designed to recognise managers, supporting them as they enhance their capabilities, gearing these towards promoting a more agile, exciting and connected bank, and also to ensure that managers are aligned with the corporate purpose of the Institution and embody its values.

It is a cross-cutting programme that encompasses all divisions within the Bank, with a target number of 3,400 managers ranging from Unit Heads to General Managers.

The programme is based on training and facilitation sessions, working with teams of managers from each division. The focus is on the role of manager and on how to reach systemic agreements to ensure that all divisions and managers are committed to seeing them through. Focusing on two elements of the role, “we focus on people and generate environments of collaboration and agility”, through targeted communications, spaces for reflection, and training.

In 2022, the General Divisions of the Bank have carried out the programme through different editions; 93% of attendees said they would recommend the programme after completing the first edition. The programme is also expected to continue in 2023.

Furthermore, every month an email is sent to all managers containing a newsletter to give them key information, remind them of specific actions they should take with their teams, reinforce their role and support them with thought-leading content (news capsules, articles, podcasts, etc.) so that they may behave as team leaders should. The content of these newsletters is published periodically on the private space of Campus made available to those participating in the programme, which contains all of the training and information content that they may need at any time.

Other regions:

Leadership development at TSB

In 2022, TSB launched the ‘Leadership Expectations’ programme, which describes the behaviours expected from all senior leaders based on the leadership development strategy. Leadership Expectations incorporates the processes and evaluations carried out by Human Resources, including its 360º feedback and the evaluation of the recruitment of senior leaders.

TSB provides all team leaders with access to Hive Learning, a tool and digital training plan that focuses on 6-week learning campaigns that will be available to support the development of each leadership expectation in 2023. This space replaces the previous Leadership Essentials tool that had been available up to now.

TSB continues to explore the skills and knowledge needed for managers of blended teams, including wellbeing, through specific resources, such as the launch of the online seminar People First, Performance Follows, consisting of electronic learning modules designed in association with psychologists to support the change of habits and the performance foundations for managers and their teams.

Over the year, all leaders have had access to an online leadership development study plan and set of tools. New leaders can access the content to develop a deeper understanding of all elements of leadership. More experienced leaders had access to the external content and the knowledge of business and sport psychologists.

In addition to the leadership programmes already in place, TSB has also added to its catalogue of core skills programmes in 2022:

- TSB Manager: a programme developed in 2020 that instructs team leaders in the fundamentals of management. It includes a learning programme based on four online modules, with an emphasis on empowered decision-making and on looking after mental health. A fifth module has been added for digital skills building. This completes the programme for putting key skills into practice and receiving development feedback.

- Online Talking Performance training: a programme, developed in 2020, that focuses on performance management and has continued to take place in 2022. This training provides tools and knowledge to enable employees to take charge of their performance conversations and allow each employee to perform to the best of their abilities.

- Senior Leader as Coach programme: this programme was developed in 2020 in online format and was later launched in a blended format in 2021, in order to build on coaching skills through a learning programme that combined practical skills training with mentoring from professionals trained by the International Coaching Federation. The programme currently consists of a study plan designed for former students to allow them to maintain and continue practicing the skills they have learned after completing the programme. In 2023, the aim is to create a new role – that of Coach. These coaches will support managers in the programme.

Moreover, every month, all team leaders at TSB continue to receive Leadership Insights, a newsletter that communicates current and future research-based concepts aligned with the strategic priorities of the Institution and the business.

Leadership development in Mexico

Banco Sabadell Mexico seeks to align the culture and skills of leaders on a global scale. To this end, it has partnered up with IPADE, Latin America's top business school. As part of its In-Company business management programme, it has developed a senior management training programme that aims to enhance and accelerate the development of skills to enable adequate decision-making. In this programme, training sessions are imparted that focus on Global perspective, Leadership vision, Functional vision, Cross-cutting vision, and Common ethical dilemmas of the director.

In addition, note should be taken of the following initiatives:

- Training for New Leaders: A training programme developed for new leaders and partners who have switched to a role with direct reports. It aims to provide them with key information about their role and to help them master the Bank's internal operational processes. This course is imparted by experts on each of the topics, which include: benefits, social welfare and regulations, recruitment, talent attraction process, performance appraisal (targets and competencies), technological processes and documentary methodology.

- Open Training Programmes: These allow all those taking part to choose the courses or workshops that they are interested in to enhance their skills, ranging from technical skills to soft skills. In 2022, courses have been imparted that focused on results, adaptability, public speaking and intermediate Excel.

- Sabadell Leaders Forum: This is a space led by the CEO for Banco Sabadell Mexico that has been created to improve the relationship between senior managers and their teams. It seeks to bring team members closer to their leaders, not only to improve communication, but also to enable fully transparent dialogue about the changes taking place in the Organisation.

There is also an annual mentoring scheme provided by experts from Great Place to Work, in which top-performing leaders are selected to mentor upcoming leaders. The aim of this scheme is to build on existing strengths, identify opportunities and put forward suggestions on how to improve the work environment. It also considers commitments and actions that will help them become leaders who exert a positive influence within the organisational culture.

6.3 Training

The training model of Banco Sabadell Group is built on the following pillars:

- Offer training aligned with the business and needs, both the regulatory needs in the market and the needs of staff members of Banco Sabadell Group.

- Improve the development of employees, as the drivers of change and transformation.

- Streamline the Institution's training budget so that more employees can receive training and to achieve greater transformation.

- Be a standard-bearer within the financial sector in terms of innovation in staff training.

- Be leaders in terms of adjusting training schemes to the digital transformation of business lines.

The goal is to train employees for the world of today and tomorrow, anticipating training needs using the People workforce strategic plan and business objectives, taking regulatory obligations into account, and developing a training model with customised, innovative and efficient solutions. The training is aimed at all Group employees, including those on part-time contracts and interns.

Key training-related data of the Group during 2022:

In 2022, the Group has continued to support the business in the challenges and targets that it has set itself, offering new specific training resources for strategic projects that are a matter of priority for Banco Sabadell Group, focusing on aspects such as specialisation programmes for commercial roles, financial current affairs and sustainability.

The online and virtual training catalogue has been further developed, despite the addition of a few on-site sessions as part of longer training programmes, with a blended format and a larger proportion of sessions held in virtual format live on Teams or Zoom for efficiency reasons.

With regard to supporting the business, in Spain, particular note should be taken of the different specialisation pathways for those in commercial roles, which have been designed and gradually implemented throughout the year in the Training Campus, prioritising roles taken up by a larger proportion of people from more administrative roles or from non-specialist commercial roles. The different pathways are as follows:

- Commercial Branch Manager
- Director of Personal Banking
- Direct Management
- Direct Branch
- Service Specialist
- Mortgage Specialist
- Administrative Staff involved with Retail Customers
- Administrative Staff involved with Business Customers

Spaces for specialisation have also been enabled in the areas of International Business and Mortgages.

It is also worth mentioning the high-level training programmes that are carried out with renowned institutions, such as:

- Digital Plus and Digital Tech Programmes, which offer training for professional digital skills and technologies applied in the banking industry, imparted and certified by the EADA Business School.
- Postgraduate in Credit Risk Analysis, a programme aimed at very specialised risk analysts, designed and executed with the collaboration of the Barcelona School of Management (Pompeu Fabra University).
- Advanced Personal Banking Programme, co-created with AFI Escuela de Finanzas.
- Banking Law Specialisation Programme, designed and imparted by ESADE.
- Financial adviser course for religious institutions and third-sector organisations; this programme is open to all employees of the branch network and is imparted and certified by Francisco de Vitoria University.
- Sustainable Finance Certification, which is explained in more detail later on, which is carried out together with Aditio and the Carlos III University in Madrid.
- Programme on Expert Advice for Large Corporations, aimed at directors of Large Corporations and Global Financial Solutions, designed together with and imparted by IE University.

On the other hand, in 2022, regulatory training in Spain has continued to be very intensive. Indeed, 78% of the total training hours related to regulatory training. This percentage of hours includes training on mandatory subject matters, including the following courses:

- Code of Conduct: mandatory for all employees.

- AML/CTF (Anti-Money Laundering and Counter-Terrorist Financing): Information accompanying transfers of funds
- AML/CTF: Anti-Money Laundering: Legislative developments
- Course on Environmental Management System
- Ongoing Due Diligence
- Types of Cyberattack
- Reportable Cross-Border Arrangements
- Banco Sabadell Equality Plan
- AML/CTF Training (Sabadell Consumer)
- AML/CTF New Case Studies

In addition to this mandatory training, annual ongoing training courses are also imparted in relation to the three certifications required to sell banking products (MiFID[68], IDD[69] and LCCI[70]), which are mandatory for most employees of the Bank's branch network. The time dedicated to accumulating training hours required for certification renewal represented more than 86% of the total regulatory training.

The vast majority (97.8%) of employees received training in 2022, with 634,599 total hours of training completed at the Group level (equivalent to an average of 34 hours per employee), which improved both the professional skills of the workforce and their future employability within the organisation. In Spain, 22% of the training received was voluntary and 81% took place online.

Training received	**2022**	**2021**
Employees who received training (%)	97.8%	98.2%

Active employees as at 31/12/2022. Training data refers to the entire Group.

Average training expense	**2022**	**2021**
Average training expense per employee	€496.00	€467.00

Active employees as at 31/12/2022. Training data refers to the entire Group.

[68] The new European Markets in Financial Instruments Directive (MiFID) aims to increase transparency and improve the protection of customers during the provision of investment services.
[69] Insurance Distribution Directive
[70] *Ley de Contratos de Crédito Inmobiliario* (Spanish real estate credit law).

Total hours of training and average of each professional category	2022		2021	
	Hours of training	Average hours	Hours of training	Average hours
Senior management	23,752	36.7	28,969	40.9
Middle management	137,963	42.3	149,818	46.6
Specialist staff	431,629	35.5	549,691	41.8
Administrative staff	41,255	17.2	53,420	20.3
Total	**634,599**	**34.3**	**781,899**	**39.7**

Active employees as at 31/12/2022. Training data refers to the entire Group. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

Total hours of training and average of each age range	2022		2021	
	Hours of training	Average hours	Hours of training	Average hours
Under 31	83,968	37.3	118,962	50.5
Between 31 and 49	382,359	35.5	472,889	39.1
Over 49	168,272	30.8	190,049	33.9
Total	634,599	34.3	781,899	39.7

Active employees as at 31/12/2022. Training data refers to the entire Group.

In-house trainers

In Spain, continues to highlight the ongoing contribution of the group of the in-house training team. They play a key role in the transfer of knowledge and dissemination of the Banco Sabadell culture.

The fifth In-House Trainer Gatherings took place this year. These gatherings are held to recognise the contribution of the most active trainers and they take place annually. Around 200 trainers were invited to take part in the event, which aims to promote networking within the group and during which collaborative activities take place.

Of the training activities arranged with in-house trainers during the year, it is particularly worth noting those related to the provision of support for employees who took on a new position or role and for employees facing some form of specific difficulty:

- More than 300 hours were dedicated to mentoring new in-house trainers.
- A team of almost 30 trainers spent over 100 hours helping their colleagues to complete their ongoing training.
- 48 trainers revitalised support and onboarding activities in two projects for new hires in the Bank: Plan Cantera and Banking Sales Graduate Programme.
- Specialist trainers offered their support during specialisation programmes for certain roles such as International Business Directors, Mortgage Specialists and Directors of Businesses.

This trend increased in the second half of the year, as an internally designed project was implemented in relation to the new role of Pro-T (Professional Trainer). In-house trainers of priority commercial roles will support those employees taking up these new roles. Since the end of the year, Pro-T support schemes have been launched for:

- New Directors of Businesses
- New Directors of Enterprises

Sabadell Campus

Sabadell Campus is the training platform used by the Bank in Spain and it is so much more than a mere training environment. The schools, as the spaces designed to enable training and development in relation to a particular topic, are the mainstay of the Campus. They provide the Bank's employees with access to certification pathways, participatory forums, self-guided training content and content to use as reference.

There are currently six separate schools:

- Business School
- Regulatory School
- Management School
- Digital School
- Financial School
- Language School

A specific area is also available for in-house trainers, where they can further their development and enhance their knowledge management as well as good practice in relation to training. Resources are also available that serve to inspire in-house trainers as they perform their roles.

All of these development spaces and their content are intended to provide guidance and support for commercial and business activities, provide information that is quick and easy to 'digest', and help employees make use of this information in their day-to-day activities.

The most noteworthy training projects at the Campus in 2022 are the following:

- Restructuring of the Business School, giving visibility to the prioritisation of training to specialise employees in the Bank. New pathways and learning spaces have been created for key functions such as Directors of Businesses, International Business Directors and Directors of Enterprises.
- Enhancement of the Ongoing Training space, which regularly includes new content, allowing employees to accumulate training hours on topics such as MiFID, IDD and LCCI (Spanish real estate credit law) and to update their market knowledge.
- New content has been added to the Financial Current Affairs space, to allow employees to be up to date with the most salient topics affecting financial markets.
- The Equality and Diversity space, which gives all employees in the Bank access to the Equality Plan, as well as recommended training materials and resources, including: the protocol on the prevention of workplace harassment, a guide on inclusive language and courses on diversity and inclusion in the workplace, as well as inclusive leadership and gender equality.
- The new First Steps space in the Bank, which includes all of the information that a new employee of the Bank may need.
- A new space in the Regulatory School on corporate crime prevention and anti-corruption, available to all employees of the Bank. It offers training in a variety of formats, with infographics and specific documentation. It also offers access to online courses on several topics, such as corporate crime, the whistleblowing channel and anti-corruption.

Furthermore, the following training projects continue to be important:

- Ongoing training at the Business School. This space organises and provides specific training resources that employees can use to update their knowledge to obtain the three regulatory certifications that affect the possibility to sell financial products: MiFID, IDD and LCCI (Spanish real estate credit law). Audiovisual content is posted every month, so that employees can stay up to date with the latest developments and accumulate the hours needed to renew their certification.
- Training for specialists at the Business School. Collaborative groups have been designed for the various specialist functions within Business Banking.
- Training at the Regulatory School: Employees can find all regulatory courses and other content in innovative formats, through Norma, an assistant that helps branch employees apply what they have learned in training to their day-to-day activities. Through this assistant, the Bank's employees also

have access to support to generate a culture of compliance with an in-house blog written in a way that makes it relatable and laid-back, as well as comic strips and infographics.

- SmartSite. This space provides information about all the different projects related to SmartWork, as well as the new ways of working, in a single place.

- Legal Classroom. This group is for the exclusive use of the Legal Advice Division; it contains all the specialist training in the field of legal advice and law, and it is where news of regulatory developments can be shared with all of the intended recipients.

The area of sustainability continues to have its own specific place on Campus, with self-guided training content for the Bank's employees.

Here they can access training provided through introductory content that was already in place last year, such as the Introduction to Sustainability course, as well as a new course added this year, the Sustainable Borrowing course, developed together with EADA Business School. This course is open to all employees and offers them the chance to learn about the new sustainable paradigm, teaches them to explain the triple bottom line and the ESG Framework, as well as the Sustainable Development Goals (SDGs), and also what is meant by the circular economy and how the Bank is pursuing its Sustainability Plan.

A further two courses are also still being offered:

- *Sustainability* is a one-hour training course designed to allow employees to become familiar with the key aspects of sustainability and to prepare for the 360 Visit so that they may also support customers in this regard.

- *Environmental Management System* is a two-hour training course intended to ensure that employees understand the importance of implementing an environmental management system in the Bank and are able to collaborate in the implementation of the system based on Standard ISO 14001.

One new development concerns the launch of the Sustainable Finance Certification scheme. This scheme has been developed by the Carlos III University in Madrid and by the Aditio Business School and is aimed at all employees, who will acquire the necessary knowledge to be able to offer advice on green products (financing and investing products) as well as becoming familiar with the main regulations and legislation affecting the financial sector and the banking industry in this regard. Group employees dedicated a total of 10,394 hours to Sustainability training.

The scheme consists of two modules, one basic and the other advanced. Those interested in completing the course were able to take the first module in the first half of the year. The second module was launched in October. The basic module focuses on ESG criteria, sustainable finance, the Bank's commitment to sustainability and on knowledge about sustainability products. The advanced module focuses on specialised knowledge, in particular on the management of ESG risks and the application of specialised knowledge when managing affluent customers.

Lastly, the same space includes access to a news capsule about the circular economy.

Other regions:

In 2022, TSB has continued to focus on Money Confidence, a programme accredited by the Chartered Banker Institute aimed at all customer-facing employees to allow them to gain greater knowledge about responsible and professional banking. Furthermore, in 2022, TSB developed the *Cost of Living* learning module, which focuses on building the confidence of employees so that they may support customers who are struggling financially. In addition, TSB has completed a programme covering multiple skills for employees at its branches and in the Contact Centre, so that they may resolve customer queries at the first point of contact.

Mexico has an annual training plan that includes all of the regulatory courses required by the Regulator, which apply to all employees and in some cases include specialist courses for selected employees on the operation and management of the different systems; the main goal is to achieve compliance and alignment in all of the Bank's internal processes.

The training courses included in this plan are the following:

- *Annual Anti-Money Laundering and Counter-Terrorist Financing training renewal:* Raise awareness among staff regarding the latent risks that exist in Mexico in relation to money laundering and the financing of terrorism, through a product with the technical and professional specifications required by the Authority, which is continuously updated to take into account the constantly changing regulations and global trends.

- *Business Continuity*: Train critical staff so that they may have the knowledge required to deal with a contingency in the Institution, identifying the various recovery strategies designed in Banco Sabadell.

- *Personal Data Protection*: Reinforce the knowledge of all employees with regard to processing the personal data of users, applying best practice.

- *SPEI*[71] *and SPID*[72] *payment systems*: Transfer the knowledge required by participants in connection with the management, operation, administration and support of SPEI and SPID, as well as the regulatory alignments established by the Bank of Mexico to ensure the correct operation and use of payment systems in Banco Sabadell.

- *Cybersecurity*: Generate a culture of security in the organisation and raise awareness about the threats, existing risks, best practices and the importance of data protection.

- *Comprehensive Risk Management Unit*: Keep Comprehensive Risk Management staff up to date about amendments in regulations and in the RAS envisaged in the framework of risks associated with the Bank's activity.

- *Derivatives*: Validate and update the knowledge of staff within the Bank in relation to derivative products.

- *IFRS 9*: Keep those working in the strategic areas of the Bank up to date on IFRS 9 and CUB[73], to ensure they are familiar with the different regulatory elements and with their implications for management and the business.

- *Indeval*[74]: Ensure that the staff identified as being users of Indeval have the necessary knowledge to adequately operate and use the systems.

- *Transfers Database (Base de Datos de Transferencia, BDT)*: Those taking part in this course will acquire technical knowledge to better meet requirements and use the Transfers Database, optimising the use of information and the identification and knowledge of risk-based methodologies and approaches for anti-money laundering and counter-terrorist financing.

It also includes training on the topic of Sustainability which has been launched together with the Environmental and Social Risks unit and focuses on the implementation of the Environmental and Social Risk Management System (*Sistema de Administración de Riesgos Ambientales y Sociales*, SARAS) in order to strengthen technical aspects and identify opportunities for improvement in processes. This space is also used as a forum where participants can raise questions and concerns, thus ensuring its correct implementation.

6.4 Diversity

The Group views diversity as a valuable source of corporate wealth and promotes actions to cultivate it. To that end, Banco Sabadell is committed to fostering workplace environments in which people are treated with respect and dignity, seeking to further the professional development of its workforce and ensuring equal opportunities in its candidate selection, staff training and promotion processes, offering a workplace environment that is free from any form of discrimination based on gender, age, sexual orientation, religion, ethnicity or any other personal or social circumstance.

As part of its commitment to diversity, Banco Sabadell has had an Equality Plan in place since 2010, which was updated in 2016 and renewed in 2022, adapting it to new legislation and with the agreement of 100% of workers' legal representatives.

[71] *Sistema de Pagos Electrónicos Interbancarios* (Interbank Electronic Payments System).
[72] *Sistema de Pagos Interbancarios en Dólares* (USD Interbank Payments System).
[73] *Circular Única de Bancos* (Mexico's Single Banking Circular).
[74] Depósito Central de Valores en Mexico (Mexico central securities depository).

It is an inclusive plan aimed at all people and which seeks to achieve the active participation of all those involved in the organisation. It is a dynamic plan that is open to changes so as to ensure its adaptability to any new needs that may arise over the years while it remains in effect.

This plan aims to:

- Integrate the principle of equality between women and men in the workplace; prevent, rectify and penalise behaviours that are discriminatory on gender grounds; reduce the gender gap both in functional aspects and in terms of remuneration.

- Disseminate a business culture based on equal treatment and opportunities, prioritising the underrepresented sex in candidate selection processes and fostering internal promotion to fill vacancies.

- Facilitate shared responsibility and a balance between employees' personal life, family and work.

- Ensure a balanced presence of women and men in all professional areas and levels.

- Prevent and penalise sexual harassment, harassment on grounds of sex and workplace discrimination and/or harassment.

The main goal of the Equality Plan is to integrate the principle of equality between women and men in the workplace and, to that end, it envisages a series of actions, such as:

- The creation of the role of workplace equality officer who works alongside the work-life balance consultant to promote the correct implementation of the Equality Plan.

- Ensure compliance with the principle of equality, both internally and externally.

- Identify female talent among upcoming managers within more male-dominated areas.

- Improve the representation of female senior managers and managers.

Furthermore, in addition to the signature of the Equality Plan, a protocol has also been drawn up for the prevention of sexual harassment, harassment on grounds of sex and workplace harassment, which has led to the creation of a joint Harassment Prevention Committee, in addition to the creation of a specific channel for reporting harassment and a procedure for swift, agile and confidential action.

This Equality Plan serves as a basis from which to continue evolving, promoting change and strengthening the level of commitment, particularly the commitment to equality between women and men, but also in relation to the management of all types of diversity in order to open new horizons.

This commitment is exemplified by the inclusion, since 2020, of a diversity indicator in the sustainability target that is part of the Group's corporate objectives.

6.4.1 Gender

The Bank's workforce is diverse in terms of gender, with women making up 55.6% of its total staff. In the senior management group, women represent 31.1%, with an increase of 1.8 points in 2022, continuing with the steady trend of improvement of recent years. Nevertheless, the commitment to continue increasing diversity at the management levels remains in place. It is therefore vital to drive forward the diversity agenda in middle management roles, over 41.5% of which were held by women in 2022, representing an improvement of 2.3 points compared to 2021.

In Spain, the proportion of women in management positions has increased from 29.1% to 30.3% (+1.2 points) in the case of senior managers and from 38.8% to 41.6% (+2.8 points) in the case of middle managers, in line with the trend observed in previous years. The ratio of promotions given to women has also increased (60.0% in 2022 compared to 55.3% in 2021), which demonstrates the commitment to improving diversity and the results obtained with the measures put in place.

Breakdown of Group employees		
By gender	**2022**	**2021**
Men	8,385	8,890
Women	10,510	11,180
Total	**18,895**	**20,070**

Percentage of women, by professional category	2022	2021
Senior management	31.1%	29.4%
Middle management	41.5%	39.2%
Specialist staff	57.6%	57.8%
Administrative staff	71.7%	72.6%
Women promoted out of total number of promotions during the year	60.0%	55.3%

Group data as at 31/12/2022, with the exception of promotion figures, which relate to Spain only.

The favourable development of the indicators in Spain is the result of the launch of various measures, including following measures for this year:

- **Recruitment and Selection:**
    - Inclusive Recruitment and Selection training (elimination of unconscious bias) in selection and recruitment teams and hiring managers.
- **Training:**
    - Gender equality course (mandatory for all employees with direct reports).
    - Training on diversity and inclusion: Inclusive leadership and other external resources
    - New Equality Plan Course (mandatory for all employees) launched in December 2022 to incorporate its principles and foster the culture of equality in the day-to-day lives of all of the people that form part of the organisation.

In 2022, Banco Sabadell has remained committed to the internal and external communication and dissemination of all the measures taken by the Bank in terms of diversity.

- The Sabadell Women Inspiration Group (SWING), an initiative promoted by female senior managers at the Bank, has continued to take action throughout 2022, with monthly meetings. The aim is to empower women at Banco Sabadell and raise awareness of the value of diversity and its benefits. The female senior managers that make up this group are standard-bearers for female talent and leaders in Banco Sabadell.
- In addition, the wider network called SWING&Co, which is open to anyone interested in diversity issues, continues to take action.

During the Equality and Diversity Week:

- An event was held to share details about the third Equality Plan, whose signature was backed by 100% of workers' legal representatives. The event was led by Sonia López, teacher, educational psychologist and social commentator; Mireia Navarro, work-life balance consultant at the Bank; and Chus Plaza, member and representative of the social side of the negotiating body.
- An open event was held, open to all employees, entitled "Equality: more than just words", with the participation of Laura Baena, creative advertiser, influencer, founder of the Club de las Malasmadres and chair of the Yo No Renuncio association. The event was led by María García, head of Labour Relations and OHP[75] at the Bank, and the introduction was given by General Manager and head of Business Banking Carlos Ventura, Assistant General Manager of Organisation and Corporate Resources Federico Rodríguez, and the Assistant General Manager of Human Resources in the Bank Ana Aller at that moment.

[75] Occupational Hazard Prevention

To mark the World Day for Cultural Diversity, the Bank sought to showcase the diversity that exists in its workforce from a different angle: the diversity of cultures, origins and nationalities that make up the team, the diversity of languages in which staff interact, and the diversity of customers whom it serves in different countries.

The SmartBreak workshop *Conciliar a Ti También Te Interesa* (work-life balance is in your interest too), on work-life balance and shared responsibility, was held together with the Yo No Renuncio association of the Club de las Malasmadres, with the participation of Xavi Comerma, Deputy General Manager and head of the Catalonia territorial division, and Mireia Navarro, one of the Bank's work-life balance consultants.

One of the main courses of action envisaged in the third Equality Plan is to foster the use of inclusive language in all communications, whether informal, formal, external or internal, in order to give more visibility to women. Furthermore, a workshop was held aimed at those involved in the Bank's communication processes, which pursued a dual objective: to raise awareness about the importance of using inclusive language, and to provide the necessary tools to incorporate inclusive language into the day-to-day activities of the entire organisation. This workshop was led by Irene Yúfera, linguist, professor of the Linguistic and Literary Education department at the University of Barcelona, and adviser on communication and gender in both the public and private sectors.

At an external level, Banco Sabadell is part of the group behind the project Women in Banking (WIB), an initiative to share best practices among banks in Spain and promote a network of women within the banking industry. The aim of Women in Banking is to lead and bring about a meaningful change in the way women are valued in decision-making roles within the Spanish banking industry. The aim of WIB is to become a standard-bearer in the financial sector for diversity and the inclusion of women, giving visibility to female talent and inspiring new generations through exemplary models. The initiative has the support of eight financial institutions present in Spain and of the Spanish Banking Association (Asociación Española de Banca, AEB).

Banco Sabadell also takes an active role in external events such as Empowering Women's Talent, organised by Equipos&Talento, which is a specialist publication on Human Resources and which was also awarded a seal in recognition of the Bank's commitment to gender equality. In September, it took part in Women's Talent Day, also organised by Equipos&Talento, where Esther Nin, International Advice Director, showcased the SWING initiative.

This commitment has long been held by Banco Sabadell, which received the Spanish Government's Equality in the Workplace (*Igualdad en la Empresa*) seal of distinction in 2018 and again in 2022. Furthermore, Banco Sabadell's Chief Executive Officer, César González-Bueno, signed the "*CEO por la diversidad*" ("CEOs supporting diversity") initiative launched by the Adecco Foundation and the Spanish Confederation of Employers' Organisations (Confederación Española de Organizaciones Empresariales, CEOE).

<u>Other regions:</u>

In the United Kingdom, TSB promotes equal membership, as women continue to account for a larger portion of those in more junior roles (66% of which are held by women). Since April 2021, the proportion of women in positions of responsibility has increased to 42%, above the average of UK banks of 36%.

Diversity is also a key pillar in the United Kingdom. TSB is committed to creating a diverse workplace where all employees can develop their potential and have a rewarding career regardless of their culture and origins.

Mexico has taken part in the "Diagnóstico y recomendaciones para promover el liderazgo femenino en el sector financiero" event (Evaluation and recommendations to promote female leadership in the financial sector) organised by the Interinstitutional Committee for Gender Equality in Financial Institutions (Comité Interinstitucional para la Igualdad de Género en las Entidades Financieras, or CIIGEF), and also in the "Cimientos" (Foundations) task force of the Association of Banks in Mexico (Asociación de Bancos de México, ABM), formed of staff from different banks on a voluntary basis to establish behavioural guidelines.

Through actions related to Social Responsibility, messages are sent out, promoting the participation of employees so that they may speak up and form part of diversity, equity and inclusion in the workplace.

Lastly, an internal diversity and inclusion task force has been created, formed of 23 people from different areas in order to open dialogue between the Bank's employees to generate ideas and initiatives related to diversity, equity and inclusion in the workplace.

Diversity in the Board of Directors

Banco Sabadell has general policies concerning diversity, age, gender, disability, geographical provenance and professional training and experience.

The Banco Sabadell Director Selection Policy of 25 February 2016 (last amended on 29 September 2022) establishes the principles and criteria that should be taken into account in selection processes and, therefore, also in the initial fit and proper assessment and ongoing assessments of the members of the Board of Directors, as well as in the re-election of members of the management body in order to ensure their smooth succession, the continuity of the Board of Directors and the suitability of all its members.

The Board Appointments and Corporate Governance Committee is assigned the role, under Article 66 of the Articles of Association, of overseeing the qualitative composition of the Board of Directors, establishing a target for representation of the underrepresented sex and drawing up guidelines on how to achieve that target.

The process for selecting candidates to sit on the Board of Directors and for re-electing existing directors is governed by the diversity principle, fostering the diversity of the Board of Directors in order to promote a diverse pool of members, and ensuring that a broad set of qualities and competences is engaged when recruiting members, to achieve a variety of views and experiences and to facilitate independent opinions and sound decision-making within the Board of Directors.

The Board of Directors should ensure that the procedures to select its members apply the principle of diversity and that they promote diversity with respect to issues such as age, gender, disability, geographic origin, or professional training and experience, and other aspects that may be deemed appropriate to ensure an effective 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.

Likewise, the Board Appointments and Corporate Governance Committee will ensure that the process abides by the principles of equality and equity and that it is free from any form of discrimination, including discrimination on the basis of age, disability or gender, without making any distinction by reason of race, sex, religion or any other distinguishing feature, honouring dignity and ensuring equal treatment and opportunities. The following general principles will be followed when selecting candidates for the role of director and re-electing existing directors:

1. The Board Appointments and Corporate Governance Committee will identify the needs of the Bank, ensuring that the appointment or re-election favours both diversity on the Board and a Board composition that is suitably balanced between independent directors, proprietary directors and executive directors.

2. Candidates for the role of director must meet the requirements of repute, suitability and good governance necessary for the performance of their role; in particular, they should have recognised solvency, experience, qualification and training. Furthermore, they should have the necessary availability and a high level of commitment to their role within the Institution.

3. When selecting candidates for the role of director, it will be necessary to consider the objectives, parameters (professional competence, diversity, good repute and suitability) and procedures for selection, assessment and appointment established in the Director Selection Policy and the recommendations and criteria of the Good Governance Code of Listed Companies issued by the CNMV.

4. The procedure will ensure that directors' mandates are renewed in an orderly and well-planned manner, safeguarding the continuity of the business and enhancing the corporate governance system.

5. The procedure will ensure a compliant qualitative composition of the Board of Directors in which external and non-executive directors should account for no less than the majority of the total number of Board members. It will be necessary to ensure that there is a significant proportion of independent directors among the external or non-executive directors.

In 2022, the Board Appointments and Corporate Governance Committee, fulfilling its duties, has applied the policy and measures to increase diversity in terms of gender, age, training, knowledge and experience that contribute to the collective suitability of the Board, putting forward proposals to the Annual General Meeting concerning the ratification and appointment of one independent director (Lluís Deulofeu Fuguet), the reappointment of three independent directors (Pedro Fontana García, George Donald Johnston III and José Manuel Martínez Martínez) and of one proprietary director (David Martínez Guzmán) and also to the Board of Directors concerning the appointment by co-optation of one female independent director (Laura González Molero) who meet these criteria.

The Board Appointments and Corporate Governance Committee, in compliance with recommendation 14 of the Good Governance Code of Listed Companies and in accordance with the duties assigned in section 4.17 of its Regulations and the Banco Sabadell Director Selection Policy, verified on 24 January 2023 that the re-elections and ratifications made in 2022 by the Annual General Meeting and by the Board of Directors are in compliance with the Policy. During this verification, it confirmed that the appointments and re-elections are in line with the necessary parameters and requirements of both the Policy and applicable regulations for the role of Board members in a credit institution. The Board Committee also concluded that appointments and re-elections in question favour a suitably balanced Board composition, as they increase its diversity both in relation to the category of directors and in relation to the knowledge, skills and experience that they bring to the role. Therefore, the mandate of the Board of Directors and of the Board Appointments and Corporate Governance Committee itself of contributing to increasing skills diversity on the Board is being fulfilled. Specifically, the diversity of banking knowledge and experience and, in particular, of risk management and control, planning, strategy, governance and sustainability of the Board has been increased and strengthened, as has the diversity of specific experience in the banking industry and the ability to apply such knowledge and experience to the banking business, at the same time expanding international experience.

To select candidates, the Board Appointments and Corporate Governance Committee has used the Skills and Diversity Matrix for members of the Board of Directors of Banco Sabadell, which defines directors' skills and knowledge. Furthermore, the Board Committee has also liaised with external advisers who have provided it with profiles for candidates that meet the skills criteria prioritised by the Board Appointments and Corporate Governance Committee.

As at year-end 2022, there were five female Directors in Banco Sabadell, including four female independent directors out of a total of ten independent directors and one female other external director.

The Board of Directors and the Board Appointments and Corporate Governance Committee are committed to fostering diversity on the Board, ensuring that it has a sufficient number of female directors and promoting compliance with the objective to increase representation of the under-represented sex. In Banco Sabadell, in 2022 women accounted for 33% of the total membership of the Board of Directors. They also account for 40% of independent directors, in line with the draft directive of the European Parliament and of the Council on improving the gender balance among directors of listed companies and related measures.

In terms of the presence of women on Board Committees, the Board Audit and Control Committee and the Board Remuneration Committee are chaired by female independent directors and women sit on all Board Committees. In the Board Strategy and Sustainability Committee, women account for 16.67% (on the Strategy side) and 20% (on the Sustainability side), while in the Delegated Credit Committee, they represent 40%. Regarding the composition of the other Board Committees (Board Audit and Control Committee, Board Appointments and Corporate Governance Committee, Board Remuneration Committee and Board Risk Committee), a balance between both genders has been achieved.

Diversity in the Board of Directors

	2022	**2021**
Men	10	11
Women	5	4
Total	**15**	**15**

Data as at 31/12/2022.

6.4.2 Functional diversity

The Group establishes measures for the adjustment of workstations where required by people with different abilities, in line with the occupational medicine service's protocols relating to particularly sensitive individuals. The Institution also assists employees with paperwork and formalities at the municipality, autonomous community and State level that help to improve these employees' wellbeing beyond a strictly professional sense. Pursuant to the General Disability Law (*Ley General de Discapacidad*), it implements alternative supported employment measures by hiring services and supplies from special employment centres.

The number of people with functional diversity in the Group as at December 2022 was 309.

	2022			2021		
Professional category	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**
Senior management	4	4	8	7	4	11
Middle management	13	11	24	16	14	30
Specialist staff	92	117	209	100	114	214
Administrative staff	16	52	68	20	69	89
Total	**125**	**184**	**309**	**143**	**201**	**344**

Group data as at 31/12/2022. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

6.5 Remuneration policy

Banco Sabadell Group's remuneration policies are consistent with the goals of the risk and business strategy, the corporate culture, the protection of shareholders, investors and customers, the values and long-term interests of the Group, as well as with customer satisfaction and the measures taken to prevent conflicts of interest without providing incentives for excessive risk-taking.

Banco Sabadell Group's Remuneration Policy is based on the following principles:

- Promote medium- to long-term business and social sustainability, as well as an alignment with Group values.
- Reward performance in order to align remuneration with individual results and the level of risk taken.
- Ensure a competitive and fair remuneration system (external competitiveness and internal equity).

In addition to the above principles, the following aspects are also taken into account:

- The Remuneration Policy and remuneration practices are in keeping with the Institution's credit risk management approach, as well as with its appetite and strategies in relation to this risk, and do not create any conflicts of interest. These practices also include measures to manage conflicts of interest, so as to protect consumers from any undesired effects resulting from the remuneration of sales staff.
- There is consistency with the integration of sustainability risks and the related information is published on the Group's website.
- The Remuneration Policy and remuneration practices encourage behaviour that is in keeping with the Group's approaches in relation to climate and the environment, as well as the commitments voluntarily undertaken by the Group. They promote a long-term approach to the management of climate-related and environmental risks.
- Remuneration components should contribute to promoting actions in relation to Environmental, Social and Governance (ESG) criteria, in order to make the business strategy sustainable and socially responsible.

All of the principles on which the Group's Remuneration Policy is based are compliant with European Directives and Regulations and with prevailing legislation.

The application of the Group's Remuneration Policy is impartial when it comes to gender, in line with the principle of equal remuneration among workers for the same work or for work of equal value, guiding decision-making towards the reduction of the gender pay gap.

In addition to ensuring equal remuneration for the same work or for work of equal value, equal opportunities are also guaranteed, as these are a prerequisite for long-term gender-neutral remuneration. This includes, among other things, hiring policies, career development, succession plans, access to training and the possibility of being selected to fill internal vacancies.

Remuneration of the Board of Directors

With regard to average pay, all members of the Board of Directors, both male and female, are remunerated according to the same criterion, i.e. the number of Board or Board Committee meetings in which they participate or, if applicable, that they chair, without any variation among them for any other reason.

Average remuneration of the Board of Directors[76]				
	2022		2021	
	Members	Remuneration	Members	Remuneration
Men	10	306,640	10	259,633
Women	4	167,152	4	164,390
Total	**14**	**266,786**	**14**	**232,421**

Average remuneration is calculated by considering Board members who have served as directors during the entire tax year, excluding Board members who have not served for the full year. Remuneration received for work carried out in the capacity of members of the Board of Directors is calculated excluding any amounts received for management functions and excluding any amounts received for work carried out as members of the Advisory Board. This remuneration includes, as of 2021, additional remuneration for the Non-Executive Chairman for his functions as Chairman of the Institution, Chairman of the Board of Directors and Chairman of the Annual General Meeting, as well as his functions as the highest representative of the Institution and all other functions attributed to him by law, the Articles of Association or the Board of Directors itself. In 2021 and 2022, average remuneration for male members of the Board without considering the remuneration for the Non-Executive Chairman was 148,574 euros and 162,933 euros, respectively.

Staff remuneration, by professional category, age and gender

Remuneration received for work carried out during the year is reported, broken down by geographical region.

The calculation of average total remuneration takes into account fixed remuneration at year-end, variable remuneration, salary and non-salary supplements and benefits, as well as annualised remuneration paid. This criterion has been applicable in all countries since 2021.

Average total remuneration in Spain												
	2022						2021					
	Employees			Remuneration			Employees			Remuneration		
Professional category	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Senior management	362	157	519	179,489	134,059	165,746	402	165	567	165,001	125,629	153,543
Middle management	1,613	1,151	2,764	73,038	61,329	68,162	1,618	1,027	2,645	72,565	60,951	68,055
Specialist staff	3,773	5,414	9,187	47,588	43,429	45,137	4,087	6,002	10,089	47,081	42,570	44,397
Administrative staff	48	106	154	27,854	26,412	26,862	50	116	166	27,580	25,988	26,468
Total	**5,796**	**6,828**	**12,624**	**62,745**	**48,267**	**54,914**	**6,157**	**7,310**	**13,467**	**61,319**	**46,764**	**53,418**

Data as at 31/12/2022. Average remuneration in euros. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

[76] For further information on the remuneration of members of the Board of Directors, see the Directors' Remuneration Policy, the Annual Report on Directors' Remuneration and the Annual Report on Corporate Governance published on the corporate website of Banco Sabadell Group (www.grupobancsabadell.com).
https://www.grupbancsabadell.com/corp/en/corporate-governance-and-remuneration-policy/director-remuneration-policy.html
https://www.grupbancsabadell.com/corp/en/corporate-governance-and-remuneration-policy/annual-report-on-remuneration-of-directors.html
https://www.grupbancsabadell.com/corp/en/corporate-governance-and-remuneration-policy/corporate-governance-annual-report.html

	2022						2021					
	Employees			Remuneration			Employees			Remuneration		
Age range	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Under 31	402	324	726	37,283	34,341	35,970	367	256	623	35,596	34,524	35,156
Between 31 and 49	3,299	4,472	7,771	57,207	46,770	51,201	3,606	5,118	8,724	55,767	45,100	49,509
Over 49	2,095	2,032	4,127	76,352	53,781	65,239	2,184	1,936	4,120	74,807	52,782	64,457
Total	**5,796**	**6,828**	**12,624**	**62,745**	**48,267**	**54,914**	**6,157**	**7,310**	**13,467**	**61,319**	**46,764**	**53,418**

Data as at 31/12/2022. Average remuneration in euros.

