

Businesses



89	Banking Business Spain
121	Banking Business United Kingdom
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Businesses

The key financial figures associated with the Group's largest business units are shown hereafter, in accordance with the segment information described in Note 38 to the consolidated annual financial statements for the financial year 2023.

4.1 Banking Business Spain

Key figures

Net profit as at the end of 2023 amounted to 1,093 million euros, representing a year-on-year increase of 41.8%, mainly driven by the good evolution of net interest income.

Net interest income amounted to 3,353 million euros as of the end of 2023, growing by 34.2% year-on-year, due to higher loan yields and improved fixed-income revenue, underpinned by higher interest rates, which offset the higher costs of funds and capital markets.

Net fees and commissions stood at 1,247 million euros, 7.2% less than at year-end 2022, mainly due to the drop in service fees and asset management fees, particularly fees on pension funds and insurance due to the change in the insurance product mix.

Gains/(losses) on financial assets and liabilities and exchange differences amounted to 45 million euros, which represents a reduction in year-on-year terms, mainly due to trading derivatives.

Other income and expenses were mainly impacted by the -156 million euro bank levy paid in 2023.

Total costs recorded a year-on-year increase of 4.2%, due to higher staff expenses, including salary management in the wake of inflationary pressures, and to the increase in general expenses, particularly marketing and technology expenses.

Provisions and impairments amounted to -816 million euros, down by 11.2% year-on-year, due to the booking of fewer provisions for both loan losses and financial assets, and also due to the impairment of real estate assets.

Million euro

	2023	2022	Year-on-year change (%)
Net interest income	3,353	2,499	34
Fees and commissions, net	1,247	1,344	(7.2)
Core revenue	4,601	3,843	19.7
differences	45	95	(52.8)
Equity-accounted income and dividends	131	156	(15.7)
Other operating income and expenses	(404)	(225)	79.7
Gross income	4,372	3,869	13.0
Operating expenses, depreciation and amortisation	(1,965)	(1,887)	4.2
Pre-provisions income	2,407	1,982	21.5
Provisions and impairments	(816)	(920)	(11.3)
Capital gains on asset sales and other revenue	(27)	(9)	198.1
Profit/(loss) before tax	1,564	1,053	48.5
Corporation tax	(469)	(270)	73.6
Profit or loss attributed to minority interests	1	11	(87.1)
Profit attributable to the Group	1,093	772	41.7
Cumulative ratios			
ROTE (net return on tangible equity)	12.0 %	9.3 %	
Cost-to-income (general administrative expenses / gross income)	37.2 %	39.9 %	
NPL ratio	4.3 %	4.2 %	
Stage 3 coverage ratio, with total provisions	59.9 %	56.2 %	

Gross performing loans decreased by 4.6% compared to the previous year, impacted by the higher interest rate environment, where particular note should be taken of the reduced balances of SMEs and corporates, the maturity of Public Treasury loans and the smaller volume of mortgages.

On-balance sheet customer funds fell by 1.9% year-on-year, due to the reduction of demand deposits, as customers searched for products that offer higher returns on savings, with that reduction being partially offset by an increase in term deposits and commercial paper. Off-balance sheet funds increased by 5.4%, mainly due to mutual funds.

Million euro

	2023	2022	Year-on-year change (%)
Assets	173,648	189,545	(8.4)
Gross performing loans to customers	103,830	108,889	(4.6)
Non-performing real estate assets, net	586	713	(17.8)
Liabilities	162,767	179,402	(9.3)
On-balance sheet customer funds	117,820	120,118	(1.9)
Wholesale funding in capital markets	19,949	19,444	2.6
Allocated equity	10,880	10,005	8.7
Off-balance sheet customer funds	40,561	38,492	5.4
Other indicators			
Employees	13,455	12,991	3.6
Branches and offices	1,194	1,226	(2.6)

Within Banking Business Spain, it is worth noting the main business lines, about which information is given here below:

Retail Banking

Business overview

Retail Banking is Banco Sabadell's business unit that offers financial products and services to individuals for personal use. The business is based on a banking model that combines processes typical of a digital bank for interactions that require the autonomy, immediacy and simplicity that only digital channels can offer with specialised and personalised commercial management for those interactions where expert support is needed, provided through the branch network, both in brick-and-mortar branches and remotely. Among the main products offered, it is worth noting investment and financing products in the short, medium and long term such as consumer loans, mortgages and leasing/rental services. As for funds, the main products on offer are customer term and demand deposits, savings insurance, mutual funds and pension plans. Additionally, the main services also include payment methods such as cards and various kinds of insurance products.

Management milestones in 2023

The efforts made in 2023 have focused on continuing to move forward with the strategic priorities that are allowing the Retail Banking business to be transformed. Those priorities are the following:

- Organisation according to products, which makes it possible to focus on customers' needs and to offer specialised and personalised products and services, enabling greater autonomy, immediacy, agility and simplicity.
- The development of digital capabilities in relation to servicing, the attraction of digital demand and the generation of digital sales in self-service and remote channels.
- The specialised sales force, supported by the branch network, allows a superior customer support model to be offered for products where customers require more advice or support from experts, such as mortgages, protection insurance and savings/investment.

In 2023, the Retail Banking business has continued with its transformation, moving forward in the following areas:

- Customer-focused growth, with more than half of new customers currently registered via the digital channel.
- Change of sales mix: increased level of digitalisation in accounts, cards and consumer credit, which in turn increases the volume of sales year-on-year.
- The specialised distribution model has been completed, supporting customers in mortgages, insurance and savings/investment products. Because the model has matured, the percentage of the specialists' contribution to the business has increased.
- Self-service: an increasing number of customers are choosing to do most of their banking remotely, with the mobile app recording considerably higher usage rates than branches. In addition, in 2023, customer satisfaction indices in relation to the services received has greatly improved.

Lastly, the Retail Banking business is firmly committed to achieving the Group's sustainability targets, fulfilling its ambition in terms of sustainability, whilst also contributing to the attainment of key business objectives.

Main products

The main Retail Banking products are described here below:

Mortgages

The evolution of the mortgage market in Spain in 2023 was characterised by a reduced volume of transactions and a lower average transaction amount, as a result of rising interest rates and inflation.

In this environment, Banco Sabadell has continued to make progress:

- By adapting its mortgage offer to the environment and to the perceived needs of its customers with the launch of the hybrid mortgage, which already accounts for 16% of total new mortgage lending since its launch.
- In the mortgage specialists' distribution model, with all branches included in the model, focusing on remote management (122 remote specialists covering 100% of branches).
- In the transformation of the mortgage process, outsourcing administrative tasks to focus on the commercial function of specialists and increase capacity to generate and manage demand, reduce processing lead times and improve the customer experience.
- By improving the digital experience in the mortgage application process, optimising mortgage switching and making efficiency gains. In particular, the focus has been upstream in the digital journey, where technological, intelligence and commercial systems capabilities have been rolled out to allow better prioritisation of commercial opportunities.

Consumer loans

In consumer loans, 2023 was characterised by volume growth, driven by various improvements introduced, among them, speeding up the loan application process and adapting the product offering to meet the end customer's needs.

These improvements also served to increase digital credit applications and pre-approved loans proportional to total new lending, ensuring adequate risk management and segmentation.

With regard to short-term financing solutions, the Sabadell Credit Line product (formerly the Expansion Line) continued to record very good usage and uptake levels among customers, and it was rated very highly due to its 100% online usability.

Payment services

2023 was a good year for growth of card transactions, with an 8% increase in purchases, which reached 19,576 million euros. In terms of card financing volume, the level of year-on-year growth prior to the pandemic (approximately 9%) was achieved, reaching 356 million euros.

On the other hand, the instant card issue process was consolidated, allowing customers to use their new card immediately in e-commerce and

mobile payment transactions following application. The percentage of card activations executed via digital channels represented 47% of total activations, while mobile payments represented 24% of purchases.

With regard to the Bizum payment system, Banco Sabadell has more than 1.7 million registered users.

Demand deposit accounts

Banco Sabadell has a digital onboarding process that has allowed it to boost its acquisition of digital customers, improving productivity and the customer experience. In less than 10 minutes and with just one contract signing session, new retail customers can register with their mobile phone, quickly and simply, through an integrated onboarding process which, in addition to the Digital Account, also includes a package of products that meet the basic needs of customers (among them, a debit/credit card, the Sabadell Savings account for easy saving, the remote banking service to manage accounts, as well as the alerts and notifications service).

Following the launch of the digital onboarding process in 2022, the Sabadell Online Account was renewed in the second quarter of 2023, with the aim of continuing to acquire new customers and become their main bank, in order to drive profitable growth in the Retail Banking segment.

The main demand deposit accounts offered are the following:

- Sabadell Online Account: for new retail customers, opened digitally.
- Sabadell Account: for retail customers.
- Sabadell Premium Account: exclusively for Private Banking customers.

The main offering is supplemented with the offering aimed at customers with specific needs: non-residents, minors under the age of 18, and the basic payment account for those at risk of exclusion.

Savings and Investment

Market volatility and interest rates affected asset performance and, consequently, mutual fund returns.

In mutual funds, the main milestones during the year were the following:

- The mutual funds offering was adapted to the market situation and to customer demand by incorporating the following types of products:
 - Guaranteed products: during the year, guaranteed fund products were offered that combined fixed and variable return funds, with the launch of the mutual funds Sabadell Garantía Fija 20, FI, Sabadell Garantía Fija 21, FI, Sabadell Capital Extra No.1, FI and Sabadell Capital Extra No. 2.
 - Target return products: introduction of two mutual funds that feature a target, not guaranteed, to recover 100% of the initial investment plus a return on maturity, namely Sabadell Horizonte 10 2025 and Sabadell Horizonte 02 2026, launched in September and November, respectively.
- Improvements were made to information on digital channels and customer information in general.

With regard to guaranteed return insurance plans, the high-interest rate environment boosted customer interest in these products. Specifically, savings plans and life-contingent annuities saw a significant increase in premiums compared with previous years.

This growth was also seen in the unit-linked savings insurance product, which involves assets linked to structured deposits with a capital guarantee and fixed coupon. Specifically, two multi-asset investment issues with an 18-month maturity were carried out, in which the linked assets are deposits issued by Banco Sabadell.

