Financial information

3

Financial information [1]

3.1 Key figures in 2023

The Group's main figures, which include financial and non-financial indicators that are key to determine the direction in which the Group is moving, are set out here below:

		2023	2022	Year-on-year change (%)
Income statement (million euro)	(A)			
Net interest income		4,723	3,799	24.3
Gross income		5,862	5,211	12.5
Pre-provisions income		2,847	2,328	22.3
Profit attributable to the Group		1,332	889	49.8
Balance sheet (million euro)	(B)			
Total assets		235,173	251,241	(6.4)
Gross performing loans		149,798	156,130	(4.1)
Gross loans to customers		155,459	161,750	(3.9)
On-balance sheet customer funds		160,888	164,140	(2.0)
Off-balance sheet funds		40,561	38,492	5.4
Total customer funds		201,449	202,632	(0.6)
Funds under management and third-party funds		226,682	225,146	0.7
Equity		13,879	13,086	6.1
Shareholders' equity		14,344	13,635	5.2
Profitability and efficiency (%)	(C)			
ROA		0.54	0.35	
RORWA		1.70	1.12	
ROE		9.48	6.64	
ROTE		11.49	8.19	
Cost-to-income		42.59	44.86	
Risk management	(D)			
Stage 3 exposures (million euro)		5,777	5,814	(0.6)
Non-performing assets (million euro)		6,748	6,971	(3.2)
NPL ratio (%)		3.52	3.41	
Stage 3 coverage ratio, with total provisions (%)		58.3	55.0	
NPA coverage ratio (%)		55.6	52.3	
Capital management (*)	(E)			
Risk-weighted assets (RWAs) (million euro)		78,428	79,545	
Common Equity Tier 1 phase-in (%)	(1)	13.19	12.68	
Tier 1, phase-in (%)	(2)	15.42	14.75	
Total Capital ratio, phase-in (%)	(3)	17.76	17.08	
Leverage ratio, phase-in (%)		5.19	4.62	
Liquidity management	(F)			
Loan-to-deposit ratio (%)		94.0	95.6	
Shareholders and shares (as at reporting date)	(G)			
Number of shareholders		213,560	218,610	
Total number of shares outstanding (million) (**)		5,403	5,602	
Share price (euro)		1.113	0.881	
Market capitalisation (million euro)		6,014	4,934	
Earnings per share (EPS) (euro) (***)		0.23	0.14	
Book value per share (euro)		2.65	2.43	
P/TBV (price/tangible book value per share)		0.51	0.44	
Price/earnings ratio (P/E)		4.94	6.32	
Other data				
Branches and offices		1,420	1,461	
Employees		19,316	18,895	

(*) Information corresponding to the consolidated annual financial statements for the year ended 31 December 2022.
(**) Total number of shares minus final treasury stock position (including shares in the buyback programme)..
(***) Calculated based on the average number of shares (total number of shares minus average treasury stock and minus average shares in the buyback programme).

(A) This section sets out the margins of the income statement that are thought to be the most significant over the last two years.
(B) These key figures are presented in order to provide a synthesised overview of the year-on-year changes in the main items of the Group's consolidated balance sheet, focusing particularly on items related to lending and customer funds.
(C) These ratios have been provided to give a meaningful picture of profitability and efficiency over the past two years.
(D) This section shows the key balances related to risk management in the Group, as well as the most significant ratios related to risk.
(E) These ratios have been provided to give a meaningful picture of solvency over the past two years.
(F) The aim of this section is to give a meaningful insight into liquidity over the past two years.
(G) The purpose is to present information regarding the share price and other indicators and ratios related to the stock market.

(1) Common equity capital / risk-weighted assets (RWAs).
(2) Tier one capital / risk-weighted assets (RWAs).
(3) Capital base / risk-weighted assets (RWAs)

[1] The data contained in sections 3 and 4 of this consolidated Directors' Report as at 31 December 2022 has been restated to take into account the implementation of IFRS 17 (see Note 1.4 to the consolidated annual financial statements for 2023).

3.2 Profit/(loss) for the year

Record-breaking Group net profit, amounting to 1,332 million euros as at the end of 2024, representing year-on-year growth of 55.1%[2] and placing the Group's ROTE at 11.5%.

Million euro

	2023	2022	Year-on-year change (%)
Interest and similar income	8,659	4,989	73.6
Interest and similar expenses	(3,936)	(1,190)	230.8
Net interest income	**4,723**	**3,799**	**24.3**
Fees and commissions, net	1,386	1,490	(7.0)
Core revenue	**6,109**	**5,289**	**15.5**
Gains or (-) losses on financial assets and liabilities and exchange differences	68	104	(34.0)
Equity-accounted income and dividends	131	156	(15.6)
Other operating income and expenses	(447)	(337)	32.5
Gross income	**5,862**	**5,211**	**12.5**
Operating expenses	(2,496)	(2,337)	6.8
Staff expenses	(1,495)	(1,392)	7.4
Other general administrative expenses	(1,002)	(946)	5.9
Depreciation and amortisation	(519)	(545)	(4.8)
Total costs	(3,015)	(2,883)	4.6
Memorandum item:			
Recurrent costs	(2,982)	(2,883)	3.5
Non-recurrent costs	(33)	—	--
Pre-provisions income	**2,847**	**2,328**	**22.3**
Provisions for loan losses	(813)	(825)	(1.5)
Provisions for other financial assets	(18)	(111)	(84.1)
Other provisions and impairments	(80)	(96)	(17.0)
Capital gains on asset sales and other revenue	(46)	(23)	101.8
Profit/(loss) before tax	**1,891**	**1,273**	**48.5**
Corporation tax	(557)	(373)	49.3
Profit or loss attributed to minority interests	1	11	(86.8)
Profit attributable to the Group	**1,332**	**889**	**49.8**
Memorandum item:			
Average total assets	245,173	257,553	(4.8)
Earnings per share (euros)	0.23	0.14	

The average exchange rate used for the cumulative balance of TSB's income statement is 0.8706 (0.8532 in 2022).