Average total remuneration in United Kingdom (TSB)

	2022						2021					
	Employees			Remuneration			Employees			Remuneration		
Professional category	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Senior management	81	47	128	313,505	260,247	293,949	94	46	140	272,790	256,255	267,357
Middle management	184	140	324	120,937	113,584	117,760	203	154	357	117,593	110,090	114,356
Specialist staff	1,256	1,518	2,774	57,938	48,967	53,028	1,302	1,486	2,788	55,223	47,163	50,927
Administrative staff	635	1,621	2,256	29,379	26,357	27,208	674	1,803	2,477	27,468	24,552	25,345
Total	**2,156**	**3,326**	**5,482**	**64,504**	**43,653**	**51,854**	**2,273**	**3,489**	**5,762**	**61,560**	**41,013**	**49,118**

Data as at 31/12/2022. Average remuneration in euros. Exchange rate as at 31/12/2022: GBP 0.88693 = EUR 1. Exchange rate as at 31/12/2021: GBP 0.8403 = EUR 1. Workforce figures only include TSB's workforce; they do not include staff at Banco Sabadell's foreign branch in the UK. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

	2022						2021					
	Employees			Remuneration			Employees			Remuneration		
Age range	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Under 31	623	841	1,464	35,404	32,883	33,956	686	939	1,625	34,204	30,116	31,842
Between 31 and 49	1,108	1,598	2,706	70,832	47,254	56,908	1,189	1,653	2,842	68,775	45,133	55,024
Over 49	425	887	1,312	90,666	47,377	61,400	398	897	1,295	87,159	44,826	57,836
Total	**2,156**	**3,326**	**5,482**	**64,504**	**43,653**	**51,854**	**2,273**	**3,489**	**5,762**	**61,560**	**41,013**	**49,118**

Data as at 31/12/2022. Average remuneration in euros. Exchange rate as at 31/12/2022: GBP 0.88693 = EUR 1. Exchange rate as at 31/12/2021: GBP 0.8403 = EUR 1. Workforce figures only include TSB's workforce; they do not include staff at Banco Sabadell's foreign branch in the UK.

Average total remuneration in Mexico

	2022						2021					
	Employees			Remuneration			Employees			Remuneration		
Professional category	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Senior management	36	18	54	238,425	137,774	204,242	44	14	58	197,786	123,363	179,507
Middle management	152	92	244	59,446	55,859	58,088	162	114	276	50,882	46,965	49,258
Specialist staff	78	56	134	24,080	23,316	23,756	72	57	129	20,555	19,816	20,226
Administrative staff	0	0	0	0	0	0	0	0	0	0	0	0
Total	**266**	**166**	**432**	**73,097**	**53,763**	**65,598**	**278**	**185**	**463**	**66,023**	**44,382**	**57,319**

Data as at 31/12/2022. Remuneration in euros. Exchange rate as at 31/12/2022: MXN 20.856 = EUR 1. Exchange rate as at 31/12/2021: MXN 23.1438 = EUR 1. Remuneration figures do not include expatriated staff or staff at Sinia Capital, S.A. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for Private Banks.

	2022						2021					
	Employees			Remuneration			Employees			Remuneration		
Age range	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Under 31	44	28	72	28,752	26,495	27,862	46	35	81	25,577	22,249	24,139
Between 31 and 49	192	127	319	73,762	57,398	67,185	201	141	342	68,543	48,825	60,342
Over 49	30	11	41	132,463	81,208	118,711	31	9	40	109,939	60,843	98,892
Total	**266**	**166**	**432**	**73,097**	**53,763**	**65,598**	**278**	**185**	**463**	**66,023**	**44,382**	**57,319**

Data as at 31/12/2022. Remuneration in euros. Exchange rate as at 31/12/2022: MXN 20.856 = EUR 1. Exchange rate as at 31/12/2021: MXN 23.1438 = EUR 1. Remuneration figures do not include expatriated staff or staff at Sinia Capital, S.A.

Average fixed remuneration is calculated considering fixed remuneration as at year-end. This criterion has been applicable in all countries since 2021.

Average fixed remuneration in Spain

	2022						2021					
	Employees			Remuneration			Employees			Remuneration		
Professional category	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Senior management	362	157	519	129,862	101,647	121,327	402	165	567	126,899	99,320	118,873
Middle management	1,613	1,151	2,764	56,230	48,269	52,915	1,618	1,027	2,645	56,848	48,596	53,644
Specialist staff	3,773	5,414	9,187	41,202	38,006	39,319	4,087	6,002	10,089	40,774	37,291	38,702
Administrative staff	48	106	154	23,289	23,211	23,235	50	116	166	23,145	22,973	23,025
Total	**5,796**	**6,828**	**12,624**	**50,773**	**40,970**	**45,471**	**6,157**	**7,310**	**13,467**	**50,479**	**40,052**	**44,819**

Data as at 31/12/2022. Average remuneration in euros. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

	2022						2021					
	Employees			Remuneration			Employees			Remuneration		
Age range	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Under 31	402	324	726	34,815	32,319	33,701	367	256	623	33,400	32,213	32,912
Between 31 and 49	3,299	4,472	7,771	46,408	39,472	42,416	3,606	5,118	8,724	45,580	38,419	41,379
Over 49	2,095	2,032	4,127	60,709	45,646	53,293	2,184	1,936	4,120	61,437	45,404	53,903
Total	**5,796**	**6,828**	**12,624**	**50,773**	**40,970**	**45,471**	**6,157**	**7,310**	**13,467**	**50,479**	**40,052**	**44,819**

Data as at 31/12/2022. Average remuneration in euros.

Average fixed remuneration in United Kingdom (TSB)

	2022						2021					
	Employees			Remuneration			Employees			Remuneration		
Professional category	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Senior management	81	47	128	203,000	172,132	191,666	94	46	140	203,100	195,497	200,602
Middle management	184	140	324	93,450	87,558	90,904	203	154	357	95,058	88,383	92,178
Specialist staff	1,256	1,518	2,774	44,841	37,882	41,032	1,302	1,486	2,788	45,099	38,580	41,624
Administrative staff	635	1,621	2,256	23,798	20,884	21,704	674	1,803	2,477	23,922	21,002	21,797
Total	**2,156**	**3,326**	**5,482**	**48,733**	**33,586**	**39,543**	**2,273**	**3,489**	**5,762**	**49,816**	**33,763**	**40,096**

Data as at 31/12/2022. Average remuneration in euros. Exchange rate as at 31/12/2022: GBP 0.88693 = EUR 1. Exchange rate as at 31/12/2021: GBP 0.8403 = EUR 1. Workforce figures only include TSB's workforce; they do not include staff at Banco Sabadell's foreign branch in the UK. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for the Banking Industry.

	2022						2021					
	Employees			Remuneration			Employees			Remuneration		
Age range	M	W	Total	M	W	Total	M	W	Total	M	W	Total
Under 31	623	841	1,464	28,999	26,626	27,636	686	939	1,625	29,571	26,080	27,554
Between 31 and 49	1,108	1,598	2,706	53,549	36,330	43,381	1,189	1,653	2,842	55,196	36,835	44,517
Over 49	425	887	1,312	65,107	35,241	44,915	398	897	1,295	68,636	36,146	46,131
Total	2,156	3,326	5,482	48,733	33,586	39,543	**2,273**	**3,489**	**5,762**	49,816	33,763	40,096

Data as at 31/12/2022. Average remuneration in euros. Exchange rate as at 31/12/2022: GBP 0.88693 = EUR 1. Exchange rate as at 31/12/2021: GBP 0.8403 = EUR 1. Workforce figures only include TSB's workforce; they do not include staff at Banco Sabadell's foreign branch in the UK.

Average fixed remuneration in Mexico												
	2022						**2021**					
	Employees			**Remuneration**			**Employees**			**Remuneration**		
Professional category	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Senior management	36	18	54	145,893	84,036	124,885	44	14	58	122,422	77,007	111,268
Middle management	152	92	244	40,294	37,156	39,106	162	114	276	35,988	32,990	34,745
Specialist staff	78	56	134	18,076	17,461	17,815	72	57	129	15,592	15,115	15,379
Administrative staff	0	0	0	0	0	0	0	0	0	0	0	0
Total	**266**	**166**	**432**	**47,956**	**35,596**	**43,162**	**278**	**185**	**463**	**44,237**	**30,813**	**38,838**

Data as at 31/12/2022. Remuneration in euros. Exchange rate as at 31/12/2022: MXN 20.856 = EUR 1. Exchange rate as at 31/12/2021: MXN 23.1438 = EUR 1. Remuneration figures do not include expatriated staff or staff at Sinia Capital, S.A. 'Senior management' includes executive directors, senior management, general management, corporate directors and top management. 'Middle management' includes directors not included in the 'Senior management' category. In Spain, roles classified as technical roles are included in the 'Specialist staff' category, in accordance with the Collective Bargaining Agreement for Private Banks.

	2022						**2021**					
	Employees			**Remuneration**			**Employees**			**Remuneration**		
Age range	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**	**M**	**W**	**Total**
Under 31	44	28	72	21,537	19,310	20,658	46	35	81	18,829	17,154	18,106
Between 31 and 49	192	127	319	48,061	37,817	43,944	201	141	342	46,118	33,545	40,889
Over 49	30	11	41	85,162	51,408	76,106	31	9	40	69,923	41,137	63,446
Total	**266**	**166**	**432**	**47,956**	**35,596**	**43,162**	**278**	**185**	**463**	**44,237**	**30,813**	**38,838**

Data as at 31/12/2022. Remuneration in euros. Exchange rate as at 31/12/2022: MXN 20.856 = EUR 1. Exchange rate as at 31/12/2021: MXN 23.1438 = EUR 1. Remuneration figures do not include expatriated staff or staff at Sinia Capital, S.A.

Pay gap

With regard to the pay gap, Banco Sabadell, when faced with the same roles and responsibilities, does not make any type of wage discrimination between genders, neither when recruiting staff nor during its employees' salary reviews, monitoring the impact that any actions taken in relation to discretionary pay may have on the pay gap.

The pay gap calculation compares total remuneration received by men against total remuneration received by women. To this end, it is calculated as the percentage arrived at by taking the difference between average and median remuneration received by men and average and median remuneration received by women and then dividing this by the average and median remuneration received by men, without making any adjustments of any type. If the percentage is positive, this means that the average or median remuneration received by men is higher than that received by women. Conversely, if the percentage is negative, it means that women receive more average or median remuneration than men.

Similarly, the overall pay gap is calculated as the average pay gap of each country weighted according to the % that their workforce represents out of the total.

Pay gap based on average total remuneration		
	2022	**2021**
Spain	23.08%	23.74%
United Kingdom (TSB)	32.33%	33.38%
Mexico	26.45%	32.78%
Total	**25.89%**	**26.77%**

Pay gap based on median total remuneration		
	2022	**2021**
Spain	16.18%	18.38%
United Kingdom (TSB)	26.47%	28.49%
Mexico	17.55%	18.72%
Total	**19.25%**	**21.34%**

Data as at 31/12/2022 and 31/12/2021.

Note on calculation of pay gap:

The methodology used to calculate the overall pay gap was unified in 2021 in all countries, in accordance with the criteria established in Spain's employment legislation (Royal Decree 902/2020). In addition, each country will continue to use its own local criteria to meet the requirements laid down by applicable local legislation.

In the specific case of Spain, the indicator of the weighted average pay gap used until 2020 has continued to be monitored. According to this criterion, the pay gap as at year-end 2022 was 10.90%, compared to 11.24% as at year-end 2021.

<u>Other regions:</u>

In the United Kingdom, the aim of TSB's remuneration policy (and the Group's) is to provide competitive remuneration aligned with the achievement of strategic targets, designed to attract and retain talent and to generate sustained business performance, taking effective risk management and acceptable conduct into account.

TSB remains firm in its commitment to addressing the fundamental causes of the gender imbalance and it continues to build a more balanced workforce in the long term. It also remains committed to the Living Wage organisation, of which it has been a member since August 2016. TSB's commitment continues to be to address the causes of gender inequality and to carry on building a balanced workforce.

6.6 Workplace environment and organisation

The Bank is able to transform itself and face up to major challenges with agile teams and people who bring their best selves to work. One of these transformation milestones involves understanding telecommuting as a capability that adds value to the work culture of Banco Sabadell. In response to the Covid-19 pandemic, the Bank adapted to the situation, viewing this change as an opportunity to create a new working model which has allowed it to learn and evolve. A model that combines on-site work with remote work, in which new habits are incorporated to learn how to make the best of both worlds. In essence, to work with a different mentality and to be a more flexible and connected Bank.

It is currently in the process of developing SmartWork[77] to adapt it to the current environment, with a new blended model with several telecommuting days each month, achieving good outcomes in relation to time management. To that end, it continues to roll out technological tools (Office 365) and new capabilities (mobile, WiFi, etc.) as an ally that can be counted on every day in order to work more efficiently.

The goal of SmartWork 2.0 is mainly to achieve:

- A Bank that is capable of transforming itself and that can face up to major challenges.
- A model that combines work inside and outside the office.
- Technology, as an ally to work smarter and even more efficiently.
- Equality in terms of opportunities and work-life balance.
- The wellbeing of the workforce, prioritising health and safety.

This declaration of intent leans on four pillars, based on which the main actions that concern the workforce are carried out:

- Technological transformation.
- Adaptation of workspaces.
- Culture and leadership.
- New ways of working.

[77] An initiative created by Banco Sabadell in 2020 with the primary aim of promoting a more agile organisation in which employees remain at the core, supporting the unstoppable process of digitisation.

Banco Sabadell strengthens and promotes new flexibility measures for its entire team, with initiatives such as telecommuting and flexitime arrangements. The workforce can change their effective working hours at their discretion and with flexibility in order to balance their needs for a work-life balance with the needs of the service. Spaces in buildings are also adapted to accommodate these new ways of working and to promote mobility, collaboration and autonomy in the workforce.

The following sections outline the various initiatives put in place in 2022.

In corporate buildings, for the areas covered by the collective bargaining agreement for banks, the blended model continues to be in place, based on:

- Working from home for a maximum of six days a month.
- Voluntary uptake, not regulated at a contractual level.
- There is no cost for employees. Costs for the adjustment of workspaces are covered.

These specifications require the development of the SmartApp app and the associated IT rollout, the gradual adjustment of workspaces, the measurement of productivity and the uptake plan for managers and employees.

Pillars of the model and actions taken:

Spaces

- Spaces designed to perform all tasks in a blended environment: separate areas for concentration, individual work, teamwork and meetings.
- Governed by a series of rules of usage and protocols in order to ensure the wellbeing of the workforce on the days they coincide in the office.
- Differential value compared to the workspace at home.

Ways of working

- New protocols, guidelines and systems for new ways of working in order to optimise work under the new model.
- A blended option must be offered for all meetings.

Tools

- Gradual development of the technological suite.
- Creation of the SmartApp app for team planning, resource management, information and user feedback.

Culture and leadership:

- Reinforcement of the role of managers and adaptation of leadership to the blended model.
- Create a mindset among employees that enables them to adapt to the new model based on accountability.

Communications, webinars and challenges are used to implement a support plan, which highlights the value of the most efficient practices:

- Weekly newsletter (FlashIN), which is sent to all Banco Sabadell Group employees in Spain and which includes, among other things, important information in relation to the blended model, technology and ways of working.
- Fortnightly communication with managers (Eres Manager) to set criteria, promote cohesion and provide support for team management.
- SmartSite portal: containing all the latest news about SmartWork 2.0 and other useful resources:

- Guides and infographic materials.
- SmartWork 2.0 Manifesto.
- Information and latest news about SmartWork 2.0.
- Specific content on health and safety, work-life balance and flexibility, as well as technology to help employees organise their work more efficiently.

- News on the corporate intranet (IN Sabadell) and the Employee Portal.
- Support plan with open sessions and webinars (SmartBreaks) with informative, training-related and inspirational content for the entire workforce.
- Measurement of staff satisfaction and wellbeing, and of the progress achieved in terms of efficiency and productivity in the workforce, through regular surveys and surveys about the workplace environment.

<u>Other regions:</u>

TSB supports and actively promotes flexible working for all employees, ensuring that flexitime arrangements are accessible at all times. The investment in IT capabilities, customer service channels and the adaptations of working methods carried out during Covid-19 have made it possible for more employees to work from home, something that continues at present. Throughout 2022, TSB has developed a blended way of working in which employees can combine working from home with working in the office, promoting “office days” for collaborative work, social relations with employees and continuous learning.

The ways of working are designed to improve the work-life balance of employees. Where their professional ambitions had previously been restricted to the location of the teams, telecommuting and flexitime arrangements have opened the door to more accessible professional trajectories, in addition to internal mobility and promotions. Employees can access a series of work arrangements that include part-time working, shared work and flexible start and finish times.

In 2022, a shorter work week was being trialed in some operating teams.

Mexico has included new ways of working that have required it to approach the change in a different way. To that end, it has promoted the “Home Office” format, in which each employee can choose to work from home one day a week.

<u>Qualis Awards</u>

The Qualis Awards have been running for two decades and every year, these awards are given out to recognise the achievements and excellent work carried out by the teams in both the branch network and in the corporate buildings, and also to recognise the projects that have contributed the most to the Institution’s achievements during each financial year.

6.6.1 Work-life balance

Banco Sabadell Group employees have at their disposal a series of work-life balance measures that are set out in the new Equality Plan[78] signed in February 2022 with employees’ legal representatives. These measures seek to ensure that the workforce have a good work-life balance and to establish a framework for flexible working hours that can be used to improve the balance between personal and professional interests under equal terms for both men and women.

Work-life balance and flexibility measures:

- Agility to process leaves of absence or special unremunerated leave requested by the workforce, as envisaged in the extended provisions of Article 36.2 of the CBA[79]. They are entitled to leave of between 1 week and 6 months, always provided they apply for said leave at least one month in advance in the following cases:
    - For study

[78] https://www.grupbancsabadell.com/corp/files/1454335415322/plan_de_igualdad_es.pdf
[79] Collective Bargaining Agreement for Banks.

  - For personal matters

  - For international adoption, to undertake assisted reproductive procedures or due to problems during a pregnancy

  - Due to an accident and/or serious illness requiring hospitalisation or to help with the medical care of relatives up to second degree of consanguinity or affinity

  - Due to being a victim of gender-based violence; in this case, there is no minimum service requirement and the leave may be extended by successive six-month periods up to a total of 18 months

- Offer of unremunerated reductions of working hours, as established in Article 37.6 of the Workers' Statute and in Article 35 of the Collective Bargaining Agreement for Banks, for those who as legal guardians are directly responsible for a minor under the age of 12 or for a person with a physical, mental or sensory disability who does not carry out any paid work or a family member up to second degree of consanguinity or affinity, or who, due to age, accident or illness cannot take care of themselves; in such cases employees will be entitled to a reduction of working hours with a proportional salary reduction.

- Remunerated reductions of working hours in order to care for a child below 12 years of age who suffers a serious illness or accident requiring hospitalisation; employees may ask for their daily working hours to be reduced, by one hour per day and on a paid basis, for a period of two months.

- Reduction of working hours to care for a nursing child; as an improvement of the provisions of Article 33 of the Collective Bargaining Agreement for Banks and Article 37.4 of the Workers' Statute, workers have the right to one hour of absence from work per day to care for a nursing child of less than 9 months. This may be split into two half-hour absences which may be used at the start and end of the working day, or they may take a one-hour absence from work at either end of the working day. In the event of a multiple birth, the hours allowed will be increased by one additional hour per day per child.

- Flexibility to adapt working hours (start and finish times) to meet the needs of those responsible for the care of children below 14 years of age, or who must care for family members up to second degree of consanguinity or affinity who are disabled or above 65 years of age.

- Furthermore, as established in the Agreement on Keeping Working Time Records of 27 February 2020, where the needs of the service so permit, employees will have a 15-minute grace period applicable to the time they start their working day, which they can offset by adjusting the time they end their working day accordingly. This option is available to all those who currently have no flexitime arrangements to achieve a balance between their personal life, their family life and their working life.

Coordination and dialogue has been maintained at all times with employees' legal representatives.

In addition, to contribute to the protection of maternity and paternity rights, and to promote shared responsibility, leaves of absence for the birth and care of a child are guaranteed, as are leaves of absence to care for nursing children, offering the option to take this nursing leave in the form of remunerated leave of 15 days' duration subsequent to any of the contractual suspension periods due to the birth, adoption, foster care or adoption of a child. The duration of the leave of absence for the birth or care of a child will be equivalent to the duration of the leaves of absence taken in accordance with that provided in Article 48.4, 5 and 6 of the Workers' Statute, with a total of 16 weeks, 6 of which will be mandatory, uninterrupted and comprise full working days, to be taken immediately following the date of the birth, while the remaining 10 weeks may be taken, in weekly periods, either in one single block or in separate blocks, during the 12 months following the date of the birth.

In addition, Banco Sabadell gives its workforce access to a tool called "*Mi Jornada*", in order to comply with the provisions of Royal Decree-Law 8/2019 on keeping daily records of working hours, and with the Agreement on Keeping Working Time Records at Banco Sabadell, signed on 27/02/2020, where each worker is required to keep a record of the start and finish times of their working day, without prejudice to any flexitime arrangements and with mechanisms to compensate any surplus or shortfall of working hours.

The Group also offers a wide range of measures aimed at improving the work-life balance of its workforce, enabling them to arrange services and purchase products through the employee portal, which not only offers them a chance to save money, but also allows them to save time, as these are online purchases. They can also choose to have their purchases left at lockers installed in some of the corporate buildings, so as to avoid having to make a specific trip to collect them or having to arrange for delivery outside of their working hours. In addition to these benefits, it is also worth mentioning the range of services available to those working in corporate buildings, which are designed to make it easier for them to run personal errands.

Employees continue to make use of the measures launched in previous years, such as the option to purchase additional days of annual leave and the advice offered by the work-life balance consultant, which are unique aspects of the Bank's employee value proposition for employees.

<u>Other regions:</u>

With regard to work-life balance, TSB has flexitime arrangements that offer all employees the opportunity to request a temporary or permanent change in their way of working, at any stage of their careers and regardless of any personal reasons they might have. All requests are considered in a fair and consistent manner in order to improve the work-life balance of employees. This makes it possible to improve employee retention and talent attraction.

In Mexico, there is a benefits policy for new parents, which offers support for their involvement in raising children, supporting their health and promoting a more agile model. The benefits available to each employee are the following:

- Leave of absence for the birth of a child is extended to 114 calendar days for mothers and to 30 calendar days for fathers.
- Reduced working hours during the first six months following the birth.
- Financial assistance is available for the birth/adoption of a child, consisting of 15 days' pay, up to a maximum of 8 times the minimum wage.
- Special leaves of absence.
- Rollover of annual leave.
- Nursing room in the facilities.

6.6.2 Health and safety

Banco Sabadell Group, aware that good working conditions are important for the health and safety of its employees, follows a policy of prevention and continuous improvement of the working conditions and health of its employees. In accordance with prevailing legislation, and to carry out preventive actions on a permanent basis, an integrated Prevention Management System has been launched in the general organisation of Banco Sabadell Group through the Prevention Plan, which includes all of the preventive activities carried out in this regard in the Group. A summary of these preventive activities is published every year in a Report[80], which is available on the Bank's intranet and also on its corporate website. This Plan sets out the requirements to integrate prevention into the management of the company, based on the following principles:

- Promote and foster a preventive culture between the different areas and levels of the company.
- Promote preventive actions, even where they are not yet legally required.
- Offer guidelines to put into practice and evaluate management strategies for occupational hazard prevention.
- Ensure that all employees are provided with information and training about preventive actions and that they are encouraged to take part in them.

The aim of the Prevention Plan is to ensure the integration of occupational hazard prevention. The implementation of the Plan ensures the safety and health of Banco Sabadell Group employees and compliance with the regulations applicable in this regard, so as to ensure the control of occupational hazards, the effectiveness of preventive measures and the detection of any weaknesses that could give rise

[80] https://www.grupbancsabadell.com/corp/en/sustainability/reports.html

to new risks. A management system has been designed based on continuous improvement, in compliance with Law 54/2003 on the reform of the regulatory framework on occupational hazard prevention.

The Annual Report is the document that summarises all of the preventive activities carried out directly by the Banco Sabadell Group Joint Prevention Service or through the different work units or employees assigned tasks in this regard. Most of its content corresponds to that envisaged in the Annual Plan. Any actions of a particular level of importance that have not been completed during the year will be added to the Plan for the following year.

It is clear that the outbreak in 2020 of the Covid-19 pandemic marked a turning point for occupational hazard prevention, which is why this activity has become particularly important, ensuring the implementation of the guidelines issued by health authorities in each region and developing new action protocols.

The guidelines followed by the Institution at the peak of the pandemic mainly related to the following:

- Distribution of the necessary safety equipment to all staff: face masks, hydroalcoholic gel, disposable paper towels and methacrylate screens for branches.
- Creation of a Covid-19 protocol for monitoring cases and close contacts of staff, in keeping with the guidelines established by the health authorities.
- Suspension of face-to-face events and training sessions, as well as business trips, enhancing the use of digital channels to that end.
- Adaptation of spaces in branches and corporate buildings to enable social distancing, and a clean desk policy:
    - Limits on maximum number of people allowed in branches at any one time.
    - Limits on maximum number of people allowed in meeting rooms of corporate buildings at any one time and adapting these rooms to hold blended meetings.
    - Signage and posters with reminders of the safety instructions at various points both in the branch network and in corporate buildings.
    - Appointment of building managers to comprehensively monitor the measures put in place.
- More frequent cleaning of all facilities.
- Emotional support through a telephone service that is free to use, unlimited and anonymous, so that any employee who needs to can talk to a specialist.

These measures have been adapted to the guidelines and regulations issued by the corresponding institutions.

The preventive specialty of Occupational Medicine is carried out through health surveillance. The health surveillance policy applied by Banco Sabadell Group comprises activities which aim to promote the general health of all employees and to prevent the workforce from suffering any sort of injury or harm as a result of their work. Health surveillance covers a series of activities relating to workers on both an individual basis (individual surveillance) and on a group basis (collective surveillance) through medical check-ups.

Individual surveillance seeks to enable the early detection of any repercussions on an individual's health stemming from working conditions, the identification of individuals who are particularly sensitive to certain risks, and the adaptation of tasks to each individual.

Collective surveillance is based on the analysis and interpretation of the results obtained within the group of workers, in order to assess the state of health of the organisation, so as to establish priority areas of action in relation to prevention and to evaluate the effectiveness of the measures set out in the Occupational Hazard Prevention Plan.

One of the health surveillance activities consists of conducting medical check-ups or health assessments. Medical check-ups take place at the start of employees' employment and thereafter on a regular basis (the frequency depends on the employees' age, with employees up to 30 years of age invited to a check-up every three years, those aged between 31 and 44 invited every two years and those over age 45 invited to have an annual check-up). The check-ups are very thorough and they are completely voluntary. Nevertheless, every year, around 80% of employees accept their invitations to these check-ups. Other medical check-ups that take place are those carried out following a long period of temporary incapacity (due to either a common contingency or a professional contingency) and those carried out to determine whether an employee is particularly sensitive to the risks inherent in their position at work.

All of the Group's existing staff and all new hires receive information on occupational hazard prevention and complete mandatory training relating to health and safety in the workplace through an online course, "*Introduction to Occupational Hazard Prevention*" (*Introducción a la Prevención de Riesgos Laborales*). Completion of this course is mandatory for all employees and it aims to ascertain the risks to which employees may be exposed and the preventive measures that can be taken to avoid them.

In addition to the Occupational Hazard Prevention courses available to employees in the training catalogue and which they can also view on the intranet portal, there are other specific training materials, including the course on fire suppression, the first aid course, the course on stress prevention, the course on preventing the risk of robbery, etc. In addition, training courses are supplemented with specific informative documents, such as ergonomics handbooks and manuals for work equipment (Occupational Hazard Prevention Welcome Handbook). This information is posted on the Banco Sabadell Group intranet, in a specific section for documentation relating to Occupational Hazard Prevention and everything related to the risks inherent in the Bank's activity.

The Banco Sabadell Group Joint Prevention Service has certain procedures designed to ensure the existence of suitable plans in the event of an emergency, so that an emergency may be prevented from happening, establishing suitable prevention measures that all employees must know of and implement. The Occupational Hazard Prevention Division submits a schedule of planned drills to the State Health and Safety Committee, and it also reports on the outcome of those drills and shares the main areas of improvement that have been identified.

In Spain, Banco Sabadell also carries out an initial occupational hazard assessment for each new work centre, and whenever work centres are reformed or updated. Equally, when a certain period of time has elapsed since the initial assessment, subsequent assessments are carried out, in all of the facilities, of both individual workstations and common areas, along with the installations and technical aspects of the working environment (temperature, lighting, etc.). There is a protocol, included as an annex to the Prevention Plan, which determines the cases in which a work centre should be reassessed, depending on the type of reforms carried out. In general, it is thought that activity in Banco Sabadell Group does not risk exposing employees to cleaning agents, meaning that it is not necessary to systematically evaluate these aspects. That said, as a preventive measure, hygienic measurements to evaluate the ambient conditions of the premises have been included in risk assessments.

Coordination of business activities also takes place with third-party companies that have staff or labourers working in the facilities. This is a legal obligation, designed to enable companies sharing the same workplace to coordinate between themselves to comply with existing legislation on the prevention of occupational hazards, to ensure that the performance of multiple activities within the same workplace does not generate risks or lead to a workplace accident.

Monitoring absence from work

Absence from work is monitored through monthly reports, which include data on prevalence rates, severity rates, and frequency of absences. The data is grouped together by company, territorial division, age and gender, and makes it possible to detect trends and possible deviations depending on the variables analysed. Depending on the results, preventive actions are identified and applied.

General absence from work includes absence from work due to illness with TI[81] and also without TI for common contingencies (common illnesses, non-work-related accidents, Covid-19) and professional contingencies (WRA[82]/WRI[83]). The data regarding the prevalence rate (number of employees who have been absent from work / total workforce) and the severity I rate (number of days missed / total working days) showed a slight increase compared to 2021, even though the first quarter of 2022 saw the highest peak out of all of the waves of the pandemic. In 2022, the annual figures were 6.28% (vs. 5.09% in 2021) for the prevalence rate and 3.10% (vs. 2.95% in 2021) for the severity I rate.

[81] Temporary Incapacity
[82] Work-Related Accident
[83] Work-Related Illness

The number of new leaves of absence initiated in the month (frequency rate) has fallen slightly compared to the previous year, with 445 absences on average in 2022 (vs. 359 in 2021). This figure was evidently influenced by the 1,345 cases recorded in January, at the peak of the sixth wave of Covid due to the emergence of the Omicron variant.

These rates are in any event lower than the severity I rates recorded by the banking industry in 2021, even bearing in mind that the data provided by mutual insurance companies do not include data for those who are absent due to illness without temporary incapacity, in contrast to Banco Sabadell, which does include this figure in its data.

Indicators of absence from work in Spain	2022	2021
Total hours (accidents and ill health)	643,764	702,547
Total hours (work-related ill health)	79,136	89,504

Data as at 31/12/2022.

Indicators of absence from work in TSB	2022	2021
Total hours (accidents and ill health)	301,234	342,804
Total hours (work-related ill health)	37,280	56,626

Data as at 31/12/2022.

In Mexico, indicators of absence from work are recorded and reported as general ill health. As at the end of December 2022, a total of 100 days off work had been recorded.

Monitoring the work-related accident rate

One of the fundamental pillars of the management of occupational hazard prevention is the research into, and prevention of, work-related accidents. On becoming aware of an accident, the Joint Prevention Service collects the main data and deals with the official communication. An investigation into the accident is launched. The procedure varies depending on the severity and complexity of the event, determining, if necessary, the preventive and/or corrective actions that should be taken. All of these actions are designed to guarantee the care and subsequent recovery of the person concerned.

Work-related accidents

	2022			2021		
Types of accident in Spain	**M**	**W**	**Total**	**M**	**W**	**Total**
Work centre	11	37	48	20	45	65
Whilst commuting	29	55	84	25	43	68
Travel during workday	8	18	26	6	10	16
Different work centre	1	0	1	0	0	0
TOTAL	**49**	**110**	**159**	**51**	**98**	**149**

Data as at 31/12/2022.

	2022			2021		
Work-related accidents in Spain	**M**	**W**	**Total**	**M**	**W**	**Total**
Total hours	6,702	10,247	16,949	7,755	10,298	18,053
Frequency rate[84]	1.92	4.63	3.36	2.31	4.26	3.35
Severity rate[85]	0.06	0.09	0.08	0.07	0.08	0.07

Data as at 31/12/2022. Rate calculations exclude accidents occurring whilst commuting. Although all absences due to Covid-19 can be likened to work-related accidents for the purpose of claiming social security benefits, they are not included in the accident rates.

In terms of subsidiaries, TSB, in compliance with UK legislation, does not keep a record of accidents, while Mexico has not recorded any accidents in 2022.

[84] (number of accidents (excluding those occurring whilst commuting) / theoretical working hours (according to collective bargaining agreement))*1,000,000
[85] (working hours lost/ theoretical working hours (collective agreement) * 100)

6.6.3 Trade union rights and right of association

Banco Sabadell Group guarantees the basic rights of employees in relation to freedom of association and collective bargaining.

In Spain, this guarantee is always in compliance with Spanish legislation, and these rights in relation to freedom of association and collective bargaining are set out in the Workers' Statute and in chapter 12 of the Collective Bargaining Agreement for Banks, Articles 62, 63 and 64.

At present, Banco Sabadell has a total of 10 trade union sections in Spain, including trade union sections at the State level and at the autonomous community level. In its subsidiaries[86] in Spain, it has trade union representatives in Sabadell Information Systems, S.A., Sabadell Consumer Finance S.A., and Fonomed Gestión Telefónica, where the number of trade union sections is smaller than in Banco de Sabadell.

Workers' representatives are voted in every four years, in accordance with the guidelines set forth in prevailing legislation and the implementing agreement enforced in the Spanish Banking Association (Asociación Española de Banca, or AEB), together with the most representative State union sections of the Spanish banking industry. The results of the union elections determine the composition of the different Works Councils, as well as staff delegates, who are the main points of contact representing the company and who take part in collective bargaining negotiations. If no specific negotiations are taking place, they meet as and when required.

The elected trade union representatives are allocated hours from their normal working hours to engage in their trade union activities. In Spain, 100% of employees are covered by the Collective Bargaining Agreement, while in all other countries, the prevailing legislation in each country is applied.

One of the main duties is to represent workers in occupational health and safety committees. In Spain the following committees currently exist:

- State Health and Safety committees:
    - Banco de Sabadell, S.A.
    - Sabadell Information Systems, S.A.
    - Fonomed Gestión Telefónica, S.A.

Banco Sabadell Group also proactively promotes collective bargaining, as in general specific employment agreements are reached with workers' legal representatives. Some of the agreements reached are set out here below:

- Agreement regarding the incorporation of the State Health and Safety Committee: this created a State Health and Safety Committee, a joint collective body that responds to enquiries and requests for participation received from workers concerning aspects related to safety and health in the company's work centres.
- Training agreement: under which a commitment is undertaken to ensure that training takes place during the legally established business day, or during the hours established in the corresponding agreements in the event training takes place outside of business hours.
- Agreement on early retirements (both with and without early access to pensions) and incentivised resignations: staff restructuring plan and certain agreed conditions.
- MiFID training agreement: agreement regarding compensation for MiFID training.
- Agreement on keeping working time records: an agreement that regulates working hours.
- Agreement on assistance for school fees: an agreement on economic assistance for the payment of school fees.

[86] The subsidiary Business Services for Operational Support, S.A. had union representation until it was incorporated into Banco de Sabadell, S.A., and its staff were also represented by its Health and Safety Committee.

Other regions:

In the United Kingdom, TSB continues to work closely and directly with its recognised unions, Accord and Unite, to build strong relationships. These relationships enable union representatives to collaborate with TSB's Management in all aspects concerning the subsidiary's employees. This has not only allowed union members to have a voice at TSB but also to work openly, collaboratively and meaningfully with the Unions on all issues that affect the TSB/Colleague relationship.

In 2022, the formal recognition of unions was renewed, known as the Union Recognition Agreement, which establishes collective bargaining agreements across TSB. It also outlines the aspects that are negotiated and how all of the parties involved intend to work together to reach a collective agreement.

With regard to the subsidiary in Mexico, there is no relationship between employees and union representatives.

6.7 Dialogue with employees: more connected than ever

Banco Sabadell Group has various mechanisms in place for communicating with employees and listening to their concerns, which are key to anticipating their needs and building a great place in which to develop a professional career.

In relation to information resources, in Spain, it is worth mentioning *FlashIN*, which has continued to be issued on a weekly basis and which is sent to all employees to provide them with information, guidance and context. It has been consolidated as a crucial element of information and cohesion in the Bank, which provides key information to the workforce in complex situations brought about by the external environment and during complex restructuring processes within the organisation.

The quick surveys in the *FlashIN* newsletters and in the fortnightly publication *Eres Manager* have continued to be sent out. These surveys aim to periodically capture the mood in the Bank and they have served to verify the high level of commitment of employees at all times.

In relation to *El Banco que queremos ser* (The Bank we aim to be), the survey to ascertain, among other factors, the commitment of employees to the Institution's current and future course of action, the results were stable, in line with the good results of the previous year. Practically all of the other factors measured, such as the quality of management, meritocracy and internal cooperation, also obtained good ratings.

The Bank continues to actively listen to what its employees have to say, with regular measurements. This year, the two measurements clearly reflect the impact of the post-pandemic situation, which has been tasking for the workforce. Nevertheless, the trend has been positive and paves the way towards the full recovery of the excellent commitment figures recorded in previous years.

The Employee Assistance Office plays an essential role in resolving employee concerns. This year, a total of 48,976 queries have been submitted and the quality of service has been successfully maintained, with user satisfaction ratings of 4.34 out of 5.

Other regions:

TSB is committed to creating a positive and inclusive culture and supporting the wellbeing of each employee. Twice a year, a survey is sent out to all employees to understand how they feel and so that they feel listened to and supported, and to ensure they have what they need to be at their best.

Link is TSB's forum for employees, created in 2013. Its members act as spokespersons for employees, with representatives from all departments and levels within the Bank and they are appointed to consult with and represent all areas of the Institution. Every quarter, Link members meet with the Executive Committee to share their ideas, comments and recommendations. In 2022, Link has contributed to matters such as TSB's fraud strategy and its Fraud Refund Guarantee, the full streamlining of remuneration, the experience of employees, their trust and the activities in the Do What Matters Plan.

In Mexico, a space has been created for all members of the Sabadell team, where CEO Francisco Lira speaks openly about issues that are of great importance for the organisation and in which certain employees are given the opportunities to express their doubts and concerns. This space is known as 'Open Mic' (*Micrófono Abierto*) and it helps to build up trust and experience first-hand the three fundamental values that are closeness, quality and commitment.

In addition, *Sabadell Communicates* (*Comunica Sabadell*) is a weekly internal newsletter that allows recipients to stay abreast of the latest news inside and outside of the organisation. It is emailed on a regular basis to all employees.

7. Commitment to society

Banco Sabadell Group mainly steers its commitment to society through the Banco Sabadell Private Foundation, in order to contribute to progress and social well-being, collaborating with leading institutions in the social sector and focusing on the areas of culture and talent. In 2022, the Board of Trustees of the Banco Sabadell Private Foundation (hereinafter, Banco Sabadell Foundation) approved the allocation of 3,660,310 euros, in partnerships with other institutions, contributing towards actions that pursue the SDGs defined as being priority or additional by Banco Sabadell, thereby promoting work with organisations with extensive experience and broad social impact.

In addition to the Banco Sabadell Foundation, other divisions and subsidiaries of the Bank have also contributed to education and the fight against poverty, through initiatives including corporate volunteering, social housing management and charity fundraising.