With regard to the pensions business, as in the case of guaranteed return insurance plans, the rise in interest rates increased demand for Insured Retirement Plans (IRPs), particularly those with a payback period of 3 and 5 years. This led to the launch of issues of IRPs with these payback periods, mainly channelled towards transfers from pensions schemes or short-term IRPs, due to the higher return offered. However, growth in the pensions business is influenced by the application of a cap on the maximum annual contribution.

In addition, the new online deposit account was launched, a digital-only fixed-term deposit account, with an excellent customer take-up, due to the ease of the account opening process and the return offered. In the coming year, there are plans to gradually expand this online deposit facility.

It is worth highlighting that specialists continued to be deployed in 2023. As at the end of December 2023, the cumulative contribution to new business of in-branch specialists was 29% and that of branches whose employees included a specialist was 52%.

With regard to deposits, and in accordance with the digital transformation strategy, a new digital application process was introduced that enabled retail customer deposits to grow, improving productivity and the customer experience.

Lastly, the offering of structured deposits was maintained over the year.

Protection insurance

The Group's insurance business is based on a comprehensive offering that meets customers' personal needs and cash requirements. The subscription itself is carried out through insurers in which the Group holds a 50% stake through the agreement between Zurich Group, BanSabadell Vida and BanSabadell Seguros Generales. The first of these insurers, which has the largest business volume, occupies the top spots in insurance firm rankings, based on premiums issued.

The strategy for the insurance business in Retail Banking consists of offering the Bank's customers the best option for protection insurance. To that end, a product offering is proposed, adapted to the needs of each type of customer, to ensure customer satisfaction every time they interact with the Bank. Commercial actions are mainly carried out through the insurance specialist, providing services to the Institution's different customer segments.

In 2023, the business continued to grow in spite of the complicated and uncertain environment. The main products that contribute to the insurance business are life insurance, home insurance and health insurance products. Specifically, the strong growth experienced in premiums in the area of health insurance products (28%) was the result of the agreement with the company Sanitas reached at the end of 2020. It is also worth noting Banco Sabadell's promotion of Blink insurance products, specifically, home insurance and vehicle insurance, which are arranged remotely.

It should also be mentioned that since the end of 2022, BanSabadell Seguros Generales has sold a funeral insurance product, through an agreement with the company Meridiano, a leading institution in this field.

Sabadell Consumer Finance

Sabadell Consumer Finance is the Group's company specialising in consumer finance at the point of sale. It carries out its activity through various channels and lines of business, entering into cooperation agreements with different points of sale.

The company continues to develop its product offering, adapting it to the needs of the market and ensuring a rapid response to the needs of its customers.

Activity in 2023 benefited from the end of the supply chain issues that affected the automotive industry, maintaining a good performance from one month to the next, due to increased purchases of new cars by individuals, as well as the inclusion of agreements with large groups.

Work also continued in areas such as training, homeowners' associations and sustainability. With new transactions reaching a weight of 31% of the consumer finance line, Sabadell Consumer Finance has become a leading player in the sector.

With regard to digitalisation, the "Instant Credit" tool for e-commerce provided an efficient response to both referrers and customers, increasing the number of contracts by more than 150% in one year and generating new business.

In 2023, Sabadell Consumer Finance executed 205,962 new transactions through more than 12,000 points of sale located throughout Spain, which translated into an inflow of new investments amounting to 1,368 million euros, placing the total outstanding exposures of Sabadell Consumer Finance at 2,170 million euros.



Business Banking

Business overview

The Business Banking unit offers financial products and services to legal and natural persons engaging in business activities, serving all types of companies with a turnover of up to 200 million euros, as well as the institutional sector. The products and services offered to companies are based on short- and long-term funding solutions, solutions to manage cash surpluses, products and services to guarantee the processing of day-to-day payments and collections through any channel and in any geographical area, as well as risk hedging and bancassurance products.

Banco Sabadell has a clearly defined relationship model for each business segment, which is innovative and sets it apart from its peers, allowing it to be very close to customers, acquiring in-depth knowledge of its customer base whilst at the same time offering a level of full engagement.

Large enterprises with turnover in excess of 10 million euros are essentially managed by specialised branches. All other companies, which include SMEs, small businesses and self-employed professionals, are managed by standard branches. All of these companies have relationship managers who specialise in their respective segments, as well as access to expert advice from product and/or sector specialists.

This all enables Banco Sabadell to be a standard-bearer for all companies, as well as a leader in customer experience.

Management milestones in 2023 and priorities for 2024

In 2023, the Business Banking unit focused its management efforts on strengthening the strategic courses of action established for each segment, in accordance with the Strategic Plan (2021-2023). This approach is reflected in a significant improvement in the profitability and specialisation of the large enterprises and SMEs segments, through specialised solutions tailored to customers, and in the framework's enhancement and the risk function's rapid optimisation of the portfolio's credit profile. The branch network's specialisation has helped to evince improvements in this business line's cost of risk and return on equity (ROE).

Furthermore, the development and enhancement of the sector's commercial offering aimed at small businesses and self-employed professionals constituted another key management milestone during 2023, successfully consolidating the Bank's position as a leading specialist in the market for this segment. In its mission of maximising the value proposition and putting a wide range of products and services on offer for its customers, Banco Sabadell announced that it planned to close a strategic deal with Nexi, a European leader in digital payments. This strategic deal is scheduled to commence in 2024.

Following the structural change implemented in the past year, the new Private Banking model has been successfully implemented. This model has brought the Bank closer to its customers and allowed it to better understand their needs, providing operational capabilities to improve management and adjusting the value proposition with different products adapted to the preferences of high-value customers.

In 2024, Business Banking will face a series of key challenges that will set the course for its strategy in the coming years. Efforts will be made to boost the growth of the customer base and the profitability of the various segments, endeavouring to optimise operational efficiency and the offering of specialised products and services so as to meet the

specific needs of each customer. Particular emphasis will be placed on improving cost of risk, implementing proactive measures to mitigate risks and make the portfolio more robust.

In addition, the Institution's commitment to excellence in customer experience will be a core pillar. Significant initiatives will be undertaken, designed to improve customer interactions and satisfaction across all segments, from large enterprises to self-employed persons.

Lastly, the Institution aims to consolidate and cement its position as the leading bank for its business customers. This goal will be achieved with high-quality financial solutions, the cornerstones of the approach being innovation, specialisation, and customer centricity and proximity.

The different segments, specialists and commercial products that fall within Business Banking are described here below.

Segments

Large enterprises

Banco Sabadell has been by the side of large enterprises, comprehensively managing its customers through relationship managers specialising in different sectors in order to help them make the best economic decisions and with a pool of specialists who have supported customers based on their business needs.

In an economic environment marked by the geopolitical situation, inflation and changing interest rates, this comprehensive management of customers has made it possible to support companies by adapting to the new circumstances. Banco Sabadell has offered customers with liquidity needs access to both basic financing solutions and complex solutions with 360° value propositions. In terms of customers undergoing economic growth, Banco Sabadell has remained by their side with specialised lending solutions typical of the middle market, acting either alone or in a pool with other credit institutions, adding solutions for cash surpluses.

Where sustainability is concerned, Banco Sabadell has participated in the market as a key player in the drive towards a more sustainable economy, providing finance for projects developed by its customers for purposes directly or indirectly linked to environmental, social or governance improvements.

In 2024, the sector-specific approach will be further enhanced, providing more knowledge to customers, with a greater level of professionalism, adding more value and supporting customers by acting as a key player.

Small and medium-sized enterprises

2023 was marked by an unstable context, with high rates of inflation, although these increased less sharply than in 2022, with interest rates rising during the first half of the year and stabilising in the second half, amidst a complex geopolitical situation due to the war in Ukraine and, more recently, the conflict in the Middle East.

Against this backdrop, Banco Sabadell remained by the side of SMEs, helping them and meeting their needs with its offer of value-added solutions for the basic management of their day-to-day operations and to finance their transformation and growth projects. Specifically, Banco Sabadell helped SMEs, ensuring the continued provision of basic payment and collection transactions and it also offered renewal options to deal with the increasing number of expiring ICO Covid guarantees. In addition, to meet SMEs' investment needs, Banco Sabadell launched several campaigns throughout the year to drive investment.

Within the framework of the Next Generation EU Funds, Banco Sabadell continued to hold briefing sessions among SMEs and actively provided all of them with information about the open calls published by the government that were best suited to each of them according to their characteristics.

For 2024, the challenge lies in helping SMEs benefit from the opportunities offered by the Next Generation EU Funds, activated with the Recovery Plan Addendum, a large part of which will go both towards strategic projects for economic recovery and transformation (proyectos estratégicos para la recuperación y transformación económica, or PERTES) that have a significant sustainable component, and towards offering loans to help these companies in their decarbonisation processes.

In terms of sustainability, Banco Sabadell has continued to create and offer sustainable financing and investment solutions to SMEs. In 2023, the Bank increased its portfolio of green products, including green and social loans as well as sustainability-linked loans.

It is also worth noting that in 2023, Banco Sabadell continued to develop its specialisation model launched in previous years, concentrating the management of larger SMEs in branches specialising in that segment. In 2024, it will continue to develop the model, offering an even higher level of professional support based on its knowledge of the sectors and markets in which SMEs operate.

Small businesses

Banco Sabadell continued to support the daily activities and new projects of self-employed professionals, small retailers and businesses, focusing on the development of the customer value proposition and making a concerted effort, as it does every year, to strengthen the Bank's position as a specialist in the minds of customers of this segment, based on the promotion and consolidation of a business methodology whose key component is a differential offering specifically designed for each activity sector.

The aim is to gain an even deeper understanding of the factors that shape customers' day-to-day lives in order to offer each customer the solution that is best suited to them, building on the offering by actively listening to customers and relationship managers, professional groups and representatives from industry associations, ensuring that they actually meet the identified needs. At present, the catalogue of specific solutions considers 34 different activity sectors, prioritising those that offer the biggest opportunity in the current economic environment.

In accordance with this sector specialisation framework and in order to apply it to the market in a tangible way, the approach to both existing and potential customers was enhanced during 2023, with the launch of frequent sector campaigns that, on one hand, serve to galvanise the commercial activity of specialist managers and, on the other hand, help to give a much clearer and more powerful message about Banco Sabadell's value proposition by specifically targeting an audience with common needs and interests. Examples of this in 2023 include the "Health and Well-being" and "Bars and Restaurants" campaigns, which delivered significant year-on-year increases in customer acquisition in these sectors. Both conveyed the idea of proximity as a common denominator and were underpinned by an innovative product, the Smart PoS device, a smart payment terminal capable of adapting to each user by combining its various available applications, in addition to rewarding merchants' customers with free purchases during the campaign period as an additional incentive.