[2] The informations as of 31 December 2022 used to calculate the variation was restated by application of IFRS 17 (see Note 1.4 in the 2023 Consolidated Report).

Net interest income

Net interest income followed a positive trend, reaching 4,723 million euros as at the end of 2023, representing year-on-year growth of 24.3%, mainly due to a higher credit yield and improved revenue from the fixed-income portfolio, underpinned by higher interest rates, all of which served to offset higher costs of both funds and capital markets and the negative effect of the pound sterling's depreciation.

Consequently, the net interest margin as a percentage of average total assets stood at 1.93% in 2023 (1.47% in 2022).

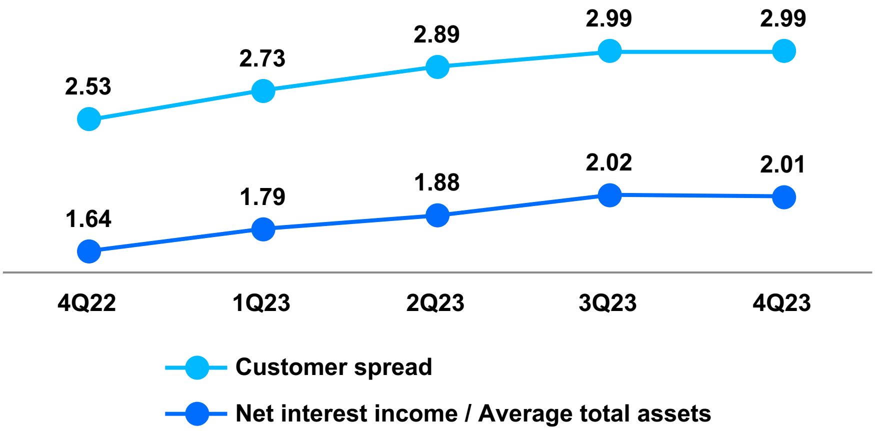
The breakdown of net interest income for the years 2023 and 2022, as well as the different components of total investment and funds, was as follows:

Million euro

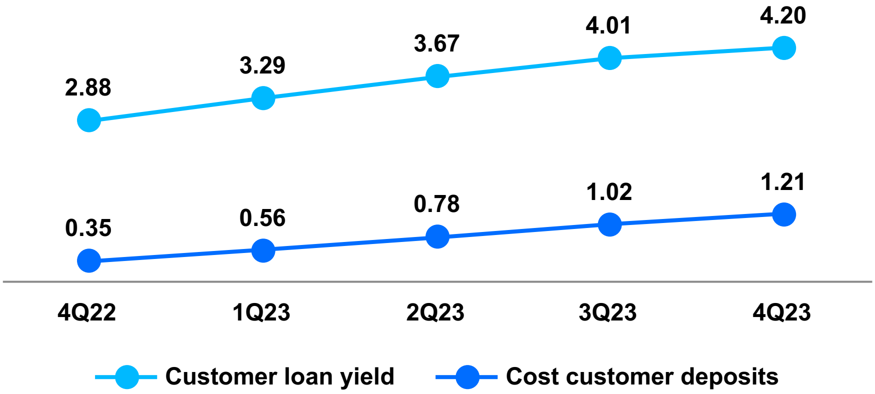
	2023			2022			Change		Effect	
	Average balance	Profit/(lose)	Rate %	Average balance	Profit/(lose)	Rate %	Average balance	Profit/(lose)	Rate	Volume
Cash, central banks and credit institutions	42,117,993	1,476,738	3.51	53,538,412	208,485	0.39	(11,420,419)	1,268,253	1,473,389	(205,136)
Loans and advances to customers	153,978,221	5,839,767	3.79	157,870,419	3,965,858	2.51	(3,892,198)	1,873,909	1,892,904	(18,995)
Fixed-income portfolio	28,531,645	832,967	2.92	26,229,512	289,924	1.11	2,302,133	543,043	513,512	29,531
Subtotal	**224,627,859**	**8,149,472**	**3.63**	**237,638,343**	**4,464,267**	**1.88**	**(13,010,484)**	**3,685,205**	**3,879,805**	**(194,600)**
Equity portfolio	859,258	—	—	903,212	—	—	(43,954)	—	—	—
Tangible and intangible assets	4,576,149	—	—	4,820,868	—	—	(244,719)	—	—	—
Other assets	15,110,214	508,059	3.36	14,191,036	180,022	1.27	919,178	328,037	—	328,037
Total investment	**245,173,480**	**8,657,531**	**3.53**	**257,553,459**	**4,644,289**	**1.80**	**(12,379,979)**	**4,013,242**	**3,879,805**	**133,437**
Central banks and credit institutions	31,484,501	(1,064,832)	(3.38)	48,310,994	8,713	0.02	(16,826,493)	(1,073,545)	(1,366,466)	292,921
Customer deposits	160,564,046	(1,432,303)	(0.89)	162,393,140	(309,002)	(0.19)	(1,829,094)	(1,123,301)	(1,059,227)	(64,074)
Capital markets	26,379,723	(876,225)	(3.32)	22,304,397	(316,115)	(1.42)	4,075,326	(560,110)	(452,311)	(107,799)
Subtotal	**218,428,270**	**(3,373,360)**	**(1.54)**	**233,008,531**	**(616,404)**	**(0.26)**	**(14,580,261)**	**(2,756,956)**	**(2,878,004)**	**121,048**
Other liabilities	13,183,674	(560,954)	(4.25)	11,491,130	(229,160)	(1.99)	1,692,544	(331,794)	—	(331,794)
Own funds	13,561,536	—	—	13,053,798	—	—	507,738	—	—	—
Total funds	**245,173,480**	**(3,934,314)**	**(1.60)**	**257,553,459**	**(845,564)**	**(0.33)**	**(12,379,979)**	**(3,088,750)**	**(2,878,004)**	**(210,746)**
Average total assets	**245,173,480**	**4,723,217**	**1.93**	**257,553,459**	**3,798,725**	**1.47**	**(12,379,979)**	**924,492**	**1,001,801**	**(77,309)**

Financial income or expenses arising from the application of negative interest rates are recorded in line with the nature of the associated asset or liability. The credit institutions heading on the liabilities side includes negative interest rates applied to balances of credit institutions on the liabilities side, the most significant item being TLTRO III borrowing.