7.1 Commitment to education

Financial education

Banco Sabadell continues to promote and take part in a number of financial education initiatives. By engaging in this type of activity, the Institution aims to not only meet the different training requirements of society in general, but also be by their side to help them develop skills and decision-making abilities. Some of the initiatives undertaken are:

- The Financial Education for Schools in Catalonia (EFEC, by its acronym in Spanish) programme: Banco Sabadell participated in this programme for the tenth consecutive year and since its inception. Thanks to the corporate volunteers of the participating institutions, a total of 163,779 students have been trained in basic finance. In this edition, which has continued to be run in hybrid form with face-to-face and virtual workshops, the programme has been taught in 456 educational centres. With the participation of 79 volunteers who have run a total of 713 workshops, Banco Sabadell, together with all of the collaborating institutions, provided training for 22,531 young people in their fourth year of secondary school education. In terms of its version for adults, 19 of the Bank's volunteers have held 92 workshops in adult schools and correctional facilities. The estimated figures for the EFEC adults programme was 97 centres and 4,657 students.

- 'Your finances, Your future' (*Tus Finanzas, Tu futuro*) initiative of the Spanish Banking Association (*Asociación Española de Banca*, or AEB) and the Junior Achievement (JA) Foundation. In this year's online edition, 65 volunteers from the Bank took part in 35 programmes and 105 workshops delivered to 23 educational centres and 767 students. In 2022, the programme, which is nationwide in scope, was delivered to 146 centres and 6,369 students.

During 2022, around 7,500 people have benefited from the workshops that Banco Sabadell volunteers have led as part of these programmes.

TSB has started a new school outreach programme in some of the most deprived urban communities to improve support for young people, as they head toward financial independence. Schools have been selected where young people are most disadvantaged, and some employees in nearby corporate centres have been encouraged to volunteer their time and share their 'Money Confidence' skills.

Banco Sabadell Mexico has a financial education programme for children of employees, in which each summer students are invited to get them involved in projects of the various areas of the Bank. During this period, they acquire theoretical and practical knowledge on the financial sector, which will also help them to make the best decision as regards their future career path.

Commitment to young talent

The Banco Sabadell Foundation is committed to young talent by supporting leading universities, research centres and educational institutions, as well as by contributing to research excellence through awards and support programmes.

Specifically, the Banco Sabadell Foundation has given out 17 awards (93 award-winners from 13 projects ran in collaboration with other entities and 4 award-winners from the Foundation's own awards) and 372 grants (357 grant holders from programmes ran in collaboration with other entities and 15 grant holders from the Foundation's own research grants).

The most noteworthy activities in this area are:

- Banco Sabadell Foundation Awards in Biomedical Research, Economic Research and Scientific Research, which aim to promote and recognise the careers of young Spanish researchers who stand out for their excellence and innovation in these fields; these are recognised as the most important awards in their respective fields.

- In 2022, as a contribution to promote scientific research in marine sustainability, the Foundation unveiled the award for research in this field. An award that brings together science and economic growth to promote sustainable development. The award consists of 30,000 euros. The award is given out to a young researcher that has conducted their research study in the sustainable use of marine resources (traditional marine industries and new emerging blue economy sectors, such as biotechnology, big data, renewable energies, regeneration, etc.) or in the regeneration of marine natural capital by recovering ecosystems' goods and services.

- Banco Sabadell Foundation research grants: Intended for aspiring pre-doctoral students who are carrying out their doctoral thesis, with the aim of promoting and developing scientific work or to fund placements at universities or research centres.

- Collaboration with the university community through awards and grants to promote young talent, for example, in the Universities of Leon, Oviedo, San Jorge, Jaume I and Francisco Vitoria.

- Scholarship programmes with leading further education establishments, such as EDEM (*Escuela de Empresarios* - Business School), Esade, Club Natació Sabadell, Fundación Dádoris, IBEI (*Institut Barcelona d'Estudis Internacionals* - Barcelona Institute of International Studies), and scholarships for young musicians with the ADDA Symphony Orchestra (*Auditorio de la Diputación de Alicante* - Alicante Provincial Auditorium) or the Reina Sofia School of Music, among others.

- Competitions organised by Celera: Through the Banco Sabadell Foundation, 10 young people who are excelling in their respective fields take part in competitions organised by Celera, the only people accelerator that currently exists in Spain, which each year selects a number of exceptional young people and offers them resources, training and opportunities.

- Global Talent Programme: Launched by the Banco Sabadell Foundation and CIDOB (Barcelona Centre for International Affairs), this programme involves a paid research placement and two awards for applied research, aimed at young researchers.

- The Banco Sabadell Foundation also collaborates with programmes that participate in the job search process and training for innovation, such as the TOOLBOX project of the University of Murcia or the mentoring programme with the Technological Skills Centre of Alicante (*Centro de Competencias Tecnológicas de Alicante*, or CCTA), in which students have been supported by 14 Banco Sabadell mentors. For two months, students of various areas (particularly, information and communications technology) try to resolve a challenge, with the support of Banco Sabadell IT mentors. At the end, five of the students with the best performance during the programme will receive an internship contract for six months.

Business support and training

- The "Export to Grow" (*Exportar para crecer*) programme: As part of its commitment to provide training in internationalisation to small and medium-sized enterprises, Banco Sabadell, in collaboration with AENOR, AMEC, Arola, CESCE, Cofides, Esade and Garrigues, has been promoting the 'Export to Grow' programme since 2012. This programme supports SMEs in their internationalisation process, through online tools, specialised information services and the organisation of roundtables throughout the country. Under this programme, International Business Conferences (*Jornadas de Negocio Internacional*) have been held, most notably the conference on technical measures for customs and logistics in the context of Brexit, with the participation of more than 1,550 companies, and the conference on Incoterms 2020 with almost 2,000 participating companies. In addition, a selection of news content concerning international business is offered through a newsletter that is sent every month to the Bank's business customers, with information about international markets and business sectors most likely to be concerned with internationalisation or export matters.

- Sabadell International Business Programme: The Institution has held the fifth edition of this university-certified training programme that offers advice to business customers, which has attracted the participation of more than 400 companies engaging in international business.

- New editions of the ‘Financial Advisor for Religious and Third Sector Institutions’ training course, promoted in collaboration with the post-graduate school of the University of Francisco de Vitoria that aims to be a solid foundation for the day-to-day management of administrators and bursars. A renewed and expanded course, updated with new contents that make it more cross-disciplinary, offering a complete and rigorous training to professionals and collaborators in the sector with the aim of reinforcing the specialised knowledge of these institutions and helping to provide their administrators with knowledge and tools. A brief and fully online course (12 ECTS and 24 MiFID accreditation hours) that offers tutorials delivered by Banco Sabadell specialists. This year the course was open to professionals from all sectors and has a wide range of scholarships available of up to 80% of the enrolment fee. At the end of the programme, the students receive their certificate from the University of Francisco de Vitoria. The programme currently has a total of 206 students enrolled (of which 70 are employees of the Bank).

BStartup

BStartup by Banco Sabadell is the pioneering and benchmark financial service in Spanish banking for startups and scaleups. It provides these companies with 360° service of specialised banking and equity investment.

Specialised banking is based on a team of dedicated managers for startups and scaleups in those Territorial Divisions (TD) with the highest concentration of this type of companies, as well as on a specific risk circuit, specific products and a team of specialists that support the branches throughout Spain.

As at 2022 year-end, BStartup has 4,412 startup customers. They are very internationalised customers, often with complex transactions that require these highly specialised managers and services.

In 2022, BStartup’s specialisation has been given a boost. Thus, the Catalonia TD concentrates all its startup customers at the main Barcelona branch, where it has six managers, a representative and a risk analyst, all of them fully dedicated to startups, scaleups and investors. In the Madrid region, the main Madrid branch concentrates most of the startups in this region and, in 2022, a representative and a new specialised manager have joined the Bank, taking the number of enterprise managers to 4 who are dedicated exclusively to these young innovative companies. In Valencia, a new manager specialised in startups is expected to join to support the existing one. The other regions still have 20 BStartup branches with managers that, without working exclusively in this segment, regularly receive specialised training and have a specific risk circuit in place.

Equity investment targets mainly early-stage digital and technology companies with strong growth potential and innovative, scalable business models. During 2022, BStartup has invested in nine startups for an amount of 950,000 euros.

BStartup invests in all types of sectors, but maintains its investment verticals:

- In 2022, it launched the second edition of BStartup Green to invest in startups that, through technology or digitisation, are able to facilitate the transition to a more sustainable world (from the perspectives of energy transition, industry 4.0, smart cities and the circular economy). 122 companies have applied for this second edition.

- In 2022, the fifth edition of BStartup Health was held. It is a programme designed to support health projects, in which invested funds are primarily used to validate the technology, research and business. This year’s edition ended with 127 startups enrolled.

- During 2022, BStartup was very present at the main events of the entrepreneurial ecosystem. BStartup’s team has actively participated in 100 entrepreneurial events across Spain.

Hub Empresa (Companies Hub)

Hub Empresa is Banco Sabadell's business connection centre, a hybrid model that combines:

- A digital space where companies can connect to each other through workshops and webinars led by the Bank's experts and leading external figures. They are inspiring and participative meetings in which professional experiences, current content and the latest business trends are shared.

- A physical space in the centre of Valencia as a reference for companies, where they can meet and connect with other companies, receive knowledge and business advice from experts in areas such as digital transformation or sectoral economy, as well as other specialities such as financing, internationalisation or startups.

For all these reasons, Hub Empresa is a service that contributes to Banco Sabadell's positioning in the business segment as the bank that best understands their challenges and the one that can best accompany them along the way.

2022 has been the year in which the project, which started in 2020, was solidified with the leap to the online world, and it continued the work started in 2021 to keep developing the project (new website and brand image).

The most noteworthy aspects of 2022 are, among many others:

- The implementation of the hybrid model in Hub Empresa Valencia with the installation of a streaming system that enables the creation of a recurrent programme in in-person format while at the same time it reaches the rest of the region.

- The creation of the series of conferences 'Inspiring Stories' with corporate customers that has reinforced the Bank's positioning as an expert and approachable business bank, as well as it has involved the branch network at the same time.

- Launch of the series of conferences "Sustainability in SMEs": five sessions on sustainability organised in collaboration with the Sustainability Division.

Hub Empresa is a tool that serves the purpose of establishing communication between the Institution and SMEs, businesses and freelancers, which has mainly materialised in webinars, but also generates content in other types of media such as articles, news or videos that entrepreneurs can view in the press and social media.

The sessions have revolved around the following topics:

a. The series 'Inspiring Stories': with success stories from large customers.

b. Business financing.

c. The series of conferences on the Next Generation EU Funds and the opportunity they present for the transformation of the economy.

d. The series of conferences on enterprise digitalisation.

e. The series of conferences on sustainability.

f. The series of conferences on solutions and information for internationalisation.

g. Vertical solutions: sessions for specific sectors, such as small merchants.

h. Sectoral trends, such as the series of conferences "The World to Come" (*El Mundo que Viene*) discussing various current topics: tourism, hospitality, agriculture, etc.

i. Leadership, professional and management skills, etc.

In 2022, the project has kept the number of webinars as well as the impact of the Hub Empresa in the entire territory. In total, 111 webinars were held, in which 24,612 companies and freelancers participated (including hybrid events), with an average participation of 222 attendees per session.

In addition, on 2 June, the doors of the Hub Empresa Valencia physical space reopened as normal, and 20 activities events were held (in collaboration with others and the Bank's own sessions). The space was also rented out on 50 occasions with 2,922 attendees.

At the Valencia space, the meeting rooms were booked on 360 occasions with 1,320 attendees; 820 individuals have visited the physical space and 42 advisory sessions were organised.

Therefore, the total number of users of Hub Empresa Banco Sabadell between webinars, in-person events and online streams, meeting room bookings and additional traffic during 2022 has been 29,680, with 181 activities.

The assessment of the sessions continues to reflect the great reception and acceptance of the contents by Spanish companies, with an overall rating of 8.95 out of 10, with 47.61% of the participants giving Hub Empresa a score of 10.

In addition, 86 videos summarising the sessions were made for dissemination on the Bank's social networks, and more than 36 articles and news items were published in different branded content spaces in print and online media about Hub Empresa and its support for companies, as well as the topics covered in 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.

With regard to the series of conferences on sustainability (which is just one of the nine topics covered by Hub Empresa), five online sessions were held with a total of 512 attendees, in order to generate awareness among SMEs of the need to have a sustainability strategy in place, communicate Banco Sabadell's ESG strategy and position the Institution as a partner to fund the investments required during 2022. By 2023, there is a firm commitment to continue these series of conferences to thus provide practical and valuable ESG-related information with the involvement of in-house and external experts.

The sessions that were part of the series of conferences on sustainability are the following:

- **Key sustainability aspects for SMEs: ESG legislation and disclosures:** It addresses the obligation to report non-financial information, the key sustainability aspects in the business environment and how to draw up a roadmap to define the sustainability strategy, facilitating its integration into the companies' strategy. With a total of 115 attendees and a rating of 8.95/10.

- **Sustainability in SMEs: advantages in measuring and diagnosing its impact:** This session explains how to develop a sustainability strategy and how to implement it. Focusing on aspects as fundamental as measuring results and the setting of compliance objectives that reflect transparency. In this way, companies will be able to adapt to current requirements and thrive while resolving some of the biggest global challenges. With a total of 158 attendees and a rating of 8.75/10.

- **Sustainability and climate change in SMEs: how to measure and reduce the carbon footprint?** The session addresses the implications of both the European target of reducing greenhouse gas emissions by 55% by 2030, based on 1990 emissions, and the target of achieving climate neutrality by 2050. The session describes how companies can calculate the carbon footprint and how to work to decarbonise business activities through plans to cut emissions. With a total of 48 attendees and a rating of 8.57/10.

- **Sustainability in SMEs: energy efficiency and financing:** The keys for adapting companies to the new sustainable models are discussed, focusing on energy efficiency, highlighting its strategic importance, tips for its financing and the use of subsidies from the Next Generation EU funds. Another of the topics discussed are those arising from the financing of renewable plants. Knowledge in this area has become an expertise in PPA (Power Purchase Agreement), with which companies can now improve their energy costs. With a total of 120 attendees and a rating of 8.67/10.

- **Sustainability as a business opportunity for SMEs. We explain everything with six practical examples:** session in which through six practical examples tested in the SME world, the various challenges that apply to companies in terms of sustainability have been addressed, focusing on: cost savings, new markets, business alliances, public sector assessment, reputation and customer loyalty and regulatory adaptation. With a total of 71 attendees and a rating of 9.33/10.

Culture as a tool for transformation

Bringing culture closer to society by co-promoting, together with flagship cultural centres, cultural transformation projects, educational projects and transformative proposals that contribute to training, creation, development and employability of young people through various artistic disciplines. In this regard, the following activities are noteworthy:

- *'Atempo, arts i formació'*: A project supported by the Banco Sabadell Foundation, which aims to forge links between the educational world and the artistic world, training professionals from both sectors and making it easier for young people to take an active part in cultural life, as well as fostering innovative processes.

- Co-CreArte sessions: 12 cultural organisations that work with the arts as a tool for change and social progress are connected. With the aim of creating synergies between the organisations and identifying new ways of transformation, the Co-CreArte session was organised, where representatives and initiatives from the 12 cultural organisations were brought together in a group dynamic in which they shared experiences and connected through personal and professional experience.

- The Entrepreneurship and Leadership Programme of the Reina Sofía School of Music for young classical musicians.

- Artistic project in partnership with the Fundación Amigos del Teatro Real: A Foundation collaboration aimed at offering professional opportunities to young students of the Reina Sofía School of Music.

- 'Dentro Cine' (Inside Cinema) artistic education project: A project supported by the Foundation which is aimed at young people in vulnerable situations and which has the dual objective of training them in the craft and language of filmmaking and providing them with the tools of dialogue.

- Collaboration with training programmes for emerging artists, such as 'Eeemerging', a European training programme for young European musicians to promote the emergence of young talent performing old music, and *'Encontro de artistas novos'* (Meeting of new artists) of the Cidade da Cultura Foundation, among others.

Reduction of the digital divide

In 2022, Banco Sabadell has promoted the following programmes and initiatives, upholding its commitment to education and digitalisation:

- The 'Technological independence and digitalisation' programme, to reduce the digital divide in older people, in collaboration with Fundación Alares, an organisation specialised in improving the quality of life of older people and other vulnerable groups. The aim is, through its training activities, to communicate and make available to beneficiaries the possibilities that the ICTs offer, not only in terms of improving their independence and quality of life, but also in improving their sense of belonging and companionship.

  Since its launch in May 2020, 29 4-hour workshops have been organised, with an average of 10 people in attendance. The workshops are taught by an Alares' specialised technician and a volunteer from Banco Sabadell. A total of 21 volunteers have taken part and this programme has reached 1,108 individuals.

- Start of the collaboration with EUTIME, an organisation formed by former students of the Official Business School founded in Sabadell in 1941 and currently linked to the Autonomous University of Barcelona. In this case, volunteers from Banco Sabadell collaborate with the 'Digital Education for Seniors' programme, an itinerary of 10 sessions in which seniors are taught key aspects of instant messaging, email, social media and video calls. There is also training on digital governmental procedures, online shopping and digital banking, learn how to use Bizum, etc. The aim is to reduce social exclusion as a result of not knowing how certain technology tools work.

- The Foundation carries out the *'Conecta Joven-Conecta Mayores'* (Connect the Young-Connect the Elderly) programme together with Fundación Balia por la Infancia. It is an intergenerational project in which young people aged 14 to 18 carry out, on a voluntary basis, a learning process to teach basic computer skills and the use of digital devices to over 60s, with mild cognitive impairment and with intellectual disabilities who, for various reasons, have difficulty in accessing new technologies.

- It has cocreated with Mobile Week and Fundación Exit a new training and social innovation project, *Escape Fake*, a programme aimed at 16 to 21-year-olds in vulnerable situations with the aim of empowering new generations to be able to inform themselves critically and consciously, promote digital literacy and train youngsters to face a future without fake news. A programme that has been considered by CAF-Development Bank of Latin America and Revista Haz as one of the ten best social innovation initiatives of the year. A total of 8 volunteers from Banco Sabadell took part in this project.

- Programme for the Development of Innovation Management and Digital Skills: Collaboration in the programme delivered by the University Foundation of Las Palmas (FULP, by its Spanish acronym).

Through the Bank's digital media and during the course of 2022, the Institution has carried out 207 internal and external activities and events. The vast majority of these are online support appointments disseminated through the corporate social networks, with short videos, blog articles and online sessions. A clear example are the 48 sessions on fraud prevention and cybersecurity, digitalisation and sustainability support that have been carried out with the aim of training and helping our customers. Furthermore, the Sabadell Companies Hub has carried out another 110 webinars through which it has disseminated practical information on public-private aid, management, international business opportunities and digital marketing, among other content related to the support of companies, SMEs, freelancers and individuals.

7.2 Social and volunteering activities

Banco Sabadell puts the talent of its employees at the disposal of those who need it the most, thus reinforcing its commitment to building a better, more sustainable world, paying particular attention to vulnerable groups.

Corporate Volunteering Programme

This year, once again, the people who form Banco Sabadell have demonstrated their commitment to society, reaching beyond their professional duties, giving their time and sharing their talents to help people and organisations in need of them. More than 1,400 volunteers have taken part in social initiatives promoted by the Bank, its Foundation and other collaborating organisations, through the Bank's Corporate Volunteering Programme.

In addition to the educational programmes described above, the initiatives and cooperation and solidarity programmes carried out by the Bank include, most notably:

- Support to third-sector institutions that participate in the *B-Value* social innovation programme, the aim of which is to professionalise the value proposition and work on the sustainability of projects of non-profit social institutions throughout Spain.

  Since the first edition of B-Value in 2017, the Banco Sabadell Foundation and other organisations that promote the programme have presented different awards to finalists among the 40 participating entities. These awards help them to take their projects forward and give visibility to the causes that they support, putting the spotlight on talent and innovation. One of the keys to the programme's success is the participation of employees of the Bank as voluntary mentors. This year, 43 employees from different areas of the Bank and with different profiles have supported those organisations in developing their social impact projects.

  Moreover, this year a new initiative was launched in which 14 expert mentors, from other editions, continued to support institutions that took part in the programme in the past to keep developing their social innovation projects.

- With regard to programmes that leverage the knowledge and experience of the Bank's employees and that concern vulnerable sectors of society and/or those at risk of social exclusion, the 'Leader Coach Project' run by Fundación Éxit is a corporate volunteering initiative that seeks to improve the future employability of young people who have had an unsuccessful academic experience. This year, 40 volunteers from the Bank took part and dedicated 800 hours of their time to young people, to keep them in training.

- Eduo is a programme similar to the previous one, but this time it is young people who have started first-degree vocational training who are accompanied by company volunteers who become their role models and motivate them so that they do not drop out of their studies. Two volunteers from the Bank have taken part in this project.

- Together with Fundación Éxit, the Bank has continued to drive forward a collaboration with the aim of promoting female talent, by helping women aged 18 to 25 who are thinking of returning to education or who are actively seeking employment. To do so, 11 volunteers from managerial roles at Banco Sabadell and with prior experience in mentoring and coaching assisted the young women through various workshops designed to help them develop soft skills, such as communication, initiative-taking, managing interpersonal relationships, etc., tools that will help them to enhance their self-knowledge and remove barriers limiting their future professional choices.

- Women are also the recipients of the following programmes: 'Ace your job interview' (*Triunfa en tu entrevista de trabajo*), 'Job search 2.0' (*Búsqueda de empleo 2.0*), 'Ready and able' (*Capaces*) and 'Emotional intelligence for the workplace' (*Inteligencia emocional para el empleo*), in which the Bank has been collaborating with the Fundación Quiero Trabajo since 2019. The aim is to empower people, particularly women, by enhancing their skills and attitudes, and by giving them the tools to manage the selection process and job interviews with success. This year, a total of 74 volunteers from the Bank mentored the participants in these programmes.

- Jointly with the Private Foundation for Self-employment in Catalonia (*Fundació Privada per a la Promoció de l'Autoocupació de Catalunya*), and through its SOS Mentoring programme, 14 volunteers from the branch network worked with young entrepreneurs, self-employed professionals and micro-enterprises that have faced difficulties to start or continue their businesses. The Banco Sabadell mentors are delivering personalised support to help entrepreneurs diagnose their situation, evaluate alternative courses of action, identify the best decisions in different scenarios and implement them.

- As part of the U4Impact project, with which the Banco Sabadell Foundation collaborates, a total of two volunteers accompanied two students for several months in the preparation of their theses for their Master's degrees.

- In May 2022, the charity sporting team event *Oxfam Intermón Trailwalker* took place once again; this year, 21 teams from the Bank took part. A total of 175 people, including walkers, personal helpers and volunteers raised 24,071 euros to contribute to Oxfam and to the work it carries out in more than 90 countries to combat poverty and hunger.

- On the initiative of the Institution's own employees, this year the Bank participated in La Milla Náutica, a sporting swimming event organised in collaboration with the Barcelona Fire Department, in which 17 employees of Banco Sabadell took part and raised 8,990 euros to fund research on combatting congenital muscular dystrophy due to merosin deficiency.

- Participation in Oncotrail, a 100 km team race organised by Fundación Oncolliga Girona in conjunction with Agrupación Excursionista Palafrugell and Club Atlétic Palafrugell to raise funds to improve the quality of life of cancer patients. A total of 19 employees from Banco Sabadell took part in this race.

- Participation in Cheers4U, a playful inter-company teambuilding event in collaboration with Centro Especial de Empleo Icaria, which had 7 volunteers in order to help people with functional diversity enter the job market.

- Each year, to coincide with the Christmas festivities and in collaboration with the Fundación Magone - Salesianos Acción Social, through its corporate volunteering programme, the Bank runs the 'Be one of the Wise Men' (*Conviértete en Rey Mago*) programme, in which volunteers sponsor and deliver gifts in response to letters written by children under the care of the foundation. On the eve of Epiphany, the volunteers distribute the gifts. During Christmas 2022, 637 Wise Men from Banco Sabadell took part in this project.

- In 2022, the Bank once again organised 'donor days' to make it easier for the Bank's volunteers to donate blood. In collaboration with Banc de Sang i Teixits, two blood donors' days were organised at the Banco Sabadell corporate centre in Sant Cugat with the participation of 97 employees

Banco Sabadell promotes the wellbeing of its workers, social interaction between colleagues and involvement in charity and volunteering through Sabadell Life, an internal portal in place since 2016, which has more than 13,000 users among the Bank's employees. Through Sabadell Life, the Bank and its employees have the opportunity to propose other charity and/or volunteering initiatives. In addition, thanks to the collaboration with the startup Worldcoo, employees can make direct donations to any of the causes supported by the Bank, via the Actitud Solidaria platform located in Sabadell Life. In most cases, these causes are selected by the employees themselves. In 2022, employees have efficiently responded to two emergency calls linked to the humanitarian situation as a result of the war in Ukraine. The Institution has launched campaigns in support of Unicef, in which 25,090 euros were raised, and another in support of the Red Cross raising 64,151 euros. This amount includes a 25,000 euros contribution from the Bank.

In addition, the Bank has an innovation community made up of 70 people, trained in agile, scrum and creative thinking techniques that put their talents and time at the disposal of the Institution and of projects that directly impact the Bank, customers and society in general. A great example of this is the participation in the first Hackathon of the Sustainability Division in collaboration with Microsoft, in which 68 volunteers took part and new solutions in terms of sustainability were developed to apply them in the medium term. In the same vein, 34 experts from Banco Sabadell in data management participated in a charity Hackathon in collaboration with Fundación ONCE.

Once again, the Bank has participated in the organisation of the Ceremony to award grants to charitable causes of the Sabadell Inversión Ética y Solidaria Fund, IF, managed by Sabadell Asset Management, as well as in the coordination with beneficiary offices and entities in order to make the payments. This year, for the 29 charitable projects of the 28 entities selected by the Ethics Committee in 2021, a total of 343,403.71 euros has been awarded, bringing the cumulative amount 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.

In relation to charitable donations, at the end of the year, there were 928 donation collection boxes installed and operational, which have the 'DONE' system that integrates contactless technology. Since its deployment, this system has helped to collect more than 3.5 million euros. These funds have been delivered to various charities and social entities, both religious and non-profit, channelling funds to meet the needs brought about by the effects of the pandemic.

Moreover, during 2022, the Bank has lent its premises to foundations or charity events on two occasions.

In the case of the UK subsidiary, TSB, among its work to support local communities, the following initiatives, in particular, are noteworthy:

- Since 2021, TSB has been the first high-street bank to offer a safe space to victims of domestic abuse under the charity Hestia's Safe Space initiative. In 2022, TSB opened a flee fund, giving its customers who are victims of domestic, financial or economic abuse, money to help them escape their abuser. The Institution has announced plans to launch "Online Safe Spaces", an online place for victims to visit and seek support, no matter where they live.

- This year, TSB employees have volunteered at several of the Forest Carbon UK sites to learn more about the positive impact these projects have on nature and biodiversity. Forest Carbon's UK sites align with the Woodland Carbon Code and Peatland Carbon Code.

- TSB employees have volunteered over 3,000 hours to environmental projects in 2022, including litter picking, tree planting and marine conservation projects.

In relation to Mexico, through Fundación Quiera and the Association of Mexican Banks (*Asociación de Bancos de México*, or ABM), the Institution supports two associations, a home for children at risk and/or on the streets, via various integration initiatives that motivate them to chase their goals to thus improve their quality of life. It also contributes a donation in kind to a foundation that focuses on the social reinsertion of young people into the community. The Bank provides tools such as brushes and rollers to paint their facilities. In addition, the Bank carries out the Young People Building the Future (*Jóvenes Construyendo el Futuro*) programme, which seeks to integrate young people who are not working or studying to give them the opportunity to develop professionally.

Through Sabadell Seguros, in 2022 the Institution has also participated in various charitable initiatives, focused on people, diseases, social exclusion and poverty.

In this respect, '*Life Care Mujer*' is a product aimed at addressing the specific needs of women. It is a life insurance product exclusively for women, which aims to protect the insured family's financial stability and economic needs in adversity, in the event of death, permanent disability or serious illness, such as female cancer diagnosis. In addition, for each customer that takes out *Life Care Mujer* insurance, BanSabadell Vida makes a donation of three euros to the Spanish Association Against Cancer (AECC, by its Spanish acronym), to support research into women's cancers. In 2022, the Bank has donated 30,000 euros to AECC to support pioneering research projects that contribute to prevent and eradicate women's cancers.

Social integration

The Banco Sabadell Foundation collaborates on projects aimed at social integration, such as:

- The Balia Foundation's '*Conecta Mayores-Conecta Jóvenes*' (Connect the Elderly Connect the Young), which brings two different generations together with the aim of breaking stereotypes and eliminating the digital divide that separates them, as indicated above.

- Artistic education projects, such as *Dentro Cine*, *Horagai* and *L'art taller de música*, all targeting vulnerable young people, with the aim of training them in the craft and language of art and filmmaking, providing them with the tools of dialogue and inclusion.

- Participating in scholarship programmes aimed at vulnerable young people, such as the scholarships awarded by Fundación Dádoris.

- In the same vein, the Entrepreneurship and Leadership Programme of the Reina Sofía School of Music is also worth highlighting. Through it, young classical musicians create innovative projects, many of which are aimed at the social sector, in order to take classical music to groups at risk of social exclusion.

To address the needs of the more vulnerable segments of society or those at risk of financial exclusion, products are marketed in a targeted manner, such as the 'basic payment account', an account suitable for asylum seekers or persons without a residence permit, or the debt restructuring actions on shared residence mortgages, which are carried out to protect customers at risk of losing their home due to an inability to pay, in line with the provisions of the Spanish Regulation (Royal Decree Law 6/2021), which the Institution has voluntarily adhered to since it entered into force.

Medical research and health

In addition to the four Awards for Biomedical, Economic, Scientific and Marine Sustainability Research, the Banco Sabadell Foundation also supports scientific research through programmes promoted by flagship institutions in the sector. For example, as members of the Board of Trustees of BIST (Barcelona Institute of Science and Technology), programmes such as '*Intensifica't al Taulí*' promoted with the Parc Taulí Hospital in Sabadell to give scientists the opportunity to dedicate 12 months of their time to their lines of research, and the research grants awarded to students at San Jorge University in Zaragoza, or support for activities of the Fundación Pasqual Maragall and the Institute for Research in Biomedicine (*Institut de Recerca Biomèdica*, or IRB).

Another of the flagship research institutions with which the Banco Sabadell Foundation collaborates is the National Cancer Research Centre (*Centro Nacional de Investigación Oncológica*, or CNIO), which organises conferences to disseminate the latest news about the most significant advances made in cancer research.

Economic development

It is worth highlighting the 2022 Economic Research Award, given for research into the strategic decisions made by companies and how these contribute to their export performance and their capacity for innovation.

7.3 Social housing management

Through Sogeviso (the subsidiary created in 2015 and wholly owned by the Bank), Banco Sabadell manages some of the complexities of social housing with the aim of responsibly addressing situations of social exclusion and the loss of a home affecting its more vulnerable mortgage borrowers. This is carried out under the framework of the Bank's sustainability policies.

In its seven years of activity, Sogeviso has managed around 23,000 contracts for social or affordable rent and it has helped over 8,500 families improve their social and economic situation through its programmes designed to offer social support and improve employment prospects (JoBS), as well as overcome the digital divide (Pathfinder).

As at 31 December 2022, Sogeviso manages 2,349 properties under social and affordable rental arrangements specifically aimed at these vulnerable customers. In 9% of these cases the ‘Social Contract’ has remained in place.

The Social Contract is an innovative model for managing vulnerable customers. Specifically, it is a service for customers who rent a property under a social rental arrangement that is adapted to their income and that offers specific support provided by a social manager based on three independent lines of approach: connect these customers with the public services, support them with training to manage their household finances and facilitate access to public aid, and the JoBS programme.

The JoBS programme consists of a job placement service that aims to provide customers with the skills and tools to enable them to access the labour market, as well as market research to match profiles with existing job offers. Since the launch of the Social Contract in 2016, 2,369 people have found work with the help of the JoBS programme.

The Social Contract currently provides services to 214 families, including 51 individuals actively seeking employment through the JoBS programme.

Under the scope of action of the Social Contract, the ‘Pathfinder’ programme was carried out in 2021, aimed at bridging the digital divide. This programme was set up with the collaboration of the Mobile World Capital Foundation, which provided technological devices for the participants and the Ayo (Accelerating Youth Opportunities) Foundation. In the programme’s first phase, 33 training workshops and 21 group tutorials were given, attended by 21 users, of which 62% were women. Thanks to the Pathfinder programme, 62% of participants have improved their digital skills.

Since the beginning of Sogeviso’s management, 4,685 families that are Banco Sabadell customers have improved their socio-economic situation.

In addition, Banco Sabadell has assigned 107 properties to 43 non-profit institutions and/or foundations, aimed at supporting the most disadvantaged social groups, and since 2013 it has been a member of the Social Housing Fund (FSV, by its Spanish acronym), contributing 440 homes to it, mainly for customers following deeds in lieu or foreclosures. Of the FSV housing stock, 84% is let out by social rental agreements currently in effect.

Since 2021, Sogeviso holds the prestigious international B-Corp certification. This certification attests Sogeviso's social and environmental impact, and ratifies its high standards of ethics, transparency and social responsibility.

On 25 October 2022, on the strength of its Support Programme for the socio-economic improvement of vulnerable families, employability and overcoming the digital divide, Sogeviso won the first prize in the Social Commitment category, awarded by the Association of Building Developers and Constructors of Catalonia (APCE, by its Spanish acronym) as part of its APCE 2022 Awards.

7.4 Sponsorship

With regard to sponsorship, the budget allocated for 2022 was 1,407,317 euros. Sporting events continue to be the item with the greatest weight within the budget, a total of 48%. Sporting events include the cycling tours to the Basque Country, Valencia and Murcia, as well as the “*Madrid Corre por Madrid*” race. The remaining budget has been allocated mainly among cultural events (music festivals) and business-related events. During this year, the Institution has continued to collaborate with various events related to the Jacobean Year, for a total amount of 80,000 euros.

In addition to the above, the Bank has once again sponsored the Barcelona Open Banc Sabadell - Conde de Godó Trophy. The Bank continued to support this tournament in its 2022 edition as a responsibility and support act to the city of Barcelona –a clear commitment to the city’s economic and business activity. The investment[87] in this tournament was 1,651,000 euros related to sponsorship and 350,000 euros related to promotion.

[87] The total figure shown in the first paragraph does not include investment in the Barcelona Open Banc Sabadell - Conde de Godó Trophy.

7.5 Patronage

The Banco Sabadell Private Foundation, through its sponsorship actions, carries out the majority of its activities in collaboration with the leading institutions in the sector in order to achieve its objectives in both the cultural and talent spheres, whilst at the same time highlighting the work of other institutions with extensive experience and impact.

In 2022, the Banco Sabadell Private Foundation received 4.5 million euros from Banco Sabadell, which has been allocated to execute the annual Action Plan approved by the Board of Trustees in January 2022, of which 3,660,310 euros have been allocated at the end of the year to carry out its activities.

The contributions allocated to each area of activity and field, compared with those in 2021, are shown below:

Area and field	No. collaborations 2022	Amount allocated 2022	No. collaborations 2021	Amount allocated 2021
Culture	**77**	**€1,642,063**	**83**	**€1,933,063**
Visual arts and design	24	€423,461	32	€563,361
Literature and performing arts	16	€520,900	16	€499,000
Music and festivals	14	€409,000	22	€686,000
Heritage	12	€166,500	10	€168,500
Society	11	€122,202	3	€16,202
Talent	**83**	**€2,018,247**	**86**	**€1,794,138**
Culture	6	€115,500	8	€80,900
Training	60	€1,269,747	56	€846,738
Innovation	0	€0	11	€300,500
Research	17	€633,000	11	€566,000
Overall total	**160**	**€3,660,310**	**169**	**€3,727,201**

Every year, the Banco Sabadell Private Foundation publishes its annual report on https://www.fundacionbancosabadell.com/en/[88]

Furthermore, since 2022, the Banco Sabadell Private Foundation categorises its activities in three sub-areas geared towards complying with the Sustainable Development Goals:

Firstly, by supporting cultural institutions, promoting and bringing culture closer to society through collaborations with leading cultural organisations and by strengthening alliances to maximise their impact. Secondly, by promoting education, focusing on talent, based on effort and equal opportunities, in order to contribute value to society and generate social impact. And finally, by fostering research, promoting research, dissemination and knowledge in the fields of science, culture and education, spearheading activities in these areas and organising prestigious awards and research grants.

The amount according to this new classification is broken down as follows:

Subarea	No. collaborations	Amount allocated
Institutional	58	€1,275,563
Education	85	€1,751,747
Research	17	€633,000
Overall total	**160**	**€3,660,310**

7.6 Institutional relations

The Bank takes part in different alliances, forums and initiatives related to the financial sector and in areas that contribute to economic development and society in general, such as research, sustainability, innovation and digital transformation, among others. In 2022, the amount invested in institutional representation, including the main partnership actions related to sectoral representation, business associations, chambers of commerce and institutions of economic interest, amounted to 2,151,699 euros at year-end.

In 2022, some of the largest sector contributions went to the Spanish Chamber of Commerce (€110,000), the Foundation for Applied Economic Studies (FEDEA, for its acronym in Spanish) (€90,000) and the Institute of International Finance (IIF) (€78,526).

[88] More annual information on www.fundacionbancosabadell.com > Foundation > Report

7.7 Consumers

Banco Sabadell adheres to the Code of Good Practice (CBP, by its Spanish acronym) enacted by Royal Decree Law 6/2012, of 9 March, and subsequent modifications thereto, the latest by RDL 19/2022, of 22 November, whose main objective is to arrange the viable restructuring of debt on primary residence mortgages, which is available to families experiencing extraordinary difficulties in meeting their mortgage payments because they are on the ‘exclusion threshold’. The Bank reiterated its commitment to the CBP in 2022, with 97 debt restructuring operations carried out under its auspices.

With regard to Spain, in accordance with the provisions of Order ECO 734/2004, of 11 March, Banco Sabadell has a Customer Care Service (SAC, by its Spanish acronym) which handles complaints and claims. Customers and users may also appeal to the Customer Ombudsman, an independent body of the Institution that has the authority to resolve any issues referred to it, both in the first and second instances. Decisions by the Customer Care Service or the Ombudsman are binding on all the Bank’s units.

In accordance with its Regulations, the SAC handles and resolves complaints and claims from customers and users of Banco de Sabadell, S.A. and other associated entities: 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.

The SAC and its head, who is appointed by the Board of Directors, report directly to the Compliance Division and are independent of the Bank’s business and operational lines. Its main function is to handle and resolve complaints and claims brought forward by customers and users of the financial services of the Bank and its associated entities, under the principles of transparency, impartiality, effectiveness, coordination, speed and security.

During 2022, the following cases were received and handled:

Complaints received	**Volume**
Customer Care Service	38,726
Customer Ombudsman	2,547
Bank of Spain	579
Comisión Nacional del Mercado de Valores (Spanish National Securities Market Commission)	35
Total complaints received	**41,887**

Complaints handled	**Volume**	**Percentage**
Resolved in favour of the Institution	14,062	45.5%
Resolved in favour of the claimant	16,857	54.5%
Inadmissible as a result of the application of Regulations	10,141	

In the case of TSB, if we use the figure for the year up to December 2022, the number of recorded complaints, claims and other communications was 69,240. The volume recorded during the same period in 2021 was 73,614 and, therefore, 2022 represents a 6% reduction (4,374) on these figures. This decrease is primarily related to improvements made to the customer journey and to system stability. Of the total number of complaints, claims and other communications recorded in 2022, 67,886 (98%) were resolved before the end of the year, i.e. 31 December 2022.

TSB is the first retail bank accredited by the Good Business Charter, a national accreditation scheme that recognises businesses that behave responsibly and measures behaviour over 10 components: real living wage, fairer hours and contracts, employee well-being, employee representation, diversity and inclusion, environmental responsibility, paying fair tax, commitment to customers, ethical sourcing and prompt payment.

With regard to Mexico, from January 2022 to December 2022 (inclusive), they received a total of 27 complaints and no claims.

For more details, see Note 42 to the Consolidated annual financial statements for 2022 and the SAC section of the Directors’ Report.

Vulnerable customers

The Bank is currently monitoring the evolution of the perimeter of vulnerable customers (understood as customers who, due to personal, economic, educational or social needs or circumstances, are in a situation of special dependency, defencelessness or lack of protection that prevents them from exercising their rights on an equal footing) mainly in three areas:

- The first area is **financial vulnerability**, i.e. low-income customers. During 2022, the Institution acted using a special approach to some of the commercial initiatives carried out, such as the launch of the new Sabadell Sight Account, dissemination to the branch network of the main features of the Basic Payment Account (with a focus on vulnerable customers) and proactivity in opening this account to Ukrainian refugees. The Institution has also imparted training sessions to recovery specialist teams to offer adherence to the Code of Good Practice and, in addition, work is being carried out to design actions that can minimise the impact of interest rate hikes.