In addition, during 2023, relationship managers specialised in assisting self-employed workers, small retailers and businesses were once again the most numerous and representative management figure of the entire branch network, thus demonstrating the Bank's clear vocation for, and commitment to, a customer segment that attaches great value to proximity and personalised assistance from an expert manager. New features were added to the management support system available to these relationship managers, designed to help them better understand the key aspects of each sector, thus providing the best response to the specific needs of each one, including a university-accredited expert training programme on how to advise businesses and self-employed professionals.

In parallel and in line with the development and consolidation of new financial service consumption habits, Banco Sabadell continued to drive the digitalisation of customers during the year, responding to their needs for self-service transactions and enabling new products and services to be applied for and managed remotely. On this topic, it is worth mentioning, as the main achievement and flagship of new capabilities, the implementation during the fourth quarter of a digital channel for the acquisition and engagement of self-employed customers, allowing the Bank not only to significantly increase its sources of customer acquisition but also to fill a gap in the market with a 100% online process, becoming a pioneer in the sector, and with the support of a new specific online account for this segment, offering the best conditions in the market.

In 2024, the main challenges in relation to this segment relate to strengthening the specialisation of both the product offering and relationship managers, consolidating a digital model for the management and engagement of self-employed customers that can guarantee the best customer experience by combining it with the capillarity of the Bank's branch network, and promoting the sophistication of the value proposition in PoS (point of sale) terminals, which are a key product for this segment, by developing new devices and considerably expanding the range of solutions on offer to customers according to the needs of each business.



SabadellUrquijo Banca Privada

2023 saw the launch of the new Private Banking model. Banco Sabadell has set itself the target of growing in private banking and to that end it has redefined the type of customer that can access the most exclusive services based on business intelligence, allocating the necessary resources to support that growth.

The first phase of the process consisted of identifying which customers need and value bankers' advice. Thanks to this analytical process, a large number of customers were identified and added to Private Banking, joining other customers already categorised in that segment. This had a positive impact in terms of the volume of funds under management. To serve those customers, Banco Sabadell tripled the number of professionals working in that area.

One clear objective with regard to the network of bankers was that they should be physically close to the territory in question. To that end, many bankers were deployed across the more than 1,000 Sabadell branches located throughout Spain. Two subsegments were created (Affluents and Private) to which customers are assigned according to their financial assets.

The value proposition was revised, paying particular attention to products specific to Private Banking, such as alternative management. With regard to the investment funds on offer, there are Sabadell Asset Management funds, with exclusive products for Banco Sabadell customers, and also Amundi Group funds. Amundi is not only a key partner in terms of the mutual funds it offers, which it continuously updates and which are always competitive, but it is also an important technological partner for this business line. Banco Sabadell also offers a wide range of third-party products to all customers in this segment.

Regarding the transactional offer, products such as accounts and cards were revised. As for financing products, special prices were approved. In addition, specific risk management workflows were created, assigning staff specialised in Private Banking.

As for the UCITS management company, Urquijo Gestión, during 2023 it continued to support Private Banking through its management of customised mandates for customers in the Affluents segment.

In terms of asset diversification, Urquijo Gestión has balanced the positions of its customers between international equity and fixed-income assets, enabling the recovery of a large part of the losses sustained by markets in 2022, particularly fixed-income markets, which account for a significant portion of Banco Sabadell customers' savings.

Due to an environment of geopolitical uncertainty, financial restrictions and weak growth, in 2023 a cautious position was held in equities, prioritising companies that stand out due to their quality, dividends and thematic ideas. The Bank focused on governments and companies with investment grade ratings, which shielded customers from interest rate volatility, leaning on products that took fixed income to maturity.

In order to remain close to customers, supporting them and increasing the level of their business engagement with SabadellUrquijo Banca Privada, Banco Sabadell increased the number of conferences, meetings and events with customers in this unit. Participants included Amundi, the Banco Sabadell Foundation and international mutual fund managers, in addition to other brands linked to the world of sport, motor vehicles, watches and aviation, as well as cultural institutions such as the theatre organisations Teatro Real de Madrid and Gran Teatre del Liceo de Barcelona.

The commercial strategy implemented in 2023 generated very positive data in relation to business. Evidence of this lies in the large number of new customers registered in the Private Banking segment, thus contributing to a considerable increase in volume, which will

ultimately have a positive impact on Banco Sabadell Group's results and create value for its shareholders.

The Private Banking unit proved to be a driver for Banco Sabadell's growth, helping to position it as a leading institution in Spain when it comes to Private Banking.

Institutional business

The goal of the Institutional Business division is to develop and enhance the business with public and private institutions, placing Banco Sabadell as a leading institution in this line of business.

Managing this line of business requires the specialisation of products and services in order to offer a comprehensive value proposition to public authorities, financial institutions, insurance firms and mutual insurance companies, as well as religious and third-sector organisations.

2023 was a very busy year for all institutional businesses. Activity in terms of asset management was very dynamic, with continuously rising interest rates, which saw agents in the financial sector actively engaged in fierce competition to gather funds. To respond to this new panorama in which the spotlight was on business profitability, Banco Sabadell strengthened its position in these segments, with increased commercial activity, more proximity and a wider range of solutions, all of which resulted in an increase in customer acquisition, turnover and in the margin generated with its offering of products with more added value for customers and for the Institution.

Public institutions

Public institutions' economic activity in 2023 was marked by the slowdown of borrowing activity, due in large part to elections and the increase in cash surpluses among the various public authorities.

The result was a decline in asset volumes, as a result of reduced borrowing activity and a large amount of ordinary repayments, as well as a reduction in liabilities, due to high levels of competition for customer funds in the market.

During 2023, due to higher interest rates, autonomous communities that had been restructuring government debt with financial institutions stopped requesting those transactions, there being no way to further improve the cost of funds. This circumstance is reflected in smaller volumes of long-term loans granted to autonomous communities that are members of the Autonomous Liquidity Fund, these being limited to short-term borrowing only.

Financial institutions and insurers

In terms of investments, 2023 continued to be affected by an environment of high rates of inflation with high interest rates, driving investments in fixed income and prioritising these over alternative investments. Investors turned their attention to more liquid and less complex assets, which are currently producing attractive yields. In this respect, investors showed preference for positions in government debt from both periphery and European countries, as well as emerging countries, opting above all for short-dated positions.

The Financial Institutions and Insurers unit continued to roll out the value-added proposition for these institutions, focusing especially on adapting the offering to plain vanilla products. With the new context of positive interest rates, the interest offered on accounts in this segment was adapted on a discretionary basis and according to the level of

customer engagement, particularly their transactionality. On the other hand, for fixed-income products, the Bank took advantage of investors' interest in issues of public debt and sustainability bonds. At the same time, both the CRISAE senior debt fund and the AURICA IV private equity fund (marketed by Banco Sabadell) took positions in interesting operations. Lastly, it is worth noting the infrastructure operations brought to market in relation to renewables with customers in this segment.

Religious institutions and the third sector

The Religious Institutions and Third Sector Division offers customers a range of products and services adapted to the unique characteristics of these groups. They cover everything from transactions to specialist advice on financial assets.

2023 saw the completion of the second and third editions of the university-level qualification of Financial Advisor to Religious Institutions and Third-Sector Organisations, offered to employees and customers of both these groups. These two new editions culminated with a total of 244 enrolled students (75 of whom were Banco Sabadell employees, with the remainder being customers and employees of religious institutions and the third sector as well as other sectors), a total of 188 of whom received a certificate of completion from Francisco de Vitoria University. For the first time, the course was open to professionals from all sectors, with a wide range of grants available covering up to 80% of the enrolment fee.

Uptake of the DONE system for collecting charity donations, which works with contactless technology, continued to grow throughout the territory, helping non-profit organisations to raise funds for their projects.

The Religious Institutions and Third Sector Division coordinated the delivery of financial aid for the charitable causes supported by the fund Sabadell Inversión Ética y Solidaria, FI, managed by Sabadell Asset Management, and it also managed the payments made together with the branches and beneficiary entities. This year, for the 27 charitable projects of the 27 entities selected by the Ethics Committee in 2022, almost 280 thousand euros were delivered, bringing the cumulative figure since 2006 to over 3.3 million euros. Furthermore, in 2023, the Ethics Committee selected a total of 24 humanitarian projects primarily focused on addressing risks of social and labour exclusion, improving the living conditions of people with disabilities and meeting their basic needs in terms of food, healthcare and education. Sabadell Asset Management will distribute the aid to these projects in 2024.



Segment specialists

Franchising

Banco Sabadell was the first financial institution in Spain to adopt the franchising system. For 27 years, its Franchising Division has supported both franchising brands and their franchisees, becoming a leader and standard-bearer in the sector. It is a consolidated and professionalised sector that has been increasing its turnover, job creation and the number of franchising brands. Banco Sabadell has 9,000 franchised customers and has signed partnership agreements with most brands, over 1,100 in total. It offers them products and services, with advantageous conditions to access funding, as well as transactionality and protection, through its branch network and with the support of franchise directors specialising in different sectors.

Banco Sabadell works closely with the Spanish Franchisors' Association (Asociación Española de la Franquicia, or AEF) and was the first bank to secure a partnership with that association and, together, they drive this business model. During 2023, Sabadell Franquicias took part once again in the annual Expofranquicias Madrid fair, with its own stand, travelling to the various locations where the Franquishop and Franquinorte events took place. Reports were also commissioned, including *El Informe de la franquicia en Madrid* (Franchising in Madrid), *Observatorio de la Jurisprudencia de la Franquicia* (Franchise Case Law Observatory), and *La Mujer en la Franquicia* (Women in Franchising). Articles were published in the press and in magazines, and it partnered up with various consultancy firms specialising in franchising. Countless other activities were covered by social media, reinforcing the Bank's renown and leadership in this business model.

Agriculture segment

In 2023, Banco Sabadell's Agriculture Segment, which includes the agriculture, livestock, fishing and forestry production subsectors and has more than 300 specialised branches, increased its customer base, as well as the portfolio of specific financial products and services with features tailored to the demands of customers in the sector.