Quarterly evolution of net interest income (%)



Quarterly evolution of customer margin (%)



Core results (net interest income + fees and commissions – recurrent costs) performed well in the year, growing by 29.9% due to higher net interest income.

Gross income

Net fees and commissions reached 1,386 million euros as at the end of 2023, representing a year-on-year reduction of 7.0%, which was mainly due to fewer service fees, as well as fewer asset management fees, particularly those charged on pension funds and insurance due to the change in the insurance product mix.

Gains/(losses) on financial assets and liabilities and exchange differences reached a total of 68 million euros, representing a reduction compared to the end of 2022, mainly due to reduced gains on trading derivatives.

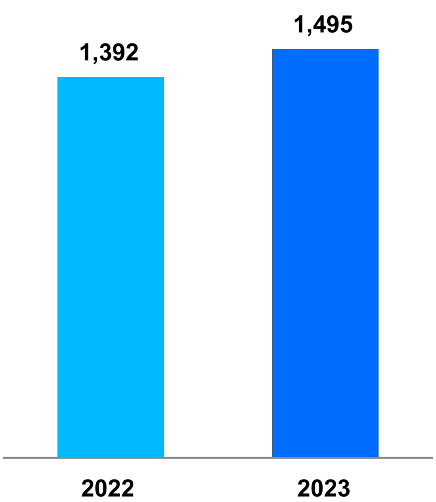
Dividends received and earnings of companies consolidated under the equity method together amounted to 131 million euros, compared with 156 million euros in the previous year, as the latter included higher earnings from BSCapital investees.

Other operating income and expenses amounted to -447 million euros, compared with -337 million euros in 2022. This negative balance variation is mainly explained by the -156 million euros paid for the new bank levy, booked in the first quarter of 2023, and by a larger contribution made to Banco Sabadell's Deposit Guarantee Fund (-132 million euros in 2023 compared to -114 million euros in 2022), which was partially offset by the booking of a smaller contribution to the Single Resolution Fund (SRF) (-76 million euros in 2023 compared to -100 million euros in 2022), given the reduction of the target calculated by the Single Resolution Board (SRB). It is also worth mentioning that 2022 was impacted by the recognition of -57 million euros net, resulting from the agreement regarding the incidents that took place following the migration of TSB's IT platform, which were partially offset with a tax-payable amount of 45 million euros (32 million euros, net) due to insurance claim recoveries, with this item amounting to a total of -25 million euros net, while in 2023, an additional 16 million euros of insurance claims were recognised.

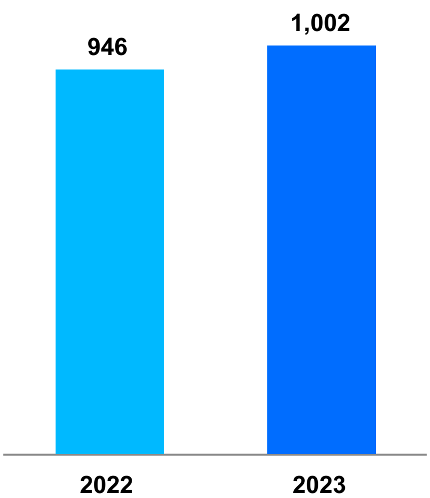
Pre-provisions income

Total costs stood at -3,015 million euros as at year-end 2023, impacted by -33 million euros of non-recurrent costs recorded in the fourth quarter related to TSB's restructuring, which included 26 million euros of allocated provisions. Not including this impact, recurrent costs increased by 3.5% year-on-year due to both higher staff expenses and higher general expenses, particularly marketing and technology expenses, which offset the reduction of amortisations/redemptions.

Satff expenses (in million euro)



Other general administrative expenses (in million euro)



The cost-to-income ratio for 2023 improved, standing at 42.6% compared to 44.9% in 2022.

Core results (net interest income + fees and commissions – recurrent costs) improved in the year, standing at 3,127 million euros as at 2023 year-end, having grown by 29.9% year-on-year as a result of the good evolution of net interest income.

Total provisions and impairments amounted to -910 million euros as at the end of 2023, compared to -1,032 million euros at the end of the previous year, representing a reduction of 11.8% thanks to fewer provisions for credit items, financial assets and real estate.

Capital gains on asset sales and other revenue amounted to -46 million euros as at the end of 2023. The year-on-year change is due to the recognition of higher IT asset write-offs.

Profit attributable to the Group

After deducting corporation tax and minority interests, net profit attributable to the Group amounted to 1,332 million euros as at the end of 2023, representing strong year-on-year growth mainly due to improved net interest income.

3.3 Balance sheet

Million euro

	2023	2022	Year-on-year change (%)
Cash, cash balances at central banks and other demand deposits	29,986	41,260	(27.3)
Financial assets held for trading	2,706	4,017	(32.6)
Non-trading financial assets mandatorily at fair value through profit or loss	153	77	97.9
Financial assets at fair value through other comprehensive income	6,269	5,802	8.0
Financial assets at amortised cost	180,914	185,045	(2.2)
Debt securities	21,501	21,453	0.2
Loans and advances	159,413	163,593	(2.6)
Investments in joint ventures and associates	463	377	22.8
Tangible assets	2,297	2,582	(11.0)
Intangible assets	2,483	2,484	—
Other assets	9,902	9,596	3.2
Total assets	**235,173**	**251,241**	**(6.4)**
Financial liabilities held for trading	2,867	3,598	(20.3)
Financial liabilities at amortised cost	216,072	232,530	(7.1)
Deposits	183,947	203,294	(9.5)
Central banks	9,776	27,844	(64.9)
Credit institutions	13,840	11,373	21.7
Customers	160,331	164,076	(2.3)
Debt securities issued	25,791	22,578	14.2
Other financial liabilities	6,333	6,659	(4.9)
Provisions	536	645	(16.8)
Other liabilities	1,818	1,382	31.6
Total liabilities	**221,294**	**238,155**	**(7.1)**
Shareholders' equity	14,344	13,635	5.2
Accumulated other comprehensive income	(499)	(583)	(14.5)
Minority interests (non-controlling interests)	34	34	(0.4)
Equity	**13,879**	**13,086**	**6.1**
Total equity and total liabilities	**235,173**	**251,241**	**(6.4)**
Loan commitments given	27,036	27,461	(1.5)
Financial guarantees given	2,064	2,087	(1.1)
Other commitments given	7,943	9,674	(17.9)
Total memorandum accounts	**37,043**	**39,222**	**(5.6)**

The EUR/GBP exchange rate used for the balance sheet is 0.8691 at 31 December 2023.

