Consolidated annual accounts and Independent auditor's report

BANCO DE SABADELL, S.A. AND COMPANIES FORMING BANCO SABADELL GROUP

Consolidated annual financial statements and
consolidated Directors' Report
for the year ended 31 December 2023

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

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Consolidated annual financial statements for the year ended 31 December 2023

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2023 and 2022

Thousand euro

Assets	Note	2023	2022 (*)
Cash, cash balances at central banks and other demand deposits (**)	**7**	**29,985,853**	**41,260,395**
Financial assets held for trading		**2,706,489**	**4,017,253**
Derivatives	10	2,563,994	3,600,122
Equity instruments		—	—
Debt securities	8	142,495	417,131
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		*1,915*	*93,000*
Non-trading financial assets mandatorily at fair value through profit or loss		**153,178**	**77,421**
Equity instruments	9	52,336	23,145
Debt securities	8	65,744	54,276
Loans and advances	11	35,098	—
Central banks		—	—
Credit institutions		—	—
Customers		35,098	—
Memorandum item: loaned or pledged as security with sale or pledging rights		—	—
Financial assets designated at fair value through profit or loss		**—**	**—**
Debt securities		—	—
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		—	—
Financial assets at fair value through other comprehensive income		**6,269,297**	**5,802,264**
Equity instruments	9	183,938	179,572
Debt securities	8	6,085,359	5,622,692
Loans and advances		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Memorandum item: loaned or pledged as security with sale or pledging rights		*557,303*	*1,977,469*
Financial assets at amortised cost		**180,913,793**	**185,045,452**
Debt securities	8	21,500,927	21,452,820
Loans and advances	11	159,412,866	163,592,632
Central banks		156,516	162,664
Credit institutions		6,995,951	4,700,287
Customers		152,260,399	158,729,681
Memorandum item: loaned or pledged as security with sale or pledging rights		*5,996,602*	*6,542,504*
Derivatives – Hedge accounting	**12**	**2,424,598**	**3,072,091**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**12**	**(567,608)**	**(1,545,607)**
Investments in joint ventures and associates	**14**	**462,756**	**376,940**
Joint ventures		—	—
Associates		462,756	376,940
Assets under insurance or reinsurance contracts		**—**	**—**
Tangible assets	**15**	**2,296,704**	**2,581,791**
Property, plant and equipment		2,067,106	2,282,049
For own use		2,058,058	2,272,705
Leased out under operating leases		9,048	9,344
Investment properties		229,598	299,742
Of which: leased out under operating leases		*229,598*	*281,707*
Memorandum item: acquired through finance leases		*872,305*	*897,903*
Intangible assets	**16**	**2,483,074**	**2,484,162**
Goodwill		1,018,311	1,026,810
Other intangible assets		1,464,763	1,457,352
Tax assets		**6,837,820**	**6,851,068**
Current tax assets		452,289	206,561
Deferred tax assets	39	6,385,531	6,644,507
Other assets	**17**	**436,123**	**479,680**
Insurance contracts linked to pensions		80,693	89,729
Inventories		62,344	93,835
Rest of other assets		293,086	296,116
Non-current assets and disposal groups classified as held for sale	**13**	**770,878**	**738,313**
TOTAL ASSETS		**235,172,955**	**251,241,223**

(*) Shown for comparative purposes only (see Note 1.4).

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

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated balance sheet as at 31 December 2023.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2023 and 2022

Thousand euro

Liabilities	Note	2023	2022 (*)
Financial liabilities held for trading		**2,867,459**	**3,598,483**
Derivatives	10	2,530,086	3,374,036
Short positions		337,373	224,447
Deposits		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Debt securities issued		—	—
Other financial liabilities		—	—
Financial liabilities designated at fair value through profit or loss		**—**	**—**
Deposits		—	—
Central banks		—	—
Credit institutions		—	—
Customers		—	—
Debt securities issued		—	—
Other financial liabilities		—	—
Memorandum item: subordinated liabilities		—	—
Financial liabilities at amortised cost		**216,071,766**	**232,529,932**
Deposits		183,947,196	203,293,522
Central banks	18	9,776,360	27,843,687
Credit institutions	18	13,840,183	11,373,390
Customers	19	160,330,653	164,076,445
Debt securities issued	20	25,791,284	22,577,549
Other financial liabilities	21	6,333,286	6,658,861
Memorandum item: subordinated liabilities		*3,607,858*	*3,477,976*
Derivatives – Hedge accounting	**12**	**1,171,957**	**1,242,470**
Fair value changes of the hedged items in portfolio hedge of interest rate risk	**12**	**(422,347)**	**(959,106)**
Liabilities under insurance or reinsurance contracts		**—**	**—**
Provisions	**22**	**536,092**	**644,509**
Pensions and other post employment defined benefit obligations		58,308	63,384
Other long term employee benefits		69	170
Pending legal issues and tax litigation		60,550	89,850
Commitments and guarantees given		165,376	176,823
Other provisions		251,789	314,282
Tax liabilities		**332,951**	**226,711**
Current tax liabilities		217,981	112,994
Deferred tax liabilities	39	114,970	113,717
Share capital repayable on demand		**—**	**—**
Other liabilities	**17**	**722,524**	**872,108**
Liabilities included in disposal groups classified as held for sale	**13**	**13,347**	**—**
TOTAL LIABILITIES		**221,293,749**	**238,155,107**

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated balance sheet as at 31 December 2023.

Consolidated balance sheets of Banco Sabadell Group

As at 31 December 2023 and 2022

Thousand euro

Equity	Note	2023	2022 (*)
Shareholders' equity	**23**	**14,343,946**	**13,635,172**
Capital		680,028	703,371
Paid up capital		680,028	703,371
Unpaid capital which has been called up		—	—
Memorandum item: capital not called up		—	—
Share premium		7,695,227	7,899,227
Equity instruments issued other than capital		—	—
Equity component of compound financial instruments		—	—
Other equity instruments issued		—	—
Other equity		21,268	21,548
Retained earnings		6,401,782	5,859,520
Revaluation reserves		—	—
Other reserves		(1,584,816)	(1,602,079)
Reserves or accumulated losses of investments in joint ventures and associates		54,836	(72,449)
Other		(1,639,652)	(1,529,630)
(-) Treasury shares		(39,621)	(23,767)
Profit or loss attributable to owners of the parent		1,332,181	889,392
(-) Interim dividends		(162,103)	(112,040)
Accumulated other comprehensive income	**24**	**(498,953)**	**(583,400)**
Items that will not be reclassified to profit or loss		(30,596)	(29,125)
Actuarial gains or (-) losses on defined benefit pension plans		(3,313)	(1,969)
Non-current assets and disposal groups classified as held for sale		—	—
Share of other recognised income and expense of investments in joint ventures and associates		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income		(27,283)	(27,156)
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		—	—
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		—	—
Items that may be reclassified to profit or loss		(468,357)	(554,275)
Hedge of net investments in foreign operations [effective portion]		77,997	119,348
Foreign currency translation		(384,086)	(476,030)
Hedging derivatives. Cash flow hedges reserve [effective portion]		(49,215)	(64,224)
Fair value changes of debt instruments measured at fair value through other comprehensive income		(145,732)	(180,199)
Hedging instruments [not designated elements]		—	—
Non-current assets and disposal groups classified as held for sale		—	—
Share of other recognised income and expense of investments in joint ventures and associates		32,679	46,830
Minority interests [Non-controlling interests]	**25**	**34,213**	**34,344**
Accumulated other comprehensive income		—	—
Other items		34,213	34,344
TOTAL EQUITY		**13,879,206**	**13,086,116**
TOTAL EQUITY AND TOTAL LIABILITIES		**235,172,955**	**251,241,223**
Memorandum item: off-balance sheet exposures			
Loan commitments given	**26**	**27,035,812**	**27,460,615**
Financial guarantees given	**26**	**2,064,396**	**2,086,993**
Other commitments given	**26**	**7,942,724**	**9,674,382**

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated balance sheet as at 31 December 2023.

Consolidated income statements of Banco Sabadell Group

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
Interest income	28	8,658,756	4,988,603
Financial assets at fair value through other comprehensive income		134,309	68,608
Financial assets at amortised cost		7,771,231	4,499,843
Other interest income		753,216	420,152
(Interest expenses)	28	(3,935,538)	(1,189,877)
(Expenses on share capital repayable on demand)		—	—
Net interest income	**28**	**4,723,218**	**3,798,726**
Dividend income		8,413	2,609
Profit or loss of entities accounted for using the equity method	14	122,807	152,917
Fee and commission income	29	1,671,213	1,742,311
(Fee and commission expenses)	29	(285,055)	(252,103)
Gains or (-) losses on financial assets and liabilities, net	30	169,473	231,612
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net		23,250	13,227
Financial assets at amortised cost		15,939	(9,190)
Other financial assets and liabilities		7,311	22,417
Gains or (-) losses on financial assets and liabilities held for trading, net		122,249	204,691
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		122,249	204,691
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net		11,781	(4,157)
Reclassification of financial assets from fair value through other comprehensive income		—	—
Reclassification of financial assets from amortised cost		—	—
Other gains or (-) losses		11,781	(4,157)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net		—	—
Gains or (-) losses from hedge accounting, net		12,193	17,851
Exchange differences [gain or (-) loss], net	30	(101,093)	(127,971)
Other operating income	31	91,184	121,554
(Other operating expenses)	32	(538,228)	(458,867)
Income from assets under insurance or reinsurance contracts		—	—
(Expenses on liabilities under insurance or reinsurance contracts)		—	—
Gross income		**5,861,932**	**5,210,788**

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated income statement for 2023.

Consolidated income statements of Banco Sabadell Group

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
(Administrative expenses)		(2,496,362)	(2,337,415)
(Staff expenses)	33	(1,494,644)	(1,391,608)
(Other administrative expenses)	33	(1,001,718)	(945,807)
(Depreciation and amortisation)	15, 16	(518,965)	(545,091)
(Provisions or (-) reversal of provisions)	22	(6,290)	(96,821)
(Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains)	34	(824,393)	(839,579)
(Financial assets at fair value through other comprehensive income)		852	(182)
(Financial assets at amortised cost)		(825,245)	(839,397)
Profit/(loss) on operating activities		**2,015,922**	**1,391,882**
(Impairment or (-) reversal of impairment of investments in joint ventures and associates)		—	(12,200)
(Impairment or (-) reversal of impairment on non-financial assets)	35	(25,845)	(61,116)
(Tangible assets)		(11,526)	(37,098)
(Intangible assets)		—	—
(Other)		(14,319)	(24,018)
Gains or (-) losses on derecognition of non-financial assets, net	36	(39,344)	(17,369)
Negative goodwill recognised in profit or loss		—	—
Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	37	(59,955)	(27,801)
Profit or (-) loss before tax from continuing operations		**1,890,778**	**1,273,396**
(Tax expense or (-) income related to profit or loss from continuing operations)	39	(557,175)	(373,256)
Profit or (-) loss after tax from continuing operations		**1,333,603**	**900,140**
Profit or (-) loss after tax from discontinued operations		—	—
PROFIT OR (-) LOSS FOR THE YEAR		**1,333,603**	**900,140**
Attributable to minority interest [non-controlling interests]	25	1,422	10,748
Attributable to owners of the parent		1,332,181	889,392
Earnings (or loss) per share (euros)	**3**	**0.23**	**0.14**
Basic (euros)		0.23	0.14
Diluted (euros)		0.23	0.14

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated income statement for 2023.

Consolidated statements of recognised income and expenses of Banco Sabadell Group

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
Profit or loss for the year		**1,333,603**	**900,140**
Other comprehensive income	**24**	**84,447**	**(305,826)**
Items that will not be reclassified to profit or loss		(1,471)	12,633
Actuarial gains or (-) losses on defined benefit pension plans		(1,919)	(4,123)
Non-current assets and disposal groups held for sale		—	—
Share of other recognised income and expense of investments in joint ventures and associates		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income		1,250	17,114
Gains or (-) losses from hedge accounting of equity instruments at fair value through other comprehensive income, net		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]		—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]		—	—
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk		—	—
Income tax relating to items that will not be reclassified		(802)	(358)
Items that may be reclassified to profit or loss		85,918	(318,459)
Hedge of net investments in foreign operations [effective portion]		(41,351)	(38,393)
Valuation gains or (-) losses taken to equity		(41,351)	(38,393)
Transferred to profit or loss			—
Other reclassifications			—
Foreign currency translation		91,944	5,238
Translation gains or (-) losses taken to equity		91,944	5,238
Transferred to profit or loss		—	—
Other reclassifications		—	—
Cash flow hedges [effective portion]		22,291	(52,125)
Valuation gains or (-) losses taken to equity		(74,571)	(26,671)
Transferred to profit or loss		95,129	(25,493)
Transferred to initial carrying amount of hedged items		1,733	39
Other reclassifications		—	—
Hedging instruments [not designated elements]		—	—
Valuation gains or (-) losses taken to equity		—	—
Transferred to profit or loss		—	—
Other reclassifications		—	—
Debt instruments at fair value through other comprehensive income		48,733	(230,451)
Valuation gains or (-) losses taken to equity		53,041	(207,699)
Transferred to profit or loss		(4,308)	(22,752)
Other reclassifications		—	—
Non-current assets and disposal groups held for sale		—	
Valuation gains or (-) losses taken to equity		—	—
Transferred to profit or loss		—	—
Other reclassifications		—	—
Share of other recognised income and expense of investments in joint ventures and associates		(14,151)	(82,768)
Income tax relating to items that may be reclassified to profit or (-) loss		(21,548)	80,040
Total comprehensive income for the year		**1,418,050**	**594,314**
Attributable to minority interest [non-controlling interests]		1,422	10,748
Attributable to owners of the parent		1,416,628	583,566

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated statement of recognised income and expenses for 2023.

Consolidated statements of total changes in equity of Banco Sabadell Group

For the years ended 31 December 2023 and 2022

Thousand euro

Sources of equity changes	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Closing balance 31/12/2022 (*)	**703,371**	**7,899,227**	**—**	**21,548**	**5,859,520**	**—**	**(1,365,777)**	**(23,767)**	**858,642**	**(112,040)**	**(650,647)**	**—**	**34,344**	**13,224,421**
Effects of corrections of errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of changes in accounting policies (see Note 1.4)	—	—	—	—	—	—	(236,302)	—	30,750	—	67,247	—	—	(138,305)
Opening balance 01/01/2023	**703,371**	**7,899,227**	**—**	**21,548**	**5,859,520**	**—**	**(1,602,079)**	**(23,767)**	**889,392**	**(112,040)**	**(583,400)**	**—**	**34,344**	**13,086,116**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,332,181**	**—**	**84,447**	**—**	**1,422**	**1,418,050**
Other equity changes	**(23,343)**	**(204,000)**	**—**	**(280)**	**542,262**	**—**	**17,263**	**(15,854)**	**(889,392)**	**(50,063)**	**—**	**—**	**(1,553)**	**(624,960)**
Issuance of ordinary shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of preference shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Exercise or expiration of other equity instruments issued	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of debt to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction (see Note 23)	(23,343)	(204,000)	—	—	—	—	23,343	204,000	—	—	—	—	—	—
Dividends (or shareholder remuneration)	—	—	—	—	(111,645)	—	—	—	—	(162,103)	—	—	—	(273,748)
Purchase of treasury shares	—	—	—	—	—	—	—	(276,200)	—	—	—	—	—	(276,200)
Sale or cancellation of treasury shares	—	—	—	—	—	—	3,477	56,346	—	—	—	—	—	59,823
Reclassification of financial instruments from equity to liability	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reclassification of financial instruments from liability to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers among components of equity	—	—	—	—	777,352	—	—	—	(889,392)	112,040	—	—	—	—
Equity increase or (-) decrease resulting from business combinations	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share based payments	—	—	—	(280)	—	—	—	—	—	—	—	—	—	(280)
Other increase or (-) decrease in equity	—	—	—	—	(123,445)	—	(9,557)	—	—	—	—	—	(1,553)	(134,555)
Closing balance 31/12/2023	**680,028**	**7,695,227**	**—**	**21,268**	**6,401,782**	**—**	**(1,584,816)**	**(39,621)**	**1,332,181**	**(162,103)**	**(498,953)**	**—**	**34,213**	**13,879,206**

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated statement of total changes in equity for 2023.

(*) Correspond to balances included in the Consolidated annual financial statements for 2022 signed off by the directors of Banco de Sabadell, S.A.

Consolidated statements of total changes in equity of Banco Sabadell Group

For the years ended 31 December 2023 and 2022

Thousand euro

Sources of equity changes	Capital	Share premium	Equity instruments issued other than capital	Other equity	Retained earnings	Revaluation reserves	Other reserves	(-) Treasury shares	Profit or loss attributable to owners of the parent	(-) Interim dividends	Accumulated other comprehensive income	Minority interests: Accumulated other comprehensive income	Minority interests: Other items	Total
Closing balance 31/12/2021 (*)	**703,371**	**7,899,227**	**—**	**19,108**	**5,441,185**	**—**	**(1,201,701)**	**(34,523)**	**530,238**	**—**	**(385,604)**	**—**	**24,980**	**12,996,281**
Effects of corrections of errors	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Effects of changes in accounting policies (see Note 1.4)	—	—	—	—	—	—	(236,302)	—	—	—	108,030	—	—	(128,272)
Opening balance 01/01/2022	**703,371**	**7,899,227**	**—**	**19,108**	**5,441,185**	**—**	**(1,438,003)**	**(34,523)**	**530,238**	**—**	**(277,574)**	**—**	**24,980**	**12,868,009**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**889,392**	**—**	**(305,826)**	**—**	**10,748**	**594,314**
Other equity changes	**—**	**—**	**—**	**2,440**	**418,335**	**—**	**(164,076)**	**10,756**	**(530,238)**	**(112,040)**	**—**	**—**	**(1,384)**	**(376,207)**
Issuance of ordinary shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of preference shares	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Issuance of other equity instruments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Exercise or expiration of other equity instruments issued	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Conversion of debt to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital reduction	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Dividends (or shareholder remuneration)	—	—	—	—	(168,809)	—	—		—	(112,040)	—	—	—	(280,849)
Purchase of treasury shares	—	—	—	—	—	—	—	(86,457)	—	—	—	—	—	(86,457)
Sale or cancellation of treasury shares	—	—	—	—	—	—	4,537	97,213	—	—	—	—	—	101,750
Reclassification of financial instruments from equity to liability	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reclassification of financial instruments from liability to equity	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers among components of equity				—	530,238	—	—	—	(530,238)	—	—	—	—	—
Equity increase or (-) decrease resulting from business combinations	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Share based payments	—	—	—	2,440	—	—	—	—	—	—	—	—	—	2,440
Other increase or (-) decrease in equity	—	—	—	—	56,906	—	(168,613)	—	—	—	—	—	(1,384)	(113,091)
Closing balance 31/12/2022	**703,371**	**7,899,227**	**—**	**21,548**	**5,859,520**	**—**	**(1,602,079)**	**(23,767)**	**889,392**	**(112,040)**	**(583,400)**	**—**	**34,344**	**13,086,116**

Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated statement of total changes in equity for 2023.

(*) Correspond to balances included in the Consolidated annual financial statements for 2021 signed off by the directors of Banco de Sabadell, S.A.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
Cash flows from operating activities		**(10,523,303)**	**(6,627,920)**
Profit or loss for the year		1,333,603	900,140
Adjustments to obtain cash flows from operating activities		1,912,593	1,823,371
Depreciation and amortisation		518,965	545,091
Other adjustments		1,393,628	1,278,280
Net increase/decrease in operating assets		3,764,543	(8,795,849)
Financial assets held for trading		1,310,764	(2,045,624)
Non-trading financial assets mandatorily at fair value through profit or loss		(75,756)	2,137
Financial assets designated at fair value through profit or loss		—	—
Financial assets at fair value through other comprehensive income		(431,840)	914,235
Financial assets at amortised cost		3,146,531	(7,063,285)
Other operating assets		(185,156)	(603,312)
Net increase/decrease in operating liabilities		(17,125,186)	(488,059)
Financial liabilities held for trading		(731,024)	2,218,585
Financial liabilities designated at fair value through profit or loss		—	—
Financial liabilities at amortised cost		(16,558,167)	(1,899,289)
Other operating liabilities		164,005	(807,355)
Cash payments or refunds of income taxes		(408,856)	(67,523)
Cash flows from investing activities		**(163,020)**	**(64,796)**
Payments		(533,861)	(435,324)
Tangible assets	15	(236,420)	(238,939)
Intangible assets	16	(296,085)	(194,638)
Investments in joint ventures and associates	14	(1,356)	(1,747)
Subsidiaries and other business units		—	—
Non-current assets and liabilities classified as held for sale		—	—
Other payments related to investing activities		—	—
Collections		370,841	370,528
Tangible assets		122,648	96,547
Intangible assets		—	—
Investments in joint ventures and associates	14	28,669	210,300
Subsidiaries and other business units		—	—
Non-current assets and liabilities classified as held for sale		219,524	63,681
Other collections related to investing activities		—	—

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated cash flow statement for 2023.

Consolidated cash flow statements of Banco Sabadell Group

For the years ended 31 December 2023 and 2022

Thousand euro

	Note	2023	2022 (*)
Cash flows from financing activities		**(617,001)**	**(1,236,880)**
Payments		(1,676,824)	(1,338,630)
Dividends		(273,748)	(280,849)
Subordinated liabilities	4	(900,000)	(750,000)
Redemption of own equity instruments		—	—
Acquisition of own equity instruments		(276,200)	(86,457)
Other payments related to financing activities		(226,876)	(221,324)
Collections		1,059,823	101,750
Subordinated liabilities		1,000,000	—
Issuance of own equity instruments		—	—
Disposal of own equity instruments		59,823	101,750
Other collections related to financing activities		—	—
Effect of changes in foreign exchange rates		**28,782**	**(23,205)**
Net increase (decrease) in cash and cash equivalents		**(11,274,542)**	**(7,952,801)**
Cash and cash equivalents at the beginning of the year	**7**	**41,260,395**	**49,213,196**
Cash and cash equivalents at the end of the year	**7**	**29,985,853**	**41,260,395**

Memorandum item			
CASH FLOWS CORRESPONDING TO:			
Interest received		6,082,345	4,869,638
Interest paid		1,943,749	1,029,597
Dividends received		8,413	2,609
COMPONENTS OF CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			
Cash on hand	7	726,122	686,258
Cash equivalents in central banks	7	28,566,694	39,236,780
Other demand deposits	7	693,037	1,337,357
Other financial assets		—	—
Less: bank overdrafts repayable on demand		—	—
TOTAL CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**29,985,853**	**41,260,395**
Of which: held by Group entities but not available for the Group		—	—

(*) Shown for comparative purposes only (see Note 1.4).

Notes 1 to 43 and accompanying Schedules I to V form an integral part of the consolidated cash flow statement for 2023.

Consolidated report of Banco Sabadell Group for the year ended 31 December 2023

Note 1 – Activity, accounting policies and practices

1.1 Activity

Banco de Sabadell, S.A. (hereinafter also referred to as Banco Sabadell, the Bank, the Institution, or the Company), with tax identification number (NIF) A08000143 and with registered office in Alicante, Avenida Óscar Esplá, 37, engages in banking business and is subject to the standards and regulations governing banking institutions operating in Spain. The supervision of Banco Sabadell on a consolidated basis is performed by the European Central Bank (ECB).

The Institution is entered in the Companies Register of Alicante under Volume 4070, Folio 1, Sheet A-156980 and in the Bank of Spain's Official Register of Credit Institutions under code number 0081. The Legal Entity Identifier (LEI) of Banco de Sabadell, S.A. is SI5RG2M0WQQLZCXKRM20.

The Articles of Association and other public information can be viewed both at the Bank's registered office and on its website (www.grupbancsabadell.com).

The Bank is the parent company of a corporate group of entities (see Note 2 and Schedule I) whose activity it controls directly or indirectly and which comprise, together with the Bank, Banco Sabadell Group (hereinafter, the Group).

1.2 Basis of presentation and changes in accounting regulations

The Group's consolidated annual financial statements for 2023 have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU-IFRS) applicable at the end of 2023, taking into account Bank of Spain (BoS) Circular 4/2017 of 27 November as well as other provisions of the financial reporting regulations applicable to the Group and considering the formatting and mark-up requirements established in Commission Delegated Regulation EU 2019/815, in order to fairly present the Group's equity and consolidated financial situation as at 31 December 2023 and the results of its operations, recognised income and expenses, changes in equity and cash flows (all consolidated) in 2023.

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

The information included in these consolidated annual financial statements is the responsibility of the directors of the Group's parent company. The Group's consolidated annual financial statements for 2023 were signed off by the directors of Banco Sabadell at a meeting of the Board of Directors on 22 February 2024 and will be submitted to shareholders at the Annual General Meeting for approval. It is expected that the shareholders will approve the accounts without significant changes.

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

<u>Standards and interpretations issued by the International Accounting Standards Board (IASB) that entered into force in 2023</u>

In 2023, the standards and interpretations adopted by the European Union, together with their amendments, which have been applied by the Group due to their entry into force or their early application, are the following:

Standards	Titles
IFRS 17	Insurance contracts
Amendment to IFRS 17	Initial application of IFRS 17 and IFRS 9: Comparative information
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies
Amendments to IAS 8	Definition of accounting estimates
Amendments to IAS 12	- Deferred tax related to assets and liabilities arising from a single transaction
	- International tax reform – Pillar Two Model Rules

Except for the impact arising from the adoption of IFRS 17 (see section on Adoption of IFRS 17 "Insurance contracts" in this note and Note 1.4), the application of the aforesaid standards has had no significant effects on these consolidated annual financial statements.

Adoption of IFRS 17 "Insurance contracts"

IFRS 17 came into effect on 1 January 2023, replacing IFRS 4, and modified the set of accounting requirements for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that entities provide relevant information that faithfully represents those contracts.

In accordance with this standard, insurance contracts combine components of financial instruments and service contracts. In addition, many insurance contracts generate cash flows with substantial variability over a long period. In order to provide useful information about these features, IFRS 17:

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

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

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

The application of IFRS 17 requires restatement of comparative information, the transition date for this standard being 1 January 2022. In this respect, the initial application of IFRS 17 has produced a reduction of the Group's equity of 128 million euros as at 1 January 2022 and of 138 million euros as at 31 December 2022.

The main quantitative impacts of the initial application of IFRS 17 on the information set out in the financial statements for the financial year 2022 are set out below:

– The reconciliation between the Group's consolidated balance sheet as at 31 December 2021 published in the consolidated annual financial statements for the financial year 2021 and the opening consolidated balance sheet as at 1 January 2022 restated under IFRS 17 criteria is as follows:

Million euro

	Published balance 31/12/2021	IFRS 17 impact	Restated balance 01/01/2023
Total assets	**251,947**	**(128)**	**251,819**
Of which:			
Investments in joint ventures and associates	*639*	*(128)*	*511*
Total liabilities	**238,951**	**—**	**238,951**
Total equity	**12,996**	**(128)**	**12,868**
Of which:			
Other reserves	*(1,202)*	*(236)*	*(1,438)*
Accumulated other comprehensive income	*(386)*	*108*	*(278)*

– The reconciliation between the Group's consolidated balance sheet as at 31 December 2022 published in the consolidated annual financial statements for the financial year 2022 and the Group's consolidated balance sheet as at 31 December 2022 restated under IFRS 17 criteria is as follows:

Million euro

	Published balance 31/12/2022	IFRS 17 impact	Restated balance 31/12/2022
Total assets	**251,379**	**(138)**	**251,241**
Of which:			
Investments in joint ventures and associates	*515*	*(138)*	*377*
Total liabilities	**238,155**	**—**	**238,155**
Total equity	**13,224**	**(138)**	**13,086**
Of which:			
Other reserves	*(1,366)*	*(236)*	*(1,602)*
Profit or loss attributable to owners of the parent	*859*	*31*	*890*
Accumulated other comprehensive income	*(651)*	*67*	*(584)*

– The reconciliation between the Group's consolidated recognised income and expenses as at 31 December 2022 published in the consolidated annual financial statements for the financial year 2022 and the Group's consolidated recognised income and expenses as at 31 December 2022 restated under IFRS 17 criteria is as follows:

Million euro

	Published balance 31/12/2022	IFRS 17 impact	Restated balance 31/12/2022
Profit or loss for the year	**869**	**31**	**900**
Of which:			
Profit or loss of entities accounted for using the equity method	*122*	*31*	*153*
Other comprehensive income	**(265)**	**(41)**	**(306)**
Of which:			
Share of other recognised income and expense of investments in joint ventures and associates	*(42)*	*(41)*	*(83)*

The entry into force of IFRS 17 has not had any significant impact on the classification and recognition of the Group's other assets and liabilities.

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

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

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

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

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

Amendments to IAS 8 "Definition of accounting estimates"

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

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

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

Amendments to IAS 12 "International tax reform – Pillar Two Model Rules"

These amendments aim to respond the concerns raised by various stakeholders regarding the potential implications for the accounting of deferred taxes arising from the international tax reform of the Organisation for Economic Co-operation and Development (OECD). The OECD published the Pillar Two Model Rules in December 2021 to ensure that large multinational enterprises would be subject to a minimum tax rate of 15%.

Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union establishes a top-up tax through a system of two interlocked rules, together referred to as the GloBE or Pillar Two rules, promoted by the OECD and designed to ensure that where the effective tax rate of a multinational enterprise in a given jurisdiction is below 15%, an additional top-up tax will be collected. Member States should bring into force the laws, regulations and administrative provisions necessary to comply with this Directive. As at 31 December 2023, Spain had not approved applicable legislation in this regard, the United Kingdom being the only material region to have passed substantial legislation in relation to the OECD's tax reform.

The amendments to IAS 12 introduce a mandatory temporary exception to the accounting for deferred taxes arising from jurisdictions implementing the global tax rules to ensure consistency in the financial statements while easing into the implementation of the rules. This mandatory exception has been applied by the Group. In addition, these amendments introduce disclosure requirements to help investors better understand the exposure to income taxes arising from the Pillar Two rules before the regulations in each jurisdiction come into effect.

An analysis was carried out based on the information available and it is estimated that the impact on the Group of the international tax reform will not be significant.

<u>Standards and interpretations issued by the IASB not yet in force</u>

As at 31 December 2023, the most significant standards and interpretations that have been published by the IASB but which have not been applied when preparing these consolidated annual financial statements, either because their effective date is subsequent to the date thereof or because they have not yet been endorsed by the European Union, are as follows:

Standards and Interpretations	Title	Mandatory for years beginning:
Approved for application in the EU		
Amendments to IFRS 16	Lease liabilities in sale and leaseback transactions	1 January 2024
Amendments to IAS 1	Presentation of financial statements: - Classification of liabilities as current or non-current - Non-current liabilities with covenants	1 January 2024
Not approved for application in the EU		
Amendments to IAS 7 and IFRS 7	Supplier finance arrangements	1 January 2024
Amendments to IAS 21	Lack of exchangeability	1 January 2025

The Group has carried out an assessment of the impacts resulting from these standards and decided not to exercise its option to adopt early, where possible. It is also estimated that the adoption of the amendments issued by the IASB not yet in effect will not have a significant impact for the Group.

Approved for application in the EU

<u>Amendments to IFRS 16 “Lease liabilities in sale and leaseback transactions”</u>

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

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

<u>Amendments to IAS 1 “Presentation of financial statements”</u>

Classification of liabilities as current or non-current

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

Non-current liabilities with covenants

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

Not approved for application in the EU

<u>Amendments to IAS 7 and IFRS 7 “Supplier finance arrangements”</u>

The purpose of these amendments is to require institutions to provide additional breakdowns of their supplier finance arrangements. To that end, new requirements have been developed to ensure that information is provided to users of financial statements that allows them to assess how supplier finance arrangements affect the Institution’s cash flows and liabilities, and to understand the impact of those supplier finance arrangements on the Institution’s exposure to liquidity risk and how it might be affected if the arrangements were no longer in effect.

Earlier application of these amendments is permitted. If they are applied to a period prior to the date of mandatory application, the Institution must indicate this.

Amendments to IAS 21 “Lack of exchangeability”

These amendments aim to require institutions to apply a consistent approach in assessing whether a currency can be exchanged into another currency and, when it cannot, in determining the exchange rate to use and the disclosures to provide.

Earlier application of these amendments is permitted. If they are applied to a period prior to the date of mandatory application, the Institution must indicate this.

Judgements and estimates

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

The main judgements and estimates relate to the following:

– The accounting classification of financial assets according to their credit risk (see Notes 1.3.4, 8 and 11).

– Impairment losses on certain financial assets and off-balance sheet exposures (see Notes 1.3.4, 8, 11 and 26).

– The assumptions used in actuarial calculations of liabilities and post-employment obligations (see Notes 1.3.17 and 22).

– The measurement of consolidated goodwill (see Notes 1.3.12 and 16).

– The useful life and impairment losses of tangible assets and other intangible assets (see Notes 1.3.10, 1.3.11, 1.3.12, 15 and 16).

– The provisions and consideration of contingent liabilities (see Notes 1.3.16 and 22).

– The fair value of certain unquoted financial assets (see Notes 1.3.3 and 6).

– The fair value of real estate assets held on the balance sheet (see Notes 1.3.9, 1.3.10, 1.3.13 and 6).

– The recoverability of non-monetisable deferred tax assets and tax credits (see Notes 1.3.20 and 39).

The estimates are based on the best knowledge available of current and foreseeable circumstances, taking into account the uncertainties stemming from the existing economic environment, consequently, the final results could differ from these estimates.

1.3 Accounting principles and policies and measurement criteria

The accounting principles and policies, as well as the most significant measurement criteria applied in preparing these consolidated annual financial statements, are described below. There are no cases in which accounting principles or measurement criteria have not been applied because of a significant effect on the Group's consolidated annual financial statements for 2023.

1.3.1 Consolidation principles

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

Subsidiaries

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

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

- Power: an investor has power over an investee when that investor has existing rights which give them with the ability to direct the significant activities, i.e. those that significantly affect the investee's returns.
- Returns: an investor is exposed, or has rights, to variable returns due to their involvement with the investee when the returns obtained from such involvement have the potential to vary as a result of the investee's economic performance. The investor's returns can be only positive, only negative, or both positive and negative.
- Relationship between power and returns: an investor controls an investee if the investor not only has power over the investee and is exposed, or has rights, to variable returns due to their involvement with the investee, but also has the ability to use that power to influence the returns obtained due to their involvement with the investee.

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

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

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

Joint ventures

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

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

The Group has not held investments in joint ventures in 2023 and 2022.

Associates

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

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

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

Structured entities

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

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

- Analysis of the influence of the Group over the significant activities of the entity that could have an influence on the amount of its returns.
- Implicit or explicit commitments of the Group to provide financial support to the entity.
- Identification of the entity's manager and analysis of the remuneration scheme.
- Existence of removal rights (possibility of dismissing managers).
- Significant exposure of the Group to the variable returns on the entity's assets.

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

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

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

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

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

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

1.3.2 Business combinations

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in measurements occurring subsequent to initial recognition for reasons other than those mentioned above are treated according to the classification of financial assets and financial liabilities for the purposes of their measurement. In the case of financial assets, classification is generally based on the following aspects:

- The business model under which they are managed, and
- Their contractual cash flow characteristics.

Business model

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

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

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

- Business model whose objective is to sell financial assets.

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

Contractual cash flow characteristics of financial assets

Financial assets should initially be classified in one of the following two categories:

- Those whose contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- All other financial assets.

For the purposes of this classification, the principal of a financial asset is its fair value at initial recognition, which could change over the life of the financial asset; for example, if there are repayments of principal. Interest is understood as the sum of consideration for the time value of money, for lending and structural costs, and for the credit risk associated with the principal amount outstanding during a particular period of time, plus a profit margin.

If a financial asset contains contractual terms that could change the timing or amount of cash flows, the Group will estimate the cash flows that could arise before and after the change and determine whether these are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The most significant judgements used in this evaluation are indicated here below:

- Modified time value of money: in order to determine whether the interest rate of a transaction incorporates any consideration other than that linked to the passage of time, transactions that present a difference between the tenor of the benchmark interest rate and the reset frequency of that interest rate are analysed, considering a tolerance threshold, in order to determine whether the instrument's contractual (undiscounted) cash flows could be significantly different from the contractual (undiscounted) benchmark cash flows of a financial instrument whose time value of money element was not modified. At present, tolerance thresholds of 10% and 5%, respectively, are used for the differences in each tenor and for the analysis of cumulative cash flows over the life of the financial asset.

- Contractual terms that change the timing or amount of cash flows: an analysis is carried out to determine whether any contractual terms exist that could change the timing or amount of contractual cash flows from the financial asset:

    - Clauses for conversion to equity shares: clauses that include a conversion-to-equity option and the loss of the right to claim contractual cash flows in the event the principal amount is reduced due to insufficient funds. Contracts that include this option will automatically fail the SPPI test.

    - Existence of the option to prepay or extend the financial instrument, or extend the contractual term, and possible residual compensation: a financial asset will fulfil the SPPI test requirements if it includes a contractual option that permits the issuer (or debtor) to prepay a debt instrument or to put back a debt instrument before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest outstanding, which may include reasonable additional compensation for the early termination of the contract.

    - Financial assets with interest rates linked to environmental, social or governance targets (ESG-linked features): these financial assets provide general funding at a contractual interest rate that is adjusted depending on the borrower achieving pre-determined ESG targets that are specific to the borrower, the purpose of the adjustment being to incentivise the achievement of those targets. The key consideration here is whether the resulting cash flows reflect a return for risk that is unrelated to a basic lending arrangement. Thus, if the adjustment linked to ESG targets does not introduce compensation for risks that is inconsistent with a basic lending arrangement, then it is considered that the financial asset has contractual cash flows that are compatible with a basic lending arrangement. In addition, for this type of financial asset, the nature of the ESG-linked feature is taken into account, such as a contingent event, which is considered to be an indicator in assessing whether the contractual cash flows consist solely of payments of principal and interest.

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

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

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

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

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

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

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

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

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

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

Portfolios of financial instruments classified for the purpose of their measurement

Financial assets and financial liabilities are classified, for the purpose of their measurement, into the following portfolios, based on the aspects described above:

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

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

- They are managed with a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

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

This category comprises investments associated with typical lending activities, such as amounts loaned to customers withdrawn in cash and not yet repaid, deposits placed with other institutions, regardless of the legal arrangements under which the funds were provided, debt securities which meet the two conditions indicated above, as well as debts incurred by purchasers of goods or users of services forming part of the Group's business.

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

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

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

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

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

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

These financial assets primarily correspond to debt securities.

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss

A financial asset is classified in the portfolio of financial assets at fair value through profit or loss whenever the business model used by the Group for its management or its contractual cash flow characteristics make it inadvisable to classify it into any of the other portfolios described above.

This portfolio is in turn subdivided into:

– *Financial assets held for trading*

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

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

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

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

In 2023 and 2022, no reclassifications took place between the portfolios in which financial assets are recognised for the purpose of their measurement.

Financial liabilities held for trading

Financial liabilities held for trading include financial liabilities that have been issued for the purpose of repurchasing them in the near term, or which form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. They also include short positions arising from the outright sale of assets acquired in reverse repurchase agreements, borrowed in securities lending or received as collateral with sale rights, as well as derivative instruments that do not meet the definition of a financial guarantee contract and which have not been designated as hedging instruments.

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

Financial liabilities at amortised cost

Financial liabilities at amortised cost are financial liabilities that cannot be classified into any of the above categories and which relate to the typical deposit-taking activity of a financial institution, irrespective of their substance and maturity.

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

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

Hybrid financial instruments

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

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

When the host contract of a hybrid financial instrument is a financial liability, the embedded derivatives of that contract are accounted for separately if the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract, if a separate financial instrument with the same terms as the embedded derivative would meet the definition of a derivative instrument, and if the hybrid contract is not fully measured at fair value through profit or loss.

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

The fair value of the Group's financial instruments as at 31 December 2023 and 2022 is indicated in Note 6.

1.3.4 Impairment of financial assets

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

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

1.3.4.1 Debt instruments and off-balance sheet exposures

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

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

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

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

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

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

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

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

Definition of classification categories

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

- Stage 1: standard exposures, i.e. transactions whose risk profile has not changed since they were granted and for which there are no doubts as to the fulfilment of repayment commitments in accordance with the contractually agreed terms.
- Stage 2: standard exposures under special monitoring, i.e. transactions which, although they do not meet the criteria to be classified individually as stage 3 or write-offs, show significant increases in credit risk (SICR) since initial recognition. This category includes, among other transactions, those in which there are amounts more than 30 days past due, with the exception of non-recourse factoring, for which a threshold of more than 60 days is applied (the amount of non-recourse factoring transactions with arrears of between 30 and 60 days represented 28 million euros as at year-end 2023 and 55 million euros as at year-end 2022), as well as refinanced and restructured transactions not classified as stage 3 until they are classified into a lower risk category once they meet the established requirements for modifying their classification.
- Stage 3: doubtful or non-performing exposures are transactions for which there are reasonable doubts as to their repayment in full in accordance with the contractually agreed terms. This category comprises debt instruments, matured or otherwise, which do not meet the conditions for classification into the write-offs category but for which there are reasonable doubts as to their repayment in full (principal and interest) by the borrower, as well as off-balance sheet exposures whose payment by the Group is likely but whose recovery is doubtful:
    - As a result of borrower arrears: all transactions, without exception, with any amount of principal, interest or contractually agreed expenses more than 90 days past due, unless they should be classified as write-offs. This category also includes debt transactions and guarantees given classified as non-performing due to the pulling effect (more than 20% of the exposures of one obligor are more than 90 days past due).
    - For reasons other than borrower arrears: transactions which do not meet the conditions for classification as write-offs or stage 3 as a result of borrower arrears, but for which there are reasonable doubts as to the likelihood of obtaining the estimated cash flows of the transaction, as well as off-balance sheet exposures not classified as stage 3 as a result of borrower arrears whose payment by the Group is likely but whose recovery is doubtful. This category includes transactions that were classified as stage 3 as a result of borrower arrears and which will be maintained, for a 3-month probation period, in the stage 3 category for reasons other than borrower arrears.

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

– Write-off:

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

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

  In the above situations, Banco Sabadell Group derecognises write-offs along with their associated provisions from the consolidated balance sheet, notwithstanding any actions that may be taken to collect payment until no more rights to collect payment exist, whether due to time-barring, debt remission, or for any other reasons.

Purchased or originated credit-impaired transactions

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

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

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

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

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

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

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

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

Transaction classification criteria

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

– Automatic criteria;

– Criteria based on indicators (triggers); and

– Specific criteria for refinancing.

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

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

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

Individual assessment

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

The thresholds at the customer level used to classify borrowers as significant have been set at 10 million euros for customers classified in stage 1 or 2, and at 5 million euros for customers classified in stage 3. These thresholds comprise amounts drawn, amounts available and guarantees.

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

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

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

The system of triggers for significant borrowers is automated and takes into account the particular characteristics of segments that perform differently within the loan portfolio, with specific triggers in place for certain segments. In any event, the system of triggers does not automatically or individually classify borrowers. Instead, it brings forward the due date for assessment of the borrower by an analyst and prompts decision-making with regard to their classification. The main aspects identified by the system of triggers are listed here below:

Stage 2 triggers:

- Adverse changes in the financial situation, such as a significant increase in levels of leverage or a sharp drop in turnover or equity.
- Adverse changes in the economy or market indicators, such as a significant fall in share prices or a reduction in the price of debt issues.
- Significant fall in the internal credit rating of the borrower.
- Significant increase in credit risk of other transactions of the same borrower, or in entities associated with the borrower's risk group.
- For transactions secured with collateral, significant decline in the value of the collateral received.

Stage 3 triggers:

- Negative EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation), significant decrease in EBITDA, in turnover, or in general, in the borrower's recurrent cash flows.
- Increase in the borrower's leverage ratios.

- Negative equity or equity reduction as a result of the borrower suffering equity losses of 50% or more in the past year.
- Existence of an internal or external credit rating showing that the borrower is in arrears.

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

Collective assessment

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

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

– Systemic: macroeconomic characteristics shared by all exposures.

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

– Idiosyncratic: aspects specific to each transaction or borrower.

With this specification, it is possible to measure the annualised residual lifetime PD of a transaction under the conditions that existed at the time the transaction was approved (or originated), or under the conditions existing at the time the provision is calculated.

A statistical model is used that estimates significant increase in credit risk for borrowers and transactions subject to collective assessment models. The estimate is made using a logistic regression that considers, as explanatory variables, the ratio and the absolute increase between the annualised lifetime PD under the economic and idiosyncratic circumstances at the time the provision is calculated and the annualised residual lifetime PD under the circumstances that existed at the time the transaction was approved, along with other defining variables of the borrower or exposure. For this model, thresholds for the increase in annualised lifetime PD, requiring stage 2 classification, have been calibrated using historical data with the aim of maximising efficient and early detection of arrears at 30 days, refinancings and defaults, thereby maximising risk discrimination among borrowers and/or transactions classified as stage 1 and 2.

The thresholds for significant increase in credit risk vary according to the portfolio, business size, product and level of PD upon approval, requiring higher relative increases if the PD upon approval is low.

Exceptionally, these thresholds are not applicable at certain low levels of current PD where there is practically no indication of significant increase in credit risk over a 6-month horizon (Low Credit Risk Exemption); these levels will vary according to the portfolio/segment and have been calibrated using historical data. The current PD thresholds to identify the population exempt from significant increases in credit risk have been calibrated differently for each of the portfolios under the collective model perimeter, i.e. companies differentiated by size, mortgages and consumer loans.

In any case, as a general criterion and in addition to those described previously, borrowers included in the watchlist identified by the risk function (list of high-risk borrowers) and all transactions that have a current 12-month PD above a given threshold that varies according to portfolio/segment and is statistically calibrated, are reclassified to stage 2. Similarly, all transactions with a current 12-month PD above a particular threshold, which varies according to portfolio/segment, are reclassified to stage 3.

In the case of TSB, the methodology for classification to stage 2 uses the multiplier of lifetime PD upon approval relative to current lifetime PD as an input, complemented with an absolute increase in PD calculated specifically for each portfolio. Both of these thresholds must be reached in order for an exposure to be reclassified to stage 2. In 2023 and 2022, the threshold for the multiplier of current PD relative to PD upon approval ranges from 1 (there is no increase of PD upon approval relative to current PD) to 3 (an increase of two times the PD upon approval), while absolute thresholds have ranged from 10 to 770 basis points in both years, with the exception of overdrafts, which only use an absolute threshold of 400 basis points.

Refinancing and restructuring transactions

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

- Refinancing transaction: transaction which, irrespective of the borrower or guarantees involved, is approved or used for economic or legal reasons related to the current or foreseeable financial difficulties of the borrower (or borrowers) to repay one or more transactions approved by the Group and granted to the borrower (or borrowers) or to another company or companies belonging to its group, or to bring outstanding payments fully or partially up to date, with a view to making it easier for holders of refinanced transactions to repay their debt (principal and interest) when they are unable, or will predictably soon be unable, to honour their payment obligations in good time and in the manner agreed.

- Restructured transaction: transaction in which, for economic or legal reasons related to the current or foreseeable financial difficulties of the borrower (or borrowers), the financial terms and conditions are modified to make it easier for them to repay their debt (principal and interest) when they are unable, or will predictably soon be unable, to honour their payment obligations in good time and in the manner agreed, even when such a modification is already provided for in the contract. In any case, transactions in which the debt is written down or assets are received to reduce the debt, or transactions whose terms are modified to extend the term to maturity, or to amend the repayment schedule so as to the reduce repayment instalment amounts in the short term or reduce their payment frequency, or to establish or extend the grace period for the repayment of principal, interest, or both, are all considered restructured transactions, except where it can be proven that the terms are being modified for reasons other than borrowers' financial difficulties and that the modified terms are analogous to those that would be applied in the market, on the date of such modification, to transactions with a similar risk profile.

If a transaction is classified in a particular risk category, refinancing does not mean that its risk classification will automatically improve. The algorithm establishes the initial classification of refinanced transactions based on their characteristics: they may be based on an inadequate business plan, they may have certain clauses such as long grace periods, or they may have amounts written off as they are considered to be non-recoverable. The algorithm then changes the initial classification depending on the established cure periods. Reclassification into a lower risk category will only be considered if evidence exists of a continuous and significant improvement in the recovery of the debt over time; therefore, the act of refinancing does not in itself produce any immediate improvements.

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

- It is concluded, having reviewed the borrower's assets and financial position, that the borrower is unlikely to experience financial difficulties.

- A minimum of two years have passed since the date of the restructuring or refinancing or, if later, since the date of reclassification to the stage 3 category.

- The borrower has paid the instalments of principal and interest accumulated since the date of the refinancing or restructuring or, if later, since the date of reclassification to the stage 3 category.

- The borrower has no other transactions with amounts more than 30 days past due at the end of the probation period.

- At least 12 months have passed since the grace period came to an end.

- The refinanced amount of both the contract and the borrower has been reduced and the cumulative amount since the refinancing date is at least the amount equivalent to the refinanced unpaid amount, the write-down or the new risk approved.

Refinancing, refinanced and restructured transactions remain in the stage 3 category until it can be verified that they meet the general criteria for reclassification to the stage 2 category, particularly the following requirements:

– It is concluded, having reviewed the borrower's assets and financial position, that the borrower is unlikely to experience financial difficulties.

– One year has passed since the date of the refinancing or restructuring.

– The borrower has paid the accumulated instalments of principal and interest.

– The borrower has no other transactions with amounts more than 90 days past due on the date on which the refinancing, refinanced or restructured transaction is reclassified to stage 2.

– At least 12 months have passed since the grace period came to an end.

– The refinanced amount of both the contract and the borrower has been reduced and the cumulative amount since the refinancing date is at least the amount equivalent to the refinanced unpaid amount, the write-down or the new risk approved.

In the case of refinanced/restructured loans classified as stage 2, in addition to the general classification criteria, certain specific criteria are applicable which, if met, lead to reclassification into one of the higher risk categories described previously (i.e. to stage 3, as a result of borrower arrears, when payments are, in general, over 90 days past due, or for reasons other than borrower arrears, when there are reasonable doubts as to their recoverability).

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

1.3.4.1.2 Credit loss allowances

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

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

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

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

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

  In this context, the Group reviews the quality and stability of the scoring and rating tools that are currently in use on an annual basis.

  The tools used to assess debtors' probability of default in the case of companies are the ratings and early warning tool (known as HAT) described below:

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

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

  – Early warnings tool, known as HAT (for companies): HAT gives a score that estimates the risk of a company defaulting in the near term, determined based on a variety of information (balances, non-payments, information from CIRBE (Spain's central credit register), external credit bureaux, etc.).

HAT aims to capture the short-term risk of a company. The scores that it gives are very sensitive to changes in a company's status or behaviour and are therefore updated on a daily basis.

– Credit scores: the tools designed to assess the probability of default of debtors who are natural persons are credit scoring systems, which are in turn based on a quantitative model of historical statistical data, where the relevant predictive factors are identified. In geographical areas where credit scoring takes place, credit scores are divided into two types:

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

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

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

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

– Effective Interest Rate (EIR): rate that exactly discounts estimated future cash payments or receipts through the expected life of a financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

– Multiple scenarios: in order to estimate expected losses, the Group applies different scenarios to identify the effect of the non-linearity of losses. To this end, the provisions required are estimated in the different scenarios for which a probability of occurrence has been defined. Specifically, the Bank has considered three macroeconomic scenarios: one baseline scenario, the most likely of all (60%); alternative scenario 1, which is more optimistic and envisages greater potential growth and non-existent inflation (10%); and alternative scenario 2, which is more adverse and envisages a halt in the disinflation process, financial instability and recession (30%). In the case of TSB, the probability of the adverse scenario is reduced to 20%, assigning a 10% probability to a more adverse scenario characterised by interest rate hikes. To carry out the forecasts of these scenarios, 5-year time horizons are used. The main variables considered are changes in GDP, the unemployment rate and house prices. In 2022, the Group considered three macroeconomic scenarios with weights of 61%, 9% and 30%, respectively, and the same macroeconomic variables as in 2023.

  Baseline scenario

  - Global economic growth is fragile and constrained by the materialisation of impacts stemming from monetary policy tightening, which affect activity, financing conditions and lending. In terms of regions, there are still structural adjustments in China, while in the Eurozone, Germany's weaker performance contrasts with the periphery countries that benefit from the Next Generation (NGEU) funds. Labour markets show relative stability, with a more even balance between supply and demand for jobs.

  - Inflation gradually eases towards monetary policy targets. Movements in inflation are especially determined by largely domestic factors, such as the job market, the real estate market and the fiscal policy of each country. However, unstable supply conditions could generate new disruptions in production chains and new specific cost pressures.

  - The geopolitical environment is uncertain, characterised by greater confrontations between blocs and a lack of cooperation in various areas. Countries tend to prioritise trade relations with their neighbours or with countries that are similar to them, and tend to respond to events that generate uncertainty with protectionist policies.

- In terms of economic policy, concerns over the state of public finances take centre stage. The bigger role played by the State in tackling the major challenges and transitions that society will face in the future (climate, adverse demographics, convoluted geopolitics, industrial policy, new technologies, etc.) requires governments to seek new and often unorthodox income measures in an attempt to cover higher structural costs. In the European Union, the Next Generation funds continue to be rolled out and serve as a mechanism to channel public investment in the next few years.

- Central banks cut interest rates as inflation eases off and comes closer to monetary policy targets, in order to avoid a further rebound of the real interest rate. This process starts in 2024 and continues gradually until levels around monetary neutrality are reached. Meanwhile, central banks continue to make progress on their quantitative tightening policies, although they are eventually forced to stop this process to avoid causing liquidity problems in the markets.

- The environment of tight financial conditions is prone to further episodes of stress due to issues in some segments of the financial sector, including some banks, or liquidity mismatches in the system. In any event, these events are localised and the authorities manage to control them; therefore, their economic repercussions are non-existent.

- Spain continues to stand out in a positive light in the Eurozone. The recovery in real household incomes, thanks to a favourable job market, rising wages and lower inflation, leads to an improvement in private consumption. The robustness of household balance sheets and a relatively low sensitivity to interest rate hikes also support household spending. The NGEU funds remain a supporting factor.

- Private sector lending in Spain declines in the near term, while in the long term it continues to grow below nominal GDP, impacted by high interest rates, global economic weakness, companies' ample liquidity buffers and, in the case of mortgage loans, also by reduced affordability and accessibility.

- In relation to financial markets, long-term government bond yields remain stable over the forecast period, despite weak economic growth and more moderate inflation. This is because the market gradually prices in a higher forward premium, due to central banks' quantitative tightening (QT) and concerns about the state of public finances.

- Risk premiums of the European periphery remain contained and in line with their respective ratings.

- The dollar depreciates gradually amidst slowing inflation and a cooling US economy once the Fed starts to cut interest rates in 2024.

Alternative scenario 1: Greater potential growth and non-existent inflation

- The geopolitical environment improves and the conflict in Ukraine is resolved with an agreement that works for all parties, thus removing a source of uncertainty in Europe.

- Global supply conditions improve substantially and revert back to pre-Covid-19 levels. This is the result of a healthier geopolitical environment, the absence of climate shocks and productivity gains thanks to technological developments (e.g. those related to artificial intelligence).

- Global economic growth is more robust and synchronised from the outset than in the baseline scenario, due to a better business climate, less uncertainty over geopolitics, lower energy and commodity prices and the positive evolution of core inflation. In the medium term, productivity gains also materialise stemming from the rapid implementation of new technologies and a more sustainable economy, improving economies' potential growth prospects.

- Inflation falls faster than in the baseline scenario and remains at levels close to the monetary policy targets of the respective central banks.

- This environment allows central banks to ease their monetary policies more quickly than in the baseline scenario.

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

- The macroeconomic and financial environment allows risk premiums on both peripheral debt and corporate bonds to remain contained.
- In Spain, the economy maintains significant growth momentum thanks to the resolution of the conflict in Ukraine, lower interest rates and the use of the NGEU funds.

Alternative scenario 2: Halt in disinflation process, financial instability and recession

- The scenario centres on the potential materialisation of risks to financial stability.
- At first, the inflation moderation process stops prematurely and inflation stabilises at levels clearly above central banks' targets during 2024. Against this backdrop, central banks are forced to further tighten their monetary policies during the first half of 2024.
- The financial vulnerabilities in the current environment have the potential to trigger significant financial instability. Additional monetary tightening clearly increases the likelihood of persistent financial stress with economic repercussions.
- The global economy falls into a recession in 2024, as a result of financial instability and the accumulated monetary tightening. Labour markets deteriorate with sharp rises in unemployment.
- Despite the initial downward stickiness of inflation, it eventually recedes due to damage to the credit channel, financial market dislocation and economic recession.
- Monetary policy is forced to respond to financial instability through balance sheet policies and liquidity programmes. Central banks also cut official interest rates to expansive levels.
- Global financing conditions tighten, in terms of both capital markets and credit. Government bond yields end up falling in the face of central banks' monetary policy shift, economic recession and decreasing inflation.
- Periphery risk premiums rise sharply, reducing fiscal headroom in some countries.
- The Spanish economy falls into a recession in the first half of 2024 and records negative growth until the second half of 2025. This is influenced by tightened credit supply, the economic weakness of its main trading partners and the uncertainty characterising this scenario.

As at 31 December 2023 and 2022, the main forecast variables considered for Spain and the United Kingdom are those shown below:

%

	31/12/2023									
	Spain					United Kingdom				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	Year 5
GDP growth										
Baseline scenario	1.6	1.9	1.8	1.6	1.6	0.6	1.2	1.3	1.4	1.4
Alternative scenario 1	4.1	3.5	2.2	2.0	2.0	1.3	2.7	1.7	1.6	1.6
Alternative scenario 2	-0.2	-1.0	1.0	1.2	1.2	-0.6	-1.1	1.2	1.4	1.2
Unemployment rate										
Baseline scenario	11.4	11.2	10.9	10.7	10.5	4.5	4.7	4.6	4.3	4.3
Alternative scenario 1	10.3	9.0	8.4	8.1	8.0	4.0	3.6	3.5	3.5	3.5
Alternative scenario 2	15.3	16.0	14.5	13.0	11.5	5.2	6.6	6.2	5.6	5.0
House price growth (*)										
Baseline scenario	0.5	1.7	1.8	1.9	1.9	-6.5	-2.4	1.9	2.5	2.5
Alternative scenario 1	5.6	4.6	3.5	3.5	3.5	-2.5	0.5	1.0	1.6	3.4
Alternative scenario 2	-3.6	-2.1	0.0	1.9	1.9	-7.8	-9.5	-0.4	0.0	1.6

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

%

	31/12/2022									
	Spain					United Kingdom				
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 1	Year 2	Year 3	Year 4	Year 5
GDP growth										
Baseline scenario	1.3	2.0	2.0	1.8	1.7	-1.3	-0.2	1.0	1.3	1.4
Alternative scenario 1	4.4	4.4	2.5	2.0	2.0	-0.4	0.8	1.3	1.3	1.4
Alternative scenario 2	-1.1	0.1	1.6	1.8	1.7	-2.5	-1.4	1.0	1.3	1.4
Unemployment rate										
Baseline scenario	12.7	12.4	12.1	11.9	11.7	4.4	5.2	5.0	4.6	4.2
Alternative scenario 1	11.6	10.2	9.0	8.6	8.4	3.8	3.8	3.8	3.8	3.8
Alternative scenario 2	15.6	16.7	15.8	14.9	14.2	5.4	6.3	5.7	5.0	4.5
House price growth (*)										
Baseline scenario	1.0	1.6	2.0	2.0	2.0	-3.3	-5.1	0.7	1.9	2.5
Alternative scenario 1	3.0	3.6	3.8	3.6	3.6	-0.9	-2.3	0.7	2.9	3.7
Alternative scenario 2	-2.6	-1.6	2.0	2.0	2.0	-3.4	-11.1	-0.5	4.3	4.3

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

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

The Group applies a series of additional adjustments to the results of its credit risk models, referred to as overlays, in order to address situations in which the results of the models are not sufficiently sensitive to the uncertainty of the macroeconomic environment. These adjustments are temporary and remain in place until the reasons for which they were originally applied cease to exist. The application of these adjustments is subject to the governance principles established by the Group. Specifically, as at 31 December 2022, the impairment losses of the loan portfolio included a series of additional provisions that included sector-specific characteristics of the macroeconomic situation and inflationary environment, in the amount of 170 million euros, the adjustment remaining on the balance sheet as at 31 December 2023 being around 80 million euros. The balance variation during the year is mainly due to the specific way in which those adjustments were made, after having completed the recurring updates of internal provisioning models and their parameters.

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

The amount of impairment allowances is calculated based on whether or not there has been a significant increase in credit risk since initial recognition, and on whether or not a default event has occurred. This way, the impairment allowance for transactions is equal to:

– 12-month expected credit losses, when the risk of a default event materialising has not significantly increased since initial recognition (assets classified as stage 1).

– Lifetime expected credit losses, if the risk of a default event materialising has increased significantly since initial recognition (assets classified as stage 2).

– Expected credit losses, when a default event has materialised (assets classified as stage 3).

12-month expected credit losses are defined as:

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

Where:

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

Lifetime expected credit losses are defined as:

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

Where:

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

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

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

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

The following sections describe the different methodologies applied by the Group to determine impairment loss allowances:

Individual allowance estimates

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

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

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

- Discounted cash flow method (going concern): debtors who are estimated to be able to generate future cash flows through their own business activity, thereby allowing them to fully or partially repay the debt owed through the company’s activity and economic/financial structure. This involves estimating the cash flows obtained by the borrower during the course of their business activity.
- Collateral recovery method (gone concern): debtors who are not able to generate cash flows during the course of their own business activities and who are forced to liquidate assets in order to fulfil their payment obligations. This involves estimating cash flows based on the enforcement of guarantees.
- Combined method: debtors who are estimated to be able to generate future cash flows and also have non-core assets. These cash flows can be supplemented with potential sales of non-core assets, insofar as they are not required for the performance of their activity and, consequently, for the generation of the aforesaid future cash flows.

Collective allowance estimates

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

When calculating collective impairment losses, the Group, in accordance with IFRS 9, mainly takes the following aspects into account:

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

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

Segmentation of models

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

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

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

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

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

– By type of borrower: companies, developers and natural persons.

– By type of guarantee: mortgage, unsecured, monetary/financial, and guarantors.

– By type of product: credit cards, overdrafts, leases, credits and loans.

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

Risk drivers

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

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

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

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

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

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

Summary of criteria for classification and allowances

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

<table>
<tr><th colspan="5">Observed credit impairment since initial recognition</th></tr>
<tr><th>Credit risk category</th><th>Stage 1</th><th>Stage 2</th><th>Stage 3</th><th>Write-off</th></tr>
<tr><td rowspan="2">Criteria for classification into stages</td><td rowspan="2">Transactions in which there has been no significant increase in credit risk since initial recognition and which do not meet the requirements for classification into other categories</td><td rowspan="2">Transactions which show a significant increase in credit risk since initial recognition</td><td>Transactions whose full recovery is considered doubtful, even if no amounts are more than ninety days past due</td><td rowspan="2">Transactions whose possibility of recovery is considered remote due to a manifest and irreversible deterioration of the solvency of the transaction or the borrower</td></tr>
<tr><td>Transactions with amounts more than 90 days past due</td></tr>
<tr><td>Calculation of allowance</td><td>12-month expected credit loss</td><td colspan="2">Lifetime expected credit loss</td><td>Write-off from balance sheet and recognition of the loss in the income statement, at the carrying amount of the transaction</td></tr>
<tr><td>Accrual of interest</td><td colspan="2">Calculated by applying the effective interest rate to the gross carrying amount of the transaction</td><td>Calculated by applying the effective interest rate to the amortised cost (adjusted to account for any impairment allowances)</td><td>Not recognised in the income statement</td></tr>
<tr><td rowspan="3">Transactions included, by stage</td><td rowspan="3">Initial recognition</td><td>Transactions which show a significant increase in credit risk since initial recognition</td><td>Transactions classified as stage 3 as a result of borrower arrears: Amount of debt instruments with one or more amounts more than 90 days past due</td><td>Transactions whose possibility of recovery is considered remote</td></tr>
<tr><td>Refinancing, refinanced and restructured transactions that do not meet the conditions for classification as stage 3</td><td rowspan="2">Transactions classified as stage 3 for reasons other than borrower arrears:
· Transactions with no amounts more than 90 days past due but whose full recovery is considered doubtful
· Refinancing, refinanced and restructured transactions that do not meet the conditions for classification as stage 2
· Purchased or originated credit-impaired (POCI) transactions</td><td rowspan="2">Transactions partially deemed to be irrecoverable even though debt collection rights have not yet been terminated (write-downs)</td></tr>
<tr><td>Transactions with amounts more than 30 days past due</td></tr>
</table>

Guarantees

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

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

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

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

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

Real estate guarantees for loan transactions are valued on the date they are granted, while real estate assets are valued on the date on which they are recognised, whether as a result of a purchase, foreclosure or a payment in kind, and also whenever there is a significant reduction in value. In addition, the criteria for updating the appraisal, established in Annex 9 to Circular 4/2017 published by the Bank of Spain are applied for assets subject to the calculation of provisions for impairment risk. Similarly, statistical methodologies may be used to update appraisals but only for properties that have a certain level of homogeneity among them, in other words, those with low exposure and low risk whose characteristics are likely to be shared by other properties and which are located in an active market with frequent transactions, although a full appraisal is carried out in accordance with the aforesaid ECO Order (an “ECO appraisal”) at least once every three years.

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

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

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

Overall comparison between financial asset and real estate asset impairment allowances

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

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

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

1.3.4.2 Investments in joint ventures and associates

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

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

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

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

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

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

1.3.5 Hedging transactions

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

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

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

- The financial derivative must hedge against the exposure to changes in the value of assets and liabilities caused by interest rate and/or exchange rate fluctuations (fair value hedge), the exposure to variability in estimated cash flows that is attributable to a particular risk of financial assets and financial liabilities, firm commitments or highly probable forecast transactions (cash flow hedge), or the exposure associated with net investments in foreign operations (hedge of net investments in foreign operations).