Banco Sabadell's firm commitment to this sector, in particular thanks to its personalised customer support, led to a significant increase in business compared to 2022, with customers continuing to put their trust in the Bank, translating into an increase in the customer base compared to the previous year.

During 2023, Banco Sabadell's Agriculture Segment participated in nine fairs of the agrifood sector and sponsored 38 events throughout the nation.

Banco Sabadell's Agriculture Segment has the clear objective of being by the side of customers in this sector in their digitalisation and sustainability activities, taking advantage of the efficient lever that will be the contribution of the Next Generation EU funds.

Hotel and tourism business

Banco Sabadell was the first financial institution to specialise in Tourism Business in order to adapt to the top contributing sector to Spain's GDP. It has consolidated itself as one of the top banks, a leader in the sector, offering expert advice with the highest standards of quality.

The value proposition for this segment mainly consists of offering specialised financial solutions to a diverse and highly fragmented group of customers, based on three core pillars: expert advice, a catalogue of specialised products, and rapid response.

Within the value proposition especially designed to provide a specific solution to each customer, and mindful that activity in the sector came to a complete standstill as a result of the health crisis triggered by Covid-19, which saw all establishments forced to close by decree. Both 2022 and 2023 were very successful years for the sector, with full recovery of visitor numbers, tourist expenditure, overnight stays and occupancy rates. Banco Sabadell continues and will continue to support projects, to build new hotels and also to improve and reposition existing ones.

The Tourism Business Division also has the institutional recognition and participation of leading entities in the industry, such as Spain's Tourism Council (Consejo Español de Turismo, or Conestur), the Tourism Commission of the Spanish Confederation of Business Organisations (Confederación Española de Organizaciones Empresariales, or CEOE) and the Tourism Commission of the Spanish Chamber of Commerce.

As it does every year, Banco Sabadell was present at the main international tourism fair (FITUR) with its own stand. The fair ended with an almost record-breaking number of 222,000 visitors and 8,500 participating companies.

Sabadell Professional

Banco Sabadell is a leader in the management of agreements with professional and business associations and bodies throughout the country. Its differentiation lies in the close relationship it has with these groups, which starts with the support provided by the directors of Sabadell Professional. The mission of this specialised segment is to cater to the needs of schools, associations and their members with an offering of specific and unparalleled financial products and services. In 2023, the Bank participated in over 400 events and conferences organised by these professional associations and bodies.

In addition, given its prominent position in this customer segment, specific actions were taken during the year to boost the various sector-specific products on offer for the different groups, focusing heavily on self-employed persons and small businesses. The opportunity offered by the Next Generation EU Funds also continued to be leveraged, using them for the rehabilitation of private housing, as part of the sustainability strategy, given the close relationship with associations of licenced property managers in Spain, substantially increasing the amount of funds channelled towards home rehabilitations.

Another aspect worth highlighting is the creation of the first simplified occupational pension plan for self-employed professionals in Banco Sabadell, promoted by Spain's Consejo General de Economistas (General Council of Economists), which was first offered to self-employed persons in November 2023.

Associate Banking continues to strengthen the link with customers who are SMEs and small businesses, based on a differential range of products and services for their executives and employees, as an important remote channel for acquiring individual customers at Banco Sabadell.

Retirement planning

Through its Retirement Planning unit, Banco Sabadell Group offers solutions and responses to customers to help them better implement, manage and develop their retirement planning systems through pension plans and group insurance policies.

In 2023, the demand for workplace retirement planning systems continued to grow, particularly demand for collective retirement insurance and joint pension plans among small and medium-sized enterprises. Part of the business comes from tender processes and bids through consultants, with demand and business generated through this channel having increased.

Both in collective retirement insurance and in pension plans, it is worth noting, as an innovative and unique solution in the market, the life cycle-based investment policies that complement profiled investment funds.

Also worth mentioning in the pension plans business line are the new simplified occupational pension plans for the self-employed, under Law 12/2022 of 30 June on regulations to boost occupational pension plans. These plans can be promoted by any association, federation, syndicate or trade union representing sole traders or self-employed workers, or by any professional body or mutual insurance society, and they allow self-employed professionals to make contributions above the limit of 1,500 euros applicable to individual pension plans. The Bank reached an agreement to market these plans, promoted by the General Council of Economists (Consejo General de Economistas) and the Professional Union of Self-Employed Workers (Unión Profesional de Trabajadores Autónomos, or UPTA), both of which are leading institutions among the self-employed segment, first bringing them to market in November 2023.

It is also worth calling attention to the Sabadell Flex Empresa product, available across the branch network since February 2023. This product consists of a fully digital platform for cafeteria plans that allows companies to optimise their remuneration model, at very competitive prices. It is a solution that enables managers and employees to maximise their savings and increase their net disposable income by optimising their taxation.

Real estate business

The Real Estate Division focuses on comprehensively handling the residential real estate development business through a specialised and well-consolidated management model.

Banco Sabadell's commitment to this sector has allowed it to continue consolidating, year after year, its developer mortgage loans, guarantees and reverse factoring facilities, with a growing associated margin.

2022 was marked by increasingly expensive commodities (steel, cement, aluminium) that continued to have an effect in 2023, which saw a slight decrease in lending volumes, although to date the target margin remains unchanged.

The Investment Property Division focuses its efforts on generating new business and consolidating the completion of residential properties so as to minimise any potential negative impact, as well as monitoring sales in progress.

The main strategy is to maintain the Bank's leading position in the sector, consolidating its market share, prioritising the best business opportunities by pinpointing the most noteworthy projects and the most solid customers, all the while minimising risk and maximising profit for Banco Sabadell.

BStartup

In 2023, Banco Sabadell celebrated 10 years since the creation of this pioneering financial service for startups and scaleups, the first of its kind among Spanish banks. The enormous growth of this segment and of many of its customers validates the belief upon which the service was launched in 2013: that the great companies of the future will emerge from among those companies.

It is a project unique to Banco Sabadell that offers a 360° service of specialised banking and equity investment and which plays a very active role in the country's innovative entrepreneurial ecosystem.

Banking specialisation has been the key pillar of BStartup from the very beginning. It is fundamentally based on a team of relationship managers dedicated exclusively to startups and scaleups in the Territorial Divisions with the highest concentration of this type of companies, with their own risk management process, specific products and a team of specialists that drive the business throughout Spain.

As at 2023 year-end, BStartup had 5,128 startup customers. These customers have a strong level of engagement, they are very international and their activities are often complex.

Equity investment is mainly aimed at early-stage tech companies with strong growth potential and scalable, innovative business models. This year, 1,050,000 euros were invested in ten startups. BStartup invests in all types of sectors, above all in digital companies, and it also maintains its two specific verticals. In 2023, it launched the third call for proposals under BStartup Green for startups that use technology or digitalisation to facilitate the transition to a more sustainable world (from the point of view of the energy transition, industry 4.0, smart cities and the circular economy). 154 companies have been analysed in this vertical. The year also saw the launch of the sixth call for proposals under BStartup Health, already a firm leader in investments in healthcare industry startups in the early stages of bringing science to market in Spain. This year, proposals for 108 projects were submitted. With the ten new companies that received investments, there are now 71 investees in the portfolio of BStartup10, which is regarded very highly and has already delivered significant returns. During the year, three companies went fully public, one of them with substantial capital gains, and one went partially public, also with gains.

This year, to mark BStartup's tenth anniversary, the Bank was present at all the key events of the entrepreneurial ecosystem. BStartup's team organised or actively participated in 110 entrepreneurship events throughout Spain. This, together with all the activity mentioned above, continues to reinforce Banco Sabadell's reputation and position as a leading bank for startups and scaleups. As proof of this, BStartup was mentioned 1,289 times in various media (offline and online press), it amassed 13,871 followers on Twitter and BStartup was one of the trending topics in connection with the Bank on social media every month, always with a positive sentiment.

Companies Hub (*Hub Empresa*)

The Companies Hub is Banco Sabadell's centre for business connections, an initiative that contributes to positioning the Bank as the financial institution that best understands the challenges of growth and transformation faced by companies and the one that can best help them on that journey. It is an instrument used by the Institution to communicate with SMEs, small businesses and the self-employed, based on valuable business content that is of great use to them and that at the same time highlights Banco Sabadell's specialisation in companies, as well as its proximity to customers. The Companies Hub combines:

- A digital space where companies can connect with everything that interests them through webinars led by the Bank's experts and leading external figures. These are inspiring and engaging sessions in which business experiences and relevant and current content are shared. This year, 103 activities took place (60 webinars, 42 in-person events live-streamed from the Companies Hub in Valencia, and 1 in-person event streamed from the auditorium in Serrano, Madrid), in which a total of 16,937 companies and self-employed professionals took part (online).
- A physical space for companies located in the heart of Valencia, where they can connect with other companies, receive knowledge and business advice from experts, attend training events and workshops and access work spaces and meeting rooms for their business meetings. In 2023, 144 activities were held (in-house, co-hosted and third-party events), which a total of 5,914 people attended in person. To this figure should be added the 2,232 people who used the meeting rooms of the Companies Hub in Valencia (553 bookings for the meeting room were made by business customers), in addition to the more than 857 people from outside the Bank who took part in various activities organised by companies and organisations that are customers of the Bank in the physical premises of the Companies Hub in Valencia (signing of agreements, visits and other non-internal meetings).

This brings the total number of participants to 25,940, with the total number of organised in-house activities being 144.

The events' reviews continued to reflect great reception and wide acceptance of their content by participating companies, with an overall rating of 8.99 out of 10.

The impact of all the activities generated by the Companies Hub was amplified through other media, such as articles, news and videos that can be accessed through the press and social media. 87 summary videos of the events were made and released on the Bank's social media, and more than 67 articles and news items were featured in different spaces in print and online media about the Companies Hub and its support for companies, as well as the topics covered by the webinars. All this generated 1,127 mentions in social networks and offline and online media, reaching a total audience of 9.3 million users.