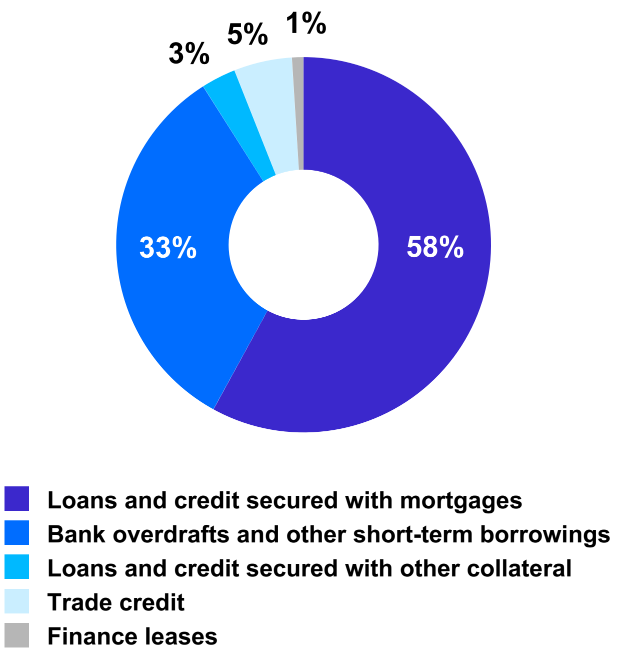
Gross performing loans to customers ended the year 2023 with a balance of 149,798 million euros, having decreased by 4.1% year-on-year, mainly due to the impact of reduced mortgage volumes in both Spain and the United Kingdom, lower volumes of loans granted to SMEs and corporates, and maturing Treasury loans in general governments. Home equity loans formed the largest single component of gross loans and receivables, amounting to 86,162 million euros as at 31 December 2023 and representing 58% of total gross performing loans to customers.

Million euro

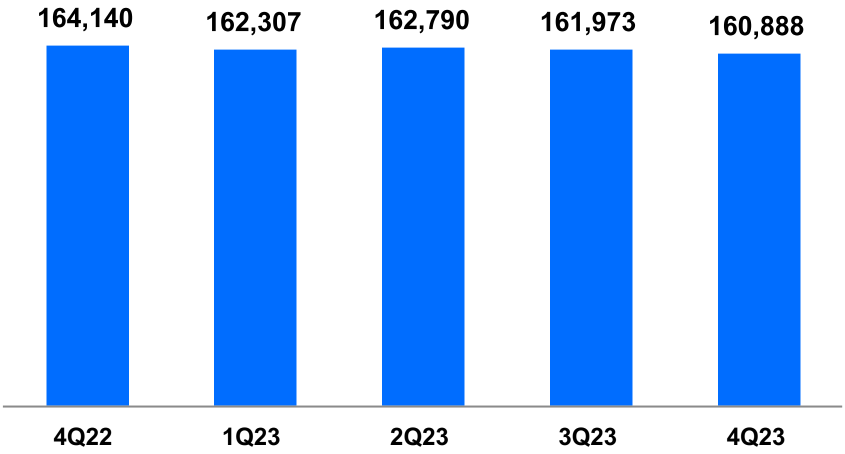
	2023	2022	Year-on-year change (%)
Loans and credit secured with mortgages	86,162	89,340	(3.6)
Loans and credit secured with other collateral	5,064	3,412	48.4
Trade credit	7,465	7,489	(0.3)
Finance leases	2,236	2,227	0.4
Bank overdrafts and other short-term borrowings	48,870	53,663	(8.9)
Gross performing loans to customers	**149,798**	**156,130**	**(4.1)**
Stage 3 assets (customers)	5,472	5,461	0.2
Accrual adjustments	172	159	7.9
Gross loans to customers, excluding reverse repos	**155,442**	**161,750**	**(3.9)**
Reverse repos	17	—	—
Gross loans to customers	**155,459**	**161,750**	**(3.9)**
Reserve for loan losses and country risk	(3,199)	(3,020)	5.9
Loans and advances to customers	**152,260**	**158,730**	**(4.1)**

The EUR/GBP exchange rate used for the balance sheet is 0.8691 at 31 December 2023.

The composition of loans and advances to customers by type of product is shown in the following chart (not including stage 3 assets or accrual adjustments):



On-balance sheet customer funds

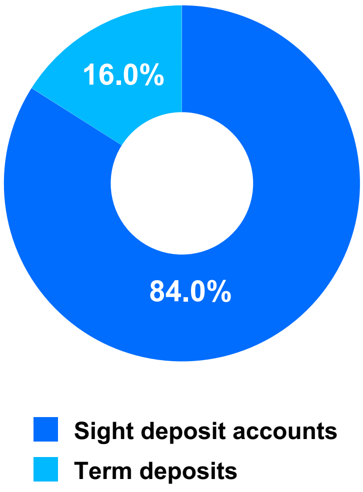


As at the end of 2023, on-balance sheet customer funds showed a balance of 160,888 million euros, compared to 164,140 million euros as at the end of 2022, representing a decrease of 2.0%, mainly due to a lower volume of demand deposit accounts, with customers seeking a higher return on their savings, which is partially reflected in the growth of off-balance sheet funds, as well as the increase of term deposits and retail issuances, particularly commercial paper.

