

# Chairman's and Chief Executive Officer's message





Josep Oliu, Chairman

Dear shareholders,

Banco Sabadell had the best year in its history in 2023. The sweeping transformation that we have undertaken in recent years, the trust and recognition of the market and our customers, and the hard work and commitment of the bank's entire team enabled us to improve profitability substantially.

Banking, like other sectors of the economy, had to adapt to new global trends and the difficult economic, political and social situations that have shaped the last few years, such as the global financial crisis and, more recently, the pandemic, technological advances, demographic, social and climate challenges, the tightening of monetary policy by central banks, and constant geopolitical tensions. In parallel, the framework in which European banks operate has been strengthened with more comprehensive and stricter regulation of capital, liquidity and governance.

Despite a challenging environment, the Spanish economy performed well in 2023. It achieved 2.5% GDP growth, exceeding the 0.5% growth registered by the euro area as a whole. This growth was driven by, among other factors, the recovery of tourism, an improvement in Spanish companies' competitiveness, and good performance by consumer spending, supported by the favourable trend in the labour market, the progressive recovery of wages, and lower inflation.

Meanwhile, the UK economy proved sluggish. Real estate is one of the areas that has been hardest hit, while factors such as inflation, high interest rates and the rising cost of living have put a brake on domestic consumption. In contrast, Mexico performed well, standing out among the emerging economies.

On the financial front, 2023 proved to be much better than expected for investors in equities and fixed-income securities as a result of the change in monetary policy towards the end of the year as inflation improved. Spanish banks improved capital and profitability progressively throughout the year and attained record-low default rates. In addition, the steady culmination of cost cutting processes undertaken in previous years enabled them to take greater advantage of high interest rates. All these factors contributed to the Spanish banks' good performance in 2023.

The Strategic Plan launched by Banco Sabadell in 2021 produced an intense transformation of the business and an increase in profitability as a result of the development of new digital capabilities, an improvement in the value proposition and a reduction in the cost base. The Bank comfortably met most of the targets for 2023 that it set at that time, putting it in a superior commercial and financial position, in addition to laying the foundations for growth in the coming years.

This positive performance was widely recognised by the market and has been reflected in the share performance over the last three years: it is the IBEX-35 stock that has appreciated the most and ranks third among European banks in terms of share performance, out of the more than 40 institutions in the banking sector index. The share appreciated by 33% in 2023, exceeding the average performance of the Spanish banks (+19%) and European banks as a whole (+20%).

The Banco Sabadell group ended the year with 1,332 million euro in attributable net profit, 55% more than in the previous year, and a ROTE of 11.5%, well above the targets set at the beginning of the year. In addition, the capital position continued to improve at an accelerated pace, with the CET1 capital ratio reaching 13.2%, 64 basis points higher than in the previous year.

These excellent results were achieved in an environment in which interest rates rose for much of the year while demand for credit shrank in almost all geographies. The Bank was able to control costs in an inflationary environment, improve provisions, reduce non-performing assets, and increase coverage levels through active risk management and a conservative, diversified loan book.

Because of the Bank's strong performance, the Board of Directors resolved to increase total shareholder remuneration by 55% in the year, distributing 50% of profits. It has proposed that the forthcoming General Meeting of Shareholders approve a final cash dividend of 0.03 euro per share and a share buyback for at most 340 million euro once authorisation has been obtained from the competent authority. That remuneration is in addition to the 0.03 euro interim dividend paid in late December 2023

As a financial institution, Banco Sabadell wants to continue contributing to the definition and promotion of a new economy that is more inclusive and sustainable and remains firmly committed to combating climate change. In recent years, we have reinforced the ESG dimensions of our strategy, governance and business model, as set out in the ESG framework, Sabadell Sustainable Commitment, published in 2022.

As a catalyst for this transformation, Banco Sabadell has made decisive progress in its decarbonisation strategy, having established climate commitments in seven intensive sectors and defined its lines of action, reinforcing its support for funding companies' transition. The market responded positively to this commitment and it was recognised by ESG rating agencies such as Sustainalytics and ISS, which lauded Banco Sabadell's approach to the challenges of the sustainable transition.

In the area of corporate governance, the Board of Directors has resolved to ask this year's General Meeting of Shareholders to appoint a new independent director, Ms. Ana Colonques García-Planas, to succeed Mr. José Manuel Martínez Martínez, also an independent director; this will increase the proportion of women on the Board to 40% in 2024 and fulfil the terms of the ESG framework, the Sabadell Sustainable Commitment, ahead of schedule. In addition, during 2023 Mr. Pedro Viñolas Serra joined the Board of Directors as an independent director, and Mr. George Donald Johnston III was appointed as Lead Independent Director.