The main thematic areas are established and agreed by the Editorial Committee, following the lines of the Strategic Plan. This year, the events included the following:

- The "Inspiring Stories" series of conferences, with success stories from large customers interviewed by employees of Banco Sabadell, Naeco, Istobal, Herbolario Navarro, Grefusa and Destinia.
- The regular cycle of conferences on various practical and topical aspects concerning the Next Generation EU Funds and the opportunity they represent for the transformation of Spain's economy.
- The cycle of conferences on enterprise digitalisation, which for the first time this year included a large number of conferences on artificial intelligence, its application in business and the opportunities it offers, attracting a lot of interest and participation.
- The cycle of conferences on sustainability aimed to make SMEs aware of the need to have a sustainability strategy in place, providing them with information and tools to get started.
- The cycle of conferences on internationalisation, with solutions and the latest information of interest for the Bank's customers, organised by the Internationalisation Division.
- As well as many other events addressing a variety of current topics, such as business contingencies and insurance, occupational pension plans, trends in human resources and the latest news about tax-related matters, the macroeconomic environment and leadership.



Sabadell Partners

Sabadell Partners is a lever used to attract customers to the network of commercial banking and private banking branches and which helps the network, through partnership agreements with introducers, by bringing new customers and business in exchange for commissions, in addition to improving customer satisfaction.

It is particularly worth mentioning the growth of the Sabadell Partners Division and its significant contribution to the Bank's good results in 2023. This contribution already accounts for a key portion of the mortgage business generated over the year, generating 42.6% of the Bank's total new mortgage lending. The contribution and management by Sabadell Partners' top branches deserves to be seen as equally important. These are specialised branches that manage the relationship with the main mortgage partners.

Commercial products

Business services

Payment services

As at the end of 2023, the business volume of Payment Services was continuing with its upward trend, driven by the growth of domestic consumption and the surge of international tourism. In Banco Sabadell, payments collected through PoS terminals reached double-digit year-on-year growth, in terms of both the volume processed and the income generated. The Bank was also able to increase its PoS terminal count thanks to the good uptake levels of its most innovative product launched in May 2022 – the Smart PoS terminal – which remains one of the most advanced payment devices in the market and which recorded excellent year-on-year growth in sales.

The Institution has maintained its policy of offering an advanced and personalised service to small retailers and, to that end, it has strengthened its network of PoS and e-commerce specialists. In addition, in February 2023, the Bank signed a strategic agreement with Nexi, a leading European paytech company, ratifying the commitment of continuing to improve its value proposition and customer experience with a broader and more innovative product offering.

Corporate credit cards

The use of corporate credit cards continued to grow in 2023, recording an annual increase of +10.3% in purchases and +4.1% in turnover. As the use of cards becomes more widespread among its business customers, Banco Sabadell continues to work to offer a value proposition that is competitive in the market and which meets its customers' needs.

Company insurance

To maintain its position as a leading provider of risk insurance for companies, in 2023 Banco Sabadell worked to provide a comprehensive and competitive product offering with high-quality service. It developed the value proposition for its self-employed customers and small businesses, enhancing its specialisation in each sector and adjusting the offering to the specific needs of each industry. In particular, the specialised product offering for companies in the agricultural sector was expanded, adding new multi-risk insurance and livestock protection products. It also worked to make its multi-risk protection products for small retailers and businesses more competitive. The team of directors specialising in Company Insurance, distributed throughout Spain, continued to be consolidated during the year and was also strengthened with product and support training for the existing insurance policies service.

During the year, the focus was placed on personal protection products, with life insurance and health insurance products aimed at management staff and employees of the Bank's business customers, offered in the form of both fringe benefits and flexible benefit cafeteria plans. Equity protection products (multi-risk, civil liability and specialised products) continue to be the core products for Banco Sabadell customers, essential to protect the various material risks that may materialise in a company.

Company finance

Working capital credit experienced very significant growth, especially in the case of credit facilities. In 2023, a number of facilities covered by the ICO Covid guarantees signed during the pandemic expired. The renewal of these transactions drove the growth of new lending to double-digit figures.

As for the rest of the working capital credit products, the significant growth recorded in 2022 slowed down in 2023. As companies need to finance their day-to-day payments and collections, they increasingly turn to specialised lending solutions such as factoring, and above all reverse factoring, which account for an increasingly large proportion of the different lines of credit used by companies.

It is also worth taking note of the good uptake of a novel product launched one year ago: the Online Payments Line. This is a digital product that helps self-employed workers and businesses to fund their regular payments such as payrolls, taxes and supplier invoicing.

As for medium- and long-term products, new lending decreased in 2023, particularly in relation to miscellaneous loan transactions granted to large enterprises and the public sector. There was less bankruptcy-related activity in autonomous communities than in 2022, while large corporates, faced with higher interest rates, opted for short-term funding solutions. Fewer transactions are taking place, and those that are carried out are done so for smaller amounts.

In 2023, the Bank increased its portfolio of green products, both green and social loans and sustainability-linked loans.

Leasing and rental of capital goods

There was less demand for the leasing and rental of capital goods in 2023 compared to the previous year, reflected in a reduction of both the number of new contracts and the volume, as a result of the uncertain environment.

In relation to sustainability, a high percentage of the investment arranged through the leasing and rental of capital goods qualified as sustainable lending.

Vehicle leasing

The year continued to be affected by a shortage of stock, although things began to improve in June 2023.

Inflation also increased not only vehicle purchase costs but also the cost of all services included in this product. Despite the headwinds, there was a considerable increase in new business compared to the same period in the previous year, which also improved the product's margins.

In the second half of the year, the focus was placed on acquiring company fleets of vehicles, with very satisfactory results, allowing plans to be made for what looks to be a more normal year in 2024, resuming the trend followed prior to the pandemic.

Official agreements and guarantees

The Official Agreements and Guarantees Division continues to manage agreements with various public bodies with which the Bank maintains a relationship. The Bank has signed new partnership agreements that enable it to meet the financing needs of its customers.

These agreements include both national bodies (Spain's official credit institute (ICO), mutual guarantee societies and/or autonomous community entities) and supranational institutions such as the European Investment Bank (EIB) and the European Investment Fund (EIF).

The Bank opted in once again this year to the ICO's second-floor facilities and to the new home rehabilitation facility currently being developed for homeowners' associations, which will be brought to market in January 2024, through the Council of Ministers agreement, which

allows ICO Covid transactions to be extended to customers struggling to fulfil their payment obligations, 2,261 transactions were arranged.

360 transactions were also arranged under the ICO Ukraine line.

The Bank's agreements with Mutual Guarantee Societies (MGSs) operating in Spain were also revised. On this topic, it is worth noting the good uptake of the Industrialisation Support Programme whereby, through the support of the Next Generation EU funds, customers can obtain funding, with discounted interest rates and fees. This makes the cost of this funding much lower than the standard conditions offered by mutual guarantee societies and institutions. Of the total amount of funding requested through this programme, the second largest amount was applied for through Banco Sabadell, and the Bank's customers benefited from substantial direct subsidies.

In 2023, a very large number of applications for the various EIB facilities made available to customers was submitted. In October 2023, a new special agreement was signed between the EIB, the EIF and the ICO to offer 936 million euros of new finance to SMEs and ecological projects in Spain.

The aim for 2024 continues to be the launch of new lines and agreements with public bodies, in order to offer customers products with the best conditions to support their project finance.

International

As it has done in recent years, and in line with international geopolitical changes, Banco Sabadell has remained firmly by the side of companies to help them navigate the difficulties encountered in the different markets, attempting to provide them with the best financial solutions at all times:

- Management of ongoing transactions in Russia and neighbouring countries in order to charge for exports and manage imports in a way that is duly compliant with international sanctions.
- Change of activity in Egypt, due to the country's monetary difficulties, recommending the most suitable financial tools to avoid future problems for customers and actively promoting the use of letters of credit due to the added security that they offer to companies.

This year, efforts centred on providing training, both to teams of relationship managers and to heads of International Business, with the following initiatives:

- Training session on changes in export customs procedures, aimed mostly at specialists from the branch network and heads of International Business.
- Specific training on international matters, aimed at enterprise managers and other relationship managers in the branch network, in order to explain Banco Sabadell's value proposition in the area of international business and the criteria that should be followed to support companies.
- Launch of the Expert in International Business programme, imparted by ESIC and aimed at heads of International Business, who learned how to create an International Business Plan for companies.

A new (sixth) cycle of the course aimed at Banco Sabadell's business customers called the "International Business Program" was held, where companies receive training on how to develop an international plan in an efficient and well-organised way. It is a course that takes place annually and which sees good levels of participation.

At the business level, the Bank supported Spanish companies during this financial year, during which there have been notable increases in foreign trade, maintaining its position in Spain as leader in export letters of credit (34.5% market share) and export remittances (43.4% market

share), and ensuring customers' continued confidence in the teams of International Business managers as a support lever to increase their business abroad.

On the topic of communication, the following are worth mentioning:

- The creation of Country Factsheets, containing useful information about the various markets preferred by companies, such as Mexico and Saudi Arabia. This new type of communication will be gradually expanded to eventually cover all of the markets that attract the most interest.
- Various talks were held about international markets through Banco Sabadell's Companies Hub, holding 11 talks about topics of interest among companies, with more than 4,000 companies enrolled in these activities.

In terms of products, a new internal workflow was set in motion to improve the way in which working capital credit options and international guarantees covered by CESCE were made available to business customers engaging in foreign trade, improving and speeding up internal processes to allow specialist teams to improve the way in which they market these products, reaching a larger number of customers with highly specialised activity.



Corporate & Investment Banking

Business overview

Through its presence in Spain and in a further 15 countries, Corporate & Investment Banking offers financial and advisory solutions to large Spanish and international corporations and financial institutions.

It structures its activity around two pillars, the first of which is the customer. It aims to serve its customers who are natural persons to meet the full range of their financial needs. This pillar is determined by the nature of those customers and includes large corporations classed under the Corporate Banking umbrella, financial institutions, Private Banking customers in the USA and the venture capital business carried out through BSCapital. The second pillar is Specialised Business, which encompasses the activities of Structured Finance, Treasury and Markets, Investment Banking, and Trading, Custody and Research. Its goal is to advise, design and execute custom operations that anticipate the specific financial needs of its customers, be they companies or individuals, with its scope of activity ranging from large corporations to smaller companies and customers, insofar as its solutions are the best way to meet their increasingly complex financial needs.

Management milestones in 2023 and priorities for 2024

Corporate & Investment Banking continues to pursue its goal of prioritising the creation of value for its customers, thus contributing to their growth and future earnings. To do this, it has continued to innovate and promote its specialist capabilities, fundamentally in the areas of Investment Banking and Structured Finance, which are currently able to meet 100% of customers' financial needs. In the same way, the international coverage of the teams is constantly being improved, always serving the markets in which their customers invest or where they have business interests.