Demand deposit account balances amounted to 134,243 million euros, representing a reduction of 9.0% compared to 2022.

Term deposits came to a total of 25,588 million euros, representing growth of 58.5% year-on-year.

The breakdown of customer deposits as at 2023 year-end is shown below:



Total off-balance sheet customer funds came to 40,561 million euros as at 2023 year-end, reflecting an increase of 5.4% in year-on-year terms, driven by growth across all segments and most notably by the good performance of mutual funds, in terms of both yields and net inflows.

Total funds under management as at 31 December 2023 amounted to 226,682 million euros, compared to 225,146 million euros as at 31 December 2022, representing a year-on-year increase of 0.7%, as the growth of off-balance sheet customer funds offset the aforesaid reduction of on-balance sheet funds.

Million euro

	2023	2022	Year-on-year change (%)
On-balance sheet customer funds (*)	**160,888**	**164,140**	**(2.0)**
Customer deposits	160,331	164,076	(2.3)
Current and savings accounts	134,243	147,540	(9.0)
Term deposits	25,588	16,141	58.5
Repos	200	405	--
Accrual adjustments and hedging derivatives	299	(9)	--
Borrowings and other marketable securities	22,198	19,100	16.2
Subordinated liabilities (**)	3,593	3,478	3.3
On-balance sheet funds	**186,122**	**186,654**	**(0.3)**
Mutual funds	24,093	22,581	6.7
Investment companies	589	703	(16.2)
UCITS sold but not managed	23,504	21,878	7.4
Assets under management	3,598	3,532	1.9
Pension funds	3,249	3,182	2.1
Personal schemes	2,103	2,065	1.8
Workplace schemes	1,141	1,112	2.6
Collective schemes	5	5	(8.1)
Insurance products sold	9,621	9,197	4.6
Off-balance sheet customer funds	**40,561**	**38,492**	**5.4**
Funds under management and third-party funds	**226,682**	**225,146**	**0.7**

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

(**) Refers to subordinated debt securities issued.

The EUR/GBP exchange rate used for the balance sheet is 0.8691 at 31 December 2023.

The balance of non-performing assets was reduced by 223 million euros over the year, while the coverage ratio considering total provisions rose to 55.6%.

Non-performing assets have been reduced over the year 2023. The quarterly performance of these assets in 2023 and 2022 is shown below:

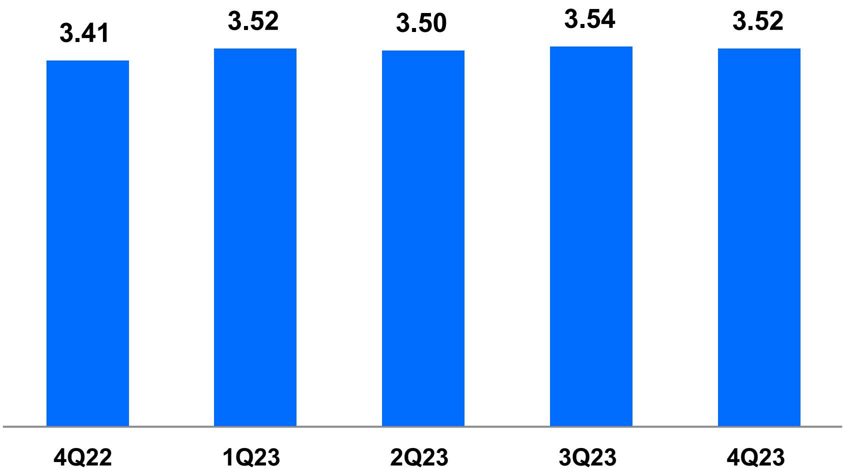
Million euro

	2023				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Ordinary net increase in stage 3 loans	183	111	85	(35)	153	(421)	208	68
Real estate asset balance variation	(40)	(34)	(44)	(68)	(63)	(22)	(68)	(53)
Ordinary net increase in stage 3 loans + real estate	**143**	**77**	**41**	**(103)**	**89**	**(443)**	**140**	**15**
Write-offs	106	114	82	79	146	74	92	83
Ordinary QoQ change in balance of stage 3 loans and real estate	**37**	**(37)**	**(41)**	**(182)**	**(56)**	**(517)**	**48**	**(68)**

As a result of the reduction of exposures classified as stage 3, associated with a reduction of the risk base, the NPL ratio reached 3.52% as at 2023 year-end, compared to 3.41% as at 2022 year-end (increase of 11 basis points). The coverage ratio of exposures classified as stage 3 with total provisions as at 31 December 2023 was 58.3% compared to 55.04% one year earlier, while the coverage ratio of non-performing real estate assets stood at 39.6% as at 31 December 2023, compared to 38.34% at the end of the previous year.

As at 31 December 2023, the balance of exposures classified as stage 3 in the Group amounted to 5,777 million euros (including contingent exposures) and declined by 37 million euros in 2023.

NPL ratio (*) (%)



(*) Calculated including contingent exposures.

The trend followed by the Group's coverage ratios is shown in the table below:

Million euro

	2023				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q34	Q4
Exposures classified as stage 3	5,891	5,888	5,891	5,777	6,210	5,714	5,830	5,814
Total provisions	3,219	3,280	3,329	3,368	3,456	3,159	3,214	3,200
Stage 3 coverage ratio, with total provisions (%)	**54.6**	**55.7**	**56.5**	**58.3**	**55.7**	**55.3**	**55.1**	**55.0**
Stage 3 provisions	2,328	2,361	2,402	2,445	2,560	2,263	2,273	2,292
Stage 3 coverage ratio (%)	**39.5**	**40.1**	**40.8**	**42.3**	**41.2**	**39.6**	**39.0**	**39.4**
Non-performing real estate assets	1,117	1,083	1,039	971	1,299	1,277	1,209	1,157
Provisions for non-performing real estate assets	429	419	404	385	494	499	470	443
Non-performing real estate coverage ratio (%)	**38.4**	**38.7**	**38.9**	**39.6**	**38.0**	**39.1**	**38.9**	**38.3**
Total non-performing assets	7,008	6,971	6,930	6,748	7,508	6,991	7,039	6,971
Provisions for non-performing assets	3,648	3,699	3,733	3,752	3,950	3,658	3,684	3,644
NPA coverage ratio (%)	**52.1**	**53.1**	**53.9**	**55.6**	**52.6**	**52.3**	**52.3**	**52.3**

Incluye riesgos contingentes.