Banco Sabadell sees 2024 as a year in which it will consolidate its business model and management team with the objective of increasing profitability above the current 11.5%, supported by an increase in recurrent revenues, cost containment, and good performance by the Cost of Risk. This will enhance our commitment to sustainability by expanding our customer base (both companies and individuals), to whom we offer a quality service in a new context marked by rapid technological progress and a more personalised relationship, a characteristic trait of the Banco Sabadell culture.



**Josep Olliu**  
Chairman





César González-Bueno, Chief Executive Officer

Dear shareholders,

Banco Sabadell had a good year in 2023. The bank is strong, its management priorities are focused, and its strategic roadmap is well defined. The determined execution of our strategy and a benign economic environment enabled the bank to report 1,332 million euro in net profit in the year, an all-time record and 55% more than the previous year. As a result, the return on tangible equity, ROTE, increased considerably, to 11.5%.

The various line-items of the income statement performed well. Net interest income increased by 24% with respect to 2022 as higher interest rates offset the fall in lending stock against a backdrop of slowing demand. Net fees and commissions fell by 7%, as we had anticipated given that, in a situation of rising interest rates, fees and commissions on demand accounts declined. Total recurrent costs increased by 3.5%, which is moderate considering the context of high inflation. The sum of these three items, known as core results, increased by nearly 30% year-on-year.

Meanwhile, provisions as a percentage of total lending were 11.8% lower than in the previous year. This enabled the Cost of Risk to decline to 55 basis points.

As for capital and liquidity, the CET 1 capital ratio increased to 13.2%, 431 basis points more than the minimum requirement. And the short-term liquidity coverage ratio, LCR, stood at 228%. We ended 2023 in a very comfortable position.

Shareholder remuneration in 2023 increased by 55% year-on-year and shareholder returns exceeded 10% at year-end.

The bank's good performance is largely the result of determined, accelerated execution of the strategic plan we announced in 2021. The results of the transformation are visible in all the businesses.

In Retail Banking, we sought a major transformation in order to respond better to customer needs and, at the same time, trim an uncompetitive cost base. We have developed an offer that is fundamentally digital and remote in the case of products such as consumer loans, accounts and cards, where customers want autonomy, immediacy and convenience. Meanwhile, we have deployed specialised managers in the areas of mortgages, insurance and savings/investment products, where customers want expert personal support. To cite just two examples, at present more than 50% of new customers sign up with the bank 100% digitally, whereas this capability did not even exist in 2021; and we have deployed more than 800 specialised managers who provide personalised support to customers seeking a mortgage, an insurance policy or a savings/investment product. Moreover, the cost base was reduced significantly at the same time, leading to improved efficiency.

The objective in Business Banking was to strengthen the bank's solid franchise in this segment, driving growth and improving risk quality. To this end, we implemented growth levers such as sector-specific offers for self-employed workers and small businesses. We currently have 34 sector-specific offers, and customer acquisition in these sectors in 2023 was 40% higher than in 2021. We also signed a strategic agreement with Nexi, a European leader in the payments space, to leverage our payments value proposition for merchants. In the area of risk management, we stepped up the use of data analytics in the loan authorisation process, and deployed specialised industry analysts, among other measures. As a result, more than 80% of new lending is now to customers and sectors designated as priorities.

To improve returns in Corporate Banking in Spain, we focused on managing profitability on a customer-by-customer basis. In 2023, 83% of customers had a risk-adjusted return on capital, RaRoC, above 10%, whereas only 40% exceeded this level in 2021.

In the UK, our goal was for our subsidiary there, TSB, to return to profitability. To this end, TSB focused on what it does best and what the market recognises: its mortgage and personal banking businesses. At the same time, it implemented an ambitious efficiency plan. TSB achieved a remarkable turnaround. After contributing close to 500 million in losses to the group between 2018 and 2020, it has been making a positive contribution continuously since the first quarter of 2021.

As for the rest of the international business — Mexico, the Miami branch and the other overseas branches — the priority was to actively manage the capital that the group allocates to these businesses. Mexico focused on reducing its cost base and improving its Cost of Risk, and it reported a profit of 44 million euro in 2023, after just breaking even in 2020. We enhanced the Miami branch's business model, which combines corporate and private banking, and it is achieving returns that are above the group average. The focus in the case of the other overseas branches was to support Spanish customers in their dealings in other countries and local customers with business in Spain.

Overall, 2023 proved to be a good year for Banco Sabadell. The bank is strong and we face the future with optimism and confidence. Our strategy will continue to bear fruit, profitability will continue to improve, and we will continue to have a positive impact on our customers, the economy and society.

A handwritten signature in black ink, appearing to read 'C. Bueno', written over a horizontal line.

**César González-Bueno**  
Chief Executive Officer