- The second area is **digital vulnerability**, i.e. customers with difficulties in using online/digital banking services, as well as ATMs. This year, several initiatives have been implemented, including the extension of cashier hours in 237 branches and a free helpline for people over 65 years. In terms of training, the support provided to customers when using ATMs and the launch of a pilot of 10 digital training workshops in Catalonia and Madrid for the elderly are worthy of note. In addition, progress has been made in the delivery of corporate volunteering workshops to reduce the digital divide in older people. As regards ATMs, actions have been taken in recent years to guarantee access to the service for the greatest number of customers. To that end, the actions implemented were the following:

    - Installation of keyboards with bas-relief on the number “5” key, the numbers from 0 to 9 with serigraphy that allows detecting what number it is and the “edit” and “continue” keys with their corresponding signs.

    - Installation of ATMs at a height that allows them to be accessible by vulnerable groups; the height of the number “5” on the keyboard at 105 cm on all ATMs.

    - The adaptability of ATMs with versions with simplified language and easier-to-read screens.

- The third area refers to customers with **regional vulnerability**, i.e. customers located far away from the Bank’s infrastructures. Banco Sabadell has signed the roadmap agreed by the sector (October 2022, coordinated by the Spanish Banking Association [AEB, for its acronym in Spanish], the CECA[89] and the UNACC[90]) to avoid the unavailability of financial services in towns without access to cash. In addition, Banco Sabadell has arranged an agreement with Correos (the Spanish postal service) to offer the CorreosCash service to its customers. This allows the Bank, through the universal service provided, to offer in-person banking services to all Spanish towns, including cash withdrawals without the need to use the bank’s digital app.

Moreover, the Spanish financial sector has always had a very close link with society and in recent years has been proactively contributing to accelerating progress towards an inclusive economy, especially in rural areas or groups at risk of exclusion. In July 2021, the AEB and the CECA signed the “Strategic Protocol to Strengthen the Banking Industry’s Social and Sustainable Commitment”. The organisations undertook to promote among its member institutions a series of action principles to strengthen their commitment to society and channel this pledge through specific actions, including the promotion of staff training, efficient work allocation and relocation, the maintenance of the activity of former professionals who have now retired, financial and digital education, financial inclusion, sustainability, digitalisation and also measures relating to remuneration.

In February 2022, the Protocol was updated, expanding the actions in favour of senior citizens or disabled people. To the sector or individual measures that the institutions had been applying to address the situation of this group of customers, a catalogue of new measures related to face-to-face service at the branch, preferential telephone assistance, ATMs, digital channels, training and monitoring of the measures adopted by the institutions was provided. In line with the sector’s commitment, Banco Sabadell announced:

- The extension of cashier hours in 237 additional branches.

[89] Spanish Confederation of Savings Banks (for its acronym in Spanish).
[90] Spanish National Union of Credit Unions (for its acronym in Spanish).

- The renewal of 400 ATMs in 2022.
- The upholding of the commitment to resolve incidents and breakdowns in less than seven hours in 98% of cases.
- The preservation of traditional communication channels:
  - Toll-free personal helpline for senior customers with personalised service.
  - 24-hour incident service (365 days/year).
  - Keeping postal correspondence for customers inactive in digital channels and products with high use by vulnerable groups, such as cheque books.

The content and proposals for action of the Financial Inclusion Observatory promoted by the AEB, CECA and UNACC to reduce the population that does not have direct access to financial services have been implemented in 2022. One of the measures agreed upon was to commission the drawing up of a map of access to financial services in rural Spain. Meanwhile, the CNMC (Spanish National Commission on Markets and Competition, by its Spanish acronym) and the BdE (Bank of Spain, by its Spanish acronym) also published reports on the state of services provided to the elderly.

Based on the results of the aforementioned study commissioned by the industry, additional actions were assessed so that there would be no town without access to cash, which has materialised in the agreement of the AEB, CECA and UNACC to update the principle for action of the Strategic Protocol to Strengthen the Banking Industry's Social and Sustainable Commitment regarding measures to promote financial inclusion. In October 2022, the roadmap to strengthen financial inclusion in rural areas was signed, with a commitment to serve towns that do not have any access point to financial services. For towns with more than 500 inhabitants, the institutions undertook to ensure that at least one access point to in-person financial services (bank branch, ATM, mobile branch, Correos branch or financial agent) is available, while for towns with less than 500 inhabitants, the institutions undertook to offer basic banking services, guaranteeing access to cash through one of the traditional methods or through cash back or cash in shop solutions or via rural mail carriers.

With all these measures, the banking sector is demonstrating its commitment to guarantee the financial inclusion of society as a whole and, especially, of the elderly, as they are the ones who encounter the greatest difficulties when dealing with financial institutions.

7.8 Outsourcing and suppliers

The new challenges of competition require cooperative behaviour between the Group and its suppliers, the latter being viewed as strategic partners and collaborators through which the Group interacts within and outside the regions in which it operates.

In order to establish this long-term cooperation, it is necessary to understand the needs and goals of suppliers, maintaining a willingness to honour commitments and making them compatible with the Group's requirements and vision. Based on this principle, the Group has a Policy on the Outsourcing of Functions and a Procurement Policy, as well as several procedures through which it extends to the supply chain both its own commitment to socially responsible practices and the explicit advocacy of human rights, workers' rights, freedom of association and environmental rights.

In 2022, the top 20 suppliers represented 51.12% of all supplier invoicing. Other noteworthy aspects are included in the following table:

	2022	2021	2020
Total number of suppliers who have invoiced more than 100,000 euros at year-end	577	558	557
% of suppliers of essential services (out of total suppliers)	7.3%	7.5%	5%
Total number of approved suppliers	1,376	1,279	1,043
Amount invoiced by Special Employment Centres (CEEs)	€3.7m	€2.8m	€2.9m
Average time taken to pay suppliers (days payable outstanding)[91]	28.74	27.30	30.13

[91] Average time taken to pay suppliers (days payable outstanding), based on consolidated entities located in Spain. Information included in Note 21 "Other financial liabilities" to the Consolidated annual financial statements for 2022.

These figures exclude those relating to brokerage, securities firms, subsidiaries, duties and taxes, pension funds, homeowners' associations, SOCIMIs (REITs) and rental of premises.

Registration and approval of suppliers

The Group has an online portal where suppliers who wish to register must accept the General Contract Conditions, as well as the Supplier Code of Conduct, which includes:

a. The United Nations Universal Declaration of Human Rights.

b. International Labour Organisation conventions.

c. United Nations Convention on the Rights of the Child.

d. The principles of the United Nations Global Compact, subscribed by the Group in February 2005, in the areas of human rights, labour, environment and freedom of association.

In order to proceed with the approval process, suppliers must provide their legal documentation, financial information, quality certificates, proof that they are up-to-date with their social security payments and tax obligations, as well as their Corporate Social Responsibility (CSR) and/or sustainability policy. Accordingly, ISO certifications (ISO 9001, ISO 14001 and other certificates related to quality, environmental management, labour relations and occupational hazard prevention or similar) are requested, as well as disclosures of information related to the company's CSR and/or sustainability. In addition, details of the characteristics of the products made available to the Bank by the supplier (recycled, ecological and reusable products) may also be requested.

Banco Sabadell carries out supplier validation exercises, periodically checking that the documentation provided by suppliers is fully up-to-date to ensure compliance with supplier approval criteria, and establishing mechanisms for sending periodic alerts. In relation to information security, specific monitoring is carried out depending on the level of risk inherent to the supplier, which include social and environmental aspects.

In addition, the supplier rating system "RePro" by ACHILLES South Europe, S.L. has been added to the supplier relationship management model. This system provides useful and secure information on those partners with responsible practices throughout their supply chain, ensuring that the Bank continues to work with those most aligned with its objectives of adhering to quality standards in terms of social, ethical and environmental responsibility.

Contracts and supervision

The basic contract with suppliers includes clauses on safeguarding human rights and abiding by the ten principles of the United Nations Global Compact with regard to human rights, labour, the environment and anti-corruption. Where required due to the activity involved, contracts also include environmental clauses.

In addition, the Group maintains final control over the activities carried out by suppliers, ensuring that outsourcing does not entail any obstacle or impediment to the implementation of internal control models or the intervention by the supervisor or any other competent supervisory authority or body.

Furthermore, the Group ensures compliance with the laws and regulations applicable at any given time. Contracts should stipulate the ability to require suppliers to adapt their activities and service level agreements to these regulations.

Supplier recruitment in the international network is decentralised, hiring only local suppliers and affecting only products for sole use by the relevant branch or office in its daily activities. The hiring of local suppliers (those whose tax identification number coincides with the country of the company receiving the goods or services) contributes to the economic and social development of the regions in which the Group operates.

Moreover, in relation to the supplier approval process, the Group carries out its overall supplier due diligence as part of its selection process and before contractual terms are agreed. Supplier due diligence checks include financial due diligence, policy due diligence, subcontractors' management and financial crime. A supplier's corporate social responsibility is assessed as part of the policy due diligence process. The Group assesses suppliers' CSR as part of the supplier approval process. Three key areas can be distinguished in the evaluation:

- Responsible company: it assesses whether the supplier has a documented CSR policy, a community engagement policy and what kind of charitable and volunteer activities are carried out.

- Labour standards: it assesses whether the supplier has a labour standards policy which includes slavery, whistleblowing and internal audits.

- Quality and environment: it assesses whether the supplier has quality environmental policies, including ISO 9001 and 14001 certification.

In line with this, the Group has procurement policies that allow it to ensure that its suppliers know its values and apply them to their own activities: Supplier Code of Conduct, Sustainability Policy, Anti-Corruption Policy, Human Rights Policy, Human Rights Due Diligence Procedure and Equality Plan.

7.9 Tax information

Banco Sabadell Group's commitment with regard to sustainability finds one of its manifestations in the promotion and development of responsible fiscal management, allied to the United Nations' Sustainable Development Goals (SDGs).

The principles for action on tax matters that the Institution follows are geared towards compliance with the SDGs, particularly, those relating to fostering a fairer, more respectful, sustainable and cohesive society (e.g., "No poverty", "Reduced inequalities"), SDG 8 "Decent work and economic growth" being a priority for the Group that is intimately linked to tax affairs.

Tax Strategy

The principles governing the Group's tax actions are set out and developed in the Tax Strategy, approved by the Board of Directors and reviewed annually, which is aligned with the Group's business strategy and can be found on the Group's corporate website.[92]

The Tax Strategy is applicable to all companies controlled by the Group, regardless of their geographical location, without prejudice to the existence of adaptations in those jurisdictions in which the country's own legislation so requires, as is the case of the United Kingdom. The Group also undertakes to ensure that the tax practices of those entities that are not part of the Group, but in which it has a significant shareholding or whose control is shared with partners outside the Group, follow principles of action aligned with those set out in Banco Sabadell Group's Tax Strategy.

In the same vein, the Group's Code of Conduct establishes compliance with tax obligations as one of the fundamental elements underpinning the commitment to the economic development of the companies in all jurisdictions in which it operates, adopting the commitment to pay taxes in each of them and contributing in this way to the economies of these regions, as well as acting in accordance with the principles set out in the Tax Strategy.

Furthermore, as part of the commitment of fostering an ethical and compliant culture, the Bank has a whistleblowing channel available, with the aim of detecting and managing potential irregularities that could endanger this commitment or entail an unlawful act.

The principles set forth in the aforesaid Tax Strategy include the principles of efficiency, prudence, transparency and minimisation of tax risk, with the aim of ensuring compliance with current tax legislation, by promoting responsible and transparent actions with regard to tax, in accordance with the requirements of its customers, shareholders, the tax authorities and other stakeholders. These principles materialise in the following actions:

a. Guarantee compliance with and respect for the tax regulations in force in all countries and regions in which the Group operates and/or in which it is present, as well as observance of the international principles and recommendations on tax matters issued by the Organisation for Economic Cooperation and Development (OECD).

b. Determine the tax criteria to be applied by adopting the interpretation of the regulations most suited to its purpose, in light of existing judicial and legal opinion, as well as the applicable international guidelines and standards.

[92] https://www.grupbancsabadell.com/corp/en/sustainability/fiscal-transparency.html

c. Carry out a prior analysis of the tax implications of any transaction and verify that they are based on commercial and business reasons.

d. Configure the banking products marketed by the Group, assessing their tax implications, and convey these clearly and transparently to customers.

e. Assess related party transactions under the arm's length principle, in accordance with the terms established by the OECD, and following the recommendations stipulated by that organisation.

f. Refrain from using opaque vehicles or entities, or those resident in tax havens / non-cooperative jurisdictions, in order to reduce the Group's tax burden.

g. Promote a relationship of collaboration and cooperation with the tax authorities, based on good faith and transparency, seeking mutually agreed solutions in the event of discrepancies, with the aim of minimising tax disputes.

The attainment of the objectives set out in the Tax Strategy and compliance with the fundamental principles governing it are ensured through the establishment of tax risk management systems, under the framework of the Group's risk management programme.

The tax risk policies of Banco Sabadell Group aim to ensure that any tax risks that could have an impact on the Tax Strategy are systematically identified, assessed and managed.

The governance structure for tax risk management and control is underpinned by the direct involvement of the Institution's governing and management bodies following the corporate model of three lines of defence, with a clear-cut allocation of roles and responsibilities.

To this end, the Board Audit and Control Committee oversees the effectiveness of the risk management systems. In 2022, the Board Audit and Control Committee supervised the Group's tax management, specifically focusing on the implementation of the Tax Strategy and its guiding principles, the actions carried out to adequately analyse tax affairs and the main actions on corporate tax governance (such as the voluntary submission of the Annual Tax Transparency Report for 2021, or the development of the subsequent stages to the submission and receipt of the Annual Tax Transparency Report for 2020).

Collaborative relationship with the State Tax Agency, Good Tax Practices and Transparency

Banco Sabadell adheres to the Code of Good Tax Practices (CBPT, by its Spanish acronym), approved by the Large Company Forum (*Foro de Grandes Empresas*), of which it is a member, and acts in accordance with the recommendations contained therein. Banco Sabadell voluntarily submits the "Annual Tax Transparency Report" on a yearly basis to the State Tax Agency (*Agencia Estatal de Administración Tributaria*, or AEAT).[93]

Additionally, through its subsidiary in the United Kingdom, it follows the Code of Practice on Taxation for Banks, promoted by the UK tax authorities, complying with its content.

In line with the principle of transparency, the Group conveys relevant tax information directly, clearly and transparently to its different stakeholders, and includes this information in the various documents accessible on its corporate website (Tax Strategy, annual financial statements, Board Audit and Control Committee report, tax liability and Good Taxation Practices documentation, etc.).

In light of this commitment and actions on this area, Fundación Haz (formerly, the Commitment and Transparency Foundation) has awarded Banco Sabadell the "t for transparent" label in relation to the tax information published for 2021. The Institution received the highest rating, as a result of complying with more than 90% of the transparency and fiscal responsibility indicators.

Presence in tax havens / non-cooperative jurisdictions

In accordance with the corporate principles governing its Tax Strategy and the CBPT to which it adheres, the Group has undertaken a commitment to refrain from using entities resident in tax havens / non-cooperative jurisdictions, unless their presence or operations are justified on economic or business grounds.

Pursuant to this commitment, Banco Sabadell Group does not include any subsidiary that is resident in a territory considered to be a tax haven/non-cooperative jurisdiction, in accordance with the applicable

[93] In October 2022, the Bank sent the Annual Tax Transparency Report for the 2021 financial year to the AEAT.

regulations in Spain, the OECD guidelines and the position of the European Union[94]. This is reflected in the 'Declaration of presence in territories classified as tax havens / non-cooperative jurisdictions', published on Banco Sabadell's website.

Breakdown of profit and tax by country

Consolidated pre-tax profit[95], and details of corporation tax paid and accrued, by country, are set out below.

	Consolidated pre-tax profit		Corporation tax paid[96]		Corporation tax accrued	
Country	**2022**	**2021**	**2022**	**2021**	**2022**	**2021**
Spain	844,001	377,746	-16,420	-116,636	-223,405	-39,762
United Kingdom	196,267	166,090	49,302	19,996	-101,533	-31,084
United States	144,311	66,432	19,933	17,910	-34,613	-13,084
France	9,909	15,622	3,660	-1,608	-1,651	-2,893
Portugal	3,732	5,854	1,709	91	-1,072	-1,538
Morocco	1,672	2,389	1,096	0	-1,126	-902
Bahamas	-32	-25	0	0	0	0
Mexico	42,705	-14,119	8,243	5,941	-9,856	7,981
Brazil	90	0	0	3	0	0
Andorra	-9	0	0	0	0	0
Total	**1,242,646**	**619,989**	**67,523**	**-74,303**	**-373,256**	**-81,282**

Data in thousand of euros.

Other contributions

In addition to corporation tax, the Institution contributes to the deposit guarantee schemes in place in each region and to the European Single Resolution Fund, which have a positive impact on citizens' economic and financial security. In addition, it also pays annually the Tax on Deposits of Credit Institutions and the capital contribution due to the monetisation of DTAs[97]. The table below shows the breakdown of each of the contributions made:

	2022	**2021**
Contribution to deposit guarantee schemes	-129,157	-128,883
Banco Sabadell	*-113,832*	*-116,341*
TSB	*-540*	*-879*
Sabadell IBM Mexico	*-14,785*	*-11,663*
Contribution to Single Resolution Fund	-100,151	-87,977
Tax on Deposits of Credit Institutions	-34,984	-33,438
Capital contribution due to the monetisation of DTAs	-48,069	-47,752
Total	**-312,361**	**-298,050**

Data in thousand of euros.

Public subsidies received

Subsidies received in Spain in 2022 (training) in the amount of 877,153.69 euros.

7.10 Anti-Money Laundering and Counter-Terrorist Financing

Both Banco de Sabadell, S.A. and Banco Sabadell Group have a series of Anti-Money Laundering and Counter-Terrorist Financing Policies in place, approved by the Board of Directors, which establish the principles, critical management parameters, governance structure, roles and responsibilities, procedures,

[94] The "Bahamas Bank & Trust Ltd." subsidiary is located in the Bahamas, territory included in "The EU list of non-cooperative jurisdictions for tax purposes" of 4 October 2022. This does not involve a presence in this jurisdiction, as it is an inactive company that is in liquidation (incorporated into the Group as a result of the take-over merger of Banco Atlántico in 2006).

[95] For the purpose of determining the countries and figures included in the following table, the constituent entities included in Banco Sabadell Group as at year-end are considered; therefore, there may be differences with respect to other information included in the annual financial statements, basically caused by entities that have been sold during the year or by the results contributed by the companies consolidated by the equity method.

[96] This amount usually differs from corporation tax accrued, as the first is determined on a cash basis (net difference between amounts of tax paid – which essentially correspond to instalment payments – and amounts collected as refunds when the amount paid is higher than the resulting tax liability for the year) and in accordance with the payment schedule established by the tax legislation in force in each country, while the latter corresponds to corporation tax accrued in accordance with the applicable accounting legislation.

[97] Deferred tax assets.

tools and controls applicable in relation to Anti-Money Laundering and Counter-Terrorist Financing (hereinafter, AML/CTF) and which describe the main procedures through which ML/TF risks should be identified and managed at all levels of the Bank or of the Group.

These policies incorporate some basic principles:

- Promotion and supervision of the adaptation and execution of the AML/CTF model by the Board of Directors.
- Promotion and direction of the execution and development of the model by Senior Management.
- Independence in the performance of the AML/CTF function.
- Effectiveness in the management and control of ML/TF risk.
- Assurance of regulatory compliance.
- Proactive collaboration with the competent authorities and coordination and cooperation with other units of the Institution.

Among other things, they establish certain critical management parameters:

- Designation of a representative before competent authorities.
- Establishment of a risk appetite specific to AML/CTF.
- Establishment of criteria and control systems for the approval of customers and correspondent banks.
- Customer identification and KYC controls.
- Application of due diligence, according to risk, to customers and transactions.
- Continuous monitoring of business relationships using tracking systems.
- Controls on the detection and blocking of terrorist financing and international sanctions.
- Examination and reporting of suspicious transactions.
- Specific training plans related to AML/CTF.

The Bank always follows a policy of strict compliance with AML/CTF regulations, going beyond the requirements of legal standards. As such, in addition to the policies described above, it also has manuals with internal regulations to which all employees are subject, which relate not only to anti-money laundering and counter-terrorist financing, but also to the application of international sanctions, establishing three lines of defence (business and management units, Compliance and Risk Control, and Internal Audit), with a control structure in place comprising an Internal Control Body for matters related to AML/CTF and a technical AML/CTF unit that executes second line of defence controls.

Furthermore, Banco Sabadell makes it a priority to adopt the necessary measures to ensure that all employees receive ongoing training around the requirements arising from AML/CTF legislation and regulations. The training actions are subject to an annual plan, designed according to the risks identified, that will be approved by the Internal Control Body through its Delegated Committee. This annual plan will be carried out on three levels:

- Initial training: mandatory training for all new Group employees based on completing an online course through the Corporate Intranet, which includes all requirements of AML/CTF legislation and regulations.
- In-person training: aimed at all branch network and business unit employees who, according to the risks detected, it is deemed necessary that they complete a specific training session consistent with these risks and according to the activity they perform.
- Ongoing training: aimed at all Group employees on an ongoing basis through the publication on the corporate intranet of the monthly AML/CTF newsletter.

Employees are required to complete all those AML/CTF training sessions of which they are notified, in order to prevent, avoid and/or detect ML/TF in the discharge of their professional activities. This requirement includes those training sessions that the Delegated Committee of the ICB might determine, so that an employee can reinforce their knowledge and practices in terms of AML/CTF legislation and regulations. Completion of all training sessions must be duly validated, and the degree of compliance with the annual training plan must be documented. Moreover, the annual training plan will include the training sessions to be completed by the subsidiary companies and foreign branches.

It should also be noted that the Institution has a communication channel that can be easily accessed by all employees, where they can submit different queries, suggestions or complaints, anonymously if they wish. They can also report breaches, with the assurance that the information they provide will be kept in confidence and that no retaliation will be taken, provided the channel is used in good faith. The Institution's Internal Control Body for matters related to AML/CTF is informed of the management and/or resolution of all of them.

TSB also has procedures and controls in place in relation to anti-money laundering and counter-terrorist financing, including customer due diligence measures, applicable to different types of customers and in consideration of the geographical, industry and product risk associated with each relationship; enhanced due diligence measures applicable in higher risk situations; and ongoing monitoring controls to ensure that TSB knows and understands its customers throughout the life cycle of the relationship.

TSB designates a Nominated Officer in charge of receiving and submitting suspicious activity reports to the National Crime Agency (NCA) and of ensuring that appropriate controls have been implemented to monitor and manage the investigation into reports of these activities.

With regard to financial sanctions, TSB is fully aligned with the obligations under the United Nations and the United Kingdom sanctions regimes, and thus ensures compliance therewith. Other countries also have sanctions regimes which may apply to TSB. US and EU sanctions are examples where the nature of TSB's relationship with Banco Sabadell means these regimes are also applicable to TSB. TSB takes a prohibitive stance towards transactions and relationships with customers in countries subject to comprehensive international financial sanctions, or of ownership or control by individuals located in such countries.

Partners, customers, suppliers and transactions are screened regularly against relevant sanctions lists and investigated accordingly.

For its part, the subsidiary in Mexico has a Conceptual Manual on Anti-Money Laundering and Counter-Terrorist Financing, whose main objective is to establish measures and procedures to prevent, detect and report acts, omissions or transactions that could favour, aid, assist or cooperate in any way in the commission of offences set forth in the Federal Criminal Code. It also defines the criteria, procedures and standards that must be complied with by all senior managers, representatives, officers and employees of the Bank, as well as all third parties authorised and involved in the customer identification process. The procedures and manuals are aimed at protecting the Bank and its staff against any attempt to be used for money laundering or terrorist financing.

Banco Sabadell Mexico has a compliance officer appointed to represent the Institution before the regulator and has a communication and control committee in place for anti-money laundering.

The Bank also has a methodology to carry out, at least annually, the risk assessment at the Institution level, as well as a risk assessment model at the customer level that is applied at the start of the business relationship. This model recalculates itself regularly; therefore, depending on the results, criteria and control systems are in place to accept, identify and get to know customers. In addition, alert systems have also been deployed.

With regard to financial sanctions, a comprehensive review of compliance with international and national sanctions lists of all customers and their associates is conducted on a daily basis and, it is prohibited to complete transactions or enter into relationships with customers and counterparties in sanctioned countries.

Furthermore, Banco Sabadell Mexico has a communication channel in place for all employees to send their queries, suggestions or grievances and to report breaches. This channel guarantees the confidentiality of the data provided. Their management and/or resolution is reported to its Communication and Control Committee.

Finally, there is a training plan in place for all Bank employees in line with their responsibilities.

8. Commitment against corruption and bribery

The Group undertakes to safeguard integrity and promote a culture of zero-tolerance towards corruption, expressly prohibiting any and all actions of this kind. Similarly, as a signatory of the United Nations Global Compact, it is committed to complying with the ten principles established therein, among them that of working to combat corruption in all its forms, including extortion and bribery.

One of the basic elements for consolidating a corporate culture is the existence of a set of regulations that reflects the firm commitment of all units to comply with legislation, starting with the management body.

Furthermore, the Bank has a Code of Conduct and Policies on Compliance, Conflicts of Interest, Anti-Money Laundering & Counter-Terrorist Financing, Corporate Crime Prevention and Anti-Corruption, which are applicable to the entire Group.

The Anti-Corruption Policy defines all those actions included in the concept of corruption, as well as related actions that are prohibited. Both the Code of Conduct and the Policies detailed above are regularly reviewed and, where appropriate, updated.

As regards the Group's Code of Conduct, its latest update includes specific sections on the fight against corruption and bribery. The Code of Conduct explicitly establishes that no gifts should be accepted from customers, as well as the obligation to comply with the provisions of internal regulations with regard to gifts from suppliers, in order to avoid this limiting or otherwise affecting the ability to make decisions.

In relation to the identification and control of corruption-related risks, it is worth noting that the Institution has a corporate crime risk and anti-corruption management and organisation model, which has a specific section on the fight against corruption. Furthermore, its training programme includes a specific course on anti-corruption, which all employees are required to complete. As a result of the activities carried out as part of the aforesaid model and the management of the whistleblowing channel, which is described later on in this document, it is also worth noting that no risks related to corruption materialised in 2022 or in 2021.

In 2022, AENOR Internacional S.A.U. conducted a complete audit of the corporate crime risk and anti-corruption organisation and management model, with a view to certifying that the Banco de Sabadell S.A.'s model complies with the requirements set forth by standards UNE - 19601 on corporate crime compliance management systems and ISO - 37001 on anti-bribery management systems. This certification process did not identify any non-compliance with the model.

The Bank also pays particular attention to the oversight of loans and accounts held by political parties, by following a very rigorous customer onboarding protocol, and to the controls over any donations and contributions received from third parties. Similarly, the Bank does not make contributions of any kind to political parties, politically exposed persons or related institutions. Likewise, in terms of transparency, all donations to NGOs and foundations are analysed and assessed by the Board of Trustees of the Foundation. The Bank's Sponsorship Committee is the body responsible for the final approval or rejection of sponsorship commitments within the Institution.

With regard to TSB, conduct risk is also a key part of TSB's strategic planning, decision-making, proposition development and performance management processes. Throughout the end-to-end customer journey, it is key to ensure fair treatment, the delivery of fair outcomes and to seek to avoid customer harm.

TSB has Anti-Money Laundering, Anti-Bribery and Anti-Corruption and Financial Sanctions Policies in place. The identification, assessment, management and reporting of conduct risk is the responsibility of each Bank Executive Committee member, with respect to their relevant business areas, as set out in its Statement of Responsibility (SOR) under the United Kingdom's Senior Managers and Certification Regime (SMCR).

TSB promotes a zero-tolerance environment towards illicit activities to protect its employees, customers and communities against financial crimes. These principles are articulated through policies and procedures on anti-money laundering and counter-terrorist financing, anti-corruption and international sanctions, as well as through annual training courses on these areas to guarantee that risk assessment and due diligence practices are duly implemented to assess exposure to bribery or corruption via relations with related parties, sponsorship of events and charitable donations.

The offer and acceptance of gifts, entertainment and hospitality is permitted, provided these are not seen to be improper or excessive and provided they cannot be viewed as a bribe or potential bribe and as long as they are approved and recorded in accordance with TSB's Gifts, Entertainment and Hospitality Policy. TSB prohibits all activities considered as facilitation payments, political donations or actions which could facilitate tax evasion.

TSB's compliance with requirements of the financial crime framework is monitored via ongoing control testing, assurance, audits, the provision of management information and senior governance committees.

In relation to fraud, TSB continues to be the only bank in the United Kingdom that undertakes a commitment to refund every TSB customer who has been an innocent victim of fraud, reimbursing over 98% of all fraud cases, compared to the industry-wide rate of 56%.

With regard to the Bank's subsidiary in Mexico, it also has the following initiatives in place to combat corruption and bribery:

- Its own Corporate Crime Prevention Programme, which follows the Group's model but has been adapted to its own activities and applicable legislation. This programme also identifies corruption-related crimes, for the purpose of their prevention, mitigation and management, and it also provides mandatory training on this subject matter for all staff.

- It also defines policies and establishes the criteria, procedures and standards that must be complied with by all senior managers, representatives, officers and employees of the Bank.

- Adoption of the Anti-Corruption Policy of the Bank of Spain. This policy defines all those actions included in the concept of corruption, as well as related actions that are prohibited. Both the Code of Conduct and the policies are regularly reviewed and, where appropriate, updated.

- Banco Sabadell Mexico promotes a zero-tolerance environment towards illicit activities to protect its employees and customers against financial crimes. The policies and annual training courses guarantee that risk assessment and due diligence practices have been implemented correctly to assess exposure to bribery or corruption via relations with related parties. All new employees are required to complete mandatory anti-corruption training, and all staff receive communications as regards the Customer and Supplier Gift Policy, in order to reduce the risk of incurring in unfair practices, mainly corruption or bribery, and conflicts of interest.

In light of the exceptional health emergency caused by Covid-19, Banco Sabadell Mexico has monitored the control framework in all of the affected areas and has also identified crimes that are considered more likely to be committed as a result of the pandemic.

9. Commitment to Human Rights

9.1 Information regarding Human Rights

In carrying out its activities, Banco Sabadell Group respects, upholds and protects internationally recognised fundamental human rights in all territories in which it is present, taking into consideration the internal and external relationships it develops with all of its stakeholders: employees, customers, suppliers and the communities and environment in which it operates. In this vein, the Group has a Sustainability Policy, ratified by the Board of Directors in 2021, which is reviewed annually and which includes a specific principle concerning respect for internationally recognised fundamental human rights. In 2022, the Institution's banking subsidiaries with business activities in other geographies, ratified their adherence to the Banco Sabadell Group Sustainability Policy at their respective Board meetings.

Respect for human rights is an integral part of Banco Sabadell Group's values and a standard for the legitimate development of its business activity in all regions where it operates, while each geography has laws and case-law that ensure the fulfilment of these rights.

Its commitment is underpinned by, among other things, the United Nations Guiding Principles on Business and Human Rights, the United Nations Universal Declaration of Human Rights and the ILO Declaration on Fundamental Principles and Rights at Work, and the United Nations Principles for Responsible Investment (UN-PRI).

These commitments have been reinforced by adhesion to some important national and international agreements on human rights, including: the United Nations Global Compact, which encompasses human rights and labour rights in its first and second set of principles, undertaking to incorporate into its activities the Global Compact's ten principles of conduct and action in this regard, such as non-discrimination in employment, the elimination of forced or compulsory labour, and the abolition of child labour; the Equator Principles, which it signed up to in 2011 and which form a framework for the assessment and management of social and environmental risks, encompassing respect for human rights, and the performance of due diligence to prevent, mitigate and manage adverse impacts; and the Principles for Responsible Banking, among which, the principles of commercial alignment, the principle of impacts and those related to customers and users, as well as the principle of transparency and accountability are particularly relevant to human rights.

Most noteworthy among the relevant agreements signed in 2022 are the signature, jointly with 100% of workers' legal representation, of the 3rd Equality Plan, for the period 2022- 2025, which sets out the objectives for promoting diversity within the organisation, building on the pre-existing Equality Plan, signed on 2 June 2016. For more details on the Equality Plan, see section 6.4 Diversity.

From the perspective of corporate governance, the Group has a Human Rights Policy and a related Due Diligence Procedure, both approved since 2021, which are reviewed annually and are applicable to all Group companies. It establishes its basic principles of action, as well as the mechanisms required to identify, prevent, mitigate and/or remedy any potential negative impacts on human rights that its activities and procedures may entail, in particular, with regard to granting finance to companies, or issues involved in its human resources management model or its supplier contracting processes. It also establishes the need for training in all of these areas.

The Group also has a new version of the Group Code of Conduct, approved in 2021 by the Board of Directors following an in depth review to adapt it to regulatory requirements, Supervisory guidelines and specifications, and to market standards. In short, to ensure it complies with the expectations and objectives of different stakeholders. The issue of the new version of the Group's Code of Conduct required express acceptance of it by every member of the Group's workforce.

As a direct result of updating the Group's Code of Conduct, the Code of Conduct for Suppliers was also reviewed, incorporating aspects related to the model for the organisation and management of criminal risk, the role of the Corporate Ethics Committee as the highest supervisory body, and control of the whistleblowing channel.

The principles governing the Human Rights Policy take into consideration the impact and relationship with four main stakeholder groups: Group employees, customers, suppliers and commercial partners, and the communities or environment in which the Group develops its business and operates.

In terms of its employees, the Group encourages and strives to keep an environment where everyone in the workforce is treated with dignity and respect, fairly, and without discrimination of any kind on grounds of gender, ethnicity, age, social background, religion, nationality, sexual orientation, political opinion or disability; promoting equal employment and promotion opportunities, work-life balance, inclusion of disabled persons, whilst ensuring the fundamental right of employees to form or join unions or other representative bodies, safeguarding freedom of opinion, as well as employees' basic right to engage in collective bargaining, and prohibiting any form of forced or child labour. In this respect, the Group does not hire any minors under the legal working age and in no case under the age of 15.

With regard to health and safety, the Group strives to promote and safeguard the health and safety of the workforce in the workplace and in its built premises in general. Furthermore, the Group does not establish any commercial relationships related to "controversial weapons" and/or with "countries subject to an arms embargo", according to the definitions of those terms set out in existing United Nations treaties and conventions, limiting its investment in international trade activities involving countries and/or persons affected by international sanctions, and preventing certain weapons from being used to commit crimes under international law or serious human rights violations.

With regard to suppliers or other commercial partners, the Group has the necessary procedures in place to ensure transparency and respect for human rights at every stage of the supplier approval and contracting process, and when evaluating their corresponding supply chains. Suppliers are required to make a commitment to respect human rights in the performance of their business activity and observe current labour legislation, maintaining a work environment free of any abuse and one in which the health and safety of the workforce is promoted, in accordance with the Group's Code of Conduct for Suppliers, which they are expressly requested to comply with and to which they must formally adhere.

The tender process for suppliers seeking to establish a commercial relationship with the Group incorporates compliance with specific clauses related to oversight, including clauses on the protection of the environment or respect for human rights related to their business activity; the process also sets out the possibility of carrying out supplier reviews when deemed necessary or appropriate. Banco Sabadell Group's responsibility for transparency extends to the supplier tendering process, in which all participants are provided with accurate information and opportunities are offered to alternative suppliers.

In terms of customers and society in general, the Group is committed to implementing measures, within its scope of action, to ensure that its operations do not produce any subordination, helplessness or vulnerability among its customers or in the communities in which it operates, which might prevent them from exercising their rights of equality, on account of personal, economic, educational or social circumstances in which customers may find themselves, even if these circumstances are temporary or if they relate to a specific territory or sector.

In this respect, the Bank is supporting vulnerable customers in 3 areas: financial, digital and territorial.[98]

The Group encourages inclusion among its customers, offering products and services that contribute to a positive social impact through responsible business, as is the case with its social housing management and financial inclusion activities, through digitisation and financial education programmes. To that end, the Group promotes transparency of information and responsible communication with regard to its financial products and/or services, adapting them to the needs and circumstances of its customers and facilitating the customer's understanding of the related terms and conditions, risks and costs, thus promoting clear, balanced and transparent communication around those products and services.

In addition, as part of the effort to prevent digital fraud, mainly affecting people aged 65 and above, the Bank has within its structure a specific Transaction Fraud unit, which manages to prevent 95% of attempted fraud incidents, via an alerts system in cash transfer transactions (transfers, payment methods and Bizum).

The Group is also committed to the fight against corruption, money laundering, and terrorism financing, and undertakes to promote conduct that respects the regulations and ethical standards, ensuring the same respect in relation to its customers, suppliers or other commercial partners and in relation to the environment or communities in which Banco Sabadell Group operates.

[98] See more details about Customer vulnerability in section 7.7. Consumers.

On the other hand, the Group supports the communities in which it is present, through direct donations or by encouraging and helping employees to engage in corporate volunteering, which benefits many initiatives aimed at those most in need. Similarly, it encourages practices that contribute to addressing issues related to housing and social exclusion in the most disadvantaged social groups, facilitating the use of real estate assets by non-profit institutions and foundations that offer support to the most vulnerable or at-risk members of society.

For its part, our subsidiary in the United Kingdom, TSB, is the only retail bank to be awarded 'Good Business Charter' accreditation, a UK accreditation scheme that recognises businesses that behave responsibly in ten areas, including fair salary payments, not offering zero-hours contracts, prompt payment of suppliers, promoting diversity and inclusion, ensuring that employees voices are heard in the boardroom, and establishing firm plans to achieve emissions neutrality. In addition, TSB is a member of the 'Prince's Responsible Business Network', a Business in the Community (BITC) initiative that helps companies to address a wide range of essential questions to build a fairer society and a more sustainable future.

Furthermore, TSB publishes an annual statement in accordance with the British Parliament's Modern Slavery Act, setting out the actions carried out with the aim of identifying any risk of modern slavery that may be related to the performance of its work, and describing the measures taken to prevent situations of slavery or human trafficking in the development of its activity and in its supply chains.

The Modern Slavery Statement is reviewed and updated each year. The current statement makes reference to the actions and activities carried out in 2022, and is published on TSB's public website and on the UK Government's Register of Modern Slavery Statements.

Furthermore, TSB is the first British bank to be recognised by the British Standards Institution (BSI) for its work to identify, address and support vulnerable customers. In 2022, TSB has continued to uphold its commitment to reimburse every customer that has been an innocent victim of fraud, with 97% of all victims reimbursed.

In 2021, TSB was also the first customer-facing bank to offer a safe space to victims of domestic abuse in all of its branches, in association with the Hestia charity's 'Safe Space' initiative. Building on this initiative, in 2022 it launched 'Online Safe Spaces', an online space where victims of abuse can meet others and seek support, wherever they may live. In addition, TSB opened a flee fund available to TSB customers who are victims of domestic, financial or economic abuse, to help them escape from their abuser.

At a global level, the Group contributes to the attainment of the United Nations' Sustainable Development Goals (SDGs) linked to fundamental human rights, through the development of programmes and initiatives, such as quality education (SDG 4), the eradication of poverty (SDG 1), good health and well-being (SDG 3), decent work and economic growth (SDG 8), gender equality (SDG 5) or the reduction of inequalities (SDG 10).

Training and awareness

In terms of training, the Group promotes awareness and a culture of upholding human rights by providing employees with the necessary information to raise awareness about the importance of observing the procedures developed to ensure maximum respect for human rights, and specific training activities are carried out, aimed at the early detection and reporting of any conduct that may be in violation of these international principles. The objective is to reduce any potential breach of human rights.

To this end, staff are offered a series of training activities that are related to and have an impact on the main human rights directly or indirectly involved for their team or the activity they carry out. These training activities include courses on prevention of occupational risks, prevention of money laundering and financing of terrorism, data protection or human trafficking.

In addition, having raised awareness among Group employees, in recent years there has been greater employee involvement in corporate volunteering, specifically in financial education and other charitable actions in the community. In this respect, and within the framework of the Bank's commitment to human rights and financial inclusion, corporate volunteers have run financial education workshops for high school students, adults and senior citizens, working on the financial inclusion of vulnerable groups.

9.2 Whistleblowing channel

Banco Sabadell Group has incorporated the internal resources required for effective management of aspects related to human rights. Accordingly, to make it possible to report any incident in this regard, the Group has set up, both externally and internally, and in all the countries where it is present, the necessary reporting tools to enable participation and dialogue with its various stakeholders.

In this regard, Banco Sabadell Group has a whistleblowing channel, CanalDenunciasGBS@bancsabadell.com, which is used to report both breaches of the Code of Conduct and any other corporate crime risk or potentially criminal act committed by the person or persons concerned, in other words by any employee, partner, supplier or third party in the course of their relationship with the Group. The competent body responsible for resolving and responding to complaints received through this channel is the Corporate Ethics Committee of Banco Sabadell Group, which includes the Chief Risk Officer (CRO) among its members.