- The financial derivative must effectively eliminate some portion of the risk that is inherent in the hedged item or position throughout the entire expected life of the hedge. This effectiveness should be measured both prospectively and retrospectively. To this end, the Group analyses whether, at the time of its inception, a hedge is expected to operate with a high level of effectiveness in business-as-usual conditions. It also runs effectiveness tests throughout the life of the hedge, in order to verify that the results of these tests show an effectiveness that falls within a range of between 80% and 125%.

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

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

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

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

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

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

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

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

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

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

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

1.3.6 Financial guarantees

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

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

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

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

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

1.3.7 Transfers and derecognition of financial instruments from the balance sheet

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

Note 4 provides details of asset transfers in effect at the end of 2023 and 2022, indicating those that did not involve the derecognition of the asset from the consolidated balance sheet.

1.3.8 Offsetting of financial instruments

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

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

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

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

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

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

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

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

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

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

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

1.3.10 Tangible assets

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

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

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

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

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

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

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

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

For investment properties, the Group uses valuations carried out by third parties entered in the Bank of Spain Special Register of Appraisal Firms, in accordance with criteria set forth in Order ECO/805/2003.

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

1.3.11 Leases

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

Leases in which the Group acts as lessee

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

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

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

The lease liability is initially recognised in the heading “Financial liabilities at amortised cost – Other financial liabilities” of the consolidated balance sheet (see Note 21), at a value equal to the present value of the estimated payments outstanding, based on the envisaged maturity date. Lease payments are discounted using the implicit interest rate, if this can be easily determined and, if not, the incremental borrowing rate, understood as the rate of interest that the Group would have to pay to borrow the funds necessary to purchase assets with a value similar to the rights of use acquired over the leased assets for a term equal to the estimated duration of the lease contracts.

These payments comprise fixed payments (less any lease incentives payable), variable payments determined by reference to an index or rate, amounts expected to be paid for residual value guarantees given to the lessor, the strike price of a call option (if the Group is reasonably certain that it will exercise that option) and payments of penalties for terminating the lease (if the lease term shows that an option to terminate the lease is exercised).

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

A right-of-use asset, which is classified as a fixed asset based on the nature of the leased asset, is initially recognised at cost, which comprises the amount of the initial measurement of the lease liability, payments made before or at the commencement date of the lease, initial direct costs and, where appropriate, the estimated costs of dismantling or restoring the asset to the condition required under the lease.

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

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

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

<u>Sale and leaseback</u>

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

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

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

Leases in which the Group acts as lessor

Finance leases

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

Operating leases

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

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

1.3.12 Intangible assets

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

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

Goodwill

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

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

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

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

– Estimates of macroeconomic variables and other financial parameters.

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

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

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

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

Other intangible assets

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

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

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

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

1.3.13 Inventories

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

As a general rule, inventories are measured at the lower of cost and net realisable value. Net realisable value means the estimated selling price net of the estimated production and marketing costs to carry out the sale.

Decreases in net realisable value and, where applicable, any subsequent recoveries in value are recognised under the heading "Impairment or (-) reversal of impairment on non-financial assets – Other" of the consolidated income statement for the year in which they materialise.

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

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

1.3.14 Own equity instruments

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

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

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

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

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

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

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

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

1.3.15 Remuneration in equity instruments

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

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

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

1.3.16 Provisions, contingent assets and contingent liabilities

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

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

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

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

1.3.17 Provisions for pensions

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

Defined contribution plans

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

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

Defined benefit plans

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

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

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

The fair value of the plan assets is deducted from the obligations calculated in this way. Plan assets are assets that will be used to settle obligations, including insurance policies, since they meet the following conditions: (i) they are not owned by the Group but by a legally separate third party not qualifying as a related party, (ii) they are only available to pay or fund employee benefits and are not available to creditors of the Group, even in the event of insolvency, (iii) they cannot be returned to the Group unless the assets remaining in the plan are sufficient to settle all obligations, either of the plan or of the Institution, relating to employee benefits, or unless assets are to be returned to the Bank to reimburse it for employee benefits previously paid, and (iv) they are not non-transferable financial instruments issued by the Group.

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

Pension commitments are recognised in the following way:

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

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

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

Actuarial assumptions

The most relevant financial/actuarial assumptions used in the measurement of pension commitments as at 31 December 2023 and 2022 are as follows:

	2023	2022
Tables	PER2020_Col_1er.orden	PER2020_Col_1er.orden
Discount rate, pension plan	3.75% per annum	3.25% per annum
Discount rate, internal fund	3.75% per annum	3.25% per annum
Discount rate, related insurance	3.75% per annum	3.25% per annum
Discount rate, non-related insurance	3.75% per annum	3.25% per annum
Inflation	2.00% per annum	2.00% per annum
Rate of increase in salaries	3.00% per annum	3.00% per annum
Employee disability	SS90-Absolute	SS90-Absolute
Employee turnover	Not considered	Not considered
Early retirement	Considered	Considered
Normal retirement age	65 or 67 years	65 or 67 years

In 2023 and 2022, the discount rate on all commitments was determined by reference to the return on AA-rated corporate bonds (iBoxx € Corporates AA 10+), with an average duration of 11.96 and 13 years, respectively.

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

The return on long-term assets corresponding to plan assets and insurance policies linked to pensions was determined by applying the same discount rate used in actuarial assumptions (3.75% and 3.25% in 2023 and 2022, respectively).

1.3.18 Foreign currency transactions and exchange differences

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

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

- Monetary assets and liabilities are translated at the closing rate, defined as the average spot exchange rate as at the reporting date.
- Non-monetary items measured at historical cost are translated at the exchange rate ruling on the acquisition date.
- Non-monetary items measured at fair value are translated at the exchange rate ruling on the date on which the fair value was determined.
- Income and expenses are translated at the exchange rate ruling at the transaction date.

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

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

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

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

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

1.3.19 Recognition of income and expenses

Interest income and expenses and other similar items

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

Commissions, fees and similar items

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

- Those linked to financial assets and financial liabilities measured at fair value through profit or loss are recognised at the time of disbursement.
- Those related to transactions carried out or services rendered over a given period of time are recognised throughout that period.
- Those related to a transaction or service that is carried out or rendered in a single act are recognised when the originating act takes place.

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

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

Non-financial income and expenses

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

Deferred payments and collections

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

Levies

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

<u>Deposit guarantee schemes</u>

The Bank is a member of the Deposit Guarantee Fund. In 2023, the Management Committee of the Deposit Guarantee Fund of Credit Institutions, in accordance with that established in Royal Decree Law 16/2011 and Royal Decree 2606/1996, set the contribution for all entities covered by the Fund’s deposit guarantee at 0.175% of the value of deposits guaranteed as at 31 December 2022. Each entity’s contribution is calculated according to the amount of deposits guaranteed and their risk profile. Furthermore, the contribution to the securities guarantee offered by the Fund has been set at 0.2% of 5% of the value of the securities guaranteed as at 31 December 2023 (see Note 32).

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

- TSB Bank plc makes contributions to the Financial Services Compensation Scheme.
- Banco Sabadell, S.A. Institución de Banca Múltiple makes contributions to the deposit guarantee scheme established by the Instituto para la Protección del Ahorro Bancario.

<u>Single Resolution Fund</u>

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

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

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

Temporary levy of credit institutions and financial credit establishments

Law 38/2022 of 27 December was published on 28 December 2022. Among other aspects, it establishes a temporary levy for credit institutions and financial credit establishments. This levy must be paid during 2023 and 2024 by credit institutions and financial credit establishments operating in Spain whose sum of interest income and fee and commission income in 2019 was 800 million euros or more. The payment amount was set at 4.8% of the sum of net interest income plus net fees and commissions stemming from their activities in Spain recognised on the income statement for the calendar year immediately preceding the year in which the payment obligation arose. The payment obligation arises each 1 January and must be paid during the first 20 calendar days of the month of September of each year, without prejudice to a 50% advance payment of the total levy, which must be made during the first 20 calendar days of the first February following the date on which the payment obligation arises (see Note 32).

The Fifth Additional Provision of Royal Decree-Law 8/2023 of 27 December extends the payment of the temporary levy by one year, to 2025.

1.3.20 Income tax

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

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

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

Deferred tax assets and deferred tax liabilities relate to taxes expected to be payable or recoverable arising from differences between the carrying amounts of the assets and liabilities appearing in the financial statements and the related tax bases ("tax value"), as well as tax losses carried forward and unused tax credits that might be offset or applied in the future. They are calculated by applying to the relevant timing differences or tax credits the tax rate at which they are expected to be recovered or settled (see Note 39).

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

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

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

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

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

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

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

- Forecasts of results of each entity or fiscal group, based on the financial budgets approved by the Group’s directors for a five-year period, subsequently applying constant growth rates similar to the mean long-term growth rates of the sector in which the various companies of the Group operate;

- Estimate of the reversal of timing differences on the basis of their nature; and

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

1.3.21 Consolidated statement of recognised income and expenses

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

1.3.22 Consolidated statement of total changes in equity

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

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

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

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

1.3.23 Consolidated cash flow statement

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

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

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

1.4 Comparability

The information presented in these consolidated annual financial statements corresponding to 2022 is provided solely and exclusively for purposes of comparison with the information for the year ended 31 December 2023 and therefore does not constitute the Group's consolidated annual financial statements for 2022.

As indicated in the section on Adoption of IFRS 17 "Insurance contracts" of Note 1.2, the comparative information set out in these consolidated annual financial statements has been restated to reflect the application of IFRS 17.

Note 2 – Banco Sabadell Group

Subsidiaries and associates as at 31 December 2023 and 2022 are listed in Schedule I, along with their registered offices, primary activities, the percentage shareholding in each, key financial data and the consolidation method used (full consolidation or equity method) in each case.

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

A description is provided hereafter of the business combinations, acquisitions and sales or liquidations which are most representative of investments in the capital of other entities (subsidiaries and/or investments in associates) made by the Group during 2023 and 2022. Schedule I also includes details of changes in the scope of consolidation in each financial year and the results obtained by the Group on the disposal of its subsidiaries and associates.

Changes in the scope of consolidation in 2023

Additions to the scope of consolidation:

There were no significant additions to the scope of consolidation in 2023.

Exclusions from the scope of consolidation:

On 22 December 2022, the Board of Directors of Banco Sabadell, S.A. and the Board of Directors of Bansabadell Financiación, E.F.C., S.A.U. approved and signed the common draft terms of the merger between Banco Sabadell, S.A. (as the absorbing company) and Bansabadell Financiación, E.F.C., S.A.U. (as the absorbed company). Having obtained the relevant authorisations, the deed of the merger by absorption of Bansabadell Financiación E.F.C., S.A. by Banco de Sabadell, S.A. was entered in the Alicante Companies Register on 10 October 2023. As Bansabadell Financiación, E.F.C., S.A.U. was a company directly and fully owned by the Bank (see Schedule I – Changes in the scope of consolidation in 2023), this transaction had no significant impact on the Group's consolidated financial statements.

With the exception of the transaction described above, there were no significant exclusions from the scope of consolidation in 2023.

Changes in the scope of consolidation in 2022

Additions to the scope of consolidation:

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

Exclusions from the scope of consolidation:

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

Other significant transactions in 2023

On 27 February 2023, Banco Sabadell signed a strategic agreement to provide merchant acquiring services with Nexi S.p.A. (hereinafter, "Nexi"), a leading European paytech company, for a renewable ten-year period, under which Nexi is to acquire 80% of Banco Sabadell's payments subsidiary Paycomet, S.L.U. for 280 million euros. Banco Sabadell will retain a 20% stake for at least three years, whilst aligning interests with its new industrial partner. Following this period, Banco Sabadell will have the option to sell that 20%.

The total transaction amount is fixed at 350 million euros (280 million euros due to the 80% subject to sale), which may be increased depending on the achievement of targets. As at the sign-off date of these consolidated annual financial statements, the closing of this transaction was pending.

Other significant transactions in 2022

The Group made no other significant transactions worth mentioning in 2022. That said, on 22 September 2022, the Bank announced that it was in the process of analysing a possible strategic agreement with an industrial partner specialising in its merchant acquiring business which, as indicated above, was signed in February 2023.

Note 3 – Shareholder remuneration and earnings per share

Set out below is the proposed distribution of the profits earned by Banco de Sabadell, S.A. in 2023, which the Board of Directors will submit to shareholders for approval at the Annual General Meeting, together with the proposed distribution of profits earned by Banco de Sabadell S.A. in 2022, which was approved by shareholders at the Annual General Meeting of 23 March 2023:

Thousand euro

	2023	2022
To dividends	326,413	225,079
To Canary Island investment reserve	183	279
To voluntary reserves	761,418	515,193
Profit for the year of Banco de Sabadell, S.A.	**1,088,014**	**740,551**

On 25 October 2023, the Board of Directors of Banco Sabadell agreed to distribute an interim dividend in cash, to be paid out of its earnings in 2023, of 0.03 euros (gross) per share, which was paid on 29 December 2023.

In fulfilment of the mandatory requirement indicated in Article 277 of Spain’s Capital Companies Act (*Ley de Sociedades de Capital*), the provisional statement of accounts provided below was created by the Bank to confirm the existence of sufficient liquidity and profit at the time of its approval of the aforesaid interim dividend:

Thousand euro

Available for the payment of dividends according to the interim statement at:	30/09/2023
Banco Sabadell profit as at the date indicated, after provisions for taxes	861,364
Estimated statutory reserve	—
Estimated Canary Island investment reserve	—
Maximum amount available for distribution	861,364
Interim dividend proposed	166,797
Cash balance available at Banco de Sabadell, S.A. (*)	27,263,008

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

Similarly, on 31 January 2024, the Board of Directors of Banco Sabadell resolved to propose to the next Annual General Meeting of Shareholders a supplementary dividend of 0.03 euros (gross) per share charged to the results of the 2023 financial year, to be paid in cash foreseeably during the month following the holding of the Annual General Meeting of Shareholders.

In addition to this cash dividend, the Board of Directors of Banco Sabadell, after having obtained the prior permission of the competent authority, has also resolved to establish, out of the 2023 earnings, a buyback programme of treasury shares for their redemption through a resolution for share capital reduction to be proposed to the Annual General Meeting of Shareholders, of up to a maximum amount of 340 million euros, whose terms, once they are set by the Board of Directors, will be the content of a new announcement before starting its execution.

The total shareholder remuneration corresponding to 2023, which combines the cash dividend and the share buyback programme, will, therefore, be equivalent to 50% of the profit attributable to the owners of the parent company, complying with the shareholder remuneration policy.

In addition, at its meeting of 25 January 2023, the Board of Directors submitted a proposal to the Annual General Meeting concerning the distribution of a supplementary gross cash dividend of 0.02 euros per share to be paid out of 2022 earnings, which was approved at the Annual General Meeting on 23 March 2023 and paid out in the same month. Previously, the Board of Directors of Banco Sabadell had agreed, on 26 October 2022, to distribute an interim dividend in cash, to be paid out of its earnings in 2022, of 0.02 euros (gross) per share, which was paid on 30 December 2022. Consequently, the cash dividend reached 0.04 euros per share, paid out of 2022 earnings.

The remaining shareholder remuneration, of up to 430 million euros equivalent to 50% of the profit attributable to the owners of the parent in 2022, was reached by establishing a share buyback programme, which is described below.

Share buyback programme

On 30 June 2023, after receiving the required permission of the competent authority, Banco Sabadell gave notice, by means of an Inside Information filing, of the establishment and execution of a temporary share buyback programme for a maximum pecuniary amount of 204 million euros for the purpose of reducing the Bank's share capital through the redemption of the treasury shares acquired. The share buyback programme was carried out in accordance with the provisions of Article 5 of Regulation (EU) 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and Commission Delegated Regulation (EU) 2016/1052 of 8 March 2016.

On 13 November 2023, the Bank gave notice, by means of an 'Other Relevant Information' filing, of the end of the share buyback programme as the maximum pecuniary amount mentioned above had been reached, having acquired 186,743,254 treasury shares with a par value of 0.125 euros each, representing approximately 3.32% of Banco Sabadell's share capital.

On 30 November 2023, the Board of Directors agreed to execute Banco Sabadell's share capital reduction through the redemption of all the treasury shares acquired under the share buyback programme. The capital reduction was approved under the powers conferred to the Board of Directors by the Ordinary Annual General Meeting held on 23 March 2023 in the amount of 23,342,906.75 euros. The public deed corresponding to the capital reduction was entered with the Companies Register of Alicante on 11 December 2023 (see Note 23).

Earnings per share

Basic earnings (or loss) per share are calculated by dividing the net profit attributable to the Group, adjusted by earnings on other equity instruments, by the weighted average number of ordinary shares outstanding in the year, excluding any treasury shares acquired by the Group. Diluted earnings (or loss) per share are calculated by applying adjustments for the estimated effect of all potential conversions of ordinary shares to the net profit attributable to the Group and the weighted average number of ordinary shares outstanding.

The Group's earnings per share calculations are shown below:

	2023	2022 (*)
Profit or loss attributable to owners of the parent (thousand euro)	1,332,181	889,392
Adjustment: Remuneration of other equity instruments (thousand euro)	(115,391)	(110,375)
Profit or (-) loss after tax from discontinued operations (thousand euro)	—	—
Profit or loss attributable to owners of the parent, adjusted (thousand euros)	1,216,790	779,017
Weighted average number of ordinary shares outstanding (**)	5,401,123,639	5,593,885,977
Assumed conversion of convertible debt and other equity instruments		
Weighted average number of ordinary shares outstanding, adjusted	5,401,123,639	5,593,885,977
Earnings (or loss) per share (euros)	0.23	0.14
Basic earnings (or loss) per share adjusted for the effect of mandatory convertible bonds (euros)	0.23	0.14
Diluted earnings (or loss) per share (euros)	0.23	0.14

(*) See Note 1.4.

(**) Average number of total shares minus average treasury stock and average number of shares subject to a buyback programme.

As at 31 December 2023 and 2022, there were no other financial instruments or share-based commitments with employees with a significant impact on the calculation of diluted earnings (or loss) per share for the periods presented. For this reason, basic earnings (or loss) per share coincide with diluted earnings (or loss) per share.

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

Note 4 – Risk management

Throughout 2023, Banco Sabadell Group has continued to strengthen its risk management and control framework by incorporating improvements in accordance with supervisory expectations and market trends.

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

4.1. Macroeconomic, political and regulatory environment

Macroeconomic environment

When managing risks, the Group considers the macroeconomic environment. The most significant aspects of 2023 are set out below:

- The main factors at play in 2023 were the interest rate hikes carried out by central banks and their gradual effects on economic activity.
- In 2023, inflation gradually eased from the peaks observed in 2022.
- The correction in the prices of energy and industrial goods was, to a large extent, the force behind the moderation of headline inflation. The evolution of core inflation was more subdued, although it also showed a clear downward trend.
- The evolution of the global economy showed a marked divergence between the dynamism of the US economy, which proved to be stronger than expected, and the Eurozone and UK economies, which lagged and were practically stagnant throughout the year.
- Spain continued to outperform other Eurozone countries. The economy was driven mainly by a gradual improvement of private consumption and, to a lesser extent, by the contribution of the public sector.
- In terms of economic policy in Spain, the approval of the second part of the government's pension reform and the continuance of most of the measures to alleviate the impacts of the energy crisis were noteworthy features.
- The European Commission approved the addendum to the Spanish Recovery Plan, which will mobilise an additional 94 billion euros from the Next Generation EU funds.
- The emerging economies proved themselves resilient to the global economic landscape. Adjustment of the real estate sector in China intensified, although the repercussions remain limited.
- In Mexico, the economy performed well. Investment grew at historic double-digit rates, partly due to nearshoring with the United States.
- Global geopolitics continues to represent a vector of uncertainty for the economic environment. The outbreak of a new conflict between Israel and Hamas reignited instability in the Middle East, although the broader economic repercussions were marginal.
- The financial sector suffered a temporary episode of instability, related to the collapse of US regional banks Silicon Valley Bank (SVB) and Signature Bank and the acquisition of Credit Suisse by UBS. The authorities managed to contain the financial contagion and, ultimately, the economic consequences were limited.
- The developed nations' central banks continued their cycle of interest rate hikes in 2023, although the pace was somewhat less intense than in 2022. In the latter part of the year, they signalled that the rate hike cycle could have reached its end.
- The European Central Bank (ECB) implemented an unprecedented tightening of its monetary policy and ended up raising the deposit rate to a record high of 4.00%. The reduction of its balance sheet also continued, due to the maturity of TLTRO-III loans and the reduction of asset holdings.

- For its part, the Federal Reserve (Fed) continued to pursue its rake hike cycle, with official interest rates at a range of 5.25%-5.50%. With regard to its balance sheet, the reduction process continued, interrupted only briefly to respond to the episode of instability caused by the collapse of SVB.
- The Bank of England (BoE) raised its base rate to 5.25% and continued with its balance sheet reduction programme.
- The financial markets performed better in 2023 than the previous year, when a large portion of financial assets posted heavy losses.
- Long-term government bond yields continued on an upward trend for much of the year. They were driven by pressure from monetary policy tightening, the resilience of the US economy and concerns regarding high levels of need for sovereign debt funding. In the last two months of the year, some unexpected falls in price data and a shift in central banks' communication policy (particularly that of the Fed) led to a turnaround in yields, which completely reversed the upward trend.
- The risk premiums on peripheral sovereign debt were at lower levels than those seen at the end of 2022. In the case of Spain, the risk premium remained stable and at low levels.
- The US dollar posted numerous swings in its exchange rate against the euro, finishing the year at somewhat lower levels compared to the end of 2022 (EUR 1.00 = USD 1.10).
- In emerging economies' financial markets, sovereign risk premiums were slightly reduced over the year. Regarding exchange rates, the high official interest rates continued to buoy emerging market currencies and the Mexican peso performed particularly well.
- The banking sector generally displayed adequate capital levels, with a CET1 ratio that, according to the authorities, would remain above the minimum regulatory requirements even in an adverse scenario. Furthermore, profitability increased, thanks to the positive evolution of net interest income.
- The financial authorities continued to rate the risks associated with global financial instability as high. Attention was mainly focused on the commercial real estate sector, risks related to the non-banking financial sector and the situation facing companies, above all the most highly leveraged ones, in an environment of higher financing costs.

Political and regulatory environment

Impacts stemming from the war in Ukraine

The war between Russia and Ukraine, which broke out at the end of February 2022 and which is still ongoing today, prompted governments to adopt plans and measures to mitigate the impacts of the conflict by providing public support for the affected sectors.

On 23 March 2022, the European Commission approved a temporary framework for State aid measures intended to support the economy following Russia's aggression against Ukraine. This framework was implemented in Spain by Royal Decree-Law 6/2022. The Agreements of the Spanish Council of Ministers, of 10 May 2022 and of 27 December 2022, released the first two tranches of the guarantee line for a total of 5,500 million euros. On 12 December 2023, the Agreement of the Council of Ministers of 5 December 2023 was published in the Official State Gazette (*Boletín Oficial del Estado* or BoE), establishing the terms and conditions for the third tranche of the guarantee line amounting to 4.5 billion euros for financing granted to companies and self-employed persons. Among other changes, it was decided to increase the threshold for guaranteed loans from 2 million to 2.25 million euros and to extend the application deadline for the corresponding guarantee line to 1 June 2024. The amount of the above mentioned third tranche was reduced to 3,500 million euros through the Agreement of the Council of Ministers of 27 December 2023, amending the Agreement of the Council of Ministers of 5 December 2023. The European Commission will be notified of the aforesaid changes so that it may authorise them; their application requires the express authorisation of the European Commission.

In addition, on 27 December 2023, the Council of Ministers adopted Royal Decree-Law 8/2023, which extends certain measures to respond to the economic and social consequences arising from the conflict in Ukraine.

Banco Sabadell Group's credit risk with both individuals and companies from these countries is limited, and the same is true of its counterparty credit risk with financial institutions from Russia and Ukraine. Specifically, the largest exposures relate to mortgage loans granted to customers of Russian, Ukrainian or Belarusian nationality residing outside Spain, which amounted to 233 million euros and 293 million euros as at 31 December 2023 and 2022, respectively. The real estate assets securing those exposures are located in Spain and have an average loan-to-value of 37.7% and 39% as at 31 December 2023 and 2022, respectively. Furthermore, these are all transactions that, on average, were originated more than 7 years ago.

Impacts of interest rate hikes and rising inflation

Measures to ease the mortgage burden and strengthening of financial inclusion

On 22 November 2022, the government introduced a package of measures designed to ease the mortgage burden. The package focuses on three key aspects.

Firstly, it amends the 2012 Code of Good Practice to provide greater relief to vulnerable households. This includes a reduction of the interest rate during a five-year grace period (to Euribor minus 0.10% instead of Euribor plus 0.25%), the option to apply for debt restructuring for a second time and to extend the period during which customers can request that their home be surrendered in settlement of the outstanding debt to two years. In addition, the scope of the Code of Good Practice was extended so that households that have not managed to increase their effort rate by the required 50% may take advantage of certain measures.

Secondly, a new temporary Code of Good Practice was established (valid for two years) to help middle-class families ease the financial burden of mortgages taken out up to 31 December 2022. This is achieved by freezing repayment instalment amounts and extending the repayment period of the loan by up to seven years.

Thirdly, it was decided to reduce expenses and fees to make it easier to change from a floating-rate mortgage to a fixed-rate mortgage, and to scrap the fees charged for early repayments and for changing from a floating-rate mortgage to a fixed-rate mortgage throughout the whole of 2023.

Uptake of the two Codes of Good Practice by financial institutions is voluntary, although once they sign up to them, compliance is mandatory. Banco Sabadell signed up to the new Code of Good Practice on 16 December 2022.

As mentioned previously, on 27 December 2023, the Council of Ministers adopted Royal Decree-Law 8/2023 prolonging certain anti-crisis measures, which extended the duration of most of the measures adopted in 2022 and 2023. Notable among them was a series of measures intended to provide mortgage relief for homeowners. One such measure was to raise the income threshold at which the Code of Good Practice may be accessed for at-risk borrowers. This threshold was increased from 3.5 to 4.5 times the monthly Multiplier for the Public Income Index (hereinafter, IPREM), enabling households with an annual income of up to around 37,800 euros to benefit. In addition, the suspension of all fees charged for early repayment of variable-rate mortgage loans and switching to fixed rate was extended to 2024, and free-of-charge conversions from variable-rate to hybrid mortgages were also extended. When this measure ends, the permanent cap of 0.05% that limits the amount of fees applicable when switching a mortgage from variable rate to fixed rate will also apply when switching from variable rate to hybrid rate.

In addition, Royal Decree-Law 8/2023 approves various measures to strengthen the financial inclusion of older and/or disabled persons, including the removal of fees charged for cash withdrawals at bank counters, and the preventive framework to provide relief to at-risk mortgage holders was extended.

In the United Kingdom, Banco Sabadell’s subsidiary, TSB, signed up to the Mortgage Charter which was launched at the end of June 2023. The aim of this initiative is to ease the burden of mortgage repayments for the most vulnerable customers through a series of commitments undertaken by the banking industry. The key measures agreed include offering tailored support for customers struggling to pay their mortgage, delaying property repossessions for at least 12 months following the first missed payment, and offering customers the option to switch to an interest-only mortgage for a six-month period, or to temporarily extend the term of the mortgage to reduce their monthly repayments.

4.2 Key milestones during the year

4.2.1 The Group's risk profile during the year

The following milestones have been achieved in relation to the Group's risk profile during 2023:

I. Non-performing assets:

– During 2023, non-performing assets were reduced by -223 million euros. The NPL ratio for the year stands at 3.52%,

II. Lending performance:

– Gross performing loans ended the year 2023 with a balance of 149,798 million euros, declining by 4.1% year-on-year.

– In Spain, gross performing loans show a fall of 4.6% year-on-year, impacted by lower business and mortgage portfolio volumes.

– In TSB, at constant exchange rates, gross performing loans show a fall of -5.9% year-on-year, due to the reduced volume of the mortgage portfolio.

– In Mexico, at constant exchange rates, gross performing loans increased by 7.1% year-on-year.

III. Concentration:

– From a sectoral point of view, the loan portfolio is diversified, has limited exposure to the sectors most sensitive to the current environment.

– Similarly, in terms of individual concentration, the metrics relating to concentration of large exposures show a slight downward trend and remain within the target level. The credit rating of the largest exposures has also improved over the year.

– Geographically speaking, the portfolio is positioned in dynamic regions, both in Spain and worldwide. International exposures account for 37% of the loan book.

IV. Strong capital position:

– The CET1 ratio improved by 64 basis points to 13.2% in fully-loaded terms as at 2023 year-end (compared to 12.55% as at 2022 year-end).

– The fully-loaded and phase-in Total Capital ratios stand at 17.76% as at the end of 2023, thus remaining above the requirements for 2024 with an MDA buffer of 431 basis points. The fully-loaded and phase-in leverage ratio was 5.19%.

V. Sound liquidity position:

– The Liquidity Coverage Ratio stands at 228% (compared with 234% at the end of 2022), with total liquid assets of 61,783 million euros.

4.2.2 Strengthened credit risk management and control environment

2023 has been marked by the monitoring and control of the effects stemming from the inflationary environment and the cycles of interest rate hikes implemented by the central banks in the main geographical areas where Banco Sabadell operates.

To that end, special attention has been paid to strengthening the RAS metrics framework, while risk frameworks have been revised and the risk exposure to the sectors most severely impacted by the current environment has been assessed, proactively managing the counterparties that are potentially most affected.

In the case of individuals, oversight of the management and control framework has continued, with monitoring of the RAS metrics, origination rules and proposals for interest rate adjustments, as well as effort rates and available income to cope with higher rates and the inflationary environment, anticipating the needs of more vulnerable customers by managing, among other things, the commitments pursuant to the Code of Good Practice, for certain customer groups at risk of vulnerability.

Performance of the main solutions offered in Spain

In terms of the ICO Covid lines, as at 31 December 2023, the amount of loans and credit granted was approximately 4.7 billion euros (7.4 billion euros as at 31 December 2022). As at year-end, there are very few unexpired grace periods remaining.

Performance of the main solutions offered in the United Kingdom

In the United Kingdom, the balance of Bounce Back Loans (BBLs), granted to help SMEs deal with the Covid-19 pandemic during 2020 and 2021, has been diminishing. At TSB, the exposure to these loans as at the end of 2023, amounted to 266 million pounds, which represents 57% of the business customer portfolio (the exposure was 379 million pounds at the end of 2022, representing 64% of the business customer portfolio). In response to the more recent cost-of-living crisis, the approach of regulators and financial Institutions in the country has focused more on establishing adequate communication channels, tools and training to support and proactively help their customers, in particular those in vulnerable situations. In June 2023, the government announced a new tool, the Mortgage Charter, to help mortgage borrowers. This measure, initially planned for a six-month period, was extended to 18 months, with only a very small number of TSB customers taking up the offer to date.

4.3 General principles of risk management

Global Risk Framework

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

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

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

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

4.3.1 Global Risk Framework Policy

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

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

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

Global Risk Framework principles

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

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

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

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

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

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

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

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

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

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

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

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

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

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

– Alignment with the interests of stakeholders

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

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

4.3.2 Risk Appetite Framework (RAF)

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

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

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

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

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

4.3.3 Risk Appetite Statement (RAS)

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

Qualitative aspects of the RAS

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

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

Quantitative aspects of the RAS

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

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

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

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

4.3.4 Specific policies for the different material risks

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

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

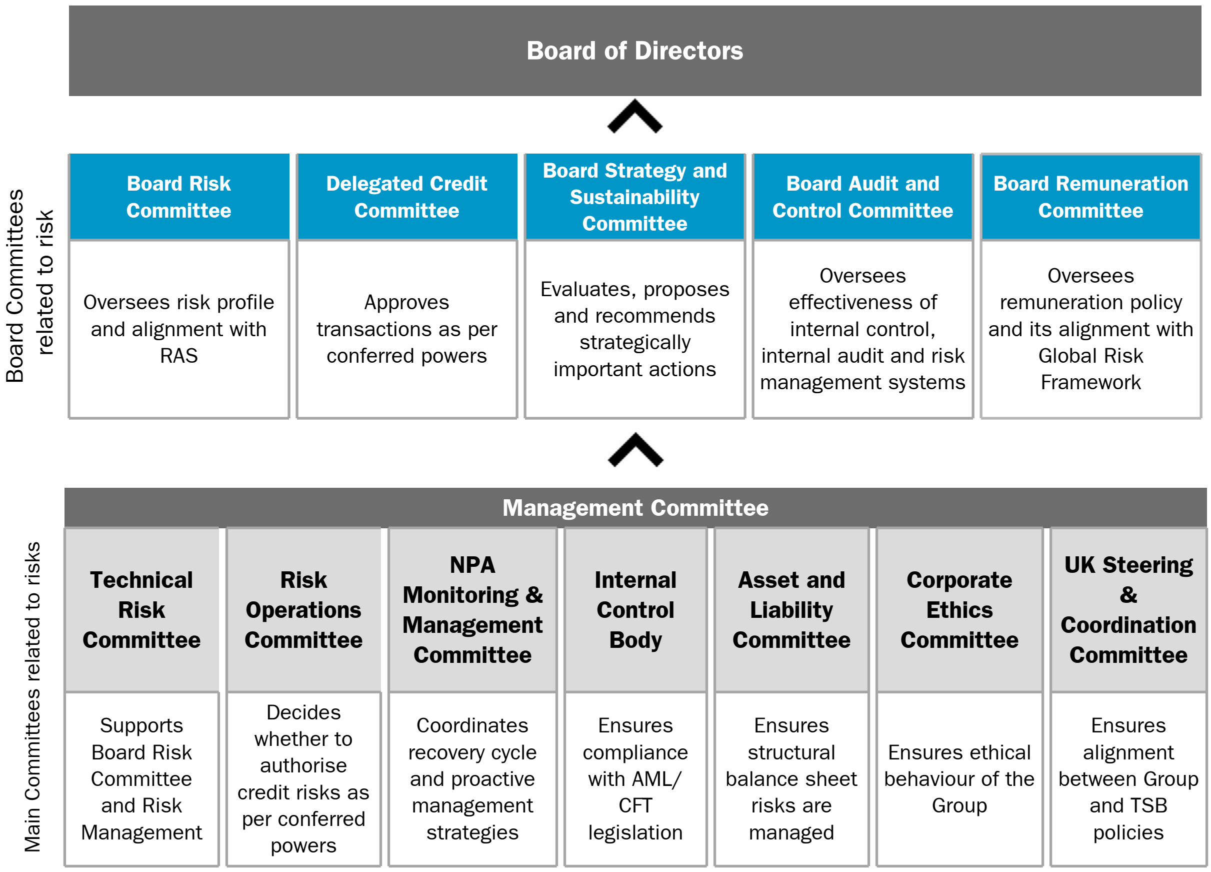
4.3.5 Overall organisation of the risk function

Governance structure

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

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

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



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

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

Organisation

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

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

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

  - Maintain effective internal controls and perform day-to-day risk assessment and control procedures;
  - Identify, quantify, control and mitigate risks, complying with the established internal policies and procedures and ensuring that activities are consistent with the established goals and objectives;
  - Implement suitable processes to manage and mitigate material risks.
  - Participate in decision-making processes, identifying, assessing, controlling and mitigating the risks inherent in the implementation of significant changes and one-off transactions.
  - Define the strategy for each risk.

– Second line of defence: broadly speaking, the second line of defence ensures that the first line of defence is well designed and performs its assigned duties. It also puts forward suggestions for its continuous improvement. The core duties attributed to this line are the following:

  - Propose the Global Risk Framework, for risk management and control.
  - Participate in the decision-making process where it concerns the implementation of significant changes and one-off transactions.
  - Monitor the risk strategy approved by the Board of Directors through its approval of the RAS.
  - Keep the risk inventory up to date, justifying those not considered to be material, and review the inventory of material risks.
  - Establish and maintain an equivalence between subsidiaries' local taxonomies and the Group taxonomy.
  - Conduct a risk assessment of the Group's risk profile on an annual basis.
  - Supervise the risk management and control activities carried out by the first line of defence to ensure they conform to the established policies and procedures, bearing in mind the tasks specifically assigned to it, and identify potential improvements within risk management.
  - The Validation Division gives opinions regarding the suitability of new proposals, changes or adjustments to models, tools and processes with material methodological components. It also designs and rolls out the model risk management and control framework and monitors the Group's model risk profile.
  - The Compliance Division identifies and periodically assesses compliance risks in the different areas of activity.

– Third line of defence: helps the Group to achieve its objectives, carrying out verification activities and providing independent and objective advice. Provides regular oversight of governance processes and of the established risk management and internal control activities.

4.4 Management and monitoring of the main material risks

The most salient aspects concerning the management of the first-tier risks identified in the Banco Sabadell Group risk taxonomy and concerning the actions taken in this regard in 2023 are set out below:

4.4.1 Strategic risk

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

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

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

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

Strategic risk includes the management and control of four risks:

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

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

- Reputational risk: current or future risk of the Bank's competitive capacity being affected as a result of: (i) actions or omissions, carried out by or attributed to the Group, Senior Management or its governing bodies, or (ii) maintaining business relationships with counterparties with poor reputation, resulting in a negative perception by its stakeholders (regulators, employees, customers, shareholders, investors and the general public).

- Environmental risk: risk of incurring losses as a result of the impacts, both those existing at present and those that may exist in the future, of environmental risk factors on counterparties or invested assets, as well as aspects affecting financial institutions as legal entities. Environmental factors are related to the quality and functioning of natural systems and resources, and include factors such as climate change and environmental degradation. Any one of them can have a positive or negative impact on the financial performance or solvency of an institution, sovereign state or individual. These factors may materialise mainly in physical aspects (effects of climate change and environmental degradation, including more frequent extreme weather events and gradual changes in weather patterns and in the balance of ecosystems) and transitional aspects (arising from processes to adjust to an environmentally sustainable economy, for example, lower emissions, greater energy efficiency and reduced consumption of natural resources, among others).

4.4.1.1 Solvency risk

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

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

Details on the closing data as at 31 December 2023 for solvency risk and capital management are available in Note 5 to these consolidated annual financial statements.

4.4.1.2 Business risk

2023 has been affected by different macroeconomic and geopolitical events, including the following:

- The interest rate hikes implemented by the central banks, persistently high inflation rates, and the progressive transfer of the impacts of these to economic activity.
- Specific episodes of uncertainty of different kinds, among them: (i) the collapse of certain US regional banks, (ii) the takeover of Credit Suisse by UBS due to the problems observed in the Swiss institution, and (iii) the start of a new conflict in the Middle East, between Israel and Hamas.

Against this backdrop, in year-on-year terms, Banco Sabadell has significantly increased its bottom line. This Group profit was mainly driven by the good performance of core results (net interest income + fees and commissions – recurrent costs), which improved due to both the increase in net interest income and the efforts made to contain costs.

It is also worth highlighting the improvement in the Group’s credit quality, which has made it possible to reduce provisions for non-performing assets and place the total cost of risk below the levels recorded in 2022.

All these aspects are clearly reflected in the Group’s improved profitability, shown by an improvement of its ROTE, which increased from 8.2% as at 31 December 2022 to 11.5% as at 31 December 2023.

4.4.1.3 Reputational risk

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

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

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

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

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

4.4.1.4 Environmental risk

The 2015 Paris Agreement, the major milestone in the international commitment against climate change, promotes the reduction of greenhouse gas (GHG) emissions to limit global warming to “well below” 2ºC in 2100 and seeks to ensure that it does not exceed 1.5ºC in relation to pre-industrial average temperatures (1850-1900).

The European Union adopted the Agreement and, in line with its goals, has been promoting various regulatory and non-regulatory measures to achieve a fully decarbonised economy by mid-century. From a financial perspective, this has been implemented through the 2018 Action Plan on Sustainable Finance (APSF), a roadmap that was reformulated and updated in 2021 in the Renewed Sustainable Finance Strategy

(RSFS), with strategies that have been developed by applying a regulatory and supervisory "tsunami" aimed at achieving the promised objectives.

In this context, Banco Sabadell Group's commitment to sustainability has been incorporated with a cross-cutting approach into its strategy and business model, internal governance and risk identification, management and control, in order to guide its activity and processes towards contributing to a more sustainable and resilient economy. The aim is to support the Group's customers with their transformation in two ways: on one hand, by providing them with appropriate funding to meet their needs and, on the other, by offering them savings and investment products that serve as a catalyst to achieve an emissions-neutral world that is resistant to climate variability and the degradation of natural ecosystems. The commitment also extends to the Group as an entity separate from its customers, as the Institution also aims to reduce its own consumption and emissions, thereby ensuring its contribution to the collective aim of sustainability.

As part of this corporate goal, throughout 2023 Banco Sabadell Group has continued to implement the Sustainable Finance Plan, which includes a series of initiatives that add to its track record of projects designed to pursue a more sustainable economy, as described below.

To align with its commitment to achieve a sustainable future, Banco Sabadell Group has been part of the Net-Zero Banking Alliance (NZBA) since 2021. This is an international alliance on climate change formed by major banking institutions, whose main objective is to align their loan and investment portfolios with net-zero emissions scenarios by 2050 or earlier, in accordance with the most ambitious goals of the Paris Agreement (1.5ºC). The Institution has already outlined pathways for four "high risk" sectors: oil & gas, energy, cement and coal.

Banco Sabadell Group also made a commitment, from 2020 onwards, to follow the recommendations for disclosure of financial information related to climate risks established by the Task Force on Climate-related Financial Disclosures (TCFD).

Banco Sabadell Group Sustainable Finance Plan

Since 2020, Banco Sabadell Group has been developing a Sustainable Finance Plan with cross-cutting effect, which includes a set of additional initiatives that allow it to incorporate, develop, apply and comply not only with its sustainability commitments but also with the regulatory and supervisory requirements to which it is subject.

Within the initiatives carried out, it is worth noting the approval by the Board of Directors of the Sustainability Policy in 2020 (which defines the vision, governance and responsibilities of the three lines of defence in relation to sustainability) and of the Environmental Risk Policy drawn up in July 2021 (which defines the critical management parameters to progressively and proportionally integrate these risks in the risk management and control units and business units), which are both regularly updated.

In 2022, the Climate Risk Policy was reviewed and its scope of application and content were expanded to include the risks associated with environmental degradation (air pollution, water pollution, water scarcity, land pollution, loss of biodiversity, deforestation, etc.). This is why the Climate Risk Policy was renamed the Environmental Risk Policy.

During this year, environmental risk indicators have continued to be defined and developed and are gradually being converted to metrics that are included in the Risk Appetite Framework in order to manage and monitor these risks.

Environmental risk management

The Institution has continued to pay increasing attention to environmental risks to include them in management and in its day-to-day banking activities with its customers. Environmental risk should be understood as the risk of incurring losses as a result of the impacts, both those existing at present and those that may exist in the future, stemming from the environmental risk factors (associated with climate change and environmental degradation) and affecting counterparties or invested assets, as well as aspects affecting financial institutions as legal entities.

Environmental factors can produce negative impacts (as well as opportunities) through different risk factors, which can be categorised as either physical risks or transition risks:

– Physical risks are those that occur due to the physical effects of climate change (consequence of adverse climate-related and geological events or changes in climate patterns) and due to environmental degradation (consequence of changes and severe effects on the balance of ecosystems); they are usually classified as acute risks or chronic risks.

– Transition risks are those that occur due to the uncertainty related with the timing and speed of the process for adjusting to an environmentally sustainable and resilient economy. This process can be affected by four risks, according to the risk types enumerated by the TCFD: legal & regulatory, technological, market and reputational.

In this context and in line with the EBA's Sustainable Finance Plan for 2020-2025 under which ESG risks and factors are expected to be included in the EU regulatory framework (Pillars I, II and III of the Basel prudential framework for credit institutions), Banco Sabadell Group is adapting and aligning its internal corporate governance, strategy, structure and risk management and control processes, and market disclosure of these, in order to comply with the regulatory and supervisory requirements in force.

This change process is based on the materiality assessment of the impacts of environmental risk (the E in ESG) and on the analysis of the transmission channels through which those impacts may materialise. Ultimately, environmental risk affects the institution by acting as an additional risk factor compounding traditional bank risks (for example, credit, market, liquidity and operational risks). It is therefore important to measure its final impact (for example, in terms of the solvency of both customers/counterparties and of the Institution itself).

At present, as the regulatory and supervisory authorities and other bodies all acknowledge, there is a need to continue to develop the most suitable methodologies that can be used to tackle the technical challenges and lack of robust data facing the field of sustainability-related risks (with each of the letters of the ESG acronym).

For its part, Banco Sabadell Group now carries out, on an annual basis, qualitative and quantitative materiality assessments of the impacts that environmental risks have on the main traditional bank risks affected: credit risk, market risk, liquidity risk, operational risk, reputational risk or strategy and business model risk). Since 2022, these assessments have been expanded to include not only climate-related risk but also the risk associated with environmental degradation. Therefore, the Institution regularly carries out (i) a qualitative analysis of the impact of environmental risk factors on the aforesaid risks, (ii) a quantitative estimate of the impacts stemming from environmental risk on credit risk, market risk, liquidity risk and operational risk, (iii) a quantitative analysis of the exposure of its credit portfolios to the most carbon-intensive sectors, and (iv) a measurement of its sustainable exposure (green, social and sustainability-linked transactions).

Furthermore, it should be noted that following a review of the qualitative assessment of the materiality of environmental risk factors on risks that could be significantly impacted, it was concluded that the impacts were concentrated in credit portfolios. Specifically, transition risks were found to be the most material, from a triple point of view: regulations, technological change and market factors. While no impact is expected in the near term, the Group monitors and assesses the potential medium- and long-term impacts on an ongoing basis, depending on the sector. It should be noted that in 2023 and in previous years, the Group has not had any significant losses related to environmental risk.

More information on environmental risk can be found in the Non-Financial Disclosures Report (NFDR), which forms part of the consolidated Directors' report.

As regards banking activity, a network of teams specialising in environmental risks is being developed and deployed in both risk management and control areas and in the business units themselves, who collect information related to the sustainability of customers and their banking activity through specific ESG questionnaires and indicators. The end goal is to support customers in their transition to a more sustainable and resilient economy.

It should also be noted that the Group has an Environmental and Social Risk Framework that establishes the Group's position, designed to limit activities with a high environmental risk. At the same time, the Group fosters green financing, using to that end an Eligibility Guide that outlines the activities deemed to be sustainable (in environmental and social terms) and whose main references are the EU Taxonomy and the best practices in the market, such as the Green Loan Principles and the Social Bond Principles.

In parallel, the Sustainable Finance Plan expands its portfolio of sustainable products with the aim of facilitating the transition towards a more sustainable and resilient economy. New financing solutions have been launched, including products such as 'eco-leases' and the '*eco-reformas*' loan for energy-efficient and sustainable home renovations. They have also been integrated across the entire product portfolio, making it possible for a wide range of products to be made sustainable, provided the financed investment meets the stipulated requirements. In addition, the Institution is collating the ESG preferences of retail customers, in line with regulatory requirements, in order to offer them financial products aligned with their preferences in terms of green content and intensity.

Lastly, it is worth mentioning that over the year Banco Sabadell Group has continued with a new placement of green bonds in the capital market for a total amount of 750 million euros (1,695 million euros in 2022).

4.4.2. Credit risk

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

4.4.2.1 Credit risk management framework

Acceptance and monitoring

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

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

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

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

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

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

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

The early warnings system allows an integrated measurement to be made of the level of the risk taken and allows it to be transferred to recovery management specialists, who determine the different types of procedures that should be implemented. Therefore, different groups or categories are established for risks that exceed a given limit and according to predicted default rates, so that they can be treated individually. These warnings are additionally managed by the account manager and the risk analyst.

Responsible lending

In accordance with the nature of the Group's financial transactions and in order to ensure suitable customer protection in banking services, policies and procedures are implemented in relation to the evaluation and granting of responsible loans and credits, in relation to which it is particularly worth mentioning the importance of the general principles governing responsible lending, as detailed in Annex 6 to Bank of Spain Circular 5/2012 of 27 June on transparency of banking services and responsible lending.

The Bank's internal regulations, reflected in the updated Group Credit Risk Acceptance and Monitoring Policy, approved by the Board of Directors on 30 June 2023, explicitly address the application of responsible lending principles when granting and monitoring various types of finance. This commitment is aligned with the guidelines established in the third paragraph of Article 29.1 of Law 2/2011 of 4 March on Sustainable Economy, and covers policies, methods and procedures designed to comply with applicable legislation, such as Order EHA/2899/2011 and Bank of Spain Circular 5/2012, specifically its Rule 12. Effective control mechanisms have also been implemented to ensure these policies are continuously monitored as part of the comprehensive credit risk management arrangements.

Management of non-performing exposures

Generally, during stages of weakness in the economic cycle, debt refinancing and restructuring are the main risk management techniques used. The Bank's aim, when faced with debtors and borrowers that have, or are expected to have, financial difficulties to honour their payment obligations under the prevailing contractual terms, is to facilitate the repayment of the debt by reducing the probability of default as much as possible. A number of common policies to achieve this are in place in the Institution, as well as procedures for the approval, monitoring and control of potential debt forbearance (refinancing and restructuring) processes, the most significant of which are the following:

– The existence of a sufficiently long good payment history by the borrower and a manifest intention to repay the loan, assessing the period of time during which the customer is likely to continue to experience financial difficulties (in other words, whether they are facing short-term or long-term difficulties).

– Refinancing and restructuring conditions based on a realistic repayment schedule that is in line with borrowers' current and expected payment capacity, also taking into account the macroeconomic situation and outlooks, avoiding their postponement to a later date.

– If new guarantees are provided, these must be regarded as a secondary and exceptional means of recovering the debt, so as to avoid adversely affecting existing means. In any case, the ordinary interest accrued should be paid up to the refinancing or restructuring date.

– Limits are applied to the length of grace periods and to the granting of successive refinancing.

The Group continually monitors compliance with the agreed terms and with the above policies.

Internal risk models

Banco Sabadell Group also has a system in place which is made up of three lines of defence to ensure the quality and oversight of internal models, as well as a governance process specifically designed to manage and monitor these models and to ensure compliance with regulations and the Supervisor's instructions.

The governance framework of internal credit risk and impairment models (management of risk, calculation of regulatory capital and provisions) is based on the following pillars:

– Effective management of changes to internal models.

– Ongoing monitoring of the performance of internal models.

– Regular reporting, both internal and external.

– Management tools for internal models.

One of the main bodies within the governance framework of internal credit risk and impairment models is the Models Committee, which meets on a monthly basis and has internal approval responsibilities, depending on the materiality of the risks, and which also monitors internal credit risk models.

Banco Sabadell Group also has an advanced management model for its non-performing exposures in place to manage the impaired assets portfolio. The purpose of managing non-performing exposures is to find the best solution for the customer upon detecting the first signs of impairment, reducing the entry into default of customers with financial difficulties, ensuring intensive management and avoiding downtime between the different phases.

For further quantitative information, see Schedule IV "Other risk information: Refinancing and restructuring transactions" to these consolidated annual financial statements.

Real estate credit risk management

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

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

– New lending: real estate development business

  New lending to developers is governed by a "Real Estate Development Framework", which defines the optimum allocation of the new business on the basis of the quality of the customer and development project. This analysis is based on models that allow an objective appraisal to be obtained, taking into account the views of real estate experts.

  To this end, the Bank has:

  - The Real Estate Business Division (a unit within the Business Banking Division), with a team of real estate specialists who exclusively manage the Bank's developer customers. This unit has an acceptance and monitoring methodology that allows the Group to gain in-depth knowledge about all the projects analysed by the unit.

  - Two Real Estate Investment Analysis and Monitoring divisions (reporting to the Real Estate Risks Division), whose role is to analyse all real estate projects from a technical and real estate point of view. They analyse both the location and suitability of the product, as well as the potential supply and demand. They also compare them against the figures of the business plan submitted by the customer (particularly costs, income, margin and timelines). This analysis process goes hand in hand with a model used to track real estate developments through monitoring reports, which validate the progress made in each development project in order to keep track of drawdowns and compliance with the business plan (income, costs and timelines).

  - The Real Estate Risk Division, with specialised analysts in each of the Territorial Divisions. This makes it possible to ensure that newly accepted risks are in line with the policies and acceptance framework for this type of risk.

– Management of non-performing real estate credit

  Non-performing exposures are managed in line with the defined policy. In general, they are managed taking into account:

  - The customer.

  - The guarantees.

  - The status of the loan (from the time when a warning is triggered, warning of a potential deterioration of the current status, up until refinancing or restructuring takes place, or until the properties are surrendered in payment of debt (payment in kind)/purchased in an amicable settlement/settlement with debt reduction, or until an auction is held following a mortgage enforcement process and whenever there is a ruling in favour of foreclosure).

  After analysing the three aforementioned aspects, an optimal solution is sought to stabilise or settle the position (whether through an amicable settlement or through judicial proceedings), which differs depending on the evolution of each customer/case.

  Cases in which the stabilisation of the loan or its settlement by the customer is not a feasible option are managed using support models depending on the type of loan or financed item.

  In the case of completed real estate developments or completed non-residential properties, these can be put on sale at prices that drive market traction.

For other funded real estate, the possibility of entering into sale agreements with third parties is considered, out-of-court settlement solutions are proposed (purchase, payment in kind, which in the case of properties owned by individuals can be arranged under favourable conditions for relocation or social rental depending on the needs of the customer, or with a settlement with debt reduction), or else court proceedings are initiated.

– Management of foreclosed assets

  Once the loan has been converted into a real estate asset, a management strategy is defined depending on the type of asset, in order to maximise the potential of each asset during the sale.

  The main disposal mechanism is the sale of the asset, for which the Bank has developed different channels depending on the type of property and customer.

The Group, which has had high concentrations of this type of risk in the past, has a first-tier RAS metric in place which establishes a maximum level of concentration of exposures associated with real estate development based on Tier 1 capital in Spain. This metric is monitored on a monthly basis and reported to the Technical Risk Committee, the Board Risk Committee and the Board of Directors.

Lastly, it is worth highlighting that the Risk Control Division, together with the Business and Risk Management Divisions, regularly monitors the adequacy of new loans granted to real estate developers. The monitoring process includes a review of compliance with policies and asset allocation. The results of this monitoring exercise are escalated to the Technical Risk Committee for information.

For further quantitative information, see Schedule IV "Other risk information – Credit Risk: Exposure to construction and real estate development sector" to these consolidated annual financial statements.

4.4.2.2. Risk management models

Credit ratings

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

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

The percentage distribution by credit rating of Banco Sabadell's portfolio of companies as at 31 December 2023 and 2022 is detailed below:

%

Distribution, by credit rating, of Banco Sabadell's portfolio of companies 2023										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.80%	2.20%	8.90%	24.40%	28.14%	19.69%	11.58%	3.69%	0.53%	0.06%	100%

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

%

Distribution, by credit rating, of Banco Sabadell's portfolio of companies 2022										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.64%	1.56%	9.02%	18.80%	28.88%	23.20%	13.11%	4.08%	0.62%	0.10%	**100%**

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

Credit scores

In general, credit risks undertaken with individuals are rated using credit scoring systems, which are in turn also based on a quantitative model of historical statistical data, identifying the relevant predictive factors (see section "Impairment of financial assets" in Note 1).

Scoring models are used in both the new risk origination process (reactive scoring) and to monitor portfolio risk (behavioural scoring).

The percentage distribution by behavioural score of Banco Sabadell's portfolio of individuals as at 31 December 2023 and 2022 is detailed below:

%

Distribution, by behavioural score, of Banco Sabadell's portfolio of individuals 2023										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.99%	7.74%	26.28%	35.61%	17.67%	6.73%	2.64%	1.33%	0.66%	0.35%	**100%**

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

%

Distribution, by behavioural score, of Banco Sabadell's portfolio of individuals 2022										
9	**8**	**7**	**6**	**5**	**4**	**3**	**2**	**1**	**0**	**TOTAL**
0.89%	8.92%	26.39%	35.56%	17.11%	6.21%	2.50%	1.35%	0.67%	0.40%	**100%**

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

Warning tools

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

This warnings system enables:

- Efficiency to be improved, as monitoring exercises focus on customers with the lowest credit rating or credit score (different cut-off points for each group).
- The Institution to anticipate actions required to manage any negative change in the situation of the customer (change in rating, new severe warnings, etc.).
- Customers whose situation remains unchanged and who have been assessed by the Basic Management Team to be regularly monitored.

4.4.2.3. Credit risk exposure

The table below shows the distribution, by headings of the consolidated balance sheet, of the Group's maximum gross credit risk exposure as at 31 December 2023 and 2022, without deducting collateral or credit enhancements obtained in order to ensure the fulfilment of payment obligations, broken down by portfolios and in accordance with the nature of the financial instruments:

Thousand euro

Maximum credit risk exposure	Note	2023	2022
Financial assets held for trading		**142,495**	**417,131**
Equity instruments	9	—	—
Debt securities	8	142,495	417,131
Non-trading financial assets mandatorily at fair value through profit or loss		**153,178**	**77,421**
Equity instruments	9	52,336	23,145
Debt securities	8	65,744	54,276
Loans and advances	11	35,098	—
Financial assets at fair value through other comprehensive income		**6,387,869**	**5,923,703**
Equity instruments	9	302,510	301,011
Debt securities	8	6,085,359	5,622,692
Financial assets at amortised cost		**184,116,175**	**188,068,718**
Debt securities	8	21,501,203	21,453,031
Loans and advances	11	162,614,972	166,615,687
Derivatives	10, 12	**4,988,592**	**6,672,213**
Total credit risk due to financial assets		**195,788,309**	**201,159,186**
Loan commitments given	26	27,035,812	27,460,615
Financial guarantees given	26	2,064,396	2,086,993
Other commitments given	26	7,942,724	9,674,382
Total off-balance sheet exposures		**37,042,932**	**39,221,990**
Total maximum credit risk exposure		**232,831,241**	**240,381,176**

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

4.4.2.4. Credit risk mitigation

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

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

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

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

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

The Group has not received any significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantees, except for those intrinsic in treasury activities, which are mostly reverse repos (see Note 6). The fair value of the assets sold in connection with reverse repos is included under the heading "Financial liabilities held for trading" as part of the short positions of securities.

Assets assigned under the same transactions amounted to 1,012,508 thousand euros as at 31 December 2023 (417,982 thousand euros as at 31 December 2022) and are included by type under the repos heading in Notes 18 and 19.

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

The values of the guarantees received to ensure collection, broken down into collateral and other guarantees, as at 31 December 2023 and 2022 are as follows:

Thousand euro

	2023	2022
Value of collateral	94,323,862	97,340,958
Of which: securing stage 2 loans	*7,180,750*	*8,515,648*
Of which: securing stage 3 loans	*1,873,003*	*2,046,793*
Value of other guarantees	14,975,715	17,180,550
Of which: securing stage 2 loans	*1,881,539*	2,635,673
Of which: securing stage 3 loans	*1,054,019*	*1,080,167*
Total value of guarantees received	**109,299,577**	**114,521,508**

The main risk concentration in relation to all of these types of collateral and credit enhancements corresponds to the use of mortgage guarantees as a credit risk mitigation technique in exposures of loans intended for the financing or construction of housing or other types of real estate. On a like-for-like basis, as at 31 December 2023, the exposure to home equity loans and credit lines represented 57.5% of total gross performing lending items granted to customers (57.2% as at 31 December 2022).

In addition, the Bank has carried out four synthetic securitisation transactions since 2020. Details of the outstanding transactions as at 2023 year-end are shown below:

In September 2023, the Bank carried out a synthetic securitisation of a 1,139 million euro portfolio of loans to SMEs and mid-corporates, having received an initial guarantee from Sabadell Galera 3-2023 Designated Activity Company in the amount of 58 million euros (58 million euros as at 31 December 2023), covering losses of between 0.95% and 5.05% on the securitised portfolio.

In September 2022, the Bank carried out a synthetic securitisation transaction of a 1 billion euro portfolio of project finance loans, having received an initial guarantee from Sabadell Boreas 1-2022 Designated Activity Company for 105 million euros (82 million euros as at 31 December 2023), which covers losses of up to 10.5% on the securitised portfolio.

In September 2021, the Bank carried out a synthetic securitisation of a 1.5 billion euro portfolio of loans to SMEs and mid-corporates, having received an initial guarantee of 75 million euros (38 million euros as at 31 December 2023), covering losses of between 0.9% and 5.9% on the securitised portfolio.

In June 2020, the Bank carried out a synthetic securitisation of a 1.6 billion euro portfolio of loans to SMEs and mid-corporates, having received an initial guarantee of 96 million euros (63 million euros as at 31 December 2023), covering losses of between 1.5% and 7.5% on the securitised portfolio.

These transactions did not involve a substantial transfer of the risks and rewards from the assets concerned and, consequently, did not entail the derecognition of those assets from the consolidated balance sheet.

These transactions are given preferential treatment for capital consumption purposes, in accordance with Article 270 of Regulation (EU) 2017/2401 and Article 26 of Regulation (EU) 2021/557 (see Note 5).

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

4.4.2.5. Credit quality of financial assets

As stated earlier, in general terms, the Group uses internal models to rate most borrowers (or transactions) through which credit risk is incurred. These models have been designed considering the best practices proposed by the New Basel Capital Accord (NBCA). However, not all portfolios in which credit risk is incurred have internal models, partly due to the fact that these models can only be reasonably designed if a minimum of historical non-payment case data is available. The standardised approach is followed for these portfolios, for solvency purposes.

The exposure percentage calculated by the Group using internal models, for solvency purposes, is 90%. This percentage has been calculated following the specifications of the ECB guide to internal models (Article 28a) published in June 2023.

The breakdown of total exposures rated according to the various internal rating levels, as at 31 December 2023 and 2022, is set out here below:

Million euro

Breakdown of exposure by rating	Note	Exposures assigned rating/score				
		2023				
		Stage 1	*Stage 2*	*Stage 3*	*Of which: purchased credit-impaired*	Total
AAA/AA		25,486	57	—	—	25,543
A		11,644	171	13	—	11,829
BBB		83,179	252	—	*1*	83,431
BB		31,376	522	3	*2*	31,902
B		17,102	3,105	6	*61*	20,212
Other		3,577	7,546	5,450	*45*	16,574
No rating/score assigned		1,675	19	—	—	1,694
Total gross amount	**11**	**174,039**	**11,672**	**5,473**	**109**	**191,185**
Impairment allowances	**11**	**(373)**	**(471)**	**(2,359)**	***(1)***	**(3,202)**
Total net amount		**173,666**	**11,202**	**3,114**	***108***	**187,982**

Million euro

Breakdown of exposure by rating	Note	Exposures assigned rating/score				
		2022				
		Stage 1	*Stage 2*	*Stage 3*	*Of which: purchased credit-impaired*	Total
AAA/AA		20,031	202	7	—	20,240
A		10,905	52	—	—	10,957
BBB		86,498	182	—	—	86,680
BB		30,428	474	1	*2*	30,903
B		20,728	3,843	4	*68*	24,575
Other		4,022	8,929	5,414	*54*	18,365
No rating/score assigned		3,531	20	35	—	3,586
Total gross amount	**11**	**176,143**	**13,702**	**5,461**	**124**	**195,306**
Impairment allowances	**11**	**(347)**	**(480)**	**(2,196)**	***(1)***	**(3,023)**
Total net amount		**175,796**	**13,222**	**3,265**	***123***	**192,283**

The breakdown of total off-balance sheet exposures rated based on the various internal rating levels, as at 31 December 2023 and 2022, is set out hereafter:

Million euro

Breakdown of exposure by rating	Note	Exposures assigned rating/score				
		2023				
		Stage 1	*Stage 2*	*Stage 3*	*Of which: purchased credit-impaired*	Total
AAA/AA		1,442	44	—	—	1,485
A		3,034	—	—	—	3,035
BBB		13,533	34	2	—	13,568
BB		8,611	101	3	*1*	8,716
B		8,246	724	6	*23*	8,977
Other		159	620	355	*153*	1,133
No rating/score assigned		128	1	—	—	129
Total gross amount	**26**	**35,154**	**1,524**	**365**	***178***	**37,043**
Provisions recognised on liabilities side of the balance sheet	**26**	**(48)**	**(30)**	**(86)**	**—**	**(165)**
Total net amount		**35,105**	**1,494**	**279**	**178**	**36,878**

Million euro

Breakdown of exposure by rating	Note	Exposures assigned rating/score				
		2022				
		Stage 1	*Stage 2*	*Stage 3*	*Of which: purchased credit-impaired*	Total
AAA/AA		1,433	64	—	—	1,497
A		1,235	—	—	—	1,235
BBB		11,866	40	1	—	11,907
BB		9,791	164	3	—	9,958
B		11,585	867	5	*24*	12,457
Other		693	959	397	—	2,049
No rating/score assigned		117	2	—	—	119
Total gross amount	**26**	**36,720**	**2,096**	**406**	***24***	**39,222**
Provisions recognised on liabilities side of the balance sheet	**26**	**(51)**	**(30)**	**(96)**	**—**	**(177)**
Total net amount		**36,669**	**2,066**	**310**	**24**	**39,045**

Further details on the credit rating and credit scoring models are included in section 4.4.2.2 of these consolidated annual financial statements.