The key areas in which it works to create value for its customers are the following:

- Knowledge: the Corporate Banking teams, located in the different countries in which the Bank operates, have not only specialisation in the large corporations segment but also knowledge and penetration differentiated by activity sectors in order to better understand and serve customers according to their own and their sector's singular characteristics.
- Coordination: unique and specialised solutions are required to meet the needs of large corporations, and these can be provided as a result of the participation and collaboration of several areas within the Bank (specialist teams and even teams operating in different geographies). Coordination between all these teams is crucial for providing and bringing value to customers.
- Specialisation: there are units that develop custom products for large corporations and financial institutions (Corporate Finance, Project Finance, Project Bonds, Syndication, Commercial Paper Programmes, Debt Issuance, M&A, Asset Finance, Derivatives, Risk Hedging, etc.). The units responsible for developing this entire range of products do so for the entire Banco Sabadell Group, extending their capabilities to the Corporate and Institutional Banking segment.
- Innovation: transitioning from idea to action is vital to grow in such a dynamic and demanding market as that of specialised lending and large corporations. The necessary spaces and

mechanisms are created to allow teams to dedicate part of their time to innovation, understood in its broadest sense: innovation in products, in operations and also in the way of collaborating and interacting with others.

- Sustainability: customers are offered support and advice to move towards a more sustainable economy, generating solutions through specialised products and services.

As regards the measurement of the key figures regarding the performance of Corporate & Investment Banking, the focus is placed on monitoring the income statement (monitoring net profit in general and the main revenue items in particular), return on capital (RAROC), strict risk tracking and monitoring, as well as proactive action when faced with early signs of potential impairment.

Customer pillar

Corporate Banking Europe

Corporate Banking is the customer unit, within Corporate & Investment Banking, responsible for the management of the segment of large corporations which, given their size, uniqueness and complexity, require a tailored service, complementing the range of the more traditional financial products and transaction banking products with services provided by specialised units, thereby offering an end-to-end solution to their needs. The business model is based on a close and strategic relationship with customers, providing them with end-to-end solutions adapted to their needs and requirements, to that end taking into account the specific aspects of their economic activity sector and the markets in which they operate.

This unit also covers various foreign branches and offices, notably including the London, Paris, Casablanca and Lisbon foreign branches, which support and cater for the international activity of domestic customers and where the international Corporate Banking business is carried out.

2023 was characterised by the active support provided to customers, focusing on the search for optimal solutions to restore stability to their financial profiles, adapting them to the needs, demands and requirements arising as a result of the changes in the economy that began in the second half of 2022 and continued during 2023, with an environment of high inflation and as a result of higher interest rates in the different markets in which customers operate.

Lending volumes in Corporate Banking Spain have been maintained despite higher interest rates, standing at 8,034 million euros. On the international plane, after the exercise that took place the previous year to optimise the consumption of capital, lending positions remained broadly steady versus December.

As for profitability, measured in terms of ROTE, Corporate Banking Europe ended December 2023 with a ROTE of 16.59% (+336 basis points versus December 2022).

2024 poses a series of challenges, among which are the interest rate hikes that had already been taking place at the end of 2022 and which are estimated to be more moderate in 2024, and the inflationary environment that directly affects consumption and production. Corporate Banking is tackling these challenges by supporting its customers at both the national and international levels, with a product offering that covers 100% of their financing requirements, in both the short and long term, to deal with this new macroeconomic situation.

The contribution of value to customers in the large corporations segment and the improved profitability for shareholders are the two fundamental management pillars of this unit, which over the coming year will also focus on optimising capital consumption, with the aim of increasing the return on capital employed.

Corporate Banking and Private Banking USA

2023 marked Banco Sabadell's thirtieth year operating in the United States through an international full branch in Miami and Sabadell Securities USA, which was set up in 2008 and has been operational ever since. These units manage the financial business activities of corporate banking and international private banking in the United States and Latin America.

The Banco Sabadell Miami Branch is the largest international branch in Florida. It is one of the few financial institutions in the area with the experience and capability to provide all types of banking and financial services, from the most complex and specialised services for large corporations to international private banking products, including the products and services required by professionals and businesses of all sizes. As a way of complementing its structure in Miami, through this branch the Bank manages representative offices in New York as well as in Peru, Colombia and the Dominican Republic.

Sabadell Securities USA, for its part, is a stockbroker and investment advisor in the securities market that complements and strengthens the business strategy aimed at private banking customers residing in the United States, meeting their needs by providing advice on investments in capital markets.

2023 unfolded against a backdrop characterised by sharply rising interest rates and an uncertain macroeconomic environment.

With a balance of interest rate sensitive assets and unwavering discipline in controlling deposit prices, the branch continued to increase its net interest margin during the first half of the year. In the second half, the higher rates of interest paid in the banking market and the competitive rates of US treasury bills triggered a migration of balances from non-interest-bearing deposits to term deposits and to investments in securities with higher rates. This process resulted in a higher average cost of deposits, reducing part of the net interest margin during the second half of 2023. In addition, the composition of customers' investment portfolios was adjusted to become more heavily weighted in funds with exposure to US treasury bonds, causing a slight reduction in the average fees received on these portfolios.

The process of operational improvements continued during 2023, with completion of the second stage of the project to update the IT platform (Project Aspire) in order to improve the features available to customers and to business and support units. The third and final stage of this process will take place in 2024.

Turning to key financial figures, in an environment of considerable uncertainty over the projected performance of the US economy, the volume of business managed closed the year at almost 14.9 billion US dollars, representing an increase of 5%. In this environment, the balance of loans ended at over 6.4 billion US dollars, an increase of 1%, while total deposits ended at 3.7 billion US dollars, down 2% compared to the end of the previous year.

The private banking business was a mixed bag, with a slight reduction in deposits and a 16% increase in portfolios of investments in securities, which ended with a balance of close to 4.8 billion US dollars.

As a result of higher interest rates, the corporate banking business was impacted by the larger volume of loan prepayments, making it harder for overall lending volumes to grow in spite of the commercial efforts

made to grow in the target segments and with adequate returns. In any case, net interest income followed a very positive trend, mainly on the strength of higher market interest rates. As for net fees and commissions, these remained at similar levels to the previous year. All of this benefited gross income which, with moderate growth in administrative and amortisation/depreciation expenses, had a positive impact on net profit compared to the previous year.

Specialised businesses

Structured finance

The Structured Finance Division encompasses the Structured Finance and Global Financial Institutions units. This Division operates globally and has teams in Spain, the US, the UK, Mexico, France, Peru, Colombia and Singapore.

Structured Finance's activity focuses on the study, design and origination of corporate finance products and transactions, leveraged buyouts (LBOs), project & asset finance, global trade finance and commercial real estate, with the capacity to underwrite and syndicate transactions at the national and international levels, as well as being active in the primary and secondary syndicated loan markets.

The Global Financial Institutions unit manages the commercial and operational relationship with the international banks with which Banco Sabadell has collaboration and correspondent agreements (some 3,000 correspondent banks around the world), thus guaranteeing maximum coverage for Banco Sabadell Group customers in their international transactions. In this way, it ensures that it provides customers with optimal support during their internationalisation processes, in coordination with the Group's international network of branches, subsidiaries and investees.

In 2023, Banco Sabadell, thanks to its policy of supporting customers and adapting to their needs so as to seek the best way to meet their credit requirements within the possibilities offered by the credit markets in the specific macroeconomic environment, maintained its leading position in Spain. This positive activity is being exported to other geographies.

The Bank's top priority continues to be to support customers by designing long-term financing structures for new projects, acquisitions, internationalisation, etc., as well as syndicated transactions that guarantee stable and complete debt that can be restructured where appropriate, assessing the positive potential of possible solutions combined with investment banking products.

BSCapital

BSCapital carries out the Group's venture capital and private equity activities, managing industrial (non-real estate) investees. Its activity involves acquiring temporary stakes in companies in order to maximise the return on its investments. In addition, it offers support to companies through alternative financing (senior debt fund, venture debt and mezzanine loans).

BSCapital actively managed its portfolio, engaging in its traditional capital and debt-related activities, with the materialisation of investment and disinvestment operations and portfolio revaluations.

It continued to invest in private equity funds with a strategic approach and it also made a new co-investment. The fund Aurica IV, of

which Banco Sabadell is anchor investor, continues to make new investments.

BSCapital executed the first transactions guaranteed under the InvestEU programme for renewable loans, venture debt and mezzanine facilities granted by the European Investment Fund (EIF). It is also making use of the co-investment framework with the European Investment Bank (EIB) to grant venture debt to scaleups.

The Bank has invested heavily in renewables, as part of its action framework for Spain, while certain asset divestitures have also materialised in Latin America. In addition, Greening, a company included in Sinia Renovables' portfolio of investees, debuted on BME Growth, with Sinia Renovables taking part in the capital increase.

The debt fund Crisae continues to originate and execute transactions to offer funding to companies in the Spanish midmarket, with participation by Banco Sabadell Group and institutional investors.

In 2024, BSCapital will continue to invest in capital and debt, with the support of international bodies such as the EIF and the EIB, and it will continue to focus on optimising capital consumption. It will also continue to manage the current portfolio to generate long-term value.

Funding opportunities will continue to be sought, in accordance with the frameworks of investment in mezzanine debt and renewable energies, with the expansion of the latter.

Focus will be placed on venture debt activity and the rotation of the venture capital portfolio through divestments with capital gains.

Crisae will continue with the origination and execution of transactions and a new fundraising process will take place to increase the investment capability of this strategy.

Treasury and Markets

Treasury and Markets is responsible, on one hand, for structuring and selling Treasury products to the Group's customers, through the Group's units assigned for this purpose, both from commercial networks and through specialists and, on the other hand, for managing the Bank's short-term liquidity, as well as managing its regulatory ratios to ensure compliance therewith. It also manages the risk associated with the trading of interest-rate, forex and fixed-income products, which mainly arises due to flows of transactions originated by the activity of structuring and distribution units with both internal and external customers and by activities carried out in connection with short-term liquidity management.

In 2023, the Treasury and Markets Division continued to work on the digitalisation and optimisation of its transactions with customers, seeking to expand its range of services and improving customer experience. Furthermore, the division continued to expand the range of products and solutions it has on offer, adapting it to new customer needs arising from a changing market. In terms of trading, the capacity to take on and control various risk factors such as currency, fixed income and interest rates was enhanced.