None of the complaints received through the channel in 2022, as in the previous year, concerned an abuse of human rights at Banco Sabadell Group.

All complaints received through the channel in 2022 were intended to bring to the attention of the organisation possible breaches of the Group's Code of Conduct or suspicions related to risks of corporate crime or acts that might be of a criminal nature. In accordance with the internal procedure on Whistleblowing Management, all complaints received have been duly handled and managed. This procedure sets out all potential stages of the whistleblowing management process, such as:

- Receipt of a complaint, acknowledgement of the reporting person's complaint, and, as applicable, request for additional information.
- Preliminary assessment.
- Opening an investigation case file.
- Conclusion of the procedure.
- Application of internal penalties regime, or archiving and closure of the case file.

At every stage of the procedure, the protection and confidentiality of participants' data is guaranteed, as well as the absence of reprisals against them when the channel has been used in good faith.

In accordance with the Equality Plan, the Whistleblowing channel is the platform for any communication aimed at raising awareness of a possible situation of discrimination, workplace and/or sexual harassment or gender-based discrimination and, in such case, the communication would be immediately transferred for activation of the Protocol for the prevention of workplace harassment, and a case file would be opened by the person instructing the Investigating Committee, who will forward the information received and handled through the channel to the Equality Plan Monitoring Committee. The Equality Plan Monitoring Committee comprises one employee representative or union delegate for each of the trade union representatives who signed the Equality Plan, and an equal number of representatives of the Institution.

10. Commitment to information

In line with the Group's Strategic Plan, the priorities in digital transformation are set out in section "1.5 Customers - Digital transformation and customer experience" of the Banco Sabadell Group consolidated Directors' Report.

10.1 Transparency

Banco Sabadell Group establishes, through the Sustainability Policy and the Code of Conduct, a series of principles in order to adapt the organisation so that it may be in line with best practices in relation to transparency. In this regard, the Institution promotes transparent information and responsible, simple and close communication with all stakeholders aiming, in particular, to:

- Promote clear, balanced, objective and transparent communication about financial products and services, as established in the Commercial Communication Policy.
- Ensure maximum transparency in the supplier tender process. Similarly, the Bank ensures that suppliers are selected in line with the internal regulations in place at any given time and, in particular, with the principles of the Group's Code of Conduct, which are set out, in in this particular case, in the Supplier Code of Conduct[99].
- Offer complete, clear and truthful information to all analysts, investors and shareholders through the different communication channels made available to them by the Group, which are published in the Policy on Communication and Contact with Shareholders, Investors and Proxy Advisors, available on the corporate website.
- Establish the Tax Strategy based on principles of transparency, in accordance with prevailing legislation[100].

In addition, the Bank fosters transparency in the disclosure of information, at all times adopting responsible communication practices that prevent the manipulation of information and protect the company's integrity and honour, in accordance with the recommendations of the Good Governance Code of Listed Companies of the Spanish National Securities Market Commission (CNMV).

Furthermore, with the entry into force of MiFID II (Markets in Financial Instruments Directive II) and the IDD (Insurance Distribution Directive) in 2018, Banco Sabadell prioritises the provision of advice as the service delivery model for the distribution of financial instruments. The Institution has a tool called "Sabadell Inversor", which serves as a guide for relationship managers to recommend the products most suited to the characteristics and needs of customers, by analysing their preferences, experience and knowledge. In addition, in 2022, the Institution has updated the suitability test that all customers are required to complete during the provision of the advisory service in order to include preferences on the topic of sustainability, thus fulfilling the regulatory obligations introduced in the updated MiFID II and the IDD.

The information provided to customers, following the guidelines of these directives, is always impartial, clear and unambiguous. Furthermore, since March 2021, Banco Sabadell has been complying with obligations on sustainability disclosures in relation to products affected by Regulation (EU) 2019/2088, also known as the SFDR (Sustainable Finance Disclosure Regulation).

In accordance with its policies and procedures, the Bank has mechanisms in place to ensure that all information provided to customers is transparent and that all of the products and services which it offers are suited to their needs at all times. To this end, before marketing a new product or service, an internal workflow ("Product Workflow") is followed, where the relevant areas in the Bank review the various aspects to ensure they conform to the established standards. The subsequent validation by the areas involved is ultimately ratified by a high-level committee, the Technical Product Committee. This validation process allows the Institution to identify the target audience to which the product should be aimed, in other words, the group of customers whose interests, goals and characteristics fit with the conditions of the product,

[99] The scope, principles and measures provided in this Code are indicated in section 7.8 Outsourcing and suppliers.
[100] The principles on which the Tax Strategy is based are indicated in section 7.9 Tax information.

even in cases where these can cover preferences regarding sustainability, as established in MiFID II and the IDD.

Furthermore, every year, the different units responsible for the product offering perform an in-depth review of the conditions of the products and their impact on customers in order to ensure that those products continue to be suitable for the target audience defined originally. This review process falls within the obligations required by various customer and investor protection regulations, such as the Guidelines on Product Oversight and Governance Arrangements for Retail Banking Products and the MiFID II Directive.

In the branch network, relationship managers have access to different items of information about products and services, which enable them to provide the necessary explanations so that customers and consumers may understand their characteristics and risks. This information is complemented with the corresponding pre-contractual information documents delivered to customers.

It is worth noting that, since 2010, the Bank has been a member of the *Asociación para la Autorregulación de la Comunicación Comercial* (the independent advertising self-regulatory organisation in Spain, more commonly known as 'Autocontrol'), and through this membership, it undertakes the commitment to deliver responsible advertising that ensures the accuracy of the information and the adequacy of the acquisition process and operational characteristics of the advertised products.

In addition, in 2022 the Bank sent all of its mortgage borrowers a personalised communication containing information regarding the publication of the Code of Good Practice of 2022 and the updated 2012 Code, thus honouring the obligation set forth in the Royal Decree-Law requiring customers to be individually informed of developments. To complement the communication, a specific mailbox and hotline were created to deal with customers' concerns and queries. Furthermore, a specific section was created on the Bank's website[101] and in the existing guidance for customers.

<u>Mortgages Campaign: *"Lo Firmo"*</u>

Since 2021, Banco de Sabadell, S.A. has been running a mortgage lending campaign that focuses particularly on transparency.

Focus groups were held with customers, through which it was determined that their main concerns when choosing a mortgage included a lack of knowledge about the product and the insecurity (felt by customers) when taking out a mortgage. In order to support customers and help them overcome these obstacles, the Bank launched a campaign called *"Lo Firmo"* (meaning 'I'll sign it').

With this goal in mind, the Bank offers customers the option to seek advice from a specialised relationship manager to help them understand mortgages through the '10 keys to understanding mortgages', without any type of commitment, so that they may learn about:

1. The associated costs
2. How much money the Bank will lend them
3. What a mortgage is
4. The differences between mortgages and other loans
5. The interest rates on mortgages
6. The term or length of a mortgage
7. How much they will pay for a mortgage
8. How to compare mortgages
9. FIPRE (Pre-Contractual Information Sheet) and ESIS (European Standardised Information Sheet)
10. How long the Bank takes to approve a mortgage

In the United Kingdom, the Financial Conduct Authority (FCA) governs the way in which TSB promotes and announces its products and services. All British firms regulated by the FCA are subject to a guiding principle

[101] https://www.bancsabadell.com/cs/Satellite/SabAtl/Vulnerable-actions/6000080941749/en/

that requires all their communications to be fair, clear and not misleading. All of TSB's communications are made in a clear and balanced way to ensure that customers can make informed decisions. The Bank applies the FCA principles on financial promotions to all its promotions made in all communication channels and media. TSB also adheres to the Code of Advertising Practice of the Advertising Standards Authority (ASA). The ASA is the UK's independent regulator of advertising across all media.

TSB is committed to providing responsible advertising across all its products and associated services. This requires them to be unveiled to the public in a precise and balanced way. Internally, the Bank adheres to the Communication and Promotion Policy and it has built a control environment with the committees and associated governance processes that ensure that communication risks are managed within the established appetite.

The new Consumer Duty, which will take effect in July 2023, will impose stricter rules on a number of topics for regulated UK firms. TSB will be obliged to take action to deliver good (rather than fair) outcomes for its customers. This also extends to customer understanding, which covers all customer communications. The internal policies, controls and rules will be reformulated to include these stricter rules and additional requirements that require UK banks to demonstrate that their products and services deliver good outcomes for customers.

Banco Sabadell Mexico, on the other hand, in accordance with Mexican banking regulations, is transparent in its publication of product-related information disclosed via:

- Official website of Banco Sabadell Mexico:
    - The section on financial products shows the Bank's offering of products, which are aimed at two groups: natural persons and companies. It also contains prevailing standard form contracts and product information sheets, which specify the terms, conditions, requirements and fees associated with the products.
    - Costs and Fees Document, which sets out the costs, returns and fees of the products. The total annual rate of return (*Ganancia Anual Total*, GAT) of investment products is also shown, in accordance with the provisions of the Bank of Mexico.
- Record of Standard Form Contracts, on the web portal of the National Commission for the Protection and Defence of Users of Financial Services (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*, CONDUSEF), a record that contains the standard form contracts of financial institutions. Regulations establish which products and services should be arranged under this type of contract.
- Bureau of financial institutions, a consultation and disclosure tool with information about the Bank's products.
- Logo and links to access the Institute for the Protection of Bank Savings (*Instituto para la Protección al Ahorro Bancario*, IPAB), which guarantees savings of up to 400,000 UDIs (inflation-linked investment units) per customer, per bank.

10.2 Data protection

To ensure that personal data are processed pursuant to applicable data protection regulations, the Institution has a mechanism that comprises three lines of defence, through which all members of the organisation, from all areas, in line with their authority and discretions, actively take part in the management, control and supervision of the Institution's data processing.

Banco Sabadell has a Data Protection Officer (DPO) who has been duly entered in the register of the Spanish Data Protection Agency (Agencia Española de Protección de Datos, AEPD), and who advises the different areas of the Bank in order to ensure compliance with regulations.

In keeping with the management model of three lines of defence, the Bank also has a Chief Data Officer (CDO) who is responsible for data governance and for the identification and record-keeping of all data processing activities carried out, with the following teams:

- Information Security – takes part in the evaluation, analysis and implementation of the necessary security measures.

- Compliance Control – carries out an Annual Control Plan to periodically identify existing weaknesses or vulnerabilities in order to subsequently rectify them.
- Audit – takes on a supervisory role and verifies compliance with policies, controls and procedures.

The Institution has its own Personal Data Protection and Privacy Policy that it uses as an internal organisational instrument to ensure the protection of natural persons in relation to personal data processing, which mentions different procedures and controls, and which provides an appropriate definition of the management model for data protection. The Personal Data Protection and Privacy Policy, as an internal organisational document, is published on the Bank's work tool and is available to all employees; it is reviewed annually and approved by the Board of Directors.

All of the Bank's employees complete, as mandatory training, a course on personal data protection and, depending on the professional duties of each employee, they also receive specific training imparted by the Data Protection Officer. Attendees take an active role in the training, positing practical situations and aspects that they encounter in their day-to-day activities. In addition, through the Bank's various communication channels, employees receive "brief training capsules", written in a friendly and attractive way, which are used to convey short and direct messages to remind employees of their obligations in relation to data protection.

In the section on customer information of its website, the Bank publishes up-to-date mandatory information about the different data processing activities that it carries out in the document "Annex: Detailed information on personal data protection"[102]. This document is published in all of the official languages of the State, as well as in French, English and German. This document, available to all interested parties, is continuously updated to include the new data processing activities launched by the Institution.

In the United Kingdom, TSB has a Privacy and Data Protection Policy that requires personal data to be collected correctly and legally and used only for specific purposes. It also ensures that where information is transferred to third-party suppliers, or processed on their behalf, it is subject to adequate due diligence and undertaken only for legitimate operational or commercial reasons. The management staff of each business area take responsibility for the development, implementation, operation and maintenance of controls that meet the requirements set out in the aforesaid policy.

Effective management and protection of personal data, in addition to being a legal and regulatory requirement, is also critical to the commercial success of TSB. For this reason, the subsidiary has its own Data Protection Officer (DPO) who is responsible for coordinating with regulators and customers.

Furthermore, TSB carries out annual training dedicated exclusively to privacy and data protection, which all employees are required to complete on an annual basis. TSB's DPO reviews the content to ensure it addresses all the required topics before approving it.

In line with the UK Data Protection Act, TSB complies with the following:

- The legal framework, which mainly comprises:
    - The 2018 Data Protection Act; and
    - The UK's GDPR.
- The codes of good practice and the guidelines of the Information Commissioner's Office, or OCI (the UK's independent body set up to uphold information rights and to regulate data protection in the United Kingdom). Debates and periodic meetings are held with the OCI to analyse TSB's compliance.
- The designation of a Data Protection Officer.
- The establishment of an internal Policy and Technical Rules that complement a series of policies and recommendations associated with related areas that include:
    - The Data Privacy Policy

[102] https://www.bancsabadell.com/cs/Satellite/SabAtl/Customer-information//GBS_Generico_FA/1183016790073/1191332198208/en/ > Other relevant information > Annex - Detailed information on personal data protection

- Technical rules for data privacy impact assessments
- Technical rules on data protection principles
- Technical rules on incidents related to personal data
- Technical rules on cookies and similar technologies of the Privacy and Electronic Communications Regulation
- Technical rules on direct marketing of the Privacy and Electronic Communications Regulation
- Technical rules on special categories of personal data
- Technical rules on records of processing activities
- Process to handle the rights of data subjects, backed by training, guidance and personalised process flows

- Mandatory training on data privacy for all employees.
- The creation of a Privacy Centre where all employees can access relevant materials in a single place.
- Regular submission of reports to risk committees and other governance forums.

In the United Kingdom, TSB has a Data Privacy Policy that requires personal data to be collected correctly and legally and used only for specific purposes. Where information is transferred to or processed on behalf of third-party suppliers, that information is subject to adequate due diligence and transferred only for legitimate operational or commercial purposes. The management staff of each business area take responsibility for the development, implementation, operation and maintenance of controls that meet the requirements set out in the Policy and related technical rules.

Effective management and protection of personal data is a legal and regulatory requirement as well as being critical to the commercial success of TSB. For this reason, the subsidiary has its own Data Protection Officer (DPO). Furthermore, TSB carries out annual training dedicated exclusively to privacy and data protection, and it is a mandatory requirement that all employees complete that training on an annual basis. TSB's DPO reviews the content prior to approving the training, to ensure it addresses all the required topics.

As for Banco Sabadell Mexico, in accordance with Mexican personal data protection legislation, it complies with the following:

- Legal Framework, comprising:
    - Federal Law on Protection of Personal Data Held by Individuals (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares*, LFPDPPP).
    - LFPDPPP Regulation.
    - Provisions and guidelines issued by Mexico's National Institute for Transparency, Access to Information and Personal Data Protection (*Instituto Nacional de Transparencia, acceso a la Información y Protección de Datos Personales*, INAI), the body responsible for ensuring personal data protection.
- Data Protection Officer (DPO).
- Manual and Policies in effect at Banco Sabadell Mexico:
    - Personal Data Privacy Manual.
    - Policy on Sending and Transferring Personal Data.
    - Policy on Assistance with INAI Procedures.
    - Policy on Personal Data Protection Training.

    - Policy on Handling Personal Data Breaches.
    - Process for Upholding Rights of Access, Rectification, Objection and Erasure/Right to be Forgotten.
- Rights of Access, Rectification, Objection and Erasure/Right to be Forgotten.

10.3 Cybersecurity

The year 2022 was marked by greater geopolitical instability, which has exacerbated cyber threats and risks. Against this backdrop, effective and responsible management of those risks is now more important than ever.

Banco Sabadell Group has a control framework for the security of its information systems and the protection of corporate, customer and employee data. This control framework includes the Information Systems Security Policy, the definition of cybersecurity responsibilities across the three lines of defence and in the governing bodies, and the need to protect corporate, customer and employee data and systems, including payment systems. In particular, the cybersecurity status report prepared by the Information Security function has been sent regularly to bodies such as the Board of Directors and the Management Committee, which are the bodies in charge of supervising the Institution's cybersecurity, together with the Board Risk Committee, which supervises ICT risks.

Banco Sabadell Group's in-house cybersecurity team is formed of over 100 specialist staff dedicated to ensuring that protection measures are adequate in relation to the existing cybersecurity risks. To that end, the following activities are carried out on a regular basis:

- Analysis of new cyber threats and their development, as well as enhancement of controls.
- Continuous review and assessment of information systems and security controls, including certifications carried out by external auditors.
- Preparation for incidents, through training, drills and simulated cyberattacks.
- Training and awareness-raising campaigns among customers and staff.

In this regard, the various Banco Sabadell Group entities have sent customers multiple awareness-raising communications on cybersecurity risks and digital fraud via email and through social media campaigns. Annual training sessions also take place in relation to data protection and cybersecurity, which are mandatory for all employees, as well as specific training programmes for the cybersecurity teams.

Through the Information Systems Security function, Banco Sabadell Group entities establish measures for the protection of information systems, which are set out in policies and procedures, to guarantee secure access to systems and to deal with new cyber threats. These measures include:

- Role-based access control and periodic recertification of these permissions.
- Two-factor authentication for remote access.
- Malware protection systems.
- 24x7 security incident response team recognised as an official Computer Emergency Response Team (CERT).

With these capabilities for protection, detection and response to cyber threats, the Institution has not suffered any major cybersecurity incidents in 2022, adequately mitigating any cyber-related incidents affecting suppliers.

In addition, Banco Sabadell Group carries out an ongoing evaluation of the security of its systems, using renowned tools that simulate multiple cyberattacks and which complement the advanced tests run by third-party specialists. The Group's various entities also pay attention to the main external ratings that measure cybersecurity (Bitsight, RiskRecon, Security Scorecard). Banco Sabadell Group has secured positions at or near the top of these ratings in comparative terms with the rest of the sector.

The various Banco Sabadell Group entities also endeavour to ensure the resilience of their infrastructures, making sure they have redundant components and regularly tested recovery procedures in order to guarantee the continuity of technological services in the event an incident occurs, such as a disaster affecting the facilities or a cyberattack.

Furthermore, an annual external audit takes place, carried out following the main information security standards.

Security in Digital Transformation initiatives

Banco Sabadell Group's cybersecurity specialists participate in digital transformation initiatives and technological projects by assisting with the assessment of security risks, defining the security controls and measures to be incorporated and carrying out technical security tests to check that no vulnerabilities are introduced.

Among the digital transformation initiatives designed and rolled out securely with the participation of the cybersecurity team, it is worth highlighting new financial products and services, such as those detailed in section 1.5 Customers - Digital transformation and customer experience, in the consolidated Directors' Report.

Annex 1

Beyond the actions and initiatives summarised in this Non-Financial Disclosures Report, Banco Sabadell has a series of codes, policies and standards in place which determine its commitment to the Group's corporate purpose, and it is also a signatory of various national and international agreements which in turn enshrine this commitment. The policies and commitments listed below are those corresponding to the Institution's non-financial areas.

Key non-financial documents[103]

Policies

- Banco Sabadell Group Sustainability Policy.
- Banco Sabadell Mexico Environmental and Social Policy.
- Banco Sabadell Environmental Risk Policy.
- Banco Sabadell Policy on Integrating ESG Risks in Savings/Investment Products.
- Banco Sabadell Director Selection Policy.
- Banco Sabadell Group Remuneration Policy.
- Banco Sabadell Director Remuneration Policy.
- Banco Sabadell Group Policy on Outsourcing of Functions.
- Banco Sabadell Group Procurement Policy.
- Banco Sabadell Group Anti-Money Laundering and Counter-Terrorist Financing Policy.
- Banco Sabadell Group Anti-Corruption Policy.
- Banco Sabadell Group Compliance Policy.
- Banco Sabadell Group General Policy on Conflicts of Interest.
- Banco Sabadell Group Corporate Crime Prevention Policy.
- TSB Gifts, Entertainment and Hospitality Policy.
- Banco Sabadell Group Human Rights Policy.
- Banco Sabadell Commercial Communication Policy.
- Banco Sabadell Policy on Communication and Contact with Shareholders, Investors and Proxy Advisors.
- Banco Sabadell Personal Data Protection and Privacy Policy.
- Banco Sabadell Mexico Policy on Sending and Transferring Personal Data.
- Banco Sabadell Mexico Policy on Assistance with INAI Procedures.
- Banco Sabadell Mexico Policy on Personal Data Protection Training.
- Banco Sabadell Mexico Policy on Handling Personal Data Breaches.
- TSB Data Protection and Privacy Policy.
- Banco Sabadell Group Information Systems Security Policy.

[103] This list includes documents not directly mentioned in the Non-Financial Disclosures Report.

- Banco Sabadell Customer Classification and Assessment Policy.
- Banco Sabadell Senior Management Remuneration Policy.
- Banco Sabadell Group Identified Staff Remuneration Policy.
- Banco Sabadell General Policy on Governance Procedures and Oversight of Retail Banking Products.
- Banco Sabadell Reputational Risk Policy.
- Banco Sabadell Group IT Risk Management and Control Policy.
- Banco Sabadell Complaints and Claims Policy.
- Banco Sabadell Internal Governance Policy.
- Financial and Non-Financial Disclosures Policy.
- MiFID Training Policy.
- LCCI Training Policy.
- IDD Training Policy.
- Business Continuity Policy.
- Banco Sabadell Group Defence Sector Policy.

Other documents

- Sabadell's Commitment to Sustainability.
- Environmental and Social Risk Framework. Sectoral Rules.
- Framework for the issuance of bonds linked to the Sustainable Development Goals of Banco Sabadell.
- Decarbonisation targets.
- Eligibility Guide.
- Annual Report on Occupational Hazard Prevention.
- Banco Sabadell Group Code of Conduct.
- Internal Code of Conduct relating to the securities market.
- Banco Sabadell Group Supplier Code of Conduct.
- Equality Plan.
- Green Bonds Report 2022.
- Banco Sabadell Mexico Conceptual Manual on Anti-Money Laundering and Counter-Terrorist Financing.
- Banco Sabadell Mexico Personal Data Privacy Manual.
- TSB Do What Matters Plan.
- Banco Sabadell Group Tax Strategy.
- Human Rights Due Diligence Procedure.
- Annex of detailed information on personal data protection.

Pacts, agreements and commitments

- Signatory of the United Nations Global Compact on human rights, labour, the environment and anti-corruption.
- Founding signatory of the UNEP Finance Initiative (UNEP FI) Principles for Responsible Banking, committing to strategically align its business with the Sustainable Development Goals and the Paris Agreement on Climate Change.
- Adherence to Collective Commitment to Climate Action promoted by AEB, CECA and ICO.
- Signatory of the Equator Principles since 2011.
- Membership of Task Force on Climate-related Financial Disclosures (TCFD).
- Membership of Net-Zero Banking Alliance (NZBA).
- Membership of the Partnership for Carbon Accounting Financials (PCAF).
- Agreement for emissions offsetting through investment in forestry projects in Spain, certified by MITECO (Ministry for Ecological Transition).
- Agreement for TSB's offsetting of Scope 1 and 2 emissions through reforestation projects in Bolivia.
- Signatory of the Sustainability Protocol of the Association of Mexican Banks (ABM).
- Signatory of the "Declaration in favour of the development of environmental, green and sustainable finance in the Mexican banking sector", promoted by the Green Finance Advisory Council (Consejo Consultivo de Finanzas Verdes, or CCFV) and the Association of Mexican Banks (Asociación de Bancos de México, or ABM).
- Enrolment in the MeCuida Plan promoted by the Spanish Government.
- Membership of the Spanish Observatory of Sustainable Financing (OFISO).
- Renewed membership of the agreement signed between the Spanish Banking Association (AEB), the Spanish Securities Market Commission (CNMV) and the Bank of Spain for the pursuit of courses of action within the framework of the National Plan for Financial Education.
- Adherence to the Code of Good Banking Practices.
- Adherence to the Code of Good Tax Practices.
- Membership of Autocontrol (independent advertising self-regulatory organisation in Spain).
- Gold Seal of Excellence from the European Foundation for Quality Management (EFQM).
- ISO 14001 certification for the six corporate buildings.
- Signatory of the Carbon Disclosure Project (CDP) for action against climate change.
- Awarded once again the "Equality in the Workplace" (*"Igualdad en la Empresa"*). Seal of Distinction by the Ministry of the Presidency, Relations with the Courts and Equality.
- TSB's adherence to the Science Based Targets initiative (SBTi).
- TSB's adherence to the Good Business Charter, a UK accreditation scheme that recognises businesses that behave responsibly. TSB is the first retail bank accredited by this scheme.
- TSB's membership of the 'Prince's Responsible Business Network', a Business in the Community (BITC) initiative that helps companies to address a wide range of essential issues to build a fairer society and a more sustainable future.
- Signatory of the "Declaration in favour of the development of environmental, green and sustainable finance in the Mexican banking sector", promoted by the Green Finance Advisory Council (Consejo

Consultivo de Finanzas Verdes, or CCFV) and the Association of Mexican Banks (Asociación de Bancos de México, or ABM).

- Membership of the Sustainability Committee of the Spanish Chamber of Commerce (CAMESCOM) in Mexico.

Annex 2

Table of contents Law 11/2018

In the table below, the acronym 'DR' means the Consolidated Directors' Report, while the acronym 'AFS' means the Group's Consolidated Annual Financial Statements. Where no such acronyms are included, the numbering refers to the chapters of this document.

		Response	GRI disclosure number	GRI description
General disclosures				
Business model	Brief description of the Group's business model	DR 1 – BANCO SABADELL GROUP (Introduction) DR 1.1 Mission, values and business model	2-6	Activities, value chain and other business relationships
	Markets in which it operates	DR 1 – BANCO SABADELL GROUP (Introduction) 1. Introduction	2-1	Organisational details
	Organisation's objectives and strategies	DR 1 – BANCO SABADELL GROUP (Introduction) DR 1.1 Mission, values and business model 2. Governance 3. Sabadell's Commitment to Sustainability 4. Commitment to climate and the environment (particularly, 4.2 Climate-related and environmental strategy) 4.4. Environmental management and impact 5. Commitment to sustainable finance 6.2 Commitment to talent 6.3 Training 6.4 Diversity 6.5 Remuneration policy 6.6 Workplace environment and organisation 6.7 Dialogue with employees: more connected than ever 7. Commitment to society 8. Commitment against corruption and bribery 9. Commitment to Human Rights 10. Commitment to information	3-3	Management of material topics
	Key factors and trends that could affect its future performance	3. Sabadell's Commitment to Sustainability 4. Commitment to climate and the environment (particularly, 4.2 Climate-related and environmental strategy) 4.4. Environmental management and impact 5. Commitment to sustainable finance	3-1	Process to determine material topics
General	Reporting framework	1. Introduction	GRI (2021)	
	Materiality principle	1. Introduction	2-2	Entities included in sustainability reporting
		3.3 Materiality	3-2	List of material topics

		Response	GRI disclosure number	GRI description
Management approach	Description of applicable policies	DR 1 – BANCO SABADELL GROUP (Introduction) DR 1.1 Mission, values and business model 2. Governance 3. Sabadell's Commitment to Sustainability 4. Commitment to climate and the environment (particularly, 4.2 Climate-related and environmental strategy) 4.4. Environmental management and impact 5. Commitment to sustainable finance 6.2 Commitment to talent 6.3 Training 6.4 Diversity 6.5 Remuneration policy 6.6 Workplace environment and organisation 6.7 Dialogue with employees: more connected than ever 7. Commitment to society 8. Commitment against corruption and bribery 9. Commitment to Human Rights 10. Commitment to information	3-3	Management of material topics
	Results of those policies	2. Governance 3. Sabadell's Commitment to Sustainability 4. Commitment to climate and the environment (particularly, 4.2 Climate-related and environmental strategy) 4.4. Environmental management and impact 5. Commitment to sustainable finance 6.2 Commitment to talent 6.3 Training 6.4 Diversity 6.5 Remuneration policy 6.6 Workplace environment and organisation 6.7 Dialogue with employees: more connected than ever 7. Commitment to society 8. Commitment against corruption and bribery 9. Commitment to Human Rights 10. Commitment to information	3-3	Management of material topics
	The main risks related to these matters linked to the Group's activities	4.3 Environmental risk management 8. Commitment against corruption and bribery 9. Commitment to Human Rights DR.5 Risks	3-1	Process to determine material topics

		Response	GRI disclosure number	GRI description
Environmental matters				
Environmental management	Detailed information about the current and foreseeable effects of the company's activities on the environment and, where applicable, on health and safety	3.3 Materiality 4.3 Environmental risk management 4.4. Environmental management and impact	3-1	Process to determine material topics
	Environmental assessment or certification procedures	4.4. Environmental management and impact	3-3	Management of material topics
	Resources dedicated to environmental risk prevention	2. Governance 4.3 Environmental risk management 4.4. Environmental management and impact AFS Note 4.4.1.4 Environmental risk	3-3	Management of material topics
	Application of the precautionary principle	4.3 Environmental risk management 4.4. Environmental management and impact	2-23	Commitments and policies
	Amount of provisions and guarantees for environmental risks	4.3 Environmental risk management AFS Note 4.4.1.4 Environmental risk	3-3	Management of material topics
Pollution	Measures to prevent, reduce or offset carbon emissions that severely affect the environment; taking into account any form of atmospheric pollution caused by a specific activity, including noise and light pollution	4.4. Environmental management and impact 5. Commitment to sustainable finance In relation to its indirect contribution through financing and investment	3-3	Management of material topics
Circular economy and waste prevention and management	Measures on the prevention, recycling, reuse and other forms of recovery and disposal of waste	4.4.4 Circular economy and waste management	3-3 306-2 (2020) in relation to generation of hazardous and non-hazardous waste	Management of material topics Management of significant waste-related impacts
	Actions to combat food waste	Banco Sabadell does not consider this issue to be material in relation to its activity	3-3	Management of material topics
Sustainable use of resources	Water consumption and water supply in accordance with local restrictions	4.4. Environmental management and impact	303-5 (2018) in relation to total water consumption	Water consumption
	Consumption of raw materials and measures adopted to make their use more efficient	4.4. Environmental management and impact	301-1	Materials used by weight or volume
	Direct and indirect energy consumption	4.4. Environmental management and impact	302 -1 in relation to consumption of energy from non-renewable sources	Energy consumption within the organisation
	Measures taken to improve energy efficiency	4.4. Environmental management and impact	3-3 302-4	Management of material topics Reduction of energy consumption
	Use of renewable energies	4.4. Environmental management and impact	302-1 in relation to consumption of energy from renewable sources	Energy consumption within the organisation

		Response	GRI disclosure number	GRI description
Climate change	Greenhouse gas emissions generated as a result of the company's activities, including the use of the goods it produces and the services it provides	4.4. Environmental management and impact	305-1	Direct (Scope 1) GHG emissions
			305-2	Energy indirect (Scope 2) GHG emissions
			305-3 excluding category 15	Other indirect (Scope 3) GHG emissions
			305-4 excluding category 15	GHG emissions intensity
	Measures adopted to adapt to the consequences of climate change	4. Commitment to climate and the environment	3-3	Management of material topics
			201-2	Financial implications and other risks and opportunities due to climate change
	Voluntary reduction targets established for the medium and long term to reduce greenhouse gas emissions and the measures implemented for such purposes	4.4. Environmental management and impact	305-5 in relation to greenhouse gas emissions	Reduction of GHG emissions
Protection of biodiversity	Measures taken to preserve or restore biodiversity	Banco Sabadell considers this to be a material issue purely because of its indirect contribution through finance 4.3.4 Equator Principles	3-3	Management of material topics
	Impacts caused by activities or operations in protected areas	Banco Sabadell considers this to be a material issue purely because of its indirect contribution through finance	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas
		4.3.4 Equator Principles	304-2	Significant impacts of activities, products and services on biodiversity

		Response	GRI disclosure number	GRI description
Corporate and staff-related matters				
Employment	Total number and breakdown of employees by country, sex, age and professional category	6.1 Workforce information	2-7	Employees
		6.4.1 Gender	405-1	Diversity of governance bodies and employees
	Total number and breakdown of types of employment contract	6.1 Workforce information	2-7	Employees
	Annual average by type of contract (permanent, temporary or part-time) by sex, age and professional category	Banco Sabadell's activities are not linked to any significant seasonal variation For this reason, the changes between data as at 31 December and data averages are not material	2-7	Employees
	Number and breakdown of dismissals by sex, age	6.1 Workforce information	3-3	Management of material topics
	Average remuneration and its evolution, broken down by sex, age and professional category or its equivalent	6.5 Remuneration policy	3-3	Management of material topics
			405-2 in relation to ratio of remuneration of women to men, by professional category	Ratio of basic salary and remuneration of women to men
	Average remuneration of directors and senior managers, including variable pay, subsistence allowances, severance pay, payments into long-term retirement plans or any other amounts received, broken down by sex	6.5 Remuneration policy	3-3	Management of material topics
			405-2 in relation to ratio of remuneration of women to men, by professional category	Ratio of basic salary and remuneration of women to men
	Pay gap	6.5 Remuneration policy (pay gap)	3-3	Management of material topics
	Implementation of policies safeguarding employees' right to disconnect	6.6.1 Work-life balance	3-3	Management of material topics
	Employees with disabilities	6.4.2 Functional diversity	405-1	Diversity of governance bodies and employees
Workplace organisation	Organisation of working hours	6.6 Workplace environment and organisation	3-3	Management of material topics
	Number of hours of employee absence	6.6.2 Health and safety	403-9 (2018) in relation to absentee hours	Work-related injuries
	Measures aimed at facilitating the achievement of a work-life balance and encouraging the equal enjoyment of such measures by both parents	6.6.1 Work-life balance	3-3	Management of material topics

		Response	GRI disclosure number	GRI description
Health and safety	Health and safety conditions in the workplace	6.6.2 Health and safety 6.6 Workplace environment and organisation	3-3	Management of material topics
		6.6.2 Health and safety	403-1 (2018)	Occupational health and safety management system
		6.6.2 Health and safety	403-2 (2018)	Hazard identification, risk assessment and incident investigation
		6.6.2 Health and safety	403-3 (2018)	Occupational health services
	Workplace accidents, in particular their frequency and severity, broken down by sex	6.6.2 Health and safety	403-9 (2018) in relation to work-related injuries	Work-related injuries
	Occupational illnesses, broken down by sex	Social Security does not define any occupational illnesses in the banking sector	403-10 (2018) in relation to work-related ill health	Work-related ill health
Workplace relations	Organisation of social dialogue, including procedures for informing and consulting with staff and for negotiating with them	6.6.3 Trade union rights and right of association	3-3	Management of material topics
	Percentage of employees covered by a collective bargaining agreement, by country	6.6.3 Trade union rights and right of association	2-30	Collective bargaining agreements
	Status of collective bargaining agreements, particularly in relation to occupational health and safety	6.6.3 Trade union rights and right of association	403-4 (2018)	Worker participation, consultation, and communication on occupational health and safety
	Mechanisms and procedures that the company has in place to promote the involvement of employees in the company's management in terms of information, consultation and participation	6.6.3 Trade union rights and right of association 6.7 Dialogue with employees: more connected than ever	3-3	Management of material topics
Training	Policies implemented in relation to training	6.2 Commitment to talent	3-3	Management of material topics
		6.4 Diversity	404-2	Programs for upgrading employee skills and transition assistance programs
	Total hours of training, broken down by professional category	6.3 Training	404-1 in relation to average hours of training, by employee category	Average hours of training per year per employee
Accessibility	Integration and universal accessibility for people with disabilities	6.4.2 Functional diversity	3-3	Management of material topics

		Response	GRI disclosure number	GRI description
Equality	Measures adopted to promote equal treatment and opportunities between women and men	6.4 Diversity 6.4.1 Gender	3-3	Management of material topics
	Equality Plans (Chapter III of Organic Law 3/2007, of 22 March, on effective equality between women and men)	6.4 Diversity	3-3	Management of material topics
	Measures adopted to promote employment, protocols against sexual abuse and sexual harassment	6.4 Diversity 6.4.1 Gender	3-3	Management of material topics
	Policy against all forms of discrimination and, where applicable, gender diversity management	6.4 Diversity 6.4.1 Gender	3-3	Management of material topics
Disclosures on respecting human rights				
Human rights	Application of due diligence procedures in relation to human rights, prevention of risks of human rights violations and, where applicable, measures to mitigate, manage and redress any such violations	9.1 Information regarding Human Rights	2-27	Compliance with laws and regulations
		9.2 Whistleblowing channel	2-26	Mechanisms for seeking advice and raising concerns
			2-23	Commitments and policies
	Reported human rights violations	No reports have been made in relation to human rights in 2022	3-3	Management of material topics
		9.2 Whistleblowing channel	406-1	Incidents of discrimination and corrective actions taken
	Advocacy of, and compliance with, the provisions of fundamental conventions of the International Labour Organisation related to safeguarding the freedom of association and the right to collective bargaining; elimination of workplace discrimination and job discrimination; elimination of forced or compulsory labour; effective abolition of child labour	9. Commitment to Human Rights	3-3	Management of material topics
			407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk
			408-1	Operations and suppliers at significant risk for incidents of child labour
			409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour

		Response	GRI disclosure number	GRI description
Information regarding the fight against corruption and bribery				
Corruption and bribery	Measures adopted to prevent corruption and bribery	8. Commitment against corruption and bribery	3-3	Management of material topics
			2-27	Compliance with laws and regulations
			2-26	Mechanisms for seeking advice and raising concerns
			2-23	Commitments and policies
			205-2	Communication and training about anti-corruption policies and procedures
			205-3	Confirmed incidents of corruption and actions taken
	Measures to combat money laundering	7.10 Anti-Money Laundering and Counter-Terrorist Financing	3-3	Management of material topics
			2-27	Compliance with laws and regulations
			2-26	Mechanisms for seeking advice and raising concerns
			2-23	Commitments and policies
			205-2	Communication and training about anti-corruption policies and procedures
			205-3	Confirmed incidents of corruption and actions taken
	Contributions to foundations and non-profit organisations	7.6 Institutional relations	2-28	Membership associations
		7.3 Social housing management	201-1 in relation to community investments	Direct economic value generated and distributed
		8. Commitment against corruption and bribery	415-1	Political contributions

		Response	GRI disclosure number	GRI description
Information regarding society				
The company's commitments to sustainable development	The impact of the company's activities on local employment and development	7. Commitment to society	3-3	Management of material topics
		7. Commitment to society	203-2 in relation to significant indirect economic impacts	Significant indirect economic impacts
	Impact of the company's activities on local communities and in the area	7.1 Commitment to education 7.2 Social and volunteering activities 7.3 Social housing management	413-1	Operations with local community engagement, impact assessments, and development programs
	Relationships with key members of local communities and the different forms of dialogue with the same	7.1 Commitment to education	2-29	Approach to stakeholder engagement
		7.2 Social and volunteering activities 7.3 Social housing management	413-1	Operations with local community engagement, impact assessments, and development programs
	Association and sponsorship activities	7.1 Commitment to education 7.4 Sponsorship 7.5 Patronage	3-3	Management of material topics
		7.2 Social and volunteering activities	201-1 in relation to community investments	Direct economic value generated and distributed
Outsourcing and suppliers	Inclusion in the procurement policy of social, gender equality and environmental matters	7.8 Outsourcing and suppliers	3-3	Management of material topics
	Consideration in relationships with suppliers and subcontractors of their social and environmental responsibilities	7.8 Outsourcing and suppliers	2-6	Activities, value chain and other business relationships
			308-1	Supplier Environmental Assessment
			414-1	Supplier Social Assessment
	Supervision and audit systems and their results	7.8 Outsourcing and suppliers	2-6	Activities, value chain and other business relationships
			308-1	Supplier Environmental Assessment
Consumers	Consumer health and safety measures	10. Commitment to information 6.6.2 Health and safety	3-3	Management of material topics
	Whistleblowing systems, complaints received and their resolution	7.7 Consumers DR - 1.5. Customers AFS, Note 42 – Other information	3-3	Management of material topics
Tax information	Country-by-country earnings obtained	7.9 Tax information	3-3	Management of material topics
			201-1 in relation to pre-tax profit received	Direct economic value generated and distributed
	Corporation tax paid	7.9 Tax information	3-3	Management of material topics
			201-1 in relation to corporation tax paid	Direct economic value generated and distributed
	Public subsidies received	7.9 Tax information AFS - Schedule VII Annual banking report	201-4	Financial assistance received from government

	Response	GRI disclosure number	GRI description
Regulation (EU) 2020/852 - Taxonomy			
Requirements of the Regulation	4.2 Climate-related and environmental strategy 4.3.3 Integration into management procedures - EU Taxonomy 5. Commitment to sustainable finance	Company criteria	