For those borrowers included within business in Spain whose coverage has been assessed using internal models as at 31 December 2023 and 2022, the following table shows the breakdown by segment of the average EAD-weighted PD and LGD parameters, distinguishing between on-balance sheet and off-balance sheet exposures, and the stage in which the transactions are classified according to their credit risk:

%

	31/12/2023							
	Average ECL parameters for on-balance sheet exposures							
	Stage 1		*Stage 2*		*Stage 3*		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Loans and advances	**0.70%**	**23.20%**	**21.50%**	**23.90%**	**100.00%**	**59.90%**	**4.10%**	**24.00%**
Other financial corporations	0.70%	27.10%	8.90%	30.20%	100.00%	67.80%	1.10%	27.20%
Non-financial corporations	1.20%	32.00%	15.40%	28.20%	100.00%	63.80%	4.50%	32.20%
Households	0.40%	16.40%	29.80%	18.00%	100.00%	56.90%	3.90%	17.30%

%								
	31/12/2023							
	Average ECL parameters for off-balance sheet exposures							
	Stage 1		*Stage 2*		*Stage 3*		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Loans and advances	**1.00%**	**38.80%**	**16.80 %**	**38.40%**	**100.00%**	**77.20%**	**1.60%**	**38.90%**
Other financial corporations	1.40%	35.60%	1.80 %	35.50%	0.00%	0.00%	1.40%	35.60%
Non-financial corporations	1.10%	32.70%	17.00 %	38.20%	100.00%	77.80%	1.90%	33.00%
Households	0.70%	59.60%	15.50 %	40.80%	100.00%	58.00%	0.90%	59.30%

%								
	31/12/2022							
	Average ECL parameters for on-balance sheet exposures							
	Stage 1		*Stage 2*		*Stage 3*		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Loans and advances	**1.00%**	**20.70%**	**21.00%**	**20.30%**	**100.00%**	**56.10%**	**4.30%**	**21.20%**
Other financial corporations	0.90%	21.10%	20.50%	17.70%	100.00%	84.70%	1.70%	21.10%
Non-financial corporations	1.60%	30.90%	15.70%	25.20%	100.00%	60.60%	4.90%	30.80%
Households	0.50%	13.00%	28.40%	13.50%	100.00%	52.60%	3.90%	13.70%

%								
	31/12/2022							
	Average ECL parameters for off-balance sheet exposures							
	Stage 1		*Stage 2*		*Stage 3*		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Loans and advances	**1.40%**	**32.50%**	**16.20%**	**34.20%**	**100.00%**	**73.50%**	**2.10%**	**32.60%**
Other financial corporations	1.20%	35.30%	21.00%	27.10%	0.00%	0.00%	1.30%	35.30%
Non-financial corporations	1.50%	30.80%	15.60%	34.50%	100.00%	74.00%	2.50%	31.10%
Households	0.80%	36.70%	21.40%	31.70%	100.00%	55.00%	1.30%	36.60%

During 2023, the usual LGD model maintenance processes have been continued in order to improve certain aspects identified during the ongoing monitoring carried out by Banco Sabadell or during the independent reviews conducted by the internal control units (Models Validation and Internal Audit). The adjustment processes follow the internal governance arrangements established for their validation, review and approval by the corresponding units.

Details of the PD and LGD parameters for exposures in the business of the subsidiary TSB as at 31 December 2023 and 2022 are shown below:

%								
	31/12/2023							
	Average ECL parameters for on-balance sheet exposures							
	Stage 1		*Stage 2*		*Stage 3*		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Secured loans	0.26%	2.71%	7.88%	7.52%	100.00%	4.02%	1.53%	4.42%
Credit cards	1.38%	81.64%	9.19%	80.67%	100.00%	59.96%	5.01%	80.88%
Current accounts	0.46%	54.39%	8.71%	55.14%	100.00%	56.87%	3.56%	54.50%
Loans	3.89%	86.81%	12.75%	87.23%	100.00%	84.14%	7.63%	86.79%

%								
	31/12/2023							
	Average ECL parameters for off-balance sheet exposures							
	Stage 1		*Stage 2*		*Stage 3*		Total portfolio	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Secured loans	0.58%	4.49%	7.88%	7.52%	100.00%	4.02%	0.58%	4.49%
Credit cards	1.38%	81.64%	9.19%	80.67%	100.00%	59.96%	5.01%	80.88%
Current accounts	0.46%	54.39%	8.71%	55.14%	100.00%	56.87%	3.56%	54.50%
Loans	3.89%	86.81%	12.75%	87.23%	100.00%	84.14%	7.63%	86.79%

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

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

As can be seen, in TSB the PDs show an increase compared to 2022, especially in credit cards and personal loans, as a result of higher inflation and interest rates and the worse macroeconomic situation in 2023.

Risks classified as stage 3 decreased by 37 million euros in 2023. However, this reduction was accompanied by a decrease in the risk base of 6,415 million euros, which led to an increase in the Group's NPL ratio, as shown in the table below:

%	2023	Proforma 2023 (*)	2022	Proforma 2022 (*)
NPL ratio (*)	3.52	4.22	3.41	4.13
NPL (stage 3) coverage ratio (*)	42.33	45.55	39.42	42.25
NPL (stage 3) coverage ratio, with total provisions (*)	58.29	60.25	55.04	56.41

(*) Corresponds to the ratio excluding TSB.

The NPL ratio, broken down by lending segment as at 31 December 2023 and 2022, is set out below:

%	2023	Proforma 2023 (*)	2022	Proforma 2022 (*)
Real estate development and construction	6.44	6.48	6.95	6.99
Non-real estate construction	5.25	5.25	7.06	7.07
Corporates	2.47	2.47	2.02	2.02
SMEs and self-employed	8.52	8.58	7.62	7.66
Individuals with 1st mortgage guarantee	2.29	3.12	2.08	2.86
Group NPL ratio	**3.52**	**4.22**	**3.41**	**4.13**

(*) Corresponds to the NPL ratio excluding TSB.

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

4.4.2.6. Concentration risk

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

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

Concentration risk can be caused by two risk subtypes:

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

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

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

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

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

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

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

Consistency with the Global Risk Framework

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

Establishment of limits and metrics for concentration risk control

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

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

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

Risk control monitoring and regular reporting

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

Action plans and mitigation techniques

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

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

Exposure to customers or significant risks

As at 31 December 2023 and 2022, there were no borrowers with an approved lending transaction that individually exceeded 10% of the Group's own funds.

Country risk: geographical exposure to credit risk

Country risk is defined as the risk associated with a country's debts, taken as a whole, due to factors inherent to the sovereignty and the economic situation of a country, i.e. for circumstances other than regular credit risk. It manifests itself in the eventual inability of obligors to honour their foreign currency payment obligations undertaken with external creditors due to, among other reasons, the country preventing access to that foreign currency, the inability to transfer it, or the non-enforceability of legal actions against borrowers for reasons of sovereignty, war, expropriation or nationalisation.

Country risk not only affects debts undertaken with a state or entities guaranteed by it, but also all private debtors that belong to that state and who, for reasons outside their control and not at their volition, are generally unable to satisfy their debts.

An exposure limit is set for each country which is applicable across the whole of Banco Sabadell Group. These limits are approved by the Board of Directors and the corresponding decision-making bodies, as per their conferred powers, and they are continuously monitored to ensure that any deterioration in the economic, political or social prospects of a country can be detected in good time.

The main component of the procedure for the acceptance of country risk and financial institution risk is the structure of limits for different metrics. This structure is used to monitor the various risks and it is also used by Senior Management and the delegated bodies to establish the Group's risk appetite.

Different indicators and tools are used to manage country risk: credit ratings, credit default swaps, macroeconomic indicators, etc.

Schedule IV includes quantitative data relating to the breakdown of the concentration of risks by activity and on a global scale.

Exposure to sovereign risk and exposure to the construction and real estate development sector

Schedule IV includes quantitative data relating to sovereign risk exposures and exposures to the construction and real estate development sector.

4.4.2.7. Counterparty credit risk

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

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

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

The following tables show the breakdown of exposures by credit rating and by the geographical areas in which the Group operates, as at 31 December 2023 and 2022:

%

2023															
AAA	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**BB+**	**BB**	**BB-**	**B+**	**Other**	**TOTAL**
0.7%	11.5%	0.1%	32.1%	21.2%	8.1%	7.9%	3.0%	3.4%	2.0%	2.9%	2.8%	2.3%	0.5%	1.6%	100%

%

2022															
AAA	**AA+**	**AA**	**AA-**	**A+**	**A**	**A-**	**BBB+**	**BBB**	**BBB-**	**BB+**	**BB**	**BB-**	**B+**	**Other**	**TOTAL**
17.4%	0.0%	2.4%	31.0%	14.5%	11.8%	9.0%	4.6%	2.5%	1.9%	2.2%	1.5%	0.7%	0.1%	0.4%	**100%**

%	2023	2022
Eurozone	77.3%	70.7%
Rest of Europe	16.9%	24.5%
United States and Canada	3.0%	3.0%
Rest of the world	2.8%	1.8%
Total	**100%**	**100%**

As can be seen in the table, the risk is concentrated in counterparties with a high credit quality, with 82% of the risk relating to counterparties rated A, whereas as at 31 December 2022 this concentration was 86%.

In 2016, under the European Market Infrastructure Regulation (EMIR) (Regulation 648/2012), the obligation to settle and clear certain over-the-counter (OTC) derivatives through central counterparty clearing houses (CCPs) began to apply to the Group. For this reason, the derivatives arranged by the Group and subject to the foregoing are channelled via these agents. At the same time, the Group has improved the standardisation of OTC derivatives with a view to fostering the use of clearing houses. The exposure to risk with CCPs largely depends on the value of the deposited guarantees.

With regard to derivative transactions in organised markets (OMs), based on management criteria, it is considered that there is no exposure, given that there is no risk as the OMs act as counterparties in the transactions and a daily settlement and guarantee mechanism is in place to ensure the transparency and continuity of the activity. In OMs the exposure is equivalent to the deposited guarantees.

The breakdown of transactions involving derivatives in financial markets, according to whether the counterparty is another financial institution, a clearing house or an organised market, is shown below:

Thousand euro	2023	2022
Transactions with organised markets	1,505,736	979,533
OTC transactions	188,207,641	183,975,718
Settled through clearing houses	*113,467,997*	*114,649,971*
Total	**189,713,377**	**184,955,251**

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

The following tables show the aggregate amount reflected on the balance sheet for the financial instruments subject to a master netting and collateral agreement for 2023 and 2022:

Thousand euro	2023				
	Financial assets subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee received		Net amount
			Cash	Securities	
Financial assets	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	4,827,407	2,903,168	1,822,777	124,929	(23,467)
Repos	5,146,361	—	45,522	5,207,911	(107,072)
Total	**9,973,768**	**2,903,168**	**1,868,299**	**5,332,840**	**(130,539)**

Thousand euro	2023				
	Financial liabilities subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee given		Net amount
			Cash	Securities	
Financial liabilities	(a)	(b)	(c)	(d)	(a)-(b)-(c)-(d)
Derivatives	3,206,489	2,903,168	457,090	358,000	(511,769)
Reverse repos	11,065,324	—	144,461	11,608,411	(687,548)
Total	**14,271,813**	**2,903,168**	**601,551**	**11,966,411**	**(1,199,317)**

Thousand euro

	2022				
	Financial assets subject to collateral agreements				
	Amount recognised on balance sheet	Amount offset (for collateral calculations only)	Guarantee received		Net amount
			Cash	Securities	
Financial assets	**(a)**	**(b)**	**(c)**	**(d)**	**(a)-(b)-(c)-(d)**
Derivatives	6,445,760	3,603,978	2,249,400	129,934	462,448
Repos	3,114,965	—	23,590	3,008,362	83,013
Total	**9,560,725**	**3,603,978**	**2,272,990**	**3,138,296**	**545,461**

Thousand euro

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

The values of derivative financial instruments which are settled through a clearing house as at 31 December 2023 and 2022 are indicated hereafter:

Thousand euro

	2023	**2022**
Derivative financial assets settled through a clearing house	4,012,659	5,367,736
Derivative financial liabilities settled through a clearing house	2,498,128	3,204,917

The philosophy behind counterparty credit risk management is consistent with the business strategy, seeking to ensure the creation of value at all times whilst maintaining a balance between risk and return. To this end, criteria have been established for controlling and monitoring counterparty credit risk arising from activity in financial markets, which ensure that the Bank can carry out its business activity whilst adhering to the risk thresholds approved by the Board of Directors.

The approach for quantifying counterparty credit risk exposure takes into account current and future exposure. Current exposure represents the cost of substituting a transaction at market value in the event of a default by a counterparty. To calculate it, the current or Mark to Market (MtM) value of the transaction is required. The future exposure represents the risk that a transaction could potentially represent over a certain period of time, given the characteristics of the transaction and the market variables on which it depends. In the case of transactions carried out under a collateral agreement, the future exposure represents the possible fluctuation of the MtM between the time of default and the substitution of such transactions in the market. If the transaction is not carried out under a collateral agreement, it represents the possible changes in MtM throughout the life of the transaction.

Each day at close of business, all of the exposures are recalculated in accordance with the transaction inflows and outflows, changes in market variables and risk mitigation mechanisms established by the Group. Exposures are thus subject to daily monitoring and they are controlled in accordance with the limits approved by the Board of Directors. This information is included in risk reports for disclosure to the departments and areas responsible for their management and monitoring.

With regard to counterparty credit risk, the Group has different mitigation techniques. The main techniques are:

- Netting agreements for derivatives (ISDA and Spain's Framework Agreement for Financial Transactions (*the Contrato Marco de Operaciones Financieras*, or CMOF)).

- Variation margin collateral agreements for derivatives (CSA and Annex 3 - CMOF), repos (GMRA, EMA) and securities lending (GMSLA).

- Initial margin collateral agreements for derivatives (CTA and SA).

Netting agreements allow positive and negative MtM to be aggregated for transactions with a single counterparty, in such a way that in the event of default, a single payment or collection obligation is established in relation to all of the transactions closed with that counterparty.

By default, the Group has netting agreements with all counterparties wishing to trade in derivatives.

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

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

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

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

4.4.2.8 Assets pledged in financing activities

As at 31 December 2023 and 2022, there were certain financial assets pledged in financing operations, i.e. offered as collateral or guarantees for certain liabilities. These assets correspond mainly to loans linked to the issuance of mortgage covered bonds, public sector covered bonds, TSB covered bonds and long-term asset-backed securities (see Note 20 and Schedule II). The remaining pledged assets are debt securities which are submitted in transactions involving assets sold under repurchase agreements, pledged collateral (loans or debt instruments) to access certain funding operations with central banks and all types of collateral provided to secure derivative transactions.

The issuing entity Banco Sabadell did not issue any public sector covered bonds in either 2023 or 2022.

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

The balance of the financial assets securitised under these programmes by the Group, as well as other financial assets transferred, depending on whether they have been derecognised or retained in full on the consolidated balance sheet, as at 31 December 2023 and 2022, is as follows:

Thousand euro

	2023	2022
Fully derecognised from the balance sheet:	**568,975**	**693,853**
Securitised mortgage assets	111,624	116,868
Other securitised assets	228,671	319,468
Other financial assets transferred	228,680	257,517
Fully retained on the balance sheet:	**7,446,823**	**7,753,225**
Securitised mortgage assets	6,394,928	7,087,569
Other securitised assets	1,051,894	665,656
Total	**8,015,798**	**8,447,078**

The assets and liabilities associated with securitisation funds of assets originated after 1 January 2004, and for which inherent risks and rewards of ownership have not been transferred to third parties, have been retained on the consolidated balance sheet. As at 31 December 2023 and 2022, there was no significant financial aid from the Group for unconsolidated securitisations.

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

4.4.3. Financial risks

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

4.4.3.1 Liquidity risk

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

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

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

Liquidity management

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

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

In order to achieve these objectives, the Group's current liquidity risk management strategy is based on the following principles and pillars, in line with the LMUs' retail business model and the defined strategic objectives:

- Risk governance and involvement of the Board of Directors and Senior Management in managing and controlling liquidity risk. The Board of Directors has the highest level of responsibility for the oversight of liquidity risk, while the management bodies of the LMUs are in charge of transposing these strategies to their local areas of activity.
- Integration of the risk culture, based on prudent liquidity risk management and clear and consistent definitions of their terminology, and on its alignment with the Group's business strategy through the established risk appetite.
- Clear segregation of responsibilities and duties between the different areas and bodies within the organisation, with a clear-cut distinction between each of the three lines of defence, providing independence in the evaluation of positions and in risk assessment and control.
- Implementation of best practices in liquidity risk management and control, ensuring not only compliance with regulatory requirements but also, under a criterion of prudence, the availability of sufficient liquid assets to overcome possible stress events.
- Decentralised liquidity management system for the more significant units but with a centralised risk oversight and management system.
- Sound processes for the identification, measurement, management, control and disclosure of the different liquidity sub-risks to which the Group is exposed.
- Holistic overview of risk, through first- and second-tier risk taxonomies, and complying with regulatory requirements, recommendations and guidelines.
- Existence of a transfer pricing system to transfer the cost of funding.

- Balanced funding structure with a predominance of customer deposits.
- Ample base of unencumbered liquid assets that can be used immediately to generate liquidity and which comprise the Group's first line of liquidity.
- Diversification of funding sources, with controlled use of short-term wholesale funding without having to depend on individual fund suppliers.
- Self-funding by the main banking subsidiaries outside Spain.
- Oversight of the balance sheet volume being used as collateral in funding operations.
- Maintenance of a second line of liquidity that includes the capacity to issue covered bonds.
- Alignment with the interests of stakeholders through regular public disclosure of liquidity risk information.
- Availability of a Liquidity Contingency Plan.

With respect to 2023, the mitigating measures introduced by central banks due to Covid-19 continue to be phased out and certain measures, such as the granting of loans and credit to non-defaulted non-financial companies (including SMEs) and self-employed persons with a State guarantee granted under and in accordance with Art. 29 of Royal Decree-Law 8/2020 of 17 March, and the extraordinary urgent measures to address the economic and social impact of Covid-19, as well as the reduction of haircuts applied to the valuation of collateral provided to secure loans, were discontinued.

Tools/metrics for monitoring and controlling liquidity risk management

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

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

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

The risk of each LMU is also monitored on a daily basis through the Structural Treasury Report, which measures daily changes in the funding needs of the balance sheet, daily changes in the outstanding balance of transactions in capital markets, as well as daily changes in the first line of liquidity maintained by each LMU.

The metrics reporting and control framework involves, among other things:

- Monitoring the RAS metrics and their thresholds on a consolidated basis, as well as those established for each LMU, in line with the established monitoring frequency.
- Reporting on the relevant set of metrics to the governing body, Board committees and management bodies, depending on the tiers into which those metrics have been classified.
- In the event a threshold breach is detected, activating the communication protocols and necessary plans for its resolution.

Within the Group's overall budgeting process, Banco Sabadell plans its liquidity and funding requirements over different time horizons, which it aligns with the Group's strategic objectives and risk appetite. Each LMU has a 1-year and 5-year funding plan in which they set out their potential funding needs and the strategy for their management, and they regularly analyse compliance with that plan, any deviations from the projected budget and the extent to which the plan is appropriate to the market environment.

In addition, Banco Sabadell regularly reviews the identification of potential liquidity risks and assesses their materiality. It also conducts regular liquidity stress tests, which envisage a series of stress scenarios in the short and longer term, and it analyses their impact on the liquidity position and the main metrics in order to ensure that the existing exposures are consistent at all times with the established liquidity risk tolerance level.

The Institution also has an internal transfer pricing system to transfer the funding costs to business units.

Lastly, Banco Sabadell has a Liquidity Contingency Plan (LCP) in place, which sets forth the strategy for ensuring that the Institution has sufficient management capabilities and measures in place to minimise the negative impacts of a crisis situation on its liquidity position and to allow it to return to a business-as-usual situation. The LCP can be invoked in response to different crisis situations affecting either the markets or the Institution itself. The key components of the LCP include, among others: the definition of the strategy for its implementation, the inventory of measures available to generate liquidity in business-as-usual situations or in a crisis situation linked to the invocation of the LCP and a communication plan (both internal and external) for the LCP.

<u>Residual maturity periods</u>

The tables below show the breakdown, by contractual maturity, of certain pools of items on the consolidated balance sheet as at 31 December 2023 and 2022, under business-as-usual market conditions:

Thousand euro

	2023									
Time to maturity	**On demand**	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
ASSETS										
Cash, balances at central banks and other demand deposits	2,879,139	26,518,399	575,341	1,972	64	1,630	206	—	9,102	**29,985,853**
Financial assets at fair value through other comprehensive income	—	28,056	69,236	791,454	560,553	518,426	302,223	1,132,974	2,682,438	**6,085,359**
Debt securities	—	28,056	69,236	791,454	560,553	518,426	302,223	1,132,974	2,682,438	**6,085,359**
Loans and advances	—	—	—	—	—	—	—	—	—	**—**
Customers	—	—	—	—	—	—	—	—	—	**—**
Financial assets at amortised cost	4,062,743	5,493,867	3,858,019	12,168,889	11,057,059	10,776,821	10,537,660	10,184,113	112,774,622	**180,913,793**
Debt securities	—	4,833	315,660	1,204,916	1,123,028	479,039	1,743,646	1,187,212	15,442,594	**21,500,927**
Loans and advances	4,062,743	5,489,034	3,542,359	10,963,974	9,934,031	10,297,782	8,794,014	8,996,901	97,332,028	**159,412,866**
Central banks	—	156,516	—	—	—	—	—	—	—	**156,516**
Credit institutions	1,411,422	445,014	732,541	2,114,438	1,666,642	573,056	56	9,210	43,572	**6,995,951**
Customers	2,651,321	4,887,504	2,809,818	8,988,540	8,267,389	9,724,726	8,793,958	8,987,691	97,149,452	**152,260,399**
Total assets	**6,941,882**	**32,040,322**	**4,502,596**	**12,962,315**	**11,617,676**	**11,296,876**	**10,840,089**	**11,317,087**	**115,466,162**	**216,985,005**
LIABILITIES										
Financial liabilities at amortised cost	107,548,804	43,256,136	11,499,120	15,574,656	15,126,695	6,730,104	4,632,257	5,160,504	6,543,490	**216,071,766**
Deposits	101,442,894	42,529,331	9,538,402	13,218,907	12,300,947	2,453,941	1,103,014	750,550	609,211	**183,947,196**
Central banks	60,915	—	5,106,963	5,753	3,926,127	—	676,601	—	—	**9,776,360**
Credit institutions	1,039,225	4,678,234	816,081	2,817,579	2,263,510	1,306,692	254,561	171,991	492,311	**13,840,183**
Customers	100,342,754	37,851,097	3,615,358	10,395,575	6,111,309	1,147,249	171,852	578,559	116,900	**160,330,653**
Debt securities issued	16,214	693,854	1,951,456	2,340,622	2,816,403	4,270,058	3,525,049	4,406,209	5,771,418	**25,791,284**
Other financial liabilities	6,089,696	32,951	9,262	15,127	9,345	6,105	4,194	3,745	162,861	**6,333,286**
Total liabilities	**107,548,804**	**43,256,136**	**11,499,120**	**15,574,656**	**15,126,695**	**6,730,104**	**4,632,257**	**5,160,504**	**6,543,490**	**216,071,766**
Trading and Hedging derivatives										
Receivable	—	50,823,146	11,328,791	28,452,907	14,570,051	10,892,738	7,921,211	9,074,442	33,210,726	**166,274,013**
Payable	—	30,233,517	10,838,943	29,856,672	20,222,682	11,930,292	8,979,495	7,146,036	40,908,171	**160,115,808**
Contingent risks										
Financial guarantees	17,922	66,449	66,038	414,294	259,415	92,562	68,818	34,938	1,043,960	**2,064,396**

(*) For details of maturities of issues aimed at institutional investors, see the section entitled “Funding strategy and evolution of liquidity in 2023” in this note.

Thousand euro

Time to maturity	On demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
					2022					
ASSETS										
Cash, balances at central banks and other demand deposits	3,681,237	37,009,112	563,743	18	1,043	51	1,206	—	3,986	**41,260,395**
Financial assets at fair value through other comprehensive income	—	124,536	86,954	855,454	777,596	582,648	196,407	244,104	2,754,993	**5,622,692**
Debt securities	—	124,536	86,954	855,454	777,596	582,648	196,407	244,104	2,754,993	**5,622,692**
Loans and advances	—	—	—	—	—	—	—	—	—	**—**
Customers	—	—	—	—	—	—	—	—	—	**—**
Financial assets at amortised cost	3,371,931	8,590,617	4,437,359	11,540,390	9,820,139	10,505,170	10,274,823	11,211,714	115,293,310	**185,045,452**
Debt securities	—	236,772	44,310	1,403,285	1,371,253	1,126,338	459,093	1,935,711	14,876,058	**21,452,820**
Loans and advances	3,371,932	8,353,845	4,393,049	10,137,104	8,448,886	9,378,833	9,815,730	9,276,002	100,417,252	**163,592,632**
Central banks	2,221	160,443	—	—	—	—	—	—	—	**162,664**
Credit institutions	978,063	2,341,986	428,487	753,460	131,473	83	175	34	66,525	**4,700,287**
Customers	2,391,648	5,851,416	3,964,561	9,383,645	8,317,413	9,378,751	9,815,555	9,275,968	100,350,726	**158,729,681**
Total assets	**7,053,167**	**45,724,266**	**5,088,056**	**12,395,862**	**10,598,777**	**11,087,869**	**10,472,437**	**11,455,817**	**118,052,289**	**231,928,539**
LIABILITIES										
Financial liabilities at amortised cost	119,453,858	47,461,256	4,223,087	24,152,729	12,151,025	9,370,909	3,903,867	4,233,378	7,579,822	**232,529,932**
Deposits	113,012,257	47,375,927	2,719,435	22,548,986	7,666,937	6,556,190	650,136	1,855,757	907,897	**203,293,522**
Central banks	43,223	—	—	17,223,750	4,939,290	4,974,464	—	662,961	—	**27,843,687**
Credit institutions	843,529	7,506,691	901,048	714,986	329,534	136,998	160,605	117,597	662,402	**11,373,390**
Customers	112,125,507	39,869,236	1,818,387	4,610,250	2,398,113	1,444,728	489,531	1,075,199	245,495	**164,076,445**
Debt securities issued	6,213	66,725	1,486,936	1,590,320	4,477,376	2,807,926	3,248,767	2,371,575	6,521,711	**22,577,549**
Other financial liabilities	6,435,388	18,605	16,717	13,422	6,712	6,793	4,964	6,046	150,214	**6,658,861**
Total liabilities	**119,453,858**	**47,461,256**	**4,223,087**	**24,152,729**	**12,151,025**	**9,370,909**	**3,903,867**	**4,233,378**	**7,579,822**	**232,529,932**
Trading and Hedging derivatives										
Receivable	—	46,863,268	9,509,600	24,047,648	22,014,057	9,609,213	9,828,147	7,123,277	33,292,235	**162,287,446**
Payable	—	34,864,873	10,226,762	22,347,484	25,943,323	10,464,426	9,068,820	7,440,695	40,138,871	**160,495,254**
Contingent risks										
Financial guarantees	33,551	39,680	102,916	389,668	188,159	163,372	58,470	50,582	1,060,594	**2,086,993**

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

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

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

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

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

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

- Transactions are placed in different time brackets according to their contractual maturity date.
- Demand liabilities are included in the "on demand" tranche, without taking into account their type (stable versus unstable).

– There are also contingent commitments which could lead to changes in liquidity needs. These are fundamentally credit facilities with amounts undrawn by the borrowers as at the balance sheet date. The Board of Directors also establishes limits in this regard for control purposes.

– Balances related to financial guarantee contracts have been included for the parent company, allocating the maximum amount of the guarantee to the earliest period in which the guarantee can be called.

– Funding in capital markets obtained through instruments that include clauses which could lead to accelerated repayment (puttables or instruments with clauses linked to a credit rating downgrade) is reduced in line with the Group's financial liabilities. It is for this reason that the estimated impact on the parent company would not be significant.

– As at 31 December 2023 and 2022, the Group had no instruments in addition to those regulated by master agreements associated with the arrangement of derivatives and repos/reverse repos.

– The Group did not have any instruments which allow the Institution to decide whether to settle its financial liabilities using cash (or another financial asset) or through the submission of its own shares as at 31 December 2023 and 2022.

Funding strategy and evolution of liquidity in 2023

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

On-balance sheet customer funds

On-balance sheet customer funds as at 31 December 2023 and 2022 are shown below by maturity:

Million euro / %

	Note	2023	3 months	6 months	12 months	>12 months	No maturity
Total on-balance sheet customer funds (*)		**160,888**	**5.6 %**	**2.4 %**	**4.3 %**	**4.3 %**	**83.4 %**
Term deposits and others		25,237	32.1 %	13.6 %	26.8 %	27.5 %	— %
Sight accounts	19	134,243	— %	— %	— %	— %	100.0 %
Retail issues		1,408	53.8 %	30.9 %	14.7 %	0.6 %	— %

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

Million euro / %

	Note	2022	3 months	6 months	12 months	>12 months	No maturity
Total on-balance sheet customer funds (*)		**164,140**	**3.9 %**	**1.1 %**	**1.9 %**	**3.2 %**	**89.9 %**
Term deposits and others		15,690	39.5 %	8.2 %	19.3 %	33.0 %	— %
Sight accounts	19	147,540	— %	— %	— %	— %	100.0 %
Retail issues		910	33.9 %	58.4 %	5.6 %	2.1 %	— %

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

Due to rising interest rates in the financial markets, the weight of term deposits and other deposits in the composition of on-balance sheet customer funds has increased.

Details of off-balance sheet customer funds managed by the Group and those sold but not under management are provided in Note 27 to these consolidated annual financial statements.

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

In 2023, the funding gap has widened, with a sharper decline in lending than in customer funds, thus placing the Group's Loan-to-Deposit (LtD) ratio at 94.0% as at 2023 year-end (95.6% as at 2022 year-end).

Capital markets

In 2023, the level of funding in capital markets has increased, with mortgage covered bonds being the item with the greatest net increase. Furthermore, 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), senior non-preferred debt has also increased. The outstanding nominal balance of funding in capital markets, by type of product, as at 31 December 2023 and 2022, is shown below:

Million euro

	2023	2022
Outstanding nominal balance	**24,596**	**22,077**
Covered bonds	10,975	9,409
Of which: TSB Bank	*3,164*	*1,409*
Commercial paper and ECP	6	7
Senior debt	4,215	4,440
Senior non-preferred debt	4,425	3,505
Subordinated debt and preferred securities	3,565	3,465
Asset-backed securities	1,410	1,251
Of which: Sabadell Consumer Finance	494	—

Maturities of issues in capital markets, by type of product (excluding securitisations and commercial paper), and considering their legal maturity, as at 31 December 2023 and 2022, are analysed below:

Million euro

	2024	2025	2026	2027	2028	2029	>2029	Balance outstanding
Mortgage bonds and covered bonds (*)	2,425	836	1,390	2,251	2,423	950	700	10,975
Senior debt (**)	735	1,480	—	500	750	750	—	4,215
Senior non-preferred debt (**)	395	500	1,317	18	500	1,500	195	4,425
Subordinated debt and preferred securities (**)	—	—	500	—	—	—	3,065	3,565
Total	**3,555**	**2,816**	**3,207**	**2,769**	**3,673**	**3,200**	**3,960**	**23,180**

(*) Secured issues.

(**) Unsecured issues.

Million euro

	2023	2024	2025	2026	2027	2028	>2028	Balance outstanding
Mortgage bonds and covered bonds (*)	1,388	2,696	836	390	1,100	1,549	1,450	9,409
Senior debt (**)	975	735	1,480	—	500	750	—	4,440
Senior non-preferred debt (**)	—	975	500	1,317	18	500	195	3,505
Subordinated debt and preferred securities (**)	—	—	—	500	—	500	2,465	3,465
Total	**2,363**	**4,406**	**2,816**	**2,207**	**1,618**	**3,299**	**4,110**	**20,819**

(*) Secured issues.

(**) Unsecured issues.

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

In terms of short-term funding, as at year-end there was one commercial paper programme in operation, which governs the issuance of such securities and is aimed at institutional and retail investors. The Banco Sabadell Commercial Paper Programme for 2023, registered with Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR), has an issuance limit of 7 billion euros, which can be extended to 9 billion euros. As at 31 December 2023, the outstanding balance of the programme was 1,383 million euros (net of commercial paper subscribed by Group companies), compared with 872 million euros as at 31 December 2022.

Regarding medium- and long-term funding, the Institution has the following programmes in operation:

– Programme for the issuance of non-equity securities ("Fixed Income Programme") registered with the CNMV on 16 November 2023, with an issuance limit of 10 billion euros: this programme regulates the issuance of straight, non-preferred or structured bonds and debentures, in addition to mortgage covered bonds and public sector covered bonds (European guaranteed bonds, also known as premium covered bonds) issued under Spanish law through the CNMV and aimed at institutional and retail investors, both domestic and foreign. As at 31 December 2023, the limit available for new issues under the Banco Sabadell Programme for the issuance of non-equity securities for 2023 is 9.8 billion euros (as at 31 December 2022, the available limit under the Fixed Income Programme for 2022 was 9.0 billion euros).

In 2023, Banco Sabadell carried out two public issues of mortgage covered bonds under the current Fixed Income Programme amounting to a total of 1.2 billion euros.

Million euro

	ISIN code	Type of investor	Issue date	Amount	Term (years)
Mortgage Covered Bonds 1/2023	ES0413860836	Institutional	28/02/2023	1,000	4
Mortgage Covered Bonds EIB 1/2023	ES0413860844	Institutional	22/12/2023	200	8

– Euro Medium Term Notes (EMTN) programme, registered with the Irish Stock Exchange on 19 May 2023 and renewed on 27 July and 26 October 2023. This programme allows senior debt (preferred and non-preferred) and subordinated debt to be issued in various currencies, with a maximum limit of 15 billion euros.

  In 2023, Banco Sabadell executed four issues under the EMTN Programme, amounting to a total of 2,750 million euros: one issue of senior preferred debt, two issues of senior non-preferred debt and one subordinated Tier 2 bond issue. Of the four issues, the senior preferred issue was in green format, amounting to 750 million euros. The issues executed by Banco Sabadell over the year are indicated here below (showing the legal maturity period in the case of issues with an early redemption option):

Million euro

	ISIN code	Type of investor	Issue date	Amount	Term (years)
Senior Non-Preferred Debt 1/2023	XS2583203950	Institutional	7/2/2023	750	6
Subordinated Debt 1/2023	XS2588884481	Institutional	16/2/2023	500	11
Green Senior Debt 1/2023	XS2598331242	Institutional	7/6/2023	750	6
Senior Non-Preferred Debt 2/2023	XS2677541364	Institutional	8/9/2023	750	6

On 18 January 2023, Banco Sabadell carried out an issue of preferred securities contingently convertible into ordinary shares of the Bank (Additional Tier 1 CoCos) for 500 million euros at a fixed rate of 9.375%.

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 called the Senior Non-Preferred Debt 1/2019 issue in the amount of 580.4 million euros, leaving an outstanding balance of 419.6 million euros on this issue.

For its part, TSB Bank was active in the covered bonds market in 2023. On 14 February 2023, it issued covered bonds in the amount of 1 billion pounds with a floating rate coupon indexed at SONIA +60 basis points and with a 4-year maturity, and on 15 September, it executed another issue for 750 million pounds with a floating rate coupon at SONIA +65 basis points with a 5-year maturity. Together with this transaction, TSB Bank called 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.

In relation to traditional format asset securitisation:

– The Group is an active participant in this market and it takes part in various securitisation programmes, sometimes acting together with other institutions, granting mortgage loans, loans to small and medium-sized enterprises, consumer loans and vehicle purchase loans.

– There are currently 17 outstanding traditional asset securitisation transactions fully recognised on the Group's balance sheet. A portion of the securities issued by securitisation funds have been placed in the capital markets and the remainder have been kept in the Group's portfolio. Of the latter, the eligible securities can be used as collateral for the central bank's funding operations. The remaining securities are placed on the capital market. As at 31 December 2023, the nominal balance of asset-backed securities placed in the market was 1,410 million euros.

- On 29 September 2023, the traditional securitisation fund 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 loans granted by this subsidiary in the amount of 650 million euros. The issue consists of six classes of bonds that were placed in 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, S.A.U., 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).

As at the end of 2023, Banco Sabadell had 5 billion euros of outstanding TLTRO III borrowing, due to mature in March 2024, having prepaid 17 billion euros of the aforesaid borrowing during the year. In 2023, the Group recognised interest expense related to TLTRO III in the amount of 305 million euros (162 million euros of interest income in 2022).

For its part, TSB had outstanding borrowings from the Bank of England in the amount of 4,005 million pounds as at the end of 2023, of which 4,000 million correspond to the Term Funding Scheme with additional incentives for SMEs (TFSME) and 5 million to the Indexed Long Term Repo (ILTR).

Liquid assets

In addition to these sources of funding, the Group maintains a liquidity buffer in the form of liquid assets to meet potential liquidity needs:

Million euro

	2023	2022
Cash(*) + Net Interbank Position	25,036	35,012
Funds available in Bank of Spain facility	15,363	7,788
ECB eligible assets not pledged in facility	*11,419*	*6,010*
Other non-ECB eligible marketable assets (**)	*6,740*	*5,234*
Memorandum item:		
Balance drawn from Bank of Spain facility (***)	5,000	22,000
Balance drawn from Bank of England Term Funding Scheme (****)	4,608	6,201
Total Liquid Assets Available	58,558	54,044

(*) Excess reserves and Marginal Deposit Facility in Central Banks.

(**) Market value, and after applying the Liquidity Coverage Ratio (LCR) haircut. Includes Fixed Income qualifying as a high quality liquid asset according to LCR (HQLA) and other marketable assets from different Group entities.

(***) Correspond to TLTRO-III facility.

(****) As at year-end 2023, includes 4 billion pounds to support Small and Medium-sized Enterprises (TFSME) and 5 million pounds from the Indexed Long Term Repo (ILTR). As at year-end 2022, included 5 billion pounds from the TFSME and 500 million pounds from the ILTR.

With regard to 2023, the balance of reserves and marginal deposit facility in central banks and the net interbank position showed a decline of 9,976 million euros, while the volume of ECB eligible assets increased by 12,984 million euros and the available non-ECB eligible assets increased by 1,506 million euros in 2023, thus raising the first line of liquidity by 4,514 million euros in the year, with the funding gap and increased wholesale issues standing out as positive factors.

It should be noted that the Group follows a decentralised liquidity management model. This model tends to limit the transfer of liquidity between the different subsidiaries involved in liquidity management, thereby limiting intra-group exposures, beyond any restrictions imposed by the local regulators of each subsidiary. Thus, the subsidiaries involved in liquidity management determine their liquidity position by considering only those assets in their possession that meet the eligibility, availability and liquidity criteria set forth both internally and in regulations in order to comply with regulatory minima.

In addition to the first line of liquidity, each LMU monitors its liquidity buffer with an internal conservative criterion, referred to as the counterbalancing capacity. In the case of the BSab LMU (includes Banco de Sabadell S.A., which in turn includes activity in foreign branches as well as the businesses of Banco de Sabadell S.A. in Mexico), this liquidity buffer comprises the first and second lines of liquidity. As at 31 December 2023, the second line of liquidity added a volume of 12,155 million euros to the liquidity buffer, including the covered bond issuing capacity considering the average valuation applied by the central bank to own-use covered bonds to obtain funding, as well as the deposits held in other financial institutions and immediately available for the business in Mexico not included in the first line of liquidity.

For the TSB LMU, this metric is calculated as the sum of the first line of liquidity and loans pre-positioned at the Bank of England to obtain funding. As at 31 December 2023, the second line of liquidity, considering the amount of loans pre-positioned with the Bank of England, amounted to 4,936 million euros (3,366 million euros as at 31 December 2022).

There are no significant amounts of cash or cash equivalents that are unavailable for use by the Group.

Compliance with regulatory ratios

As part of its liquidity management, Banco Sabadell Group monitors the short-term Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) and reports the necessary information to the Regulator on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of liquidity risk control arrangements in all LMUs.

In terms of the LCR, since 1 January 2018, the regulatory required minimum LCR has been 100%, a level which is amply surpassed by all of the Group's LMUs. At the Group level, throughout the year, the LCR has consistently been well above 100%. As at 31 December 2023, the LCR stood at 203% for the TSB LMU, 274% for Banco Sabadell Spain and 228% at Group level.

In terms of the NSFR, the regulatory minimum requirement, effective from June 2021, is 100%, a level amply surpassed by all LMUs of the Institution given the funding structure, in which customer deposits are predominant and where the majority of market funding is in the medium/long term. As at 31 December 2023, the NSFR stood at 152% for the TSB LMU, 134% for Banco Sabadell Spain and 140% at Group level.

As at 31 December 2023, Banco Sabadell had outstanding issues of mortgage covered bonds amounting to 15,876 million euros (16,114 million euros as at 31 December 2022), which are secured by eligible mortgage loans and credit in the amount of 24,677 million euros (24,187 million euros at 31 December 2022). The mortgage covered bonds therefore have an overcollateralisation ratio of 161% (150% as at 31 December 2022), with all their collateral denominated in euros. More information can be found on the corporate website at www.grupbancsabadell.com (see section on Shareholders and Investors - Fixed income investors).

4.4.3.2. Market risk

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

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

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

The items of the consolidated balance sheet as at 31 December 2023 and 2022 are shown below, making a distinction between positions included in trading activity and other positions. In the case of items not included in trading activity, their main risk factor is indicated:

Thousand euro

31/12/2023	On-balance sheet balance	Trading activity	Other	Main market risk factor in "Other"
Assets subject to market risk	**235,172,955**	**1,731,724**	**233,441,231**	
Cash, cash balances at central banks and other demand deposits	29,985,853	—	29,985,853	Interest rate
Financial assets held for trading	2,706,489	1,731,724	974,765	Interest rate; credit spread
Non-trading financial assets mandatorily at fair value through profit or loss	153,178	—	153,178	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	6,269,297	—	6,269,297	Interest rate; credit spread
Financial assets at amortised cost	180,913,793	—	180,913,793	Interest rate
Derivatives – Hedge accounting	2,424,598	—	2,424,598	Interest rate
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(567,608)	—	(567,608)	Interest rate
Investments in joint ventures and associates	462,756	—	462,756	Equity
Other assets	12,824,599	—	12,824,599	—
Liabilities subject to market risk	**221,293,749**	**1,689,953**	**219,603,796**	
Financial liabilities held for trading	2,867,459	1,689,953	1,177,506	Interest rate
Derivatives – Hedge accounting	1,171,957	—	1,171,957	Interest rate
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(422,347)	—	(422,347)	Interest rate
Financial liabilities at amortised cost	216,071,766	—	216,071,766	Interest rate
Other liabilities	1,604,914	—	1,604,914	—
Equity	**13,879,206**	**—**	**13,879,206**	

Thousand euro

31/12/2022	On-balance sheet balance	Trading activity	Other	Main market risk factor in "Other"
Assets subject to market risk	**251,241,223**	**2,670,824**	**248,570,399**	
Cash, cash balances at central banks and other demand deposits	41,260,395	—	41,260,395	Interest rate
Financial assets held for trading	4,017,253	2,670,824	1,346,429	Interest rate
Non-trading financial assets mandatorily at fair value through profit or loss	77,421	—	77,421	Interest rate; credit spread
Financial assets at fair value through other comprehensive income	5,802,264	—	5,802,264	Interest rate; credit spread
Financial assets at amortised cost	185,045,452	—	185,045,452	Interest rate
Derivatives – Hedge accounting	3,072,091	—	3,072,091	Interest rate
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(1,545,607)	—	(1,545,607)	Interest rate
Investments in joint ventures and associates	376,940	—	376,940	Equity
Other assets	13,135,014	—	13,135,014	—
Liabilities subject to market risk	**238,155,107**	**2,149,776**	**236,005,331**	
Financial liabilities held for trading	3,598,483	2,149,776	1,448,707	Interest rate
Derivatives – Hedge accounting	1,242,470	—	1,242,470	Interest rate
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(959,106)	—	(959,106)	Interest rate
Financial liabilities at amortised cost	232,529,932	—	232,529,932	Interest rate
Other liabilities	1,743,328	—	1,743,328	—
Equity	**13,086,116**	**—**	**13,086,116**	

The market risk acceptance, management and oversight system is based on managing positions expressly assigned to different trading desks and establishing limits for each one, in such a way that the different trading desks have the obligation to always manage their positions within the limits established by the Board of Directors and the Investments and Liquidity Committee. Market risk limits are aligned with the Group's targets and risk appetite framework.

Trading activity

The main market risk factors considered by the Group in its trading activity are the following:

- Interest rate risk: risk associated with the possibility of interest rate fluctuations adversely affecting the value of a financial instrument. This is reflected, for example, in transactions involving interbank deposits, fixed income and interest rate derivatives.

- Credit spread risk: this risk arises from fluctuations in the credit spreads at which instruments are quoted with respect to other benchmark instruments, such as interbank interest rates. This risk occurs mainly in fixed-income instruments.

- Foreign exchange risk: risk associated with the fluctuation of exchange rates with respect to the functional currency. In the case of Banco Sabadell, the functional currency is the euro. This risk occurs mainly in currency exchange transactions and currency derivatives.

- Equity price risk: risk arising from fluctuations in the value of capital instruments (shares and quoted indices). This risk is reflected in the market prices of the securities and their derivatives.

Changes in commodities prices have not had an impact in the year, as the Group has residual (both direct and underlying) exposures.

Market risk incurred in trading activity is measured using the VaR and stressed VaR methodologies. These allow risks to be standardised across different types of financial market transactions.

VaR provides an estimate of the maximum potential loss associated with a position due to adverse, but normal, movements of one or more of the identified parameters generating market risk. This estimate is expressed in monetary terms and refers to a specific date, a particular level of confidence and a specified time horizon. A 99% confidence interval is used. Due to the low complexity of the instruments and the high level of liquidity of the positions, a time horizon of 1 day is used.

The methodology used to calculate VaR is historical simulation. The advantages of this methodology are that it is based on a full revaluation of transactions under recent historical scenarios, and that no assumptions need to be made as regards the distribution of market prices. The main limitation to this methodology is its reliance on historical data, given that, if a possible event has not materialised within the range of historical data used, it will not be reflected in the VaR data.

The reliability of the VaR methodology used can be verified using backtesting techniques, which serve to verify that the VaR estimates fall within the confidence level considered. Backtesting consists of comparing daily VaR against daily results. If losses exceed the VaR level, an exception occurs. No backtesting exceptions occurred in 2023 or 2022.

Stressed VaR is calculated in the same way as VaR but with a historical insight into variations of the risk factors in stressed market conditions. These stressed conditions are determined on the basis of currently outstanding transactions, and may vary if the portfolios' risk profile changes. The methodology used for this risk measurement is historical simulation.

Market risk monitoring is supplemented with additional measurements such as risk sensitivities, which refer to a change in the value of a position or portfolio in response to a change in a particular risk factor, and also with the calculation of management results, which are used to monitor stop-loss limits.

Furthermore, specific simulation exercises are carried out considering extreme market scenarios (stress testing). These exercises consist of revaluing the portfolios in scenarios to which different assumptions are applied. Broadly speaking there are two types of scenarios: on one hand, historical scenarios, developed based on historical events that have occurred in the markets in the past and which are relevant to the current position of the portfolios (e.g. the global financial crisis or the Covid-19 crisis) and, on the other hand, hypothetical scenarios, which consider theoretical shifts in risk factors, such as shifts in yield curves, credit spreads or exchange rates, as well as movements in these factors resulting from the application of different macroeconomic forecasts determined based on the current situation. As at the end of December 2023, the impact of the most adverse scenario considered was -21 million euros.

Market risk is monitored on a daily basis and reports are made to supervisory bodies on the existing risk levels and on the compliance with the limits set forth by the Investments and Liquidity Committee for each trading desk (limits based on nominal value, VaR and sensitivity, as applicable). This makes it possible to keep track of changes in exposure levels and measure the contribution of market risk factors.

The market risk incurred on trading activity in terms of 1-day VaR with a 99% confidence interval for 2023 and 2022 was as follows:

Million euro

	2023			2022		
	Average	**Maximum**	**Minimum**	**Average**	**Maximum**	**Minimum**
Interest rate risk	1.98	3.96	1.00	1.08	2.21	0.61
Foreign exchange risk (trading)	2.26	2.52	1.81	1.30	2.42	0.90
Equity	—	—	—	0.13	1.24	—
Credit spread	0.27	0.72	0.09	0.25	0.57	0.11
Aggregate VaR	**4.51**	**5.94**	**3.25**	**2.75**	**4.81**	**2.10**

In 2023, the overall VaR figures for trading activity increased, particularly where trading involves interest and exchange rates. This is due to greater exposure to interest rate risk, mainly short-term rates, and foreign exchange risk.

Structural interest rate risk

Structural interest rate risk is inherent in banking activity and is defined as the current or future risk to both the income statement (income and expenses) and the economic value of equity (present value of assets, liabilities and off-balance sheet positions) arising from adverse interest rate fluctuations affecting interest rate-sensitive instruments in non-trading activities (also known as Interest Rate Risk in the Banking Book, or IRRBB). The Group identifies five interest rate sub-risks:

– Repricing risk is the risk arising from mismatches at the time the repricing of interest rate-sensitive instruments occurs, including those changes in the time structure of interest rates that occur consistently along the yield curve (parallel shifts).

– Curve risk is the risk arising from mismatches at the time the repricing of interest rate-sensitive instruments occurs, including those changes in the time structure of interest rates that occur differently depending on the time to maturity (non-parallel shifts).

– Basis risk includes the risk arising from the impact of relative changes in interest rates on instruments with similar maturities but whose repricing is determined using different interest rate indices.

– Automatic optionality risk comprises the risk arising from automatic options (for example, lending floors and caps), both embedded and explicit, in which the Balance Sheet Management Unit (BSMU) or its customer can alter the level and timing of their cash flows and in which the holder will almost certainly exercise the option when it is in their financial interest to do so.

– Behavioural optionality risk arises from the flexibility embedded within the terms of certain financial contracts, which allow variations in interest rates to produce a change in customer behaviour.

The Group’s management of this risk pursues two fundamental objectives:

– To stabilise and protect the net interest margin, preventing interest rate movements from causing excessive variations in the budgeted margin.

– To minimise the volatility of the economic value of equity, this perspective being complementary to that of the margin.

Interest rate risk is managed through a Group-wide approach on the basis of the RAS, approved by the Board of Directors. A decentralised model is followed based on Balance Sheet Management Units (BSMUs). In coordination with the Group’s corporate functions, each BSMU has the autonomy and capability to carry out risk management and control duties.

The Group’s current interest rate risk management strategy is based on the following principles in particular, in line with the business model and the defined strategic objectives:

- Each BSMU has appropriate tools and robust processes and systems in place to adequately identify, measure, manage, control and report on IRRBB, following the main criteria defined by the Group's internal methodology. The Group uses these to obtain information about all of the identified sources of IRRBB, assess their effect on the net interest margin and the economic value of equity and measure the vulnerability of the Group/BSMU in the event of potential losses arising from IRRBB under different scenarios affecting the interest rate curves.

- At the corporate level, a series of limits are established for overseeing and monitoring IRRBB exposure levels, which are aligned with internal risk tolerance policies. However, each BSMU has the autonomy and structure required to properly manage and control IRRBB. Specifically, each BSMU has sufficient autonomy to choose the management target that it will pursue, although all BSMUs should follow the principles and critical parameters set by the Group, adapting them to the specific characteristics of the region in which they operate.

- The existence of a transfer pricing system.

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

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

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

The main calculations performed by the Group on a monthly basis are the following:

- Interest rate gap: static metric showing the breakdown of maturities and repricing of sensitive balance sheet items. This metric compares the values of assets that are due to be revised or that mature in a given period and the liabilities that mature or reprice in that same period.

- Duration analysis: a static metric based on the allocation of all flows of principal and interest of pools of interest rate sensitive items to time buckets. The duration of each pool of balance sheet items is calculated based on the variation of its net present value due to a parallel shift of 1 basis point in the interest rate curve. This gives the duration of both assets and liabilities.

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

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

- Sensitivity that combines the two above metrics: the effect of changes in value of instruments recognised directly through profit or loss or through equity is added to the net interest margin sensitivity.

In the quantitative interest rate risk estimations made by each BSMU, a series of interest rate scenarios are designed which allow the different sources of risk mentioned above to be identified. These scenarios include, for each significant currency, parallel shifts and non-parallel shifts of the interest rate curve. Based on these, sensitivity is calculated as the difference resulting from:

- Baseline scenario: market interest rate movements based on implied interest rates.

– Stressed scenario: a shift in interest rates in relation to the baseline scenario, with the extent of this shift varying depending on the scenario to be calculated. A minimum post-disruption interest rate is applied, starting at -150 basis points for current maturities and increasing by 3 basis point intervals, eventually reaching 0% after 50 years or more.

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

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

The following table gives details of the Group's interest rate gap based on estimated maturities as at 31 December 2023 and 2022:

Thousand euro

	2023								
Time to maturity	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	29,298,908	664,785	1,818,033	1,648,692	571,125	287,671	—	—	34,289,214
Loans and advances	23,289,667	18,267,252	36,992,760	19,860,090	14,717,416	11,920,708	5,947,632	20,062,136	151,057,661
Debt securities	1,565,120	1,299,818	1,505,582	1,647,183	1,044,180	2,025,963	3,155,852	16,790,643	29,034,341
Other assets	—	—	—	—	—	—	—	—	—
Total assets	**54,153,695**	**20,231,855**	**40,316,375**	**23,155,965**	**16,332,721**	**14,234,342**	**9,103,484**	**36,852,779**	**214,381,216**
Money Market	17,450,615	1,108,877	2,058,721	1,726,558	445,470	287,671	679	9,706	23,088,297
Customer deposits	46,218,567	6,417,593	19,517,264	17,132,088	13,348,923	12,421,891	12,849,214	30,969,933	158,875,473
Issues of marketable securities	4,555,412	3,950,878	1,801,870	3,908,110	3,457,000	3,118,100	3,735,000	1,660,025	26,186,395
Of which: Subordinated liabilities	—	—	—	300,000	1,500,000	750,000	500,000	515,025	3,565,025
Other liabilities	48,661	133,257	232,342	152,773	138,920	121,899	110,203	615,072	1,553,127
Total liabilities	**68,273,255**	**11,610,605**	**23,610,197**	**22,919,529**	**17,390,313**	**15,949,561**	**16,695,096**	**33,254,736**	**209,703,292**
Hedging derivatives	**9,660,254**	**(2,755,498)**	**1,713,842**	**308,201**	**105,235**	**539,236**	**2,366,742**	**(11,938,012)**	**—**
Interest rate gap	**(4,459,305)**	**5,865,752**	**18,420,020**	**544,637**	**(952,357)**	**(1,175,983)**	**(5,224,870)**	**(8,339,969)**	**4,677,925**

Thousand euro

	2022								
Time to maturity	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**More than 5 years**	**Total**
Money Market	41,797,003	920,472	1,438,829	125,651	—	—	—	—	44,281,955
Loans and advances	24,331,743	19,232,160	40,248,534	19,007,600	13,430,353	10,564,714	10,073,683	20,016,175	156,904,962
Debt securities	1,219,034	450,395	2,078,877	1,769,818	1,496,546	620,315	2,825,650	17,658,927	28,119,562
Other assets	—	—	—	—	—	—	—	—	—
Total assets	**67,347,780**	**20,603,027**	**43,766,240**	**20,903,069**	**14,926,899**	**11,185,029**	**12,899,333**	**37,675,102**	**229,306,479**
Money Market	36,299,672	352,799	2,153,181	133,675	2,964	8,256	—	10,096	38,960,643
Customer deposits	54,225,831	5,912,100	16,275,410	10,774,657	9,757,034	9,759,935	14,789,281	39,816,239	161,310,487
Issues of marketable securities	3,083,924	2,925,321	1,853,628	3,510,000	3,908,110	2,457,000	3,118,100	2,145,025	23,001,108
Of which: Subordinated liabilities	—	400,000	500,000	—	300,000	1,500,000	750,000	15,025	3,465,025
Other liabilities	55,015	122,537	277,700	217,712	144,908	130,335	113,172	670,277	1,731,656
Total liabilities	**93,664,442**	**9,312,757**	**20,559,919**	**14,636,044**	**13,813,016**	**12,355,526**	**18,020,553**	**42,641,637**	**225,003,894**
Hedging derivatives	**11,271,252**	**(6,214,446)**	**550,236**	**283,019**	**1,334,541**	**1,383,868**	**1,086,452**	**(9,694,922)**	**—**
Interest rate gap	**(15,045,410)**	**5,075,824**	**23,756,557**	**6,550,044**	**2,448,424**	**213,371**	**(4,034,768)**	**(14,661,458)**	**4,302,584**

The following tables show the interest rate risk levels in terms of the sensitivity of the Group's main currencies, as at 2023 year-end, to the most frequently used interest rate scenarios in the sector, under stressed pass-through assumptions:

	Instant and parallel interest rate increase	
	100 bp	**200 bp**
Interest rate sensitivity	**Impact on net interest margin (*)**	**Impact on economic value of equity (**)**
EUR	0.2%	1.2%
GBP	1.4%	(0.9)%
USD	0.8%	(0.5)%
MXN	0.1%	0.0%

(*) Percentage calculated on the basis of net interest margin at 12 months.

(**) Percentage calculated on the basis of shareholders' equity.

	Instant and parallel interest rate decrease	
	100 bp	**200 bp**
Interest rate sensitivity	**Impact on net interest margin (*)**	**Impact on economic value of equity (**)**
EUR	(1.0)%	(5.9)%
GBP	(1.0)%	0.5%
USD	(0.9)%	0.5%
MXN	(0.1)%	0.0%

(*) Percentage calculated on the basis of net interest margin at 12 months.

(**) Percentage calculated on the basis of shareholders' equity.

In addition to the impact on the net interest income within the time horizon of one year shown in the previous tables, the Group calculates the impact on the margin over a time horizon of two and three years, the result of which is considerably more positive for all currencies.

The metrics are calculated taking into account the behavioural assumptions concerning items with no contractual maturity and those whose expected maturity is different from the maturity established in the contracts, in order to obtain a view that is more realistic and, therefore, more effective for management purposes. The most significant of these include:

– Prepayment of the loan portfolio and early termination of term deposits (implicit optionality): in order to reflect customers' reactions to interest rate movements, prepayment/termination assumptions are defined, broken down by type of product. To this end, the Institution uses historical data to ensure it is in line with the market's best practices. Changes in market interest rates can prompt customers to terminate their loans or term deposits early, altering the future behaviour of balances with respect to that envisaged in the contractual schedule. Prepayment mainly affects fixed-rate mortgages when their contractual interest rates are high compared to market interest rates.

– Modelling of demand deposits and other liabilities with no contractual maturity: a model has been defined using historical monthly data to reproduce customer behaviour, establishing parameters concerning the deposits' stability, the percentage of interest rate movements that is passed through to the interest paid on the deposits and the delay with which this occurs, depending on the type of product (type of account/transactionality/interest paid) and the type of customer (retail/wholesale). The model captures the effect of low interest rates on the stability of deposits, as well as the potential migration to other deposits that earn more interest in different interest rate scenarios.

– Modelling of non-performing lending items: a model has been defined that allows the expected payment flows associated with non-performing positions (net of provisions, i.e. those expected to be recovered) to be included in pools of interest rate-sensitive items. To this end, both existing balances and estimated recovery periods are included.

The process for approving and updating IRRBB models is part of the corporate governance arrangements for models, whereby these models are reviewed and validated by a division that is always separate from the division that created them. This process is included in the corresponding model risk policy and establishes both the duties of the different areas involved in the models and the internal validation framework to be followed, the monitoring requirements established on the basis of their materiality and the backtesting processes.

As for the measurement systems and tools used, all sensitive transactions are identified and recorded taking into account their interest rate characteristics, the sources of information being the official ones of the Institution. These transactions are aggregated according to predefined criteria, so that calculations can be made faster without undermining the quality or reliability of the data. The entire data process is subject to the requirements of information governance and data quality, to ensure compliance with the best practices in relation to information governance and data quality. Additionally, a regular process is carried out to reconcile the information uploaded onto the measurement tool against accounting information. The calculation tool includes sensitive transactions and its parameters are also configured to reflect the result of the behavioural models described above, the volumes and prices of the new business, defined according to the Financial Plan, and the interest rate curves on which the aforesaid scenarios are built.

Based on the balance sheet position and the market situation and outlooks, risk mitigation techniques are proposed and agreed upon to adjust this position to match the one desired by the Group and to ensure it remains within the established risk appetite. Interest rate instruments additional to the natural hedges of balance sheet items are used as mitigation techniques, such as fixed-income bond portfolios or hedging derivatives that enable metrics to be placed at levels in keeping with the Institution's risk appetite. In addition, proposals can be put forward to redefine the interest rate characteristics of commercial products or the launch of new products.

Derivatives, mainly interest rate swaps (IRS), which qualify as hedges for accounting purposes, are arranged in financial markets to be used as risk hedging instruments. Two separate types of macro-hedges are used:

– Cash flow macro-hedges of interest rate risk, the purpose of which is to reduce the volatility of the net interest margin due to changes in interest rates over one-year time horizon.

– Fair value macro-hedges of interest rate risk, the purpose of which is to maintain the economic value of the hedged items, consisting of fixed-rate assets and liabilities.

For each type of macro-hedge, there is a framework document that includes the hedging strategy, defining it in terms of management and accounting and establishing its governance.

In Banco Sabadell, as part of the continuous improvement process, structural interest rate risk management and monitoring activities are implemented and regularly updated, aligning the Institution with best market practices and current regulations. In particular, throughout 2023 work has continued on the review and continuous improvement of the systems and behavioural models in accordance with the new guidelines established by the EBA. Among other things, some of the improvements worth noting are the update of the key behavioural modelling assumptions for demand deposits, prepayment of the loan portfolio and early termination of term deposits, taking sufficiently large time series data to capture periods of both rising and falling interest rate stress, obtaining different results based on the different interest rate scenarios modelled, and their recurrent monitoring to ensure the appropriateness of those assumptions.

In 2023, the Bank's loan book has continued to trend towards a higher proportion of fixed rate transactions (mainly mortgages and business loans), while on the liabilities side, balances of interest-bearing demand deposits and term deposits have increased in contrast with a reduced balance of non-interest bearing demand deposits, all while keeping costs at low levels relative to the upward trend of interest rates over the year. In addition, other balance sheet variations in 2023 included: the increase of the fixed-income portfolio on the asset side, which acts as a balance sheet management and coverage lever; the maturity of 17 billion euros of TLTRO III, leaving a total of 5 billion euros to mature in 2024 on the liabilities side.

With regard to interest rates, in 2023 benchmark rates increased in all currencies as inflation remained at high levels, affecting the euro in particular, with the 12-month Euribor, for example, standing above 4% in the month of September and falling back to 3.51% as at the end of 2023. The marginal deposit rate of the European Central Bank (ECB) ended the year at 4% (increase of 200 basis points over the year), while the base rate of the Bank of England (BoE) ended at 5.25% (increase of 175 basis points over the year). The scenario envisaged in the short/medium term will likely involve a reduction in central bank rates as inflation continues to fall back gradually. This is already reflected in current market rates, and it is therefore expected that Euribor levels will remain at levels similar to those at the end of 2023. In this respect, it is expected that the cost of customer funds may increase slightly as balances of interest-bearing products continue to grow.

Taking into account the balance sheet variations detailed previously, as well as episodes of volatility and variations in the benchmark interest rates of all the Group's major currencies, the IRRBB metrics have been affected during the year, although the measures taken have allowed the Group's IRRBB metrics to be kept within the risk appetite and below the levels considered significant under current legislation.

Furthermore, the Group continues to monitor customer behaviour in reaction to interest rate hikes and variations of other economic variables (unemployment rates, gross domestic product, etc.), in order to anticipate possible changes and impacts on the behavioural assumptions used to measure and manage IRRBB. In particular, it analyses customer behaviour related to non-maturing items (changes in the stability of demand deposits and possible migration to other products that earn more interest) and related to items with an expected maturity that may be different to the contractually established maturity (due to early repayment of loans, early termination of term deposits or recovery time and balance of non-performing exposures).

4.4.3.3. Structural foreign exchange risk

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

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

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

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

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

The most prominent permanent investments in non-local currencies are held in US dollars, pounds sterling and Mexican pesos.

The Group has been following a hedging policy for its equity that seeks to minimise the sensitivity of capital ratios to adverse movements in these currencies against the euro. To that end, the evolution of foreign business is monitored, as are the political and macroeconomic variables that could have a significant impact on exchange rates.

As regards permanent investments in US dollars, the overall position in this currency has gone from 1,278 million as at 31 December 2022 to 1,413 million as at 31 December 2023. In relation to this position, as at 31 December 2023, a buffer of 34% of total investment is maintained.

In terms of permanent investments in Mexican pesos, the capital buffer has gone from 9,253 million Mexican pesos as at 31 December 2022 (of a total exposure of 15,261 million Mexican pesos) to 8,553 million Mexican pesos as at 31 December 2023 (of a total exposure of 16,340 million Mexican pesos), representing 52% of the total investment made.

As regards permanent investments in pounds sterling, the capital buffer has increased from 333 million pounds sterling as at 31 December 2022 to 393 million pounds sterling as at 31 December 2023 (total exposure has gone from 1,998 million pounds sterling as at 31 December 2022 to 2,105 million pounds sterling as at 31 December 2023), representing 19% of the total investment made (excluding intangibles).

Currency hedges are continuously reviewed in light of market movements.

The exchange value in euros of assets and liabilities in foreign currencies maintained by the Group as at 31 December 2023 and 2022, classified in accordance with their nature, is as follows:

Thousand euro

	2023			
	USD	GBP	Other currencies	Total
Assets denominated in foreign currency:	**11,265,090**	**56,117,680**	**4,600,172**	**71,982,942**
Cash, cash balances at central banks and other demand deposits	481,860	6,819,973	553,349	7,855,182
Debt securities	1,559,704	2,855,459	680,098	5,095,261
Loans and advances	8,966,780	43,462,345	3,109,836	55,538,961
Central banks and Credit institutions	43,478	516,046	508,155	1,067,679
Customers	8,923,302	42,946,299	2,601,681	54,471,282
Other assets	256,746	2,979,903	256,889	3,493,538
Liabilities denominated in foreign currency:	**6,130,275**	**51,558,530**	**3,482,251**	**61,171,056**
Deposits	5,891,369	45,112,710	3,374,404	54,378,483
Central banks and Credit institutions	717,213	4,720,896	562,911	6,001,020
Customers	5,174,156	40,391,814	2,811,493	48,377,463
Other liabilities	238,906	6,445,820	107,847	6,792,573

Thousand euro

	2022			
	USD	GBP	Other currencies	Total
Assets denominated in foreign currency:	**11,230,828**	**57,349,488**	**4,111,351**	**72,691,667**
Cash, cash balances at central banks and other demand deposits	606,605	5,963,971	1,044,938	7,615,514
Debt securities	1,136,840	2,775,734	423,855	4,336,429
Loans and advances	9,210,413	45,410,799	2,375,221	56,996,433
Central banks and Credit institutions	70,704	514,160	165,627	750,491
Customers	9,139,709	44,896,639	2,209,594	56,245,942
Other assets	276,970	3,198,984	267,337	3,743,291
Liabilities denominated in foreign currency:	**6,962,558**	**53,016,847**	**3,118,316**	**63,097,721**
Deposits	6,671,410	48,123,748	3,044,677	57,839,835
Central banks and Credit institutions	1,120,977	6,373,980	331,899	7,826,856
Customers	5,550,433	41,749,768	2,712,778	50,012,979
Other liabilities	291,148	4,893,099	73,639	5,257,886

The net position of foreign currency assets and liabilities includes the structural position of the Institution, valued as at 31 December 2023, which amounted to 3,278 million euros, of which 1,970 million euros corresponded to permanent equity holdings in pounds sterling, 844 million euros corresponded to permanent equity holdings in US dollars and 416 million euros to permanent equity holdings in Mexican pesos. Net assets and liabilities valued at historical exchange rates are hedged with currency forwards and currency options in line with the Group's risk management policy.