As for distribution activity in 2024, activity related to foreign currency products is expected to continue being a core pillar of the strategy, although work will continue to increase the range of other available underlying products so that customers may manage their risks more efficiently. As regards the institutional customer segment, efforts will continue to be made to expand the international investor base for capital market products. In trading activity, the aim is to continue to build up the capacity to manage risk in the Bank's own books, reducing hedging transactions with other institutions, and to continue to improve collateral management in order to obtain the highest possible returns.

Investment Banking

Investment Banking is a division within Corporate & Investment Banking which, following the restructuring of activities that took place in 2023, is currently organised into three units:

The first of these, which stands out due to the shift in its approach, is the new Corporate Finance unit, which encompasses the activity of (i) M&A (Mergers & Acquisitions), (ii) ECM (Equity Capital Markets) and (iii) Alternative Financing.

- The activity of Mergers & Acquisitions consists of offering advice on company acquisitions and disposals, corporate mergers and the incorporation of new shareholders. Noteworthy operations in 2023 include the advisory services provided to shareholders of Virospack, a specialist company within the cosmetics industry, for the sale of a controlling interest to Investindustrial.
- The priority activity of Equity Capital Markets is companies' stock market flotation. Activities in 2023 notably include the participation as bookrunner in Greening's flotation in the first half of the year, through a placement of shares on the Spanish stock market operator (Bolsas y Mercados Españoles, or BME) amounting to 24 million euros.
- Alternative Financing coordinates the channelling of liquidity of institutional investors wishing to take on risk in situations where banking institutions typically do not. Investment Banking continues to focus on offering tailor-made financing solutions, in bond or loan format, in various sectors, from real estate to infrastructure, focusing particularly on renewable energy projects and corporate finance in the domestic segment of mid-corporates. In this branch of activity we highlight the brokerage service provided to obtain 22.5 million euros for COPASA; the financing obtained for IDEO to build an extension in an educational establishment, amounting to 15 million euros; in the field of renewable energies, the bridge loan obtained for Forestalia amounting to 65 million euros; the negotiation of a project finance framework for industrial photovoltaic self-consumption projects on behalf of Greening; and the alternative finance obtained for Greenalia amounting to 90 million euros.

All the above activities were merged into a single division to offer Banco Sabadell customers all of the value-added solutions available according to their corporate needs, in terms of both capital and debt.

The second, Debt Capital Markets (DCM), encompasses activities involving the origination and structuring of public instruments in trading markets. In terms of transactions involving corporates, the Bank considers public sector and financial issuers, both long-term and short-term transactions to be noteworthy. One of the markets in which the Bank is most active is that of commercial paper programmes, participating in programmes of 50 different issuers. Another of the core pillars of this activity is the closing of niche transactions, such as securitisations, with a view to becoming a leader in the ESG segment. Worthy of note in 2023 is the participation in public issues executed by the Community of Madrid and the inaugural issue of sustainability bonds executed by Castilla y León. Both had an ESG rating. As for debt issues for corporates, it is worth noting the inaugural issuance linked to sustainability executed by Ferrovial and a hybrid green bond for Telefónica.

Lastly, the third unit, Syndicate and Sales (S&S), encompasses the distribution of private debt originated by Structured Finance teams among banking and institutional investors, both domestic and international, following the originate-to-distribute philosophy. In this branch of activity, it is worth noting the syndication of a 132.89 million euro loan granted to Solaria for the development, construction and operation of a 290MW fully-

merchant structure consisting of four photovoltaic plants. What makes this hybrid syndication noteworthy is that it marked the first contribution by an international renewables insurance firm in Spain, as well as the first debt underwriting transaction aimed at institutional investors (Term Loan B) for the acquisition of Palex by Apax and Fremman Capital.

Lastly, Investment Banking's strategy in 2024 consists of consolidating the various subdivisions, seeking to offer end-to-end solutions with the highest standards of quality and efficiency to customers in different customer segments, particularly to small and medium-sized enterprises in Spain.

Trading, Custody and Research

Trading, Custody and Research (TCR) is the unit responsible, as product manager, for the Group's equities, performing equity execution tasks through the trading desk, both in domestic markets, where it acts as a member, and in international markets, acting merely as a broker.

It has a research department whose aim is to offer customers guidance and recommendations regarding investments in equity and credit markets. To this end, it produces podcasts, webinars, videos, daily reports, sector reports, company reports, etc.

Online platforms continued to be upgraded and enhanced throughout 2023, in line with the new strategic objectives of Banco Sabadell Group, based on the pillars of sustainability, digitalisation and customer centricity. These enhancements will considerably increase the level of service offered to customers, providing them with more information both during and after transactions, as well as greater decision-making support.

2023 saw a sharp decline in the volume traded on the Spanish stock market (BME). In spite of the negative impact of that decline, Banco Sabadell's share in that market actually increased from 5.71% in 2022 to 8.22% in 2023.

It was confirmed that a very high percentage of equity execution transactions were carried out through self-service channels, with 92% of orders channelled directly by customers using the tools that Banco Sabadell makes available to them, the mobile app being the preferred channel for these transactions (61%).

A new commercial action was launched in 2023 with private banking customers frequently trading in securities in order to boost the exclusive direct access service through our equity trading desk, for both execution services and recommendations. There was also an increase in the number of business customers applying for services linked to their capacity as issuers, such as liquidity agreements and treasury buyback transactions, not only in Spanish stock markets but also in other international markets.

In the second half of 2023, the new structure of equity trading fees applied by BME was implemented.

The main objective for 2024 is to increase brokerage volumes in equity markets, both Spanish and international, through the following action levers: optimise the online customer experience by redesigning the Sabadell Broker platform, integrating more information from Research with improved and more sophisticated brokerage capabilities and services; bring new services/products to market; launch campaigns to activate inactive customers; review the pricing of some of the services offered; and step up relations with issuers through collaboration with Business and Corporate Banking.

4.2 Banking Business United Kingdom

Business overview

TSB (TSB Banking Group plc) offers a range of retail banking services and products to individuals and small business banking customers in the UK. TSB has a multi-channel model, including fully digital (internet and mobile), telephone and national branch banking services.

The multi-channel offer creates an opportunity for TSB to serve customers better. Customers want a bank that gives them access to both skilled people and simple digital tools to meet their banking needs and this, in turn, improves their confidence in managing their money. TSB continues to invest in the development of digital products and services that meet current and future customer needs. To that end, the Institution combines the best that digital banking has to offer with a revitalised high-street presence, alongside telephone and video banking. This will allow TSB to serve its customers with that all-important human touch when it matters most to customers, ensuring it lives up to its purpose of “Money Confidence. For everyone. Every day”.

TSB offers current and savings accounts, personal loans, mortgages and credit/debit cards for retail customers and a broad range of current, savings and lending products for SME customers.

Management team priorities in 2023

TSB's focus on its customers and delivering its Money Confidence purpose has been instrumental in its continued response to the cost-of-living crisis. The momentum gained in recent years has been maintained through 2023 and has enabled TSB to continue on its trajectory to being an even stronger and better bank.

Despite the uncertain economic environment, the business has continued to perform strongly. In 2023, TSB continued to meet more of its customer's needs and improve the service offered to customers across all channels which, in turn, has supported further growth in the Bank's profitability. A sustained focus on cost control has also helped to ensure that TSB's financial performance has continued to improve. TSB is putting in place strong foundations for the future and is well placed to continue to adapt and grow as it meets the evolving needs and demands of its customers.

Executing the strategy

TSB's customer service continues to improve and customers have more ways of engaging with the bank than ever before. TSB is a simpler, more efficient and more resilient bank and has become more streamlined in how customers are supported with both modern digital services and reassuring personal support in branch or over the phone when life events demand it. The growth of video banking has provided customers with even greater convenience and choice in how they engage with the Bank. This is reflected in how customers rate the service they receive, with the bank's overall Net Promoter Score ending the year at its highest rate in two years.

In 2023 TSB:

- Remained the only bank with a Fraud Refund Guarantee, refunding 97% of customers who are innocent victims of fraud, compared to an industry average of 64%. TSB's campaigning on this issue has also

helped bring about a step-change in fraud protection for consumers, with new regulations coming into force in 2024 requiring all banks to reimburse fraud victims.

- Opened more than 1.27 million new products for customers across core product lines – up 20% compared to 2022. Over 260,000 new personal current accounts were opened and customers opened more than 289,000 new Savings Pots. More than 84% of new product openings were through the TSB Mobile Banking app.
- Gave more than 2.5 million pounds in cashback payments to customers.
- Helped more than 7,800 first-time buyers get onto the property ladder, through its award-winning mortgage intermediary and operations team.
- Further strengthened its digital banking offer. More than 400,000 customers have visited the new card controls hub every month, over 13,000 customers use the mortgage hub every month, and 93,000 cheques have been paid in through the app since the mobile cheque deposit function was introduced in April.
- Expanded video banking support and opening hours over the weekend. TSB has held more than 21,000 mortgage video appointments in 2023, with all TSB mortgage advisers trained to use video. The Bank also held over 23,000 general banking appointments over video, with almost one-third out of hours.
- TSB retains the seventh largest network in the country, with 211 high-street branches, complemented by over 40 pop-up branches, and three Pods serving communities across Great Britain.

TSB's ambitious three-year plan, of which 2023 was the first full year, is centred around service excellence, customer focus, simplification and efficiency and doing what matters for people and the planet.

The strategy is set against an economic backdrop that remains uncertain. Inflation has been significantly higher than the Bank of England's 2% target throughout 2023, and interest rates remain markedly higher than they have been in recent years. This continues to have an impact on TSB's customers and on wider economic performance, with the potential for downside risks for the bank as a result. The regulatory landscape for financial services is also undergoing important changes with the introduction of the FCA's new Consumer Duty in July 2023 and the continued process of embedding that across the Bank's operations.

Against this challenging environment, TSB remains well placed to support its customers and continue on a path of sustainable growth. The business has a robust capital and liquidity position, and a strong focus on serving its customers and delivering its ever more relevant Money Confidence purpose. TSB's customer focus, high standards of governance and commitment to responsible business practice mean that it is well-placed to deliver on this to continue to improve outcomes for customers.