GRI content index

Statement of use	Banco Sabadell has presented the information cited in this GRI content index for the period from 1 January 2022 to 31 December 2022 using the GRI Standards as a reference.
GRI 1 used	GRI 1: Foundation 2021
GRI Sector Standards	N/A

GRI Standard / Other sources	Content	Location
General disclosures		
GRI 2: General disclosures 2021	2-1 Organisational details	DR 1 – BANCO SABADELL GROUP (Introduction)
	2-2 Entities included in sustainability reporting	1. Introduction AFS Note 2 – Banco Sabadell Group
	2-3 Reporting period, frequency, and contact point	The report covers the 2022 financial year and is prepared annually and published as an annex to the Institution's Consolidated Directors' Report. Contact point for the report: ESG_disclosure@bancsabadell.com
	2-4 Restatements of information	1. Introduction
	2-5 External assurance	Assurance included at the end of this document
	2-6 Activities, value chain and other business relationships	DR 1 – BANCO SABADELL GROUP 7.8 Outsourcing and suppliers AFS Note 2 – Banco Sabadell Group
	2-7 Employees	6.1 Workforce information
	2-9 Governance structure and composition	Banco Sabadell Internal Governance Framework
	2-10 Nomination and selection of the highest governance body	Regulation of the Board of Directors
	2-11 Chair of the highest governance body	Banco Sabadell Internal Governance Framework
	2-12 Role of the highest governance body in overseeing the management of impacts	Regulation of the Board of Directors
	2-13 Delegation of responsibility for managing impacts	Regulation of the Board of Directors
	2-14 Role of the highest governance body in sustainability reporting	Regulations of the Strategy and Sustainability Committee Art. 4
	2-15 Conflicts of interest	Regulation of the Board of Directors
	2-16 Communication of critical concerns	Regulation of the Board of Directors
	2-17 Collective knowledge of the highest governance body	Banco Sabadell Internal Governance Framework

	2-18 Evaluation of the performance of the highest governance body	Annual Report on Remuneration of Directors
	2-19 Remuneration policies	Director Remuneration Policy
	2-20 Process to determine remuneration	Director Remuneration Policy
	2-22 Statement on sustainable development strategy	3. Sabadell's Commitment to Sustainability
GRI 2: General disclosures 2021	2-23 Commitments and policies	Annex 1 8. Commitment against corruption and bribery 9. Commitment to Human Rights 10. Commitment to information
	2-24 Embedding commitments and policies	8. Commitment against corruption and bribery 9. Commitment to Human Rights 10. Commitment to information
	2-24 Process to remediate negative impacts	7.7 Consumers 9.2 Whistleblowing channel
	2-26 Mechanisms for seeking advice and raising concerns	7.7 Consumers 8. Commitment against corruption and bribery 9.2 Whistleblowing channel
	2-28 Membership associations	7.6 Institutional relations
	2-29 Approach to stakeholder engagement	3.2 Initiatives and alliances 7.6 Institutional relations
	2-30 Collective bargaining agreements	6.6.3 Trade union rights and right of association
Material topics		
GRI 3: Material topics 2021	3-1 Process to determine material topics	3.3 Materiality
	3-2 List of material topics	3.3.1 Definition of Material Topics
Corporate governance		
GRI 3: Material topics 2021	3-3 Management of material topics	2. Governance
GRI 405: Diversity and equal opportunity 2016	405-1 Diversity of governance bodies and employees	2. Governance 6.1 Workforce information 6.4 Diversity
GRI 2: General disclosures 2021	2-9 Governance structure	2. Governance
	2-12 Role of the highest governance body in	2. Governance
	2-18 Evaluation of the performance of the highest governance body	3.1 ESG framework (Remuneration linked to Sustainability)
	2-19 Remuneration policies	6.5 Remuneration policy
	2-22 Statement from senior decision-makers	https://www.grupbancsabadell.com/memoria2022/en (Chairman's message)

Transparency and data management		
GRI 3: Material topics 2021	3-3 Management of material topics	7.9 Tax information
GRI 2: General disclosures 2021	2-28 Membership associations	3.2 Initiatives and alliances
	2-29 Approach to stakeholder engagement	3.3 Materiality 7.4 Sponsorship 7.5 Patronage 7.6 Institutional relations
	2-30 Collective bargaining agreements	6.6.3 Trade union rights and right of association
GRI 201: Economic performance 2016	201-4 Financial assistance received from government	7.9 Tax information
GRI 207: Tax 2019	207-01 Approach to tax	7.9 Tax information
	207-02 Tax governance, control, and risk management	7.9 Tax information
Risk management and cybersecurity		
GRI 3: Material topics 2021	3-3 Management of material topics	DR 5 - RISKS 10.3 Cybersecurity
Other: 102 General disclosures (2016)	102-15 Key impacts, risks and opportunities	DR 5 - RISKS
	102-29 Identifying and managing economic, environmental and social impacts	DR 5 - RISKS 10.3 Cybersecurity
GRI 2: General disclosures 2021	2-23 Commitments and policies	DR 5 - RISKS 10.3 Cybersecurity
Customer satisfaction and digitisation		
GRI 3: Material topics 2021	3-3 Management of material topics	7.7 Consumers DR 1.5 Customers
Other	Claims and complaints, by product	7.7 Consumers DR 1.5 Customers AFS Note 42 – Other information (SAC)
Corporate culture		
GRI 3: Material topics 2021	3-3 Management of material topics	6. Commitment to people
Other: GRI 102 General disclosures (2016)	102-16 Values, principles, standards and norms of behaviour	6. Commitment to people
Ethics and integrity		
GRI 3: Material topics 2021	3-3 Management of material topics	8. Commitment against corruption and bribery
GRI 2: General disclosures 2021	2-15 Conflicts of interest	8. Commitment against corruption and bribery 6.5 Remuneration policy
	2-26 Mechanisms for seeking advice and raising concerns	8. Commitment against corruption and bribery
	2-27 Compliance with laws and regulations	8. Commitment against corruption and bribery

GRI 205: Anti-corruption 2016	205-2 Communication and training about anti-corruption policies and procedures	8. Commitment against corruption and bribery
	205-3 Confirmed incidents of corruption and actions taken	8. Commitment against corruption and bribery
GRI 415: Public policy 2016	415-1 Political contributions	8. Commitment against corruption and bribery
Responsible supply chain		
GRI 3: Material topics 2021	3-3 Management of material topics	7.8 Outsourcing and suppliers 9. Commitment to Human Rights
GRI 308: Supplier environmental assessment 2016	308-1 New suppliers that were screened using environmental criteria	7.8 Outsourcing and suppliers
GRI 407: Freedom of association and collective bargaining	407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	9. Commitment to Human Rights
GRI 414: Supplier social assessment 2016	414-1 New suppliers that were screened using social criteria	7.8 Outsourcing and suppliers
Value creation and solvency		
GRI 3: Material topics 2021	3-3 Management of material topics	DR 1 – Banco Sabadell Group
GRI 2: General disclosures 2021	2-1 Organisational details	DR 1 – Banco Sabadell Group
GRI 201: Economic performance 2016	201-1 Direct economic value generated and distributed	7.2 Social and volunteering activities 7.3 Social housing management 7.9 Tax information
Sustainable finance and investment		
GRI 3: Material topics 2021	3-3 Management of material topics	5. Commitment to sustainable finance
Other	Volumes of sustainable financing	5. Commitment to sustainable finance
Climate and environment: risks		
GRI 3: Material topics 2021	3-3 Management of material topics	4. Commitment to climate and the environment
GRI 201: Economic performance 2016	201-2 Financial implications and other risks and opportunities due to climate change	4. Commitment to climate and the environment
Internal environmental footprint		
GRI 3: Material topics 2021	3-3 Management of material topics	4.4.3 Details of emissions and sustainable use of resources
GRI 301: Materials 2016	301-1 Materials used by weight or volume	4.4.3 Details of emissions and sustainable use of resources
GRI 302: Energy 2016	302-1 Energy consumption within the organisation	4.4.3 Details of emissions and sustainable use of resources
GRI 303: Water and effluents 2018	303-5 Water consumption	4.4.3 Details of emissions and sustainable use of resources

GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	4.4.1 Carbon footprint 4.4.3 Details of emissions and sustainable use of
	305-2 Energy indirect (Scope 2) GHG emissions	4.4.1 Carbon footprint 4.4.3 Details of emissions and sustainable use of resources
	305-3 Other indirect (Scope 3) GHG emissions	4.4.1 Carbon footprint 4.4.3 Details of emissions and sustainable use of
	305-4 GHG emissions intensity	4.4.1 Carbon footprint 4.4.3 Details of emissions and sustainable use of
	305-5 Reduction of GHG emissions	4.4.1 Carbon footprint 4.4.3 Details of emissions and sustainable use of
GRI 306: Effluents and waste 2016	306-2 Management of significant waste-related impacts	4.4.4 Circular economy and waste management
	306-3 Waste generated	4.4.4 Circular economy and waste management
Commitments and partnerships in environmental matters		
GRI 3: Material topics 2021	3-3 Management of material topics	3.2 Initiatives and alliances 4.4. Environmental management and impact
GRI 2: General disclosures 2021	2-29 Approach to stakeholder engagement	3.2 Initiatives and alliances 4.4. Environmental management and impact
Diversity, inclusion and equality		
GRI 3: Material topics 2021	3-3 Management of material topics	6.4 Diversity 6.5 Remuneration policy
GRI 405: Diversity and equal opportunity 2016	405-2 Ratio of basic salary and remuneration of women to men	6.4 Diversity 6.5 Remuneration policy
GRI 406: Non-discrimination 2016	406-1 Incidents of discrimination and corrective actions taken	No reports have been made in relation to human rights in 2022 9.1 Information regarding Human Rights
Quality employment and talent management		
GRI 3: Material topics 2021	3-3 Management of material topics	6.1 Workforce information 6.2 Commitment to talent 6.6.2 Health and safety
GRI 2: General disclosures 2021	2-7 Employees	6.1 Workforce information
GRI 403: Occupational health and safety 2018	403-1 Occupational health and safety management system	6.6.2 Health and safety
	403-2 Hazard identification, risk assessment and incident investigation	6.6.2 Health and safety
	403-3 Occupational health services	6.6.2 Health and safety
	403-4 Worker participation, consultation, and communication on occupational health and	6.6.3 Trade union rights and right of association
	403-9 Work-related injuries	6.6.2 Health and safety

GRI 404: Training and education 2016	404-1 Average hours of training per year per employee	6.2.1 Talent management model
	404-2 Programs for upgrading employee skills and transition assistance programs	6.2 Commitment to talent
Social commitment and Human Rights		
GRI 3: Material topics 2021	3-3 Management of material topics	7. Commitment to society 9.1 Information regarding Human Rights
GRI 203: Indirect economic impacts 2016	203-1 Infrastructure investments and services supported	5. Commitment to sustainable finance
	203-2 Significant indirect economic impacts	7. Commitment to society
GRI 408: Child labour 2016	408-1 Operations and suppliers at significant risk for incidents of child labour	9.1 Information regarding Human Rights
GRI 409: Forced or compulsory labour 2016	409-1 Operations and suppliers at significant risk for incidents of forced or compulsory labour	9.1 Information regarding Human Rights
GRI 412: Human rights assessment 2016	412-2 Employee training on human rights policies or procedures	9.1 Information regarding Human Rights
	412-3 Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	4.3.4 Equator Principles
GRI 413: Local communities 2016	Operations with local community engagement, impact assessments, and development programs	7.1 Commitment to education 7.2 Social and volunteering activities 7.3 Social housing management

Task Force on Climate-related Financial Disclosures (TCFD)

In November 2020, Banco Sabadell became a member of the Task Force on Climate-related Financial Disclosures (TCFD) and, in this connection, it is executing a roadmap to align with these disclosure standards and supervisory expectations.

Below are the references to sections in the NFDR document where the information to meet TCFD recommendations is detailed:

TCFD Recommendation		Banco de Sabadell NFDR section	Reference
Governance	a) Describe the Board's oversight of climate-related risks and opportunities.	2. Governance	2. Governance
		4. Commitment to climate and the environment	4.1 Environmental risk governance
	b) Describe Management's role in assessing and managing climate-related risks and opportunities.	2. Governance	2. Governance
		4. Commitment to climate and the environment	4.1 Environmental risk governance; 4.2 Climate-related and environmental strategy; 4.3 Environmental risk management
Strategy	a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	4. Commitment to climate and the environment	4.2 Climate-related and environmental strategy; 4.3 Environmental risk management
		5. Commitment to sustainable finance	5.1 Commitment to sustainable financing solutions for the CIB business, Companies and Individuals; 5.2 Sinia Renovables; 5.3 Issuance of sustainability bonds; 5.4 Sustainable savings and responsible investment solutions; 5.5 Green financing and funding lines with multilateral development banks in Mexico
	b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	4. Commitment to climate and the environment	4.3 Environmental risk management
		5. Commitment to sustainable finance	5.1 Commitment to sustainable financing solutions for the CIB business, Companies and Individuals; 5.2 Sinia Renovables; 5.3 Issuance of sustainability bonds; 5.4 Sustainable savings and responsible investment solutions; 5.5 Green financing and funding lines with multilateral development banks in Mexico
	c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	4. Commitment to climate and the environment	4.2 Climate-related and environmental strategy; 4.3 Environmental risk management

Risk management	a) Describe the organization's processes for identifying and assessing climate-related risks.	4. Commitment to climate and the environment	4.3 Environmental risk management
	b) Describe the organization's processes for managing climate-related risks.	4. Commitment to climate and the environment	4.3 Environmental risk management
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	4. Commitment to climate and the environment	4.2 Climate-related and environmental strategy; 4.3.3 Integration into management procedures; 4.3.4 Equator Principles
Metrics and targets	a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	4. Commitment to climate and the environment	4.3.1 Risk identification; 4.3.2. Assessment and measurement; 4.3.4 Equator Principles
		5. Commitment to sustainable finance	5. Commitment to sustainable finance; 5.1 Commitment to sustainable financing solutions for the CIB business, Companies and Individuals; 5.2 Sinia Renovables; 5.3 Issuance of sustainability bonds; 5.4 Sustainable savings and responsible investment solutions; 5.5 Green financing and funding lines with multilateral development banks in Mexico
	b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas (GHG) emissions and the related risks.	4. Commitment to climate and the environment	4.3.2. Assessment and measurement (Emissions of the financed portfolio);4.4. Environmental management and impact
	c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	4. Commitment to climate and the environment	4.2 Climate-related and environmental strategy (Portfolio Alignment); 4.4. Environmental management and impact (Reduction targets)
		5. Commitment to sustainable finance	5. Commitment to sustainable finance[104]

[104] The Institution has disclosed further targets in Sabadell's Commitment to Sustainability.

Annex 3

Principles for Responsible Banking. Reporting and Self-Assessment

Principle 1: Alignment

We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.

Business model

Describe (high-level) your bank's business model, including the main customer segments served, types of products and services provided and the main sectors and types of activities across the main geographies in which your bank has operations or provides products and services. Please also quantify the information by disclosing e.g. the distribution of your bank's portfolio (%) in terms of geographies, segments (i.e. by balance sheet and/or off-balance sheet) or by disclosing the number of customers and clients served.

The 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. Over the last eleven years, Banco Sabadell has expanded its geographical footprint and increased its market share in Spain through a number of acquisitions and organic growth. According to the most recent information available, Banco Sabadell has a market share of 8% in lending 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. Sustainable financing is one of the main tools used to promote a clean and circular economic model, which reduces CO_2 emissions and contributes to protecting the environment. Every year, the different units responsible for the product offering perform an in-depth review of the conditions of the products and their impact on customers in order to ensure that those products continue to be suitable for the target audience defined originally. With these developments, the Group has become one of the largest financial institutions in Spain's financial system. It has a geographically diverse business (76% in Spain, 22% in the UK and 2% in Mexico) and its customer base is now six times larger than it was in 2008. It has achieved all of this while safeguarding its solvency and liquidity. Banco Sabadell Group's banking business operates under the following brands: • Banco Sabadell is the Group's main brand. This is the leading brand in the Spanish market providing services to individuals and corporates. • TSB is the Group's leading brand in the United Kingdom. It became part of the Group in 2015 to provide greater competitiveness and serve an increasing number of customer needs, thus improving the banking experience in this country. • Banco Sabadell Mexico is the brand under which the Bank operates in Mexico, where the Group opened its first representative office in 1991.	Directors' Report 2022: 1.1 Mission, values and business model: Business model, main objectives achieved and actions carried out 5.1.3 Sustainable financing solutions for retail customers and businesses 10.1 Transparency 1. Introduction

Strategy alignment

Does your corporate strategy identify and reflect sustainability as strategic priority/ies for your bank?

☒ Yes

☐ No

Please describe how your bank has aligned and/or is planning to align its strategy to be consistent with the Sustainable Development Goals (SDGs), the Paris Climate Agreement, and relevant national and regional frameworks.

Does your bank also reference any of the following frameworks or sustainability regulatory reporting requirements in its strategic priorities or policies to implement these?

☒ UN Guiding Principles on Business and Human Rights

☒ International Labour Organization fundamental conventions

☒ UN Global Compact

☐ UN Declaration on the Rights of Indigenous Peoples

☒ Any applicable regulatory reporting requirements on environmental risk assessments, e.g. on climate risk - please specify which ones: ***Equator Principles***

☒ Any applicable regulatory reporting requirements on social risk assessments, e.g. on modern slavery - please specify which ones: ***Equator Principles***

☐ None of the above

Banco Sabadell has an ESG action framework (section 3. Sabadell's Commitment to Sustainability), which is aligned with the SDGs and in which climate action (SDG 13) is one of the priority SDGs of its corporate strategy. The ESG framework of Sabadell's Commitment to Sustainability includes the global sustainability undertakings that it has subscribed and the transformation and promotion actions, both those implemented by the Group and those planned for the future, which aim to accelerate ecological transition, reinforce the fight against climate change and support social development, reinforcing and in turn addressing priority matters arising in that respect. This framework is aligned with the UN SDGs and focuses on those where it has the greatest capacity to influence due to its systemic interrelationships, type of activity and capacity to make an impact. Effective integration of environmental risks into management arrangements requires a strategy and set of regulations that establish the guidelines, targets and limits required at different points of the credit approval workflow. For this reason, the Group has an environmental and social risk framework that establishes the Group's position, stating that it aims to avoid financing activities considered to have a high environmental risk. At the same time, the Group fosters green financing, using to that end an Eligibility Guide that outlines the activities deemed to be sustainable (in environmental and social terms), in alignment with the EU Taxonomy Regulation. In parallel, as part of the financial sector, the Group promotes the transition of companies and businesses, steering the financing according to the nature of the activities and making it easier for agents in polluting industries who work to improve their ESG performance to transition to a more sustainable model. With this aim in mind, the Management Guidelines for ESG risks have been defined, through which the Group aims to limit access to funding for polluting companies with poor ESG performance. To classify large enterprises according to their ESG performance, the Group is defining an indicator internally. it is worth pointing out that the Bank, in parallel to all of the initiatives intended to integrate environmental risks into management arrangements, has a series of initiatives underway to improve the quality of the information on which it bases its decisions (databases, customer data gathering projects, among others). In addition, since 2011, the Group has adopted the Equator Principles, an international voluntary policy, standard and guide framework, coordinated by the International Finance Corporation (IFC), a sister organisation of the World Bank, which aims to identify, assess and manage environmental and social risks relating to project finance of 10 million US dollars or more and corporate loans related to projects of more than 50 million US dollars. Through the Equator Principles standards, a social and environmental assessment of the potential impacts of the project is carried out by an independent expert.	4. Commitment to climate and the environment 3.2 Initiatives and alliances 4.3.3 Integration into management procedures 4.3.4 Equator Principles

Principle 2: Impact and Target Setting

We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and the environment resulting from our activities, products and services. To that end, we will set and publish targets where we can have the most significant impacts.

2.1 Impact Analysis (Key Step 1)

Show that your bank has performed an impact analysis of its portfolio/s to identify its most significant impact areas and determine priority areas for target-setting. The impact analysis shall be updated regularly and fulfil the following requirements/elements (a-d):

a) ***Scope:*** What is the scope of your bank's impact analysis? Please describe which parts of the bank's core business areas, products/services across the main geographies that the bank operates in (as described under 1.1) have been considered in the impact analysis. Please also describe which areas have not yet been included, and why.

In 2022, Banco Sabadell carried out an analysis to identify the positive and negative impacts arising from its financing activities, as a result of which targets have been set for the areas with the greatest impact. This analysis has taken place using the Portfolio Impact Analysis Tool for Banks for the use of the Holistic Impact Methodology devised by UNEP FI. The tool makes it possible to identify environmental, social and economic impacts (both positive and negative) associated with both the Retail Banking lending portfolio and the Business Banking lending portfolio, and to overlay these associations with the challenges and priorities for the sustainable development of the countries in which the Bank operates, in order to identify the most significant impact areas/topics of the portfolio. The impact analysis conducted by Banco Sabadell focused on the main business areas of the Bank, analysing the financial products and services offered to natural persons in its Retail Banking business in Spain and the business of TSB in the United Kingdom, as well as business lending in the Business Banking business line in Spain and Mexico. The exercise covered 92% of Banco Sabadell's overall lending portfolio, 45% of which corresponds to the Retail Banking lending portfolio, while 47% corresponds to the Business Banking lending portfolio. The analysis has not considered the Business Banking portfolio of TSB in the UK, nor the exposure of the Bank in foreign branches, due to their low materiality in overall terms.	3.3.4 Engagement with Principles for Responsible Banking

b) ***Portfolio composition:*** Has your bank considered the composition of its portfolio (in %) in the analysis? Please provide proportional composition of your portfolio globally and per geographical scope

i) by sectors & industries for business, corporate and investment banking portfolios (i.e. sector exposure or industry breakdown in %), and/or

ii) by products & services and by types of customers for consumer and retail banking portfolios.

If your bank has taken another approach to determine the bank's scale of exposure, please elaborate, to show how you have considered where the bank's core business/major activities lie in terms of industries or sectors.

<table>
<tr><td>The business lending portfolio accounts for around half of the Bank’s loan book. The sectors with the largest lending volume in each geography are: (a) financing of general activities of the General Government and the rental and management of real estate in Spain, and (b) hotel management and real estate in Mexico. For its part, most of the exposure of the Retail Banking portfolio is concentrated in the Bank’s financial mortgage products in both Spain and the UK.

To identify the impacts associated with the sectors financed by Banco Sabadell and the impacts associated with the products and services offered to retail customers, the Sector Impact Map embedded in the Portfolio Impact Analysis tool has been used, which systematically analyses the different impact areas associated with each of the financed sectors, products and services. As a result, it has been concluded that the most prominent impact areas in our portfolios are “Availability, accessibility, affordability and quality of resources and services” (specifically, “Access to finance and housing”, “Climate stability” and “Circularity”).

The efforts made by the Institution to be among the leaders in renewable energy project finance support Climate stability and Circularity. On the other hand, consumer loans and mortgages for individuals, as well as the products and services offered by Banco Sabadell for specific groups (e.g. young people, seniors or groups with reduced financial capability) contribute substantially to Access to finance and housing. Lastly, the financing of sectors classified as carbon-intensive (e.g. generation of non-renewable electricity, transport and real estate sector) and which require natural resources for their production processes could have a potentially negative contribution in the aforementioned impact areas.</td><td>3.3.4 Engagement with Principles for Responsible Banking</td></tr>
<tr><td colspan="2"><u>c)</u> <u>Context:</u> What are the main challenges and priorities related to sustainable development in the main countries/regions in which your bank and/or your clients operate? Please describe how these have been considered, including what stakeholders you have engaged to help inform this element of the impact analysis.

This step aims to put your bank’s portfolio impacts into the context of society’s needs.</td></tr>
<tr><td>The Context Module of the UNEP FI Portfolio Impact Analysis tool has been used to analyse the environmental, social and economic context in Spain, Mexico and the UK and to map out the main challenges and priorities for sustainable development in each of these countries based on sets of statistical data and the strategies announced by domestic governments in their voluntary progress reports on the achievement of SDGs. As a result, Access to housing has been identified as being the main challenge and as a shared priority across all geographies. Furthermore, Climate stability has been recognised as one of the major challenges shared by all of the countries analysed.</td><td>3.3.4 Engagement with Principles for Responsible Banking</td></tr>
<tr><td colspan="2">Based on these first 3 elements of an impact analysis, what positive and negative impact areas has your bank identified? Which (at least two) significant impact areas did you prioritize to pursue your target setting strategy (see 2.2)? Please disclose:</td></tr>
<tr><td>The results of the portfolio composition analysis, along with the evaluation of the challenges and priorities for sustainable development in Spain, Mexico and the UK, have prompted Banco Sabadell to prioritise two areas of impact due to their significance obtained from both analyses: Climate and environment (described in the tool as Climate stability) and Financial inclusion and education (which would include Access to finance and housing).

Both areas of impact that have been prioritised are aligned with the results obtained in the materiality analysis, which was carried out in 2021 and updated in 2022. In this respect, the areas prioritised in the Impact Analysis, namely, Climate and environment, and Inclusion and financial education, relate directly to at least three of the relevant topics for which positive and negative impacts were identified according to the double materiality perspective (i.e. the environment on the Institution and the Institution on stakeholders). The area of climate and environment is closely related to the relevant topics of Climate and environment, Sustainable finance and investment, and the topic of Commitments and partnerships in environmental matters. On the other hand, the area of inclusion and financial education is directly related to the relevant topics of Social commitment and Human Rights, Sustainable finance and investment, and Customer satisfaction and digitisation.</td><td>3.3.4 Engagement with Principles for Responsible Banking</td></tr>
</table>

d) *For these (min. two prioritized impact areas):* ***Performance measurement:*** Has your bank identified which sectors & industries as well as types of customers financed or invested in are causing the strongest actual positive or negative impacts? Please describe how you assessed the performance of these, using appropriate indicators related to significant impact areas that apply to your bank's context. In determining priority areas for target-setting among its areas of most significant impact, you should consider the bank's current performance levels, i.e. qualitative and/or quantitative indicators and/or proxies of the social, economic and environmental impacts resulting from the bank's activities and provision of products and services. If your bank has taken another approach to assess the intensity of impact resulting from the bank's activities and provision of products and services, please describe this. *The outcome of this step will then also provide the baseline (incl. indicators) you can use for setting targets in two areas of most significant impact.*	
Understanding current practices and the success with which impacts are managed is fundamental to determine how Banco Sabadell could continue to develop and improve and thus ensure the achievement of the targets. To measure the Institution's performance and quantify the impact generated by the lending portfolio in those sectors or products that contribute substantially to the two areas of impact that have been prioritised, Banco Sabadell measures a series of indicators. On the area of impact related to climate and the environment, which is closely linked to the energy and real estate sectors, the following indicators are measured: (a) emissions of the portfolio, (b) volume of financed products and services mobilised in cumulative terms in sustainable finance solutions, (c) renewable capacity (MW) financed through Project Finance, (d) emissions prevented by investing in renewable energy projects (tCO_2), (e) clean energy generated by investing in renewable energy projects for a specified number of households, and (f) the cumulative volume of mortgages with sustainable certification (mortgage loans that finance a home with energy certificate rating of A or B). In terms of the area of impact related to financial inclusion and education, which is closely linked to consumer loans and mortgages granted to individuals, and to the products and services offered by Banco Sabadell for specific groups of people, the Bank evaluates the progress made using indicators such as (a) the annual number of those benefiting from financial education programmes, adding new population sectors (seniors, vulnerable groups, etc.), (b) the cumulative volume of finance granted to micro-entities through loans, credit, leases, rentals, reverse factoring and factoring between 2021 and 2025, and (c) the number of social rent or affordable rent contracts managed through Sogeviso (number of households reached) and the annual number of people benefiting from financial education programmes.	3.3.4 Engagement with Principles for Responsible Banking

Self-assessment summary:

Which of the following components of impact analysis has your bank completed, in order to identify the areas in which your bank has its most significant (potential) positive and negative impacts?

Scope:	☒ Yes	☐ In progress	☐ No
Portfolio composition:	☒ Yes	☐ In progress	☐ No
Context:	☒ Yes	☐ In progress	☐ No
Performance measurement:	☒ Yes	☐ In progress	☐ No

Which most significant impact areas have you identified for your bank, as a result of the impact analysis?

The most significant impact areas identified as a result of the impact analysis are: (a) Climate and environment and (b) Financial inclusion and education (which would include Access to finance and housing).

How recent is the data used for and disclosed in the impact analysis?

☐ Up to 6 months prior to publication

☒ Up to 12 months prior to publication

☐ Up to 18 months prior to publication

☐ Longer than 18 months prior to publication

Open text field to describe potential challenges, aspects not covered by the above etc.: *(optional)*

2.2 ¡Target Setting (Key Step 2)

Show that your bank has set and published a minimum of two targets which address at least two different areas of most significant impact that you identified in your impact analysis.

The targets have to be Specific, Measurable (qualitative or quantitative), Achievable, Relevant and Time-bound (SMART). Please disclose the following elements of target setting (a-d), for each target separately:

a) ***Alignment:*** which international, regional or national policy frameworks to align your bank's portfolio with have you identified as relevant? Show that the selected indicators and targets are linked to and drive alignment with and greater contribution to appropriate Sustainable Development Goals, the goals of the Paris Agreement, and other relevant international, national or regional frameworks.

You can build upon the context items under 2.1.

Banco Sabadell is firmly committed to continuing to move forward in its activity and organisation in order to support and accelerate the important economic and social transformations that contribute to sustainable development and the fight against climate change. To that end, the Group has established its Commitment to Sustainability, a framework for action that ensures the integration into the Bank's strategy of a forward-looking vision for the period 2025-2050 in relation to environmental, social and governance (ESG) commitments, that aligns the business objectives with the Sustainable Development Goals (SDGs) and the Paris Agreement, and that establishes action levers to generate transformation and promotion activities. It has been created with the involvement of all of the Institution's corporate bodies and four strategic pillars have been established, on which work is already underway: • Progress as a sustainable institution • Support customers in the transition to a sustainable economy • Offer investment opportunities that contribute to sustainability • Work for a sustainable and cohesive society	Sabadell's Commitment to Sustainability 3. Sabadell's Commitment to Sustainability

b) ***Baseline:*** Have you determined a baseline for selected indicators and assessed the current level of alignment? Please disclose the indicators used as well as the year of the baseline.

During 2021 and 2022, Banco Sabadell Group has worked on obtaining a first estimate of the carbon footprint of its financed portfolio using the Partnership for Carbon Accounting Financials (PCAF) methodology. On an aggregate basis, the Group has been able to calculate an estimate of its carbon footprint of approximately 85% of its financed portfolio in 2021. The percentage remaining or without an assigned figure are portfolios for which there are still no calculation or estimation methodologies or standards such as finance granted to the public sector, consumer loans for purposes other than vehicle purchase, etc. Most emissions are concentrated in the corporate finance portfolio. On this baseline, work is being carried out to calculate decarbonisation pathways, having currently calculated the base year (2020) and having set interim targets for 2030 for four sectors, in order to attain emissions neutrality of the portfolio financed and invested in by the Group by 2050. Since 2020, Banco Sabadell has been developing a Sustainable Finance Plan, affecting all of its business lines and units, which will allow it to achieve the Institution's sustainability commitments. In 2021, the volume of financial products and services mobilised through sustainable finance solutions was over €11,000m. On this basis, the Bank has set itself cumulative mobilisation targets for 2025, which are described in the following section. In the area of financial inclusion and education, in 2021, €3,400m of finance was granted to micro-entities to promote and maintain employment. On this basis, the Bank has set itself cumulative targets for 2025, which are described in the following section. On the other hand, Banco Sabadell has promoted and taken part in a number of financial education initiatives. In 2021, a total of 6,300 people benefited every year from the Bank's financial education programmes imparted through 836 workshops by 154 volunteers. The targets set for 2025 are described in the following section.	4.3.2. Assessment and measurement: Emissions of the financed portfolio

c) ***SMART targets*** ((incl. key performance indicators (KPIs)): Please disclose the targets for your first and your second area of most significant impact, if already in place (as well as further impact areas, if in place). Which KPIs are you using to monitor progress towards reaching the target?	
Banco Sabadell has set the following targets and objectives for each of the priorities areas of impact: **Climate and environment:** Banco Sabadell supports customers in the transition towards a sustainable economy. It provides them with the information, advice, products and services that they need. The Group helps its customers overcome their challenges, understanding their situation and aligning it with the regulatory environment, whilst also identifying physical and transition risks and their opportunities for transformation. In order to decarbonise the portfolio's carbon footprint, the following targets and objectives have been set: • *Achieve emissions neutrality of the portfolio by 2050.* • *Calculate decarbonisation pathways for all sectors published by internationally recognised bodies (SBTi, PACTA) and for customers where there is sufficient information to make this calculation. At present, Banco Sabadell has set itself the following interim targets and objectives for 2030:* ◦ *Maintain the level of CO_2 emissions intensity in the electricity generation sector. The Bank's current baseline is 61 kg CO_2e/MWh, which is much lower than the figure in the reference scenario (IEA NZE 2050) and in line with the level expected to be attained by the sector between 2036-2037; therefore, the Group aims to keep its CO_2 emissions intensity level at a range of between 85-45 kb CO_2e/MWh.* ◦ *Reduce total emissions due to positions held in oil and gas industry by 23%.* ◦ *Reduce emissions intensity per tonne generated in the cement industry by 23%.* ◦ *In line with the expectations of the Net-Zero Banking Alliance (NZBA), the Bank will have no exposure to coal mining activities in 2030.* • *Mobilise €65bn in financial products and services, in cumulative terms, in sustainable finance solutions between 2021 and 2025.* **Financial inclusion and education:** Banco Sabadell contributes to the transition towards a more sustainable and cohesive society through ethical and responsible management. It promotes financial education and inclusion, volunteering and charitable activities. It pays special attention to supporting customers in vulnerable situations with social housing management initiatives and employability programmes. In order to promote financial inclusion and education, the Group has set itself the following targets and objectives: • *Reach a figure of 10,000 annual recipients of financial education programmes including new sectors of the population (seniors, vulnerable groups, etc.) by 2025.* • *Reach a volume of over €15bn in cumulative finance granted to micro-entities through loans, credit, leases, rental arrangements, reverse factoring and factoring between 2021 and 2025.*	Sabadell's Commitment to Sustainability 4.2 Climate-related and environmental strategy: Portfolio Alignment

d) Action plan: ¿which actions including milestones have you defined to meet the set targets? Please describe. Please also show that your bank has analysed and acknowledged significant (potential) indirect impacts of the set targets within the impact area or on other impact areas and that it has set out relevant actions to avoid, mitigate, or compensate potential negative impacts.	
The Commitment to Sustainability action framework defines two types of levers for achieving the established targets and objectives: • Transformation actions to align the organisation with ESG criteria • Actions to promote sustainable finance and generate opportunities To make progress on the achievement of climate-related and environmental targets, some of the actions that Banco Sabadell will be taking are the following: • Measure the carbon footprint of the financed portfolio, using the Partnership for Carbon Accounting Financials (PCAF) methodology • Advise corporate customers in their transition to more sustainable models which, as a whole, enable the attainment of international decarbonisation targets. • Train and deploy a team of specialists in European Funds and Sustainability to offer support to the branch network in the development of sustainable operations. • Develop a range of solutions geared towards energy saving, offering solutions for home purchases and home renovations, sustainable mobility and the installation of renewable energy systems. To achieve targets in relation to financial education and inclusion, some of the actions that Banco Sabadell will be taking are the following: • Develop basic accounts for vulnerable customers and those at risk of financial exclusion • Develop volunteer programmes, mainly made up of pre-retirees of the Bank for the financial and digital training of senior groups • Grant finance to micro-entities for the purpose of promoting and maintaining employment • Develop programmes dealing with topics such as access to finance	Sabadell's Commitment to Sustainability

Self-assessment summary Which of the following components of target setting in line with the PRB requirements has your bank completed or is currently in a process of assessing for your…		
	… first area of most significant impact: CLIMATE AND ENVIRONMENT	… second area of most significant impact: FINANCIAL INCLUSION AND EDUCATION
Alignment	☒ Yes ☐ In progress ☐ No	☒ Yes ☐ In progress ☐ No
Baseline	☒ Yes ☐ In progress ☐ No	☒ Yes ☐ In progress ☐ No
SMART targets	☒ Yes ☐ In progress ☐ No	☒ Yes ☐ In progress ☐ No
Action plan	☒ Yes ☐ In progress ☐ No	☒ Yes ☐ In progress ☐ No

2.3 Target implementation and monitoring (Key Step 2)

For each target separately:

Show that your bank has implemented the actions it had previously defined to meet the set target.

Report on your bank's progress since the last report towards achieving each of the set targets and the impact your progress resulted in, using the indicators and KPIs to monitor progress you have defined under 2.2.

Or, in case of changes to implementation plans (relevant for 2nd and subsequent reports only): describe the potential changes (changes to priority impact areas, changes to indicators, acceleration/review of targets, introduction of new milestones or revisions of action plans) and explain why those changes have become necessary.

In order to monitor the progress made by Banco Sabadell with regard to the achievement of the established targets and objectives, a series of milestones have been identified. With regard the target level of €65bn for financial products and services mobilised in cumulative terms through sustainable finance solutions. To date, it has mobilised more than €25bn, including €14.8bn in 2022. Banco Sabadell continues to promote and take part in a number of financial education initiatives. By engaging in this type of activity, the Institution aims to not only meet the different training requirements of society in general, but also be by their side to help them develop skills and decision-making abilities. In 2022, more than 7,500 have benefited from financial education programmes, incorporating new population sectors (seniors, vulnerable groups, etc.). This represents 75% of the target set for 2025. In the area of social financing, it is worth highlighting the financing granted to micro-entities for the purpose of promoting and maintaining employment. In 2022, over €4.8bn worth of finance has been granted to micro-enterprises for this purpose, of the €15bn target set for 2021-2025, meaning that in two years over half of the target has been achieved.	5. Commitment to sustainable finance 7.1 Commitment to education

Principle 3: Clients and Customers

We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

3.1 Client engagement

Does your bank have a policy or engagement process with clients and customers in place to encourage sustainable practices?

☒ Yes ☐ In progress ☐ No

Does your bank have a policy for sectors in which you have identified the highest (potential) negative impacts?

☒ Yes ☐ In progress ☐ No

Describe how your bank has worked with and/or is planning to work with its clients and customers to encourage sustainable practices and enable sustainable economic activities. It should include information on relevant policies, actions planned/implemented to support clients' transition, selected indicators on client engagement and, where possible, the impacts achieved.

This should be based on and in line with the impact analysis, target-setting and action plans put in place by the bank (see P2).