As at 31 December 2023, the sensitivity of the equity exposure to a 2.5% exchange rate depreciation against the euro of the main currencies to which exposure exists, calculated based on quarterly exchange rate volatility over the past three years, amounted to 82 million euros, of which 60% corresponded to the pound sterling, 26% corresponded to the US dollar and 13% to the Mexican peso.

4.4.4. Operational risk

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

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

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

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

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

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

The second course of action is based on experience. It consists of recording all losses incurred by the Institution in a database, which provides information about the operational risks encountered by each business line as well as their causes, so as to be able to take action to minimise these risks and detect potential weaknesses in processes that require action plans to be drawn up aimed at mitigating the associated risks. Recoveries are also recorded, which make it possible to reduce the extent of the loss either as a result of its direct management or by having an insurance policy that covers all or part of the resulting impacts.

Furthermore, this information allows the consistency between estimated losses and actual losses to be determined, in terms of both frequency and severity, iteratively improving the estimates of exposure levels.

Within operational risk, the following risks are also managed and controlled:

- Conduct risk: broadly speaking, this is defined as the current or future possibility of incurring losses due to the inadequate provision of financial services or any other activity carried out by the Institution, due to misconduct with customers (existing or potential), employees (in relation to human rights, equality, well-being, inclusion, and health & safety in the workplace), shareholders and suppliers, markets, political parties or society in general, including cases of wilful misconduct or negligence.

- Technology risk: technology risk (or information and communications technology (ICT) risk) is defined as the current or future risk of incurring losses due to inadequacies or failures of technical infrastructures' hardware and software, which could compromise the availability, integrity, accessibility, confidentiality or traceability of infrastructures, applications and data, or would make it impossible for IT platforms to be changed at a reasonable cost and within a reasonable timeframe in response to the changing needs of the environment or the business.

  It also includes security risks resulting from inadequate or failed internal processes or external events, including cyberattacks or inadequate physical security in data centres.

- Outsourcing risk: this is the current or future risk of losses arising as a result of suppliers failing to provide subcontracted services or discontinuing their provision, weaknesses in their systems' security, disloyal employees or a breach of applicable regulations. It also encompasses other related risks, such as concentration risk, country risk, legal risk or compliance risk and includes the risk of losses arising from the use of third-party resources and/or means for the regular, ongoing and stable performance over time of certain business processes of the subcontracting company, which in itself involves exposure to a series of inherent underlying risks, such as operational risk, (including conduct risk, risks related to Information and Communications Technology (ICT), reputational risk, concentration risk and vendor lock-in risk.

- Model risk: current or future risk of an institution incurring losses as a result of decisions largely based on the outputs of internal models, due to errors in their development, implementation or use.

- Tax risk: the probability of failing to achieve the objectives set out in Banco Sabadell's tax strategy from a dual perspective due to either internal or external factors:

- On one hand, the probability of failing to fulfil tax obligations, potentially resulting in a failure to pay taxes that are due, or the occurrence of any other event that could potentially prevent the Bank from achieving its goals.

- On the other hand, the probability of paying taxes not actually due under tax obligations, thus negatively affecting shareholders and other stakeholders.

– Compliance risk: defined as the risk of incurring legal or administrative penalties, significant financial losses or reputational damage as a result of an infringement of laws, regulations, internal rules or codes of conduct applicable to banking activity.

Senior Management and, in particular, the Board Risk Committee, monitor the Group's risk profile through specific reports containing information and indicators associated with the main operational risks (including those associated with technology, human error, conduct, processes, security and fraud). No noteworthy impacts have been detected in 2023.

Detailed information on the risks that the Group deems most material is provided below:

4.4.4.1 Technology risk

In recent years, the importance, complexity and use of technology and data have increased even further in banking processes, especially in remote channels (online banking) as a result of the impact of COVID-19 and the growing use of cloud services. Consequently, the reliance on information systems and their availability is a key factor, as the Bank is more exposed to cyberattacks just like the other operators in the sector. The ongoing geopolitical conflicts have brought with them the risk of becoming a target for cyberattacks, generating the need to introduce back-up measures. At the present time, the risk related to geopolitical conflicts is stable, though latent.

Furthermore, the Institution is currently undergoing a process of transformation, based on the digitalisation and automation of processes, which increases the reliance on systems and the exposure to risks associated with this change, including digital fraud. Technology risk therefore remains one of the key focus areas of Banco Sabadell Group's risk management.

It should be mentioned that this risk is not only applicable to the Group's own systems and processes, but it is also applicable to suppliers, given the widespread use of third parties for support in technological and business processes, and this therefore represents a significant risk when it comes to managing outsourcing. On the topic of IT outsourcing, with regard to 2022, the implementation of Project Dingle was particularly noteworthy, involving the outsourcing of application development and testing among three key suppliers, thus requiring a greater level of supplier control and monitoring and the need for special oversight and adjustment throughout 2023, reducing the likelihood of experiencing cybersecurity incidents in area with input from the aforesaid outsourced suppliers.

In order to holistically and adequately manage all risks related to technology and data, the Institution classifies and categorises these risks into eight categories, in line with the Guidelines on ICT and security risk management (EBA/GL/2019/04):

– IT security (cybersecurity): risk of unauthorised access to IT systems, and of there being an impact on the confidentiality, availability, integrity and traceability of the information (data and metadata) that they contain (including cyberattacks and deliberate action), as well as the potential repudiation of digital operations.

– IT availability (technological resilience): risk of critical services provided to customers and employees becoming affected by systems failures.

– IT change: risk arising from errors in the change and development processes of information systems.

– Data integrity: risk of data stored and processed by IT systems being incomplete, inaccurate or inconsistent.

– IT outsourcing: risk that engaging a third party or another Group entity (intragroup outsourcing) to provide IT systems, their management or related services produces a negative effect on the Institution's performance (including impacts on customers, as well as reputational, regulatory or financial impacts).

– IT governance: risk arising from inadequate or insufficient management and use of technology, as well as a poor alignment of these technologies and their intended uses with the business strategy.

- Technological transformation: risk associated with inappropriate adoption or inefficient use of technology within the organisation for the development of new value propositions.
- IT skills: risk arising from the insufficiency of adequate IT profiles (internal and/or external partners) to ensure effective and efficient coverage of technological activities, processes and services.

4.4.4.2 Tax risk

With regard to tax risk, Banco Sabadell Group's tax risk policies aim to establish the general guidelines for managing and controlling tax risk, specifying the applicable principles and critical parameters and covering all significant elements to systematically identify, assess and manage any risks that may affect the Group's tax strategy and fiscal objectives, meeting the requirements of the Spanish Capital Companies Act and of Banco Sabadell Group stakeholders.

In terms of tax risk, Banco Sabadell Group aims to fulfil its tax obligations at all times, adhering to the existing legal framework in this regard.

Banco Sabadell Group's tax strategy, approved by the Board of Directors, reflects its commitment to fostering responsible taxation, promoting preventive measures and developing key transparency schemes in order to gain the confidence and trust of its various stakeholders.

The tax strategy is governed by the principles of efficiency, prudence, transparency and mitigation of tax risk, and it is aligned with the business strategy of Banco Sabadell Group.

The Board of Directors of Banco Sabadell, under the mandate set out in the Spanish Capital Companies Act for the improvement of corporate governance, is responsible, and cannot delegate such responsibility, for the following:

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

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

4.4.4.3 Compliance risk

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

To that end, the Group has a Compliance Division, whose mission is to promote and strive to attain the highest levels of Group compliance and ethics, mitigating compliance risk, understood as the risk of legal or administrative sanctions, significant financial losses or loss of reputation due to a breach of laws, regulations, internal regulations and codes of conduct applicable to the Group's activity; minimising the possible occurrence of any regulatory breach and ensuring that any breaches that may occur are diligently identified, reported and resolved.

This division assesses and manages compliance risk through the following duties:

- Monitoring and overseeing the adaptation to new regulations through proactive management to ensure regular and systematic monitoring of legal updates, and ensuring the distribution of those which are deemed to have an impact on any area of the Institution's business, according to the scope established in the corresponding internal procedures.

- Identifying and periodically assessing compliance risks in the different areas of activity and contributing to their management in an efficient manner. To this end, establishing, applying and maintaining appropriate procedures to prevent, detect, correct and minimise any compliance risk.
- Establishing, in accordance with the above, an up-to-date oversight and control programme, with the appropriate tools and methodologies for control.
- Supervising the risk management activities carried out by the first line of defence to ensure that they are aligned with the established policies and procedures.
- Conducting an appropriate follow-up on any findings (incidents, weakness or areas for improvement detected in the Institution, which may have an impact on compliance risk), in accordance with the corresponding internal procedures.
- Keeping, for at least the period of time established by the legislation in force at any given time, the documentary justification of the controls carried out by the Compliance Division, as well as any other policies and procedures implemented for the best possible fulfilment of regulatory obligations.
- Monitoring and coordinating inspections, as well as responses to the requirements of supervisors and regulators, and checking that their recommendations have been acted on accordingly.
- With regard to Anti-Money Laundering, Countering the Financing of Terrorism (AML/CFT) and International Sanctions, implementing, managing and updating policies and procedures on the topic of AML/CFT and international sanctions; carrying out the preliminary classification of the AML/CFT risk of customers during the onboarding process; applying enhanced due diligence measures when onboarding high-risk customers so that they may be accepted and duly updated beforehand; managing tracking alerts; detecting matches in lists of designated persons and transactions of countries subject to international sanctions; performing special analyses of suspicious activities and reporting them as necessary; preparing training plans; approving new products, services, channels and business areas; and conducting a periodic risk assessment of internal control procedures in relation to AML/CFT and international sanctions.
- Advising on data protection through the Data Protection Office, acting as the point of contact with the Spanish Data Protection Agency (Agencia Española de Protección de Datos) and performing all other duties assigned in regulations to the Data Protection Officer.
- Taking part in the process to formulate remuneration policies and practices.
- Promoting a culture of compliance and appropriate conduct in each of the Group entities, adopting measures that will enable employees to obtain the training and experience they need to perform their duties correctly.
- Assigning functional responsibilities for compliance where necessary.
- Collaborating in the development of training programmes in order to advise and make employees aware of the importance of complying with the established internal procedures.
- Sharing relevant information, reviewing and proposing corrective measures and/or responses to incidents detected in matters of conduct or to queries submitted to the Corporate Ethics Committee, which is tasked with promoting the Group's ethical conduct to ensure compliance with the action principles set out in the Banco Sabadell Group Code of Conduct, the Banco Sabadell Group Internal Code of Conduct relating to the securities market, the Banco Sabadell Group General Policy on Conflicts of Interest, the Banco Sabadell Group Corporate Crime Prevention Policy and the Banco Sabadell Group Anti-Corruption Policy.
- Submitting to the administrative and management bodies the regular or *ad hoc* reports on compliance that are legally required at any given time.
- Reporting to the administrative and management bodies on any information relevant to compliance arising from all areas and activities of each Group entity.
- Assisting the Board of Directors and Senior Management in compliance matters.
- Taking on institutional responsibilities and interacting with supervisory authorities and institutions in relation to matters within its remit and where agreed by the Institution's management and administrative bodies.

The following compliance risks have been identified:

- Anti-Money Laundering and Counter-Terrorist Financing.
- Data protection.
- Market integrity.
- Customer protection (including the following risks: MiFID, EBA, other products and services, sustainability, misconduct with customers and advertising).
- New legislation.
- Ethics and conduct (includes risks related to corporate crime prevention, remuneration and the code of conduct and ethics).
- Customer Care Service (*Servicio de Atención al Cliente*, or SAC).

Note 5 – Minimum own funds and capital management

Minimum own funds requirements

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

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

The European Commission, the European Central Bank and the EBA provided clarity regarding the application of the flexibility already embedded in Regulation (EU) 575/2013 by issuing interpretations and guidance on the application of the prudential framework in the context of Covid-19. These transitional provisions will end in December 2024, as established in Regulation (EU) 2020/873.

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

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

On 30 November 2023, Banco Sabadell received the decision of the European Central Bank concerning the minimum prudential requirements applicable as from 1 January 2024, as a result of the SREP. The requirement, on a consolidated basis, is that Banco Sabadell should keep a phase-in Common Equity Tier 1 (CET1) ratio of at least 8.93% and a phase-in Total Capital ratio of at least 13.42%. These ratios include the minimum required by Pillar 1 (8%, of which 4.50% corresponds to CET1), the Pillar 2R (2.25%, of which 1.27% must be met with CET1), the capital conservation buffer (2.50%), the requirement applicable due to the Bank's status as an 'other systemically important institution' (0.25%), and the countercyclical buffer (0.42%) that stems from the Bank of England's Financial Policy Committee (FPC) decision to increase the countercyclical buffer from 1% to 2% from 5 July 2023.

As at 31 December 2023, the Group's phase-in CET1 capital ratio stood at 13.2% (12.68% as at 31 December 2022) and its phase-in total capital ratio was 17.76% (17.08% as at 31 December 2022); therefore, the capital requirements indicated in the preceding points are being comfortably met.

The following table sets out the minimum prudential requirements applicable to Banco Sabadell Group following the Supervisory Review and Evaluation Process (SREP) for the years 2022-2024:

	2024	2023	2022
Pillar 1 CET1	4.50%	4.50%	4.50%
Pillar 2 Requirement	1.27%	1.21%	1.21%
Capital conservation buffer	2.50%	2.50%	2.50%
Systemic buffer	0.25%	0.25%	0.25%
Countercyclical buffer	0.42%	0.19%	0.19%
Common Equity Tier 1 (CET1) ratio	**8.93%**	**8.65%**	**8.65%**
Dates of communication of the SREP outcome	30/11/2023	14/12/2022	23/11/2020

On a standalone basis, the requisite Common Equity Tier 1 (CET1) ratio to be attained as at 31 December 2023 is 7.29% and the required Total Capital ratio is 10.79%. This requirement includes the minimum required by Pillar 1 (8%, of which 4.50% corresponds to CET1), the capital conservation buffer (2.50%) and the requirement stemming from the calculation of the specific countercyclical capital buffer which, as at 31 December 2023, was 0.29%.

As at 31 December 2023, Banco Sabadell had a CET1 capital ratio of 13.65% (13.30% as at 31 December 2022) and a phase-in total capital ratio of 18.04% (17.59% as at 31 December 2022), both also well above the standalone capital requirements.

Requirements related to the restructuring and resolution of credit institutions

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

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

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

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

The preamble of Law 11/2015 defines a resolution process as a unique administrative process to address the failure of credit institutions and investment firms, when an insolvency proceeding is not appropriate for reasons of public interest and financial stability. In order to achieve the aforementioned objectives, the BRRD envisages a series of instruments available to the competent resolution authority, including a bail-in tool. The BRRD introduces for this purpose a minimum requirement for own funds and eligible liabilities (MREL) that institutions must comply with at all times in order to ensure their loss-absorbing capacity is sufficient to guarantee the effective implementation of the resolution tools and that, in the current regulatory environment, would be the amount of own funds and eligible liabilities expressed as a percentage of the Institution's total liabilities and own funds.

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

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

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

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, which has 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 decision does not introduce changes to the following interim requirements that must be met from 1 January 2022.

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 countercyclical 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. In 2023, the Institution issued 1.5 billion euros of MREL-eligible senior non-preferred debt and 750 million euros of senior preferred debt.

	MREL Requirement		Subordination Requirement	
	% TREA	**% LRE**	**% TREA**	**% LRE**
Requirement 1 January 2022	21.05%	6.22%	14.45%	6.06%
Requirement 1 January 2024	22.52%	6.35%	17.31%	6.35%
MREL 31 December 2023 (*)	24.73%	9.34%	20.13%	7.80%

(*) The MREL and Subordination ratios as a % of the TREA do not include capital used to meet the CBR, set at 3.13%.

Capital management

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

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

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

The Group carries out frequent backtesting exercises on its IRB models, at least once a year. These backtesting exercises are carried out independently by the Models and Internal Validation unit and reported for monitoring purposes to the established internal governing bodies, such as the Models Committee, the Technical Risk Committee and the Board Risk Committee (delegated Board committee). Additionally, the backtesting results that affect the risk parameters used to calculate regulatory capital and the main conclusions drawn from those results are included in the annual Pillar III Disclosures report, taking into account the criteria established by the EBA in its disclosure guidelines.

Banco Sabadell Group carries out an internal capital adequacy assessment process (ICAAP) on a consolidated and ongoing basis throughout the year in order to generate a relevant, up-to-date, fully comprehensive and forward-looking appraisal of the adequacy of its levels of capital, considering the Group's business model and the risks taken.

The ICAAP is carried out under a solid governance framework, with high levels of involvement from Senior Management. The ultimate responsibility for its review and approval lies with the Board of Directors.

The ICAAP is seen as a complementary tool to Basel Pillar 1 (regulatory capital), which first analyses the Group's business model within its economic, financial and regulatory context, and its short- and medium-term sustainability and viability. The Group's business model involves taking risks and a risk profile is therefore defined. As part of the ICAAP, an identification is made of the material risks and of the main threats and vulnerabilities derived from the Group's activity and a self-assessment is carried out of the inherent and residual risk that they entail, after considering the risk governance, management and control systems.

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

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

Forward-looking analyses under adverse scenarios are supplemented with reverse stress tests, which identify the Group's idiosyncratic aspects that could put its solvency at considerable risk if they were to materialise.

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

The Group has implemented a risk-adjusted return on capital (RaRoC) metric in segments where this is considered relevant, which is embedded in the pricing management system and therefore subject to the Institution's policies and procedures. In addition to being used in the pricing process, this metric can measure the return obtained on each transaction and customer and even by each business unit, which makes it possible to make like-for-like comparisons.

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

Eligible capital and capital ratios

As at 31 December 2023, the Group's eligible capital amounted to 13,926 million euros (13,588 million euros as at 31 December 2022), representing a surplus of 3,480 million euros (3,177 million euros as at 31 December 2022), as shown below:

Thousand euro

	2023	2022	Year-on-year change (%)
Capital	680,028	703,371	(3.32)
Reserves (includes profit attributable to the Group, net of dividends)	13,198,328	12,838,901	2.80
Valuation adjustments	(471,695)	(641,901)	(26.52)
Deductions and transitory effects	(3,059,900)	(2,817,620)	8.60
CET1 capital	**10,346,761**	**10,082,751**	**2.62**
CET1 (%)	13.19	12.68	4.02
Preference shares, convertible bonds and deductions	1,750,000	1,650,000	6.00
Additional Tier 1 capital	**1,750,000**	**1,650,000**	**6.00**
AT1 (%)	2.23	2.07	7.73
Tier 1 capital	**12,096,761**	**11,732,751**	**3.10**
Tier 1 (%)	15.42	14.75	4.54
Tier 2 capital	**1,829,460**	**1,855,001**	**(1.38)**
Tier 2 (%)	2.33	2.33	—
Capital base	**13,926,221**	**13,587,753**	**2.49**
Minimum capital requirement (*)	10,445,833	10,411,235	0.33
Capital surplus	**3,480,388**	**3,176,518**	**9.57**
Total capital ratio (%)	**17.76**	**17.08**	**3.98**
Risk weighted assets (RWAs)	**78,427,616**	**79,544,790**	**(1.40)**

(*) Minimum capital requirements have been calculated taking into account capital requirements in effect as at 2023 year-end for Pillar I (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%).

Common Equity Tier 1 (CET1) capital accounts for 74.30% of eligible capital. Deductions mainly comprise intangible assets, goodwill and deferred tax assets. The impact of applying Regulation 2020/873 from June 2020 onwards in the context of Covid-19 is deemed to be transitory. This regulation extends the transitional arrangements designed to mitigate the impact of IFRS 9 for two years, allowing institutions to fully add back to their Common Equity Tier 1 capital any increase in new expected credit loss provisions that they recognise after 1 January 2020 for their financial assets that are not credit-impaired. As at 31 December 2022, the impact of these transitional arrangements came to 98 million euros, while as at 31 December 2023 these transitional arrangements had no effect, mainly because of the loss of eligibility of the static component of IFRS 9.

Tier 1 comprises, in addition to CET1 funds, items that largely make up Additional Tier 1 capital (12.57% of own funds), which are capital items comprised of preferred securities. On 18 January 2023, a new issue, Preferred Securities 1/2023, was executed in the amount of 500 million euros, which replaced the Preferred Securities 2/2017 issue of 400 million euros, whose early call option envisaged in the issue's conditions was exercised on 23 February 2023.

Tier 2 capital provides 13.14% of the total capital ratio and is made up largely of subordinated debt. Regarding subordinated debt, it is worth noting the Subordinated Debt 1/2023 series issued on 16 February 2023, which increased Tier 2 capital by 500 million euros and replaced the Subordinated Debt 1/2018 series, in the amount of 500 million euros, after exercising the early redemption option on 12 December 2023, in accordance with that established in that issue's conditions.

In terms of risk-weighted assets (RWAs), two securitisations were carried out during the period: one synthetic securitisation of SME and business loans, 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 Banco Sabadell (excluding TSB), it is worth noting the reductions in RWAs due to the portfolio's improved density, as a result, among other factors, of the implementation of new models for mortgages and consumer loans granted to individuals, the reduction of lending volumes (although its impact on RWAs is limited as most of that reduction corresponds to ICO loans) and, lastly, the reduction of market risk requirements, especially for interest rate risk, due in large part to the portfolio's evolution. This reduction in credit RWAs and market RWAs is partially offset by the update of operational RWAs following the increase of the material risk indicator in 2023.

In fully-loaded terms, as at 31 December 2023, the Common Equity Tier 1 (CET1) ratio stood at 13.2% and the total capital ratio stood at 17.76%, both well above the regulatory minima.

The following table shows movements in the various regulatory capital components during 2023 and 2022:

Thousand euro

CET1 balance as at 31 December 2021	**10,079,533**
Reserves (includes profit attributable to the Group, net of dividends)	319,654
Valuation adjustments	(273,616)
Deductions and transitory effects	(42,819)
CET1 balance as at 31 December 2022	**10,082,751**
Capital	(23,343)
Reserves (includes profit attributable to the Group, net of dividends) (*)	359,427
Valuation adjustments	170,206
Deductions and transitory effects	(242,280)
CET1 balance as at 31 December 2023	**10,346,761**

(*) The movement in Reserves includes -204 million euros corresponding to the share buyback carried out in 2023.

Thousand euro

Additional Tier 1 balance as at 31 December 2021	**2,400,000**
Eligible instruments	(750,000)
Additional Tier 1 balance as at 31 December 2022	**1,650,000**
Eligible instruments	100,000
Additional Tier 1 balance as at 31 December 2023	**1,750,000**

Thousand euro

Tier 2 balance as at 31 December 2021	**2,021,270**
Eligible instruments	(99,745)
Credit risk adjustments	(10,193)
Deductions and transitory effects	(56,330)
Tier 2 balance as at 31 December 2022	**1,855,001**
Eligible instruments	(99,745)
Credit risk adjustments	17,874
Deductions and transitory effects	56,330
Tier 2 balance as at 31 December 2023	**1,829,460**

The table below shows the reconciliation of equity and regulatory capital as at 31 December 2023 and 2022:

Thousand euro

	2023	2022 (*)
Shareholders' equity	14,343,946	13,840,723
Accumulated other comprehensive income	(498,953)	(650,645)
Minority interests	34,213	34,344
Total equity	**13,879,206**	**13,224,422**
Goodwill and intangibles	(2,189,218)	(2,144,909)
Dividends (**)	(503,988)	(317,281)
TLCFs and thresholds for non-monetisable DTAs	(490,572)	(537,712)
Deductions	(257,415)	(124,898)
Other adjustments	(91,252)	(16,870)
Regulatory accounting adjustments	**(3,532,445)**	**(3,141,670)**
Common Equity Tier 1 capital	**10,346,761**	**10,082,751**
Additional Tier 1 capital	**1,750,000**	**1,650,000**
Tier 2 capital	**1,829,460**	**1,855,001**
Total regulatory capital	**13,926,221**	**13,587,753**

(*) Information corresponding to the consolidated annual financial statements for the year ended 31 December 2022.

(**) Does not consider interim dividend booked

As at 31 December 2023 and 2022, there was no significant difference between the accounting scope of consolidation and the regulatory scope of consolidation.

Risk-weighted assets amounted to 78,428 million euros as at 31 December 2023, representing a balance variation of -1.40% with respect to 31 December 2022. Details of the main components of that balance variation can be found in the previous paragraphs of this note.

The breakdown of risk-weighted assets by type of risk, as at 31 December 2023 and 2022, is shown below:

Thousand euro

	2023		2022	
	Amount	%	Amount	%
Credit risk (*)	68,970,951	87.94 %	70,387,473	88.48 %
Operational risk	9,008,555	11.49 %	8,160,674	10.26 %
Market risk	448,110	0.57 %	996,644	1.25 %
Total	**78,427,616**	**100.00 %**	**79,544,790**	**100.00 %**

(*) Includes counterparty credit risk, due to the contribution made to the default guarantee fund of CCPs and due to securitisation positions. Certain impacts linked mainly to the completion of the IRB Repair Programme, which the Institution has decided to frontload, are also included. Not including the aforementioned supplementary items, credit RWAs measured under the standardised approach and using advanced models (including deferred tax assets and the impact on RWAs after applying the prudential adjustments requested by the supervisor (SSM)) amounted to 66,119 million euros.

The following table shows the reasons for the variation in credit RWAs occurring during 2023 and 2022:

Thousand euro

	RWAs	Capital requirements (*)
Balance as at 31 December 2021	**69,543,133**	**5,563,451**
Change in business volume	(769,481)	(61,558)
Asset quality	(3,006,475)	(240,518)
Changes in models	951,398	76,112
Methodology, parameters and policies	1,017,559	81,405
Acquisitions and disposals	(446,665)	(35,733)
Exchange rate	(430,845)	(34,468)
Balance as at 31 December 2022	**66,858,624**	**5,348,690**
Change in business volume	(989,535)	(79,163)
Asset quality	(1,284,349)	(102,748)
Changes in models	326,000	26,080
Methodology, parameters and policies	294,000	23,520
Acquisitions and disposals	(60,000)	(4,800)
Exchange rate	287,882	23,031
Other (**)	686,000	54,880
Balance as at 31 December 2023	**66,118,622**	**5,289,490**

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

(*) Calculated as 8% of RWAs.

(**) The increase in the “Other” category is essentially due to the assignment, at a granular level, of a series of add-ons at TSB, which as at December 2022 were reported as “Other risk exposure amounts”.

Details of risk-weighted assets for the risk with the largest volume (credit risk), broken down by geographical area as at 31 December 2023 and 2022, are included here below:

%

	2023	2022
Spain	63.47 %	64.95 %
Rest of European Union	4.74 %	4.97 %
United Kingdom	19.60 %	18.24 %
Americas	11.36 %	11.08 %
Rest of the world	0.83 %	0.77 %
Total	**100 %**	**100 %**

Includes counterparty credit risk.

The leverage ratio aims to reinforce capital requirements by providing a supplementary measure that is not linked to the level of risk. Article 92 of the CRR-II regulation establishes that a minimum leverage ratio of 3% is required as from June 2021; this percentage is comfortably exceeded by the Group as at 31 December 2023.

The phase-in leverage ratio as at 31 December 2023 and 2022 is shown below:

Thousand euro

	2023	2022
Tier 1 capital	12,096,761	11,732,751
Exposure	233,254,941	253,840,350
Leverage ratio	**5.19 %**	**4.62 %**

During 2023, the leverage ratio increased by 57 basis points compared to the leverage ratio as at 31 December 2022, mainly due to the decrease in the exposure with central banks linked in large part to TLTRO repayments and, to a lesser extent, the decline in lending volumes. Tier 1 capital also improved during the period, mainly due to the positive evolution of Common Equity Tier 1 (CET1) capital thanks to the profit earned during the year, combined with the positive impact of the net movement of new issues and redemptions of preferred securities during the year.

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

Note 6 – Fair value of assets and liabilities

Financial assets and financial liabilities

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

When there is no market price for a particular financial asset or financial liability, the fair value is estimated based on the values established for similar instruments in recent transactions or, alternatively, by using mathematical valuation models that have been suitably tested by the international financial community. When using these models, the particular characteristics of the financial asset or financial liability to be valued are taken into account, particularly the different types of risks that may be associated therewith. Notwithstanding the foregoing, the limitations inherent in the valuation models that have been developed and possible inaccuracies in the assumptions and parameters required by these models may result in the estimated fair value of a financial asset or financial liability not exactly matching the price at which the asset or liability could be delivered or settled on the valuation date.

The fair value of financial derivatives quoted on an active market is the daily quoted price.

In the case of instruments for which quoted prices cannot be determined, prices are estimated using internal models developed by the Bank, most of which take data based on observable market parameters as significant inputs. In the remaining cases, the models make use of other inputs that rely on internal assumptions based on generally accepted practices within the financial community.

For financial instruments, the fair values disclosed in the financial statements are classified according to the following fair value levels:

- Level 1: fair values are obtained from the (unadjusted) prices quoted on active markets for that instrument.
- Level 2: fair values are obtained from the prices quoted on active markets for similar instruments, the prices of recent transactions, expected payment flows or other valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3: fair values are obtained through valuation techniques in which one or more significant inputs is not based on observable market data.

Set out below are the main valuation methods, assumptions and inputs used when estimating the fair value of financial instruments classified in Levels 2 and 3, according to the type of financial instrument concerned:

Level 2 financial instruments	**Valuation techniques**	**Main assumptions**	**Main inputs used**
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account: - An estimate of pre-payment rates - Issuers' credit risk	- Issuer credit spreads - Observable market interest rates
Equity instruments	Sector multiples (P/BV)	Based on the NACE code that best represents the company's primary activity, the price-to-book value (P/BV) ratio obtained from peers is applied	- NACE codes - Quoted prices in organised markets
Simple derivatives (a)	Net present value method	Implicit curves calculated based on quoted market prices	- Observable yield curve - FX swaps curve and spot curve
Other derivatives (a)	Analytic/ semi-analytic formulae	- For equity derivatives, FX or commodities: Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term	- Forward structure of the underlying asset, given by market data (dividends, swap points, etc.). - Volatility surfaces of options
		- For interest rate derivatives: Normal model and shifted Libor Market Model: negative rates and forward rates in the term structure of the interest rate curve are fully correlated. For calculation of CVA and DVA adjustments: Normal model and Black-Scholes model	- Term structure of interest rates - Volatility surfaces of Libor rate options (caps) and swap rate options (swaptions) - Probability of default for calculation of CVA and DVA (b)
	Monte Carlo simulations	- For valuation of equity derivatives, FX or commodities: Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term	- Forward structure of the underlying asset, given by market data (dividends, swap points, etc.). - Volatility surfaces of options
	Hybrid local stochastic volatility models	- For FX derivatives: Tremor model: implicit volatility obtained through stochastic differential equations	- Forward structure of the underlying asset, given by market data (dividends, swap points, etc.). - Volatility surfaces of options
	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates	- Price listings of Credit Default Swaps (CDS) - Historic volatility of credit spreads

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

(b) To calculate CVA and DVA, levels of severity fixed at 60% have been used, which corresponds to the market standard for senior debt. Average future, positive and negative exposures have been estimated using market models, Libor for interest rates and the Black-Scholes model for FX, using market inputs. The probability of default of customers with no quoted debt instruments or CDS have been obtained using the IRB model and for Banco Sabadell those obtained from the CDS market prices have been assigned.

Level 3 financial instruments	Valuation techniques	Main assumptions	Main non-observable inputs
Debt securities	Net present value method	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account in each case: - An estimate of pre-payment rates - Issuers' credit risk - Other estimates of variables that affect future cash flows: claims, losses, redemptions	- Estimated credit spreads of the issuer or a similar issuer - Rates of claims, losses and/or redemptions
Loans and advances	Net present value method	Calculation of the present value of future cash flows discounted at market interest rates based on the scenarios generated	- The entity's business plans
Equity instruments	Discounted cash flow method	Calculation of the present value of future cash flows discounted at market interest rates adjusted for risk (CAPM method), taking into account: - An estimate of the company's projected cash flows - Risk in the company's sector - Macroeconomic inputs	- The entity's business plans - Risk premiums of the company's sector - Adjustment for systemic risk (Beta Parameter)
Derivatives (a)	For credit derivatives: - Intensity models	These models assume a default probability structure resulting from term-based default intensity rates	For credit derivatives: - Estimated credit spreads of the issuer or a similar issuer - Historic volatility of credit spreads
	For commodity derivatives: - Net present value method	Forward curve calculated based on adjusted quoted market prices	Unquoted futures curves

(a) Given the small net position of Banco Sabadell, the funding value adjustment (FVA) is estimated to have a non-material impact on the valuation of derivatives.

Determination of the fair value of financial instruments

A comparison between the value at which the Group's main financial assets and financial liabilities are recognised on the accompanying consolidated balance sheets and their corresponding fair values is shown below:

Thousand euro

	Note	2023		2022	
		Carrying amount	Fair value	Carrying amount	Fair value
Assets:					
Cash, cash balances at central banks and other demand deposits	7	29,985,853	29,985,853	41,260,395	41,260,395
Financial assets held for trading	8,9,10	2,706,489	2,706,489	4,017,253	4,017,253
Non-trading financial assets mandatorily at fair value through profit or loss	8,9,11	153,178	153,178	77,421	77,421
Financial assets designated at fair value through profit or loss		—	—	—	—
Financial assets at fair value through other comprehensive income	9	6,269,297	6,269,297	5,802,264	5,802,264
Financial assets at amortised cost	8	180,913,793	175,310,626	185,045,452	178,139,213
Derivatives – Hedge accounting	12	2,424,598	2,424,598	3,072,091	3,072,091
Total assets		**222,453,208**	**216,850,041**	**239,274,876**	**232,368,637**

Thousand euro

	Note	2023		2022	
		Carrying amount	Fair value	Carrying amount	Fair value
Liabilities:					
Financial liabilities held for trading	10	2,867,459	2,867,459	3,598,483	3,598,483
Financial liabilities designated at fair value through profit or loss		—	—	—	—
Financial liabilities at amortised cost	18, 19, 20, 21	216,071,766	215,397,464	232,529,932	230,522,957
Derivatives – Hedge accounting	12	1,171,957	1,171,957	1,242,470	1,242,470
Total liabilities		**220,111,182**	**219,436,880**	**237,370,885**	**235,363,910**

Financial instruments at fair value

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

Thousand euro

	Note	2023			
		Level 1	Level 2	Level 3	Total
Assets:					
Financial assets held for trading		142,495	2,563,994	—	2,706,489
Derivatives	10	—	2,563,994	—	2,563,994
Debt securities	8	142,495	—	—	142,495
Loans and advances – Customers		—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss		31,255	15,974	105,949	153,178
Equity instruments	9	18,398	14,840	19,098	52,336
Debt securities	8	12,857	1,134	51,753	65,744
Loans and advances	11	—	—	35,098	35,098
Financial assets at fair value through other comprehensive income		4,656,989	1,522,988	89,320	6,269,297
Equity instruments	9	582	130,441	52,915	183,938
Debt securities	8	4,656,407	1,392,547	36,405	6,085,359
Derivatives – Hedge accounting	12	—	2,424,598	—	2,424,598
Total assets		**4,830,739**	**6,527,554**	**195,269**	**11,553,562**

Thousand euro

	Note	2023			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		337,373	2,530,086	—	2,867,459
Derivatives	10	—	2,530,086	—	2,530,086
Short positions		337,373	—	—	337,373
Derivatives – Hedge accounting	12	—	1,171,957	—	1,171,957
Total liabilities		**337,373**	**3,702,043**	**—**	**4,039,416**

Thousand euro

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

Thousand euro

	Note	2022			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Financial liabilities held for trading		224,447	3,374,036	—	3,598,483
Derivatives	10	—	3,374,036	—	3,374,036
Short positions		224,447	—	—	224,447
Derivatives – Hedge accounting	12	—	1,242,470	—	1,242,470
Total liabilities		**224,447**	**4,616,506**	**—**	**4,840,953**

Derivatives with no credit support annexes (CSAs) include the Credit Valuation Adjustment (CVA) and Debit Valuation Adjustment (DVA), respectively, in their fair value. The fair values of these derivatives represent 5.87% of the total, and their adjustment for credit and debit risks represents 4.12% of their fair value as at 31 December 2023 (5.31% and 17.30%, respectively, as at 31 December 2022).

Movements in the balances of financial assets and financial liabilities recognised at fair value and classified as Level 3, disclosed in the accompanying consolidated balance sheets, are shown below:

Thousand euro

	Assets	Liabilities
Balance as at 31 December 2021	**201,081**	**—**
Valuation adjustments recognised in profit or loss (*)	3,662	—
Valuation adjustments not recognised in profit or loss	10,115	—
Purchases, sales and write-offs	(44,502)	—
Net additions/removals in Level 3	(4,957)	—
Exchange differences and other	1,865	—
Balance as at 31 December 2022	**167,264**	**—**
Valuation adjustments recognised in profit or loss (*)	7,104	—
Valuation adjustments not recognised in profit or loss	(11,318)	—
Purchases, sales and write-offs	(1,184)	—
Net additions/removals in Level 3	(980)	—
Exchange differences and other	34,383	—
Balance as at 31 December 2023	**195,269**	**—**

(*) Relates to securities retained on the balance sheet.

Details of financial instruments that were transferred to different valuation levels in 2023 are as follows:

Thousand euro

	2023					
From:	**Level 1**		**Level 2**		**Level 3**	
To:	**Level 2**	**Level 3**	**Level 1**	**Level 3**	**Level 1**	**Level 2**
Assets:						
Financial assets held for trading	—	—	—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—	—	—	—	—
Financial assets designated at fair value through profit or loss	—	—	—	—	5,500	—
Financial assets at fair value through other comprehensive income	687,365	4,520	—	—	—	—
Derivatives	—	—	—	—	—	—
Liabilities:						
Financial liabilities held for trading	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	—	—	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Total	**687,365**	**4,520**	**—**	**—**	**5,500**	**—**

Details of financial instruments that were transferred to different valuation levels in 2022 are as follows:

Thousand euro

	2022					
From:	Level 1		Level 2		Level 3	
To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:						
Financial assets held for trading	—	—	—	—	—	—
Non-trading financial assets mandatorily at fair value through profit or loss	—	—	—	—	—	—
Financial assets designated at fair value through profit or loss	—	—	—	—	—	—
Financial assets at fair value through other comprehensive income	—	—	—	429	4,465	920
Derivatives	—	—	—	—	—	—
Liabilities:						
Financial liabilities held for trading	—	—	—	—	—	—
Financial liabilities designated at fair value through profit or loss	—	—	—	—	—	—
Derivatives – Hedge accounting	—	—	—	—	—	—
Total	**—**	**—**	**—**	**429**	**4,465**	**920**

Transfers from Level 1 to Level 2 in 2023 correspond mainly to bonds issued by US government agencies for which, given their characteristics, it has been determined that their fair value should be obtained primarily using directly or indirectly observable market data.

Transfers from Level 1 to Level 3 during the year are due to the fact that the markets in which these instruments (fixed-income bonds) are traded are no longer considered to be active markets; therefore, their value is instead calculated using valuation techniques in which one of the main significant inputs is based on unobservable market data.

Transfers from Level 3 to Level 1 in 2023 correspond to equity instruments that began to be traded on an active market.

Transfers from Level 3 to Level 1 in 2022 were due to the fact that the markets in which those instruments (senior bonds) were traded began to be considered active markets; therefore, their valuation was instead obtained from quoted prices.

As at 31 December 2023 and 2022, the effect of replacing the main assumptions used in the valuation of Level 3 financial instruments with other reasonably possible assumptions, taking the highest value (most favourable assumption) or lowest value (least favourable assumption) of the range that is considered likely, is not significant.

As at year-end in both years, there were no derivatives using equity instruments as underlying assets or material interests in discretionary gains in any companies.

Financial instruments at amortised cost

The following tables show the fair value of the main financial instruments recognised at amortised cost in the accompanying consolidated balance sheets:

Thousand euro

	2023			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets at amortised cost:				
Debt securities	18,563,516	1,575,850	303,590	20,442,956
Loans and advances	—	20,952,925	133,914,744	154,867,669
Total assets	**18,563,516**	**22,528,775**	**134,218,334**	**175,310,625**

Thousand euro

	2023			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Financial liabilities at amortised cost (*):				
Deposits (**)	—	183,661,142	—	183,661,142
Debt securities issued	20,405,507	4,966,959	—	25,372,466
Total liabilities	**20,405,507**	**188,628,101**	**—**	**209,033,608**

(*) As at 31 December 2023, the Group had other financial liabilities amounting to 6,333,286 thousand euros.

(**) The fair value of demand deposits has been likened to their carrying amount as they are mainly short-term balances.

Thousand euro

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

Thousand euro

	2022			
	Level 1	Level 2	Level 3	Total
Liabilities:				
Financial liabilities at amortised cost (*)				
Deposits (**)	—	197,569,465	3,772,522	201,341,987
Debt securities issued	18,674,324	3,847,785	—	22,522,109
Total liabilities	**18,674,324**	**201,417,250**	**3,772,522**	**223,864,096**

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

(**) The fair value of demand deposits has been likened to their carrying amount as they are mainly short-term balances.

In general, the fair value of “Financial assets at amortised cost” and “Financial liabilities at amortised cost” has been estimated using the discounted cash flow method, applying market interest rates as at the end of each year adjusted for the credit spread and incorporating any behavioural assumptions deemed relevant, with the exception of debt securities with active markets, for which it has been estimated using year-end quoted prices.

The fair value of the heading “Cash, cash balances at central banks and other demand deposits” has been likened to its carrying amount, as these are mainly short-term balances.

Financial instruments at cost

As at the end of 2023 and 2022, there were no equity instruments valued at their acquisition cost that could be considered significant.

Non-financial assets

Real estate assets

As at 31 December 2023 and 2022, the net carrying amounts of real estate assets do not differ significantly from the fair values of these assets (see Notes 13, 15 and 17).

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

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

As per regulatory requirements, in the valuation techniques used, appraisal companies maximise the use of observable market data and other factors which would be taken into account by market operators when setting prices, endeavouring to keep the use of subjective considerations and unobservable or non-verifiable data to a minimum.

The main valuation methods used fall into the following measurement levels:

Level 2

- Comparison method: applicable to all kinds of properties provided that there is a representative market of comparable properties and that sufficient data is available relating to transactions that reflect the current market situation.

- Rental update method: applicable when the valued property generates or may generate rental income and there is a representative market of comparable data.

- Statistical model: this model adjusts the value of the assets based on the acquisition date and their location, updating the value in accordance with price trends in the area concerned as from the date of purchase. To that end, it includes statistical information on price trends in all provinces, as provided by external appraisal companies, as well as demographic data from the Spanish Office for National Statistics (INE) to calculate sensitivity at a municipality level. The value obtained is in turn adjusted based on the construction status (finished product, development in progress, plots or land under management) and use (residential, industrial, etc.) of the asset.

Level 3

- Cost method: applicable to determine the value of buildings being planned, under construction or undergoing renovations.

- Residual method: in the present macroeconomic climate, the dynamic calculation procedure is being used preferentially in new land valuations to the detriment of the static procedure, which is reserved for specific cases in which the envisaged timeframes for project completion are in line with the relevant regulations.

Depending on the type of asset, the methods used for the valuation of the Group’s portfolio are the following:

- Completed buildings: valued using the comparison method, the rental update method or the statistical model (Level 2).

- Buildings under construction: valued using the cost method as a sum of the land value and the value of the work carried out (Level 3).

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

Determination of the fair value of real estate assets

The following tables show the main real estate assets broken down by the valuation method used to estimate their fair value as at 31 December 2023 and 2022:

Thousand euro

	2023			
	Level 1	Level 2	Level 3	Total
Housing	—	567,229	—	567,229
Branches and offices, retail establishments and other real estate	—	879,689	—	879,689
Land and building plots	—	5,295	20,833	26,128
Work in progress	—	—	1,225	1,225
Total assets	**—**	**1,452,213**	**22,058**	**1,474,271**

Thousand euro

	2022			
	Level 1	Level 2	Level 3	Total
Housing	—	672,441	—	672,441
Branches and offices, retail establishments and other real estate	—	943,251	—	943,251
Land and building plots	—	5,351	25,031	30,382
Work in progress	—	—	2,585	2,585
Total assets	**—**	**1,621,043**	**27,616**	**1,648,659**

Significant unobservable variables used in valuations classed as Level 3 have not been developed by the Group but by the independent third party companies that performed the appraisals. Given the widespread use of the appraisals, the valuation techniques of which are clearly set out in the regulation governing the valuation of properties, the unobservable variables used reflect the assumptions frequently used by all appraisal companies. In terms of proportional weight, unobservable variables account for almost all of the value of these appraisals.

The main unobservable variables used in the valuation of assets in accordance with the dynamic residual method are the future selling price, the estimated construction costs, the costs of development, the time required for land planning and development and the discount rate. The main unobservable variables used in accordance with the static residual method are construction costs, the costs of development and the profit for the developer.

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

Movements in the balances of real estate assets classified as Level 3 in 2023 and 2022 are shown below:

Thousand euro

	Housing	Branches and offices, retail establishments and other real estate	Land, building plots and work in progress
Balance as at 31 December 2021	**—**	**—**	**34,406**
Purchases	—	—	329
Sales	—	—	(5,084)
Impairments recognised on income statement (*)	—	—	(1,796)
Net additions/removals in Level 3	—	—	(239)
Balance as at 31 December 2022	**—**	**—**	**27,616**
Purchases	—	—	1,474
Sales	—	—	(3,951)
Impairments recognised on income statement (*)	—	—	(2,496)
Net additions/removals in Level 3	—	—	(585)
Balance as at 31 December 2023	**—**	**—**	**22,058**

(*) Relates to assets retained on the balance sheet as at 31 December 2023 and 2022.

The following table shows a comparison between the value at which real estate assets are recognised under the headings “Investment properties”, “Inventories” and “Non-current assets and disposal groups classified as held for sale” and their appraisal value, as at the end of 2023 and 2022:

Thousand euro

		2023				2022			
	Note	Carrying amount (*)	Impairment	Net carrying amount	Appraisal value	Carrying amount (*)	Impairment	Net carrying amount	Appraisal value
Investment properties	15	307,074	(77,476)	229,598	282,727	383,975	(84,233)	299,742	354,375
Inventories	17	130,437	(68,093)	62,344	100,962	170,942	(77,107)	93,835	145,728
Non-current assets held for sale	13	708,051	(180,911)	527,140	814,946	721,078	(183,927)	537,151	854,546
Total		**1,145,562**	**(326,480)**	**819,082**	**1,198,635**	**1,275,995**	**(345,267)**	**930,728**	**1,354,649**

(*) Cost less accumulated depreciation.

The fair values of real estate assets valued by appraisal companies and included in the headings "Investment properties", "Inventories" and “Non-current assets and disposal groups classified as held for sale” in 2023 are as follows:

Thousand euro

Appraisal firm	Investment properties	Inventories	Non-current assets held for sale
Afes Técnicas de Tasación, S.A.	185	—	4,550
Alia Tasaciones, S.A.	16,842	3,587	23,419
Arco Valoraciones, S.A.	—	—	912
CBRE Valuation Advisory, S.A.	25,912	5,335	30,385
Col.lectiu d'Arquitectes Taxadors	—	—	720
Cushman & Wakefield	—	—	271
Eurovaloraciones, S.A.	6,593	1,961	29,363
Gestión de Valoraciones y Tasaciones, S.A.	14	—	2,095
Gloval Valuation, S.A.U.	5,918	9,544	91,948
Ibertasa, S.A.	—	—	165
Krata, S.A.	—	—	41
Sociedad de Tasación, S.A.	19,307	11,790	176,052
Tecnitasa Técnicos en Tasación, S.A	269	107	6,467
Tinsa Tasaciones Inmobiliarias, S.A.	6,876	2,809	32,295
UVE Valoraciones, S.A.	81,672	9,425	38,094
Valoraciones Mediterráneo, S.A.	66,010	17,651	90,201
Other	—	135	162
Total	**229,598**	**62,344**	**527,140**

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

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

The composition of this asset heading on the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
By nature:		
Cash	726,122	686,258
Cash balances at central banks	28,566,694	39,236,780
Other demand deposits	693,037	1,337,357
Total	**29,985,853**	**41,260,395**
By currency:		
In euro	22,130,671	33,644,881
In foreign currency	7,855,182	7,615,514
Total	**29,985,853**	**41,260,395**

Cash balances at central banks include balances held to comply with the central bank's mandatory minimum required reserves (MRR) ratio. Throughout 2023 and 2022, Banco Sabadell has complied with minimum requirements set out in applicable regulations regarding that ratio.

Note 8 – Debt securities

Debt securities reported in the consolidated balance sheets as at 31 December 2023 and 2022 are broken down below:

Thousand euro

	2023	2022
By heading:		
Financial assets held for trading	142,495	417,131
Non-trading financial assets mandatorily at fair value through profit or loss	65,744	54,276
Financial assets at fair value through other comprehensive income	6,085,359	5,622,692
Financial assets at amortised cost	21,500,927	21,452,820
Total	**27,794,525**	**27,546,919**
By nature:		
Central banks	—	—
General governments	26,250,576	27,099,465
Credit institutions	2,072,205	1,271,290
Other sectors	424,261	486,731
Stage 3 assets	899	73
Impairment allowances	(276)	(211)
Other valuation adjustments (interest, fees and commissions, other)	(953,140)	(1,310,429)
Total	**27,794,525**	**27,546,919**
By currency:		
In euro	22,699,264	23,210,490
In foreign currency	5,095,261	4,336,429
Total	**27,794,525**	**27,546,919**

The breakdown of debt securities classified according to their credit risk and movements of impairment allowances associated with these instruments are included, together with those of other financial assets, in Note 11.

Details of debt instruments included under the “Financial assets at fair value through other comprehensive income” heading, as at 31 December 2023 and 2022, are shown below:

Thousand euro

	2023	2022
Amortised cost	6,282,291	5,867,885
Fair value (*)	6,085,359	5,622,692
Accumulated losses recognised in equity	(269,215)	(298,718)
Accumulated capital gains recognised in equity	72,777	54,864
Value adjustments made for credit risk	(494)	(1,339)

(*) Includes net impairment losses in the consolidated income statements for 2023 and 2022, in the amount of 852 and -182 thousand euros, of which, -192 and -742 thousand euros correspond to allowances, and 1,044 and 560 thousand euros correspond to provision reversals, respectively (see Note 34).

Details of exposures held in public debt instruments included under the “Financial assets at fair value through other comprehensive income” heading, as at 31 December 2023 and 2022, are as follows:

Thousand euro

	2023	2022
Amortised cost	5,470,805	5,472,721
Fair value	5,242,996	5,226,075
Accumulated losses recognised in equity	(266,112)	(291,636)
Accumulated capital gains recognised in equity	38,433	45,097
Value adjustments made for credit risk	(130)	(107)

Details of the “Financial assets at amortised cost” portfolio as at 31 December 2023 and 2022 are shown below:

Thousand euro

	2023	2022
General governments	19,950,179	20,295,771
Credit institutions	1,380,685	970,492
Other sectors	170,340	186,768
Impairment allowances	(277)	(211)
Total	**21,500,927**	**21,452,820**

Note 9 – Equity instruments

The balance of equity instruments on the consolidated balance sheets as at 31 December 2023 and 2022 breaks down as follows:

Thousand euro

	2023	2022
By heading:		
Non-trading financial assets mandatorily at fair value through profit or loss	52,336	23,145
Financial assets at fair value through other comprehensive income	183,938	179,572
Total	**236,274**	**202,717**
By nature:		
Resident sector	200,584	176,474
Credit institutions	9,408	8,484
Other	191,176	167,990
Non-resident sector	18,007	15,034
Other	18,007	15,034
Participations in investment vehicles	17,683	11,209
Total	**236,274**	**202,717**
By currency:		
In euro	235,549	202,189
In foreign currency	725	528
Total	**236,274**	**202,717**

As at 31 December 2023 and 2022, there were no investments in listed equity instruments for which their quoted price was not considered as a reference of their fair value.

In addition, as at the aforesaid dates, there were no Group investments in equity instruments included in the portfolio of “Financial assets at fair value through other comprehensive income” considered to be individually significant.

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

Thousand euro

	2023	2022
Acquisition cost	243,197	241,468
Fair value	183,938	179,572
Accumulated capital losses recognised in equity at reporting date	(146,586)	(146,236)
Accumulated capital gains recognised in equity at reporting date	87,327	84,340
Transfers of gains or losses within equity during the year	(925)	(6,799)
Recognised dividends from investments held at the end of the year	8,413	2,609

Note 10 – Derivatives held for trading

The breakdown by type of risk of derivatives held for trading as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Securities risk	3,472	3,472	14,807	14,807
Interest rate risk	2,063,411	2,167,508	2,954,325	2,943,405
Foreign exchange risk	367,282	229,322	552,656	340,033
Other types of risk	129,829	129,784	78,334	75,791
Total	**2,563,994**	**2,530,086**	**3,600,122**	**3,374,036**
By currency:				
In euro	1,417,104	1,214,618	2,060,859	1,740,524
In foreign currency	1,146,890	1,315,468	1,539,263	1,633,512
Total	**2,563,994**	**2,530,086**	**3,600,122**	**3,374,036**

The fair values of derivatives held for trading, broken down by type of derivative instrument as at 31 December 2023 and 2022, are shown below:

Thousand euro	2023	2022
Assets		
Swaps, CCIRS, Call Money Swap	2,138,207	2,940,879
Currency options	62,626	126,794
Interest rate options	55,012	85,552
Index and securities options	3,472	14,807
Currency forwards	304,656	425,861
Fixed income forwards	21	6,229
Total derivatives on asset side held for trading	**2,563,994**	**3,600,122**
Liabilities		
Swaps, CCIRS, Call Money Swap	2,262,684	2,984,512
Currency options	62,745	126,486
Interest rate options	34,586	33,640
Index and securities options	3,472	14,807
Currency forwards	166,578	213,547
Fixed income forwards	21	1,044
Total derivatives on liability side held for trading	**2,530,086**	**3,374,036**

As at 31 December 2023, the Group holds embedded derivatives that have been separated from their host contracts and recognised under the heading “Financial liabilities held for trading – Derivatives” of the consolidated balance sheet in the amount of 18,483 thousand euros (278 thousand euros as at 31 December 2022). The host contracts of those embedded derivatives correspond to customer deposits and they have been allocated to the portfolio of financial liabilities at amortised cost.

Note 11 – Loans and advances

Central banks and Credit institutions

The breakdown of the headings "Loans and advances – Central banks" and "Loans and advances – Credit institutions" of the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
By heading:		
Financial assets at amortised cost	7,152,467	4,862,951
Total	**7,152,467**	**4,862,951**
By nature:		
Deposits with agreed maturity	974,533	1,055,449
Repos	5,601,564	3,255,069
Other	537,709	546,896
Impairment allowances	(3,135)	(2,777)
Other valuation adjustments (interest, fees and commissions, other)	41,796	8,314
Total	**7,152,467**	**4,862,951**
By currency:		
In euro	6,084,788	4,112,460
In foreign currency	1,067,679	750,491
Total	**7,152,467**	**4,862,951**

Customers

The breakdown of the heading “Loans and advances – Customers” (General governments and Other sectors) of the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
By heading:		
Non-trading financial assets mandatorily at fair value through profit or loss	35,098	—
Financial assets at amortised cost	152,260,399	158,729,681
Total	**152,295,497**	**158,729,681**
By nature:		
Overdrafts, etc.	2,769,073	3,369,675
Commercial loans	7,465,119	7,489,183
Finance leases	2,236,140	2,226,514
Secured loans	91,226,348	92,751,597
Repos	17,413	—
Other term loans	46,136,443	50,293,284
Stage 3 assets	5,472,296	5,460,665
Impairment allowances	(3,198,969)	(3,020,279)
Other valuation adjustments (interest, fees and commissions, other) (*)	171,634	159,042
Total	**152,295,497**	**158,729,681**
By sector:		
General governments	8,957,524	10,072,272
Other sectors	140,893,012	146,057,981
Stage 3 assets	5,472,296	5,460,665
Impairment allowances	(3,198,969)	(3,020,279)
Other valuation adjustments (interest, fees and commissions, other) (*)	171,634	159,042
Total	**152,295,497**	**158,729,681**
By currency:		
In euro	97,824,215	102,483,739
In foreign currency	54,471,282	56,245,942
Total	**152,295,497**	**158,729,681**
By geographical area:		
Spain	93,868,665	98,957,073
Rest of European Union	5,045,047	4,680,628
United Kingdom	44,254,530	46,088,800
Americas	10,991,155	10,556,298
Rest of the world	1,335,069	1,467,161
Impairment allowances	(3,198,969)	(3,020,279)
Total	**152,295,497**	**158,729,681**

(*) Other valuation adjustments of financial assets classified as stage 3 amount to 37,236 thousand euros as at 31 December 2023 and 29,922 thousand euros as at 31 December 2022.

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

Finance leases

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

Thousand euro

	2023	2022
Finance leases		
Total gross investment	2,477,207	2,410,412
Impairment allowances	(96,444)	(98,827)
Interest income	71,932	51,607

As at 31 December 2023 and 2022, the reconciliation of undiscounted lease payments received against the net investment in the leases is as follows:

Thousand euro

	2023	2022
Undiscounted lease payments received	2,318,548	2,255,402
Residual value	158,659	155,010
Gross investment in the lease	**2,477,207**	**2,410,412**
Unearned financial income	(241,067)	(183,898)
Net investment in the lease	**2,236,140**	**2,226,514**

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

Thousand euro

	2023	2022
Up to 1 year	596,371	502,389
1-2 years	549,969	528,719
2-3 years	388,839	398,780
3-4 years	258,360	264,057
4-5 years	168,571	171,803
More than 5 years	356,438	389,654
Total	**2,318,548**	**2,255,402**

Past-due financial assets

The balance of “Loans and advances – Customers” past-due and pending collection not classified as stage 3 amounted to 343,472 thousand euros as at 31 December 2023 (298,466 thousand euros as at 31 December 2022). Of this total, over 81% of the balance as at 31 December 2023 (74% of the balance as at 31 December 2022) was no more than one month past-due.

Financial assets classified on the basis of their credit risk

The breakdown of financial assets, not considering valuation adjustments, classified on the basis of their credit risk as at 31 December 2023 and 2022 is as follows:

Thousand euro

Stage 1	**31/12/2023**	**31/12/2022**
Debt securities	28,747,042	28,808,314
Loans and advances	145,291,906	147,334,819
Customers	138,178,496	142,483,973
Central banks and Credit institutions	7,113,410	4,850,846
Total stage 1	**174,038,948**	**176,143,133**
By sector:		
General governments	35,196,900	37,166,529
Central banks and Credit institutions	9,185,616	6,122,136
Other private sectors	129,656,433	132,854,468
Total stage 1	**174,038,948**	**176,143,133**
Stage 2		
Debt securities	—	49,173
Loans and advances	11,672,436	13,652,848
Customers	11,672,041	13,646,280
Central banks and Credit institutions	396	6,568
Total stage 2	**11,672,436**	**13,702,021**
By sector:		
General governments	11,200	5,207
Central banks and Credit institutions	396	6,568
Other private sectors	11,660,840	13,690,246
Total stage 2	**11,672,436**	**13,702,021**
Stage 3		
Debt securities	899	73
Loans and advances	5,472,297	5,460,665
Customers	5,472,296	5,460,665
Central banks and Credit institutions	—	—
Total stage 3	**5,473,196**	**5,460,738**
By sector:		
General governments	802	8,122
Central banks and Credit institutions	—	—
Other private sectors	5,472,394	5,452,615
Total stage 3	**5,473,196**	**5,460,738**
Total stages	**191,184,580**	**195,305,892**

Movements of gross values, not considering valuation adjustments, of assets subject to impairment by the Group during the years ended 31 December 2023 and 2022 were as follows:

Thousand euro

	Stage 1	*Stage 2*	*Stage 3*	*Of which: purchased credit-impaired*	**Total**
Balance as at 31 December 2021	**171,339,270**	**12,326,943**	**5,698,151**	***159,766***	**189,364,364**
Transfers between stages	(5,077,901)	3,536,810	1,541,091	—	—
Stage 1	7,237,830	(7,067,385)	(170,445)	—	—
Stage 2	(11,912,792)	12,560,731	(647,939)	—	—
Stage 3	(402,939)	(1,956,536)	2,359,475	—	—
Increases	64,002,931	1,245,295	447,319	*9,473*	65,695,545
Decreases	(52,904,809)	(3,217,206)	(1,778,439)	*(39,602)*	(57,900,454)
Transfers to write-offs	(319)	(817)	(419,658)	*881*	(420,794)
Adjustments for exchange differences	(1,216,039)	(189,004)	(27,726)	*(7,334)*	(1,432,769)
Balance as at 31 December 2022	**176,143,133**	**13,702,021**	**5,460,738**	***123,184***	**195,305,892**
Transfers between stages	(1,511,186)	191,372	1,319,814	—	—
Stage 1	9,046,690	(8,772,531)	(274,159)	—	—
Stage 2	(10,249,989)	10,797,954	(547,965)	—	—
Stage 3	(307,887)	(1,834,051)	2,141,938	—	—
Increases	50,604,996	1,489,365	448,084	*5,389*	52,542,445
Decreases	(52,266,707)	(3,814,228)	(1,387,800)	*(21,945)*	(57,468,735)
Transfers to write-offs	—	—	(386,109)	—	(386,109)
Adjustments for exchange differences	1,068,712	103,906	18,469	*2,505*	1,191,087
Balance as at 31 December 2023	**174,038,948**	**11,672,436**	**5,473,196**	***109,133***	**191,184,580**

The breakdown of assets classified as stage 3 by type of guarantee as at 31 December 2023 and 2022 is as follows:

Thousand euro

	31/12/2023	**31/12/2022**
Secured with a mortgage (*)	2,215,559	2,347,550
Of which: Stage 3 financial assets with guarantees covering all of the risk	*1,429,856*	*1,571,003*
Other collateral (**)	276,082	339,516
Of which: Stage 3 financial assets with guarantees covering all of the risk	*114,222*	*166,371*
Other	2,981,555	2,773,672
Total	**5,473,196**	**5,460,738**

(*) Assets secured with a mortgage with an outstanding exposure below 100% of their valuation amount.

(**) Includes the rest of assets secured with collateral.

The breakdown by geographical area of the balance of assets classified as stage 3 as at 31 December 2023 and 2022 is as follows:

Thousand euro

	31/12/2023	**31/12/2022**
Spain	4,141,559	4,216,505
Rest of European Union	450,006	456,072
United Kingdom	656,821	593,793
Americas	199,622	165,292
Rest of the world	25,188	29,076
Total	**5,473,196**	**5,460,738**

Movements of impaired financial assets derecognised from the asset side of the balance sheet as the likelihood of them being recovered during 2023 and 2022 was deemed to be remote were as follows:

Thousand euro	
Balance as at 31 December 2021	**5,929,842**
Additions	**579,122**
Use of accumulated impairment balance	399,682
Directly recognised on income statement	21,112
Contractually payable interests	155,795
Other items	2,533
Disposals	**(645,432)**
Collections of principal in cash from counterparties	(51,936)
Collections of interest in cash from counterparties	(2,188)
Debt forgiveness	(22,771)
Expiry of statute-of-limitations period	—
Forbearance	—
Sales	(468,369)
Foreclosure of tangible assets	(857)
Other items	(99,311)
Exchange differences	**(15,583)**
Balance as at 31 December 2022	**5,847,949**
Additions	**552,439**
Use of accumulated impairment balance	362,984
Directly recognised on income statement	23,125
Contractually payable interests	166,330
Other items	—
Disposals	**(193,768)**
Collections of principal in cash from counterparties	(47,446)
Collections of interest in cash from counterparties	(1,079)
Debt forgiveness	(55,234)
Expiry of statute-of-limitations period	—
Forbearance	—
Sales	(25,394)
Foreclosure of tangible assets	(694)
Other items	(63,921)
Exchange differences	**13,698**
Balance as at 31 December 2023	**6,220,318**

Allowances

Financial asset impairment allowances, broken down by consolidated balance sheet heading, classified according to their credit risk as at 31 December 2023 and 2022 were as follows:

Thousand euro

Stage 1	**2023**	**2022**
Debt securities	276	211
Loans and advances	372,373	347,269
Central banks and Credit institutions	2,752	2,773
Customers	369,621	344,496
Total stage 1	**372,649**	**347,480**
Stage 2		
Debt securities	—	—
Loans and advances	470,529	479,941
Central banks and Credit institutions	383	4
Customers	470,146	479,937
Total stage 2	**470,529**	**479,941**
Stage 3		
Debt securities	—	—
Loans and advances	2,359,203	2,195,845
Central banks and Credit institutions	—	—
Customers	2,359,202	2,195,845
Total stage 3	**2,359,203**	**2,195,845**
Total stages	**3,202,381**	**3,023,266**

The movement of impairment allowances allocated by the Group to cover credit risk during 2023 and 2022 was as follows:

Thousand euro

	Individually measured		Collectively measured			Total
	Stage 2	*Stage 3*	*Stage 1*	*Stage 2*	*Stage 3*	
Balance as at 31 December 2021	**2,595**	**548,461**	**377,703**	**491,438**	**1,883,898**	**3,304,096**
Movements reflected in impairment gains/(losses) (*)	**2,256**	**65,735**	**42,051**	**136,575**	**512,023**	**758,640**
Increases due to origination	—	—	267,330	—	—	267,330
Changes due to credit risk variance	4,841	88,109	(68,080)	158,783	521,049	704,702
Changes in calculation approach	—	—	—	—	—	—
Other movements	(2,585)	(22,374)	(157,199)	(22,208)	(9,026)	(213,392)
Movements not reflected in impairment gains/(losses)	**4,830**	**(60,100)**	**(72,352)**	**(153,318)**	**(749,124)**	**(1,030,064)**
Transfers between stages	4,830	6,202	(57,503)	(142,731)	189,202	—
Stage 1	(171)	(246)	98,181	(80,660)	(17,104)	—
Stage 2	9,782	(5,805)	(139,268)	209,346	(74,055)	—
Stage 3	(4,781)	12,253	(16,416)	(271,417)	280,361	—
Utilisation of allocated provisions	—	(91,556)	(39)	(82)	(922,192)	(1,013,869)
Other movements (**)	—	25,254	(14,810)	(10,505)	(16,134)	(16,195)
Adjustments for exchange differences	**29**	**902**	**78**	**(4,463)**	**(5,951)**	**(9,405)**
Balance as at 31 December 2022	**9,710**	**554,998**	**347,480**	**470,232**	**1,640,846**	**3,023,266**
Scope additions / exclusions						
Movements reflected in impairment gains/(losses) (*)	**(1,840)**	**68,586**	**69,867**	**124,296**	**459,570**	**720,479**
Increases due to origination	—	—	358,591	—	—	358,591
Changes due to credit risk variance	(2,301)	70,273	(61,521)	118,121	407,292	531,864
Changes in calculation approach	—	—	—	—	—	—
Other movements	461	(1,687)	(227,203)	6,175	52,278	(169,976)
Movements not reflected in impairment gains/(losses)	**3,901**	**(124,279)**	**(48,729)**	**(139,818)**	**(244,663)**	**(553,588)**
Transfers between stages	3,901	4,850	(48,109)	(137,732)	177,087	—
Stage 1	(530)	158	71,895	(69,050)	(2,474)	—
Stage 2	9,255	(10,993)	(111,887)	173,776	(60,152)	—
Stage 3	(4,824)	15,685	(8,117)	(242,458)	239,713	—
Utilisation of allocated provisions	—	(113,894)	(81)	(1,845)	(397,770)	(513,590)
Other movements (**)	—	(15,235)	(539)	(241)	(23,980)	(39,995)
Adjustments for exchange differences	**15**	**778**	**4,032**	**4,033**	**3,366**	**12,224**
Balance as at 31 December 2023	**11,786**	**500,083**	**372,650**	**458,743**	**1,859,119**	**3,202,381**

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

(**) Corresponds to credit loss allowances transferred to non-current assets held for sale and investment property .