3.4 Liquidity management

The Group's liquidity is sound, with a balanced funding structure.

The funding gap increased during 2023, showing a greater decline in lending than in customer funds. Funding in capital markets increased, senior non-preferred debt being the item with the greatest net increase, in order to keep an adequate level of own funds and eligible liabilities above the applicable regulatory requirement or MREL (Minimum Requirement for own funds and Eligible Liabilities). The Group's loan-to-deposit (LTD) ratio as at 31 December 2023 was 94.0%.

The Institution has made the most of the different issuance windows to access the capital markets at different times in the year, taking advantage of the first quarter, in particular, when it managed to execute most of the Funding Plan, in a market environment with persisting inflationary pressures, which led central banks to continue tightening their monetary policies and, specifically, continue raising interest rates. Maturities and early repayments in capital markets over the year amounted to 4,158 million euros, of which 250 million pounds correspond to TSB Bank. On the other hand, Banco Sabadell carried out two issues under the current Fixed Income Programme amounting to a total of 1.2 billion euros, specifically the following: one issue of mortgage covered bonds on 28 February 2023 for a total of 1 billion euros with a 3.5-year maturity, and one issue of mortgage covered bonds on 22 December 2023 for 200 million euros with an 8-year maturity. Furthermore, under the EMTN Programme, Banco Sabadell carried out four issues for a total amount of 2,750 million euros, specifically the following: one senior non-preferred debt issue on 7 February 2023 for 750 million euros with a 6-year maturity and an early call option in favour of Banco Sabadell in the fifth year; one Tier 2 subordinated bonds issue on 16 February 2023 for 500 million euros with a 10.5-year maturity and an early call option in favour of Banco Sabadell in the second half of the fifth year; one green senior preferred debt issue on 7 June 2023 for 750 million euros with a 6-year maturity and an early call option in favour of Banco Sabadell in the fifth year; and one senior non-preferred debt issue on 8 September 2023 for 750 million euros with a 6-year maturity and an early call option in favour of Banco Sabadell in the fifth year. In addition, Banco Sabadell carried out one AT1 Preferred Securities issue amounting to 500 million euros on 18 January 2023. For its part, TSB Bank carried out one mortgage covered bonds issue for 1 billion pounds with a 4-year maturity on 14 February 2023, and on 15 September 2023, it carried out one mortgage covered bonds issue for 750 million pounds with a 5-year maturity.

Additionally in 2023, having obtained the corresponding authorisations, Banco Sabadell exercised the early redemption option on the AT1 2/2017 issue amounting to 400 million euros on 23 February 2023 and the early redemption option on the Subordinated Debt 1/2018 issue amounting to 500 million euros on 12 December 2023. Furthermore, on 8 September 2023, together with the Senior Non-Preferred Debt 2/2023 issue, Banco Sabadell exercised a call option on the Senior Non-Preferred Debt 1/2019 issue in the amount of 580.4 million euros, leaving an outstanding balance on this issue of 419.6 million euros. TSB Bank also exercised a call provision on 15 September on its Covered Floating Rate Notes 2019 issue, in the amount of 250 million pounds, leaving an outstanding balance on this issue of 500 million pounds.

With regard to securitisations, on 29 September 2023, the traditional securitisation fund SCF Autos 1, FT was disbursed. This inaugural securitisation carried out by the subsidiary Sabadell Consumer Finance, S.A.U. enabled the financing and transfer of credit risk of a portfolio of auto loans granted by this subsidiary in the amount of 650 million euros. The issue consists of six classes of securities that were placed on the market, with the exception of the first loss tranche of 9.5 million euros to fund the reserve fund and initial expenses, which was retained by Sabadell Consumer Finance, and 156 million euros from the senior series which was subscribed by Banco de Sabadell, S.A.

On 13 September 2023, the Management Company TdA (Titulización de Activos, Sociedad Gestora de Fondos de Titulización, S.A.) published an inside information notice through the National Securities Market Commission (CNMV) disclosing the fact that Banco Sabadell had exercised its pre-emptive right to buy back its portion of the portfolio sold to the multi-seller fund TDA 25 FTA (currently in the process of being liquidated by the Management Company).

The Institution has maintained a liquidity buffer in the form of liquid assets to meet potential liquidity needs.

In terms of the LCR, since 1 January 2018, the regulatory minimum requirement has been 100%, a level amply surpassed by all of the Institution’s LMUs, with the ratio of the TSB LMU and Banco Sabadell Spain standing at 203% and 274%, respectively, as at 31 December 2023. At the Group level, the Institution’s LCR remained well above 100% on a stable basis at all times throughout the year, ending 2023 at 228%. As for the Net Stable Funding Ratio (NSFR), which came into force on 28 June 2021, the Institution has also remained steadily above the minimum requirement of 100% in all LMUs. As at 31 December 2023, the NSFR was 152% for the TSB LMU, 134% for Banco Sabadell Spain and 140% for the Group.