Sustainable financing is one of the main tools used to promote a clean and circular economic model, which reduces CO_2 emissions and contributes to protecting the environment. In the case of individuals and SMEs, Banco Sabadell offers its customers a range of solutions geared towards energy saving, offering solutions for home purchases and home renovations, sustainable mobility and the installation of renewable energy systems. The Group promotes sustainable financing and investment to drive forward the transition towards a more sustainable model and a low-carbon economy, offering customers and investors the best possible solutions. In 2021, the Bank committed to mobilise €65,000M in sustainable finance by 2025. To date, it has mobilised more than €25bn, including €14.8bn in 2022. To deliver on this commitment, and in order to encourage social and financial inclusion and contribute to environmental conservation and climate change mitigation, the Bank has: • Financing solutions in the different businesses: To bring processes for loan approval, portfolio management and reporting tasks in line with international standards on sustainable financing "Green Loan Principles" and "Sustainability-Linked Loan Principles" issued by the Loan Market Association and the "Green Bond Principles" and "Sustainability-Linked Bond Principles" issued by the International Capital Market Association (ICMA), in 2020 the following types of financing were defined, according to the intended use of the funds: ◦ Green and Social Loans (GSLs), in which the use of the funds is the main criterion for determining the green, social or sustainable nature. In general, this type of financing is preferable as it generates a positive direct impact on the environment and/or society. This type of financing is closely related to Banco Sabadell's Eligibility Guide, whose main reference is the EU Taxonomy, and to the green bonds issued by the Bank in recent years under the SDG Bond Framework. This category mainly includes Project Finance transactions related to renewable energy, customers whose business activities are aligned with the EU Taxonomy and bond issuances and private placements intended to fund a specific green and/or social project (further details provided in the corresponding sections). To promote GSL transactions, the Bank has approved discounts that allow it to offer better prices to customers. The rollout of the Next Generation EU Recovery Funds are expected to significantly boost this type of financing (section 5.1.4 Next Generation EU provides more details on the actions that the Bank is taking in relation to the aforesaid funds).	2. Governance 3.1 ESG framework 4.3.3 Integration into management procedures 5. Commitment to sustainable finance 5.1.3 Sustainable financing solutions for retail customers and businesses 10.1 Transparency Directors' Report 2022: 1.5 Customers

◦ Sustainability-Linked Loans (SLLs), relating to the type of financing that incentivises the achievement of sustainability targets, linking the transaction price to the evolution of one or more KPIs. This category does not require the funds to be used for any specific purpose. It is considered essential for the selected indicators to be relevant and central for customers, as this enables their sustainability strategy to gain more traction. • Investment in renewable energies through Sinia Renovables subsidiary (further details provided in section 5.2 Sinia Renovables). • Issuance of own sustainability bonds (more details in section 5.3 Issuance of sustainability bonds). • Sustainable savings and responsible investment solutions (more details in section 5.4 Sustainable savings and responsible investment solutions) In February 2022, the Board of Directors updated the Sustainability Policy, aiming to provide a framework for all of the Institution's activities and organisation within ESG parameters, which incorporate environmental, social and governance factors in decision-making and, at the same time, based on those parameters, to respond to the needs and concerns of all of its stakeholders. The Sustainability Policy establishes out the basic principles on which the Banco Sabadell Group relies to address the challenges posed by sustainability, and it defines the pertinent management parameters, as well as the organisation and governance structure necessary for its optimal implementation. In order to limit the Bank's exposure to transition risk and, at the same time, support emissions-intensive companies in their transition to sustainable activity, the ESG Risk Management Guidelines have been defined. These Guidelines limit the origination of funding transactions for corporates and projects with carbon-related activities (greenhouse gas emissions-intensive) and with low ESG performance and/or a poor attitude to ESG. This way, the Bank will be able to continue funding the transition of emissions-intensive companies if they have made sufficient progress in their management and have medium or advanced ESG performance. The Bank has established 'Sabadell's Commitment to Sustainability'. Underpinned by four strategic pillars, this framework sets out the Bank's sustainability strategy and forward-looking vision with ESG goals and commitments, aligned with the UN Sustainable Development Goals (SDGs), and establishing levers for transformation and promotion actions. The main lines of action of this ESG framework are the following: • Progress as a sustainable institution: the Bank focuses on achieving greenhouse gas (GHG) emissions neutrality, promoting diversity, safeguarding talent, and continuing to incorporate ESG criteria in its governance, as well as participating in the most relevant ESG alliances. • Support customers in the transition towards a sustainable economy: to do so, the Bank is making progress with mapping out decarbonisation pathways, supporting customers in their transition to specialised solutions in renewable energies, energy efficiency and sustainable mobility, and setting sectoral standards that limit controversial activities and/or those with a negative impact on social and environmental development. • Offer investment opportunities that contribute to sustainability: in the investor ecosystem, the Bank focuses on increasing savings and investment opportunities that contribute to sustainability, rolling out a wide range of social, ethical, green and sustainable bonds and funds, both its own and those of third parties. • Work together for a sustainable and cohesive society: in its commitment to society, the Bank believes that it is essential to take an active role to improve financial education, move forward inclusion, reduce social vulnerability to the minimum, and ensure security in transactions and exchanges of information. 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 measurement of customer experience focuses on obtaining insights that help with decision-making and drive an increasingly customer-centric culture. This measurement is made by understanding the market, consumers and customers, and a number of different qualitative and quantitative analytical methodologies are used to that end.	2. Governance 3.1 ESG framework 4.3.3 Integration into management procedures 5. Commitment to sustainable finance 5.1.3 Sustainable financing solutions for retail customers and businesses 10.1 Transparency Directors' Report 2022: 1.5 Customers

Banco Sabadell analyses its customers' experience through quantitative surveys, such as: 1. Net Promoter Score (NPS) 2. Satisfaction surveys 3. Branch quality surveys In accordance with its policies and procedures, the Bank has mechanisms in place to ensure that all information provided to customers is transparent and that all of the products and services which it offers are suited to their needs at all times. To this end, before marketing a new product or service, an internal workflow ("Product Workflow") is followed, where the relevant areas in the Bank review the various aspects to ensure they conform to the established standards. The subsequent validation by the areas involved is ultimately ratified by a high-level committee, the Technical Product Committee. This validation process allows the Institution to identify the target audience to which the product should be aimed, in other words, the group of customers whose interests, goals and characteristics fit with the conditions of the product, even in cases where these can cover preferences regarding sustainability, as established in MiFID II and the IDD. Furthermore, every year, the different units responsible for the product offering perform an in-depth review of the conditions of the products and their impact on customers in order to ensure that those products continue to be suitable for the target audience defined originally. This review process falls within the obligations required by various customer and investor protection regulations, such as the Guidelines on Product Oversight and Governance Arrangements for Retail Banking Products and the MiFID II Directive.	2. Governance 3.1 ESG framework 4.3.3 Integration into management procedures 5. Commitment to sustainable finance 5.1.3 Sustainable financing solutions for retail customers and businesses 10.1 Transparency Directors' Report 2022: 1.5 Customers

3.2 Business opportunities

Describe what strategic business opportunities in relation to the increase of positive and the reduction of negative impacts your bank has identified and/or how you have worked on these in the reporting period. Provide information on existing products and services, information on sustainable products developed in terms of value (USD or local currency) and/or as a % of your portfolio, and which SDGs or impact areas you are striving to make a positive impact on (e.g. green mortgages – climate, social bonds – financial inclusion, etc.).

Banco Sabadell seeks to identify and leverage opportunities related to the transition to a sustainable economy (section 5. Commitment to sustainable finance): • Increasing exposure to green financial assets, as they are a key factor in achieving decarbonisation targets. In this regard, progress continues to be made on the implementation of financing solutions in the different businesses through Green and Social Loans and Sustainability-Linked Loans. • Advising and responding to the challenges of transition of all customers (large enterprises and corporations, SMEs and individuals) by: 1) Offering strategic support, identifying the most appropriate sustainable finance solutions 2) Promoting the energy transition with solutions and agreements with partners from different sectors 3) Offering ESG investment opportunities • Engaging in management with greater knowledge and specialisation, leveraging teams specialising in sustainability, internally promoting the development of new solutions with the involvement of employees, such as the first internal sustainability hackathon, and also on an external basis, fostering ecological research through the Marine Sustainability Award, promoted by the Bank and its Foundation. Section 5. Commitment to sustainable finance gives details of the solutions offered to customers and investors to help them transition to a more sustainable model. To name a few:	4.2 Climate-related and environmental strategy 5. Commitment to sustainable finance

<u>Green financing solutions for individuals:</u> *<u>Green mortgages</u>* Banco Sabadell currently offers a reduced price across its entire mortgage range to incentivise the purchase, construction or renovation of homes with energy certification B or higher. In 2022, the volume of Mortgages with sustainable certification was more than 540 million euros. *<u>Sabadell green renovation loans</u>* The aim of the Sabadell green renovation loan is to encourage home renovations and/or purchases that improve the sustainability and or energy saving capacity of a main or secondary residence. The Bank offers financing, with attractive conditions, for improvements of openings (windows and doors), upgrades of heating or cooling systems to make them more efficient, and purchases of household appliances with an energy efficiency rating of A or higher. <u>Social financing solutions for individuals</u> In the area of social financing, and due to the economic impact of higher interest rates, Banco Sabadell has proactively offered solutions to customers with variable-rate mortgages who may be experiencing difficulties, in addition to customers who meet the vulnerability criteria in accordance with the Code of Good Practice, with the aim of helping these customers to meet their obligations, relieve their financial burden and avoid default situations. <u>Green financing solutions for businesses:</u> During 2022, more than 1,100 million euros were mobilised to fund companies engaged in green operations or projects, mainly through loans, leasing and rentals. This financing is intended for projects that are aligned with the Bank’s Eligibility Guide, primarily: • Construction and real estate • Energy • Mobility • Water and Waste Finance to promote and maintain talent: In the area of social financing, we highlight our objective to promote and maintain employment by providing financing for micro-entities. In 2022, micro-entities were granted more than 4,800 million euros in funding, mainly through loans and credit, thereby helping to maintain employment and facilitating the development and progress of the business and industrial fabric of each region. Sinia Renovables: At year-end 2022, Sinia Renovables, Banco Sabadell’s division for investment in renewable energies and sustainability, has investments in operation, construction and development projects with an overall installed capacity of 1,139 MW, of which the portion attributable to Sinia through its direct shareholding is 342.0 MW, equivalent to the generation of 754.0 GWh of sustainable electricity each year. This power generation, assuming all projects are in operation, would be enough to satisfy the average annual consumption of approximately 230,469 households. Renewable electricity attributable to Sinia, based on the entirety of its portfolio in operation, in which it holds a direct equity interest, is 157 GWh/year. This renewable energy prevents the emission of around 22,061 tonnes of CO_2 equivalent per year, equivalent to the average annual consumption of approximately 48,159 households. At year-end 2022, Sinia Renovables, Banco Sabadell’s division for investment in renewable energies and sustainability, has investments in operation, construction and development projects with an overall installed capacity of 1,139 MW, of which the portion attributable to Sinia through its direct shareholding is 342.0 MW, equivalent to the generation of 754.0 GWh of sustainable electricity each year. This power generation, assuming all projects are in operation, would be enough to satisfy the average annual consumption of approximately 230,469 households. Renewable electricity attributable to Sinia, based on the entirety of its portfolio in operation, in which it holds a direct equity interest, is 157 GWh/year. This renewable energy prevents the emission of around 22,061 tonnes of CO_2 equivalent per year, equivalent to the average annual consumption of approximately 48,159 households.	4.2 Climate-related and environmental strategy 5. Commitment to sustainable finance

Principle 4: Stakeholders

We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.

4.1 Stakeholder identification and consultation

Does your bank have a process to identify and regularly consult, engage, collaborate and partner with stakeholders (or stakeholder groups) you have identified as relevant in relation to the impact analysis and target setting process?

☒ Yes ☐ In progress ☐ No

Please describe which stakeholders (or groups/types of stakeholders) you have identified, consulted, engaged, collaborated or partnered with for the purpose of implementing the Principles and improving your bank's impacts. This should include a high-level overview of how your bank has identified relevant stakeholders, what issues were addressed/results achieved and how they fed into the action planning process..

In 2022, a review has been carried out of the materiality analysis performed in 2021, which involved establishing a list of material topics for the Group with the aim of listening to stakeholders. This review was carried out with the aim of updating the Group's perspective in the materiality matrix and to adapt to the increasingly demanding regulatory requirements and market environment in this respect. The objective of this analysis is to identify and prioritise ESG aspects of relevance to the Group and its stakeholders, with three aims: • Recognise the ESG priorities on which Banco Sabadell Group should focus its attention, taking into consideration risks, opportunities, impacts and trends. • Strengthen the relationship with different stakeholders and outline the impacts and expectations with regard to ESG. • Address the reporting needs arising from legal requirements and from analysts and indices, as well as the demands of shareholders, investors and other stakeholders, with a common and simple language. In 2021 priority stakeholders, whose demands and requirements were included in the materiality analysis, were identified, namely: employees, suppliers, customers, investors, rating agencies, society, regulators and supervisory authorities, and economic operators. Following this interaction with different stakeholders, the relevance of all matters related to ESG was analysed, both from the perspective of stakeholders and that of the Group, and is described below. The material aspects and their definition are set out in section 3.3.1. of this document. In a second stage of the materiality analysis process, carried out in 2021 and updated in 2022, Banco Sabadell Group combines the analysis of stakeholder expectations with the identification of impacts from a double materiality perspective. The double materiality process aims to identify the impacts of environmental and social matters on the Group, and of the Group on its stakeholders, which are assessed to obtain a holistic view of the relevance of the impacts of each material aspect on sustainability issues. Based on these identified impacts, and with the aim of prioritising them, the Group has carried out a quantitative assessment in which it consulted different areas of the Bank by means of questionnaires on the relevance of these impacts, which were answered according to pre-defined scales. The result of this analysis has made it possible to complete the double materiality approach which is presented in section 3.3.2 of this document, and to update the Materiality matrix, which is set out in section 3.3.3. Three levels of priority have been established for the results, level 1 being that which is of greatest impact for the Group and which includes the following material aspects: (i) Corporate Governance, (ii) Value Creation and Solvency, (iii) Ethics and Integrity, (iv) Climate Change and Environmental Risks (v) Sustainable Finance and Investment.	3.3 Materiality

Principle 5: Governance & Culture

We will implement our commitment to these Principles through effective governance and a culture of responsible banking.

5.1 Governance Structure for Implementation of the Principles

Does your bank have a governance system in place that incorporates the PRB?

☒ Yes ☐ In progress ☐ No

Please describe the relevant governance structures, policies and procedures your bank has in place/is planning to put in place to manage significant positive and negative (potential) impacts and support the effective implementation of the Principles. This includes information about

- which committee has responsibility over the sustainability strategy as well as targets approval and monitoring (including information about the highest level of governance the PRB is subjected to),
- details about the chair of the committee and the process and frequency for the board having oversight of PRB implementation (including remedial action in the event of targets or milestones not being achieved or unexpected negative impacts being detected), as well as
- remuneration practices linked to sustainability targets.

The governance system and the organisation of the different decision-making levels are both being continuously improved and adapted to the needs that are emerging from the new sustainability environment. **Board of Directors** With the exception of matters falling within the sole remit of the Shareholders' Meeting, the Board of Directors is the highest decision-making body in the Bank and its consolidated Group as, under the law and the Articles of Association, it is entrusted with administering and representing the Bank. The Board of Directors acts mainly as an instrument of supervision and oversight, and it delegates the management of ordinary business matters to the CEO. To ensure better and more diligent performance of its general supervisory duties, the Board is directly responsible for approving the Institution's general strategies. It also approves its policies, and is therefore responsible for establishing principles, commitments and targets in the area of sustainability, and for including them into the Institution's strategy. Sustainability played an important role within Banco Sabadell's business purpose and strategy in 2022. By defining the Institution's overall strategy, business objectives and risk management framework, the Board of Directors takes account of environmental aspects, including climate, environmental, social and governance risks, and monitors them effectively. In February 2022, the Board of Directors updated the Sustainability Policy, aiming to provide a framework for all of the Institution's activities and organisation within ESG parameters, which incorporate environmental, social and governance factors in decision-making and, at the same time, based on those parameters, to respond to the needs and concerns of all of its stakeholders. The Sustainability Policy establishes out the basic principles on which the Banco Sabadell Group relies to address the challenges posed by sustainability, and it defines the pertinent management parameters, as well as the organisation and governance structure necessary for its optimal implementation.	2. Governance Remuneration linked to Sustainability

Board Committees The Board Strategy and Sustainability Committee, established in 2021, is formed of five Directors (two Other External Directors and three Independent Directors) and is chaired by the Chairman of the Board of Directors. This Board Committee met 13 times in 2022. In matters of strategy, the Chief Executive Officer may speak and vote at meetings, to which end the Committee is deemed to have six members. On sustainability, the Committee has the following duties: • Analysing and advising the Board of Directors on the Institution's sustainability and environmental policies. • Advising the Board of Directors on possible amendments and regular updates of the sustainability strategy. • Analysing the definition and, as necessary, amending diversity and integration, human rights, equal opportunities and work-life balance policies and evaluating their degree of fulfilment on a regular basis. • Review the Bank's social action strategy and its sponsorship and patronage plans. • Reviewing and reporting on the Institution's Non-Financial Disclosures Report before the Audit and Control Committee reviews and reports on it and it is subsequently authorised by the Board of Directors. • Receiving information in connection with reports, written communiqués or communications from external supervisory bodies within the scope of this Committee's competencies. In addition, in 2021 the Board Appointments and Corporate Governance Committee also took on duties in relation to advising the Board of Directors on the internal corporate policies and regulations, as well as overseeing the compliance with corporate governance rules and the disclosures to shareholders and investors, proxy advisors and other stakeholders. **Internal Committees** The Management Committee regularly monitors the Sustainable Finance Plan and updates to the regulatory framework and it is also in charge of overseeing the aforesaid plan and resolving any incidents. In addition, the Sustainability Committee, established in 2020 and chaired since 2021 by the Deputy General Manager and head of the Sustainability and Efficiency Division, is the body in charge of establishing the Bank's Sustainable Finance Plan and monitoring its execution, defining and publicising the general principles of action in sustainability matters and promoting the development of projects and initiatives, as well as of managing any alerts that may arise in relation to ongoing initiatives or any developments in the regulatory, supervisory or other environments. It is made up of 15 members (ensuring the representation of several areas, including Sustainability, Risk, Finance, Business, Technology & Operations, Communication, Research Service, Organisation and Resources) and it meets once a month. This composition of the Sustainability Committee covers all functional areas, which enables the cross-cutting establishment and implementation of the Sustainable Finance Plan and, therefore, the execution of the Institution's ESG strategy. The Sustainability Committee met 13 times in 2022. Since the first quarter of 2022, a regular report has been drawn up for the various management and governance bodies in the Bank, including the Board of Directors, which includes relevant information to evaluate the exposure to climate-related and environmental risks, their progression, as well as other events or circumstances that could have an impact on the Institution in relation to the environment in which it operates, among which references are included regarding the progress made by the Institution on the Principles for Responsible Banking.	2. Governance Remuneration linked to Sustainability

Remuneration linked to Sustainability The commitment to sustainability and the involvement of the Bank's staff in the delivery of the Institution's ESG goals are factors reflected in the attainment of the Group's objectives. Through the synthetic sustainability indicator (SSI), established in 2020, Key Performance Indicators (KPIs) for ESG matters are included and linked to the variable remuneration of employees, forming part of the Group objectives with a weight of 10%. This indicator is regularly monitored by the Sustainability Committee which incorporates updates of these indicators in its periodic review. The metrics that make up this indicator to measure sustainability include four types of indicators: a. A market-led assessment, carried out by ESG rating agencies, of the information disclosed. b. The degree of progress in the achievement of actions set out in the Sustainable Finance Plan. c. The commitment to diversity in relation to the increased presence of women in various management positions. d. In relation to the environment and the channelling of resources through the volume of sustainable financing (in accordance with the EU taxonomy).	2. Governance Remuneration linked to Sustainability

5.2 Promoting a culture of responsible banking:

Describe the initiatives and measures of your bank to foster a culture of responsible banking among its employees (e.g. capacity building, e-learning, sustainability trainings for client-facing roles, inclusion in remuneration structures and performance management and leadership communication, amongst others).

The training model of Banco Sabadell Group is built on the following pillars: • Offer training aligned with the business and needs, both the regulatory needs in the market and the needs of staff members of Banco Sabadell Group. • Improve the development of employees, as the drivers of change and transformation. • Streamline the Institution's training budget so that more employees can receive training and to achieve greater transformation. • Be a standard-bearer within the financial sector in terms of innovation in staff training. • Be leaders in terms of adjusting training schemes to the digital transformation of business lines. The goal is to train employees for the world of today and tomorrow, anticipating training needs using the People workforce strategic plan and business objectives, taking regulatory obligations into account, and developing a training model with customised, innovative and efficient solutions. The training is aimed at all Group employees, including those on part-time contracts and interns. In 2022, the Group has continued to support the business in the challenges and targets that it has set itself, offering new specific training resources for strategic projects that are a matter of priority for Banco Sabadell Group, focusing on aspects such as specialisation programmes for commercial roles, financial current affairs and sustainability. The vast majority (97.8%) of employees received training in 2022, with 634,599 total hours of training completed at the Group level (equivalent to an average of 34 hours per employee), which improved both the professional skills of our workforce and their future employability within the organisation The area of sustainability continues to have its own specific place on Campus, with self-guided training content for the Bank's employees.	6.3 Training

Here they can access training provided through introductory content that was already in place last year, such as the Introduction to Sustainability course, as well as a new course added this year, the Sustainable Borrowing course, developed together with EADA Business School. This course is open to all employees and offers them the chance to learn about the new sustainable paradigm, teaches them to explain the triple bottom line and the ESG Framework, as well as the Sustainable Development Goals (SDGs), and also what is meant by the circular economy and how the Bank is pursuing its Sustainability Plan. A further two courses are also still being offered: – Sustainability is a one-hour training course designed to allow employees to become familiar with the key aspects of sustainability and to prepare for the 360 Visit so that they may also support customers in this regard. – Environmental Management System is a two-hour training course intended to ensure that employees understand the importance of implementing an environmental management system in the Bank and are able to collaborate in the implementation of the system based on Standard ISO 14001. One new development concerns the launch of the Sustainable Finance Certification scheme. This scheme has been developed by the Carlos III University in Madrid and by the Aditio Business School and is aimed at all employees, who will acquire the necessary knowledge to be able to offer advice on green products (financing and investing products) as well as becoming familiar with the main regulations and legislation affecting the financial sector and the banking industry in this regard. Group employees dedicated a total of 10,394 hours to Sustainability training. The scheme consists of two modules, one basic and the other advanced. Those interested in completing the course were able to take the first module in the first half of the year. The second module was launched in October. The basic module focuses on ESG criteria, sustainable finance, the Bank's commitment to sustainability and on knowledge about sustainability products. The advanced module focuses on specialised knowledge, in particular on the management of ESG risks and the application of specialised knowledge when managing affluent customers. Lastly, the same space includes access to a news capsule about the circular economy.	6.3 Training

5.3 Policies and due diligence processes

Does your bank have policies in place that address environmental and social risks within your portfolio? Please describe.

Please describe what due diligence processes your bank has installed to identify and manage environmental and social risks associated with your portfolio. This can include aspects such as identification of significant/salient risks, environmental and social risks mitigation and definition of action plans, monitoring and reporting on risks and any existing grievance mechanism, as well as the governance structures you have in place to oversee these risks.

In February 2022, the Board of Directors updated the Sustainability Policy, aiming to provide a framework for all of the Institution's activities and organisation within ESG parameters, which incorporate environmental, social and governance factors in decision-making and, at the same time, based on those parameters, to respond to the needs and concerns of all of its stakeholders. The Sustainability Policy establishes out the basic principles on which the Banco Sabadell Group relies to address the challenges posed by sustainability, and it defines the pertinent management parameters, as well as the organisation and governance structure necessary for its optimal implementation.	2. Governance 4.3.3 Integration into management procedures 9.1 Information regarding Human Rights

Effective integration of environmental risks into management arrangements requires a strategy and set of regulations that establish the guidelines, targets and limits required at different points of the credit approval workflow.

For this reason, the Group has an environmental and social risk framework that establishes the Group's position, stating that it aims to avoid financing activities considered to have a high environmental risk. At the same time, the Group fosters green financing, using to that end an Eligibility Guide that outlines the activities deemed to be sustainable (in environmental and social terms), in alignment with the EU Taxonomy Regulation.

In parallel, as part of the financial sector, the Group promotes the transition of companies and businesses, steering the financing according to the nature of the activities and making it easier for agents in polluting industries who work to improve their ESG performance to transition to a more sustainable model. With this aim in mind, the Management Guidelines for ESG risks have been defined, through which the Group aims to limit access to funding for polluting companies with poor ESG performance. To classify large enterprises according to their ESG performance, the Group is defining an indicator internally.

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In parallel, as part of the financial sector, the Group promotes the transition of companies and businesses, steering the financing according to the nature of the activities and making it easier for agents in polluting industries who work to improve their ESG performance to transition to a more sustainable model. With this aim in mind, the Management Guidelines for ESG risks have been defined, through which the Group aims to limit access to funding for polluting companies with poor ESG performance. To classify large enterprises according to their ESG performance, the Group is defining an indicator internally.

The Group has a Human Rights Policy and a related Due Diligence Procedure, both approved since 2021, which are reviewed annually and are applicable to all Group companies. It establishes its basic principles of action, as well as the mechanisms required to identify, prevent, mitigate and/or remedy any potential negative impacts on human rights that its activities and procedures may entail, in particular, with regard to granting finance to companies, or issues involved in its human resources management model or its supplier contracting processes. It also establishes the need for training in all of these areas.

The principles governing the Human Rights Policy take into consideration the impact and relationship with four main stakeholder groups: Group employees, customers, suppliers and commercial partners, and the communities or environment in which the Group develops its business and operates.

The Group also has a new version of the Group Code of Conduct, approved in 2021 by the Board of Directors following an in depth review to adapt it to regulatory requirements, Supervisory guidelines and specifications, and to market standards. In short, to ensure it complies with the expectations and objectives of different stakeholders. The issue of the new version of the Group's Code of Conduct required express acceptance of it by every member of the Group's workforce.

2. Governance

4.3.3 Integration into management procedures

9.1 Information regarding Human Rights

Self-assessment summary

Does the CEO or other C-suite officers have regular oversight over the implementation of the Principles through the bank's governance system?

☒ Yes ☐ No

Does the governance system entail structures to oversee PRB implementation (e.g. incl. impact analysis and target setting, actions to achieve these targets and processes of remedial action in the event targets/ milestones are not achieved or unexpected neg. impacts are detected)?

☒ Yes ☐ No

Does your bank have measures in place to promote a culture of sustainability among employees (as described in 5.2)?

☒ Yes ☐ In progress ☐ No

Principle 6: Transparency & Accountability

We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.

6.1 Assurance

Has this publicly disclosed information on your PRB commitments been assured by an independent assurer?

☒ Yes ☐ Partially ☐ No

If applicable, please include the link or description of the assurance statement.

KPMG Asesores, S.L.	Assurance included at the end of this document

Reporting on other frameworks Does your bank disclose sustainability information in any of the listed below standards and frameworks?

☒ GRI

☐ SASB

☐ CDP

☐ IFRS Sustainability Disclosure Standards (to be published)

☒ TCFD

☐ Others: ….

-	Annex 2

6.3 Outlooks

What are the next steps your bank will undertake in next 12 month-reporting period (particularly on impact analysis, target setting and governance structure for implementing the PRB)? Please describe briefly.

In 2022, Banco Sabadell conducted an impact analysis and set targets for the areas with the greatest impact. Over the next year, the targets set will be monitored and progress in relation to PRB will continue to be reported. In addition, the Bank plans to continue setting additional interim targets for the rest of the carbon-intensive sectors identified by the Net-Zero Banking Alliance (NZBA). The Bank will also report on the progress made with the commitments it has undertaken and it will unveil an action plan to ensure it meets the aforesaid targets.	*PRB 2 Impact and Target Setting* *Portfolio Alignment*

6.4 Challenges

Here is a short section to find out about challenges your bank is possibly facing regarding the implementation of the Principles for Responsible Banking. Your feedback will be helpful to contextualise the collective progress of PRB signatory banks.

What challenges have you prioritized to address when implementing the Principles for Responsible Banking? Please choose what you consider the top three challenges your bank has prioritized to address in the last 12 months (optional question).

☐ Embedding PRB oversight into governance

☐ Gaining or maintaining momentum in the bank

☐ Getting started: where to start and what to focus on in the beginning

☐ Conducting an impact analysis

☐ Assessing negative environmental and social impacts

☐ Choosing the right performance measurement methodology/ies

☒ Setting targets

☐ Other: …

☐ Customer engagement

☐ Stakeholder engagement

☒ Data availability

☐ Data quality

☐ Access to resources

☒ Reporting

☐ Assurance

☐ Prioritizing actions internally

If desired, you can elaborate on challenges and how you are tackling these:

Annex 4

Taxonomy indicators

Indicator	2022
1- Proportion in their total assets of exposures to EU Taxonomy-eligible economic activities	43.0%
2- Proportion in their total assets of exposures to central governments, central banks and supranational issuers	30.0%
3- Proportion in their total assets of derivatives exposures	2.7%
4- Proportion in their total assets of exposures to companies not obliged to report non-financial information pursuant to Article 19(a) or 29(a) of Directive 2013/34/EU	14.2%
5- Proportion in their total assets of trading book and interbank sight loans	4.0%

The components of the indicators, taking into account that indicators 1 and 4 have been derived from robust data sources and the remaining indicators from the Group's consolidated balance sheets, are set out in more detail below:

1. For more information regarding the calculation of this indicator, see section 4.3.3 Integration in management arrangements (EU Taxonomy).

2. Exposures to central governments, central banks and supranational issuers accounted for a proportion of 30.0% of total assets as at 2022 year-end.

   This indicator is calculated taking into consideration cash balances in central banks and loans, advances and debt securities of central banks and general governments, relative to the Group's total assets.

3. Derivatives exposure accounted for a proportion of 2.7% of total assets as at 2022 year-end.

   This indicator is calculated taking into consideration total derivative assets, relative to the Group's total assets.

4. Exposures to companies not obliged to report non-financial information pursuant to Article 19(a) or 29(a) of Directive 2013/34/EU accounted for a proportion of 14.2% of total assets as at 2022 year-end.

   This indicator is calculated[105] taking into account the exposure[106] to companies with 500 employees or less and, according to the latest available information, with assets of 20 million euros or less and turnover of 40 million euros or less.

5. Trading book and interbank sight loans accounted for a proportion of 4.0% of total assets as at 2022 year-end.

   This indicator is calculated taking into consideration cash balances in credit institutions, loans and advances to credit institutions and total financial assets held for trading, relative to the Group's total assets.

In addition, in accordance with Annex XI of Delegated Regulation (EU) 2021/2178, the information of the strategy is presented in section 3. Sabadell's Commitment to Sustainability and 4.2 Climate-related and environmental strategy. As for the product part and the weight of financing, the information is presented in section 5. Commitment to sustainable financing.

[105] Companies for which all information is not available are excluded from the calculation.
[106] Risk drawn down.

Annex 5

SDG alignment

	No Poverty	Zero Hunger	Good health and well-being	Quality education	Gender equality	Clean water and sanitation	Affordable and clean energy	Decent work and economic growth
1. Introduction								
2. Governance								
3. Sabadell's Commitment to Sustainability								
4. Climate and environmental commitment						✓	✓	
5. Commitment to sustainable financing	✓						✓	✓
6. Commitment to people			✓		✓			✓
7. Commitment to Society	✓	✓	✓	✓	✓			✓
8. Commitment against corruption and bribery								
9. Commitment to Human Rights								✓
10. Commitment to information								
Annex 1								
Annex 2								
Annex 3								
Annex 4								

	Industry, innovation and infrastructure	Reduced inequalities	Sustainable cities and communities	Responsible consumption and production	Climate action	Life below water	Life on land	Peace, justice and strong institutions	Partnerships for the goals
1. Introduction									
2. Governance									
3. Sabadell's Commitment to Sustainability									
4. Climate and environmental commitment			✓	✓	✓	✓	✓		
5. Commitment to sustainable financing	✓		✓	✓	✓			✓	
6. Commitment to people		✓			✓				
7. Commitment to Society		✓	✓			✓		✓	
8. Commitment against corruption and bribery		✓						✓	
9. Commitment to Human Rights		✓						✓	
10. Commitment to information								✓	
Annex 1									✓
Annex 2									
Annex 3									
Annex 4									

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Barcelona

Independent Assurance Report on the Consolidated Non-Financial Disclosures Report for Banco de Sabadell, S.A. and subsidiaries for 2022

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

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

Pursuant to article 49 of the Spanish Code of Commerce, we have provided limited assurance on the Consolidated Non-Financial Disclosures Report (hereinafter NFDR) for the year ended 31 December 2022, of Banco de Sabadell, S.A. (hereinafter the Parent) and subsidiaries (hereinafter the Group) which forms part of the Group's 2022 consolidated Directors' Report.

The NFDR includes additional information to that required by prevailing mercantile legislation governing non-financial information, which has not been the subject of our assurance work. Our assurance work was limited only to providing assurance on the information contained in table "Table of contents Law 11/2018" included in the annex 2 of the NFDR.

Directors' responsibility

The Directors of the Parent are responsible for the contents and the authorisation for issue of the NFDR included in the Group's consolidated Directors' Report. The NFDR has been prepared in accordance with prevailing mercantile legislation and Sustainability Reporting Standards of the Global Reporting Initiative (GRI Standards) based on each subject area in "Table of contents Law 11/2018" included in the annex 2 of the aforementioned NFDR.

This responsibility also encompasses the design, implementation and maintenance of internal control deemed necessary to ensure that the NFDR is free from material misstatement, whether due to fraud or error.

The Parent's directors are also responsible for defining, implementing, adapting and maintaining the management systems used to obtain the information required to prepare the NFDR.

Our independence and quality management

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including international independence standards) issued by the Internal Ethics Standards Board for Accountants (IESBA), which is based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies prevailing international quality standards and accordingly maintains a quality system including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

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

The engagement team comprised professionals specialised in reviews of non-financial information and, specifically, in information on economic, social and environmental performance.

Our responsibility

Our responsibility is to express our conclusions in an independent limited assurance report based on the work performed. We conducted our review engagement in accordance with the requirements of the Revised International Standard on Assurance Engagements 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information" (ISAE 3000 Revised), issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), and with the guidelines for assurance engagements on the Non-Financial Information Statement issued by the Spanish Institute of Registered Auditors (ICJCE).

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement, and consequently, the level of assurance provided is also lower.

Our work consisted of making inquiries of management and of the different units and areas responsible of the Parent that participated in the preparation of the NFDR, reviewing the processes for compiling and validating the information presented in the NFDR and applying certain analytical procedures and sample review tests, which are described below:

- Meetings with the Parent personnel to gain an understanding of the business model, policies and management approaches applied, the principal risks related to these questions and to obtain the information necessary for the external review.
- Analysis of the scope, relevance and completeness of the content of the NFDR based on the materiality analysis performed by the Parent and described in the section "3.3 Materiality" considering the content required in prevailing mercantile legislation.
- Analysis of the processes for compiling and validating the data presented in the NFDR for 2022.
- Review of the information relative to the risks, policies and management approaches applied in relation to the material aspects presented in the NFDR for 2022.
- In relation to the PRBs, a review of the reported information regarding impact analysis, target setting, progress in implementing targets, governance, structure and progress in implementing the PRBs described in Appendix 3 "Principles for Responsible Banking. Reporting and Self-Assessment" of the NFDR, with respect to the presentation of the information, compliance thereof with the PBR requirements, as well as an examination of the consistency of the references in this section with the rest of the information in the NFDR.
- Corroboration, through sample testing, of the information relative to the content of the NFDR for 2022 and whether it has been adequately compiled based on data provided by information sources.
- Procurement of a representation letter from the Directors and management.

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

Conclusion

Based on the assurance procedures performed and the evidence obtained, nothing has come to our attention that causes us to believe that:

a) The NFDR of Banco de Sabadell, S.A. and subsidiaries for the year ended 31 December 2022 has not been prepared, in all material respects, in accordance with prevailing mercantile legislation and selected GRI Standards based on each subject area in Annex 2 "Table of contents Law 11/2018" of the NFDR.

b) The information regarding impact analysis, target setting, progress in implementing targets, governance, structure and progress in implementing the PRBs set out in Annex 3, "Principles of Responsible Banking. Reporting and Self-Assessment" of the NFDR has not been prepared, in all material respects, in accordance with the "Principles for Responsible Banking Guidance Document" published by UNEP FI in 2019.

Emphasis of matter

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment stipulates the obligation to disclose information on how and to what extent the institution's investments are associated with economic activities eligible under the Taxonomy. For such purpose, the Directors of Banco de Sabadell S.A. have included information on the criteria that, in their opinion, best allow them to comply with this obligation, and which are defined in section "4.2.2 Taxonomy" and in Annex 4 "Taxonomy Indicators" of the attached NFDR. Our conclusion is not modified in respect of this matter.

Use and distribution

This report has been prepared in response to the requirement established in prevailing mercantile legislation in Spain, and thus may not be suitable for other purposes and jurisdictions.

KPMG Asesores, S.L.

(Signed on the original in Spanish)

Patricia Reverter Guillot

16 February 2023

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.
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(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.

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.

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.

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.

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**
Non-current assets and disposal groups classified as held for sale		Pending legal issues and tax litigation	7
	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.

Financial assets at fair value through profit or loss

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

Financial liabilities held for trading

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

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

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

Financial liabilities 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.

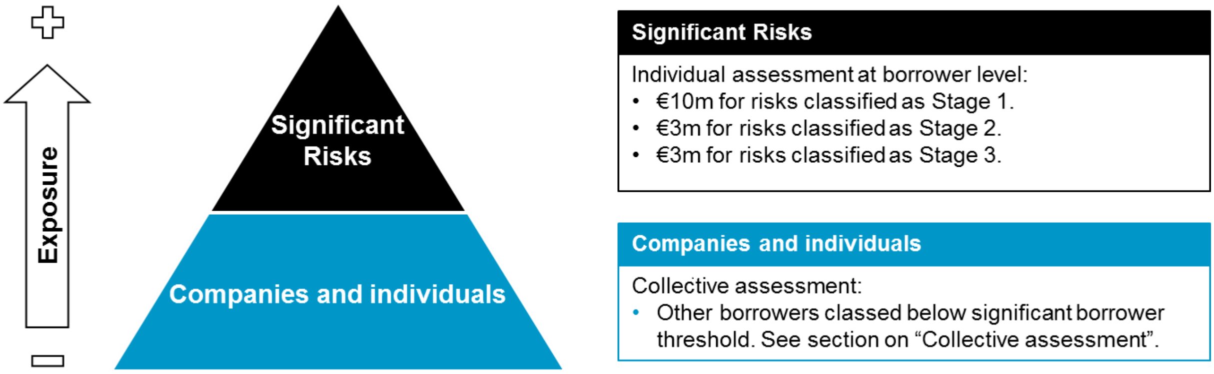
Exposures of more than 1 million euros of borrowers within the Top 10 main risk groups classified in stage 3, identified on an annual basis, are also considered individually. Exceptionally, and with the sole purpose of classifying and more precisely impairing transactions, borrowers whose exposures are 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:

<table>
<tr><td></td><td colspan="4">Observed credit impairment since initial recognition</td></tr>
<tr><th>Credit risk category</th><th>Stage 1</th><th>Stage 2</th><th>Stage 3</th><th>Write-off</th></tr>
<tr><td>Criteria for classification into stages</td><td>Transactions in which there has been no significant increase in credit risk since initial recognition and which do not meet the requirements for classification into other categories</td><td>Transactions which show a significant increase in credit risk since initial recognition</td><td>Transactions whose full recovery is considered doubtful, even if no amounts are more than ninety days past due

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

Classification of credit risk and allowances for country risk

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

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

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

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

Guarantees

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

Under no circumstances will guarantees whose effectiveness 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

<u>Measures to ease the mortgage burden</u>

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.

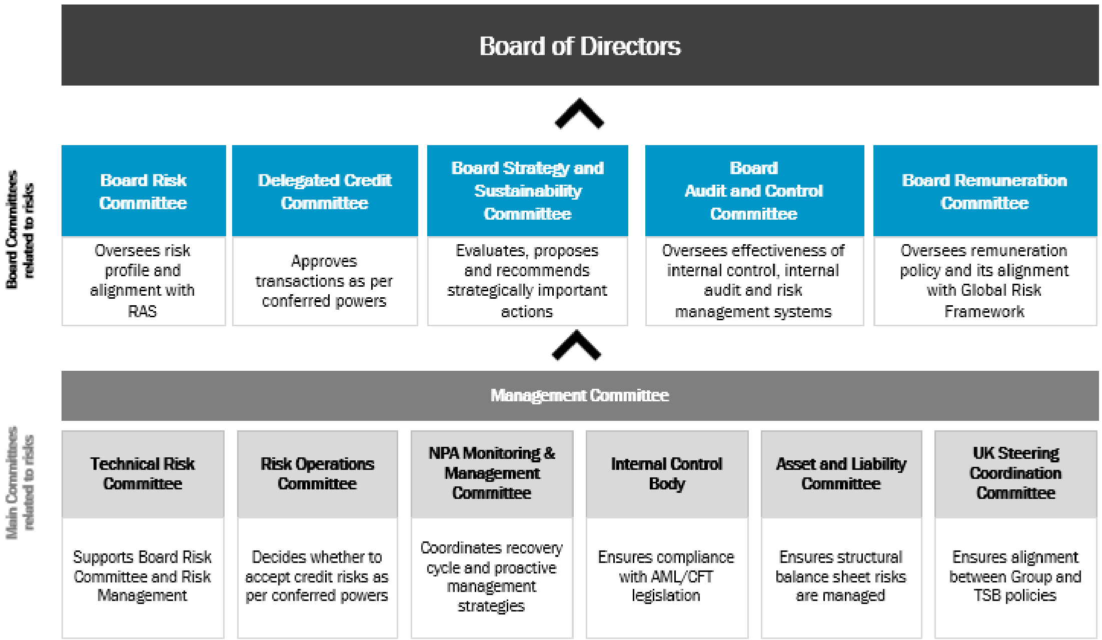
3.3.5 Overall organisation of the risk function

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.

<u>Environmental risk management</u>

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.

Real estate credit risk management

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

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

The Bank has established three strategic 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

	2021									
Time to maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
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		2021	
		Carrying amount	Fair value	Carrying amount	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	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		417,131	2,251,627	2,495	2,671,253
Derivatives	9	—	2,251,627	2,495	2,254,122
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	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		224,447	1,932,228	—	2,156,675
Derivatives	9	—	1,932,228	—	1,932,228
Short positions		224,447	—	—	224,447
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 Direct	% Shareholding Indirect	Company data Capital	Other equity	Profit/(loss)	Dividends paid	Total assets	Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
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

			Fair value of equity instruments issued for the acquisition						
Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Acquisition cost	Fair value of equity instruments issued for the acquisition	% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
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).