The breakdown by geographical area of the balance of impairment allowances as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	**2022**
Spain	2,566,179	2,489,789
Rest of European Union	171,176	121,016
United Kingdom	283,907	253,629
Americas	167,230	145,458
Rest of the world	13,889	13,374
Total	**3,202,381**	**3,023,266**

Sensitivity analysis of the key variables of macroeconomic scenarios

The table below analyses the sensitivity of the expected loss of the Group and of the main geographies and its impact, by segment, on impairment allowances in the event of a deviation in the key variables, ceteris paribus, from the actual macroeconomic environment, with respect to the most probable baseline macroeconomic scenario envisaged in the Group's business plan:

Group			
	Change in the variable (*)	Impact on expected loss	
		Corporates	Individuals
GDP growth deviation	-100 pb	5.3%	2.1%
	+100 pb	(4.6)%	(1.9)%
Unemployment rate deviation	+100 pb	1.9%	2.9%
	-100 pb	(1.8)%	(2.2)%
House price growth deviation	-100 pb	0.7%	1.1%
	+100 pb	(0.6)%	(1.0)%

Spain			
	Change in the variable (*)	Impact on expected loss	
		Corporates	Individuals
GDP growth deviation	-100 pb	5.3%	2.7%
	+100 pb	(4.7)%	(2.4)%
Unemployment rate deviation	+100 pb	1.9%	1.2%
	-100 pb	(1.8)%	(1.0)%
House price growth deviation	-100 pb	0.7%	1.3%
	+100 pb	(0.6)%	(1.2)%

United Kingdom		
	Change in the variable (*)	Impact on expected loss
		Individuals
Unemployment rate deviation (**)	+100 pb	9.1%
	-100 pb	(6.4)%
House price growth deviation	-100 pb	0.4%
	+100 pb	(0.4)%

(*) Changes to macroeconomic variables are applied in absolute terms.

(**) Changes to macroeconomic variables are applied in absolute terms. In the scenario of a change to the UK unemployment rate, a deviation of +/- 100 bp represents the relative value of a deviation from the macroeconomic variable more than two times greater than in Spain.

Note 12 – Derivatives - hedge accounting

Hedging management

The main hedges arranged by the Group are described below:

Interest rate risk hedge

Based on the balance sheet position and the market situation and outlooks, interest rate risk mitigation strategies are proposed and agreed upon to adapt that position to the one desired by the Group. With this aim in mind, the Group establishes interest rate risk hedging strategies for positions that are not included in the trading book and, to that end, derivative instruments are used, whether fair value or cash flow hedging instruments, and a distinction is made between them depending on the items hedged:

- Macro-hedges: hedges intended to mitigate the risk of balance sheet components.
- Micro-hedges: hedges intended to mitigate the risk of a particular asset or liability.

When a transaction is designated as a hedging operation, it is classified as such from the inception of the transaction or of the instruments included in the hedge, and a document is prepared which covers the hedging strategy, defining it in management and accounting terms and setting out its governance arrangements. The aforesaid document clearly identifies the item(s) hedged and the hedging instrument(s), the risk that it seeks to hedge and the criteria or methodologies followed by the Group to evaluate its effectiveness.

The Group operates with the following types of hedges intended to mitigate structural interest rate risk:

- Fair value hedges: hedges against the exposure to changes in the fair value of assets and liabilities recognised on the balance sheet, or against the analogous exposure of a specific selection of such assets and liabilities, that can be attributed to interest rate risk. These are used to keep a stable economic value of equity.

  The main types of balance sheet items hedged are:

  - Fixed-rate loans included in the lending portfolio.
  - Debt securities included in the portfolio of “Financial assets at fair value through other comprehensive income” and the portfolio of “Financial assets at amortised cost”.
  - Fixed-rate liabilities, including fixed-term deposits and the Institution’s funding operations in capital markets.

  Banco Sabadell generally uses macro-hedging for balance sheet items, both assets and liabilities, while TSB uses macro-hedging for fixed-rate loans or deposits and micro-hedging for debt securities or the Bank’s funding operations in capital markets, for which derivative contracts are arranged, typically for a nominal amount identical to that of the hedged item and with the same financial characteristics.

  If the hedge relates to assets, the Group enters into a fixed-for-floating swap, whereas if the hedge relates to liabilities, it enters into a floating-to-fixed interest rate swap. These derivatives can be traded in cash or as forwards. The hedged risk is the interest rate risk deriving from a potential change in the risk-free interest rate that gives rise to changes in the value of the hedged balance sheet items. As such, the hedge will not cover any risk inherent in the hedged items other than the risk of a change in the risk-free interest rate.

  In order to assess the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated monthly variance in the fair value of the hedged item against the accumulated monthly variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that future changes in the fair value of the hedged balance sheet items are offset by future changes in the fair value of the derivative in the event of any changes in the market interest rate curve.

- Cash flows: hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction that could affect profit or loss. They are used to reduce net interest income volatility.

  The main types of balance sheet items hedged are:

  - Floating-rate mortgage loans indexed to the mortgage Euribor.

  - Floating-rate liabilities indexed to the 3-month Euribor.

  Banco Sabadell generally uses macro-hedging for balance sheet items, both assets and liabilities, while TSB also uses micro-hedging for floating-rate issues of its own-name securities, for which derivative contracts are arranged, typically for a nominal amount identical to that of the hedged item and with the same financial characteristics.

  If the hedge relates to assets, the Group enters into a floating-to-fixed interest rate swap, whereas if the hedge relates to liabilities, it enters into a fixed-for-floating swap. These derivatives can be traded in cash or as forwards. The hedged risk is the interest rate risk deriving from a potential change in the benchmark interest rate that affects the future interest accrued on hedged balance sheet items. The credit risk spread or credit risk premium which, together with the benchmark index, makes up the contractual interest rate applicable to the hedged balance sheet items is expressly excluded from the hedge.

  In order to assess the effectiveness of the hedge from the beginning, a backtesting exercise is carried out which compares the accumulated variance in the fair value of the hedged item against the accumulated variance in the fair value of the hedging derivative. Hedge effectiveness is also assessed on a forward-looking basis, verifying that the expected cash flows of the hedged items are still highly probable.

Possible causes of partial or total ineffectiveness include changes in the sufficiency of the portfolio of hedged balance sheet items or differences in their contractual characteristics in relation to hedging derivatives.

Every month the Group calculates the interest rate risk metrics and establishes hedging strategies in accordance with the established risk appetite framework. Hedges are therefore managed, establishing hedges or discontinuing them, as required, on the basis of the evolution of the balance sheet items described previously within the management and control framework defined by the Group through its policies and procedures.

Hedges of net investment in foreign operations

The positions of subsidiaries and foreign branches implicitly entail exposure to foreign exchange risk, which is managed by creating hedges through the use of forward contracts and options.

The maturities of these instruments are periodically renewed on the basis of prudential and forward-looking criteria.

2023 hedging disclosures

The nominal values and the fair values of hedging instruments as at 31 December 2023 and 2022, broken down by risk category and type of hedge, are as follows:

Thousand euro

	2023			2022		
	Nominal	Assets	Liabilities	Nominal	Assets	Liabilities
Microhedges:						
Fair value hedges	**11,305,664**	**812,117**	**246,705**	**8,353,601**	**831,005**	**207,837**
Foreign exchange risk	—	—	—	—	—	—
Of liability-side transactions	—	—	—	—	—	—
Of permanent investments	—	—	—	—	—	—
Of non-monetary items	—	—	—	—	—	—
Interest rate risk	3,131,379	764,450	27,988	4,121,267	790,860	32,908
Of liability-side transactions (A)	*686,434*	*912*	*23,990*	*65,304*	—	*5,532*
Of asset-side transactions (B)	*2,444,945*	*763,538*	*3,998*	*4,055,963*	*790,860*	*27,376*
Equity risk	8,174,285	47,667	218,717	4,232,334	40,145	174,929
Of liability-side transactions (A)	*8,174,285*	*47,667*	*218,717*	*4,232,334*	*40,145*	*174,929*
Cash flow hedges	**2,749,498**	**104,510**	**24,886**	**5,153,957**	**172,117**	**134,543**
Foreign exchange risk	—	—	—	—	—	—
Of non-monetary items	—	—	—	—	—	—
Interest rate risk	1,993,010	99,229	4,091	3,915,860	162,137	3,875
Of future transactions (C)	—	—	—	*332,674*	*11,466*	*1,733*
Of liability-side transactions (A)	*875,071*	*97,768*	*4,088*	*1,155,712*	*147,454*	*1,201*
Of securitisation transactions (D)	*1,117,939*	*1,461*	*3*	*2,427,474*	*3,217*	*941*
Other	—	—	—	—	—	—
Equity risk	31,380	258	9	63,980	—	640
Of liability-side transactions (E)	*31,380*	*258*	*9*	*63,980*	—	*640*
Other risks	725,108	5,023	20,786	1,174,117	9,980	130,028
Of inflation-linked bonds (F)	*725,000*	*5,023*	*20,786*	*1,174,000*	—	*130,028*
Of future transactions (C)	*108*	—	—	*117*	*9,980*	—
Hedge of net investment in foreign operations	**1,343,425**	**16,867**	**4,910**	**1,217,579**	**31,352**	**—**
Foreign exchange risk (G)	*1,343,425*	*16,867*	*4,910*	*1,217,579*	*31,352*	—
Macrohedges:						
Fair value hedges	**48,904,105**	**1,484,180**	**864,880**	**39,183,746**	**2,037,523**	**898,400**
Interest rate risk	48,904,105	1,484,180	864,880	39,183,746	2,037,523	898,400
For funding operations (H)	*19,619,340*	*138,287*	*581,242*	*15,428,947*	*14,607*	*882,905*
For lending operations (I)	*29,284,765*	*1,345,893*	*283,638*	*23,754,799*	*2,022,916*	*15,495*
Cash flow hedges	**9,800,000**	**6,924**	**30,576**	**2,050,000**	**94**	**1,690**
Interest rate risk	9,800,000	6,924	30,576	2,050,000	94	1,690
Of liability-side transactions	—	—	—	—	—	—
Of asset-side transactions (J)	*9,800,000*	*6,924*	*30,576*	*2,050,000*	*94*	*1,690*
Total	**74,102,692**	**2,424,598**	**1,171,957**	**55,958,883**	**3,072,091**	**1,242,470**
By currency:						
In euro	*40,869,593*	*872,897*	*831,600*	28,752,613	1,303,596	935,274
In foreign currency	*33,233,099*	*1,551,701*	*340,357*	27,206,270	1,768,495	307,196
Total	**74,102,692**	**2,424,598**	**1,171,957**	**55,958,883**	**3,072,091**	**1,242,470**

The types of hedges according to their composition that are identified in the table are as follows:

A. Micro-hedges of interest rate risk on the Institution's funding operations in capital markets and transactions involving structured term deposits opened by customers, recognised under the heading "Financial liabilities at amortised cost".

B. Micro-hedges of transactions involving loans granted to customers, recognised under the heading "Financial assets at amortised cost", and those involving debt securities under the headings "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost". As at 31 December 2023, the hedge of transactions involving loans granted to customers was no longer in effect.

C. Micro-hedges of future transactions. The Institution designates as a hedging item those derivative contracts that will be settled at their gross amount through the transfer of the underlying asset (generally fixed-income securities) according to the contract price.

D. Micro-hedging operations carried out by the Group's securitisation funds.

E. Micro-hedges of transactions involving structured term deposits arranged with customers and which are currently being sold.

F. Micro-hedges of interest rates on inflation-linked bonds, recognised under the heading "Financial assets at amortised cost". The Group has arranged financial swaps to hedge future changes in cash flows that will be settled by inflation-linked bonds.

G. Hedges against foreign exchange risk on permanent investments currently cover 393 million pounds sterling and 8,553 million Mexican pesos corresponding to interests held in Group entities (333 million pounds sterling and 9,253 million Mexican pesos as at 31 December 2022) and 480 million US dollars corresponding to interests held in foreign branches (425 million US dollars as at 31 December 2022). All of these hedges are arranged through currency forwards.

H. Macro-hedges of the Institution's funding operations in capital markets and transactions involving term deposits and demand deposits arranged by customers recognised under the heading "Financial liabilities at amortised cost".

I. Macro-hedges of debt securities classified under the headings "Financial assets at fair value through other comprehensive income" and "Financial assets at amortised cost", and of fixed-rate mortgage loans granted to customers recognised under the heading "Financial assets at amortised cost".

J. Macro-hedges of floating-rate mortgage loans granted to customers recognised under the heading "Financial assets at amortised cost". The average rate of interest rate swaps used for this hedge was 3.87% as at 31 December 2023 (3.59% as at 31 December 2022).

The maturity profiles of the hedging instruments used by the Group as at 31 December 2023 and 2022 are shown below:

Thousand euro

	2023					
	Nominal					
	Up to 1 month	1 to 3 months	3 to 12 months	1 and 5 years	More than 5 years	Total
Foreign exchange risk	675,264	645,726	22,435	—	—	**1,343,425**
Interest rate risk	586,848	3,898,997	14,262,726	28,693,797	16,386,126	**63,828,494**
Equity risk	49,073	229,858	2,809,004	5,106,350	11,380	**8,205,665**
Other risks	—	—	—	525,000	200,108	**725,108**
Total	**1,311,185**	**4,774,581**	**17,094,165**	**34,325,147**	**16,597,614**	**74,102,692**

Thousand euro

	2022					
	Nominal					
	Up to 1 month	1 to 3 months	3 to 12 months	1 and 5 years	More than 5 years	Total
Foreign exchange risk	460,156	737,282	20,141	—	—	**1,217,579**
Interest rate risk	1,114,907	1,535,196	6,092,608	22,276,713	18,251,449	**49,270,873**
Equity risk	60,038	90,741	408,348	3,539,198	197,989	**4,296,314**
Other risks	—	—	449,000	200,000	525,117	**1,174,117**
Total	**1,635,101**	**2,363,219**	**6,970,097**	**26,015,911**	**18,974,555**	**55,958,883**

In 2023 and 2022 there were no reclassifications from equity to the consolidated income statement due to cash flow hedges and hedges of net investments in foreign operations for transactions that were ultimately not executed.

The following table shows the accounting information of items covered by the fair value micro-hedges arranged by the Group:

Thousand euro

	2023				
	Carrying amount of hedged item		Accumulated fair value adjustments in the hedged item		Accumulated amount of adjustments in hedged items for which hedge accounting no longer applies
	Assets	Liabilities	Assets	Liabilities	
Micro-hedges:					
Fair value hedges					
Foreign exchange risk	—	—	—	—	—
Interest rate risk	2,277,611	344,500	(834,132)	(26,400)	(620)
Equity risk	—	4,052,256	—	(17,108)	—
Total	**2,277,611**	**4,396,756**	**(834,132)**	**(43,508)**	**(620)**

Thousand euro

	2022				
	Carrying amount of hedged item		Accumulated fair value adjustments in the hedged item		Accumulated amount of adjustments in hedged items for which hedge accounting no longer applies
	Assets	Liabilities	Assets	Liabilities	
Micro-hedges:					
Fair value hedges					
Foreign exchange risk	—	—	—	—	—
Interest rate risk	3,783,282	322,472	(538,313)	(40,517)	(76)
Equity risk	—	2,040,966	—	(92,318)	—
Total	**3,783,282**	**2,363,438**	**(538,313)**	**(132,835)**	**(76)**

In terms of fair value macro-hedges, the carrying amount of the hedged items recognised in assets and liabilities for 2023 amounted to 66,138,396 thousand euros and 44,657,503 thousand euros, respectively (78,804,701 thousand euros and 52,078,774 thousand euros in 2022, respectively). Similarly, fair value adjustments of the hedged asset and liability items in the portfolio hedge of interest rate risk amounted to -567,608 thousand euros and -422,347 thousand euros as at 31 December 2023, respectively (-1,545,607 thousand euros and -959,106 thousand euros as at 31 December 2022).

In relation to fair value hedges, the losses and gains recognised in 2023 and 2022 arising from both hedging instruments and hedged items are detailed hereafter:

Thousand euro

	2023		2022	
	Hedging instruments	Hedged items	Hedging instruments	Hedged items
Micro-hedges	**(331,922)**	**64,566**	**596,080**	**(599,425)**
Fixed-rate assets	(352,997)	85,530	735,627	(739,915)
Capital markets and fixed-rate liabilities	76,055	(75,866)	(107,478)	108,411
Assets denominated in foreign currency	(54,980)	54,902	(32,069)	32,079
Macro-hedges	**(289,542)**	**575,855**	**1,126,218**	**(1,104,218)**
Capital markets and fixed-rate liabilities	535,919	(548,298)	(982,993)	990,659
Fixed-rate assets	(825,461)	1,124,153	2,109,211	(2,094,877)
Total	**(621,464)**	**640,421**	**1,722,298**	**(1,703,643)**

In cash flow hedges, the amounts recognised in the consolidated statement of equity during the year and the amounts derecognised from consolidated equity and included in profit and loss during the year are indicated in the consolidated statement of total changes in equity.

The ineffectiveness of cash flow hedges recognised in profit or loss for 2023 amounted to losses of 6,763 thousand euros (losses of 804 thousand euros in 2022).

As at 31 December 2023, the Group holds embedded derivatives that have been separated from their host contracts and recognised under the headings "Derivatives – Hedge accounting" on the asset side and on the liabilities side of the consolidated balance sheet in the amount of 18,322 thousand euros and 173,828 thousand euros, respectively (33,586 thousand euros and 46,917 thousand euros, respectively, as at 31 December 2022). The host contracts of those embedded derivatives correspond to customer deposits and debt securities issued and they have been allocated to the portfolio of financial liabilities at amortised cost.

Note 13 – Non-current assets and disposal groups classified as held for sale

The composition of this heading in the consolidated balance sheets as at 31 December 2023 and 2022 was as follows:

Thousand euro

	2023	2022
Assets	**991,045**	**951,792**
Loans and advances	6,328	10,337
Customers	6,328	10,337
Equity instruments	159,748	159,748
Real estate exposure	708,051	777,108
Tangible assets for own use	49,432	56,030
Foreclosed assets	658,619	721,078
Other tangible assets	103,864	—
Rest of other assets	13,054	4,599
Impairment allowances	**(220,167)**	**(213,479)**
Non-current assets and disposal groups classified as held for sale	**770,878**	**738,313**
Liabilities	**13,347**	
Financial liabilities at amortised cost	12,682	—
Tax liabilities	665	—
Liabilities included in disposal groups classified as held for sale	**13,347**	**—**

Tangible assets for own use relate mainly to commercial premises.

Regarding real estate assets obtained through foreclosures, 94.37% of the balance corresponds to residential properties, 5.18% to industrial properties and 0.45% to agricultural properties.

The average term during which assets remained within the category of "Non-current assets and assets and liabilities included in disposal groups classified as held for sale – Foreclosed assets" was 61 months in 2023 (53 months in 2022). The policies on the sale or disposal by other means of these assets are described in Note 4.4.2.1.

The percentage of foreclosed assets sold with financing granted to the buyer in 2023 was 3.3% (4.9% in 2022). On the date of sale, these properties had a gross asset value of 4.6 million euros in 2023 (5.7 million euros in 2022).

This heading includes the amounts of assets linked to the strategic agreement signed with Nexi S.p.A. in relation to the merchant acquiring business. These assets have been reclassified as "Non-current assets and disposal groups classified as held for sale" and will remain so until the transaction is fully closed (see Note 2).

Similarly, this heading also includes the 20% stake held in the associate company Promontoria Challenger I, S.A., an entity controlled by Cerberus, to which the Group transferred a large portion of its real estate exposure in 2019.

Movements in “Non-current assets and disposal groups classified as held for sale” during 2023 and 2022 were as follows:

Thousand euro

	Note	Non-current assets held for sale
Cost:		
Balances as at 31 December 2021		**998,210**
Additions		63,908
Disposals		(114,227)
Transfer of credit losses (*)		(16,195)
Other transfers/reclassifications		20,096
Balances as at 31 December 2022		**951,792**
Additions		171,503
Disposals		(302,164)
Transfer of credit losses (*)		(11,620)
Other transfers/reclassifications		181,534
Balances as at 31 December 2023		**991,045**
Impairment allowances:		
Balances as at 31 December 2021		**220,175**
Impairment through profit or loss	37	48,966
Reversal of impairment through profit or loss	37	(45,542)
Utilisations		(26,170)
Other transfers/reclassifications		16,050
Balances as at 31 December 2022		**213,479**
Impairment through profit or loss	37	56,629
Reversal of impairment through profit or loss	37	(22,317)
Utilisations		(56,997)
Other transfers/reclassifications		29,373
Balances as at 31 December 2023		**220,167**
Net balances as at 31 December 2022		**738,313**
Net balances as at 31 December 2023		**770,878**

(*) Allowance arising from provisions allocated to cover credit risk.

Details of the net carrying amount of transfers shown in the table above are as follows:

Thousand euro

	Note	2023	2022
Loans and advances		5,667	10,153
Tangible assets	15	136,614	(5,941)
Intangible assets	16	8,499	—
Other assets		—	—
Inventories		—	—
Equity interests		—	—
Other		1,381	(166)
Total		**152,161**	**4,046**

Note 14 – Investments in joint ventures and associates

Movements in this heading of the consolidated balance sheets during the financial years 2023 and 2022 were as follows:

Thousand euro

Balance as at 31 December 2021	**638,782**
Profit/(loss) for the year	122,167
Acquisition or capital increase (*)	1,747
Sale or dissolution	(49,972)
Dividends	(151,818)
Impairment, allowances, translation differences and other	(45,661)
IFRS 17 restatement impact (**)	(138,305)
Balance as at 31 December 2022	**376,940**
Profit/(loss) for the year	122,807
Acquisition or capital increase (*)	1,356
Dividends	(28,669)
Impairment, allowances, translation differences and other	(9,678)
Balance as at 31 December 2023	**462,756**

(*) See consolidated cash flow statement.

(**) See Note 1.4.

The section of the cash flow statement entitled "Investing activities – Collections from investments in joint ventures and associates" shows an amount of 28,669 thousand euros, which corresponds to dividends received. On the other hand, the section "Investing activities – Payments for investments in joint ventures and associates" of that statement shows an amount of 1,356 thousand euros corresponding to the acquisitions and capital increases carried out in 2023.

The main investee companies included in the accounts for the first time and those no longer included in 2023 y 2022 are indicated in Schedule I.

As at 31 December 2023 and 2022, no support agreements or other type of significant contractual commitment had been provided by the Bank or its subsidiaries to associates.

The reconciliation between the Group's investment in investees and the balance recorded under the heading "Investments in joint ventures and associates" is as follows:

Thousand euro

	2023	2022 (*)
Group investment in associates (Schedule I)	219,544	220,505
Contributions due to retained earnings	239,000	143,636
Value adjustments and other	4,212	12,799
Total	**462,756**	**376,940**

(*) See Note 1.4.

Set out below are the most relevant financial data of the associate BanSabadell Vida, S.A. as at 31 December 2023 and 2022, through which the Bank extends its customer offer via the distribution of insurance products through its branch network:

Thousand euro

	BanSabadell Vida (*)	
	2023	**2022**
Total assets	9,556,627	8,808,926
Of which: financial investments	*8,510,475*	*7,802,671*
Total liabilities	8,837,988	8,209,481
Of which: technical provisions	*9,037,426*	*8,561,133*
Profit/(loss) of Vida's technical account	136,313	125,764
Of which: premiums earned during the year	*2,511,257*	*1,053,473*
Of which: claims paid during the year	*(1,963,876)*	*(1,276,160)*
Of which: technical financial yield	*211,763*	*155,337*

(*) Figures taken from BanSabadell Vida accounts without taking into consideration consolidation adjustments or the Group's percentage holding.

As at 31 December 2023 and 2022, the carrying amount of the investment in BanSabadell Vida, S.A. amounted to 210,941 thousand euros and 126,978 thousand euros, respectively. Furthermore, as at these dates, the aggregate carrying amount of investments in associates not considered individually significant was 251,815 thousand euros and 249,962 thousand euros, respectively.

Note 15 – Tangible assets

The composition of this heading in the consolidated balance sheets as at 31 December 2023 and 2022 was as follows:

Thousand euro

	2023				2022			
	Cost	**Depreciation**	**Impairment**	**Net amount**	**Cost**	**Depreciation**	**Impairment**	**Net amount**
Property, plant and equipment	**3,930,317**	**(1,818,023)**	**(45,188)**	**2,067,106**	**4,082,057**	**(1,754,760)**	**(45,248)**	**2,282,049**
For own use:	3,907,505	(1,804,259)	(45,188)	2,058,058	4,061,108	(1,743,155)	(45,248)	2,272,705
Computer equipment and related facilities	587,570	(415,704)	—	171,866	727,049	(483,483)	—	243,566
Furniture, vehicles and other facilities	935,347	(590,146)	—	345,201	956,696	(572,885)	—	383,811
Buildings	2,329,727	(789,168)	(45,188)	1,495,371	2,258,790	(675,671)	(45,248)	1,537,871
Work in progress	19,011	—	—	19,011	31,501	—	—	31,501
Other	35,850	(9,241)	—	26,609	87,072	(11,116)	—	75,956
Leased out under operating leases	22,812	(13,764)	—	9,048	20,949	(11,605)	—	9,344
Investment properties	**369,376**	**(62,302)**	**(77,476)**	**229,598**	**438,398**	**(54,423)**	**(84,233)**	**299,742**
Buildings	369,376	(62,302)	(77,476)	229,598	438,004	(54,423)	(83,922)	299,659
Rural property, plots and sites	—	—	—	—	394	—	(311)	83
Total	**4,299,693**	**(1,880,325)**	**(122,664)**	**2,296,704**	**4,520,455**	**(1,809,183)**	**(129,481)**	**2,581,791**

Movements in the balance under this heading during 2023 and 2022 were as follows:

Thousand euro

	Note	Own use - Buildings, work in progress and other	Own use - Computer equipment, furniture and related facilities	Investment properties	Leased out under operating leases	Total
Cost:						
Balances as at 31 December 2021		**2,452,478**	**1,715,625**	**504,952**	**5,380**	**4,678,432**
Additions		99,878	123,020	190	15,852	238,940
Disposals		(79,904)	(156,271)	(111,219)	—	(347,394)
Transfers		(68,553)	6,077	44,477	—	(17,999)
Exchange rate		(26,536)	(4,704)	—	(283)	(31,523)
Balances as at 31 December 2022		**2,377,363**	**1,683,747**	**438,400**	**20,949**	**4,520,456**
Additions		113,393	121,534	62	1,431	236,420
Disposals		(86,630)	(61,866)	(61,062)	—	(209,558)
Transfers		(29,137)	(223,188)	(8,024)	—	(260,349)
Exchange rate		9,599	2,693	—	432	12,724
Balances as at 31 December 2023		**2,384,588**	**1,522,920**	**369,376**	**22,812**	**4,299,693**
Accumulated depreciation:						
Balances as at 31 December 2021		**633,494**	**1,070,034**	**54,308**	**2,587**	**1,760,423**
Additions		129,684	137,613	9,616	9,514	286,427
Disposals		(56,639)	(149,642)	(11,937)	—	(218,218)
Transfers		(10,436)	1,387	2,436	—	(6,613)
Exchange rate		(9,317)	(3,023)	—	(496)	(12,836)
Balances as at 31 December 2022		**686,786**	**1,056,369**	**54,423**	**11,605**	**1,809,183**
Additions		137,953	113,267	9,366	1,916	262,502
Disposals		(22,813)	(42,028)	(5,411)	—	(70,252)
Transfers		(7,075)	(123,090)	3,924	—	(126,241)
Exchange rate		3,558	1,332	—	243	5,133
Balances as at 31 December 2023		**798,409**	**1,005,850**	**62,302**	**13,764**	**1,880,325**
Impairment losses:						
Balances as at 31 December 2021		**69,877**	**—**	**71,375**	**—**	**141,251**
Impairment through profit or loss	35	2,078	—	58,163	—	60,241
Reversal of impairment through profit or loss	35	(162)	—	(22,981)	—	(23,143)
Utilisations		(4,596)	—	(34,407)	—	(39,003)
Transfers		(21,948)	—	12,084	—	(9,864)
Balances as at 31 December 2022		**45,249**	**—**	**84,234**	**—**	**129,482**
Impairment through profit or loss	35	3,319	—	17,053	—	20,372
Reversal of impairment through profit or loss	35	(1,389)	—	(7,457)	—	(8,846)
Utilisations		—	—	(20,271)	—	(20,271)
Transfers		(1,990)	—	3,917	—	1,927
Balances as at 31 December 2023		**45,189**	**—**	**77,476**	**—**	**122,664**
Net balances as at 31 December 2022		**1,645,329**	**627,378**	**299,742**	**9,344**	**2,581,791**
Net balances as at 31 December 2023		**1,540,991**	**517,070**	**229,597**	**9,048**	**2,296,704**

The net carrying amount of "Transfers" in 2023 was -136,035 thousand euros (-1,522 thousand euros in 2022), of which 579 thousand euros (-7,463 thousand euros in 2022) correspond to reclassifications from the heading "Inventories" (see Note 17) and -136,614 thousand euros (5,941 thousand euros in 2022) to reclassifications of assets from or to the heading "Non-current assets and disposal groups classified as held for sale" (see Note 13).

Specific information relating to tangible assets as at 31 December 2023 and 2022 is shown hereafter:

Thousand euro

	2023	2022
Gross value of tangible assets for own use in use and fully depreciated	572,004	440,137
Net carrying amount of tangible assets of foreign operations	302,192	369,759

Lease contracts in which the Group acts as lessee

As at 31 December 2023, the cost of property, plant and equipment for own use includes right-of-use assets corresponding to leased tangible assets in which the Group acts as lessee, in the amount of 1,359,188 thousand euros, which have accumulated depreciation of 486,883 thousand euros and are impaired in the amount of 40,026 thousand euros as at the aforesaid date (1,293,944 thousand euros as at 31 December 2022, which had accumulated depreciation of 396,041 thousand euros and were impaired in the amount of 38,657 thousand euros as at that date).

The expense recognised in the consolidated income statement for 2023 for the depreciation and impairment of right-of-use assets corresponding to leased tangible assets in which the Group acts as lessee amounted to 94,454 thousand euros and 1,369 thousand euros, respectively (96,017 thousand euros and 1,991 thousand euros, respectively, in 2022).

Information is set out below concerning the lease contracts in which the Group acts as lessee:

Thousand euro

	2023	**2022**
Interest expense on lease liabilities	(16,910)	(15,347)
Expense related to short-term low-value leases (*)	(11,793)	(11,592)
Total lease payments in cash (**)	106,577	110,950

(*) Recognised in the "Administrative expenses" heading, in the item on "Of property, plant and equipment" (see Note 33).

(**) Payments of the principal and interest components of the lease liability are recognised as cash flows from financing activities in the Group's consolidated cash flow statement.

The future cash outflows to which the Group may potentially be exposed as lessee and which are not included under lease liabilities are not significant.

Minimum future payments over the non-cancellable period for lease contracts in effect as at 31 December 2023 and 2022 are indicated below:

Thousand euro

	2023	**2022**
Undiscounted lease payments receivable		
Up to 1 month	7,424	1,348
1 to 3 months	18,825	25,356
3 to 12 months	75,693	76,513
1 to 5 years	351,045	352,018
More than 5 years	516,939	511,547

Sale and leaseback transactions

Between 2009 and 2012, the Group completed transactions for the sale of properties and simultaneously entered into a lease contract, for the same properties, with the buyers (maintenance, insurance and taxes to be borne by the Bank). The main characteristics of the most significant lease contracts in effect as at the end of 2023 are as follows:

Operating lease contracts	**No. properties sold**	**No. contracts with purchase option**	**No. contracts without purchase option**	**Mandatory term**
2009	60	23	37	10 to 20 years
2010	377	376	1	10 to 25 years
2011 (acquisition B.Guipuzcoano)	32	24	8	8 to 20 years
2012 (acquisition Banco CAM)	12	12	—	10 to 25 years
2012	4	4	—	15 years

Specific information in connection with this set of lease contracts as at 31 December 2023 and 2022 is given below:

Thousand euro

	2023	2022
Undiscounted lease payments receivable		
Up to 1 month	4,145	130
1 to 3 months	8,021	11,167
3 to 12 months	36,677	34,392
1 to 5 years	193,424	178,154
More than 5 years	350,954	367,262

In 2023 and 2022, no significant profit/(loss) was recorded for sale and leaseback transactions.

Contracts in which the Group acts as lessor

The lease contracts entered into by the Group in which it acts as lessor are mainly operating leases.

The Group implements strategies to reduce risks related to the rights held over the underlying assets. For example, the lease contracts include clauses which stipulate a minimum non-cancellable lease term, a deposit which the lessor may retain as compensation if the asset sustains excessive wear during the lease term, and additional guarantees or sureties to limit losses in the event of non-payment.

As regards the investment properties item, the rental income from these investment properties and the direct costs associated with the investment properties that produced rental income during 2023 amounted to 22,850 thousand euros and 9,908 thousand euros, respectively (23,474 thousand euros and 9,768 thousand euros in 2022). Direct costs associated with investment properties that did not produce rental income were not significant in the context of the consolidated annual financial statements.

Note 16 – Intangible assets

The composition of this heading in the consolidated balance sheets as at 31 December 2023 and 2022 was as follows:

Thousand euro

	2023	2022
Goodwill:	**1,018,311**	**1,026,810**
Banco Urquijo	473,837	473,837
Grupo Banco Guipuzcoano	285,345	285,345
From acquisition of Banco BMN Penedés assets	245,364	245,364
Other	13,765	22,264
Other intangible assets:	**1,464,763**	**1,457,352**
With a finite useful life:	1,464,763	1,457,352
Private Banking Business, Miami	1,825	4,925
Contractual relations with TSB customers and brand	17,509	39,783
Computer software	1,444,408	1,411,516
Other	1,021	1,128
Total	**2,483,074**	**2,484,162**

Goodwill

As set forth in the regulatory framework of reference, Banco Sabadell carried out an analysis in 2023 to evaluate the existence of any potential impairment of its goodwill.

The main transactions that generated goodwill were the acquisition of Banco Urquijo in 2006, of Banco Guipuzcoano in 2010 and of certain assets of BMN-Penedès in 2013.

Banco Sabadell Group monitors the Group's total goodwill across the ensemble of Cash-Generating Units (CGUs) that make up the Banking Business Spain operating segment. In addition, the Group considers that the United Kingdom operating segment is a CGU.

The value in use of the Banking Business Spain operating segment is used to determine its recoverable amount. The valuation method used in this analysis was that of discounting future net distributable profit associated with the activity carried out by the Banking Business Spain operating segment until 2028, plus an estimated terminal value.

The projections used to determine the recoverable amount are those set out in the financial projections approved by the Board of Directors. Those projections are based on sound and well-founded assumptions, which represent Management's best estimates of overall upcoming economic conditions. To determine the key variables (basically net interest income, fees and commissions, expenses, cost of risk and solvency levels) that underpin the financial projections, Management has used microeconomic variables, such as the existing balance sheet structure, market positioning and strategic decisions made, as well as macroeconomic variables, such as the expected evolution of GDP and the forecast evolution of interest rates and unemployment. The macroeconomic variables used for the baseline macroeconomic scenario, described in Note 1 were estimated by the Group's Research Service.

The approach used to determine the values of assumptions is based both on the projections and on past experience. These values are compared against external information sources, where available.

In 2023, to calculate the terminal value, Spain's real GDP in 2028 was taken as reference, using a growth rate in perpetuity of 1.8% (1.9% in 2022), which does not exceed the long-term average growth rate of the market in which the operating segment is active. The discount rate used was 11.2% (10.4% in 2022), determined using the Capital Asset Pricing Model (CAPM); it therefore comprises a risk-free rate (10-year Spanish bond) plus a risk premium which reflects the inherent risk of the operating segment being evaluated.

The recoverable amount obtained is higher than the carrying amount; therefore, there is no evidence of impairment. The individual recoverable amount for each CGU at the end of 2023 and 2022, before allocating goodwill to the ensemble of CGUs, was above its carrying amount; therefore, the Group did not recognise any impairment at the CGU level during the aforesaid years.

In addition, the Group carried out a sensitivity analysis, making reasonable adjustments to the main assumptions used to calculate the recoverable amount.

This test consisted of adjusting, individually, the following assumptions:

- Discount rate +/- 0.5%.
- Growth rate in perpetuity +/- 0.5%.
- Minimum capital requirement +/-0.5%.
- NIM/ATAs in perpetuity +/- 5bps.
- Cost of risk in perpetuity +/- 10bps.

The sensitivity analysis does not alter the conclusions drawn from the impairment test. In all scenarios defined in that analysis, the recoverable amount obtained is greater than the carrying amount.

In accordance with the specifications of the restated text of the Corporation Tax Law, the goodwill generated is not tax-deductible.

Other intangible assets

Private Banking Business, Miami

Intangible assets associated with the acquisition of the Private Banking business in Miami include the value of contractual rights arising from customer relationships taken over from this business, mainly short-term lending items and deposits. These assets are amortised over a period of between 10 and 15 years from their creation.

Contractual relations with TSB customers and brand

Intangible assets associated with the acquisition of TSB include the value of the contractual rights arising from customer relationships taken over from TSB for core deposits, initially estimated at 353,620 thousand euros. This asset is amortised over a period of 8 years. These intangible assets were valued by calculating the value in use based on the income approach (discounted cash flows) with the multi-period excess earnings method. To determine whether there was any evidence of impairment, the balance of deposits currently in TSB linked to existing customers at the time of its acquisition by the Bank was compared against the estimated balance that those customers would have at the end of 2023, forecast at the time of the initial valuation. Based on this comparison, it was concluded that there was no evidence of any impairment. As at 31 December 2023, contractual relationships with TSB customers were fully amortised (as at 31 December 2022, the carrying amount came to 17,727 thousand euros).

The value of the right to the exclusive use of the TSB brand was also estimated at an initial amount of 73,328 thousand euros. The value attributable to this asset was determined through the replacement cost method, consisting of establishing the cost of rebuilding or acquiring an exact replica of the asset in question. This asset is amortised over a period of 12 years. The assessment of the recoverable amount of the TSB CGU included an implicit valuation of the brand, concluding that there was no impairment. The carrying amount of the TSB brand amounted to 17,509 thousand euros as at 31 December 2023 (22,056 thousand euros as at 31 December 2022).

Computer software

Computer software costs include mainly the capitalised costs of developing the Group's computer software and the cost of purchasing software licences.

R&D expenditure in 2023 and 2022 was not significant.

Movements

Movements in goodwill in 2023 and 2022 were as follows:

Thousand euro

	Goodwill	Impairment	Total
Balance as at 31 December 2021	**1,026,457**	**—**	**1,026,457**
Additions	353	—	353
Disposals	—	—	—
Balance as at 31 December 2022	**1,026,810**	**—**	**1,026,810**
Additions	—	—	—
Disposals	—	—	—
Transfers	(8,499)	—	(8,499)
Balance as at 31 December 2023	**1,018,311**	**—**	**1,018,311**

Movements in other intangible assets in 2023 and 2022 were as follows:

Thousand euro

	Cost			Amortisation			Impairment			Total
	Developed internally	Other	Total	Developed internally	Other	Total	Developed internally	Other	Total	
Balance as at 31 December 2021	**2,413,611**	**862,547**	**3,276,158**	**(1,065,540)**	**(655,654)**	**(1,721,194)**	**—**	**—**	**—**	**1,554,964**
Additions	187,533	7,105	194,638	(195,655)	(63,009)	(258,664)	—	—	—	(64,026)
Disposals	(27,296)	(83,657)	(110,953)	6,299	77,859	84,158	—	—	—	(26,795)
Other	(6,554)	5,168	(1,386)	(14,115)	(28)	(14,143)	—	—	—	(15,529)
Exchange differences	6,511	(16,611)	(10,100)	2,693	16,145	18,838	—	—	—	8,738
Balance as at 31 December 2022	**2,573,805**	**774,552**	**3,348,357**	**(1,266,318)**	**(624,687)**	**(1,891,005)**	**—**	**—**	**—**	**1,457,352**
Additions	235,489	60,596	296,085	(221,636)	(34,827)	(256,463)	—	—	—	39,622
Disposals	(103,691)	(5,612)	(109,303)	60,722	2,464	63,186	—	—	—	(46,117)
Other	438	(2,759)	(2,321)	(1,529)	3,536	2,007	—	—	—	(314)
Exchange differences	12,214	7,572	19,786	848	(6,414)	(5,566)	—	—	—	14,220
Balance as at 31 December 2023	**2,718,255**	**834,349**	**3,552,604**	**(1,427,913)**	**(659,928)**	**(2,087,841)**	**—**	**—**	**—**	**1,464,763**

The gross value of other intangible assets that were in use and had been fully amortised as at 31 December 2023 and 2022 amounted to 1,367,070 thousand euros and 1,078,836 thousand euros, respectively.

Note 17 – Other assets and liabilities

The “Other assets” heading on the consolidated balance sheets as at 31 December 2023 and 2022 breaks down as follows:

Thousand euro

	Note	2023	2022
Insurance contracts linked to pensions	22	80,693	89,729
Inventories		62,344	93,835
Rest of other assets		293,086	296,116
Total		**436,123**	**479,680**

The “Rest of other assets” item includes mainly prepaid expenses, the accrual of customer fees and commissions and transactions in progress pending settlement.

Movements in inventories in 2023 and 2022 were as follows:

Thousand euro

	Note	Land	Buildings under construction	Completed buildings	Total
Balance as at 31 December 2021		**8,409**	**1,516**	**132,787**	**142,713**
Additions		802	3,661	8,946	13,409
Disposals		(2,279)	(558)	(42,895)	(45,732)
Impairment through profit or loss	35	(2,459)	(173)	(33,519)	(36,151)
Reversal of impairment through profit or loss	35	996	71	11,066	12,133
Other transfers	15	—	(3,645)	11,108	7,463
Balance as at 31 December 2022		**5,469**	**872**	**87,493**	**93,835**
Additions		422	39	4,978	5,439
Disposals		(1,268)	(50)	(20,714)	(22,032)
Impairment through profit or loss	35	(1,711)	(4,505)	(13,060)	(19,276)
Reversal of impairment through profit or loss	35	710	4,210	37	4,957
Other transfers	15	—	—	(579)	(579)
Balance as at 31 December 2023		**3,622**	**566**	**58,155**	**62,344**

As at 31 December 2023 and 2022, the amount of inventories associated with debt secured with mortgages was 10,292 thousand euros and 11,318 thousand euros, respectively.

The composition of the “Other liabilities” heading as at 31 December 2023 and 2022 was as follows:

Thousand euro

	31/12/2023	31/12/2022
Other accrual/deferral	574,997	577,298
Rest of other liabilities	147,527	294,810
Total	**722,524**	**872,108**

The “Rest of other liabilities” item mainly includes transactions in progress pending settlement.

Note 18 – Deposits in central banks and credit institutions

The breakdown of the balance of deposits in central banks and credit institutions in the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
By heading:		
Financial liabilities at amortised cost	23,616,543	39,217,078
Total	**23,616,543**	**39,217,078**
By nature:		
Demand deposits	222,195	378,442
Deposits with agreed maturity	12,274,576	30,936,695
Repurchase agreements	10,821,129	8,118,516
Other accounts	74,163	125,378
Valuation adjustments	224,480	(341,953)
Total	**23,616,543**	**39,217,078**
By currency:		
In euro	17,615,523	31,390,222
In foreign currency	6,001,020	7,826,856
Total	**23,616,543**	**39,217,078**

In 2023, Banco Sabadell prepaid 17 billion euros corresponding to TLTRO III maturing in March 2024. The closing balance of this liquidity facility as at the end of 2023 and 2022 was 5 billion euros and 22 billion euros, respectively (see Note 4.4.3.1).

Note 19 – Customer deposits

The balance of customer deposits on the consolidated balance sheets as at 31 December 2023 and 2022 breaks down as follows:

Thousand euro

	2023	2022
By heading:		
Financial liabilities at amortised cost	160,330,653	164,076,445
Total	**160,330,653**	**164,076,445**
By nature:		
Demand deposits	134,242,908	147,539,675
Deposits with agreed maturity	21,081,166	14,066,824
Fixed term	20,244,357	11,985,933
Non-marketable covered bonds and bonds issued	323,010	418,835
Other	513,799	1,662,056
Hybrid financial liabilities (see Notes 10 and 12)	4,507,056	2,074,477
Repurchase agreements	200,336	404,866
Other valuation adjustments (interest, fees and commissions, other)	299,187	(9,397)
Total	**160,330,653**	**164,076,445**
By sector:		
General governments	7,869,390	8,499,245
Other sectors	152,162,076	155,586,597
Other valuation adjustments (interest, fees and commissions, other)	299,187	(9,397)
Total	**160,330,653**	**164,076,445**
By currency:		
In euro	111,953,190	114,063,466
In foreign currency	48,377,463	50,012,979
Total	**160,330,653**	**164,076,445**

Due to rising interest rates in the financial markets, the weight of the term deposits making up customer deposits increased during 2023.

Note 20 – Debt securities in issue

The composition of this heading in the consolidated balance sheets as at 31 December 2023 and 2022, by type of issuance, is as follows:

Thousand euro

	2023	2022
Straight bonds/debentures	8,671,400	7,990,800
Straight bonds	8,630,100	7,949,500
Structured bonds	41,300	41,300
Commercial paper	1,382,828	871,896
Mortgage covered bonds	7,475,000	7,563,000
TSB covered bonds	3,164,376	1,409,356
Asset-backed securities	1,370,573	1,202,846
Subordinated marketable debt securities	3,550,000	3,450,000
Subordinated bonds	1,800,000	1,800,000
Preferred securities	1,750,000	1,650,000
Valuation and other adjustments	177,107	89,651
Total	**25,791,284**	**22,577,549**

Schedule III shows details of the outstanding issues as at 2023 and 2022 year-end.

The remuneration for preferred securities contingently convertible into ordinary shares amounted to 115,391 thousand euros in 2023 (110,374 thousand euros in 2022) and is recognised under the “Other reserves” heading in consolidated equity.

Note 21 – Other financial liabilities

The composition of this heading in the consolidated balance sheets as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
By heading:		
Financial liabilities at amortised cost	6,333,286	6,658,861
Total	**6,333,286**	**6,658,861**
By nature:		
Debentures payable	293,380	364,207
Guarantee deposits received	8,688	8,992
Clearing houses	1,138,627	1,032,869
Collection accounts	3,379,742	3,322,141
Lease liabilities	947,469	969,477
Other financial liabilities	565,380	961,175
Total	**6,333,286**	**6,658,861**
By currency:		
In euro	4,694,730	4,913,626
In foreign currency	1,638,556	1,745,235
Total	**6,333,286**	**6,658,861**

The following table shows information relating to the average time taken to pay suppliers (days payable outstanding), as required by Additional Provision Three of Law 15/2010, taking into consideration the amendments introduced by Law 18/2022 of 28 September on the creation and growth of companies:

	2023	2022
Average payment period and supplier payment ratios (in days)		
Average time taken to pay suppliers	25.49	28.74
Ratio of transactions paid (*)	25.49	28.72
Ratio of transactions payable (**)	38.81	50.03
Payments made and pending at year-end (in thousand euro)		
Total payments made	1,194,239	1,131,038
Total payments outstanding	369	1,131
Payments made in < 60 days (in thousand euro) (***)		
Monetary volume of paid invoices	1,110,490	1,011,940
Percentage of total amount of payments to suppliers	93	89
Number of invoices paid in < 60 days (***)		
Number of invoices paid	133,690	141,339
Percentage of total number of invoices	92	92

The calculations above only take into account transactions undertaken by the Group's main Spanish entities, which represent 98.75% of total invoicing.

(*) The ratio of transactions paid is equal to the amount of each transaction paid multiplied by the number of days elapsed since the date of receipt of the invoice until its payment, divided by the total amount of payments made.

(**) The ratio of transactions pending payment is equal to the amount of each transaction pending payment multiplied by the number of days elapsed since the date of receipt of the invoice until the last day of the period, divided by the total amount of pending payments.

(***) Corresponds to invoices paid within the maximum period established in regulations on late payment.

Note 22 – Provisions and contingent liabilities

Movements during 2023 and 2022 under the “Provisions” heading are shown below:

Thousand euro

	Pensions and other post employment defined benefit obligations	Other long term employee benefits	Pending legal issues and tax litigation	Commitments and guarantees given	Other provisions	Total
Balance as at 31 December 2021	**86,020**	**650**	**76,848**	**190,591**	**532,029**	**886,138**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**—**	**—**
Interest and similar expenses - pension commitments	**1,958**	**4**	**—**	**—**	**—**	**1,962**
Allowances charged to income statement - staff expenses (*)	**1,152**	**5**	**—**	**—**	**(2,790)**	**(1,633)**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**228**	**(32)**	**45,211**	**(14,258)**	**65,672**	**96,821**
Allocation of provisions	84	—	47,619	191,058	65,672	304,433
Reversal of provisions	—	—	(2,408)	(205,316)	—	(207,724)
Actuarial losses / (gains)	144	(32)	—	—	—	112
Exchange differences	**688**	**—**	**—**	**(305)**	**(6,645)**	**(6,262)**
Utilisations:	**(7,562)**	**(457)**	**(32,209)**	**—**	**(172,876)**	**(213,104)**
Net contributions of plan assets by sponsor	612	—	—	—	—	612
Pension payments	(8,174)	(457)	—	—	—	(8,631)
Other	—	—	(32,209)	—	(172,876)	(205,085)
Other movements	**(19,100)**	**—**	**—**	**795**	**(101,108)**	**(119,413)**
Balance as at 31 December 2022	**63,384**	**170**	**89,850**	**176,823**	**314,282**	**644,509**
Scope additions / exclusions	**—**	**—**	**—**	**—**	**—**	**—**
Interest and similar expenses - pension commitments	**1,755**	**4**	**—**	**—**	**—**	**1,759**
Allowances charged to income statement - staff expenses (*)	**3,171**	**4**	**—**	**—**	**26,595**	**29,770**
Allowances not charged to income statement	**—**	**—**	**—**	**—**	**—**	**—**
Allowances charged to income statement - provisions	**1,260**	**(4)**	**(4,560)**	**(11,403)**	**20,997**	**6,290**
Allocation of provisions	1,260	—	1,209	211,347	26,872	240,688
Reversal of provisions	—	—	(5,769)	(222,750)	(5,875)	(234,394)
Actuarial losses / (gains)	—	(4)	—	—	—	(4)
Exchange differences	**648**	**—**	**—**	**1,295**	**2,488**	**4,431**
Utilisations:	**(9,139)**	**(105)**	**(24,740)**	**—**	**(114,583)**	**(148,567)**
Net contributions of plan assets by sponsor	233	—	—	—	—	233
Pension payments	(9,372)	(105)	—	—	—	(9,477)
Other	—	—	(24,740)	—	(114,583)	(139,323)
Other movements	**(2,771)**	**—**	**—**	**(1,339)**	**2,010**	**(2,100)**
Balance as at 31 December 2023	**58,308**	**69**	**60,550**	**165,376**	**251,789**	**536,092**

(*) See Note 33.

The headings “Pensions and other post employment defined benefit obligations” and “Other long term employee benefits” include the amount of provisions allocated for the coverage of post-employment remuneration and commitments undertaken with early retirees and similar obligations.

The heading “Commitments and guarantees given” includes the amount of provisions allocated for the coverage of commitments given and contingent risks arising from financial guarantees or other types of contracts.

During the usual course of business, the Group is exposed to fiscal, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of third-party experts where necessary and, where appropriate, provisions are recognised under the headings "Pending legal issues and tax litigation" and "Other provisions". As at 31 December 2023 and 2022, these headings mainly included:

- Provisions for legal contingencies amounting to 17 million euros as at 31 December 2023 (23 million euros as at 31 December 2022).

- Other provisions for legal contingencies in Spain arising from customer claims in connection with certain general contractual terms and conditions amounting to 150 million euros (179 million euros as at 31 December 2022). The most significant provision relates to the possible reimbursement of amounts received as a result of the application of mortgage floor clauses, whether as a result of the hypothetical voiding by the courts of law of floor clauses or whether due to the implementation of Royal Decree-Law 1/2017 of 20 January on measures to protect consumers regarding floor clauses, in the amount of 81 million euros as at 31 December 2023 (99 million euros as at 31 December 2022). In an unlikely adverse scenario of potential additional claims being filed, both through the procedures established by the Institution in accordance with that set forth in the aforesaid Royal Decree, and through court proceedings, applying the percentages set forth in the current arrangements, the maximum contingency would amount to 111 million euros.

  With regard to these provisions, it is worth specifying that the Bank considers its floor clauses to be transparent and clear to customers, and in general, these have not been definitively voided with a final ruling. On 12 November 2018, Section 28 of the Civil Division of the Provincial Court of Madrid issued a ruling in which it partially supported the appeal brought forth by Banco de Sabadell, S.A. against the ruling issued by Commercial Court no. 11 of Madrid on the invalidity of the restrictive interest rate clauses, considering that some of the clauses established by Banco de Sabadell, S.A. are transparent and valid in their entirety. With regard to the rest of the clauses, the Bank still considers that it has legal arguments which should be reviewed in the legal appeal which the Institution filed with the Supreme Court with regard to the ruling made by the Provincial Court of Madrid. This appeal has been suspended by the Supreme Court, which has referred the matter to the Court of Justice of the European Union for a preliminary ruling. A hearing took place in the aforesaid Court on 28 September 2023, but no ruling has been made as yet.

  The remaining provisions mainly relate to customer claims in connection with the repayment of mortgage arrangement fees, developer deposit funds and revolving card interest, with the provision set aside amounting to 69 million euros as at 31 December 2023 (80 million euros as at 31 December 2022).

- Provisions to cover the anticipated costs relating to restructuring plans in Spain announced in previous years and pending final implementation amounting to 56 million euros as at 31 December 2023 and 2022.

- Provisions for legal contingencies deriving from claims filed by certain TSB customers. The estimated potential cost of compensation payable, which includes compensatory interest and associated operational costs, amounted to 19 million euros as at 31 December 2023 (86 million euros as at 31 December 2022). During 2023, utilisations linked to legal contingencies in TSB were recorded in the amount of 64 million euros.

- Provisions to cover the anticipated costs relating to restructuring in TSB and pending final implementation amounting to 35 million euros as at 31 December 2023 (13 million euros as at 31 December 2022), of which 26 million euros were allocated in 2023 (see Note 33).

The final disbursement amount and the payment schedule are uncertain due to the difficulties inherent in estimating the factors used to determine the amount of the provisions set aside.

Pensions and similar obligations

Defined benefit plans cover all existing commitments arising from the application of the Collective Bargaining Agreement for Banks (*Convenio Colectivo de Banca*). These commitments are financed through the following vehicles:

Pension plan

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

- Additional commitments due to early retirement, as set out in the Collective Bargaining Agreement for Banks.
- Supervening incapacity in certain circumstances.
- Widowhood and orphanhood benefits arising from the death of a retired member of staff who began their employment after 8 March 1980.

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

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

Insurance contracts

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

- Commitments expressly excluded from Banco Sabadell's employee pension plan (indicated in the previous section).
- Serving employees covered by a collective bargaining agreement of Banco Atlántico.
- Pension commitments undertaken with certain serving employees not provided for under the collective bargaining agreement.
- Commitments towards employees on extended leave of absence not covered with benefits accrued in Banco Sabadell's employee pension plan.
- Commitments towards early retirees; these may be partly financed with benefits accrued in Banco Sabadell's employee pension plan.

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

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

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

Internal funds

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

The origins of liabilities recognised in respect of post-employment benefits and other similar long-term obligations on the Group's balance sheet are shown below:

Thousand euro

	2023	2022	2021	2020	2019
Obligations arising from pension and similar commitments	509,946	565,046	739,456	819,789	803,905
Fair value of plan assets	(451,569)	(501,492)	(652,786)	(716,128)	(697,621)
Net liability recognised on balance sheet	**58,377**	**63,554**	**86,670**	**103,661**	**106,284**

The return on Banco Sabadell's employee pension plan was 5.37% and that of the E.P.S.V. was -0.17% in 2023 (-13.88% and 0.22%, respectively, in 2022).

Movements during 2023 and 2022 in obligations due to pension and similar commitments and the fair value of the plan assets are as follows:

Thousand euro

	Obligations arising from pension and similar commitments	Fair value of plan assets	Net liability recognised on balance sheet
Balance as at 31 December 2021	**739,456**	**652,786**	**86,670**
Interest costs	12,800	—	12,800
Interest income	—	10,838	(10,838)
Normal cost in year	1,631	—	1,631
Past service cost	(474)	—	(474)
Benefits paid	(47,415)	(38,784)	(8,631)
Payments for settlements, curtailments and terminations	(3,832)	(3,976)	144
Net contributions by the Institution	—	(644)	644
Actuarial gains or losses from changes in demographic assumptions	(1,126)	—	(1,126)
Actuarial gains or losses from changes in financial assumptions	(143,190)	—	(143,190)
Actuarial gains or losses from experience	(4,208)	—	(4,208)
Return on plan assets excluding interest income	—	(131,322)	131,322
Other movements	10,715	12,594	(1,879)
Balance as at 31 December 2022	**565,046**	**501,492**	**63,554**
Interest costs	18,090	—	18,090
Interest income	—	15,693	(15,693)
Normal cost in year	1,876	—	1,876
Past service cost	1,063	—	1,063
Benefits paid	(46,726)	(37,250)	(9,476)
Settlements, curtailments and terminations	(470)	(1,300)	830
Net contributions by the Institution	—	(233)	233
Actuarial gains or losses from changes in demographic assumptions	—	—	—
Actuarial gains or losses from changes in financial assumptions	(23,195)	—	(23,195)
Actuarial gains or losses from experience	(11,004)	—	(11,004)
Return on plan assets excluding interest income	—	(31,391)	31,391
Other movements	4,618	4,558	60
Exchange differences	648	—	648
Balance as at 31 December 2023	**509,946**	**451,569**	**58,377**

The breakdown of the Group's pension commitments and similar obligations as at 31 December 2023 and 2022, based on the financing vehicle, coverage and the interest rate applied in their calculation, is given below:

Thousand euro

		2023	
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**236,299**	
Insurance policies with related parties	Matched	22,709	3.75 %
Insurance policies with unrelated parties	Matched	213,590	3.75 %
Insurance contracts		**266,615**	
Insurance policies with related parties	Matched	55,095	3.75 %
Insurance policies with unrelated parties	Matched	211,520	3.75 %
Internal funds	Without cover	**7,032**	3.75 %
Total obligations		**509,946**	

Thousand euro

		2022	
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**270,917**	
Insurance policies with related parties	Matched	26,279	3.25 %
Insurance policies with unrelated parties	Matched	244,638	3.25 %
Insurance contracts		**288,417**	
Insurance policies with related parties	Matched	60,555	3.25 %
Insurance policies with unrelated parties	Matched	227,862	3.25 %
Internal funds	Without cover	**5,712**	3.25 %
Total obligations		**565,046**	

The value of the obligations covered by matched insurance policies under pension plans and insurance contracts as at 31 December 2023 amounted to 502,914 thousand euros (559,334 thousand euros as at 31 December 2022); therefore, in 98.62% of its commitments (98.99% as at 31 December 2022) there is no mortality risk (mortality tables) or profitability risk (interest rate) for the Group. Therefore, the evolution of interest rates in 2023 had no impact on the Institution's capacity to pay its pension commitments.

The sensitivity analysis for the actuarial assumptions of the technical interest rate and the rate of salary increase shown in Note 1.3.17 to these consolidated annual financial statements, as at 31 December 2023 and 2022, shows how the obligation and the service cost of the current year would have been affected by changes deemed reasonably possible as at that date.

%	2023	2022
Sensitivity analysis	**Percentage change**	
Interest rate		
Interest rate -50 basis points:		
Assumption	3.25 %	2.75 %
Change in obligation	4.59 %	5.19 %
Change in current service cost	10.64 %	11.60 %
Interest rate +50 basis points:		
Assumption	4.25 %	3.75 %
Change in obligation	(4.24)%	(4.47)%
Change in current service cost	(9.19)%	(10.13)%
Rate of salary increase		
Rate of salary increase -50 basis points:		
Assumption	2.50 %	2.50 %
Change in obligation	(0.01)%	(0.01)%
Change in current service cost	(3.03)%	(3.49)%
Rate of salary increase +50 basis points:		
Assumption	3.50 %	3.50 %
Change in obligation	0.01 %	0.01 %
Change in current service cost	3.50 %	3.88 %

The estimate of probable present values, as at 31 December 2023, of benefits payable for the next ten years, is set out below:

Thousand euro	Years										
	2024	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**Total**
Probable pensions	8,220	8,140	7,709	7,643	7,574	8,679	8,371	8,055	7,733	7,406	**79,530**

The fair value of assets linked to pensions recognised on the consolidated balance sheet amounted to 80,693 thousand euros as at 31 December 2023 (89,729 thousand euros as at 31 December 2022); see Note 17.

The main categories of the plan assets as at 31 December 2023 and 2022 are indicated hereafter:

%	2023	2022
Mutual funds	3.63 %	2.90 %
Deposits and guarantees	0.38 %	0.42 %
Other (non-linked insurance policies)	95.99 %	96.68 %
Total	**100 %**	**100 %**

There were no financial instruments issued by the Bank included in the fair value of plan assets as at 31 December 2023 and 2022.

Note 23 – Shareholders' equity

The breakdown of the balance of shareholders' equity on the consolidated balance sheets as at 31 December 2023 and 2022 is the following:

Thousand euro

	2023	2022 (*)
Capital	680,028	703,371
Share premium	7,695,227	7,899,227
Other equity	21,268	21,548
Retained earnings	6,401,782	5,859,520
Other reserves	(1,584,816)	(1,602,079)
(-) Treasury shares	(39,621)	(23,767)
Profit or loss attributable to owners of the parent	1,332,181	889,392
(-) Interim dividends	(162,103)	(112,040)
Total	**14,343,946**	**13,635,172**

(*) See Note 1.4.

Capital

The Bank's share capital as at 31 December 2023 amounted to 680,027,680.875 euros, represented by 5,440,221,447 registered shares at a par value of 0.125 each (as at 31 December 2022, it amounted to 703,370,587.63 euros, represented by 5,626,964,701 registered shares with a par value of 0.125 euros). All shares are fully paid up and numbered in sequential order from 1 through 5,440,221,447, inclusive.

The Bank's shares are listed on the Madrid, Barcelona, Bilbao and Valencia stock exchanges and on Spain's electronic market (*Mercado Continuo*) managed by Sociedad de Bolsas, S.A.

None of the other subsidiary companies included in the scope of consolidation are listed on the stock exchange.

The rights conferred to the equity instruments are those regulated by the Capital Companies Act. During the Annual General Meeting, shareholders may exercise a percentage of votes equivalent to the percentage of the share capital in their possession. The Articles of Association do not contain any provision for additional loyalty voting rights.

Capital reduction

On 30 November 2023, the Board of Directors of Banco Sabadell agreed to execute the Bank's share capital reduction, in the amount of 23,343 thousand euros, through the redemption charged to unrestricted reserves of all the treasury shares acquired under the share buyback programme, i.e. 186,743,254 shares with a par value of 0.125 euros each, representing approximately 3.32% of the Bank's share capital (see Note 3). This capital reduction was approved as part of the resolution adopted by the Annual General Meeting on 23 March 2023.

The capital reduction and the amendment of Article 7 of the Articles of Association relating to share capital were entered in the Companies Register of Alicante on 11 December 2023, the reduction being thus completed and the redeemed shares delisted.