The key figures and basic liquidity ratios reached at the end of 2023 and 2022 are shown here below:

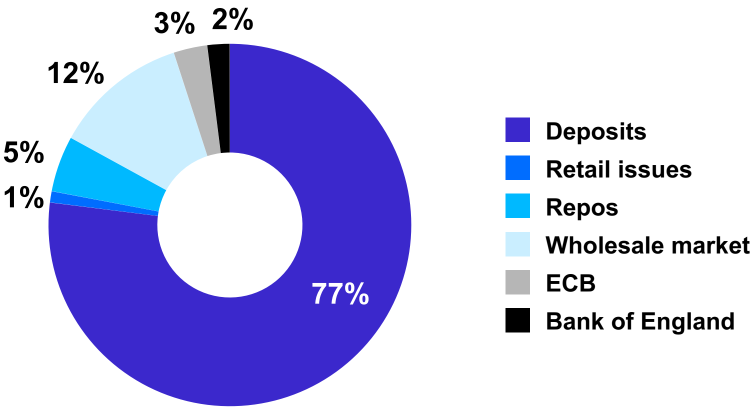
Million euro

	2023	2022
Gross loans to customers, excluding reverse repos	155,442	161,750
Impairment allowances	(3,199)	(3,020)
Brokered loans	(953)	(1,806)
Net loans and advances excluding ATAs, adjusted for brokered loans	**151,290**	**156,924**
On-balance sheet customer funds	160,888	164,140
Loan-to-deposit ratio (%)	**94.0**	**95.6**

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

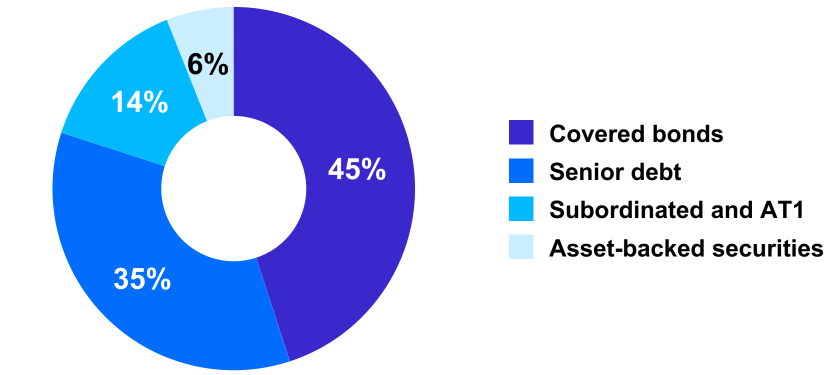
The main sources of funding as at the end of 2023, broken down by type of instrument and counterparty, are shown below (in percentage):

Funding structure (*)



(*) Excluding accrual adjustments and hedging derivatives.

Breakdown of institutional issues (*)



(*) Excluding accrual adjustments and hedging derivatives.

For further details about the Group's liquidity management, liquidity strategy and liquidity performance during the year, see Note 4 to the 2023 consolidated annual financial statements.

3.5 Capital management

Key capital figures and solvency ratios

Thousand euro

	31/12/2023		31/12/2022	
	Fully loaded	***Phase-in***	***Fully loaded***	***Phase-in***
Common Equity Tier 1 (CET1) capital	10,346,761	10,346,761	9,985,006	10,082,751
Tier 1 (T1) capital	12,096,761	12,096,761	11,635,006	11,732,751
Tier 2 (T2) capital	1,829,460	1,829,460	1,911,331	1,855,001
Total capital (Tier 1 + Tier 2)	13,926,221	13,926,221	13,546,337	13,587,753
Risk weighted assets	78,427,616	78,427,616	79,559,621	79,544,790
CET1 (%)	13.19 %	13.19 %	12.55 %	12.68 %
Tier 1 (%)	15.42 %	15.42 %	14.62 %	14.75 %
Tier 2 (%)	2.33 %	2.33 %	2.40 %	2.33 %
Total capital ratio (%)	17.76 %	17.76 %	17.02 %	17.08 %
Leverage ratio	5.19 %	5.19 %	4.59 %	4.62 %

In 2018, following the entry into force of IFRS 9, the Group opted to apply the transitional arrangements established in Regulation (EU) 2017/2395. As at 31 December 2022, the main difference between the phase-in and fully-loaded ratios was due to the static component of those transitional arrangements, which came to an end at the 2022 year-end closing. In 2023, the transitional arrangements arising as a result of IFRS 9 and still in effect had no impact on the Institution's solvency ratios.

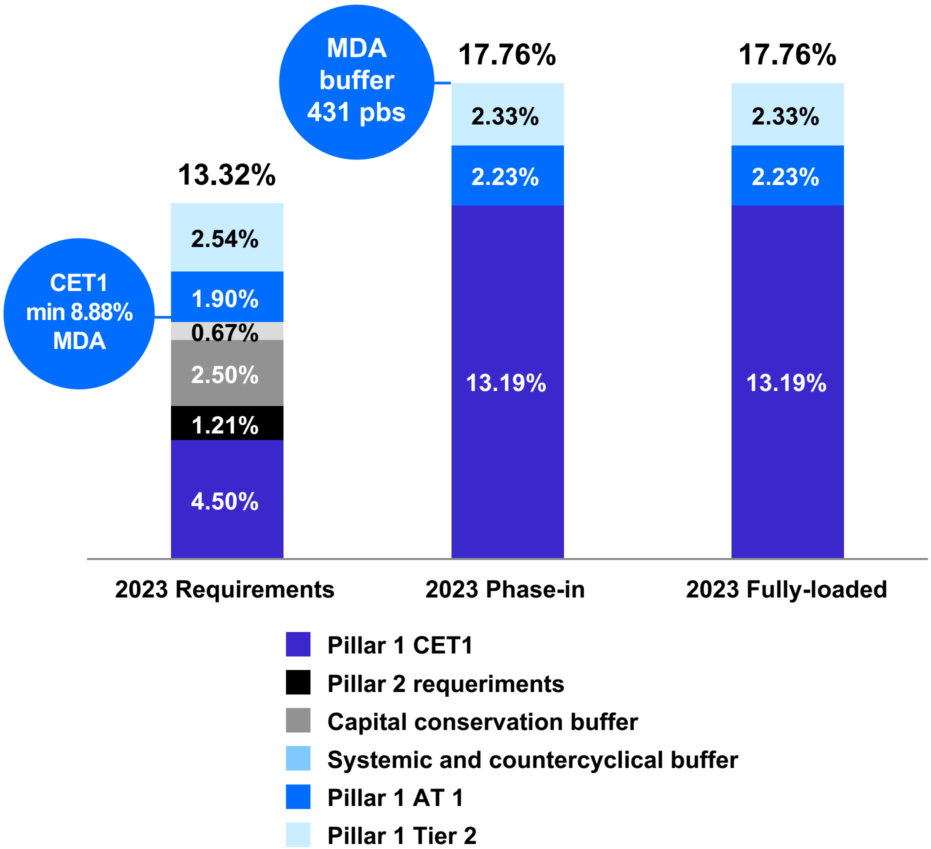
During 2023, the Group increased its capital base by 380 million euros in fully-loaded terms.