Thousand euro								
Issuer	Issue date	Amount		Interest rate ruling as at 31/12/2022	Maturity date	Issue currency	Target of offering
		31/12/2022	31/12/2021				
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**				

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							
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Secured loans. Carrying amount based on last available valuation. Loan to value				
				Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**10,068,930**	**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							
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Secured loans. Carrying amount based on last available valuation. Loan to value				
				Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**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									
	TOTAL	AUTONOMOUS COMMUNITIES								
		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									
		AUTONOMOUS COMMUNITIES									
	TOTAL	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							
	Gross carrying amount	**Of which: subject to legislative moratoria**	**Of which: expired**	**Remaining validity period of moratoria**				
				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							
	Gross carrying amount	**Of which: subject to legislative moratoria**	**Of which: expired**	**Remaining validity period of moratoria**				
				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		
	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	**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.

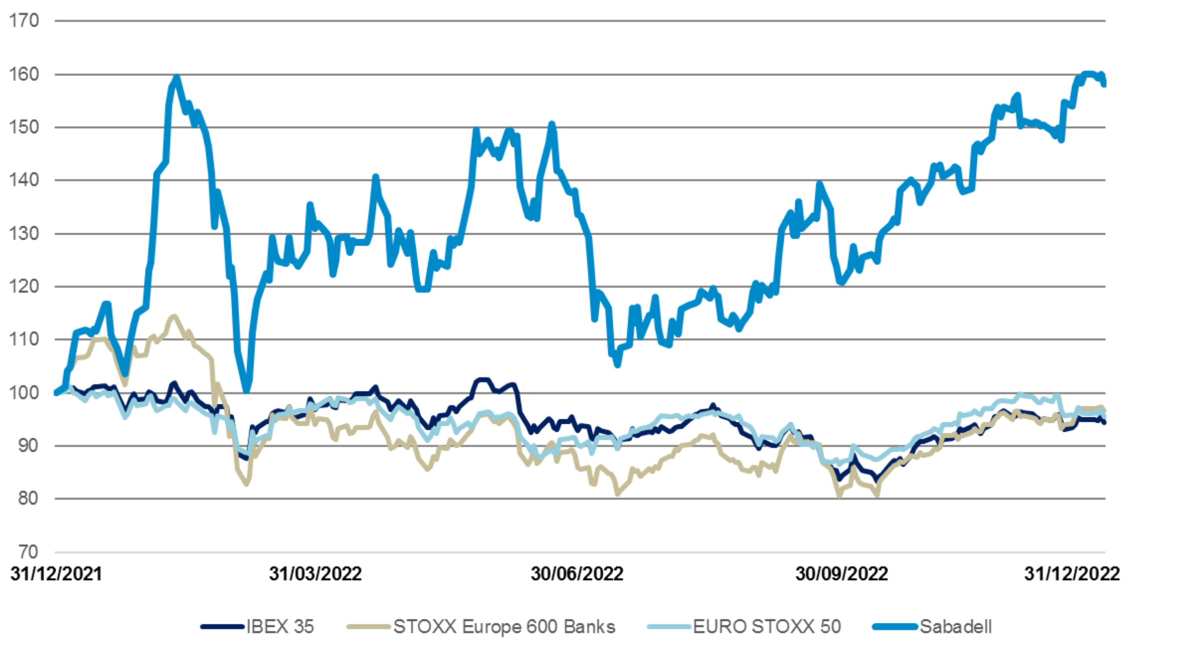
Banco Sabadell's share price performed well, gaining +58% over the year, making it the second best performing IBEX 35 stock in 2022 and the best performing in the 2021/22 period, among the companies that made up the index since the beginning of 2021. On a like-for-like basis, the market revaluation has 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.

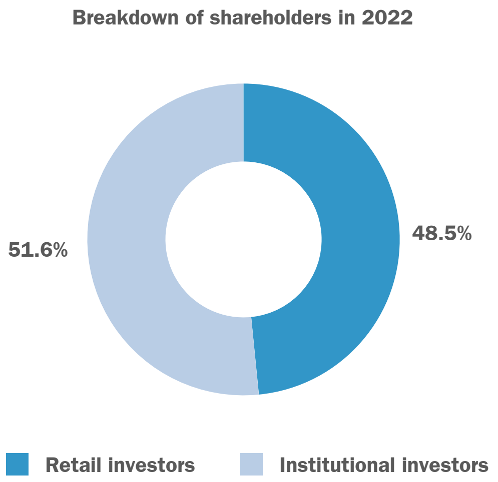
At the end of 2022, 96% of equity analysts covering Banco Sabadell had a Buy or Hold recommendation on the stock.

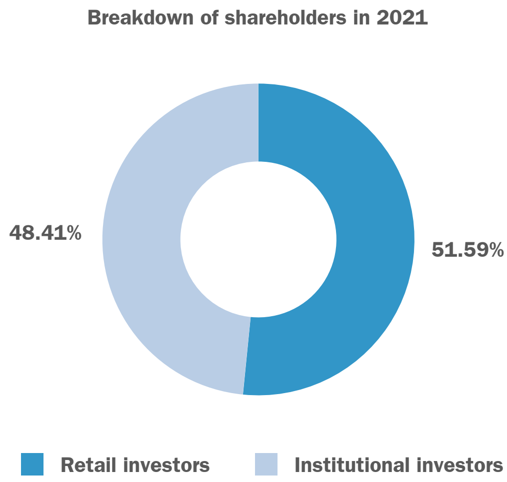
In terms of shareholder structure, in the financial year 2022, institutional shareholders increased in representation with 52% of the Bank’s shares, while minority shareholders hold 48%. Within the Bank's shareholding structure, at year-end 2022, four investor groups reported a holding of more than 3% 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.

<u>Board Strategy and Sustainability Committee</u>

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.

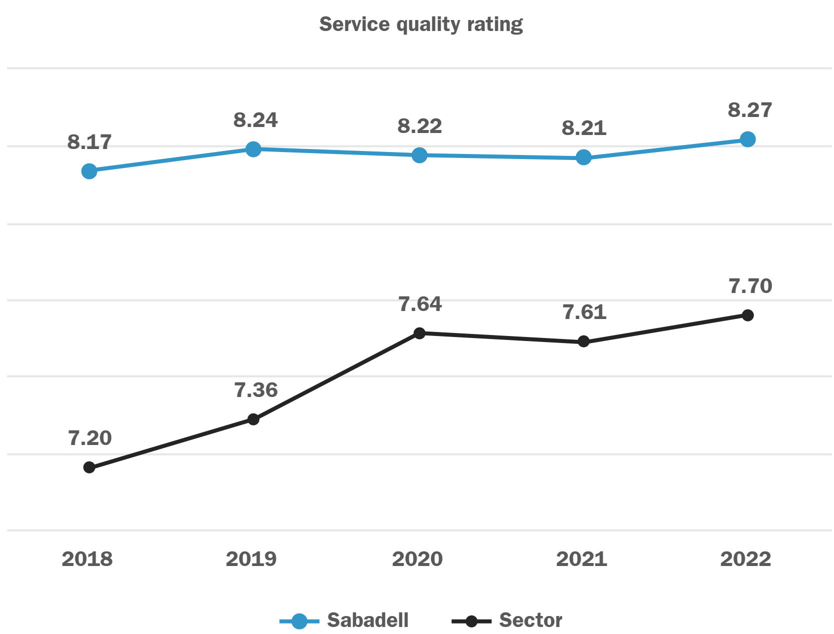
The overall customer experience measurement and management model of Banco Sabadell Spain is based on different indicators obtained from around 700,000 surveys and at more than 20 touch points. The results of the various surveys enable the Bank to ascertain the level of satisfaction of its customers and 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

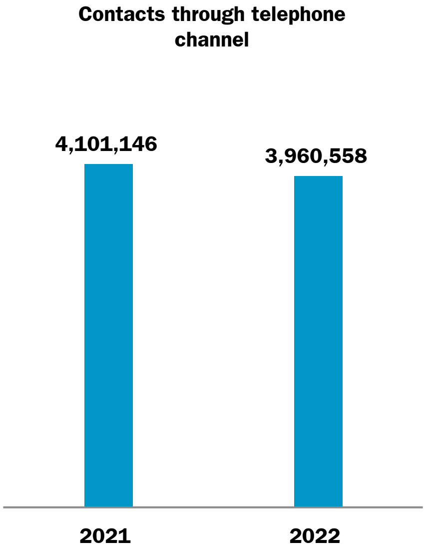
During 2022, Direct Branch contacts decreased by 4% compared to those recorded in 2021, and numbered 4.6 million.

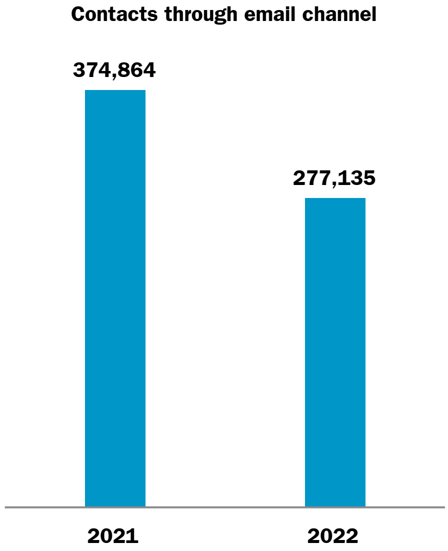
The service channel that has experienced the greatest growth this year has been the chat feature. Telephone consultations accounted for 85% of total contacts across all channels, followed by e-mail, chat and social media. The graph below shows the contacts recorded, by channel.

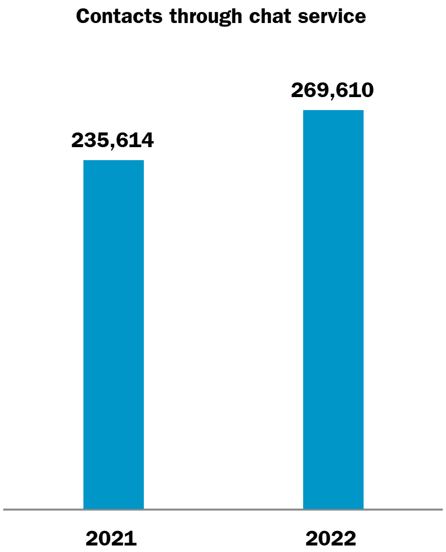
As regards service levels, the Service Level Agreement (SLA) percentage for telephone enquiries was above 93%, followed by the SLA for chat at 98% and the SLA for the e-mail channel at 85%. Banco Sabadell received over 173,000 mentions in social media, and the SLA was 98%.

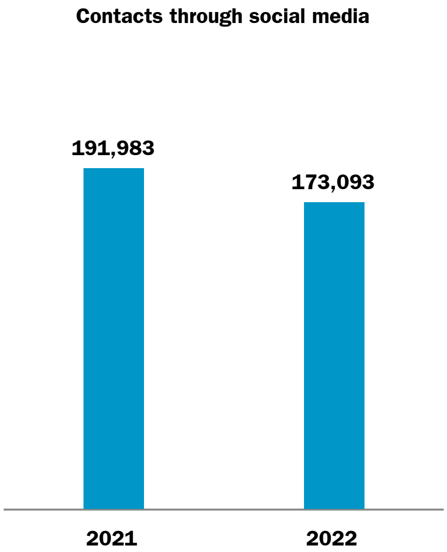
Highlights of 2022:

- 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.

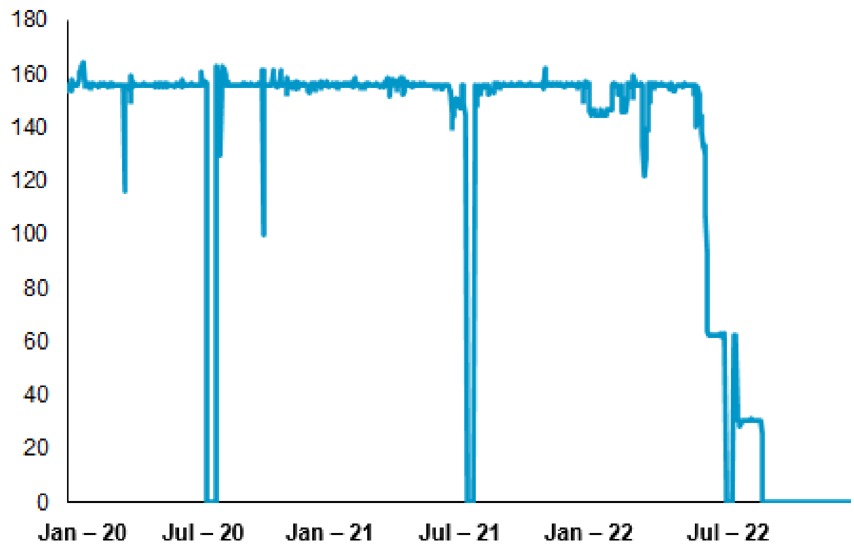
Conflict in Ukraine

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.

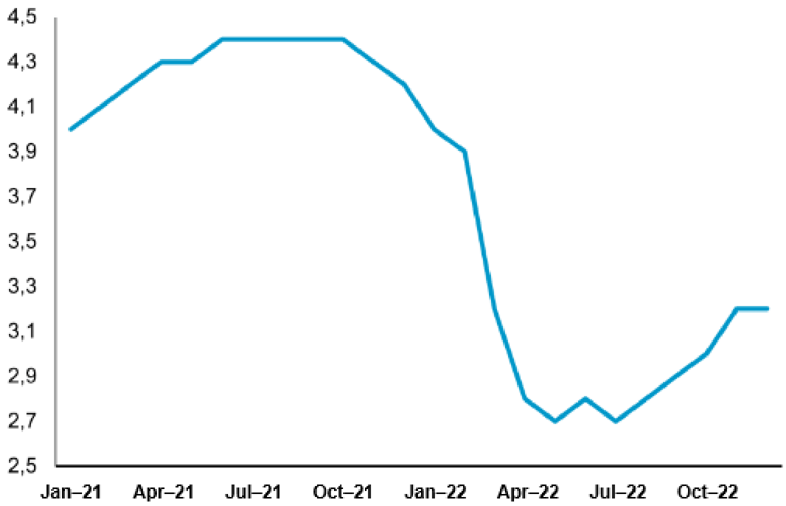


Economic activity and inflation

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.

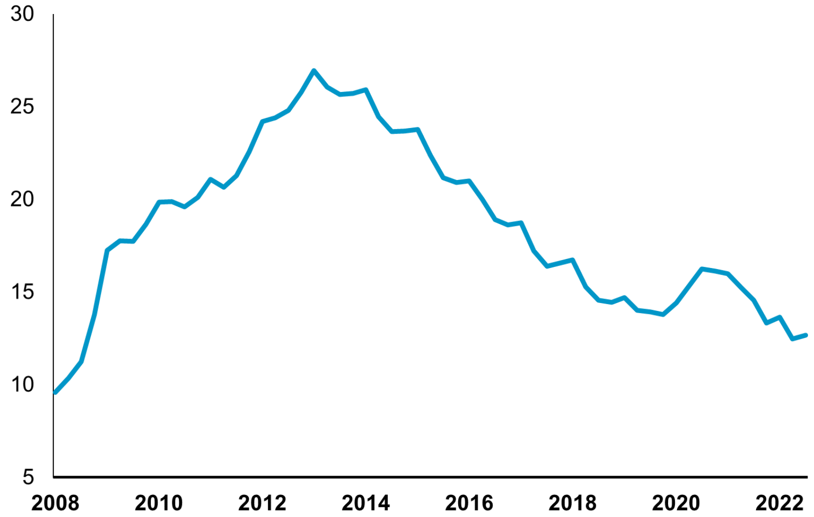
In the Eurozone, activity was robust in the first half of the year, driven by the post-Covid economic reopening and tourism. In the latter part of the year, however, the economy was weighed down by high energy prices, fears of energy rationing and tougher monetary policy. In the United Kingdom, activity 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.

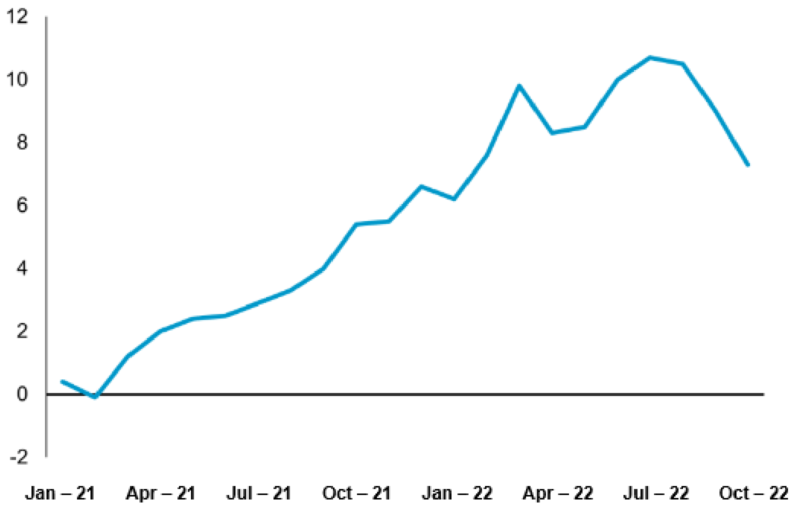
In the case of China, the economy was entirely constrained by the zero-Covid policy. The lockdown measures very evidently hampered activity and, as a result, economic growth fell considerably short of the Chinese government’s target. In light of the situation, the country’s authorities announced various 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).

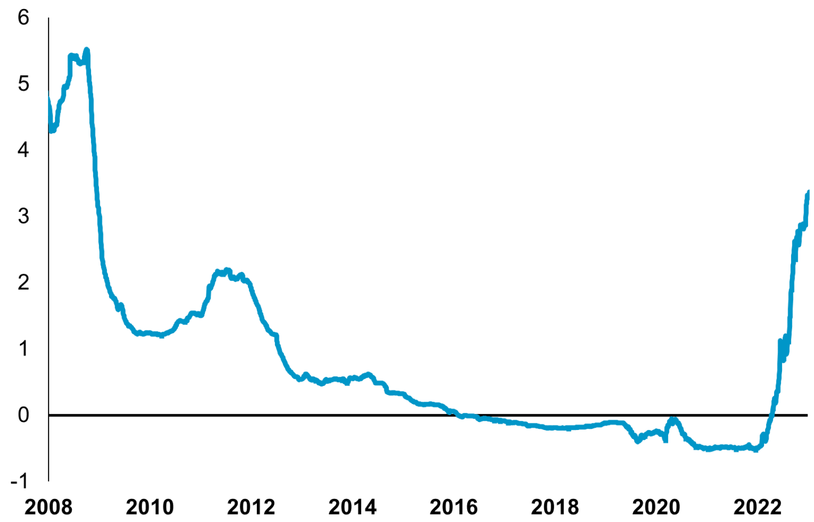


Monetary policy

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.

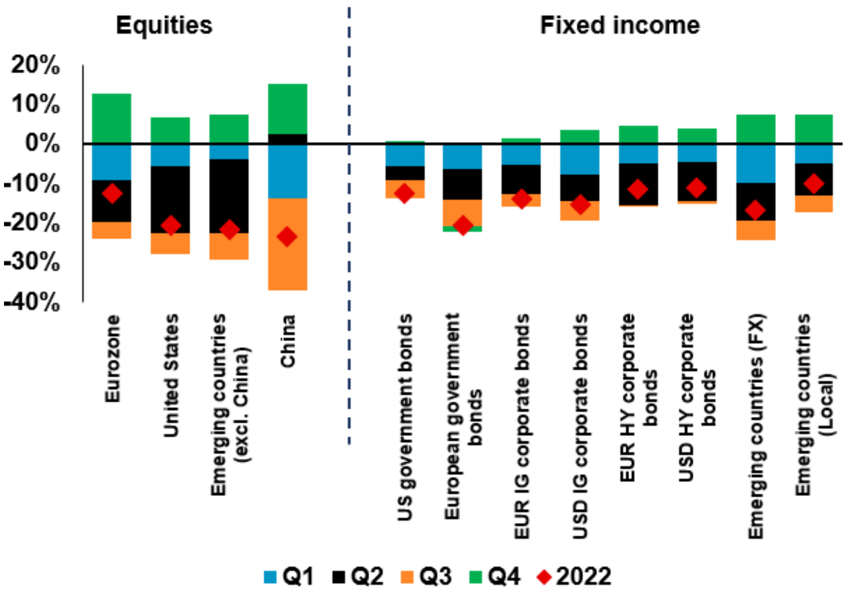
In emerging countries, aggressive and widespread rate increases continued in 2022. In the case of Mexico, the central bank (Banxico) continued with its rate hike cycle launched in 2021, accelerating the rate hikes and emulating the movements of the Fed. Banxico raised the official rate to 10.50%, accumulating 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.

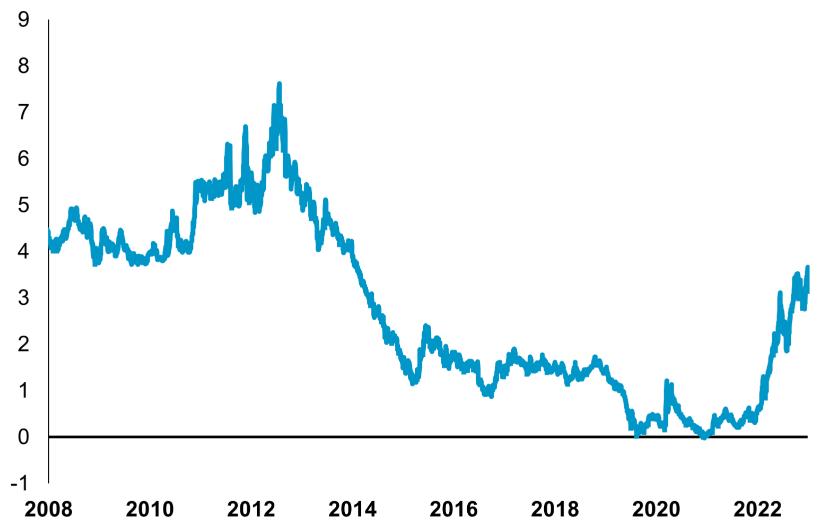
Long-term government bond yields rebounded by more than 200 basis points on both sides of the Atlantic, reaching levels not seen since 2008 in the United States and since 2011 in Germany. This increase in bond yields was mostly driven by high inflation and the interest hikes introduced by central banks. 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



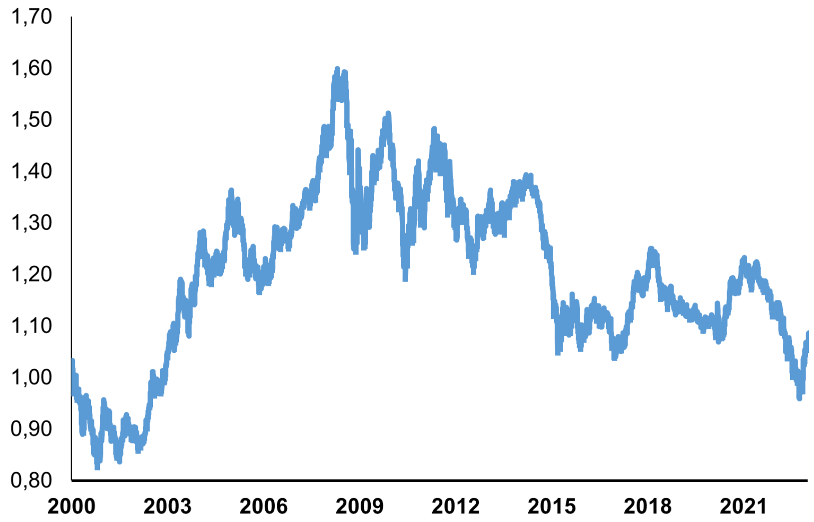
Peripheral sovereign debt risk premiums also rebounded throughout the year, although they remained at contained levels. The spread's widening was influenced by the withdrawal of the ECB's accommodative measures, although the subsequent announcement of an asset purchase programme that could be activated 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).

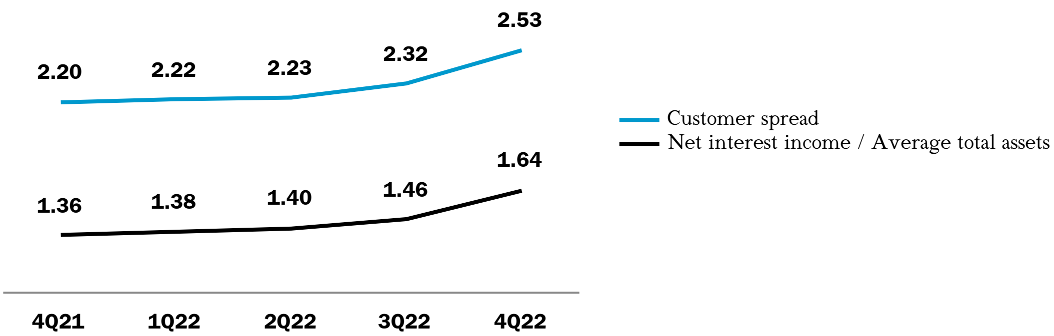
The breakdown of net interest income for the years 2022 and 2021, as well as the different components of total investment and funds, was as follows:

Thousand euro

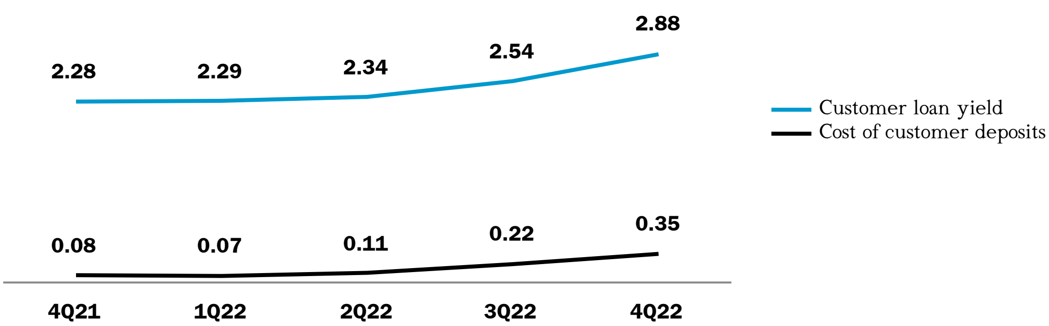
	2022			2021			Change		Effect		
	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Volume	Days
Cash, central banks and credit institutions	53,538,412	208,485	0.39	48,693,390	(124,460)	(0.26)	4,845,022	332,945	333,136	(191)	—
Loans and advances 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.

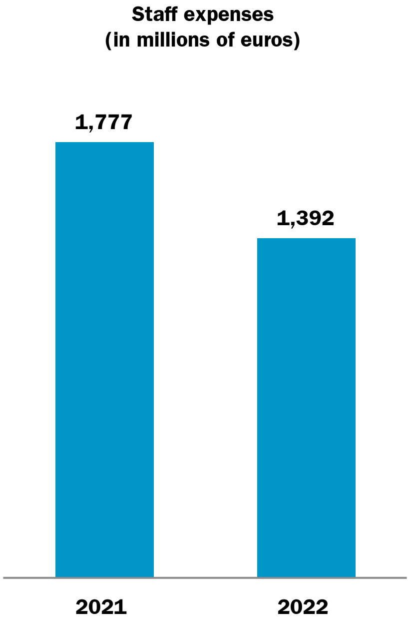
Gains/(losses) on financial assets and liabilities and exchange differences amounted to 104 million euros, while at the end of 2021 this item amounted to 344 million euros, as it mainly included 324 million euros of gains on sales from the amortised cost portfolio conducted to fund the second phase of the efficiency plan executed in Spain.

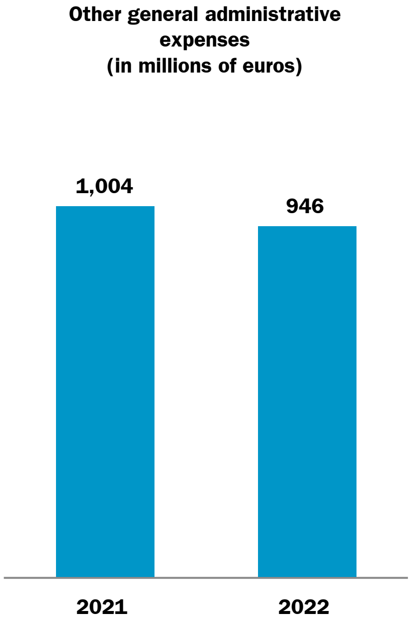
Dividends received and earnings of companies consolidated under the equity method together amounted to 125 million euros, compared with 102 million euros in 2021, after recognising generally higher earnings from the insurance business.

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.

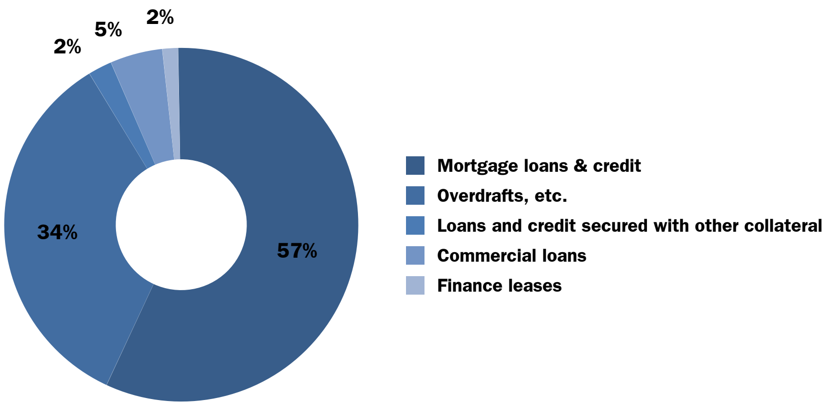
Gross performing loans to customers ended the year 2022 with a balance of 156,130 million euros, representing an increase of 0.8% year-on-year. At constant exchange rates, this increase was 2.0%. Home equity loans formed the largest single component of gross loans and receivables, amounting to 89,340 million euros as at 31 December 2022 and representing 57% of total gross performing loans to customers.

Million euro

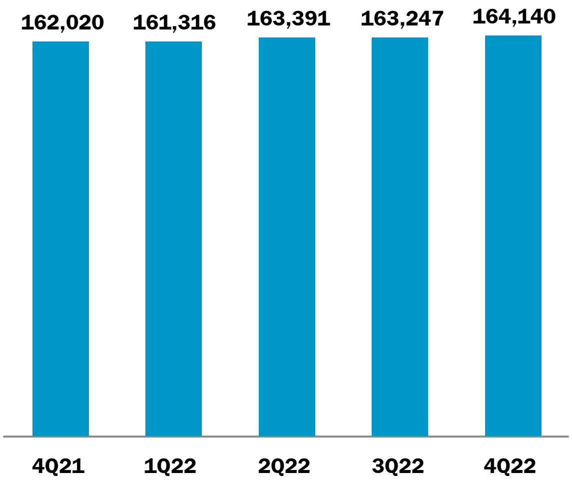
	2022	2021	Year-on-year change (%)
Mortgage loans & credit	89,340	90,718	(1.5)
Loans and credit secured with other collateral	3,412	3,596	(5.1)
Commercial loans	7,489	6,050	23.8
Finance leases	2,227	2,106	5.7
Overdrafts, etc.	53,663	52,443	2.3
Gross performing loans to customers	**156,130**	**154,912**	**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

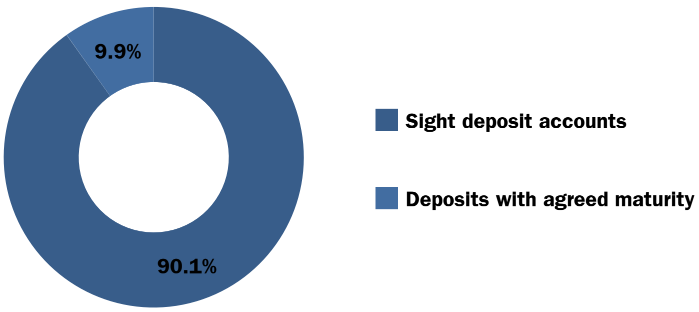


As at the end of 2022, on-balance sheet customer funds amounted to 164,140 million euros, compared to 162,020 million euros as at the end of 2021, increasing by 1.3% due to both the positive evolution of term deposits and the growth of sight deposit accounts.

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:

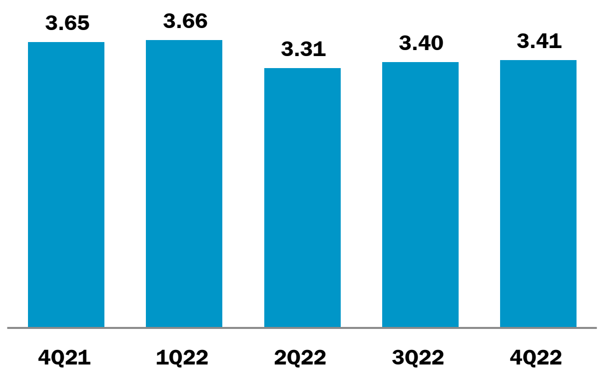
Million euro

	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:

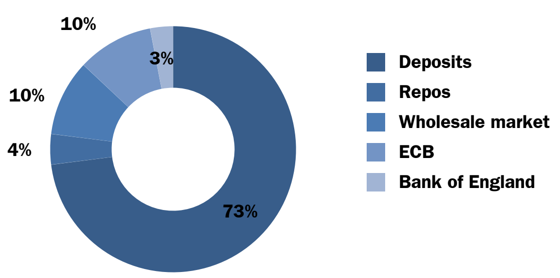
Million euro

	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.

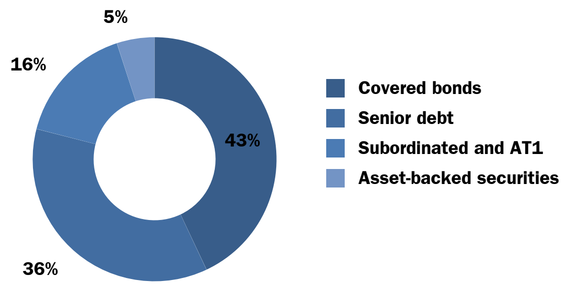
The main sources of funding as at the end of 2022, broken down by type of instrument and counterparty, are shown below (in %):

Funding structure (*)



(*) Excluding adjustments for accrual and derivatives hedging.

Institutional issues (*)



(*) 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.

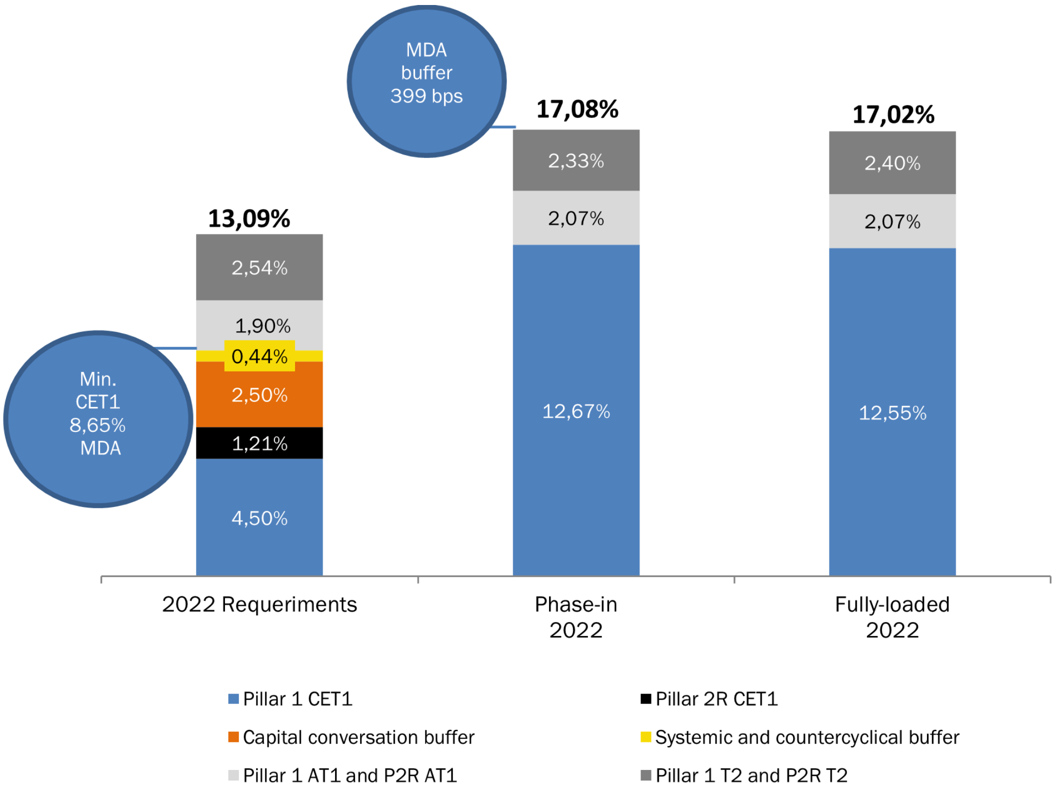
During 2022, the Group decreased its capital base by 735 million euros in fully-loaded terms.

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.

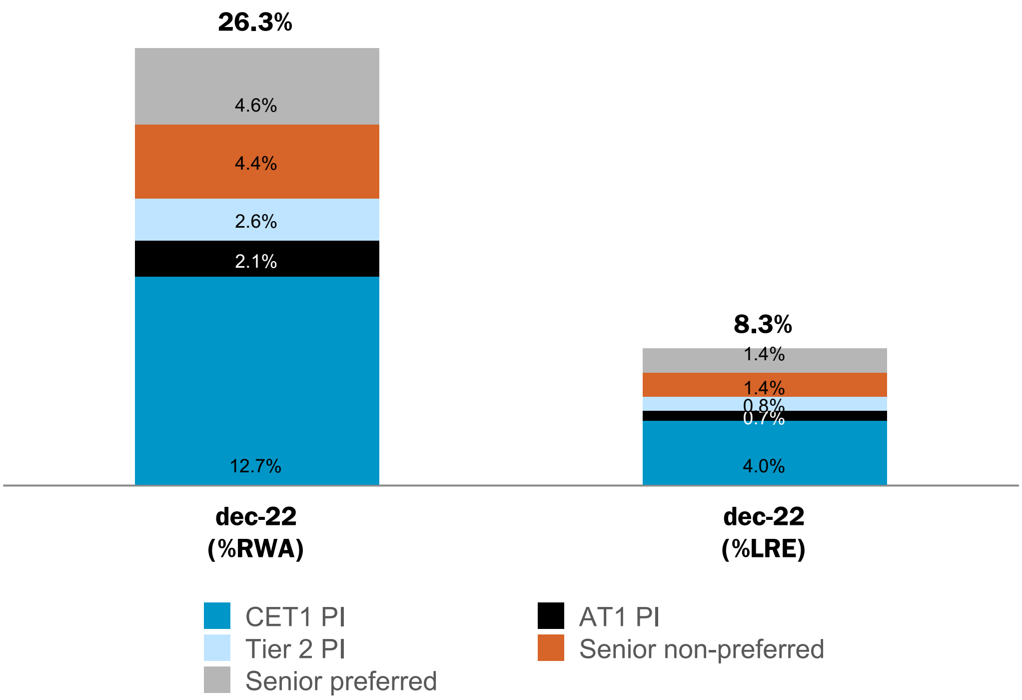
The decision sets out the following interim requirements that must be met from 1 January 2022:

- 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.

Group MREL



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:

<u>Retail Banking</u>

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:

<u>Mortgages</u>

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.

<u>Consumer loans</u>

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	—

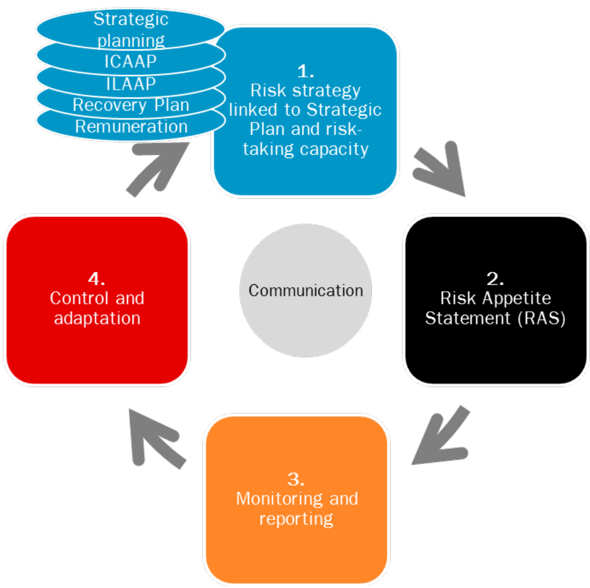
5 - RISKS

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**