This operation did not entail the reimbursement of contributions made by shareholders, as the Bank was the holder of the redeemed shares.

Significant investments in the Bank's capital

As required by Articles 23 and 32 of Royal Decree 1362/2007 of 19 October, implementing the Securities Market Law 24/1988 of 28 July, on transparency requirements relating to information on issuers whose securities have been admitted to trading on an official secondary market or on any other European Union regulated market, the following table gives details of significant investments in Banco Sabadell's share capital as at 31 December 2023:

Name or company name of shareholder	% of voting rights assigned to shares		% of voting rights through financial instruments		Total % of voting rights
	Direct	Indirect	Direct	Indirect	
BlackRock, Inc (*)	—	3.43%	—	0.67%	4.10%
Dimensional Fund Advisors LP (**)	—	3.11%	—	—	3.11%
David Martínez Guzmán (***)	—	3.56%	—	—	3.56%

The sources for the information provided are communications sent by shareholders to the National Securities Market Commission (CNMV) or directly to the Bank. In accordance with Royal Decree 1362/2007 of 19 October, implementing Securities Market Law 24/1998 of 28 July, on transparency requirements relating to information on issuers whose securities have been admitted to trading on an official secondary market or on any other European Union regulated market, a shareholder is considered to own a significant shareholding when they have in their possession a proportion of at least 3% of the voting rights, or 1% in the case of residents in tax havens.

(*) BlackRock, Inc. owns an indirect shareholding through several of its subsidiaries.

(**) Dimensional Fund Advisors LP disclosed the shares held in funds and accounts advised by either itself or by its subsidiary undertakings. The voting rights correspond to shares held in those funds and accounts. Neither Dimensional Fund Advisors LP nor any of its subsidiaries are beneficial owners of those shares and/or their voting rights.

(***) Fintech Europe, S.À.R.L. (FE) is 100% owned by Fintech Investments Ltd. (FIL), which is the investment fund managed by Fintech Advisory Inc. (FAI). FAI is 100% owned by David Martínez Guzmán. Consequently, the stake currently held by FE is considered to be under the control of David Martínez Guzmán.

Share premium

The share premium's balance as at 31 December 2023 came to 7,695,227 thousand euros (7,899,227 thousand euros as at 31 December 2022).

In 2023, the share premium was reduced by 180,657 thousand euros, which corresponds to the difference between the purchase price of the shares redeemed as part of the Bank's capital reduction explained in this note (204,000 thousand euros) and the nominal value of those shares (23,343 thousand euros).

Furthermore, pursuant to applicable legislation, a restricted capital redemption reserve has been created, with a charge to the share premium in an amount equal to the nominal value of the redeemed shares, 23,343 thousand euros, subject to the same disposal requirements applied for the share capital reduction.

Retained earnings and Other reserves

The balance of these headings of the consolidated balance sheets as at 31 December 2023 and 2022 breaks down as follows:

Thousand euro

	2023	2022 (*)
Restricted reserves:	**228,033**	**222,820**
Statutory reserve (**)	140,674	140,674
Reserve for treasury shares pledged as security	50,061	68,470
Reserve for investments in the Canary Islands	10,840	10,561
Reserve for redenomination of share capital	113	113
Capital redemption reserve	26,345	3,002
Unrestricted reserves	**4,534,097**	**4,107,070**
Reserves of entities accounted for using the equity method	**54,836**	**(72,449)**
Total	**4,816,966**	**4,257,441**

(*) See Note 1.4.

(**) At its meeting held on 22 February 2024, the Board of Directors agreed to submit a proposal to the Annual General Meeting for the reclassification to voluntary reserves of the amount held in the statutory reserve in excess of 20% of the share capital resulting from the capital reduction carried out during 2023, that is, 4,668 thousand euros.

Information on the reserves of each of the consolidated companies is indicated in Schedule I.

Other equity

This heading includes share-based remuneration pending settlement which, as at 31 December 2023 and 2022, amounted to 21,268 thousand euros and 21,548 thousand euros, respectively.

Treasury shares

The movements of the parent company's shares acquired by the Bank are as follows:

	No. of shares	Nominal value *(in thousand euro)*	Average price *(in euro)*	% Shareholding
Balance as at 31 December 2021	**40,679,208**	**5,084.90**	**0.85**	**0.72**
Purchases	115,797,928	14,474.74	0.75	2.06
Sales	131,704,453	16,463.06	0.77	2.34
Balance as at 31 December 2022	**24,772,683**	**3,096.58**	**0.96**	**0.44**
Purchases	248,821,193	31,102.65	1.10	4.43
Sales	236,416,334	29,552.04	1.11	4.21
Balance as at 31 December 2023	**37,177,542**	**4,647.19**	**1.07**	**0.68**

Net gains and losses arising from transactions involving own equity instruments are included under the heading "Shareholders' equity – Other reserves" on the consolidated balance sheet, and they are shown in the statement of changes in equity, in the row corresponding to the sale or cancellation of treasury shares.

As at 31 December 2023, TSB held 232 Banco Sabadell shares (60,517 as at 31 December 2022), with a cost of 255 euros (46 thousand euros as at 31 December 2022), recorded as treasury shares on the consolidated balance sheet.

As at 31 December 2023, the number of the Bank's shares pledged as collateral for transactions was 44,978,083 with a nominal value of 5,622 thousand euros (77,735,661 shares with a nominal value of 9,717 thousand euros as at 31 December 2022).

The number of Banco de Sabadell, S.A. equity instruments owned by third parties but managed by the different companies of the Group amounted to 12,398,979 and 3,067,904 securities as at 31 December 2023 and 2022, respectively. Their nominal value as at the aforesaid dates amounted to 1,550 thousand euros and 383 thousand euros, respectively. In both years, 100% of the securities corresponded to Banco Sabadell shares.

Note 24 – Accumulated other comprehensive income

The composition of this heading of consolidated equity as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022 (*)
Items that will not be reclassified to profit or loss	(30,596)	(29,125)
Actuarial gains or (-) losses on defined benefit pension plans	(3,313)	(1,969)
Non-current assets and disposal groups classified as held for sale	—	—
Share of other recognised income and expense of investments in joint ventures and associates	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income	(27,283)	(27,156)
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	—	—
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	—	—
Items that may be reclassified to profit or loss	(468,357)	(554,275)
Hedge of net investments in foreign operations [effective portion] (**)	77,997	119,348
Foreign currency translation	(384,086)	(476,030)
Hedging derivatives. Cash flow hedges [effective portion] (***)	(49,215)	(64,224)
Amount deriving from outstanding operations	(71,464)	(93,562)
Amount deriving from discontinued operations	22,249	29,338
Fair value changes of debt instruments measured at fair value through other comprehensive income	(145,732)	(180,199)
Hedging instruments [not designated elements]	—	—
Non-current assets and disposal groups classified as held for sale	—	—
Share of other recognised income and expense of investments in joint ventures and associates	32,679	46,830
Total	**(498,953)**	**(583,400)**

(*) See Note 1.4.

(**) The value of the hedge of net investments in foreign operations is fully obtained from outstanding transactions (see Note 12).

(***) Cash flow hedges mainly mitigate interest rate risk and other risks (see Note 12).

The breakdown of the items in the statement of recognised income and expenses as at 31 December 2023 and 2022, indicating their gross and net of tax effect amounts, is as follows:

Thousand euro

	2023			2022 (*)		
	Gross value	Tax effect	Net	Gross value	Tax effect	Net
Items that will not be reclassified to profit or loss	(669)	(802)	(1,471)	12,991	(358)	12,633
Actuarial gains or (-) losses on defined benefit pension plans	(1,919)	575	(1,344)	(4,123)	1,237	(2,886)
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Share of other recognised income and expense of investments in joint ventures and associates	—	—	—	—	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income	1,250	(1,377)	(127)	17,114	(1,595)	15,519
Hedge ineffectiveness of fair value hedges for equity instruments measured at fair value through other comprehensive income	—	—	—	—	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedged item]	—	—	—	—	—	—
Fair value changes of equity instruments measured at fair value through other comprehensive income [hedging instrument]	—	—	—	—	—	—
Fair value changes of financial liabilities at fair value through profit or loss attributable to changes in their credit risk	—	—	—	—	—	—
Items that may be reclassified to profit or loss	107,466	(21,548)	85,918	(398,499)	80,040	(318,459)
Hedge of net investments in foreign operations [effective portion]	(41,351)	—	(41,351)	(38,393)	—	(38,393)
Foreign currency translation	91,944	—	91,944	5,238	—	5,238
Hedging derivatives. Cash flow hedges reserve [effective portion]	22,291	(7,282)	15,009	(52,125)	18,064	(34,061)
Fair value changes of debt instruments measured at fair value through other comprehensive income	48,733	(14,266)	34,467	(230,451)	61,976	(168,475)
Hedging instruments [not designated elements]	—	—	—	—	—	—
Non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—
Share of other recognised income and expense of investments in joint ventures and associates	(14,151)	—	(14,151)	(82,768)	—	(82,768)
Total	**106,797**	**(22,350)**	**84,447**	**(385,508)**	**79,682**	**(305,826)**

(*) See Note 1.4.

Note 25 – Minority interests (non-controlling interests)

The companies comprising this heading of consolidated equity as at 31 December 2023 and 2022 are the following:

Thousand euro

	2023			2022		
	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*	% Minority interests	Amount	*Of which: Profit/ (loss) attributed*
Aurica Coinvestment, S.L.	38.24 %	33,433	1,498	38.24 %	33,553	10,009
Other	—	780	(76)	—	791	739
Total		**34,213**	**1,422**		**34,344**	**10,748**

Movements in the balance under this heading in 2023 and 2022 were as follows:

Thousand euro

Balances as at 31 December 2021	**24,980**
Valuation adjustments	—
Other	9,364
Scope additions / exclusions	—
Percentage shareholding and other	(1,384)
Profit or loss for the year	10,748
Balances as at 31 December 2022	**34,344**
Valuation adjustments	—
Other	(131)
Scope additions / exclusions	—
Percentage shareholding and other	(1,553)
Profit or loss for the year	1,422
Balances as at 31 December 2023	**34,213**

The dividends distributed to minority shareholders of Group entities in 2023 amounted to 1,618 thousand euros and were distributed by Aurica Coinvestment, S.L. (646 thousand euros in 2022).

Note 26 – Off-balance sheet exposures

The breakdown of this heading for the years ended 31 December 2023 and 2022 is the following:

Thousand euro

Commitments and guarantees given	Note	2023	2022
Loan commitments given		**27,035,812**	**27,460,615**
Of which, amount classified as stage 2		*986,368*	*1,407,538*
Of which, amount classified as stage 3		*97,219*	*82,078*
Drawable by third parties		27,035,812	27,460,615
By credit institutions		54	43
By general governments		910,744	1,019,180
By other resident sectors		15,565,366	15,815,706
By non-residents		10,559,648	10,625,686
Provisions recognised on liabilities side of the balance sheet	22	72,888	71,698
Financial guarantees given (*)		**2,064,396**	**2,086,993**
Of which, amount classified as stage 2		*165,222*	*254,090*
Of which, amount classified as stage 3		*44,828*	*58,197*
Provisions recognised on liabilities side of the balance sheet (**)	22	23,814	26,817
Other commitments given		**7,942,724**	**9,674,382**
Of which, amount classified as stage 2		*372,597*	*434,869*
Of which, amount classified as stage 3		*222,999*	*265,507*
Other guarantees given		6,832,086	6,916,058
Assets earmarked for third-party obligations		—	—
Irrevocable letters of credit		729,299	722,640
Additional settlement guarantee		25,000	25,000
Other guarantees and sureties given		6,077,787	6,168,418
Other contingent risks		—	—
Other commitments given		1,110,638	2,758,324
Financial asset forward purchase commitments		1,007,047	2,639,536
Conventional financial asset purchase contracts		8,249	—
Capital subscribed but not paid up		19	19
Underwriting and subscription commitments		—	—
Other loan commitments given		95,323	118,769
Provisions recognised on liabilities side of the balance sheet	22	68,674	78,308
Total		**37,042,932**	**39,221,990**

(*) Includes 99,631 and 122,500 thousand euro as of 31 December 2023 and 2022, respectively, corresponding to financial guarantees given in connection with construction and real estate development.

(**) Includes 3,402 thousand euros and 4,305 thousand euros as at 31 December 2023 and 2022, respectively, corresponding to provisions for financial guarantees given in connection with construction and real estate development.

Total commitments drawable by third parties as at 31 December 2023 include home equity loan commitments amounting to 4,640,343 thousand euros (4,566,727 thousand euros as at 31 December 2022). As regards other commitments, in the majority of cases there are other types of guarantees which are in line with the Group's risk management policy.

Financial guarantees and other commitments given classified as stage 3

The movement of the balance of financial guarantees and other commitments given classified as stage 3 during 2023 and 2022 was the following:

Thousand euro

Balances as at 31 December 2021	**474,557**
Additions	90,909
Disposals	(241,762)
Balances as at 31 December 2022	**323,704**
Additions	43,391
Disposals	(99,268)
Balances as at 31 December 2023	**267,827**

The breakdown by geographical area of the balance of the financial guarantees and other commitments given classified as stage 3 as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Spain	265,046	321,296
Rest of European Union	448	439
United Kingdom	15	8
Americas	1,905	14
Rest of the world	413	1,947
Total	**267,827**	**323,704**

Credit risk allowances corresponding to financial guarantees and other commitments given as at 31 December 2023 and 2022, broken down by the method used to determine such allowances, are as follows:

Thousand euro

	2023	2022
Specific individually measured allowances:	67,247	79,564
Stage 2	7,454	3,753
Stage 3	59,793	75,811
Specific collectively measured allowances:	25,241	25,560
Stage 1	3,930	4,833
Stage 2	6,325	7,098
Stage 3	14,672	13,234
Others	314	395
Total	**92,488**	**105,124**

Movements in these allowances during the years 2023 and 2022, together with movements in allowances for loan commitments given, are shown in Note 22.

Note 27 – Off-balance sheet customer funds

Off-balance sheet customer funds managed by the Group, those sold but not under management and the financial instruments deposited by third parties as at 31 December 2023 and 2022 are shown below:

Thousand euro

	2023	2022
Managed by the Group:	**4,186,603**	**4,234,635**
Investment firms and funds	588,844	702,580
Asset management	3,597,759	3,532,055
Sold by the Group:	**36,373,953**	**34,257,725**
Mutual Funds	23,503,719	21,878,344
Pension funds	3,249,167	3,182,486
Insurance	9,621,067	9,196,895
Financial instruments deposited by third parties	**66,753,270**	**58,006,395**
Total	**107,313,826**	**96,498,755**

Note 28 – Interest income and expenses

These headings in the consolidated income statement include interest accrued during the year on all financial assets and financial liabilities the yield of which, implicit or explicit, is obtained by applying the effective interest rate approach, irrespective of whether they are measured at fair value or otherwise, and using corrections of income from hedge accounting operations.

The majority of interest income is generated by the Group's financial assets measured either at amortised cost or at fair value through other comprehensive income.

The breakdown of net interest income for the years ended 31 December 2023 and 2022 is the following:

Thousand euro

	2023	2022
Interest income		
Loans and advances	7,286,718	4,252,331
Central banks	1,215,497	252,274
Credit institutions	281,945	72,999
Customers	5,789,276	3,927,058
Debt securities (*)	589,033	288,540
Stage 3 assets	27,036	21,840
Correction of income from hedging operations	671,414	151,473
Other interest (**)	84,555	274,419
Total	**8,658,756**	**4,988,603**
Interest expense		
Deposits	(2,480,542)	(585,695)
Central banks	(532,310)	(99,658)
Credit institutions	(526,696)	(83,742)
Customers	(1,421,536)	(402,295)
Debt securities issued	(700,109)	(302,023)
Correction of expenses on hedging operations	(566,050)	(147,708)
Other interest (***)	(188,837)	(154,451)
Total	**(3,935,538)**	**(1,189,877)**
Net interest income	**4,723,218**	**3,798,726**

(*) Includes 69,956 thousand euro in 2023 and 20,903 thousand euro in 2022 corresponding to interest from financial assets recognised at fair value through profit and loss (trading portfolio).

(**) Includes positive returns from liability products.

(***) Includes negative returns on asset products.

The improvement in net interest income is mainly due to the higher yield of the loan book and improved income from the fixed-income portfolio, supported by the increase in interest rates, all of which offset the higher cost of customer funds and capital markets.

The average annual interest rate during 2023 and 2022 of the following balance sheet headings is shown below:

%

	2023	2022
Assets		
Cash, cash balances at central banks and other demand deposits	3.51	0.39
Debt securities	2.92	1.11
Loans and advances		
Customers	3.79	2.51
Liabilities		
Deposits		
Central banks and Credit institutions	(3.38)	0.02
Customers	(0.89)	(0.19)
Debt securities issued	(3.32)	(1.42)

Positive (negative) figures correspond to income (expenses) for the Group.

Note 29 – Fee and commission income and expenses

Income and expenses arising from fees and commissions on financial assets and liabilities and the provision of services are as follows:

Thousand euro

	2023	2022
Fees from risk transactions	**286,480**	**282,500**
Asset-side transactions	183,209	180,403
Sureties and other guarantees	103,271	102,097
Service fees	**796,822**	**869,794**
Payment cards	251,815	256,492
Payment orders	82,296	82,935
Securities	57,028	53,145
Sight accounts	277,111	286,471
Other	128,572	190,751
Asset management and marketing fees	**302,856**	**337,914**
Mutual funds	114,912	122,218
Sale of pension funds and insurance products	165,075	193,833
Asset management	22,869	21,863
Total	**1,386,158**	**1,490,208**
Memorandum item		
Fee and commission income	1,671,213	1,742,311
Fee and commission expenses	(285,055)	(252,103)
Fees and commissions (net)	**1,386,158**	**1,490,208**

Note 30 – Gains or (-) losses on financial assets and liabilities, net and exchange differences, net

"Gains or (-) losses on financial assets and liabilities, net" groups together a series of headings from the consolidated income statement for the years ended 31 December 2023 and 2022, which are shown below:

Thousand euro

	2023	2022
By heading:		
Gains or (-) losses on derecognition of financial assets and liabilities not measured at fair value through profit or loss, net	23,250	13,227
Financial assets at fair value through other comprehensive income	4,304	22,752
Financial assets at amortised cost	15,939	(9,190)
Financial liabilities at amortised cost	3,007	(335)
Gains or (-) losses on financial assets and liabilities held for trading, net	122,249	204,691
Gains or (-) losses on non-trading financial assets mandatorily at fair value through profit or loss, net	11,781	(4,157)
Gains or (-) losses on financial assets and liabilities designated at fair value through profit or loss, net	—	—
Gains or (-) losses from hedge accounting, net	12,193	17,851
Total	**169,473**	**231,612**
By type of financial instrument:		
Net gain/(loss) on debt securities	10,193	16,131
Net gain/(loss) on other equity instruments	7,100	(877)
Net gain/(loss) on derivatives	140,199	225,548
Net gain/(loss) on other items (*)	11,981	(9,190)
Total	**169,473**	**231,612**

(*) Mainly includes gains/(losses) on the sale of various loan portfolios sold during the year.

The breakdown of the heading "Exchange differences [gain or (-) loss], net" of the consolidated income statement for the years ended 31 December 2023 and 2022 is shown below:

Thousand euro

	2023	2022
Exchange differences [gain or (-) loss], net	(101,093)	(127,971)

During 2023, the Group carried out sales of certain debt securities which it held in its portfolio of financial assets at fair value through other comprehensive income, generating profits of 4,304 thousand euros (22,752 thousand euros in 2022). Of those profits, 4,930 thousand euros (22,752 thousand euros in 2022) came from the sale of debt securities held with general governments.

The "Net gain/(loss) on derivatives" heading in the table above includes, among other things, the change in the fair value of derivatives used to hedge against the foreign exchange risk of debit and credit balances denominated in foreign currencies. As at 31 December 2023, the gains generated by these derivatives amounted to 143,569 thousand euros (138,796 thousand euros as at 31 December 2022), which are recognised under the heading "Gains or (-) losses on financial assets and liabilities held for trading, net" of the consolidated income statement, while the exchange differences generated by debit and credit balances denominated in foreign currencies hedged with these derivatives are recognised under the heading "Exchange differences [gain or (-) loss], net" of the consolidated income statement.

Note 31 – Other operating income

The composition of this heading of the consolidated income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Income from use of investment properties (*)	22,850	23,474
Sales and other income from the provision of non-financial services	14,264	11,522
Other operating income	54,070	86,558
Total	**91,184**	**121,554**

(*) The amounts relate mainly to income from operating leases in which the Group acts as lessor.

The reduction in the balance recognised under "Other operating income" is mainly due to income in the amount of 45 million euros recognised in 2022 in connection with the insurance taken out by the Group to offset the payment made by TSB to UK regulators due to the incidents that took place following its IT migration in 2018 (see Note 32).

Note 32 – Other operating expenses

The composition of this heading of the consolidated income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Contribution to deposit guarantee schemes	(150,784)	(129,157)
Banco Sabadell	(132,209)	(113,832)
TSB	(280)	(540)
BS IBM Mexico	(18,295)	(14,785)
Contribution to resolution fund	(76,485)	(100,151)
Other items	(310,959)	(229,559)
Of which: temporary levy of credit institutions and financial credit establishments (*)	*(156,182)*	—
Total	**(538,228)**	**(458,867)**

(*) See Note 1.3.19.

The “Other items” heading includes expenses corresponding to the Spanish tax on deposits of credit institutions, amounting to 34,418 thousand euros in 2023 (34,894 thousand euros in 2022), as well as expenses associated with non-financial activities.

Similarly, in 2022, expenses in the amount of approximately 57 million euros were recognised in relation to the agreement between the subsidiary TSB and UK regulators regarding the conclusions of the investigation into the causes and circumstances of the incidents that took place following its IT migration in 2018. However, in 2023 and 2022, income amounting to 16 and 45 million euros, respectively, corresponding to compensation obtained through the arranged insurance policies was recognised under the heading “Other operating income” of the consolidated income statements for 2023 and 2022 (see Note 31).

Note 33 – Administrative expenses

This heading of the consolidated income statement includes expenses incurred by the Group corresponding to staff and other general administrative expenses.

Staff expenses

The staff expenses recognised in the consolidated income statement for the years ended 31 December 2023 and 2022 were as follows:

Thousand euro

	Note	2023	2022
Payrolls and bonuses for active staff		(1,095,399)	(1,050,441)
Social Security payments		(231,124)	(212,576)
Contributions to defined benefit pension plans	22	(3,175)	(1,157)
Contributions to defined contribution pension plans		(65,452)	(61,560)
Other staff expenses		(99,494)	(65,874)
Of which: restructuring plan in United Kingdom	22	*(26,409)*	—
Total		**(1,494,644)**	**(1,391,608)**

As at 31 December 2023 and 2022, the breakdown of the average workforce for all companies within the Group by category and sex is as follows:

Average number of employees

	2023			2022		
	Men	Women	Total	Men	Women	Total
Senior management	514	245	759	479	208	687
Middle management	2,011	1,477	3,488	1,947	1,381	3,328
Specialist staff	5,379	7,248	12,627	5,307	7,222	12,529
Administrative staff	706	1,733	2,439	707	1,817	2,524
Total	**8,610**	**10,703**	**19,313**	**8,440**	**10,628**	**19,068**

The breakdown of the Group’s average workforce with a disability of 33% or more, by category, as at 31 December 2023 and 2022 is as follows:

Average number of employees

	2023	2022
Senior management	9	10
Middle management	22	27
Specialist staff	210	207
Administrative staff	64	78
Total	**305**	**322**

As at 31 December 2023 and 2022, the breakdown of the Group's workforce by category and sex is as follows:

Number of employees

	2023			2022		
	Men	**Women**	**Total**	**Men**	**Women**	**Total**
Senior management	529	262	791	460	208	668
Middle management	2,091	1,632	3,723	1,944	1,381	3,325
Specialist staff	5,341	7,077	12,418	5,298	7,194	12,492
Administrative staff	680	1,704	2,384	683	1,727	2,410
Total	**8,641**	**10,675**	**19,316**	**8,385**	**10,510**	**18,895**

Of the total workforce as at 31 December 2023, 300 had some form of recognised disability (309 as at 31 December 2022).

Long-term share-based complementary incentive scheme

Pursuant to the Remuneration Policy, the latest version of which was approved by the Board of Directors at its meeting of 21 December 2023, at the proposal of the Board Remuneration Committee, members of the Group's Identified Staff, with the exception of Non-Executive Directors, were allocated long-term remuneration through the schemes in effect during 2023, as described below:

Share-based complementary incentive scheme

TSB's Share Incentive Plan (SIP) provides its employees with the opportunity to own shares in Banco Sabadell and grants shares, where applicable, to certain senior employees as part of their hiring arrangements.

Long-term remuneration scheme

Every year, the Board of Directors, at the proposal of the Board Remuneration Committee, approves Long-Term Remuneration aimed at members of the Group's Identified Staff with allocated variable remuneration, with the exception of management staff assigned to TSB Banking Group Plc or its subsidiaries, which consists of allocating a certain amount to each beneficiary, determined based on a monetary amount corresponding to a percentage of each beneficiary's fixed remuneration. 55% of the incentive is paid in the Bank's shares (using the weighted average price of the last 20 trading sessions of the month of December of the first year of the accrual period to calculate the number of shares), with the remaining 45% paid in cash. The incentive accrual period consists of three financial years, beginning on 1 January of the financial year immediately following the date of its approval and ending two years later, on 31 December of the third financial year. The aforesaid accrual period in turn comprises two sub-periods:

– Individual annual targets measurement period: this period lasts one financial year, from 1 January to 31 December of the year following the date on which the incentive is approved. During that period, each beneficiary's annual targets are measured (formed of Group targets, management targets and individual targets) established to determine the "Adjusted Target".

– Group multi-year targets measurement period: this period lasts three financial years, beginning on 1 January of the financial year immediately following the date on which the incentive is approved and ending two years later, on 31 December of the third financial year. During that period, the Group's multi-year targets are measured in order to determine the final incentive, which is subject to the Risk Correction Factor. The Group's multi-year targets for each incentive are linked to the following indicators and weights, whose achievement percentages are used to calculate the final payment owed, if any, to management staff who have been assigned that incentive:

Incentive	Indicators and weights
Long-Term Remuneration 2019-2021, 2020-2022 and 2021-2023	- Total shareholder return (25%) - Group liquidity coverage ratio (25%) - CET1 capital indicator (25%) - Group return on risk-adjusted capital (RoRAC) (25%)
Long-Term Remuneration 2022-2024	- Total shareholder return (25%) - Group liquidity coverage ratio (25%) - CET1 capital indicator (25%) - Return on tangible equity (ROTE) (25%)
Long-Term Remuneration 2023-2025	- Total shareholder return (40%) - Return on tangible equity (ROTE) (40%) - Sustainability indicator (20%)

In addition to the achievement of the annual and multi-year targets described above, payment of the incentives is subject to the requirements set out in the General Conditions of each long-term remuneration scheme.

The main characteristics of the current incentives of the long-term remuneration scheme are summarised below:

Thousand euro

Incentive	Date approved by Board of Directors	Incentive accrual period	Individual annual targets	Group multi-year targets			Amount pending payment as at 31/12/2023
			Measurement period	Measurement period	Percentage achievement	Final payment	
2019-2021 Long-term remuneration	20/12/2018	01/01/2019 - 31/12/2021	01/01/2019 - 31/12/2019	01/01/2019 - 31/12/2021	0% total shareholder return. 100% liquidity coverage ratio. 100% CET1 indicator. 0% RoRAC indicator.	50% of target	444
2019-2021 Long-term remuneration	19/12/2019	01/01/2020 - 31/12/2022	01/01/2020 - 31/12/2020	01/01/2020 - 31/12/2022	50% total shareholder return. 100% liquidity coverage ratio. 100% CET1 indicator. 100% RoRAC indicator.	87.5% of target	2,265
2021-2023 Long-term remuneration	17/12/2020	01/01/2021 - 31/12/2023	01/01/2021 - 31/12/2021	01/01/2021 - 31/12/2023	50% total shareholder return. 100% liquidity coverage ratio. 100% CET1 indicator. 100% RoRAC indicator.	100% of target	4,533
2022-2024 Long-term remuneration	16/12/2021	01/01/2022 - 31/12/2024	01/01/2022 - 31/12/2022	01/01/2022 - 31/12/2024	—	—	—
2023-2025 Long-term remuneration	21/12/2022	01/01/2023 - 31/12/2025	01/01/2023 - 31/12/2023	01/01/2023 - 31/12/2025	—	—	—

As regards the staff expenses associated with share-based incentive schemes (see Note 1.3.15), the balancing entry for such expenses is recognised in equity in the case of stock options settled with shares (see consolidated statement of total changes in equity – share based payments), while those settled with cash are recognised in the "Other liabilities" heading of the consolidated balance sheet.

Expenditure recognised in relation to incentive schemes and long-term remuneration granted to employees in 2023 and 2022 is shown below:

Thousand euro

	2023	2022
Settled in shares	6,191	4,923
Settled in cash	1,330	693
Total	**7,521**	**5,616**

Other administrative expenses

The composition of this heading in the consolidated income statement for the years 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Property, plant and equipment	(68,908)	(70,614)
Information technology	(416,313)	(391,562)
Communication	(25,862)	(30,231)
Publicity	(96,682)	(71,601)
Subcontracted administrative services	(118,383)	(112,898)
Contributions and taxes	(116,542)	(114,185)
Technical reports	(26,948)	(26,094)
Security services and fund transfers	(17,429)	(18,375)
Entertainment expenses and staff travel expenses	(15,077)	(9,600)
Membership fees	(6,771)	(5,602)
Other expenses	(92,803)	(95,045)
Total	**(1,001,718)**	**(945,807)**

Audit firm fees

The fees received by KPMG Auditores, S.L. in the years ended 31 December 2023 and 2022 for audit and other services were as follows:

Thousand euro

	2023	2022
Audit services (*)	**2,921**	**2,540**
Of which: Audit of the Bank's annual and interim accounts	2,471	2,100
Of which: Audit of the annual accounts of foreign branches (**)	27	27
Of which: Audit of the annual accounts of subsidiaries	423	413
Audit-related services	**292**	**281**
Total	**3,213**	**2,821**

(*) Including fees corresponding to the year's audit, irrespective of the date on which that audit was completed. The annual financial statements of Banco Sabadell and the consolidated Banco Sabadell Group for the financial years 2023, 2022, 2021 and 2020 were audited by the external audit firm KPMG Auditores, S.L. (KPMG), holder of company tax number (CIF) B-78510153 and with registered office in Madrid, Torre de Cristal, Paseo de la Castellana, no. 259 C, 28046 Madrid, entered in the Madrid Companies Register in Volume 11,961, Folio 90, Section 8, Sheet M-188,007, entry 9 and entered in the Official Record of Statutory Auditors under number S0702.
KPMG Auditores, S.L. neither gave up nor was relieved of its responsibilities as auditor of Banco Sabadell and the consolidated Banco Sabadell Group during 2023, 2022, 2021 and 2020, nor up to the date on which these annual financial statements were signed off.

(**) Corresponding to the branch located in London.

The fees received by other companies forming part of the KPMG network in the years ended 31 December 2023 and 2022 for audit and other services were as follows:

Thousand euro

	2023	2022
Audit services (*)	**6,848**	**6,861**
Of which: Audit of the annual accounts of foreign branches	341	343
Of which: Audit of the annual accounts of Group subsidiaries	6,507	6,518
Audit-related services	**213**	**192**
Other services	**474**	**383**
Of which: Other	474	383
Total	**7,535**	**7,436**

(*) Including fees corresponding to the year's audit, irrespective of the date on which that audit was completed.

The main items included under "Audit-related services" correspond to fees related to reports that auditors are required to produce under applicable regulations, the issuance of comfort letters and other assurance reports required. "Other services" includes fees related to review reports of the Pillar III Disclosures report and the Non-Financial Disclosures report, mainly provided by other companies of the KPMG network.

Lastly, the Group engaged auditors other than KPMG to carry out the audits of foreign branches and other Group subsidiaries. Audit and other services provided to those branches and subsidiaries amounted to 62 thousand euros and 0 thousand euros in the year ended 31 December 2023, respectively (51 and 9 thousand euros in the year ended 31 December 2022).

All services provided by the auditors and companies forming part of their network comply with the requirements for statutory auditor independence set forth in the Spanish Audit Law and do not, in any case, include work that is incompatible with the audit function.

Other information

The cost-to-income ratio as at 2023 year-end (staff and general expenses/gross income) stood at 42.59% (44.86% in 2022).

Information about the Group's branches and offices is given below:

Number of branches and offices

	2023	2022
Branches and offices	**1,420**	**1,461**
Spain	1,178	1,210
Outside Spain	242	251

Note 34 – Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains

The composition of this heading of the consolidated income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	Note	2023	2022
Financial assets at fair value through other comprehensive income		852	(182)
Debt securities	8	852	(182)
Other equity instruments		—	—
Financial assets at amortised cost	11	(825,245)	(839,397)
Debt securities		(40)	(190)
Loans and advances		(825,205)	(839,207)
Total		**(824,393)**	**(839,579)**

Note 35 – Impairment or (-) reversal of impairment on non-financial assets

The composition of this heading of the consolidated income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	Note	2023	2022
Property, plant and equipment for own use	15	(1,930)	(1,916)
Investment properties	15	(9,596)	(35,182)
Goodwill and other intangible assets		—	—
Inventories	17	(14,319)	(24,018)
Total		**(25,845)**	**(61,116)**

The total allowance for the impairment of investment properties in 2023 and 2022 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 225,641 thousand euros and 293,226 thousand euros in 2023 and 2022, respectively.

Of the total inventory impairment allowances for 2023 and 2022, 1,295 thousand euros and 1,564 thousand euros were allocated based on Level 2 valuations, respectively, and 13,024 thousand euros and 22,454 thousand euros based on Level 3 valuations, respectively. The fair value of impaired assets amounted to 61,561 thousand euros and 90,614 thousand euros at 2023 and 2022 year-end, respectively.

Note 36 – Gains or (-) losses on derecognition of non-financial assets, net

The composition of this heading of the consolidated income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	2023	2022
Property, plant and equipment	(657)	3,261
Investment properties	4,274	3,072
Intangible assets	(50,750)	(35,132)
Interests (*)	7,799	11,449
Other items	(10)	(19)
Total	**(39,344)**	**(17,369)**

(*) See Schedule I – Exclusions from the scope of consolidation

The sale of tangible assets under finance leases in which the Group acted as lessor did not have a material impact on the 2023 and 2022 consolidated income statements.

The “intangible assets” heading mainly includes the impact of certain computer software assets derecognised due to obsolescence.

Note 37 – Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations

The composition of this heading of the consolidated income statement for the years ended 31 December 2023 and 2022 is as follows:

Thousand euro

	Note	2023	2022
Property, plant and equipment for own use and foreclosed		(58,067)	(25,693)
Gains/losses on sales		(23,755)	(22,269)
Impairment/Reversal	13	(34,312)	(3,424)
Investment properties		—	—
Interests (*)		396	(1,829)
Other items		(2,284)	(279)
Total		**(59,955)**	**(27,801)**

(*) See Schedule I - Companies no longer consolidated.

In 2023, the heading “Plant and equipment for own use and foreclosed - Impairment/reversal” mainly includes the impact of the reduced fair value of tangible assets to be disposed of as part of the sale of the merchant acquiring business as a result of their regular use (see Note 2).

The impairment of non-current assets held for sale excludes income from the increase in fair value less selling costs.

The total allowance for the impairment of non-current assets held for sale in 2023 and 2022 was calculated based on Level 2 valuations (see Note 6). The fair value of impaired assets amounted to 554,978 thousand euros and 585,758 thousand euros as at 2023 and 2022 year-end, respectively.

Note 38 – Segment reporting

Segmentation criteria

This section gives information regarding earnings and other indicators of the Group’s business units.

In 2023, the criteria that Banco Sabadell Group uses to report on results for each segment are those established in 2022, specifically:

- Three geographical areas: Banking Business in Spain, United Kingdom and Mexico. Banking Business Spain includes foreign branches and representative offices.
- Each business unit is allocated capital equivalent to 12% of its risk-weighted assets, assigning all deductions corresponding to each business unit, and the surplus of own funds is allocated to Banking Business Spain.

In terms of the other criteria applied, segment information is first structured with a breakdown by geographical area and then broken down according to the customers at which each segment is aimed.

The information presented herein is based on the standalone accounting records of each Group company, after all consolidation disposals and adjustments have been made.

Each business unit bears its own direct costs, calculated on the basis of general accounting.

Details of profit attributable to the Group and other key figures of each business unit for the years 2023 and 2022 are shown in the table below, along with a reconciliation of the totals shown in the table with those shown in the consolidated accounts:

Million euro

	2023 (*)			
	Banking Business Spain	**Banking Business UK**	**Banking Business Mexico**	**Total Group**
Net interest income	**3,353**	**1,174**	**196**	**4,723**
Fees and commissions (net)	1,247	124	15	1,386
Core revenue	**4,601**	**1,298**	**211**	**6,109**
Net trading income and exchange differences	45	16	8	68
Equity-accounted income and dividends	131	—	—	131
Other operating income/expense	(404)	(23)	(20)	(447)
Gross income	**4,372**	**1,291**	**198**	**5,862**
Operating expenses and depreciation and amortisation	(1,965)	(941)	(108)	(3,015)
Pre-provisions income	**2,407**	**350**	**90**	**2,847**
Provisions and impairments	(816)	(75)	(19)	(910)
Capital gains on asset sales and other revenue	(27)	—	(19)	(46)
Profit/(loss) before tax	**1,564**	**274**	**53**	**1,891**
Corporation tax	(469)	(80)	(9)	(557)
Profit or loss attributed to minority interests	1	—	—	1
Profit attributable to the Group	**1,093**	**195**	**44**	**1,332**
ROTE (net profit attributable to Group / average shareholders' equity excluding intangible assets)	12.0%	10.0%	8.9%	11.5%
Cost-to-income (general administrative expenses / gross income)	37.2%	62.1%	45.7%	42.6%
NPL ratio	4.3%	1.5%	2.4%	3.5%
Stage 3 exposure coverage ratio (**)	59.9%	41.8%	74.3%	58.3%
Employees	13,455	5,426	435	19,316
Domestic and foreign branches and offices	1,194	211	15	1,420

(*) Exchange rates applied in the income statement: GBP 0.8706 (average), MXN 19.1120 (average), USD 1.0798 (average) and MAD 10.9543 (average).

(**) Considering total provisions for losses on transactions in stage 3.

Million euro

	2023 (*)			
	Banking Business Spain	**Banking Business UK**	**Banking Business Mexico**	**Total Group**
Assets	**173,648**	**54,855**	**6,670**	**235,173**
Gross performing loans to customers	103,830	41,381	4,587	149,798
Non-performing real estate assets (net)	586	—	—	586
Liabilities	**162,767**	**52,487**	**6,039**	**221,294**
On-balance sheet customer funds	117,820	39,864	3,205	160,888
Wholesale funding in capital markets	19,949	4,545	—	24,494
Allocated equity	**10,880**	**2,368**	**631**	**13,879**
Off-balance sheet customer funds	**40,561**	**—**	**—**	**40,561**

(*) Exchange rates applied in the balance sheet: GBP 0.8691, MXN 18.7231, USD 1.1050 and MAD 10.9116.

Million euro

	2022 (*)			
	Banking Business Spain (**)	**Banking Business UK**	**Banking Business Mexico**	**Total Group (**)**
Net interest income	**2,499**	**1,151**	**149**	**3,799**
Fees and commissions (net)	1,344	134	12	1,490
Core revenue	**3,843**	**1,284**	**162**	**5,289**
Net trading income and exchange differences	95	6	3	104
Equity-accounted income and dividends	156	—	—	156
Other operating income/expense	(225)	(95)	(17)	(337)
Gross income	**3,869**	**1,195**	**148**	**5,211**
Operating expenses and depreciation and amortisation	(1,887)	(909)	(86)	(2,883)
Pre-provisions income	**1,982**	**285**	**62**	**2,328**
Provisions and impairments	(920)	(104)	(9)	(1,032)
Capital gains on asset sales and other revenue	(9)	1	(14)	(23)
Profit/(loss) before tax	**1,053**	**182**	**39**	**1,273**
Corporation tax	(270)	(95)	(8)	(373)
Profit or loss attributed to minority interests	11	—	—	11
Profit attributable to the Group	**772**	**87**	**31**	**889**
ROTE (net profit attributable to Group / average shareholders' equity excluding intangible assets)	9.3%	4.2%	6.6%	8.2%
Cost-to-income (general administrative expenses / gross	39.9%	63.0%	48.7%	44.9%
NPL ratio	4.2%	1.3%	2.3%	3.4%
Stage 3 exposure coverage ratio (***)	56.2%	42.3%	70.1%	55.0%
Employees	12,991	5,482	422	18,895
Domestic and foreign branches and offices	1,226	220	15	1,461

(*) Exchange rates used in the income statement: GBP 0.8532 (average), MXN 21.0739 (average), USD 1.0538 (average) and MAD 11.1232 (average).

(**) See Note 1.4.

(***) Considering total provisions for losses on transactions in stage 3.

Million euro

	2022 (*)			
	Banking Business Spain (**)	**Banking Business UK**	**Banking Business Mexico**	**Total Group (**)**
Assets	**189,545**	**55,810**	**6,025**	**251,380**
Gross performing loans to customers	108,889	43,110	4,131	156,130
Non-performing real estate assets (net)	713	—	—	713
Liabilities	**179,402**	**53,316**	**5,437**	**238,155**
On-balance sheet customer funds	120,118	40,931	3,090	164,140
Wholesale funding in capital markets	19,444	2,537	—	21,981
Allocated equity	**10,005**	**2,494**	**587**	**13,086**
Off-balance sheet customer funds	**38,492**	**—**	**—**	**38,492**

(*) Exchange rates used in the balance sheet: GBP 0.8869, MXN 20.856, USD 1.066 and MAD 11.1558.

(**) See Note 1.4.

The Group’s average total assets as at 31 December 2023 amounted to 245,173,480 thousand euros (257,553,459 thousand euros as at 31 December 2021).

The types of products and services from which revenue is derived are described below for each business unit:

- Banking Business Spain: groups together the Retail Banking, Business Banking and Corporate Banking business units, with individuals and businesses managed under the same branch network:
  - Retail Banking: offers financial products and services to individuals for personal use. These include investment products and medium- and long-term finance, such as consumer loans, mortgages, leasing and rental services, as well as other short-term finance. Funds come mainly from customers' term and demand deposits, savings insurance, mutual funds and pension plans. The main services also include payment methods such as cards and various kinds of insurance products.
  - Business Banking: offers financial products and services to companies and self-employed persons. These include investment and financing products, such as working capital products, revolving loans and medium- and long-term finance. It also offers custom structured finance and capital market solutions, as well as specialised advice for businesses. Funds mainly come from customers' term and demand deposits and mutual funds. The main services also include collection/payment solutions such as cards and POS terminals, as well as import and export services. It also includes Private Banking, which offers personalised expert advice, backed by specialised and high-value product capabilities for our customers.
  - Corporate Banking: offers specialised lending services together with a comprehensive offering of solutions, ranging from transaction banking services to more complex and tailored solutions relating to the fields of finance and cash management, as well as import and export activities, among others.
- Banking Business UK: the TSB franchise covers business conducted in the United Kingdom, which includes current and savings accounts, loans, credit cards and mortgages.
- Banking Business Mexico: offers banking and financial services for corporate banking and commercial banking.

Details of income from ordinary activities and the pre-tax profit/(loss) generated by each business unit are set out below for the years 2023 and 2022:

Thousand euro

	Consolidated			
	Income from ordinary activities (*)		Profit/(loss) before tax	
SEGMENTS	**2023**	**2022**	**2023**	**2022 (**)**
Banking Business Spain	7,395,289	5,036,309	1,563,668	1,052,145
Banking Business UK	2,486,036	1,627,943	274,397	182,452
Banking Business Mexico	717,713	422,437	52,713	38,799
Total	**10,599,038**	**7,086,689**	**1,890,778**	**1,273,396**

(*) Includes the following headings from the consolidated income statements: "Interest income", "Dividend income", "Fee and commission income", "Gains or (-) losses on financial assets and liabilities, net" and "Other operating income".

(**) See Note 1.4.

The table below shows the deposits, net interest income and net fees and commissions generated by each business unit as a percentage of the total for 2023 and 2022:

%

	2023				
	Breakdown net interest income and net fees and commissions				
	Customer loans		Customer deposits		Income from services (*)
	% of average balance	% of total yield	% of average balance	% of total cost	% of total balance
SEGMENTS					
Banking Business Spain	69.3 %	65.5 %	73.2 %	61.1 %	91.7 %
Banking Business UK	27.6 %	26.6 %	24.8 %	28.7 %	7.4 %
Banking Business Mexico	3.1 %	7.9 %	2.0 %	10.2 %	0.9 %
Total	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**

(*) Segment percentage of total net fees and commissions.

%

	2022				
	Breakdown net interest income and net fees and commissions				
	Customer loans		Customer deposits		Income from services (*)
	% of average balance	% of total yield	% of average balance	% of total cost	% of total balance
SEGMENTS					
Banking Business Spain	69.7 %	63.0 %	73.2 %	54.2 %	90.2 %
Banking Business UK	27.6 %	28.9 %	24.9 %	24.6 %	9.0 %
Banking Business Mexico	2.7 %	8.0 %	1.9 %	21.2 %	0.8 %
Total	**100 %**	**100 %**	**100 %**	**100 %**	**100 %**

(*) Segment percentage of total net fees and commissions.

Furthermore, a breakdown by geographical area of the “Interest income” heading of the 2023 and 2022 income statements is shown below:

Thousand euro

	Breakdown of interest income by geographical area			
Geographical area	**Standalone**		**Consolidated**	
	2023	**2022**	**2023**	**2022**
Domestic market	5,212,561	2,874,905	5,040,658	2,869,020
International market	619,846	268,772	3,618,098	2,119,583
European Union	92,376	44,755	92,376	44,755
Eurozone	92,376	44,755	92,376	44,755
Non-Eurozone	—	—	—	—
Other	527,470	224,017	3,525,722	2,074,828
Total	**5,832,407**	**3,143,677**	**8,658,756**	**4,988,603**

Section 4 of the consolidated Directors’ Report gives a more detailed assessment of each of these business units.

Note 39 – Tax situation (income tax relating to continuing operations)

Consolidated tax group

Banco de Sabadell, S.A. is the parent company of a consolidated tax group for corporation tax purposes, in Spain, comprising, as subsidiaries, all the Spanish companies in which the Bank holds an interest that meet the requirements of the Spanish Corporation Tax Law.

The other companies in the accounting group, both those that are Spanish and those not resident in Spain, are taxed in accordance with the tax regulations applicable to them.

Reconciliation

The reconciliation between the Group's corporation tax expense calculated by applying the general tax rate and the expense recognised for that corporation tax in the consolidated income statements is as follows:

Thousand euro

	2023	2022
Profit or loss before tax	**1,890,778**	**1,273,396**
Corporation tax, applying national tax rate (30%)	**(567,234)**	**(382,019)**
Reconciliation:		
Gains/(losses) on sale of equity instruments (exempt)	2,049	(1,239)
Remuneration of preferred securities	34,617	33,112
Profit/(loss) of entities accounted for using the equity method	37,893	47,350
Difference in effective tax rate on companies outside Spain (*) (**)	22,678	(15,447)
Generated deductions/Non-deductible expenses	(66,157)	(22,640)
Other	(21,021)	(32,373)
(Tax expense or (-) income related to profit from continuing operations)	**(557,175)**	**(373,256)**

(*) Calculated applying the difference between the current tax rate for the Group in Spain (30%) and the effective tax rate applied to the Group's profit/(loss) in each jurisdiction.

(**) In 2022, the corporation tax surcharge on the banking sector in the United Kingdom was reduced from 8% to 3%, which resulted in a deferred tax asset reduction of 14.8 million euros, recognised with a balancing entry in higher Corporation Tax expense.

The effective tax rate, calculated as tax expenses related to profit divided by profit or loss before tax, came to 29.47% and 30.04% in 2023 and 2022, respectively.

Taxable income – increases and decreases

The increases and decreases in taxable income are analysed in the following table on the basis of whether they arose from timing or permanent differences:

Thousand euro

	2023	2022
Permanent difference	320,184	205,979
Generated deductions/Non-deductible expenses	156,504	181,566
Temporary levy to credit institutions	156,182	—
Other	7,498	24,413
Timing difference arising during the year	191,808	298,710
Timing difference arising in previous years	15,192	33,704
Increases	**527,184**	**538,393**
Permanent difference	(353,708)	(328,741)
Gains/(losses) on sale of equity instruments (exempt) and equity method	(140,638)	(134,582)
Difference in effective tax rate of permanent establishments and foreign subsidiaries	(75,591)	(35,716)
Generated deductions/Non-deductible expenses	(115,391)	(110,374)
Other	(22,088)	(48,069)
Timing difference arising during the year	(12,123)	—
Timing difference arising in previous years	(269,009)	(177,698)
Decreases	**(634,840)**	**(506,439)**

Deferred tax assets and liabilities

Under current tax and accounting regulations, certain timing differences should be taken into account when quantifying the relevant tax expense related to profit from continuing operations.

In 2013, Spain made a provision (Royal Decree-Law 14/2013) for tax assets generated by allowances for the impairment of loans and other assets arising from the potential insolvency of debtors not related to the relevant taxable person, as well as those corresponding to contributions or provisions in respect of social welfare systems and, where appropriate, early retirement schemes, to be afforded the status of assets guaranteed by the Spanish State (hereinafter, "monetisable tax assets").

Monetisable tax assets can be converted into credit enforceable before the Spanish Tax Authority in cases where the taxable person incurs accounting losses or the Institution is liquidated or legally declared insolvent. Similarly, they can be exchanged for public debt securities, once the 18-year term has elapsed, calculated from the last day of the tax period in which these assets were recognised in the accounting records. To retain the State guarantee, and to keep their status as monetisable tax assets, deferred tax assets generated before 2016 are subject to an annual capital contribution of 1.5% of the deferred tax assets that meet the legal requirements.

Movements of deferred tax assets and liabilities during 2023 and 2022 are shown below:

Thousand euro

Deferred tax assets	Monetisable	Non-monetisable	Tax credits for losses carried forward	Deductions not applied	Total
Balances as at 31 December 2021	**5,042,392**	**1,156,067**	**478,826**	**30,242**	**6,707,527**
(Debit) or credit recorded in the income statement	(47,661)	6,607	(87,366)	(16,385)	(144,805)
(Debit) or credit recorded in equity	—	85,337	—	—	85,337
Exchange differences and other movements	1,147	(5,096)	(771)	1,168	(3,552)
Balances as at 31 December 2022	**4,995,878**	**1,242,915**	**390,689**	**15,025**	**6,644,507**
(Debit) or credit recorded in the income statement	(93,090)	53,010	(104,319)	(14,999)	(159,398)
(Debit) or credit recorded in equity	—	(29,777)	—	—	(29,777)
Exchange differences and other movements	(159,445)	50,532	39,112	—	(69,802)
Balances as at 31 December 2023	**4,743,343**	**1,316,680**	**325,482**	**26**	**6,385,531**

Thousand euro

Deferred tax liabilities	Total
Balances as at 31 December 2021	**123,765**
(Debit) or credit recorded in the income statement	(10,914)
(Debit) or credit recorded in equity	—
Exchange differences and other movements	866
Balances as at 31 December 2022	**113,717**
(Debit) or credit recorded in the income statement	(490)
(Debit) or credit recorded in equity	(502)
Exchange differences and other movements	2,245
Balances as at 31 December 2023	**114,970**

The sources of the deferred tax assets and liabilities recognised in the consolidated balance sheets as at 31 December 2023 and 2022 are as follows:

Thousand euro

Deferred tax assets	2023	2022
Monetisable	**4,743,343**	**4,995,878**
Due to credit impairment	3,369,993	3,323,114
Due to real estate asset impairment	1,248,285	1,547,338
Due to pension funds	125,065	125,426
Non-monetisable	**1,316,680**	**1,242,915**
Tax credits for losses carried forward	**325,482**	**390,689**
Deductions not applied	**26**	**15,025**
Total	**6,385,531**	**6,644,507**

Deferred tax liabilities	2023	2022
Property restatements	53,092	54,197
Adjustments to value of wholesale debt issuances arising in business combinations	4,020	7,472
Other financial asset value adjustments	1,657	1,455
Other	56,201	50,593
Total	**114,970**	**113,717**

The breakdown by country of deferred tax assets and liabilities is as follows:

Thousand euro

	2023		2022	
Country	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Spain	6,174,220	104,364	6,417,930	104,530
United Kingdom	58,037	10,606	82,955	9,187
United States	63,492	—	62,754	—
Mexico	82,608	—	70,198	—
Other	7,174	—	10,670	—
Total	**6,385,531**	**114,970**	**6,644,507**	**113,717**

As indicated in Note 1.3.20, according to the information available as at year-end and the projections taken from the Group’s business plan for the coming years, the Group estimates that it will be able to generate sufficient taxable income to offset tax loss carry-forwards within a period of four years and non-monetisable tax assets, where these can be deducted according to current tax regulations, within a period of 10 years.

In addition, the Group performs a sensitivity analysis of the most significant variables used in the deferred tax asset recoverability analysis, taking into consideration reasonable changes to the key assumptions on which the projected results of each entity or tax group are based and the estimated reversal of timing differences. With respect to Spain, the variables considered are those used in the sensitivity analysis of the calculation of the recoverable amount of goodwill (see Note 16). The conclusions drawn from that analysis are not significantly different from those reached without stressing the significant variables.

The Constitutional Court declared, in its ruling 11/2024 dated 18 January 2024, published in the Official State Gazette (*Boletín Oficial del Estado*) on 20 February 2024, that certain measures related to corporation tax introduced by Royal Decree-Law 3/2016 of 2 December were unconstitutional. The effects of this ruling are expected to lead to an earlier use of tax credits, with no significant impact estimated for the Group.

The Group has 61,078 thousand euros of tax credits corresponding to research, development and technological innovation activities, deducted in the years 2016 to 2022, and 9,068 thousand euros of tax credits corresponding to the reinvestment of extraordinary profits, deducted in 2010 and not recognised on the consolidated balance sheet as at 31 December 2023. Tax credits for research, development and technological innovation activities expire 18 years after origination, while tax credits for reinvestments of extraordinary profits expire 15 years after origination.

On 29 December 2021, the government published Law 22/2021, which sets forth the minimum tax rate for corporation tax in Spain, calculated for financial institutions, as 18% of the taxable base (provided this is positive), as from 2022. The change introduced by this tax regulation does not modify the recoverability period for the Group's deferred tax assets.

Monetisable tax assets are guaranteed by the State; therefore, their recoverability does not depend on the generation of future tax benefits.

As at 31 December 2023, the Group had deferred tax assets for tax loss carry-forwards pending application amounting to 39.5 million euros not recognised in the balance sheet (generated in financial years prior to the integration of their originating company into the Spanish tax group). The tax-loss carry-forwards do not need to be used before any particular date.

Years subject to tax inspection

As at 31 December 2023, corporation tax for the consolidated tax group in Spain was open to review for 2020 and subsequent years. In relation to value added tax (VAT) corresponding to entities forming part of the VAT group in Spain, 2016, 2017, 2020 and subsequent periods were open to review.

The review of all taxes not verified and not required in accordance with the corresponding tax regulations is still pending for other Group entities that are not taxed within the consolidated tax group or the VAT group in Spain.

Proceedings

In January 2022, the State Agency for Tax Administration (Administración Estatal de Administración Tributaria, or AEAT) gave notice to Banco Sabadell, as the parent company of the consolidated tax group, of the commencement of verification and investigation proceedings in relation to the main taxes affecting the Group and three of its subsidiaries[1]. Specifically, the items and periods listed below:

- Corporation Tax for the years 2015 to 2019.
- Capital contribution associated with the conversion of deferred tax assets into credit eligible for the Spanish Tax Authority (Capital Contribution) for the years 2016 to 2019.
- Value Added Tax (VAT) for the years 2018 and 2019.
- Withholdings and payments on account (employment income, income from movable capital) for the years 2018 and 2019.
- Tax on deposits of credit institutions (*Impuesto sobre Depósitos de las Entidades de Crédito*, IDEC) for the years 2017 to 2019.

The corresponding tax assessments were signed on 30 November 2023. Details about the current status of the proceedings are given here below:

- Corporation Tax and Capital Contribution: the total balance due for both items amounts to 1.6 million euros (refundable amount of 0.9 million euros and amount payable of 2.5 million euros for late-payment interest). The only disputed tax assessment relates to the settlement of a deduction associated with technological innovation projects following the change of criteria of Spain's National Court (called the Audiencia Nacional, a division of the Supreme Court) announced in its ruling of 23 November 2022, a change of criteria that was applied in that Court's subsequent rulings and which is currently under appeal at the Supreme Court. In this respect, the corresponding disputes were filed on 28 December 2023. The tax clearance certificate is currently pending release.
- Value Added Tax: the total balance due comes to 9.5 million euros (of which 1.5 million euros correspond to late-payment interest), as the sector-related matters subject to verification in previous proceedings are under dispute. In this respect, the corresponding disputes were filed on 22 December 2023. The tax clearance certificate is currently pending release.
- Withholdings, payments on account and tax on deposits of credit institutions: the total amount due comes to 0.6 million euros (of which 97 thousand euros correspond to late-payment interest).

[1] Sabadell Digital, S.A.U., Sabadell Real Estate Development, S.L.U and Tenedora de Inversiones y Participaciones, S.L.

Furthermore, the verification proceeding opened by the Mexican tax authorities (Servicio de Administración Tributaria, or SAT) in relation to the income tax (*Impuesto Sobre la Renta*, or ISR) corresponding to 2018 of the Mexican subsidiary Banco Sabadell, S.A., Institución de Banca Múltiple came to an end in June 2023, resulting in a reduction of the tax loss carry-forwards obtained during the year of approximately 10 million euros.

As at 31 December 2023, the Group had arranged sufficient provisions to cover the matters raised during the tax inspections carried out.

Ongoing disputes

The main tax-related disputes that were ongoing as at 31 December 2023 are set out below:

- Appeal for judicial review before Spain's National Court in relation to the rebuttal of the settlement of the disputed VAT assessment for Banco Sabadell between 2008-2010 for an amount of tax due of 1,831 thousand euros (2,337 thousand euros in total including late-payment interest), after a tax clearance certificate was issued in execution of a decision made by the Central Tax Appeal Board partially upholding the claim.

- Appeal for judicial review before Spain's National Court in relation to Order HFP/94/2023 of 2 February approving, among others, Model 797 "Temporary levy of credit institutions and financial credit establishments. Declaration of payment made" and Model 798 "Temporary levy of credit institutions and financial credit establishments. Advance payment".

  In addition, rectification requests were submitted in relation both to the advance payment of the temporary levy of credit institutions and financial credit establishments carried out in February 2023 (Model 798) and to the declaration of the payment made in September 2023 (Model 797).

The Group has, in any event, made suitable provisions for any contingencies that it is thought could arise in relation to these proceedings.

In relation to items for which the statute of limitations is unexpired, due to potential differences in the interpretation of tax regulations, the results of the tax authority inspections for the years subject to review may give rise to contingent tax liabilities, which it is not possible to quantify objectively. However, the Group considers that the possibility of such liabilities materialising is remote and, if they did materialise, the resulting tax charge would not be such as to have any significant impact on these consolidated annual financial statements.

Note 40 – Related party transactions

In accordance with the provisions of Chapter VII bis. Related Party Transactions, of the Capital Companies Act, introduced by Law 5/2021 of 12 April, amending the restated text of the Capital Companies Act, approved by Royal Legislative Decree 1/2010 of 2 July and other financial regulations, with regard to the promotion of long-term shareholder involvement in listed companies, there are no transactions with officers and directors of the company that could be considered material, other than those considered to be "related party transactions" in accordance with Article 529 *vicies* of the Capital Companies Act, carried out following the corresponding approval procedure and, where applicable, reported in accordance with Articles 529 *unvicies et seq.* of the aforesaid Capital Companies Act. Those that did take place were performed in the normal course of the company's business or were performed on an arm's-length basis or under the terms generally applicable to any employee. There is no record of any transactions being performed other than on an arm's-length basis with persons or entities related to directors or senior managers.

At its meeting of 30 November 2023, having received a favourable report from the Board Audit and Control Committee, the Board of Directors approved a related-party transaction consisting of a 150 million euro factoring facility opened for Puig Brands, S.A., which was formally arranged on 4 December 2023. This is considered to be a related-party transaction as Banco Sabadell's Chairman, Josep Oliu Creus, was also Chair of the parent company of the Puig Group (Exea Empresarial, S.L., shareholder of Puig, S.L.), as well as being the natural person appointed as representative of that company in the role of Board member of Puig Brands, S.A. As the amount of this transaction, together with two other transactions carried out in the past twelve months, was more than 2.5% of the turnover amount recorded in Banco Sabadell Group's consolidated annual financial statements for 2022, an "Other Relevant Information" notice, along with the corresponding report by the Board Audit and Control Committee, was sent to the CNMV on the same day, 4 December 2023, and assigned record number 25,658, in accordance with that set forth in Article 529 unvicies of the Capital Companies Act. Information was also provided about the other two aforesaid transactions, which were approved by the Board of Directors on 30 June 2023, after receiving a favourable report from the Board Audit and Control Committee, and attached to the same Other Relevant Information notice of 4 December 2023. The aforesaid transactions consisted of granting a 4-year 100 million euro loan and an interest rate and forex derivatives facility of 10 million euros.

Details of the most significant balances held with related parties as at 31 December 2023 and 2022, as well as the amount recorded on the consolidated income statements for 2023 and 2022 for related party transactions, are shown below:

Thousand euro

	2023				
	Joint control or signif. influence (in B.Sab)	**Associates**	**Key personnel**	**Other related parties (*)**	**TOTAL**
Assets:					
Customer lending and other financial assets	—	99,652	3,757	829,620	**933,029**
Liabilities:					
Customer deposits and other financial liabilities	—	463,292	5,452	218,477	**687,221**
Off-balance sheet exposures:					
Financial guarantees given	—	294	—	29,136	**29,430**
Loan commitments given	—	54	378	261,702	**262,134**
Other commitments given	—	6,491	—	84,726	**91,217**
Income statement:					
Interest and similar income	—	4,170	50	18,110	**22,330**
Interest and similar expenses	—	(4,010)	(75)	(915)	**(5,000)**
Return on capital instruments					**—**
Fees and commissions (net)	—	106,253	13	1,452	**107,718**
Other operating income/expense	—	5,655	3	4	**5,662**

(*) Includes employee pension plans.

Thousand euro

	2022				
	Joint control or signif. influence (in B.Sab)	Associates	Key personnel	Other related parties (*)	TOTAL
Assets:					
Customer lending and other financial assets	—	139,981	3,917	515,006	**658,904**
Liabilities:					
Customer deposits and other financial liabilities	—	227,023	5,718	75,107	**307,848**
Off-balance sheet exposures:					
Financial guarantees given	—	294	—	15,067	**15,361**
Loan commitments given	—	47	395	296,880	**297,322**
Other commitments given	—	6,499	—	82,913	**89,412**
Income statement:					
Interest and similar income	—	3,467	36	5,646	**9,149**
Interest and similar expenses	—	(18)	(5)	(643)	**(666)**
Return on capital instruments	—	—	—	—	**—**
Fees and commissions (net)	—	137,175	25	(64)	**137,136**
Other operating income/expense	—	5,704	—	1	**5,705**

(*) Includes employee pension plans.

Note 41 – Remuneration of members of the Board of Directors and Senior Management and their respective balances

The following table shows, for the years ended 31 December 2023 and 2022, the remuneration paid to directors for services provided by them in that capacity:

Thousand euro

	2023	2022
Josep Oliu Creus	1,600	1,600
Pedro Fontana García	342	335
César González-Bueno Mayer (*)	100	100
Anthony Frank Elliott Ball (1)	24	158
Aurora Catá Sala	173	179
Luis Deulofeu Fuguet	175	175
María José García Beato	170	180
Mireya Giné Torrens	165	160
Laura González Molero (2)	145	30
George Donald Johnston III	206	178
David Martínez Guzmán	95	100
José Manuel Martínez Martínez	170	180
José Ramón Martínez Sufrategui (3)	—	91
Alicia Reyes Revuelta	170	150
Manuel Valls Morató	178	140
David Vegara Figueras (*)	100	100
Pedro Viñolas Serra (4)	90	—
Total	**3,903**	**3,856**

(*) Perform executive functions.

(1) Resigned from his position as Director, effective as from the date of the Ordinary Annual General Meeting, which took place on 23 March 2023.

(2) On 26 May 2022, the Board of Directors approved her appointment as member of the Board of Directors, in the capacity of Independent Director and she accepted the position on 19 September 2022.

(3) Resigned from his position as Director on 26 May 2022, effective as from the date of obtaining regulatory authorisation to fill the vacancy, which was received on 31 August 2022.

(4) On 23 March 2023, the Annual General Meeting approved his appointment as member of the Board of Directors, in the capacity of Independent Director. He accepted the position on 22 June 2023.

In 2023 and 2022, no contributions were made to meet pension commitments for directors as a result of their duties as members of the Board of Directors.

Aside from the items mentioned above, members of the Board of Directors received 60 thousand euros as fixed remuneration in 2023 (94 thousand euros in 2022) by reason of their membership of boards of directors in Banco Sabadell Group companies (these amounts are included in the Annual Report on Director Remuneration).

Remuneration earned by directors for performing their executive duties during 2023 amounted to 3,496 thousand euros (3,520 thousand euros in 2022).

Thousand euro

	Fixed remuneration	Variable remuneration	Long-term remuneration	Total 2023	Total 2022
Executive Directors					
César González-Bueno Mayer	1,134	983	558	**2,676**	**2,722**
David Vegara Figueras	592	116	112	**820**	**743**
Non-Executive Directors					
María José García Beato (*)	—	—	—	**—**	**55**
Total	**1,726**	**1,099**	**670**	**3,496**	**3,520**

(*) Remuneration in 2022 corresponds to the long-term remuneration scheme that began in 2019 (see Note 33).