In 2023, a new issue of Preferred Securities 1/2023 was executed in the amount of 500 million euros, which replaced the Preferred Securities 2/2017 issue in the amount of 400 million euros. Regarding subordinated debt, it is worth noting the Subordinated Debt 1/2023 series, which increases Tier 2 capital by 500 million euros and replaces the Subordinated Debt 1/2018 series, in the amount of 500 million euros.

In terms of risk-weighted assets (RWAs), two securitisations were carried out during the period: one synthetic securitisation of business loans to SMEs and mid-corporates, disbursed on 27 September 2023 for an amount of 1,103 million euros, and one traditional securitisation carried out by the subsidiary Sabadell Consumer Finance, S.A.U. of loans intended for vehicle purchase, disbursed on 29 September 2023, which amounted to 650 million euros. In addition, in the Banco Sabadell ex-TSB perimeter, it is worth noting the reductions in RWAs as a result of the improved portfolio density due to, among other things, the implementation of new models for mortgages and consumer loans to individuals, reduced lending volumes (although the impact of this on RWAs is limited as most of that reduction is concentrated in ICO loans) and lastly, reduced requirements for market risk, especially interest rate risk, largely due to the portfolio's good evolution. This reduction in credit RWAs and market RWAs is partially offset by the update of operational RWAs, given the increase of the material risk indicator in 2023.

As a result, the fully-loaded CET1 ratio stood at 13.2% as at 2023 year-end.

As at 31 December 2023, the Group had a phase-in CET1 capital ratio of 13.2%, well above the requirement established in the Supervisory Review and Evaluation Process (SREP), which for 2023 was 8.88%, meaning that the aforesaid ratio is 431 basis points above the minimum requirement.



The minimum capital requirement has been calculated taking into account the own funds requirements in effect at the end of 2023 for Pillar 1 (8%) and Pillar 2R (2.15%), as well as the capital conservation buffer (2.5%), countercyclical buffer (0.42%) and the buffer for other systemically important institutions (0.25%).

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

The interim requirements in effect since 1 January 2022 are:

— The MREL requirement is 21.05% of the TREA and 6.22% of the LRE.
— The subordination requirement is 14.45% of the TREA and 6.06% of the LRE.

On 19 December 2023, Banco Sabadell received a communication from the Bank of Spain regarding the decision made by the Single Resolution Board (SRB) concerning the minimum requirement for own funds and eligible liabilities (MREL) and the subordination requirement applicable on a consolidated basis.

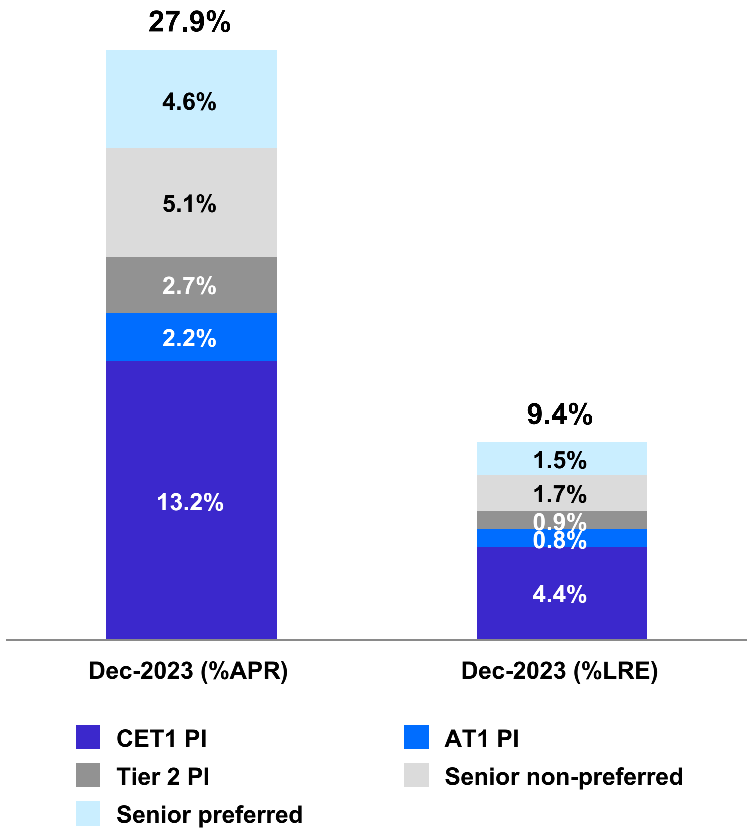
The requirements that must be met from 1 January 2024 are as follows:

— The minimum MREL is 22.52% of the total risk exposure amount (TREA) and 6.35% of the leverage ratio exposure (LRE).
— The subordination requirement is 17.31% of the TREA and 6.35% of the LRE.

The own funds used by the Institution to meet the combined buffer requirement (CBR), comprising the capital conservation buffer, the systemic risk buffer and the counter-cyclical buffer, will not be eligible to meet the MREL and subordination requirements expressed in terms of the TREA.

Banco Sabadell is already compliant with the requirements that it needs to meet from 1 January 2024 onwards, which coincide with Banco Sabadell's expectations and are in line with its funding plans.

Group MREL



The RWAs percentage includes the capital used to meet the Combined Buffer Requirement (CBR) (3.13% as at 31 December 2023 and estimated at 3.15% for 2024). This serves as a mechanism to accumulate capital to protect against cyclical and structural systemic risks, in order to build up own funds during periods of prosperity and thus be able to protect the regulatory minimum during periods of adverse economic conditions.