Key figures

Net profit amounted to 195 million euros as at 2023 year-end, representing strong year-on-year growth, mainly on the strength of improved net interest income and reduced provisions. In addition, 16 million euros were recognised in 2023 for the collection of insurance compensation in connection with the IT migration, while 2022 included the recognition of -57 million euros, net, derived from the migration-related incidents.

Net interest income came to a total of 1,174 million euros, 2.0% more than in the previous year, mainly on the strength of a higher-yielding loan book due to higher interest rates and also due to the fixed-income

portfolio, which offset the increased cost of funds and capital markets. At constant exchange rates, net interest income increased by 4.1%.

Net fees and commissions amounted to 124 million euros as at the end of 2023, representing a year-on-year reduction of 7.4%, due to a reduction in demand deposit fees. Total costs came to -941 million euros, 3.5% higher year-on-year, impacted by the depreciation of the pound sterling. At constant exchange rates, costs increased by 5.6%, due to the booking of -33 million euros of non-recurrent restructuring costs, the increase of recurrent costs being 1.9%, due both to higher staff expenses and to higher general expenses, mainly technology and marketing costs, which offset the reduction of amortisations/depreciations.

Provisions and impairments amounted to -75 million euros, falling by 278% year-on-year, mainly due to the reduced provisions for financial assets (conduct) in 2023.

Million euro

	2023	2022	Year-on-year change (%)
Net interest income	1,174	1,151	2.0
Fees and commissions, net	124	134	(7.4)
Core revenue	1,298	1,284	1.1
Gains or (-) losses on financial assets and liabilities and exchange differences	16	6	166.4
Equity-accounted income and dividends	—	—	—
Other operating income and expenses	(23)	(95)	(75.9)
Gross income	1,291	1,195	8.0
Operating expenses, depreciation and amortisation	(941)	(909)	3.6
Pre-provisions income	350	285	22.7
Provisions and impairments	(75)	(104)	(27.8)
Capital gains on asset sales and other revenue	—	1	(113.2)
Profit/(loss) before tax	274	182	50.8
Corporation tax	(80)	(95)	(16.2)
Profit or loss attributed to minority interests	—	—	—
Profit attributable to the Group	195	87	123.9
ROTE (net return on tangible equity)	10.0 %	4.2 %	
Cost-to-income (general administrative expenses / gross income)	62.1 %	63.0 %	
NPL ratio	1.5 %	1.3 %	
Stage 3 coverage ratio, with total provisions	41.8 %	42.3 %	

(*) The exchange rates applied to the income statement are GBP 0.8706 (average) in 2023 and 0.8532 (average) in 2022.

Gross performing loans dropped by 4.0% year-on-year, benefitting from the appreciation of the pound sterling, as considering a constant exchange rate they fell by 5.9% due to a smaller mortgage book.

On-balance sheet customer funds fell by 2.6% year-on-year, underpinned by the appreciation of the pound. At a constant exchange rate, they fell by 4.6%, due to a reduction of demand deposit accounts, which was partially offset by the increase in term deposits.

Million euro

	2023	2022	Year-on-year change (%)
Assets	54,855	55,810	(1.7)
Gross performing loans to customers	41,381	43,110	(4.0)
Liabilities	52,487	53,316	(1.6)
On-balance sheet customer funds	39,864	40,931	(2.6)
Wholesale funding in capital markets	4,545	2,537	79.2
Allocated equity	2,368	2,494	(5.1)
Off-balance sheet customer funds	—	—	—
Other indicators			
Employees	5,426	5,482	(1.0)
Branches and offices	211	220	(4.1)

(*) The EUR/GBP exchange rate used for the balance sheet was 0.8691 as at 31 December 2023 and 0.8869 as at 31 December 2022.

4.3 Banking Business Mexico

Business overview

In the internationalisation process envisaged within its previous strategic framework, the Bank decided to focus on Mexico, a geography that presents a clear opportunity, as it is an attractive market for the banking business and in which Banco Sabadell has been present since 1991, firstly through the opening of a representative office and then through its stake in Banco del Bajío, which it held for 14 years (from 1998 to 2012).

Its operations in Mexico materialised through an organic project with the launch of two financial vehicles: firstly, a SOFOM (multi-purpose financial institution), which began operating in 2014, and subsequently a bank. The banking licence was obtained in 2015 and the Bank began operating in Mexico in early 2016.

Both vehicles operate under a customer-centric model, with agile processes, digital channels and without branches. The rollout of business capabilities considers the vehicles mentioned above, present in 10 banks across Mexico, and the following business lines:

- Corporate Banking, aimed at corporations and large enterprises, with specialisation in different sectors.
- Business Banking, which mimics the Group's original business banking relationship model and which has been consolidated since its launch in 2016.

Management priorities in 2023

The Mexican subsidiaries (Banco de Sabadell S.A., I.B.M. and Sabcapital S.A. de C.V., SOFOM, E.R.) performed well, in spite of one-off events, including the recognition of the IT platform's impairment due to underused assets and the increase in administrative and promotional expenses associated with a new source of funds acquired from individuals.

During 2023, the Mexican subsidiaries continued to focus on growth, financial self-sufficiency and profitability. It is worth noting the following initiatives implemented during the year:

- In Corporate Banking, Banco Sabadell's Fiduciary Division was bolstered, as was activity involving derivative financial instruments and the rollout of currency forward transactions in 2024, leading to a more comprehensive service for structured finance transactions, strengthening the link with customers.
- In Business Banking, the improvement in transactional capabilities was consolidated, offering an excellent service, a quality that has set it apart since the segment was first launched.
- During 2023, work was undertaken to create a Retail Banking business unit that will be rolled out in 2024, with a digital product aimed at gathering customer funds, offering attractive interest rates and the convenience of being able to withdraw funds at any time. The acquisition levels estimated for the end of 2024 are considerable, and commensurate human and marketing resources will be allocated to that end, which is expected to have a positive impact on the corporate and business banking segments, contributing to the diversification of funds while in turn reducing their concentration.

In 2023, a financial planning exercise in line with that of the Group was carried out to determine the main strategic courses of action for Banco Sabadell in Mexico, which will allow more value to be generated for the Group's Mexican franchise. These are summarised below:

- Roll out and enhance Retail Banking, in order to help further improve the cost of funding.
- Generate more income without capital consumption (by generating more fee income and enhancing new products, such as derivatives, currency trading, fiduciary business, etc.).

On 17 July 2023, HR Ratings upgraded the ratings for Banco de Sabadell S.A., I.B.M. and Sabcapital S.A. de C.V., SOFOM, E.R. Since that date, Banco de Sabadell S.A., I.B.M. has had a long-term rating of HR AAA and a short-term rating of HR+1, as a result of the assessment of five key pillars for this institution: (i) adequate capital position, (ii) continuous generation of earnings, (iii) improved profitability in the face of higher operating income, (iv) financial and operational backing from its parent company in Spain, and (v) sustainability and good corporate practices, demonstrated by its Superior label assigned in terms of the management of its ESG (Environmental, Social and Governance) strategy.

In addition, on 20 December 2023, S&P ratified its credit ratings for Banco de Sabadell S.A., I.B.M. and Sabcapital S.A. de C.V., SOFOM, E.R. in Mexican national scale at mxAAA (BBB-) for the long-term rating and MxA-1+ for the short-term rating, given the expectation that operating income would continue to increase and that profitability would remain stable and due to the consolidation of its market position within Mexico's banking system.

Key figures

Net profit as at 2023 year-end amounted to 44 million euros, representing year-on-year growth of 40.6%, supported by the appreciation of the Mexican peso. At constant exchange rates, this growth was 29.0%, mainly due to the good performance of net interest income.

Net interest income came to 196 million euros, growing by 31.2% year-on-year, or 19.0% at constant exchange rates, underpinned by higher yields on the loan book and higher revenue from fixed-income items.

Net fees and commissions amounted to 15 million euros as at the end of 2023, increasing by 3 million euros compared to the previous year due to increased commercial activity. Total costs stood at -108 million euros, representing growth of 25.8% compared to the previous year, affected by the appreciation of the Mexican peso. At constant exchange rates, costs increased by 14.1%, mainly due to higher general expenses, particularly marketing costs.

Provisions and impairments stood above the 2022 year-end figure, which included releases of several borrowers' provisions.

Capital gains on asset sales and other revenue were more negative due to an increase in IT asset write-offs.

Million euro

	2023	2022	Year-on-year change (%)
Net interest income	196	149	31.5
Fees and commissions, net	15	12	23.2
Core revenue	211	162	30.1
Gains or (-) losses on financial assets and liabilities and exchange differences	8	3	152.6
Equity-accounted income and dividends	—	—	—
Other operating income and expenses	(20)	(17)	—
Gross income	198	148	34.1
Operating expenses, depreciation and amortisation	(108)	(86)	26.1
Pre-provisions income	90	62	45.1
Provisions and impairments	(19)	(9)	108.1
Capital gains on asset sales and other revenue	(19)	(14)	—
Profit/(loss) before tax	53	39	35.2
Corporation tax	(9)	(8)	9.4
Profit or loss attributed to minority interests	—	—	—
Profit attributable to the Group	44	31	41.8
ROTE (net return on tangible equity)	8.9 %	6.6 %	
Cost-to-income (general administrative expenses / gross income)	45.7 %	48.7 %	
NPL ratio	2.4 %	2.3 %	
Stage 3 coverage ratio, with total provisions	74.3 %	70.1 %	

(*) The exchange rates applied to the income statement are MXN 19.1120 (average) in 2023 and 21.0739 (average) in 2022.

Performing loans grew by 11.0% year-on-year, impacted by the appreciation of the Mexican peso. At constant exchange rates, this increase was 7.1%.

On-balance sheet customer funds increased by 3.7% year-on-year, supported by the appreciation of the Mexican peso, given that at constant exchange rates they declined by -4.8%.

Million euro

	2023	2022	Year-on-year change (%)
Assets	6,670	6,025	10.7
Gross performing loans to customers	4,587	4,131	11.0
Real estate exposure, net	—	—	—
Liabilities	6,039	5,437	11.1
On-balance sheet customer funds	3,205	3,090	3.7
Allocated equity	631	587	7.5
Off-balance sheet customer funds	—	—	—
Other indicators			
Employees	435	422	3.1
Branches and offices	15	15	—

(*) The EUR/MXN exchange rate used for the balance sheet was 18.7231 as at 31 December 2023 and 20.856 as at 31 December 2022.