In compliance with the Director Remuneration Policy for the years 2024, 2025 and 2026, in force since its approval by the Annual General Meeting held on 23 March 2023, the remuneration scheme for the Chief Executive Officer was changed. Their annual fixed remuneration is 1,600 thousand euros in cash. After the corresponding personal income tax withholdings, the Chief Executive Officer systematically reinvests 300 thousand euros of his gross fixed remuneration by purchasing an equivalent annual net amount of the Bank's shares. Every year, a 300 thousand euro annual retirement contribution will be made, as described in the aforesaid Policy. Therefore, the Chief Executive Officer's annual fixed remuneration is 1,600 thousand euros in cash.

Exceptionally, to begin the plan, an initial contribution to the retirement plan of 600 thousand euros (in addition to those mentioned in the previous paragraph) was made for the 2023 financial year, with the ensuing reduction of an equal amount in his fixed remuneration. As each director's Remuneration Policy was applied on a pro-rata basis for the corresponding year, the amount of fixed remuneration for 2023 was 1,100 thousand euros plus 34 thousand euros as remuneration in kind and employee benefits.

Taking the foregoing into account, the contributions made in 2023 in insurance premiums covering pension contingencies for Executive Directors amounted to 961 thousand euros (101 thousand euros in 2022).

In addition, for the purposes of comparison, it is worth noting that the first full cycle in which the current Chief Executive Officer could earn long-term remuneration ended in 2023 (as it covered the period from 2021-2023).

For further details on directors' remuneration, see the Annual Report on Director Remuneration for 2023, which is included for reference purposes in the consolidated Directors' Report.

The amounts included in the Annual Report on Directors' Remuneration and in the Annual Corporate Governance Report follow the criteria set forth in CNMV Circular 5/2013, amended by CNMV Circular 2/2018 of 12 June, CNMV Circular 1/2020 of 6 October, and CNMV Circular 3/2021 of 28 September; therefore, those amounts accrued and not subject to deferral are reported. The amounts included in this Note follow the criteria set forth in the accounting standards applicable to the Bank, and therefore take into account the amounts accrued during 2023, irrespective of any deferral schedule to which they may be subject.

Total risk transactions granted by the Bank and consolidated companies to directors of the parent company amounted to 875 thousand euros as at 31 December 2023, of which 738 thousand euros corresponded to loans and receivables and 137 thousand euros related to loan commitments given (907 thousand euros as at 31 December 2022, consisting of 748 thousand euros in loans and receivables and 159 thousand euros in loan commitments given). These transactions form part of the ordinary business of the Bank and are carried out under normal market conditions. As for remuneration, compensation payable amounted to 3,751 thousand euros as at 31 December 2023 (4,376 thousand euros as at 31 December 2022).

Senior Management

Total Senior Management remuneration earned during 2023 amounted to 8,140 thousand euros. Pursuant to applicable regulations, this amount includes the remuneration of Senior Management members plus that of the Internal Audit Officer. The total remuneration of Senior Management includes amounts received by all those who were members of Senior Management at any time during 2023, in proportion to the time they spent in that position (on average 10 members in 2023 and 8.3 members in 2022).

Thousand euro

	2023			2022		
	Ordinary remuneration	**Severance pay**	**Total**	**Ordinary remuneration**	**Severance pay**	**Total**
Senior Management and Director of Internal Audit remuneration	8,165	—	**8,165**	6,675	6,200	**12,875**

Risk transactions granted by the Bank and consolidated companies to Senior Management members (with the exception of those who are also Executive Directors, for whom details are provided above) amounted to 3,260 thousand euros as at 31 December 2023 (3,405 thousand euros as at 31 December 2022), comprising 3,019 thousand euros in loans and receivables and 241 thousand euros related to loan commitments given (as at 31 December 2022, 3,169 thousand euros related to loans and receivables and 236 thousand euros to loan commitments given). As for remuneration, compensation payable amounted to 1,700 thousand euros as at 31 December 2023 (1,342 thousand euros as at 31 December 2022).

The accrued expenses corresponding to long-term remuneration schemes granted to members of Senior Management, including Executive Directors (see Note 33), amounted to 1,494 thousand euros in 2023 (1,181 thousand euros in 2022).

Details of existing agreements between the company and members of the Board and management staff with regard to severance pay are set out in the Group's Annual Corporate Governance Report, which is included for reference purposes in the consolidated Directors' Report.

The Executive Directors and Senior Management staff are specified below, indicating the positions they hold in the Bank as at 31 December 2023:

Executive Directors	
César González-Bueno Mayer	Sabadell Group CEO
David Vegara Figueras	Director-General Manager
Senior Management	
Leopoldo Alvear Trenor	General Manager
Marc Armengol Dulcet	General Manager
Gonzalo Barettino Coloma	Secretary General
Elena Carrera Crespo	General Manager
Cristóbal Paredes Camuñas	General Manager
Carlos Paz Rubio	General Manager
Sonia Quibus Rodríguez	General Manager
Jorge Rodríguez Maroto	General Manager
Carlos Ventura Santamans	General Manager

At its meeting of 30 November 2023, the Board of Directors appointed Marcos Prat Rojo as a General Manager of Banco Sabadell; he will also take on the role of Strategy Director, reporting to the Chief Executive Officer, subject to obtaining the European Central Bank's statement of no objection to his suitability and effective as from that moment. The Board also approved his becoming a member of Banco Sabadell's Management Committee during that same meeting. Given that, as at 31 December 2023, the statement of no objection to his suitability had not yet been received from the European Central Bank, this director was not considered a member of Senior Management for the purpose of these annual financial statements.

Other information relating to the Board

In accordance with the provisions of Article 229 of Royal Legislative Decree 1/2010 of 2 July, approving the restated text of the Capital Companies Act in relation to the duty to avoid situations of conflict of interest, and without prejudice to the provisions of Article 529 *vicies et seq.* of the aforesaid Act[2], directors have reported to the company that, during 2023, they or parties related to them, as defined in Article 231 of the Capital Companies Act:

- Have not carried out transactions with the company without taking into account usual operations, performed under standard conditions for customers and whose amount is immaterial, understanding such operations to be those that do not need to be reported to give a true and fair view of the company's equity, financial situation and income, or any operations carried out and considered to be "related party transactions" in accordance with Article 529 *vicies* of the Capital Companies Act, having applied the corresponding approval procedure and reporting requirement, in accordance with Articles 529 *unvicies et seq.* of the aforesaid Capital Companies Act.

- Have not used the name of the company or their position as director to unduly influence the performance of personal transactions.

- Have not made use of corporate assets, including the company's confidential information, for personal purposes.

- Have not taken undue advantage of the company's business opportunities.

- Have not obtained advantages or remuneration from third parties other than the company or its Group in connection with the performance of their duties, with the exception of acts of mere courtesy.

- Have not carried out activities on their own behalf or on behalf of a third party that involve competition with the company, whether on an isolated or potential basis, or that might otherwise place them in permanent conflict with the company's interests.

The Bank has entered into a civil liability insurance policy for 2023 that covers the Institution's Directors and Senior Management staff. The total premium paid was 1,395 thousand euros (3,761 thousand euros in 2022).

Note 42 – Other information

Transactions with significant shareholders

No major transactions with significant shareholders were carried out during 2023 and 2022.

Environmental disclosures

In the face of the challenges brought by climate change and in its capacity as a financial institution, the Group believes it has a fundamental role to play in the transition towards a sustainable economy and in the achievement of the goals established in the Paris Agreement and the 2030 Agenda. To that end, Banco Sabadell has an ESG action framework that is aligned with the Sustainable Development Goals (SDGs) and in which climate action (SDG 13) is one of the priority SDGs of its corporate strategy.

Banco Sabadell, with its Sustainability Policy and its Environmental and Social Risk Framework, strives to frame the Group's activity and organisation within ESG parameters. Environmental, social and governance factors are present both in decision-making and when responding to the needs and concerns of all its stakeholders. As a result of that same goal, Banco Sabadell, TSB and Banco Sabadell Mexico have incorporated the aforesaid parameters into their own commitments.

As a financial institution, Banco Sabadell plays a fundamental role in rebuilding an inclusive and decarbonised economy. On one hand, mobilising resources, identifying technologies and creating opportunities and, on the other, incorporating new capabilities with an in-house transformation to embed sustainability into all agendas, managing the risk of its customer portfolio, minimising its impact on ESG risks and funding a large part of the investments needed to fulfil the Paris Agreement, the European Green Pact and the 2030 Agenda.

[2] Related-party transactions are governed by their own special regime.

In this context, and to continue making progress with its goal of accelerating economic and social transformations that contribute to sustainable development, the Bank already reinforced the ESG dimensions applicable to the strategy, governance and its business model back in 2022, with the launch of its ESG framework, Sabadell's Commitment to Sustainability, setting specific targets for 2025-2050 across four strategic pillars. This set of commitments includes the alignment of business targets with SDGs and establishes levers for transformation and promotion actions. The main courses of action are the following:

- Progress as a sustainable institution: the Bank focuses on achieving greenhouse gas (GHG) emissions neutrality, on making progress in diversity, on ensuring talent and on continuing to incorporate ESG criteria into its governance arrangements, in addition to collaborating in key partnerships.

- Support customers in the transition to a sustainable economy: to that end, the Institution sets decarbonisation pathways, supports customers in the transition with specialised solutions for renewable energies, energy efficiency and sustainable mobility, and it establishes the Environmental and Social Risk Framework, which contains sectoral rules that limit controversial activities and/or activities with a negative impact on social and environmental development.

- Offer investment opportunities that contribute to sustainability: in the investor ecosystem, the Bank focuses on increasing savings and investment opportunities that contribute to sustainability, rolling out a wide range of social, ethical, green and sustainability bonds and funds, both its own and those of third parties.

- Work together for a sustainable and cohesive society: in its commitment to society, the Institution believes that it is imperative to take an active role to improve financial education, drive forward inclusion, minimise vulnerabilities and ensure secure transactions and exchanges of information.

To complement this, the Bank continues to make progress in the area of sustainable finance with its ESG Activities Plan, as an operational tool that ensures achievement of the milestones stemming from the new developments and needs generated by the regulatory and supervisory environment, which have implications for the business strategy, business model, governance arrangements, risk management and reporting. Among its main courses of action, which are monitored on an ongoing basis by the Sustainability Committee, it is worth noting the mobilisation of resources and capabilities in the area of sustainable finance, the progress made with the Sustainable Finance Plan, the assurance of market disclosures and the identification of sustainable progress mechanisms in fields such as communication, training and measurement.

All of these actions and goals set out in Sabadell's Commitment to Sustainability shape the Bank's ESG roadmap.

Given the activities in which it is engaged, as at 31 December 2023, the Bank does not have any responsibilities, expenses, assets, revenues, provisions or contingencies of an environmental nature that could be deemed significant with respect to its equity, financial position or consolidated results; therefore, no specific disclosures are included in the environmental disclosures document provided for in Order JUS/616/2022 of 30 June, approving the new templates for the submission to the Companies Register of the annual financial statements of institutions required to published them.

For further details, see the Non-Financial Disclosures Report, which is included as part of the consolidated Directors' Report.

Customer Care Service (SAC)

The Customer Care Service (hereinafter, SAC as per its Spanish acronym) and its head, who is appointed by the Board of Directors, report directly to the Compliance Division and are independent of the Bank's business and operational lines. The main function of the SAC is to handle and resolve complaints and claims brought forward by customers and users of the financial services of Banco de Sabadell, S.A. and the entities that adhere to the relevant regulations, where these relate to their interests and legally recognised rights arising from contracts, transparency and customer protection regulations or good financial practices and uses, in accordance with the Banco Sabadell Regulations for the Protection of Customers and Users of Financial Services.

The entities that adhere to the SAC Regulations are the following: Sabadell Asset Management, S.A., S.G.I.I.C. Sociedad Unipersonal; Urquijo Gestión, S.G.I.I.C, S.A.; and Sabadell Consumer Finance, S.A.U.

In 2023, Banco Sabadell's Customer Care Service (SAC) received 54,884 complaints and 54,048 complaints were handled during the year, with 2,301 claims and complaints pending analysis as at 31 December 2023.

Details of complaints received by the SAC in 2023, broken down by type of product or service, are provided here below:

	Complaints	% of total received
Product		
Loans and credit secured with mortgages	17,819	32.5 %
Loans and credit not secured with collateral	8,391	15.3 %
Demand deposits and payment accounts	19,882	36.2 %
Payment instruments and electronic money	3,576	6.5 %
Other payment services	2,156	3.9 %
Other products/services	2,007	3.7 %
Other products	1,053	1.9 %
Total	**54,884**	**100 %**

Complaints and claims processed by SAC at first instance

During 2023, the SAC received 51,175 complaints and claims, of which 32,455 were accepted for processing and resolved, in accordance with the provisions of Order ECO 734/2004 of 11 March.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 17,646 (54.4%) were resolved in the customer's favour, 14,803 (45.6%) in the Institution's favour and in 6 cases the customer withdrew their complaint. During 2023, 17,923 complaints and claims were not accepted for processing due to reasons set out in the SAC Regulations.

Of the total number of complaints and claims accepted for processing and resolved by the SAC, 20,823 (64.16%) were processed within a period of 15 working days, 10,321 (31.80%) within a period of less than one month and 1,311 (4.04%) within a period longer than one month.

Complaints and claims managed by the Ombudsman

At Banco Sabadell, the role of Customer Ombudsman is performed by José Luis Gómez-Dégano y Ceballos-Zúñiga. The Ombudsman is responsible for resolving complaints brought forward by the customers and users of Banco de Sabadell, S.A., and those of the other aforementioned entities associated with it, at both first and second instance, and for resolving issues that are passed on by the SAC. The Ombudsman's decisions are binding on the Institution.

In 2023, the SAC received a total of 2,952 complaints and claims via the Customer Ombudsman, of which 2,933 were handled during the year.

With regard to claims and complaints resolved by the Customer Ombudsman, 24 were resolved in the customer's favour, 727 were resolved in the Institution's favour, in 1,149 cases the Bank conceded and in 4 cases the customer withdrew their complaint. 988 complaints were rejected by the Ombudsman in accordance with the regulations governing their activity. As at 31 December 2023, 72 complaints were pending submission of allegations and 41 were pending the Ombudsman's ruling.

Complaints and claims managed by the Bank of Spain and the CNMV

Under current legislation, customers or users who are dissatisfied with the response received from the SAC or from the Customer Ombudsman may submit their claims and complaints to the Market Conduct and Complaints Department of the Bank of Spain, to the CNMV, or to the Directorate General for Insurance and Pension Funds, subject to the vital prerequisite of having previously addressed their complaint or claim to the Institution.

The SAC received a total of 757 claims referred by the Bank of Spain and the CNMV up to 31 December 2023. In 2023, taking into account claims that remained pending at the end of the previous year, 737 claims were accepted for processing and resolved.

Note 43 – Subsequent events

No significant events meriting disclosure have occurred since 31 December 2023.

Schedule I – Banco Sabadell Group companies

Banco Sabadell Group companies as at 31 December 2023 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/ (loss)	Dividends paid	Total assets			
Aurica Coinvestments, S.L.	Holding	Barcelona - Spain	—	61.76	50,594	(3,205)	4,712	2,614	52,175	50,594	(15,793)	2,420
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	1,598	712	(90)	—	2,952	2,439	(435)	(90)
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	—	—	680,028	10,247,219	1,088,014	—	179,945,913	—	12,961,312	1,020,744
Banco Sabadell, S.A., Institución de Banca Múltiple	Credit institution	Mexico City - Mexico	99.99	0.01	635,734	65,095	25,755	—	5,721,555	725,419	(42,119)	2,197
BanSabadell Factura, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	100	812	613	—	1,828	799	114	613
BanSabadell Inversió Desenvolupament, S.A.U.	Holding	Sant Cugat del Valles - Spain	100.00	—	16,975	165,564	21,193	—	205,074	108,828	84,911	6,827
Bansabadell Mediación, Operador de Banca-Seguros Vinculado del Grupo Banco Sabadell, S.A.	Other regulated companies	Alicante - Spain	—	100.00	301	60	3,110	8,393	38,485	524	(3,552)	4,259
Bitarte, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	6,506	(2,288)	240	—	4,640	9,272	(4,582)	(173)
BStartup 10, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	1,000	4,495	509	—	12,761	1,000	(374)	(185)
Crisae Private Debt, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	—	100.00	3	286	203	—	607	200	88	204
Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. en Liquidación	Real estate	Elche - Spain	—	100.00	1,942	(89,871)	(209)	—	42	1,919	(89,848)	(209)
Duncan Holdings 2022-1 Limited	Holding	London - United Kingdom	—	100.00	1	—	—	—	1	—	5,993	(1,469)
Ederra, S.A.	Real estate	Sant Cugat del Valles - Spain	97.85	—	2,036	34,452	(461)	—	36,486	36,062	(38)	(503)
ESUS Energía Renovable, S.L.	Power generation	Vigo - Spain	—	90.00	50	(1,522)	(313)	—	18,476	45	(1,666)	(584)
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other ancillary activities	Alicante - Spain	100.00	—	1,232	20,652	382	—	25,479	19,271	3,477	2,068
Gazteluberri, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	53	(20,795)	(79)	—	1,795	23,891	(44,634)	(79)
Gest 21 Inmobiliaria, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	7,810	1,140	24	—	8,995	80,516	(46,689)	24
Gestión Financiera del Mediterráneo, S.A.U.	Other financial services	Alicante - Spain	100.00	—	13,000	2,596	6,046	9,531	21,818	66,787	(42,846)	(2,296)
Gier Operations 2021, S.L.U.	Other ancillary activities	Andorra - Andorra	100.00	—	730	(9)	(9)	—	712	730	(9)	(9)
Guipuzcoano Promoción Empresarial, S.L.	Holding	Sant Cugat del Valles - Spain	—	100.00	53	(77,109)	(258)	—	5,264	7,160	(84,207)	(258)
Hobalear, S.A.U.	Real estate	Sant Cugat del Valles - Spain	—	100.00	60	79	6	—	146	414	79	6
Hondarriberri, S.L.	Holding	Sant Cugat del Valles - Spain	99.99	0.01	41	8,991	61	—	10,100	165,669	93,348	324
Hotel Management 6 Gestión Activa, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	135,730	28,210	(129)	—	163,812	136,335	50,295	45
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	—	100.00	29,074	(24,148)	(178)	—	61,401	27,611	(22,685)	(178)
Interstate Property Holdings, LLC.	Holding	Miami - United States	100.00	—	7,293	(1,152)	211	—	6,439	3,804	7,900	211
Inverán Gestión, S.L. en Liquidación	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	90	(96)	—	—	50	45,090	(45,096)	—
Inversiones Cotizadas del Mediterráneo, S.L.	Holding	Alicante - Spain	100.00	—	308,000	207,830	6,564	—	1,008,718	589,523	(73,054)	6,564
Manston Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	33,357	(13,688)	(95)	—	19,921	33,357	(13,689)	(95)
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	62	(11,598)	(43)	—	3,821	109,529	(121,065)	(43)

Banco Sabadell Group companies as at 31 December 2023 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/ (loss)	Dividends paid	Total assets			
Mediterráneo Sabadell, S.L.	Holding	Alicante - Spain	50.00	50.00	85,000	16,567	1,085	—	103,121	510,829	(409,218)	1,085
Paycomet, S.L.U.	Payment institution	Torrelodones - Spain	100.00		200	(19,658)	21,981	—	88,170	80,622	1,021	21,962
Puerto Pacific Vallarta, S.A. de C.V.	Real estate	Mexico City - Mexico	—	100.00	28,947	(14,693)	(74)	—	14,180	29,164	(12,264)	(74)
Ripollet Gestión, S.L.U.	Other financial services	Sant Cugat del Valles - Spain	100.00	—	20	396	(369)	—	625,387	593	(177)	(369)
Rubí Gestión, S.L.U.	Other financial services	Sant Cugat del Valles - Spain	100.00	—	3	14	(6)	—	295,504	53	(36)	(6)
Sabadell Consumer Finance, S.A.U.	Credit institution	Sabadell - Spain	100.00	—	35,720	95,237	5,182	—	2,139,044	72,232	63,647	5,182
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	—	100.00	12,036	21,507	422	—	34,469	41,296	(8,160)	422
Sabadell Digital, S.A.U.	Provision of technology services	Sabadell - Spain	100.00	—	40,243	236,148	(45,105)	—	1,473,772	269,695	1,434	(49,813)
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	1,000	8,552	31,752	—	43,824	1,000	(7,607)	(991)
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	30,116	795,014	(5,789)	—	821,973	863,895	(38,820)	(5,734)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	100,060	234,014	3	—	334,918	500,622	(166,548)	3
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	15,807	137,336	(5,495)	—	1,036,087	4,748,442	(4,573,410)	(8,263)
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	2,073	662	20	—	4,786	23,792	(21,058)	20
Sabadell Securities USA, Inc.	Other financial services	Miami - United States	100.00	—	551	6,197	694	—	7,601	551	5,692	686
Sabadell Strategic Consulting, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	664	226	—	1,625	3	664	226
Sabadell Venture Capital, S. L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	3	14,160	2,818	—	72,709	3	9,552	1,075
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico City - Mexico	49.00	51.00	127,864	49,577	44,928	51,527	1,420,571	126,007	25,073	41,762
Sinia Capital, S.A. de C.V.	Holding	Mexico City - Mexico	—	100.00	20,830	15,320	(6,405)	—	58,881	22,435	(4,160)	9,721
Sinia Renovables, S.A.U.	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	100.00	—	15,000	2,055	9,591	—	176,162	15,000	4,449	8,047
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.	Real estate	Alicante - Spain	100.00	—	3	10,078	248	—	11,960	3	11,659	(439)
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	60,729	(11,826)	(119)	—	49,277	60,729	(11,826)	(119)
Tasaciones de Bienes Mediterráneo, S.A. in liquidation	Other ancillary activities	Alicante - Spain	99.88	0.12	1,000	1,417	87	—	2,507	5,266	(2,850)	87
Tenedora de Inversiones y Participaciones, S.L.	Holding	Alicante - Spain	100.00	—	296,092	(129,129)	(38,776)	—	232,643	2,975,977	(2,739,862)	(38,596)
TSB Bank PLC	Credit institution	Edinburgh - United Kingdom	—	100.00	90,710	1,945,133	196,655	137,839	54,786,747	1,814,636	351,887	212,331
TSB Banking Group PLC	Holding	London - United Kingdom	100.00	—	7,028	1,826,060	138,687	56,749	3,358,703	2,207,741	(245,481)	(21,409)
TSB Banking Group plc Employee Share Trust	Other ancillary activities	Saint Helier - Jersey	—	100.00	1	(15,404)	(25)	—	286	—	(14,787)	1
TSB Covered Bonds (Holdings) Limited	Holding	London - United Kingdom	—	100.00	1	—	—	—	1	—	—	—
TSB Covered Bonds (LM) Limited	Other ancillary activities	London - United Kingdom	—	100.00	1	—	—	—	1	—	—	—
TSB Covered Bonds LLP	UCITS, funds and similar financial corporations	London - United Kingdom	—	100.00	1	20	3	—	72	—	21	3
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	100.00	—	3,606	4,858	(1,536)	1,257	8,573	3,084	5,380	(1,536)
VeA Rental Homes , S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	5,000	(222)	(2,229)	—	13,131	22,000	(17,222)	(2,229)
Venture Debt SVC, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	3	—	—	—	5,251	3	—	—
Total								**267,910**		**16,642,461**	**4,762,129**	**1,213,370**

Banco Sabadell Group companies as at 31 December 2023 accounted for using the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies (d) (**)	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Aurica III, Fondo de Capital Riesgo	UCITS, funds and similar financial corporations	Barcelona - Spain	—	47.50	51,130	81,088	1,306	6,290	64,340	24,318	2,115	4,128
Aurica IIIB, S.C.R., S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	—	42.85	34,557	79,139	908	1,518	43,386	12,520	3,562	2,507
BanSabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	—	7,813	34,412	3,343	—	49,106	40,378	(18,915)	1,672
BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	10,000	85,856	21,730	11,000	312,609	34,000	16,997	10,866
BanSabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	43,858	241,380	189,414	—	9,556,627	27,106	82,370	96,365
Doctor Energy Central Services, S.L.	Other business management consulting activities	Granollers - Spain	—	16.66	300	(100)	(166)	—	1,276	75	(50)	(19)
Catalana de Biogás Iberia, S.L.	Power generation	Barcelona - Spain	—	24.90	10	(373)	1	—	1	2	—	(2)
Parque Eólico Casa Vieja S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Parque Eólico Villaumbrales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	832	267	(15)	—
Parque Eólico Perales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Parque Eólico Los Pedrejones S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Energíes Renovables Terra Ferma, S.L.	Power generation	Barcelona - Spain	—	50.00	6	(73)	(15)	—	3,236	3	(3)	—
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	—	38,288	13,539	9,441	2,753	104,156	19,144	3,825	4,289
Flex Equipos de Descanso, S.A.	Manufacturing	Getafe - Spain	—	19.16	66,071	58,387	6,186	—	365,595	50,930	36,123	—
Murcia Emprende, S.C.R. de R.S., S.A.	Other financial services	Murcia - Spain	28.70	—	2,557	910	(182)	—	3,340	2,026	(910)	(173)
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	—	45.01	1,762	(15,237)	(11)	—	31,992	3,906	(3,114)	(792)
Portic Barcelona, S.A.	Data processing, hosting and related activities	Barcelona - Spain	25.00	—	291	1,841	25	—	2,391	5	548	(14)
Sydinia, S.L.	Power generation	Albacete - Spain	—	50.00	226	(40)	1	—	1	113	—	(20)
SBD Creixent, S.A.	Real estate	Sabadell - Spain	23.05	—	5,965	(891)	256	—	6,030	3,524	(2,299)	4
Enerlan Solutions, S.L.	Power generation	Biscay-Spain	—	19.00	3	142	80	—	559	274	—	—
Ingubide, S.L.	Power generation	Biscay-Spain	—	19.00	3	43	139	—	520	152	—	—
Total								**21,561**		**219,544**	**120,189**	**118,811**

(*) Companies accounted for using the equity method as the Group does not have control over them but does have significant influence.

(**) See Note 1.4.

(a) Figures for foreign companies translated to euros at the historical exchange rate; amounts in the consolidated income statement translated at the average exchange rate.

(b) Results pending approval by Annual General Meeting of Shareholders and Partners.

(c) Includes supplementary dividends from previous year and interim dividends paid to Group.

(d) The heading "Reserves or accumulated losses of investments in joint ventures and associates" on the consolidated balance sheet as at 31 December 2023 also includes -65,353 thousand euros corresponding to Promontoria Challenger I, S.A., an entity classified as a non-current asset held for sale.

The balance of total revenue from associates consolidated by the equity method and individually considered to be non-material amounted to 621,313 thousand euros as at 31 December 2023. The balance of liabilities as at the end of 2023 amounted to 540,899 thousand euros. The key figures as at 2023 year-end for BanSabadell Vida, S.A. are included in Note 14 of the consolidated annual financial statements.

Changes in the scope of consolidation in 2023

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Fair value of equity instruments issued for the acquisition		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Acquisition cost	Fair value of equity instruments issued for the acquisition					
Sydinia, S.L.	Associate	20/7/2023	113	—	50.00 %	50.00 %	Indirect	Equity method	a
Enerlan Solutions, S.L.	Associate	21/11/2023	274	—	19.00 %	19.00 %	Indirect	Equity method	a
Ingubide, S.L.	Associate	21/11/2023	152	—	19.00 %	19.00 %	Indirect	Equity method	a
Total newly consolidated subsidiaries			**—**						
Total newly consolidated associates			**539**						

(a) Acquisition of associates.

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
BanSabadell Financiación, E.F.C., S.A.	Subsidiary	10/10/2023	100.00 %	— %	—	Direct	Full consolidation	b
Business Services for Operational Support, S.A.U.	Subsidiary	19/1/2023	100.00 %	— %	43	Direct	Full consolidation	a
Duncan de Inversiones S.I.C.A.V., S.A. in liquidation	Subsidiary	11/1/2023	99.81 %	— %	—	Direct	Full consolidation	a
Galeban 21 Comercial, S.L	Subsidiary	18/10/2023	100.00 %	— %	64	Direct	Full consolidation	a
Sabadell Innovation Cells, S.L.U.	Subsidiary	28/9/2023	100.00 %	— %	121	Direct	Full consolidation	a
Compañía de Cogeneración del Caribe Dominicana, S.A.	Subsidiary	15/2/2023	100.00 %	— %	312	Indirect	Full consolidation	a
Fuerza Eólica De San Matías, S. de R.L. de C.V.	Subsidiary	15/12/2023	100.00 %	— %	11,892	Indirect	Full consolidation	c
Urumea Gestión, S.L. in liquidation	Subsidiary	28/12/2023	100.00 %	— %	—	Indirect	Full consolidation	a
Other					(4,237)			
Total					**8,195**			

(a) Removed from the scope due to dissolution and/or liquidation.
(b) Removed from the scope due to merger by absorption.
(c) Removed from the scope due to sale.

Banco Sabadell Group companies as at 31 December 2022 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/ (loss)	Dividends paid	Total assets			
Aurica Coinvestments, S.L.	Holding	Barcelona - Spain	—	61.76	50,594	(853)	1,880	1,043	51,651	50,594	(5,050)	(10,045)
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Nassau - Bahamas	99.99	0.01	1,598	825	(31)	—	3,155	2,439	(403)	(32)
Banco de Sabadell, S.A.	Credit institution	Alicante - Spain	—	—	703,371	10,009,080	740,551	—	195,620,963	—	12,573,535	593,675
Banco Sabadell, S.A., Institución de Banca Múltiple	Credit institution	Mexico City - Mexico	99.99	0.01	573,492	(16,619)	12,599	—	4,789,408	618,750	(78,166)	(12,409)
BanSabadell Factura, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	100	381	432	—	1,150	799	(318)	432
BanSabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell - Spain	100.00	—	24,040	12,856	683	—	571,813	24,040	12,856	683
BanSabadell Inversió Desenvolupament, S.A.U.	Holding	Barcelona - Spain	100.00	—	16,975	99,786	71,235	—	214,258	108,828	70,161	3,196
Bansabadell Mediación, Operador de Banca-Seguros Vinculado del Grupo Banco Sabadell, S.A.	Other regulated companies	Alicante - Spain	—	100.00	301	60	7,244	8,232	53,073	524	(1,597)	6,437
Bitarte, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	6,506	(2,176)	(113)	—	4,325	9,272	(4,488)	(93)
BStartup 10, S.L.U.	Holding	Barcelona - Spain	—	100.00	1,000	4,107	(315)	—	11,232	1,000	(999)	(169)
Business Services for Operational Support, S.A.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	—	—	—	—	51	—	(8,726)	2,825
Compañía de Cogeneración del Caribe Dominicana, S.A.	Power generation	Santo Domingo - Dominican Republic	—	100.00	5,016	(4,581)	—	—	454	—	(312)	—
Crisae Private Debt, S.L.U.	Other ancillary activities	Barcelona - Spain	—	100.00	3	181	104	—	352	200	(16)	103
Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. en Liquidación	Real estate	Elche - Spain	—	100.00	1,942	(89,826)	(45)	—	3	1,919	(89,803)	(45)
Duncan de Inversiones S.I.C.A.V., S.A. in liquidation	UCITS, funds and similar financial corporations	Sant Cugat del Valles - Spain	99.81	—	7,842	(7,787)	(55)	—	18	—	(345)	(55)
Duncan Holdings 2022-1 Limited	Holding	London - United Kingdom	—	100.00	1	—	—	—	1	—	—	5,993
Ederra, S.A.	Real estate	San Sebastián - Spain	97.85	—	2,036	34,085	371	—	36,563	36,062	(398)	363
ESUS Energía Renovable, S.L.	Power generation	Vigo - Spain	—	90.00	50	(1,279)	(173)	—	2,975	23	(1,361)	(297)
Fonomed Gestión Telefónica Mediterráneo, S.A.U.	Other ancillary activities	Alicante - Spain	100.00	—	1,232	2,913	1,017	—	6,820	2,771	1,962	1,247
Fuerza Eólica De San Matías, S. de R.L. de C.V.	Power generation	Monterrey - Mexico	—	99.99	8,144	(14,919)	(7,095)	—	53,496	5,951	(10,502)	(6,497)
Galeban 21 Comercial, S.L.U.	Services	A Coruña - Spain	100.00	—	10,000	(4,292)	(6)	—	5,702	14,477	(8,769)	(6)
Gazteluberri, S.L.	Real estate	Sant Cugat del Vallès - España	—	100.00	53	(20,789)	(7)	—	1,672	23,891	(44,627)	(7)
Gest 21 Inmobiliaria, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	7,810	1,108	33	—	8,958	80,516	(46,727)	38
Gestión Financiera del Mediterráneo, S.A.U.	Other financial services	Alicante - Spain	100.00	—	13,000	2,573	8,211	12,875	23,963	66,787	(42,959)	1,269
Gier Operations 2021, S.L.U.	Other ancillary activities	Andorra - Andorra	100.00	—	730	—	(9)	—	722	730	—	(9)
Guipuzcoano Promoción Empresarial, S.L.	Holding	San Sebastián - Spain	—	100.00	53	(75,662)	(1,447)	—	5,307	7,160	(82,761)	(1,447)
Hobalear, S.A.U.	Real estate	Barcelona - Spain	—	100.00	60	72	7	—	141	414	72	7

Banco Sabadell Group companies as at 31 December 2022 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/ (loss)	Dividends paid	Total assets			
Hondarriberri, S.L.	Holding	San Sebastián - Spain	99.99	0.01	41	63,158	(54,168)	—	10,037	165,669	95,440	(2,092)
Hotel Management 6 Gestión Activa, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	135,730	28,269	(54)	—	163,945	136,335	50,335	(40)
Hotel Management 6 Holdco, S.L.U.	Real estate	Sant Cugat del Valles - Spain	—	100.00	29,074	(24,133)	(15)	—	61,579	27,611	(22,671)	(15)
Interstate Property Holdings, LLC.	Holding	Miami - United States	100.00	—	7,293	(977)	51	—	6,387	3,804	7,849	51
Inverán Gestión, S.L. en Liquidación	Real estate	Sant Cugat del Valles - Spain	44.83	55.17	90	(80)	(15)	—	52	45,090	(45,081)	(15)
Inversiones Cotizadas del Mediterráneo, S.L.	Holding	Alicante - Spain	100.00	—	308,000	195,644	10,690	—	1,005,403	589,523	(83,787)	10,733
Manston Invest, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	33,357	(13,595)	(93)	—	19,939	33,357	(13,595)	(93)
Mariñamendi, S.L.	Real estate	Sant Cugat del Valles - Spain	—	100.00	62	(11,590)	(8)	—	3,882	109,529	(121,057)	(8)
Mediterráneo Sabadell, S.L.	Holding	Alicante - Spain	50.00	50.00	85,000	16,528	(217)	—	101,314	510,829	(409,000)	(217)
Paycomet, S.L.U.	Payment institution	Torrelodones - Spain	—	100.00	200	726	802	—	24,335	9,205	234	787
Puerto Pacific Vallarta, S.A. de C.V.	Real estate	Mexico City - Mexico	—	100.00	28,947	(16,488)	338	—	12,798	29,164	(11,951)	(314)
Ripollet Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	—	20	272	124	—	458,163	593	(301)	124
Rubí Gestión, S.L.U.	Other financial services	Barcelona - Spain	100.00	—	3	20	(6)	—	402,936	53	(30)	(6)
Sabadell Consumer Finance, S.A.U.	Credit institution	Sabadell - Spain	100.00	—	35,720	77,380	17,857	—	1,888,124	72,232	45,790	17,857
Sabadell Information Systems Limited	Provision of technology services	London - United Kingdom	—	100.00	12,036	20,653	169	—	33,228	41,296	(8,332)	169
Sabadell Information Systems, S.A.U.	Provision of technology services	Sabadell - Spain	100.00	—	40,243	60,832	48,796	—	1,387,578	143,695	(47,700)	47,463
Sabadell Innovation Capital, S.L.U.	Holding	Sant Cugat del Valles - Spain	—	100.00	1,000	11,030	(1,129)	—	53,491	1,000	(8,152)	783
Sabadell Innovation Cells, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	755	155	—	1,354	3,203	(3,361)	528
Sabadell Patrimonio Inmobiliario, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	30,116	795,988	(1,029)	—	828,149	863,895	(27,970)	(10,850)
Sabadell Real Estate Activos, S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	100,060	234,204	(190)	—	334,467	500,622	(166,358)	(190)
Sabadell Real Estate Development, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	15,807	157,455	(19,168)	—	1,081,488	4,748,442	(4,552,614)	(20,796)
Sabadell Real Estate Housing, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	2,073	730	(6,068)	—	7,521	17,792	(14,990)	(6,068)
Sabadell Securities USA, Inc.	Other financial services	Miami - United States	100.00	—	551	6,200	265	—	7,219	551	5,412	280
Sabadell Strategic Consulting, S.L.U.	Other ancillary activities	Sant Cugat del Valles - Spain	100.00	—	3	488	176	—	1,266	3	488	176
Sabadell Venture Capital, S.L.U.	Holding	Barcelona - Spain	—	100.00	3	13,942	3,275	—	69,559	3	4,833	3,983
Sabcapital, S.A de C.V., SOFOM, E.R.	Credit institution	Mexico City - Mexico	49.00	51.00	164,828	69,276	44,696	—	1,618,240	154,568	80,389	44,679

Banco Sabadell Group companies as at 31 December 2022 consolidated by the full consolidation method

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data					Group investment	Contribution to reserves or losses in consolidated companies	Contribution to Group consolidated profit/(loss)
			Direct	Indirect	Capital	Other equity	Profit/ (loss)	Dividends paid	Total assets			
Sinia Capital, S.A. de C.V.	Holding	Mexico City - Mexico	—	100.00	20,830	10,230	6,899	—	84,776	20,140	5,448	7,391
Sinia Renovables, S.A.U.	UCITS, funds and similar financial corporations	Barcelona - Spain	100.00	—	15,000	2,318	(446)	—	117,076	15,000	3,885	211
Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U.	Real estate	Alicante - Spain	100.00	—	3	9,963	101	—	11,380	3	11,559	101
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	60,729	(11,704)	(122)	—	49,390	60,729	(11,705)	(122)
Tasaciones de Bienes Mediterráneo, S.A. in liquidation	Other ancillary activities	Alicante - Spain	99.88	0.12	1,000	1,416	—	—	2,420	5,266	(2,850)	—
Tenedora de Inversiones y Participaciones, S.L.	Holding	Alicante - Spain	100.00	—	296,092	(128,603)	(532)	—	345,066	2,975,977	(2,738,513)	(1,336)
TSB Bank PLC	Credit institution	Edinburgh - United Kingdom	—	100.00	90,710	1,967,452	111,939	78,531	55,752,618	1,814,636	329,136	99,938
TSB Banking Group PLC	Holding	London - United Kingdom	100.00	—	7,028	1,764,655	80,586	—	3,001,958	2,200,560	(227,995)	(39,268)
TSB Banking Group plc Employee Share Trust	Other ancillary activities	Saint Helier - Jersey	—	100.00	1	(13,106)	(56)	—	343	—	(12,896)	—
TSB Covered Bonds (Holdings) Limited	Holding	London - United Kingdom	—	100.00	1	—	—	—	1	—	—	—
TSB Covered Bonds (LM) Limited	Other ancillary activities	London - United Kingdom	—	100.00	1	—	—	—	1	—	—	—
TSB Covered Bonds LLP	UCITS, funds and similar financial corporations	London - United Kingdom	—	100.00	1	15	4	—	67	—	17	4
Urquijo Gestión, S.A.U., S.G.I.I.C.	Funds management activities	Madrid - Spain	100.00	—	3,606	4,858	1,257	4,213	13,822	3,084	5,380	1,257
Urumea Gestión, S.L. en Liquidación	Other ancillary activities	San Sebastián - Spain	—	100.00	9	(14)	—	—	—	9	(14)	—
VeA Rental Homes , S.A.U.	Real estate	Sant Cugat del Valles - Spain	100.00	—	5,000	1,358	(1,580)	—	36,383	22,000	(15,642)	(1,580)
Venture Debt SVC, S.L.U.	Holding	Barcelona - Spain	—	100.00	3	—	—	—	2,578	3	—	—
Total								**104,894**		**16,382,618**	**4,329,889**	**738,662**

Banco Sabadell Group companies as at 31 December 2022 accounted for using the equity method (*)

Thousand euro

Company name	Line of business	Registered office	% Shareholding		Company data (a)					Group investment	Contribution to reserves or losses in consolidated companies (d)	Contribution to Group consolidated profit/(loss) (e)
			Direct	Indirect	Capital	Other equity	Profit/(loss) (b)	Dividends paid (c)	Total assets			
Aurica III, Fondo de Capital Riesgo	UCITS, funds and similar financial corporations	Barcelona - Spain	—	47.50	51,130	(46,881)	69,348	36,612	75,249	24,318	(1,337)	9,743
Aurica IIIB, S.C.R., S.A.	UCITS, funds and similar financial corporations	Barcelona - Spain	—	42.85	34,557	(56,273)	71,330	22,320	50,765	14,837	199	4,881
BanSabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Madrid - Spain	50.00	—	7,813	34,569	(740)	—	45,833	40,378	(18,544)	(370)
BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	10,000	78,476	21,390	6,000	308,357	34,000	15,585	12,379
BanSabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid - Spain	50.00	—	43,858	437,575	117,961	60,000	8,808,926	27,106	(11,734)	94,103
Doctor Energy Central Services, S.L.	Other business management consulting activities	Granollers - Spain	—	24.99	125	(57)	(127)	—	278	50	(33)	(17)
Catalana de Biogás Iberia, S.L.	Power generation	Barcelona - Spain	—	24.90	10	(1)	1	—	1	2	—	—
Parque Eólico Casa Vieja S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Parque Eólico Villaumbrales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Parque Eólico Perales S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Parque Eólico Los Pedrejones S. L.	Power generation	Ponferrada - Spain	—	50.00	3	500	—	—	633	267	(15)	—
Energíes Renovables Terra Ferma, S.L.	Power generation	Barcelona - Spain	—	50.00	6	(65)	(9)	—	1,928	3	(3)	—
Financiera Iberoamericana, S.A.	Credit institution	Havana - Cuba	50.00	—	38,288	13,710	7,579	2,514	102,654	19,144	3,416	3,163
Flex Equipos de Descanso, S.A.	Manufacturing	Getafe - Spain	—	19.16	66,071	66,817	10,262	—	261,388	50,930	11,829	26,210
Murcia Emprende, S.C.R. de R.S., S.A.	Other financial services	Murcia - Spain	28.70	—	2,557	(594)	1,925	—	1,962	2,026	(1,441)	531
Plaxic Estelar, S.L.	Real estate	Barcelona - Spain	—	45.01	3	(15,303)	8	—	31,981	3,114	(3,114)	—
Portic Barcelona, S.A.	Data processing, hosting and related activities	Barcelona - Spain	25.00	—	291	1,812	108	—	2,447	5	539	9
SBD Creixent, S.A.	Real estate	Sabadell - Spain	23.05	—	5,965	(1,073)	421	—	5,571	3,524	(2,397)	98
Total								**127,446**		**220,505**	**(7,095)**	**150,730**

(*) Companies consolidated by the equity method as the Group does not have control over them but does have significant influence.

(a) Figures for foreign companies translated to euros at the historical exchange rate; amounts in the consolidated income statement translated at the average exchange rate.

(b) Results pending approval by Annual General Meeting of Shareholders and Partners.

(c) Includes supplementary dividends from previous year and interim dividends paid to Group.

(d) The heading “Reserves or accumulated losses of investments in joint ventures and associates” on the consolidated balance sheet as at 31 December 2022 also includes -65,353 thousand euros corresponding to Promontoria Challenger I, S.A., an entity classified as a non-current asset held for sale.

The balance of total revenue from associates consolidated by the equity method and individually considered to be non-material amounted to 561,496 thousand euros as at 31 December 2022. The balance of liabilities as at the end of 2022 amounted to 439,403 thousand euros.

Changes in the scope of consolidation in 2022

Additions to the scope of consolidation:

Thousand euro

Name of entity (or line of business) acquired or merged	Category	Effective date of the transaction	Fair value of equity instruments issued for the acquisition		% Voting rights acquired	% Total voting rights	Type of shareholding	Method	Reason
			Acquisition cost	Fair value of equity instruments issued for the acquisition					
Catalana de Biogás Iberia, S.L.	Associate	25/4/2022	2	—	24.90 %	24.90 %	Indirect	Equity method	a
Duncan Holdings 2022-1 Limited	Subsidiary	29/3/2022	1	—	100.00 %	100.00 %	Indirect	Full consolidation	b
Gier Operations 2021, S.L.U.	Subsidiary	21/2/2022	730	—	100.00 %	100.00 %	Direct	Full consolidation	b
Total newly consolidated subsidiaries			**731**						
Total newly consolidated associates			**2**						

(a) Acquisition of subsidiaries.

(b) Change in consolidation method.

Exclusions from the scope of consolidation:

Thousand euro

Name of entity (or line of business) sold, spun off or otherwise disposed of	Category	Effective date of the transaction	% Voting rights disposed of	% Total voting rights following disposal	Profit/(loss) generated	Type of shareholding	Method	Reason
Inversiones en Resorts Mediterráneos, S.L. in liquidation	Subsidiary	20/1/2022	55.06 %	— %	(800)	Indirect	Full consolidation	a
Aurica Capital Desarrollo, S.G.E.I.C., S.A.	Associate	29/7/2022	20.00 %	— %	2,585	Direct	Equity method	b
Europea Pall Mall Ltd.	Subsidiary	15/7/2022	100.00 %	— %	(32)	Direct	Full consolidation	b
Gestora de Aparcamientos del Mediterráneo, S.L. in liquidation	Associate	5/5/2022	40.00 %	— %	—	Indirect	Equity method	a
Plataforma de Innovación Sabadell, S.L.U.	Subsidiary	11/7/2022	100.00 %	— %	—	Direct	Full consolidation	a
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Subsidiary	30/8/2022	100.00 %	— %	(733)	Direct	Full consolidation	a
Sabadell Corporate Finance, S.L.U.	Subsidiary	22/6/2022	100.00 %	— %	(2)	Direct	Full consolidation	a
Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L. in liquidation	Subsidiary	14/12/2022	100.00 %	— %	(24)	Direct	Full consolidation	a
Atrian Bakers, S.L.	Associate	28/12/2022	22.41 %	— %	1,833	Indirect	Equity method	b
Solvia Servicios Inmobiliarios, S.L.	Associate	2/12/2022	20.00 %	— %	4,092	Direct	Equity method	b
LSP Finance, S.L.U. in liquidation	Subsidiary	28/10/2022	100.00 %	— %	(10)	Indirect	Full consolidation	a
Other					2,711			
Total					**9,620**			

(a) Disposals from the scope of consolidation due to sale of shareholding.

(b) Disposals from the scope due to dissolution and/or liquidation.

Schedule II – Structured entities - Securitisation funds

Thousand euro

Year	Securitisation funds fully retained on the balance sheet	Entity	Total securitised assets as at 31/12/2023	Of which: issued via mortgage transfer certificates (*)	Of which: issued via mortgage participations (*)
2005	TDA CAM 4 F.T.A	Banco CAM	83,578	13,608	69,352
2005	TDA CAM 5 F.T.A	Banco CAM	233,752	67,851	164,564
2006	TDA 26-MIXTO, F.T.A	Banco Guipuzcoano	36,380	1,303	34,678
2006	TDA CAM 6 F.T.A	Banco CAM	171,009	73,797	95,552
2006	FTPYME TDA CAM 4 F.T.A	Banco CAM	52,644	41,118	—
2006	TDA CAM 7 F.T.A	Banco CAM	269,629	113,981	153,700
2006	CAIXA PENEDES 1 TDA, FTA	BMN- Penedés	97,182	21,103	75,933
2007	TDA 29, F.T.A	Banco Guipuzcoano	52,988	5,593	46,625
2007	TDA CAM 8 F.T.A	Banco CAM	242,268	63,614	176,747
2007	TDA CAM 9 F.T.A	Banco CAM	255,472	95,129	159,434
2007	CAIXA PENEDES PYMES 1 TDA, FTA	BMN- Penedés	16,654	15,534	—
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	BMN- Penedés	29,668	29,161	—
2009	ICO-FTVPO 1, F.T.H (CP)	BMN- Penedés	736	—	736
2017	TDA SABADELL RMBS 4, F.T	Banco Sabadell	3,383,327	3,380,614	—
2022	SABADELL CONSUMO 2, FT	Banco Sabadell	438,863	—	—
2022	DUNCAN FUNDING 2022 PLC	TSB Bank	1,495,200	—	—
2023	SCF AUTOS 1, FT	Sabadell Consumer Finance	587,473	—	—
Total			**7,446,823**	**3,922,406**	**977,321**

(*) Corresponds to the allocation at source of loans when mortgage transfer certificates and mortgage participations were issued.

Thousand euro

Year	Securitisation funds fully derecognised from the balance sheet	Entity	Total securitised assets as at 31/12/2023	Of which: issued via mortgage transfer certificates (*)	Of which: issued via mortgage participations (*)
2010	FPT PYMES 1 LIMITED	Banco CAM	212,141	87,703	23,921
2019	SABADELL CONSUMO 1, FT	Banco Sabadell	128,154	—	—
Total			**340,295**	**87,703**	**23,921**

(*) Corresponds to the allocation at source of loans when mortgage transfer certificates and mortgage participations were issued.

Schedule III – Details of outstanding issues and subordinated liabilities of the Group

Debt securities in issue

The breakdown of the Group's issues as at 31 December 2023 and 2022 is as follows:

Thousand euro

Issuer	Issue date	Amount 31/12/2023	Amount 31/12/2022	Interest rate ruling as at 31/12/2023	Maturity / termination date	Issue currency	Target of offering
Banco de Sabadell, S.A.	05/12/2017	—	1,000,000	0.875%	05/03/2023	Euro	Institutional
Banco de Sabadell, S.A.	26/02/2018	—	4,000	MAX(EURIBOR 3M; 0.4%)	27/02/2023	Euro	Retail
Banco de Sabadell, S.A.	16/03/2018	6,000	6,000	MAX(EURIBOR 3M; 0.67%)	17/03/2025	Euro	Retail
Banco de Sabadell, S.A.	03/04/2018	—	6,000	MAX(EURIBOR 3M; 0.4%)	03/04/2023	Euro	Retail
Banco de Sabadell, S.A.	31/05/2018	—	3,000	MAX(EURIBOR 3M; 0.3%)	31/05/2023	Euro	Retail
Banco de Sabadell, S.A.	07/09/2018	750,000	750,000	1.625%	07/03/2024	Euro	Institutional
Banco de Sabadell, S.A.	14/11/2018	—	1,000	MAX(EURIBOR 3M; 1.1%)	14/11/2023	Euro	Retail
Banco de Sabadell, S.A.	14/11/2018	2,500	2,500	MAX(EURIBOR 3M; 1.5%)	14/11/2025	Euro	Retail
Banco de Sabadell, S.A.	10/05/2019	419,600	1,000,000	1.750%	10/05/2024	Euro	Institutional
Banco de Sabadell, S.A.	22/07/2019	1,000,000	1,000,000	0.875%	22/07/2025	Euro	Institutional
Banco de Sabadell, S.A.	27/09/2019	500,000	500,000	1.125%	27/03/2025	Euro	Institutional
Banco de Sabadell, S.A. (*)	07/11/2019	500,000	500,000	0.625%	07/11/2024	Euro	Institutional
Banco de Sabadell, S.A. (*)	11/09/2020	500,000	500,000	1.125%	11/03/2026	Euro	Institutional
Banco de Sabadell, S.A. (*)	16/06/2021	500,000	500,000	0.875%	16/06/2027	Euro	Institutional
Banco de Sabadell, S.A.	29/11/2021	67,000	67,000	MAX(EURIBOR 12M; 0.77%)	30/11/2026	Euro	Institutional
Banco de Sabadell, S.A. (*)	24/03/2022	750,000	750,000	2.625%	24/03/2025	Euro	Institutional
Banco de Sabadell, S.A.	30/03/2022	120,000	120,000	3.150%	30/03/2037	Euro	Institutional
TSB Banking Group Plc (*) (**)	13/6/2022	517,807	507,368	SONIA + 2.45%	13/06/2026	Pounds sterling	Institutional
Banco de Sabadell, S.A. (*)	8/9/2022	500,000	500,000	5.375%	08/09/2025	Euro	Institutional
Banco de Sabadell, S.A.	2/11/2022	750,000	750,000	5.125%	10/11/2027	Euro	Institutional
Banco de Sabadell, S.A. (*)	23/11/2022	75,000	75,000	5.500%	23/11/2031	Euro	Institutional
TSB Banking Group Plc (*)(**)	9/12/2022	287,670	281,871	SONIA + 3.40%	09/12/2025	Pounds sterling	Institutional
Banco de Sabadell, S.A. (*)	7/2/2023	750,000	—	5.250%	07/02/2028	Euro	Institutional
Banco de Sabadell, S.A. (*)	07/06/2023	750,000	—	5.000%	07/06/2028	Euro	Institutional
Banco de Sabadell, S.A. (*)	08/09/2023	750,000	—	5.500%	08/09/2028	Euro	Institutional
TSB Banking Group Plc (*) (**)	05/12/2023	230,136	—	SONIA + 3.28%	05/12/2027	Pounds sterling	Institutional
Subscribed by Group companies		(1,095,613)	(874,239)				
Total straight bonds		**8,630,100**	**7,949,500**				

(*) "Maturity/call date" refers to the first call option.

(**) Equivalent amount in euros as at the end of December 2023.

Thousand euro

Issuer	Issue date	Amount 31/12/2023	Amount 31/12/2022	Interest rate ruling as at 31/12/2023	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	14/07/2014	10,000	10,000	Underlying benchmark	15/07/2024	Euro	Retail
Banco de Sabadell, S.A.	05/11/2018	10,000	10,000	Underlying benchmark	01/04/2025	Euro	Institutional
Banco de Sabadell, S.A.	12/11/2018	3,200	3,200	Underlying benchmark	01/04/2025	Euro	Institutional
Banco de Sabadell, S.A.	03/06/2022	8,900	8,900	MAX (EURIBOR 12M;2.75%)	03/06/2027	Euro	
Banco de Sabadell, S.A.	01/08/2022	9,200	9,200	MAX (EURIBOR 12M;4%)	02/08/2027	Euro	
Total structured bonds		**41,300**	**41,300**				

Thousand euro

Issuer	Issue date	Amount 31/12/2023	Amount 31/12/2022	Average interest rate 31/12/2023	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A. (*)	10/05/2022	2,125,763	1,445,701	0.00%	Various	Euro	Institutional
Subscribed by Group companies		(742,935)	(573,805)				
Total commercial paper		**1,382,828**	**871,896**				

(*) Programme with issuance limit of 7,000,000 thousand euros, which can be extended to 9,000,000 thousand euros, registered with Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (IBERCLEAR).

Thousand euro

Issuer	Issue date	Amount		Interest rate ruling as at 31/12/2023	Maturity date	Issue currency	Target of offering
		31/12/2023	31/12/2022				
Banco de Sabadell, S.A.	03/10/2014	—	38,000	EURIBOR 3M + 0.68	03/10/2023	Euro	Institutional
Banco de Sabadell, S.A.	04/05/2015	—	250,000	EURIBOR 3M + 0.13	04/05/2023	Euro	Institutional
Banco de Sabadell, S.A.	03/07/2015	—	50,000	EURIBOR 3M + 0.20	03/07/2023	Euro	Institutional
Banco de Sabadell, S.A.	26/01/2016	550,000	550,000	EURIBOR 3M + 0.80	26/01/2024	Euro	Institutional
Banco de Sabadell, S.A.	24/05/2016	50,000	50,000	EURIBOR 3M + 0.535	24/05/2024	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2016	1,000,000	1,000,000	0.63%	10/06/2024	Euro	Institutional
Banco de Sabadell, S.A.	20/10/2016	—	1,000,000	0.13%	20/10/2023	Euro	Institutional
Banco de Sabadell, S.A.	29/12/2016	250,000	250,000	0.97%	27/12/2024	Euro	Institutional
Banco de Sabadell, S.A.	26/04/2017	1,100,000	1,100,000	1.00%	26/04/2027	Euro	Institutional
Banco de Sabadell, S.A.	21/07/2017	500,000	500,000	0.89%	21/07/2025	Euro	Institutional
Banco de Sabadell, S.A.	21/12/2018	390,000	390,000	1.09%	21/12/2026	Euro	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	750,000	EURIBOR 12M + 0.074	20/12/2024	Euro	Institutional
Banco de Sabadell, S.A.	20/12/2019	750,000	750,000	EURIBOR 12M + 0.104	22/12/2025	Euro	Institutional
Banco de Sabadell, S.A.	20/01/2020	1,000,000	1,000,000	0.13%	10/02/2028	Euro	Institutional
Banco de Sabadell, S.A.	23/06/2020	1,500,000	1,500,000	EURIBOR 12M + 0.080	23/06/2025	Euro	Institutional
Banco de Sabadell, S.A.	30/03/2021	1,000,000	1,000,000	EURIBOR 12M + 0.018	30/03/2026	Euro	Institutional
Banco de Sabadell, S.A.	08/06/2021	1,000,000	1,000,000	EURIBOR 12M + 0.012	08/06/2026	Euro	Institutional
Banco de Sabadell, S.A.	08/06/2021	1,000,000	1,000,000	EURIBOR 12M + 0.022	08/06/2027	Euro	Institutional
Banco de Sabadell, S.A.	21/01/2022	1,500,000	1,500,000	EURIBOR 12M + 0.010	21/09/2027	Euro	Institutional
Banco de Sabadell, S.A.	30/05/2022	1,000,000	1,000,000	1.75%	30/05/2029	Euro	Institutional
Banco de Sabadell, S.A.	12/12/2022	500,000	500,000	EURIBOR 12M + 0.140	12/06/2028	Euro	Institutional
Banco de Sabadell, S.A.	21/12/2022	500,000	500,000	EURIBOR 3M + 0.600	20/12/2030	Euro	Institutional
Banco de Sabadell, S.A.	28/02/2023	1,000,000	—	3.50%	28/08/2026	Euro	Institutional
Banco de Sabadell, S.A.	22/12/2023	200,000	—	EURIBOR 3M + 0.77	22/12/2031	Euro	Institutional
Subscribed by Group companies		(8,065,000)	(8,115,000)				
Total mortgage covered bonds		**7,475,000**	**7,563,000**				

Thousand euro

Issuer	Issue date	Amount		Interest rate ruling as at 31/12/2023	Maturity date	Issue currency	Target of offering
		31/12/2023	31/12/2022				
TSB Banking Group Plc	15/2/2019	575,342	845,614	SONIA + 0.870	15/2/2024	Pounds sterling	Institutional
TSB Banking Group Plc	22/6/2021	575,341	563,742	SONIA + 0.370	22/6/2028	Pounds sterling	Institutional
TSB Banking Group Plc	14/2/2023	1,150,682	—	SONIA + 0.60	14/2/2027	Pounds sterling	Institutional
TSB Banking Group Plc	15/9/2023	863,011	—	SONIA + 0.65	15/9/2028	Pounds sterling	Institutional
TSB Banking Group Plc	11/10/2023	575,341	—	SONIA + 0.63	10/11/2027	Pounds sterling	Institutional
Subscribed by Group companies		(575,341)	—				
Total Covered Bonds		**3,164,376**	**1,409,356**				

Securitisations

The following table shows the securities issued by asset securitisation funds outstanding as at 31 December 2023 and 2022, respectively:

Thousand euro

Year	Name of fund (*)	Types of issue	Issue		Outstanding balance of liabilities		Yield
			Number of securities	Amount	2023	2022	
2005	TDA CAM 4, F.T.A	RMBS	20,000	2,000,000	25,714	47,009	EURIBOR 3M + (between 0.09% and 0.24%)
2005	TDA CAM 5, F.T.A	RMBS	20,000	2,000,000	85,251	105,476	EURIBOR 3M + (between 0.12% and 0.35%)
2006	TDA CAM 6, F.T.A	RMBS	13,000	1,300,000	55,923	68,970	EURIBOR 3M + (between 0.13% and 0.27%)
2006	TDA CAM 7, F.T.A	RMBS	15,000	1,500,000	65,853	82,944	EURIBOR 3M + (between 0.14% and 0.3%)
2006	CAIXA PENEDES 1 TDA, F.T.A	RMBS	10,000	1,000,000	26,025	31,725	EURIBOR 3M + 0.14%
2006	FTPYME TDA CAM 4, F.T.A	SMEs	15,293	1,529,300	21,662	27,614	EURIBOR 3M + 0.61%
2007	TDA CAM 8, F.T.A	RMBS	17,128	1,712,800	62,769	75,165	EURIBOR 3M + (between 0.13% and 0.47%)
2007	CAIXA PENEDES PYMES 1 TDA, F.T.A	SMEs	7,900	790,000	225	300	EURIBOR 3M + 0.8%
2007	TDA CAM 9, F.T.A	RMBS	15,150	1,515,000	92,011	108,025	EURIBOR 3M + (between 0.19% and 0.75%)
2022	SABADELL CONSUMO 2, F.T.	CONSUMER	7,591	759,100	441,140	655,618	EURIBOR 1M + (between 0.87% and 13.25%)
2023	SCF AUTOS 1, F.T.	VEHICLES	6,595	659,500	494,000	—	EURIBOR 1M + (betweeen 0.69% and 9.23%)
Total securitisation funds					**1,370,573**	**1,202,846**	

(*) The bonds issued by securitisation funds are listed in the AIAF market.

Subordinated liabilities

Subordinated liabilities issued by the Group as at 31 December 2023 and 2022 are as follows:

Thousand euro

Issuer	Issue date	Amount 31/12/2023	Amount 31/12/2022	Interest rate ruling as at 31/12/2023	Maturity/call date	Issue currency	Target of offering
Banco de Sabadell, S.A.	06/05/2016	500,000	500,000	5.63%	6/5/2026	Euro	Institutional
Banco de Sabadell, S.A. (*)	12/12/2018	—	500,000	5.38%	12/12/2023	Euro	Institutional
Banco de Sabadell, S.A. (*)	17/01/2020	300,000	300,000	2.00%	17/01/2025	Euro	Institutional
Banco de Sabadell, S.A. (*)	15/01/2021	500,000	500,000	2.50%	15/04/2026	Euro	Institutional
TSB Banking Group Plc	30/03/2021	345,205	338,245	3.45%	30/03/2026	Pounds sterling	Institutional
Banco de Sabadell, S.A.	16/02/2023	500,000	—	6.00%	16/05/2028	Euro	Institutional
Subscribed by Group companies		(345,205)	(338,245)				
Total subordinated bonds		**1,800,000**	**1,800,000**				

(*) "Maturity/call date" refers to the first call option.

Thousand euro

Issuer	Issue date	Amount 31/12/2023	Amount 31/12/2022	Interest rate ruling as at 31/12/2023	Maturity/call date	Issue currency	Target of offering
Banco de Sabadell, S.A. (*)	23/11/2017	—	400,000	6.13%	23/02/2023	Euro	Institutional
Banco de Sabadell, S.A. (*)	15/03/2021	500,000	500,000	5.75%	15/09/2026	Euro	Institutional
Banco de Sabadell, S.A. (*)	19/11/2021	750,000	750,000	5.00%	19/11/2027	Euro	Institutional
Banco de Sabadell, S.A. (*)	18/01/2023	500,000	—	9.375%	18/07/2028	Euro	Institutional
Total preferred securities		**1,750,000**	**1,650,000**				

(*) Perpetual issue. "Maturity/call date" refers to date of first call option. The aforesaid subordinated securities and undated securities are perpetual, although they may be converted into newly issued Banco Sabadell shares, if either Banco Sabadell or its consolidated group has a Common Equity Tier 1 (CET1) ratio lower than 5.125%, calculated in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council, of 26 June, on prudential requirements for credit institutions and investment firms.

The issues included in subordinated liabilities, for the purposes of credit priority, are ranked below all of the Group's regular creditors.

For the purpose of complying with the requirements of IAS 7, the table below shows the reconciliation of liabilities derived from financing activities, identifying the components of their movements:

Thousand euro

Total subordinated liabilities as at 31 December 2021	**4,200,000**
Newly issued	—
Amortised	(750,000)
Capitalisation	—
Exchange rate	—
Change in subordinated liabilities subscribed by Group companies	—
Total subordinated liabilities as at 31 December 2022	**3,450,000**
Newly issued	1,000,000
Amortised	(900,000)
Capitalisation	—
Exchange rate	—
Change in subordinated liabilities subscribed by Group companies	—
Total subordinated liabilities as at 31 December 2023	**3,550,000**

Schedule IV – Other risk information

Credit risk exposure

Loans and advances to customers, broken down by activity and type of guarantee

The breakdown of the balance of the heading "Loans and advances – Customers" by activity and type of guarantee, excluding advances not classed as loans, as at 31 December 2023 and 2022, respectively, is as follows:

Thousand euro

	2023							
				Secured loans. Carrying amount based on last available valuation. Loan to value				
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**8,980,558**	**23,776**	**393,229**	**18,369**	**6,621**	**42**	**857**	**391,116**
Other financial corporations and individual entrepreneurs (financial business activity)	**1,315,339**	**206,658**	**238,726**	**233,252**	**161,757**	**5,918**	**9,410**	**35,047**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**57,417,407**	**11,029,211**	**5,800,333**	**5,758,968**	**4,352,419**	**1,840,235**	**1,384,038**	**3,493,884**
Construction and real estate development (including land)	2,253,778	1,262,384	257,299	520,929	516,954	174,633	121,393	185,774
Civil engineering construction	1,007,464	26,668	45,518	39,612	8,729	2,981	7,501	13,363
Other purposes	54,156,165	9,740,159	5,497,516	5,198,427	3,826,736	1,662,621	1,255,144	3,294,747
Large enterprises	29,971,252	2,574,879	2,095,603	1,216,378	914,663	385,915	395,883	1,757,643
SMEs and individual entrepreneurs	24,184,913	7,165,280	3,401,913	3,982,049	2,912,073	1,276,706	859,261	1,537,104
Other households	**84,202,656**	**76,182,679**	**1,200,701**	**17,259,349**	**23,402,095**	**26,631,313**	**7,886,433**	**2,204,190**
Home loans	75,264,075	74,941,780	250,150	16,421,911	22,741,620	26,263,113	7,729,403	2,035,883
Consumer loans	5,774,897	40,182	749,578	204,415	294,636	137,011	68,708	84,990
Other purposes	3,163,684	1,200,717	200,973	633,023	365,839	231,189	88,322	83,317
TOTAL	**151,915,960**	**87,442,324**	**7,632,989**	**23,269,938**	**27,922,892**	**28,477,508**	**9,280,738**	**6,124,237**
MEMORANDUM ITEM Refinancing, refinanced and restructured transactions	**3,866,784**	**2,217,794**	**159,301**	**807,197**	**623,992**	**486,425**	**204,765**	**254,716**

Thousand euro

	2022							
	TOTAL	Of which: secured with real estate	Of which: secured with other collateral	Secured loans. Carrying amount based on last available valuation. Loan to value				
				Less than or equal to 40%	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
General governments	**10,112,875**	**27,806**	**404,416**	**21,478**	**8,006**	**—**	**906**	**401,832**
Other financial corporations and individual entrepreneurs (financial business activity)	**1,053,004**	**302,774**	**362,324**	**433,339**	**194,881**	**21,854**	**6,451**	**8,573**
Non-financial corporations and individual entrepreneurs (non-financial business activity)	**60,962,804**	**13,324,354**	**5,961,022**	**7,596,497**	**4,652,265**	**2,200,628**	**1,546,495**	**3,289,491**
Construction and real estate development (including land)	2,558,107	1,490,609	316,320	756,742	534,819	153,846	147,140	214,382
Civil engineering construction	968,875	25,767	151,094	140,083	11,224	2,729	3,783	19,042
Other purposes	57,435,822	11,807,978	5,493,608	6,699,672	4,106,222	2,044,053	1,395,572	3,056,067
Large enterprises	25,586,942	2,161,488	2,006,076	1,773,688	443,347	276,123	372,204	1,302,202
SMEs and individual entrepreneurs	31,848,880	9,646,490	3,487,532	4,925,984	3,662,875	1,767,930	1,023,368	1,753,865
Other households	**85,544,442**	**77,898,980**	**1,384,690**	**17,922,933**	**24,711,578**	**26,895,158**	**6,936,913**	**2,817,088**
Home loans	77,075,115	76,728,550	296,420	17,006,740	24,088,867	26,531,341	6,779,029	2,618,993
Consumer loans	5,440,517	41,627	672,238	126,801	262,036	149,721	74,613	100,694
Other purposes	3,028,810	1,128,803	416,032	789,392	360,675	214,096	83,271	97,401
TOTAL	**157,673,125**	**91,553,914**	**8,112,452**	**25,974,247**	**29,566,730**	**29,117,640**	**8,490,765**	**6,516,984**
MEMORANDUM ITEM Refinancing, refinanced and restructured transactions	**4,512,316**	**2,911,059**	**272,013**	**961,790**	**840,122**	**534,705**	**248,379**	**598,076**

In terms of risks with LTV >80%, these mainly correspond to transactions from acquired entities or business operations in which, as a supplement to the valuation of the transaction, a mortgage guarantee is available to cover that transaction. Similarly, there are other additional reasons for approval, which mainly correspond to solvent borrowers with a proven payment capacity, as well as customers with a good profile who provide guarantees (personal guarantees and/or pledges) which are additional to the mortgage guarantees already considered in the LTV ratio.

Refinancing and restructuring transactions

The outstanding balance of refinancing and restructuring transactions as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023						
	Credit institutions	**General governments**	**Other financial corporations and individual entrepreneurs (financial business activity)**	**Non-financial corporations and individual entrepreneurs (non-financial business activity)**	***Of which: lending for construction and real estate development (including land)***	**Other households**	**Total**
TOTAL							
Not secured with collateral							
Number of transactions	—	12	66	28,834	*798*	59,191	**88,103**
Gross carrying amount	—	6,338	17,563	1,913,078	*131,181*	254,385	**2,191,364**
Secured with collateral							
Number of transactions	—	1	8	5,522	*276*	15,644	**21,175**
Gross carrying amount	—	75	179	1,464,647	*108,041*	1,310,756	**2,775,657**
Impairment allowances	—	429	15,006	726,639	*71,333*	358,162	**1,100,236**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	—	2	32	18,946	*554*	45,576	***64,556***
Gross carrying amount	—	630	16,250	1,030,015	*75,717*	175,898	***1,222,793***
Secured with collateral							
Number of transactions		1	4	3,210	*197*	8,232	***11,447***
Gross carrying amount	—	75	150	621,211	*67,899*	845,735	***1,467,171***
Impairment allowances	—	429	14,970	660,589	*69,559*	332,799	***1,008,787***
TOTAL							
Number of transactions	—	13	74	34,356	*1,074*	74,835	**109,278**
Gross value	—	6,413	17,742	3,377,725	*239,222*	1,565,141	**4,967,021**
Impairment allowances	—	429	15,006	726,639	*71,333*	358,162	**1,100,236**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	—	—	—	3,627	352	3,222	6,849

Thousand euro

	2022						
	Credit institutions	General governments	Other financial corporations and individual entrepreneurs (financial business activity)	Non-financial corporations and individual entrepreneurs (non-financial business activity)	*Of which: lending for construction and real estate development (including land)*	Other households	Total
TOTAL							
Not secured with collateral							
Number of transactions	—	13	77	29,290	*807*	59,586	**88,966**
Gross carrying amount	—	8,115	24,424	1,910,336	*76,455*	245,991	**2,188,866**
Secured with collateral							
Number of transactions	—	1	11	7,936	*1,238*	14,654	**22,602**
Gross carrying amount	—	100	1,688	2,079,054	*180,451*	1,323,929	**3,404,771**
Impairment allowances	—	1,049	15,313	776,751	*79,589*	288,210	**1,081,323**
Of which, non-performing loans							
Not secured with collateral							
Number of transactions	—	*10*	*35*	*14,428*	*478*	*43,708*	***58,181***
Gross carrying amount	—	*6,938*	*16,529*	*891,441*	*60,892*	*173,526*	***1,088,434***
Secured with collateral							
Number of transactions	—	*1*	*5*	*4,539*	*1,128*	*7,202*	***11,747***
Gross carrying amount	—	*100*	*218*	*895,810*	*75,145*	*759,672*	***1,655,800***
Impairment allowances	—	*864*	*15,176*	*702,017*	*74,597*	*262,845*	***980,902***
TOTAL							
Number of transactions	—	14	88	37,226	*2,045*	74,240	**111,568**
Gross value	—	8,215	26,112	3,989,390	*256,906*	1,569,920	**5,593,637**
Impairment allowances	—	1,049	15,313	776,751	*79,589*	288,210	**1,081,323**
Additional information: lending included under non-current assets and disposal groups classified as held for sale	—	—	—	—	—	—	**—**

The value of the guarantees received to ensure collection associated with refinancing and restructuring transactions, broken down into collateral and other guarantees, as at 31 December 2023 and 2022, is as follows:

Thousand euro

Guarantees received	**2023**	**2022**
Value of collateral	2,374,930	2,893,373
Of which: securing stage 3 loans	*1,151,958*	*1,310,560*
Value of other guarantees	942,367	1,061,177
Of which: securing stage 3 loans	*427,369*	*376,624*
Total value of guarantees received	**3,317,297**	**3,954,550**

Detailed movements in the balance of refinancing and restructuring transactions during 2023 and 2022 are as follows:

Thousand euro

	2023	**2022**
Opening balance	**5,593,638**	**6,834,437**
(+) Forbearance (refinancing and restructuring) in the period	1,381,276	933,461
Memorandum item: impact recognised on the income statement for the period	*146,794*	*116,365*
(-) Debt repayments	(686,252)	(919,789)
(-) Foreclosures	(5,086)	(8,044)
(-) Derecognised from the balance sheet (reclassified as write-offs)	(114,835)	(105,546)
(+)/(-) Other changes (*)	(1,201,720)	(1,140,882)
Year-end balance	**4,967,021**	**5,593,637**

(*) Includes transactions no longer classified as refinancing, refinanced or restructured due to meeting the requirements for reclassification from stage 2 to stage 1 exposures (see Note 1.3.4).

The table below shows the value of transactions which, after refinancing or restructuring, were classified as stage 3 exposures during 2023 and 2022:

Thousand euro

	2023	2022
General governments	—	—
Other legal entities and individual entrepreneurs	**249,593**	**374,135**
Of which: Lending for construction and real estate development	*25,064*	*20,280*
Other natural persons	**153,883**	**90,171**
Total	**403,476**	**464,306**

The average probability of default on current refinancing and restructuring transactions broken down by activity as at 31 December 2023 and 2022 is as follows:

%

	2023	2022
General governments (*)	—	—
Other legal entities and individual entrepreneurs	**17**	**14**
Of which: Lending for construction and real estate development	*17*	*19*
Other natural persons	**19**	**10**

(*) Authorisation has not been granted for the use of internal models in the calculation of capital requirements.

Average probability of default calculated as at 30 September 2023.

The change of PD observed in natural persons is due to the update and improvement of the IRB model carried out in 2023. The PDs are now more aligned with those of the companies segment. The previous model had an adjustment to make the estimate more through-the-cycle or long-term, which has been removed in the new version.

Concentration risk

Geographical exposure

Global

The breakdown of risk concentration, by activity and at a global level, as at 31 December 2023 and 2022 is as follows:

Thousand euro

	2023				
	TOTAL	**Spain**	**Rest of European Union**	**Americas**	**Rest of the world**
Central banks and Credit institutions	**40,818,131**	**24,396,259**	**5,901,206**	**2,413,890**	**8,106,776**
General governments	**34,319,129**	**25,077,209**	**4,812,170**	**2,377,517**	**2,052,233**
Central governments	23,338,073	15,730,694	4,563,364	991,796	2,052,219
Other	10,981,056	9,346,515	248,806	1,385,721	14
Other financial corporations and individual entrepreneurs	**4,514,495**	**1,051,126**	**201,741**	**647,539**	**2,614,089**
Non-financial corporations and individual entrepreneurs	**60,294,112**	**44,591,755**	**3,639,175**	**9,830,688**	**2,232,494**
Construction and real estate development	2,364,448	1,873,580	74,974	325,046	90,848
Civil engineering construction	1,098,655	766,428	14,205	240,774	77,248
Other purposes	56,831,009	41,951,747	3,549,996	9,264,868	2,064,398
Large enterprises	32,091,522	19,952,554	2,871,965	7,856,577	1,410,426
SMEs and individual entrepreneurs	24,739,487	21,999,193	678,031	1,408,291	653,972
Other households	**84,308,370**	**39,585,977**	**1,324,896**	**623,225**	**42,774,272**
Home loans	75,264,075	32,888,290	1,306,620	337,152	40,732,013
Consumer loans	5,774,897	3,907,018	7,319	6,024	1,854,536
Other purposes	3,269,398	2,790,669	10,957	280,049	187,723
TOTAL	**224,254,237**	**134,702,326**	**15,879,188**	**15,892,859**	**57,779,864**

Thousand euro

	2022				
	TOTAL	Spain	Rest of European Union	Americas	Rest of the world
Central banks and Credit institutions	**47,918,906**	**34,158,121**	**3,778,817**	**2,613,583**	**7,368,385**
General governments	**36,026,312**	**27,319,509**	**4,865,464**	**1,685,660**	**2,155,679**
Central governments	25,682,763	18,162,012	4,671,930	693,142	2,155,679
Other	10,343,549	9,157,497	193,534	992,518	—
Other financial corporations and individual entrepreneurs	**7,416,023**	**1,367,666**	**2,502,161**	**485,170**	**3,061,026**
Non-financial corporations and individual entrepreneurs	**63,587,639**	**48,156,329**	**3,400,613**	**9,597,141**	**2,433,556**
Construction and real estate development	2,680,945	2,205,881	54,640	286,390	134,034
Civil engineering construction	1,043,510	767,633	14,266	236,171	25,440
Other purposes	59,863,184	45,182,815	3,331,707	9,074,580	2,274,082
Large enterprises	27,398,039	16,773,028	1,859,562	7,549,562	1,215,887
SMEs and individual entrepreneurs	32,465,145	28,409,787	1,472,145	1,525,018	1,058,195
Other households	**86,241,976**	**39,850,415**	**1,193,792**	**612,502**	**44,585,267**
Home loans	77,672,228	33,741,442	1,170,817	282,090	42,477,879
Consumer loans	5,440,517	3,488,618	8,853	6,998	1,936,048
Other purposes	3,129,231	2,620,355	14,122	323,414	171,340
TOTAL	**241,190,856**	**150,852,040**	**15,740,847**	**14,994,056**	**59,603,913**

By autonomous community

The breakdown of risk concentration, by activity and at the level of Spanish autonomous communities, as at 31 December 2023 and 2022, respectively, is as follows:

Thousand euro

	2023									
		AUTONOMOUS COMMUNITIES								
	TOTAL	Andalusia	Aragon	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**24,396,259**	**5,410**	**—**	**—**	**—**	**—**	**698,942**	**—**	**—**	**430,307**
General governments	**25,077,209**	**578,710**	**241,671**	**431,346**	**343,768**	**664,383**	**3,215**	**135,071**	**1,043,140**	**760,577**
Central governments	15,730,694	—	—	—	—	—	—	—	—	—
Other	9,346,515	578,710	241,671	431,346	343,768	664,383	3,215	135,071	1,043,140	760,577
Other financial corporations and individual entrepreneurs	**1,051,126**	**3,681**	**1,772**	**1,996**	**1,312**	**850**	**156**	**627**	**32,962**	**108,516**
Non-financial corporations and individual entrepreneurs	**44,591,755**	**2,343,177**	**963,467**	**1,178,938**	**2,121,692**	**1,076,886**	**187,623**	**654,351**	**1,066,855**	**12,397,422**
Construction and real estate development	1,873,580	84,243	32,392	34,190	70,540	25,438	5,298	17,468	24,539	447,318
Civil engineering construction	766,428	24,615	12,107	18,725	5,653	4,146	2,883	8,684	12,627	136,796
Other purposes	41,951,747	2,234,319	918,968	1,126,023	2,045,499	1,047,302	179,442	628,199	1,029,689	11,813,308
Large enterprises	19,952,554	737,726	414,435	376,522	1,250,346	396,396	79,599	210,930	255,722	4,981,149
SMEs and individual entrepreneurs	21,999,193	1,496,593	504,533	749,501	795,153	650,906	99,843	417,269	773,967	6,832,159
Other households	**39,585,977**	**2,846,721**	**563,894**	**1,131,953**	**1,478,250**	**625,737**	**116,920**	**519,921**	**752,937**	**15,228,142**
Home loans	32,888,290	2,260,819	480,061	890,596	1,302,328	433,508	96,987	403,927	594,361	13,078,263
Consumer loans	3,907,018	445,359	46,353	100,552	100,212	164,035	13,001	87,486	97,486	1,135,004
Other purposes	2,790,669	140,543	37,480	140,805	75,710	28,194	6,932	28,508	61,090	1,014,875
TOTAL	**134,702,326**	**5,777,699**	**1,770,804**	**2,744,233**	**3,945,022**	**2,367,856**	**1,006,856**	**1,309,970**	**2,895,894**	**28,924,964**

Thousand euro

	2023								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**—**	**4,984**	**22,079,828**	**1**	**—**	**85,085**	**1,091,702**	**—**	**—**
General governments	**39,126**	**760,893**	**2,676,261**	**60,696**	**266,743**	**586,724**	**682,970**	**52,617**	**18,604**
Central governments	—	—	—	—	—	—	—	—	—
Other	39,126	760,893	2,676,261	60,696	266,743	586,724	682,970	52,617	18,604
Other financial corporations and individual entrepreneurs	**21,180**	**2,603**	**282,444**	**2,130**	**2,738**	**537,554**	**32,564**	**18,031**	**10**
Non-financial corporations and individual entrepreneurs	**121,904**	**2,007,256**	**12,716,367**	**993,898**	**493,121**	**4,113,260**	**1,985,073**	**153,674**	**16,791**
Construction and real estate development	2,139	89,728	813,387	26,778	9,548	139,160	42,655	7,811	948
Civil engineering construction	1,719	34,342	378,929	14,495	2,295	59,305	46,768	1,044	1,295
Other purposes	118,046	1,883,186	11,524,051	952,625	481,278	3,914,795	1,895,650	144,819	14,548
Large enterprises	21,484	613,494	7,409,234	287,277	249,810	1,624,341	990,456	53,476	157
SMEs and individual entrepreneurs	96,562	1,269,692	4,114,817	665,348	231,468	2,290,454	905,194	91,343	14,391
Other households	**149,504**	**1,002,659**	**5,347,812**	**2,089,573**	**161,017**	**6,110,308**	**1,307,172**	**68,368**	**85,089**
Home loans	113,058	739,180	4,330,340	1,715,650	132,805	5,012,629	1,167,233	57,450	79,095
Consumer loans	28,303	174,860	625,842	201,006	8,536	600,720	69,838	5,371	3,054
Other purposes	8,143	88,619	391,630	172,917	19,676	496,959	70,101	5,547	2,940
TOTAL	**331,714**	**3,778,395**	**43,102,712**	**3,146,298**	**923,619**	**11,432,931**	**5,099,481**	**292,690**	**120,494**

Thousand euro

	2022									
	TOTAL	AUTONOMOUS COMMUNITIES								
		Andalusia	Aragon	Asturias	Balearic Islands	Canary Islands	Cantabria	Castilla-La Mancha	Castilla y León	Catalonia
Central banks and Credit institutions	**34,158,121**	**5,145**	**1**	**13**	**8**	**2**	**349,943**	**—**	**—**	**350,636**
General governments	**27,319,509**	**548,524**	**282,965**	**377,523**	**413,874**	**614,807**	**5,646**	**177,985**	**886,455**	**806,616**
Central governments	18,162,012	—	—	—	—	—	—	—	—	—
Other	9,157,497	548,524	282,965	377,523	413,874	614,807	5,646	177,985	886,455	806,616
Other financial corporations and individual entrepreneurs	**1,367,666**	**4,751**	**1,754**	**3,187**	**1,433**	**941**	**247**	**705**	**11,318**	**496,126**
Non-financial corporations and individual entrepreneurs	**48,156,329**	**2,461,160**	**1,077,323**	**1,355,755**	**2,131,431**	**1,162,785**	**203,928**	**677,576**	**1,191,791**	**13,643,536**
Construction and real estate development	2,205,881	97,474	38,811	43,796	73,749	25,553	7,609	16,082	33,632	519,457
Civil engineering construction	767,633	32,037	11,282	21,868	5,224	4,860	4,146	6,674	14,556	156,519
Other purposes	45,182,815	2,331,649	1,027,230	1,290,091	2,052,458	1,132,372	192,173	654,820	1,143,603	12,967,560
Large enterprises	16,773,028	631,451	380,888	383,933	956,528	295,167	73,266	186,787	235,303	4,383,584
SMEs and individual entrepreneurs	28,409,787	1,700,198	646,342	906,158	1,095,930	837,205	118,907	468,033	908,300	8,583,976
Other households	**39,850,415**	**2,814,410**	**562,841**	**1,168,698**	**1,467,079**	**615,733**	**116,407**	**510,091**	**781,608**	**15,385,484**
For house purchase	33,741,442	2,305,080	487,577	937,797	1,305,843	436,697	99,189	408,621	626,088	13,366,915
Consumer loans	3,488,618	381,060	41,462	93,342	89,192	154,546	10,152	73,193	91,257	1,049,933
Other purposes	2,620,355	128,270	33,802	137,559	72,044	24,490	7,066	28,277	64,263	968,636
TOTAL	**150,852,040**	**5,833,990**	**1,924,884**	**2,905,176**	**4,013,825**	**2,394,268**	**676,171**	**1,366,357**	**2,871,172**	**30,682,398**

Thousand euro

	2022								
	AUTONOMOUS COMMUNITIES								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta and Melilla
Central banks and Credit institutions	**—**	**11,345**	**32,841,524**	**2**	**—**	**100,128**	**499,374**	**—**	**—**
General governments	**73,251**	**660,025**	**2,464,005**	**53,136**	**308,543**	**693,533**	**709,949**	**56,001**	**24,659**
Central governments	—	—	—	—	—	—	—	—	—
Other	73,251	660,025	2,464,005	53,136	308,543	693,533	709,949	56,001	24,659
Other financial corporations and individual entrepreneurs	**93**	**3,729**	**778,585**	**3,310**	**488**	**24,084**	**29,769**	**7,130**	**16**
Non-financial corporations and individual entrepreneurs	**197,915**	**2,404,086**	**12,870,370**	**1,122,284**	**608,933**	**4,755,150**	**2,080,952**	**191,396**	**19,958**
Construction and real estate development	1,948	94,226	969,667	31,131	11,134	151,009	80,439	9,611	553
Civil engineering construction	2,174	43,328	336,020	14,633	3,006	60,242	47,909	2,279	876
Other purposes	193,793	2,266,532	11,564,683	1,076,520	594,793	4,543,899	1,952,604	179,506	18,529
Large enterprises	51,207	756,107	5,625,249	236,223	236,299	1,469,595	812,271	58,931	239
SMEs and individual entrepreneurs	142,586	1,510,425	5,939,434	840,297	358,494	3,074,304	1,140,333	120,575	18,290
Other households	**151,499**	**975,804**	**5,433,400**	**2,050,394**	**168,933**	**6,116,889**	**1,375,881**	**71,251**	**84,013**
For house purchase	116,510	734,267	4,494,023	1,734,407	139,664	5,177,257	1,233,510	59,076	78,921
Consumer loans	27,443	146,638	567,330	174,643	9,796	502,475	67,443	6,017	2,696
Other purposes	7,546	94,899	372,047	141,344	19,473	437,157	74,928	6,158	2,396
TOTAL	**422,758**	**4,054,989**	**54,387,884**	**3,229,126**	**1,086,897**	**11,689,784**	**4,695,925**	**325,778**	**128,646**

Sectoral concentration

The breakdown by activity sector of loans and advances to non-financial corporations, as at 31 December 2023 and 2022, is shown below:

Thousand euro

	2023	
	Gross carrying amount	**Allowances**
Agriculture, livestock farming, forestry and fisheries	1,079,949	(55,420)
Mining and quarrying	437,183	(7,619)
Manufacturing	8,926,171	(282,974)
Electricity, gas, steam and air-conditioning supply	4,615,623	(51,549)
Water supply	330,722	(2,431)
Construction	3,982,666	(168,404)
Wholesale and retail trade	8,715,123	(305,582)
Transportation and storage	3,718,878	(76,819)
Hotel and catering	4,423,217	(134,623)
Information and communication	2,063,748	(30,525)
Financial and insurance activities	4,761,296	(157,430)
Real estate activities	6,388,897	(163,617)
Professional, scientific and technical activities	2,290,929	(89,641)
Administrative and auxiliary services	1,594,423	(37,410)
Public administration and defence; mandatory social security	452,396	(506)
Education	304,439	(10,184)
Healthcare and social services	1,036,992	(20,020)
Artistic, leisure and entertainment activities	431,773	(22,864)
Other services	315,642	(160,511)
Total	**55,870,067**	**(1,778,129)**

Thousand euro

	2022	
	Gross carrying amount	**Allowances**
Agriculture, livestock farming, forestry and fisheries	1,076,502	(42,865)
Mining and quarrying	369,936	(7,452)
Manufacturing	9,868,505	(256,971)
Electricity, gas, steam and air-conditioning supply	4,785,320	(86,295)
Water supply	352,310	(3,257)
Construction	4,233,888	(173,834)
Wholesale and retail trade	8,944,060	(256,582)
Transportation and storage	3,794,633	(79,969)
Hotel and catering	4,592,388	(143,964)
Information and communication	1,836,754	(25,602)
Financial and insurance activities	4,595,168	(83,165)
Real estate activities	6,779,311	(162,317)
Professional, scientific and technical activities	2,358,265	(95,985)
Administrative and auxiliary services	1,670,244	(36,732)
Public administration and defence; mandatory social security	378,164	(664)
Education	321,192	(10,179)
Healthcare and social services	937,181	(12,758)
Artistic, leisure and entertainment activities	511,259	(78,890)
Other services	1,043,584	(126,549)
Total	**58,448,664**	**(1,684,030)**

Sovereign risk exposure

Sovereign risk exposure, broken down by type of financial instrument and applying the criteria required by the EBA, as at 31 December 2023 and 2022, is as follows:

Thousand euro

	2023											
	Sovereign debt securities							Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	*Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value through equity*	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	16,760	(158,175)	—	2,846,230	13,305,462	9,837,310	—	2,860	(6,040)	25,844,407	—	74.0%
Italy	62,269	(9,798)	—	95,074	3,399,329	—	—	—	—	3,546,874	—	10.2%
United States	—	—	12,191	1,105,010	338,484	161	—	—	—	1,455,845	—	4.2%
United Kingdom	—	—	—	411,132	1,628,549	9,053	—	—	—	2,048,734	—	5.9%
Portugal	—	(27,347)	—	—	734,133	—	—	—	—	706,786	—	2.0%
Mexico	—	—	—	713,467	100,411	101,362	—	—	—	915,240	—	2.6%
Rest of the world	6,891	(134,321)	—	72,081	443,811	8,511	—	—	—	396,974	—	1.1%
Total	**85,920**	**(329,641)**	**12,191**	**5,242,994**	**19,950,179**	**9,956,397**	**—**	**2,860**	**(6,040)**	**34,914,860**	**—**	**100%**

(*) Sovereign risk positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (947 million euros at 31 December 2023).

(***) Relates to commitments for cash purchases and sales of financial assets.

Thousand euro

	2022											
	Sovereign debt securities							Derivatives				
Sovereign risk exposure by country (*)	Financial assets held for trading	Financial liabilities held for trading - Short positions	Mandatorily at fair value through profit or loss	Measured at fair value through other comprehensive income	Financial assets at amortised cost	Loans and advances to customers (**)	*Of which: Financial assets FVOCI or non-derivative and non-trading financial assets measured at fair value through equity*	With positive fair value	With negative fair value	Total	Other off-balance sheet exposures (***)	%
Spain	6,434	(135,382)	—	3,196,334	14,028,933	11,113,371	—	1,903	(9,021)	28,202,572	—	76.6%
Italy	20,284	(79,404)	—	—	3,057,287	—	—	—	—	2,998,168	—	8.1%
United States	—	—	11,851	833,134	257,520	233	—	—	—	1,102,737	—	3.0%
United Kingdom	—	—	—	575,289	1,524,614	24,077	—	—	—	2,123,980	—	5.8%
Portugal	—	—	—	—	740,688	3,042	—	—	—	743,730	—	2.0%
Mexico	—	—	—	428,712	100,303	43,904	—	—	—	572,919	—	1.6%
Rest of the world	293,320	—	—	192,611	586,427	13,508	—	—	—	1,085,866	—	2.9%
Total	**320,038**	**(214,786)**	**11,851**	**5,226,080**	**20,295,772**	**11,198,135**	**—**	**1,903**	**(9,021)**	**36,829,972**	**—**	**100%**

(*) Sovereign risk positions shown in accordance with EBA criteria.

(**) Includes those available under credit transactions and other contingent risks (1,041 million euros as at 31 December 2022).

(***) Relates to commitments for cash purchases and sales of financial assets.

Exposure to construction and real estate development sector

Details of lending for construction and real estate development and the relevant allowances are set out below. The lending items shown have been classified according to their intended purpose, rather than by the debtor's NACE code. This means, for example, that if a debtor is (a) a real estate company, but uses the financing for a purpose other than construction or real estate development, it is not included in this table; alternatively, if the debtor is (b) a company whose primary activity is not construction or real estate, but where the loan is used for the financing of properties intended for real estate development, it is included in the table:

Million euro

	2023		
	Gross carrying amount	**Surplus above value of collateral**	**Impairment allowances (*)**
Lending for construction and real estate development (including land) (business in Spain)	**2,208**	**562**	**111**
Of which: risks classified as stage 3	*169*	*92*	*94*

Million euro

	2022		
	Gross carrying amount	**Surplus above value of collateral**	**Impairment allowances (*)**
Lending for construction and real estate development (including land) (business in Spain)	**2,527**	**578**	**123**
Of which: risks classified as stage 3	*189*	*82*	*97*

(*) Allowances for the exposure for which the Bank retains the credit risk. Does not include allowances for exposures with transferred risk.

Million euro

Gross carrying amount ***Memorandum item:***	**2023**	**2022**
Write-offs (*)	12	21

Million euro

Memorandum item:	**2023**	**2022**
Loans to customers, excluding General Governments (business in Spain) (carrying amount)	87,451	91,064
Total assets (total business) (carrying amount)	235,173	251,241
Allowances and provisions for exposures classified as stage 2 or stage 1 (total operations)	922	908

(*) Refers to lending for construction and real estate development reclassified as write-offs during the year.

The breakdown of lending for construction and real estate development for transactions registered by credit institutions (business in Spain) is as follows:

Million euro

	Gross carrying amount 2023	Gross carrying amount 2022
Not secured with real estate	**910**	**969**
Secured with real estate	**1,298**	**1,558**
Buildings and other completed works	627	772
Housing	466	567
Other	161	205
Buildings and other works in progress	615	654
Housing	590	621
Other	25	34
Land	56	132
Consolidated urban land	55	95
Other land	1	37
Total	**2,208**	**2,527**

The figures presented do not show the total value of guarantees received, but rather the net carrying amount of the associated exposure.

Guarantees received associated with lending for construction and real estate development are shown below, for both periods:

Million euro

Guarantees received	**2023**	**2022**
Value of collateral	1,285	1,506
Of which: securing stage 3 loans	*44*	*66*
Value of other guarantees	315	347
Of which: securing stage 3 loans	*25*	*19*
Total value of guarantees received	**1,600**	**1,853**

The breakdown of loans to households for home purchase for transactions recorded by credit institutions (business in Spain) is as follows:

Million euro

	2023	
	Gross carrying amount	*Of which: stage 3 exposures*
Loans for home purchase	**35,271**	**872**
Not secured with real estate	603	*20*
Secured with real estate	34,668	*852*

Million euro

	2022	
	Gross carrying amount	*Of which: stage 3 exposures*
Loans for home purchase	**35,934**	**780**
Not secured with real estate	596	*29*
Secured with real estate	35,338	*751*

The tables below show home equity loans granted to households for home purchase broken down by the loan-to-value ratio (ratio of total risk to amount of last available property appraisal) of transactions recorded by credit institutions (business in Spain):

Million euro

	2023	
	Gross value	***Of which: stage 3 exposures***
LTV ranges	**34,668**	***852***
LTV <= 40%	6,942	*130*
40% < LTV <= 60%	9,884	*182*
60% < LTV <= 80%	12,923	*220*
80% < LTV <= 100%	3,039	*149*
LTV > 100%	1,880	*171*

Million euro

	2022	
	Gross value	***Of which: stage 3 exposures***
LTV ranges	**35,338**	**751**
LTV <= 40%	6,679	*118*
40% < LTV <= 60%	9,573	*153*
60% < LTV <= 80%	12,608	*193*
80% < LTV <= 100%	4,096	*130*
LTV > 100%	2,382	*157*

Lastly, the table below gives details of assets foreclosed or received in lieu of debt by the consolidated Group's entities, for transactions recorded by credit institutions within Spain, as at 31 December 2023 and 2022:

Million euro

	2023			
	Gross carrying amount	**Allowances**	***Gross amount (*)***	***Allowances (*)***
Real estate assets acquired through lending for construction and real estate development	**358**	**122**	***407***	***176***
Completed buildings	325	107	*366*	*152*
Housing	182	47	*201*	*69*
Other	144	60	*165*	*83*
Buildings under construction	2	1	*2*	*1*
Housing	2	1	*2*	*1*
Other	—	—	—	—
Land	30	14	*38*	*23*
Developed land	16	7	*20*	*11*
Other land	14	7	*18*	*11*
Real estate assets acquired through mortgage lending to households for home purchase	**467**	**123**	***540***	***198***
Other real estate assets foreclosed or received in lieu of debt	**18**	**5**	***25***	***11***
Capital instruments foreclosed or received in lieu of debt	—	—	—	—
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	—	—	—	—
Financing to institutions holding assets foreclosed or received in lieu of debt	—	—	—	—
TOTAL	**843**	**249**	**971**	**385**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

Million euro

	2022			
	Gross carrying amount	**Allowances**	***Gross amount (*)***	***Allowances (*)***
Real estate assets acquired through lending for construction and real estate development	**487**	**158**	***531***	***215***
Completed buildings	448	140	*485*	*188*
Housing	269	71	*286*	*95*
Other	179	69	*199*	*93*
Buildings under construction	4	1	*5*	*3*
Housing	3	1	*5*	*3*
Other	—	—	—	—
Land	35	16	*41*	*24*
Developed land	19	8	*22*	*12*
Other land	16	8	*19*	*12*
Real estate assets acquired through mortgage lending to households for home purchase	**522**	**136**	***598***	***218***
Other real estate assets foreclosed or received in lieu of debt	**24**	**5**	***27***	***10***
Capital instruments foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
Capital instruments of institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
Financing to institutions holding assets foreclosed or received in lieu of debt	**—**	**—**	**—**	**—**
TOTAL	**1,032**	**299**	**1,157**	**443**

(*) Non-performing real estate assets including real estate located outside Spain and the coverage established in the original financing, and excluding the credit risk transferred in portfolio sales (see reconciliation between assets foreclosed or received in payment of debt and non-performing assets, below).

The table below sets out the reconciliation between assets foreclosed or received in lieu of debt and real estate assets considered non-performing by the Group as at 31 December 2023 and 2022:

Million euro

	2023		
	Gross value	**Allowances**	**Net book value**
Total real estate portfolio in the national territory (in books)	**843**	**249**	**594**
Total operations outside the national territory and others	1	1	1
Provision allocated in original loan	147	147	—
Credit risk transferred in portfolio sales	(21)	(13)	(8)
Total non-performing real estate	**971**	**385**	**586**

Million euro

	2022		
	Gross value	**Allowances**	**Net book value**
Total real estate portfolio in the national territory (in books)	**1,032**	**299**	**734**
Total operations outside the national territory and others	1	1	1
Provision allocated in original loan	174	174	—
Credit risk transferred in portfolio sales	(51)	(30)	(21)
Total non-performing real estate	**1,157**	**443**	**713**

Schedule V – Annual banking report

INFORMATION REQUIRED UNDER ARTICLE 89 OF DIRECTIVE 2013/36/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 26 JUNE 2013

This information has been prepared pursuant to Article 89 of Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, and the transposition thereof into Spanish national legislation in accordance with Article 87 and Transitional Provision 12 of Law 10/2014 of 26 June on the regulation, supervision and solvency of credit institutions, published in the Official State Gazette of 27 June 2014.

In accordance with the above regulations, the following information is presented on a consolidated basis and corresponds to the end of the 2023 financial year:

Thousand euro

	Turnover	No. of employees on a full time equivalent basis	Profit or loss before tax	Corporation tax
Spain	4,101,120	13,013	1,331,993	(412,217)
United Kingdom	1,279,175	5,088	304,732	(84,715)
Mexico	196,767	445	62,862	(12,006)
United States	235,577	236	155,442	(40,016)
Other	49,293	88	35,749	(8,221)
Total	**5,861,932**	**18,870**	**1,890,778**	**(557,175)**

As at 31 December 2023, the return on Group assets, calculated by dividing consolidated profit or loss for the year by total assets on the consolidated balance sheet, amounts to 0.57%.

The name, geographical location and nature of the business activity of the companies operating in each jurisdiction are set out in Schedule I to these consolidated annual financial statements.

As can be seen in Schedule I, the main activity carried out by the Group in the different jurisdictions in which it operates is banking, and fundamentally commercial banking through a wide range of products and services for large and medium-sized enterprises, SMEs, small retailers and self-employed workers, professional groups, other individuals and bancassurance.

For the purposes of this information, business turnover is regarded as the gross income recognised on the consolidated income statement as at 2023 year-end. Data on full-time equivalent employees have been obtained from the workforce of each company/country as at the end of 2023.

The amount of public subsidies and aid received is not significant.

Glossary of terms on alternative performance measures

In the presentation of its results to the market, and for the purpose of monitoring the business and decision-making processes, the Group uses performance indicators pursuant to the generally accepted accounting regulations (EU-IFRS), and also uses other unaudited measures commonly used in the banking industry (Alternative Performance Measures, or APMs) as monitoring indicators for the management of assets and liabilities, and the financial and economic situation of the Group, which facilitates its comparison with other institutions.

Following the ESMA guidelines on APMs (ESMA/2015/1415 of October 2015), the purpose of which is to promote the use and transparency of information for the protection of investors in the European Union, the Group presents in this section the definition, calculation and reconciliation for each APM.

Performance measure	Definition and calculation	Use or purpose
Gross performing loans to customers	Includes gross customer loans and advances, excluding repos, accrual adjustments and stage 3 assets.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Gross loans to customers	Includes loans and advances to customers excluding impairment allowances.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
On-balance sheet customer	Includes customer deposits (excl. repos) and other liabilities placed by the branch network (Banco Sabadell straight bonds, commercial paper and others).	Key figure in the Group's consolidated balance sheet, the performance of which is monitored.
On-balance sheet funds	Includes the following accounting sub-headings: customer deposits, debt securities issued (borrowings, other marketable securities and subordinated liabilities).	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Off-balance sheet customer funds	Includes mutual funds, asset management, pension funds and insurance products sold.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Funds under management and third-party funds	The sum of on-balance sheet funds and off-balance sheet customer funds.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Customer spread	Difference between yield and costs of customer-related assets and liabilities, i.e. the contribution of exclusively customer-related transactions to net interest income. Calculated as the difference between the average rate that the Bank charges its customers for loans and the average rate that the Bank pays its customers for deposits. The average rate on customer loans and advances is the annualised ratio, in percentage terms, between financial revenues booked on customer loans and advances and the average daily balance of customer loans and advances. The average rate on customer funds is the annualised ratio, in percentage terms, between the financial cost booked on customer funds and the average daily balance of customer funds.	It reflects the profitability of purely banking activity.
Other assets	Comprises the following accounting items: derivatives - hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax assets, other assets, assets under insurance or reinsurance contracts and non-current assets and disposal groups classified as held for sale.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Other liabilities	Comprises the following accounting items: derivatives - hedge accounting, fair value changes of the hedged items in portfolio hedge of interest rate risk, tax liabilities, other liabilities and liabilities included in disposal groups classified as held for sale.	Key figure among the main indicators of a financial institution's business, the performance of which is monitored.
Other operating income and expenses	Comprises the following accounting items: other operating income and other operating expenses as well as income from assets and expenses from liabilities under insurance or reinsurance contracts.	Grouping of items used to explain part of the performance of the Group's consolidated results.
Pre-provisions income	Comprises the following accounting items: gross income plus administrative expenses and depreciation/amortisation.	It is one of the key figures that reflects the performance of the Group's consolidated results.

Total provisions and impairments	Comprises the following accounting items: (i) impairment or reversal of impairment of financial assets not measured at fair value through profit or loss and net modification losses or gains, (ii) provisions or reversal of provisions, (iii) impairment or reversal of impairment of investments in joint ventures or associates, (iv) impairment or reversal of impairment of non-financial assets, (v) profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding gains or losses on the sale of equity holdings and other items), and (vi) gains or losses on derecognition of non-financial assets, net (including only gains or losses on the sale of investment properties).	Grouping of items used to explain part of the performance of the Group's consolidated results.
Capital gains on asset sales and other revenue	Comprises the following accounting items: (i) gains or (-) losses on derecognition of non-financial assets, net (excluding gains or (-) losses on the sale of investment properties), and (ii) profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (including only gains or losses on the sale of equity holdings and other items).	Grouping of items used to explain part of the performance of the Group's consolidated results.
ROA	Consolidated profit or loss for the year / average total assets. The numerator considers the annualisation of the profit earned to date. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end. Average total assets: arithmetic mean calculated as the sum of the daily balances for the reference period and divided by the number of days in said period.	A measure commonly used in the financial sector to determine the accounting return on Group assets.
RORWA	Profit attributable to the Group / risk-weighted assets (RWAs). The numerator considers the annualisation of the profit earned to date. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end. Risk-weighted assets: total assets of a credit institution, multiplied by its respective risk factors (risk weights). Risk factors reflect the perceived level of risk of a particular asset class.	A measure commonly used in the financial sector to determine the accounting return on risk-weighted assets.
ROE	Profit attributable to the Group / average shareholders' equity. The numerator considers the annualisation of the profit earned to date. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year.	A measure commonly used in the financial sector to determine the accounting return on the Group's shareholders' equity.

ROTE	Profit attributable to the Group / average shareholders' equity. The numerator considers the annualisation of the profit earned to date. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end. The denominator excludes intangible assets and goodwill of investees. Average shareholders' equity: average shareholders' equity calculated using the month-end balance since December of the previous year.	Additional measure of the accounting return on shareholders' equity, but excluding goodwill from its calculation.
Cost-to-income ratio	Administrative expenses / adjusted gross income. The denominator includes the accrual on a straight-line basis of contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end.	Main indicator of efficiency or productivity of banking activity.
Cost-to-income ratio with amortisation/ depreciation	Administrative expenses, amortisations and depreciations / adjusted gross income. The denominator includes the accrual on a straight-line basis of contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF) the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end.	One of the main indicators of efficiency or productivity of banking activity.
Stage 3 exposures	These include: (i) assets classified as stage 3 including other valuation adjustments (accrued interests, fees and commissions, and other) classified as stage 3 of loans and advances not classified as non-current assets held for sale and (ii) financial guarantees and other guarantees given classified as stage 3.	It is one of the main indicators used in the banking industry to monitor the status and evolution of the quality of credit risk undertaken with customers and to assess its management.
Stage 3 coverage ratio, with total provisions	Percentage of stage 3 exposures that is covered by total provisions or impairment allowances. Calculated as impairment of loans and advances to customers (including provisions for off-balance sheet exposures) / total exposures classified as stage 3 (including financial guarantees and other guarantees given classified as stage 3).	It is one of the main indicators used in the banking sector to monitor the status and evolution of the quality of credit risk undertaken with customers and shows the stage 3 provisions that the Institution has allocated for loans classified as stage 3.
Stage 3 coverage ratio	Percentage of stage 3 exposures that is covered by total provisions or stage 3 impairment allowances. Calculated as impairment of stage 3 loans and advances to customers (including provisions for off-balance sheet exposures in stage 3) / total exposures in stage 3 (including financial guarantees and other guarantees given classified as stage 3).	It is one of the main indicators used in the banking industry to monitor the status and evolution of the quality of credit risk undertaken with customers and shows the provisions that the Institution has allocated for loans classified as stage 3.
Non-performing assets	The sum of risks classified as stage 3 plus non-performing real estate assets. Non-performing real estate assets are foreclosed properties or properties accepted in payment of debt and properties classified in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment properties with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment.	Indicator of total exposure to risks classified as stage 3 and to non-performing real estate assets.

Non-performing real estate coverage ratio	The non-performing real estate coverage ratio is obtained by dividing provisions for non-performing real estate assets by total non-performing real estate assets. Non-performing real estate assets: foreclosed properties or properties accepted in payment of debt and properties classified in the portfolio of non-current assets and disposal groups classified as held for sale, except for investment properties with significant unrealised capital gains and those under lease for which there is a final agreement for a sale to take place following refurbishment.	It is one of the main indicators used in the banking industry to monitor the status and evolution of the quality of real estate risk and shows the provisions that the Institution has allocated for real estate exposure.
NPA coverage ratio	This ratio considers impairment allowances for customer loans and advances (including allowances for the impairment of off-balance sheet exposures) plus provisions associated with non-performing real estate in the numerator, while the denominator considers total non-performing assets.	It is one of the main indicators used in the banking industry to monitor the status and evolution of the quality of credit risk and real estate risk, and it shows the provisions that the Institution has allocated for non-performing exposures.
NPL ratio	Calculated as a ratio, whose numerator includes: (i) assets classified as stage 3 including other valuation adjustments (accrued interests, fees and commissions, and other) classified as stage 3 of loans and advances not classified as non-current assets held for sale, and (ii) financial guarantees and other guarantees given classified as stage 3. The denominator includes: (i) gross loans to customers, excluding repos or loans and advances to customers, excluding ATAs and without impairment allowances, and (ii) financial guarantees and other guarantees given.	It is one of the main indicators used in the banking industry to monitor the status and evolution of the quality of credit risk undertaken with customers and to assess its management.
Credit cost of risk (bps)	Calculated as credit loss provisions / gross loans to customers, excluding reverse repos and including financial guarantees and other guarantees given. The numerator considers the straight-line annualisation of loan loss provisions. It is also adjusted to account for costs associated with managing assets classified as stage 3.	A relative measure of risk, being one of the main indicators used in the banking industry to monitor the status and evolution of the quality of credit risk through the cost or loss due to financial asset impairments that have taken place in one year.
Total cost of risk (bps)	This gives the ratio of total credit loss provisions and impairments to gross loans to customers, excluding reverse repos and including financial guarantees and other guarantees given and non-performing real estate assets. The numerator considers the straight-line annualisation of total provisions and impairments.	A relative measure of risk, being one of the main indicators used in the banking industry to monitor the status and evolution of the quality of credit risk through the cost or loss due to financial asset impairments that have taken place in one year.
Loan to deposits ratio	Net loans and receivables / retail funding. Brokered loans are subtracted from the numerator to calculate this ratio. The denominator considers retail funding or customer funds, defined in this table.	Measures a Bank's liquidity as the ratio of the funds at its disposal relative to the volume of lending items granted to customers. Liquidity is one of the key aspects that define the structure of an institution.
Market capitalisation	Calculated by multiplying the share price by the number of shares outstanding (number of total shares minus closing treasury stock position) as at the reporting date.	It is an economic market measurement or market ratio that indicates the total value of a company according to its market price.

Earnings per share (EPS)	This gives the ratio of earnings (or loss), net, attributable to the Group divided by the average number of shares outstanding (average number of total shares minus average treasury stock and minus average number of shares subject to a buyback programme). The numerator considers the annualisation of profit (or loss) earned to date adjusted by the amount of the Additional Tier 1 coupon recognised in shareholders' equity. The numerator also accrues to date the expense relating to contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end.	It is an economic measurement or market ratio that indicates a company's profitability, and it is one of the measurements used most frequently to assess institutions' performance.
Book value per share	Calculated as book value / number of shares outstanding (number of total shares minus closing treasury stock position) as at the reporting date. The book value is the sum of shareholders' equity, adjusted to account for the accrual to date of contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end.	It is an economic market measurement or market ratio that indicates the book value per share.
TBV per share	This gives the ratio of the tangible book value of shares outstanding / (number of total shares minus closing treasury stock position) as at the reporting date. The tangible book value is the sum of shareholders' equity adjusted to account for intangible assets and goodwill of investees, as well as the accrual to date of contributions to the Deposit Guarantee Fund (DGF) and the Single Resolution Fund (SRF), the Spanish tax on deposits of credit institutions (IDEC) and the bank levy (BL), except at year-end.	It is an economic market measurement or market ratio that indicates the tangible book value per share.
P/TBV (price/ tangible book value per share)	Share price or value / tangible book value per share.	Economic measurement or market ratio commonly used by the market, which represents the listed price of a share relative to its book value.
Price/earnings ratio (share price / EPS)	Share price or value / net earnings per share.	Economic measurement or market ratio commonly used by the market to determine a company's ability to generate future earnings.

Equivalence of headings from the income statement of businesses and management units that appear in Note 38 on "Segment information" and in the Directors' Report with those of the consolidated income statement (*)

Net fees and commissions:

- Fee and commission income.
- (Fee and commission expenses).

Core revenue:

- Net interest income.
- Fee and commission income.
- (Fee and commission expenses).

Other operating income and expenses:

- Other operating income.
- (Other operating expenses).

Operating expenses, depreciation and amortisation:

- (Administrative expenses).
- (Depreciation and amortisation).

Pre-provisions income:

- Gross income.
- (Administrative expenses).
- (Depreciation and amortisation).

Provisions and impairments:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains).
- (Provisions or (-) reversal of provisions).
- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding gains or (-) losses on the sale of equity holdings and other items).
- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (including only gains or losses on sale of investment properties).

Provisions for loan losses:

- (Impairment or (-) reversal of impairment on financial assets not measured at fair value through profit or loss and net modification losses or (-) gains).
- (Provisions or (-) reversal of provisions) (including only commitments and guarantees given).

Provisions for other financial assets:

- (Provisions or (-) reversal of provisions) (excluding commitments and guarantees given).

Other provisions and impairments:

- (Impairment or (-) reversal of impairment on investments in joint ventures and associates).
- (Impairment or (-) reversal of impairment on non-financial assets).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (excluding gains or (-) losses on the sale of equity holdings and other items).
- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (including only gains or losses on sale of investment properties).

Capital gains on asset sales and other revenue:

- Gains or (-) losses on derecognition of non-financial assets and equity holdings, net (excluding gains or losses on sale of investment properties).
- Profit or (-) loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations (including only gains or (-) losses on the sale of equity holdings and other items).

(*) Headings in the consolidated income statement expressed in brackets denote negative figures.

APMs reconciliation (data in million euros, with the exception of those shown in percentages).[2]

BALANCE SHEET	31/12/2023	31/12/2022
Gross loans to customers / Gross performing loans to customers		
Loans and credit secured with mortgages	86,162	89,340
Loans and credit secured with other collateral	5,064	3,412
Trade credit	7,465	7,489
Finance leases	2,236	2,227
Bank overdrafts and other short-term borrowings	48,870	53,663
Gross performing loans to customers	**149,798**	**156,130**
Stage 3 assets (customers)	5,472	5,461
Accrual adjustments	172	159
Gross loans to customers, excluding reverse repos	**155,442**	**161,750**
Reverse repos	17	—
Gross loans to customers	**155,459**	**161,750**
Impairment allowances	(3,199)	(3,020)
Loans and advances to customers	**152,260**	**158,730**
On-balance sheet customer funds		
Financial liabilities at amortised cost	216,072	232,530
Non-retail financial liabilities	55,184	68,390
Deposits - central banks	9,776	27,844
Deposits from credit institutions	13,840	11,373
Institutional issues	25,234	22,514
Other financial liabilities	6,333	6,659
On-balance sheet customer funds	**160,888**	**164,140**
On-balance sheet funds		
Customer deposits	160,331	164,076
Demand deposits	134,243	147,540
Deposits with agreed maturity including deposits redeemable at notice and hybrid financial liabilities	25,588	16,141
Repos	200	405
Accrual adjustments and hedging derivatives	299	(9)
Borrowings and other marketable securities	22,198	19,100
Subordinated liabilities (*)	3,593	3,478
On-balance sheet funds	**186,122**	**186,654**
Off-balance sheet customer funds		
Mutual funds	24,093	22,581
Assets under management	3,598	3,532
Pension funds	3,249	3,182
Insurance products sold	9,621	9,197
Off-balance sheet customer funds	**40,561**	**38,492**
Funds under management and third-party funds		
On-balance sheet funds	186,122	186,654
Off-balance sheet customer funds	40,561	38,492
Funds under management and third-party funds	**226,682**	**225,146**

(*) Subordinated liabilities in connection with debt securities.

[2] The comparative data with respect to 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).

BALANCE SHEET	**31/12/2023**	**31/12/2022**
Other assets		
Derivatives – Hedge accounting	2,425	3,072
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(568)	(1,546)
Tax assets	6,838	6,851
Other assets	436	480
Non-current assets and disposal groups classified as held for sale	771	738
Other assets	**9,902**	**9,596**
Other liabilities		
Derivatives – Hedge accounting	1,172	1,242
Fair value changes of the hedged items in portfolio hedge of interest rate risk	(422)	(959)
Tax liabilities	333	227
Other liabilities	723	872
Liabilities included in disposal groups classified as held for sale	13	—
Other liabilities	**1,818**	**1,382**

INCOME STATEMENT	**31/12/2023**	**31/12/2022**
Customer spread		
Loans and advances to customers (net)		
Average balance	153,978	157,870
Profit/(loss)	5,840	3,966
Rate (%)	3.79	2.51
Customer deposits		
Average balance	160,564	162,393
Profit/(loss)	(1,432)	(309)
Rate (%)	(0.89)	(0.19)
Customer spread	**2.90**	**2.32**
Other operating income and expenses		
Other operating income	91	122
Other operating expenses	(538)	(459)
Income from assets under insurance or reinsurance contracts	—	—
Expenses on liabilities under insurance or reinsurance contracts	—	—
Other operating income and expenses	**(447)**	**(337)**

	31/12/2023	31/12/2022
<u>Pre-provisions income</u>		
Gross income	5,862	5,211
Administrative expenses	(2,496)	(2,337)
Staff expenses	(1,495)	(1,392)
Other general administrative expenses	(1,002)	(946)
Depreciation and amortisation	(519)	(545)
Pre-provisions income	**2,847**	**2,328**
<u>Total provisions and impairments</u>		
Impairment or reversal of impairment on investments in joint ventures and associates	—	(12)
Impairment or reversal of impairment on non-financial assets, adjusted	(22)	(58)
Impairment or reversal of impairment on non-financial assets	(26)	(61)
Gains or losses on sale of investment properties	4	3
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations, adjusted	(58)	(26)
Profit or loss from non-current assets and disposal groups classified as held for sale not qualifying as discontinued operations	(60)	(28)
Gains or losses on the sale of equity holdings and other items	2	2
Other provisions and impairments	**(80)**	**(96)**
Provisions or reversal of provisions	(6)	(97)
Impairment or reversal of impairment and gains or losses on changes in cash flows from financial assets not measured at fair value through profit or loss and net modification losses or gains	(824)	(840)
Provisions for loan losses and other financial assets	**(831)**	**(936)**
Total provisions and impairments	**(910)**	**(1,032)**
<u>Capital gains on asset sales and other revenue</u>		
Gains or losses on derecognition of non-financial assets, net	(39)	(17)
Gains or losses on the sale of equity holdings and other items	(2)	(2)
Gains or losses on sale of investment properties	(4)	(3)
Capital gains on asset sales and other revenue	**(46)**	**(23)**

PROFITABILITY AND EFFICIENCY	**31/12/2023**	**31/12/2022**
ROA		
Average total assets	245,173	257,553
Consolidated profit or loss for the year	1,334	900
ROA (%)	**0.54**	**0.35**
RORWA		
Risk-weighted assets (RWAs)	78,428	79,545
Net profit attributable to the Group	1,332	889
RORWA (%)	**1.70**	**1.12**
ROE		
Average shareholders' equity	14,053	13,392
Net profit attributable to the Group	1,332	889
ROE (%)	**9.48**	**6.64**
ROTE		
Average shareholders' equity (excluding intangible assets)	11,594	10,855
Net profit attributable to the Group	1,332	889
ROTE (%)	**11.49**	**8.19**
Cost-to-income ratio		
Gross income	5,862	5,211
Administrative expenses	(2,496)	(2,337)
Cost-to-income ratio (%)	**42.59**	**44.86**
Depreciation and amortisation	(519)	(545)
Cost-to-income ratio with amortisation/depreciation (%)	**51.44**	**55.32**

RISK MANAGEMENT	31/12/2023	31/12/2022
Stage 3 exposures		
Assets classified as stage 3 (including other valuation adjustments)	5,510	5,491
Financial guarantees and other guarantees given classified as stage 3 (off-balance sheet)	268	324
Stage 3 exposures	**5,777**	**5,814**
Stage 3 coverage ratio, with total provisions		
Provisions for loan losses	3,368	3,200
Stage 3 exposures	5,777	5,814
Stage 3 coverage ratio, with total provisions (%)	**58.3 %**	**55.0 %**
Stage 3 coverage ratio		
Provisions for stage 3 loan losses	2,445	2,292
Stage 3 exposures	5,777	5,814
Stage 3 coverage ratio (%)	**42.3 %**	**39.4 %**
Non-performing assets		
Stage 3 exposures	5,777	5,814
Non-performing real estate assets	971	1,157
Non-performing assets	**6,748**	**6,971**
NPA coverage ratio		
Provisions for non-performing assets	3,752	3,644
Non-performing assets	6,748	6,971
NPA coverage ratio (%)	**55.6 %**	**52.3 %**
Non-performing real estate coverage ratio		
Provisions for non-performing real estate assets	385	443
Non-performing real estate assets	971	1,157
Non-performing real estate coverage ratio (%)	**39.6 %**	**38.3 %**
NPL ratio		
Stage 3 exposures	5,777	5,814
Gross loans to customers, excluding reverse repos	155,442	161,750
Financial guarantees and other guarantees given (off-balance sheet)	8,896	9,003
NPL ratio (%)	**3.5 %**	**3.4 %**
Credit cost of risk		
Gross loans to customers, excluding reverse repos	155,442	161,750
Financial guarantees and other guarantees given (off-balance sheet)	8,896	9,003
Provisions for loan losses	(813)	(825)
NPL expenses	(106)	(82)
Credit cost of risk (bps)	**43**	**44**
Total cost of risk		
Gross loans to customers, excluding reverse repos	155,442	161,750
Financial guarantees and other guarantees given (off-balance sheet)	8,896	9,003
Non-performing real estate assets	971	1,157
Total provisions and impairments	(910)	(1,032)
Total cost of risk (bps)	**55**	**60**

LIQUIDITY MANAGEMENT	31/12/2023	31/12/2022
Loan-to-deposit ratio		
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 %**

SHAREHOLDERS AND SHARES	31/12/2023	31/12/2022
Market capitalisation		
Total number of shares in circulation (million)	5,403	5,602
Listed price	1.113	0.881
Market capitalisation (million euro)	**6,014**	**4,934**
Earnings per share (EPS)		
Profit attributable to the Group, adjusted	1,217	779
Profit attributable to the Group	1,332	889
Adjustment for accrued AT1	(115)	(110)
Average number of shares outstanding (average number of total shares minus average treasury stock and minus average number of shares subject to a buyback programme) (million).	5,401	5,594
Earnings per share (euros)	**0.23**	**0.14**
Book value per share		
Shareholders' equity	14,344	13,635
Total number of shares in circulation (million)	5,403	5,602
Book value per share (euro)	**2.65**	**2.43**
Book value per share		
Shareholders' equity	14,344	13,635
Intangible assets	2,483	2,484
Tangible book value (shareholders' equity, adjusted)	11,861	11,151
Total number of shares in circulation (million)	5,403	5,602
TBV per share (euros)	**2.20**	**1.99**
P/TBV		
Listed price	1.113	0.881
TBV per share (euros)	2.20	1.99
P/TBV (price/tangible book value per share)	**0.51**	**0.44**
PER		
Listed price	1.113	0.881
Earnings per share (euros)	0.23	0.14
Price/earnings ratio (share price / EPS)	**4.94**	**6.32**

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

(Together with the consolidated annual financial statements and consolidated directors' report of Banco de Sabadell, S.A. and subsidiaries for the year ended 31 December 2023)

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

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

Independent Auditor's Report on the Consolidated Annual Financial Statements

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

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

REPORT ON THE CONSOLIDATED FINANCIAL ANNUAL STATEMENTS

Opinion

We have audited the consolidated annual financial statements of Banco de Sabadell, S.A. (the "Bank") and its subsidiaries (hereinafter the "Group"), which comprise the consolidated balance sheet at 31 December 2023, and the consolidated income statement, consolidated statement of recognised income and expenses, consolidated statement of total changes in equity and consolidated cash flow statement for the year then ended, and consolidated notes.

In our opinion, the accompanying consolidated annual financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of the Group at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for Opinion

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

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

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

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

Key Audit Matters

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

Impairment of loans and advances to customers

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

Key audit matter	*How the matter was addressed in our audit*
The Group's portfolio of loans and advances to customers classified as financial assets at amortised cost reflects a net balance of Euros 152,260 million at 31 December 2023, while allowances and provisions recognised at that date for impairment total Euros 3,199 million. For the purposes of estimating impairment, financial assets measured at amortised cost are classified into three categories (Stage 1, 2 or 3) according to whether a significant increase in credit risk since their initial recognition has been identified (Stage 2), whether the financial assets are credit-impaired (Stage 3) or whether neither of the foregoing circumstances apply (Stage 1). For the Group, establishing this classification is a relevant process inasmuch as the calculation of allowances and provisions for credit risk varies depending on the category in which the financial asset has been included. Impairment is calculated based on models for estimating expected losses, which the Group estimates on both an individual and a collective basis. This calculation entails a considerable level of judgement as this is a significant and complex estimate. Allowances and provisions for credit risk determined individually consider estimates of future business performance and the market value of collateral provided for credit transactions.	Our audit approach in relation to the Group's estimate of impairment of loans and advances to customers due to credit risk mainly consisted of assessing the methodology applied to calculate expected losses, particularly as regards the methods and assumptions used to estimate exposure at default, probability of default and loss given default; and determining the future macroeconomic scenarios. We also assessed the mathematical accuracy of the calculations of expected losses and the reliability of the data used. To this end, we brought in our credit risk specialists. Our procedures related to the control environment focused on the following key areas: – Identifying the credit risk management framework and assessing the compliance of the Group's accounting policies with the applicable regulations. – Evaluating the appropriateness of the classification of the loans and advances to customers portfolio based on credit risk, in accordance with the criteria defined by the Group, particularly the criteria for identifying and classifying refinancing and restructuring transactions. – Assessing the relevant controls relating to the monitoring of transactions. – Evaluating whether the internal models for estimating both individual and collective allowances and provisions for credit risk, and for the management and valuation of collateral, are functioning correctly. – Assessing whether the aspects observed by the Internal Validation Unit in its periodic reviews and in the tests of the models used to estimate collective allowances and provisions for impairment have been taken into consideration. – Evaluating the integrity, accuracy and updating of the data used and of the control and management process in place.

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

Impairment of loans and advances to customers

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

Key audit matter	*How the matter was addressed in our audit*
In the case of allowances and provisions calculated collectively, expected losses are estimated using internal models that use large databases, different macroeconomic scenarios, parameters to estimate provisions, segmentation criteria and automated processes, which are complex in their design and implementation and require past and present information and future forecasts to be considered. The Group regularly conducts tests of its internal models in order to improve their predictive capabilities based on actual historical experience. The ongoing geopolitical uncertainty, the current levels of inflation and central banks' monetary policy decisions continue to cause uncertainty as to future macroeconomic developments, impacting on the economy and business activities of the countries where the Group operates. Calculating expected credit risk losses therefore entails greater uncertainty and requires a higher degree of judgement, primarily as regards estimating macroeconomic scenarios, and the Group has supplemented its estimate of resulting expected loss with certain additional temporary adjustments. The consideration of this matter as a key audit matter is based both on the significance of the Group's loans and advances to customers portfolio, and thus of the related allowance and provision for impairment, as well as on the relevance of the process for classifying these financial assets for the purpose of estimating impairment thereon and the subjectivity and complexity of calculating expected losses.	– We assessed the process of reviewing the updates of the additional temporary adjustments to the expected loss models recognised by the Group. Our tests of detail on the estimated expected losses included the following: – With regard to the impairment of individually significant transactions, we analysed the appropriateness of the discounted cash flow models used by the Group. We also selected a sample from the population of significant transactions and assessed the appropriateness of both the credit risk classification and the corresponding allowance and provision recognised. – With respect to the allowances and provisions for impairment estimated collectively, we evaluated the methodology used by the Group, assessing the integrity and accuracy of the input balances for the process and whether the calculation engine is functioning correctly by replicating the calculation process, taking into account the segmentation and assumptions used by the Group. – Regarding whether the loans and advances to customers portfolio has been appropriately classified based on credit risk, in accordance with the criteria defined by the Group, we selected a sample and assessed the appropriateness of accounting classification for credit risk. – We evaluated the methods and assumptions used to estimate exposure at default, probability of default and loss given default. – We considered the macroeconomic scenario variables used by the Group in its internal models to estimate expected losses. – We analysed a sample of guarantees associated with credit transactions, checking their valuation, with the involvement of our real estate valuation specialists. – We evaluated the additional adjustments to the internal models used to estimate the expected losses recognised by the Group at 31 December 2023. Likewise, we analysed whether the disclosures in the notes to the consolidated annual financial statements were prepared in accordance with the criteria set out in the financial reporting framework applicable to the Group.

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

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

Other Information: Consolidated Directors' Report

Other information solely comprises the 2023 consolidated directors' report, the preparation of which is the responsibility of the Bank's Directors and which does not form an integral part of the consolidated annual financial statements.

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

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

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

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

Based on the work carried out, as described above, we have observed that the information mentioned in section a) above has been provided in the manner stipulated in the applicable legislation, that the rest of the information contained in the consolidated directors' report is consistent with that disclosed in the consolidated annual financial statements for 2023, and that the content and presentation of the report are in accordance with applicable legislation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

European Single Electronic Format

We have examined the digital files of Banco de Sabadell, S.A. and its subsidiaries for 2023 in European Single Electronic Format (ESEF), which comprise the XHTML file that includes the consolidated annual financial statements for the aforementioned year and the XBRL files tagged by the Bank, which will form part of the annual financial report.

The Directors of Banco de Sabadell, S.A. are responsible for the presentation of the 2023 annual report in accordance with the format and mark-up requirements stipulated in Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 (hereinafter the "ESEF Regulation"). In this regard, they have incorporated the Annual Corporate Governance Report and the Annual Report on Directors' Remuneration by means of a reference thereto in the consolidated directors' report.

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

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

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

Additional Report to the Bank's Audit and Control Committee

The opinion expressed in this report is consistent with our additional report to the Bank's Audit and Control Committee dated 22 February 2024.

Contract Period

We were appointed as auditor by the shareholders at the ordinary general meeting held on 20 March 2023 for a period of one year, from the year commenced 1 January 2023.

Previously, we had been appointed for a period of three years, by consensus of the shareholders at their ordinary general meeting, and have been auditing the annual financial statements since the year ended 31 December 2020.

KPMG Auditores, S.L.
On the Spanish Official Register of
Auditors ("ROAC") with No. S0702

(Signed on original in Spanish)

Francisco Gibert Pibernat
On the Spanish Official Register of Auditors ("ROAC") with No. 15,586

22 February 2024