

1 – BANCO SABADELL GROUP

Banco de Sabadell, S.A. (hereinafter, also referred to as Banco Sabadell, the Bank or the Institution), with registered office in Alicante, Avenida Óscar Esplá, 37, engages in banking business and is subject to the standards and regulations governing banking institutions operating in Spain. It has been subject to prudential supervision on a consolidated basis by the European Central Bank (ECB) since November 2014.

The Bank is the parent company of a group of entities which it controls directly or indirectly and which comprise, together with the Bank, Banco Sabadell Group. Banco Sabadell is comprised of different financial institutions, brands, subsidiaries and investees that cover all aspects of financial business. It operates mainly in Spain, the United Kingdom and Mexico.

The Group was organised into the following businesses in 2022:

- Banking business Spain, which groups together the Retail, Business and Corporate banking business units, where Retail and Business banking are managed under the same Branch Network:
 - Retail Banking: offers financial products and services to individuals for personal use. These include investment products and medium- and long-term finance, such as consumer loans, mortgages and leasing or rental services, as well as short-term finance. Funds come mainly from customer deposits and current accounts, savings insurance, mutual funds and pension plans. The main services also include payment methods such as cards and insurance linked to consumer loans and mortgages.
 - Business Banking: offers financial products and services to companies and self-employed persons. These include investment and financing products, such as working capital products, loans and medium- and long-term financing. It also offers customised structured finance and capital market solutions, as well as specialised advice for businesses. Funds mainly come from customer deposits, current accounts and mutual funds. The main services also include collection/payment methods such as cards and PoS terminals, as well as import and export services.
 - Corporate Banking (CIB): this unit is responsible for managing the segment of large corporations which, because of their unique characteristics, require a tailor-made service, supplementing the range of transaction banking products with the services of the specialised units, thus offering a single, all-encompassing solution to their needs, taking into account the features of the economic activity sector and the markets in which they operate. It has units that develop custom products for large corporations and financial institutions. The units responsible for the development of these custom products do so for the entire Banco Sabadell Group, extending their capabilities to the Corporate and Institutional Banking segment. Through its presence abroad in 17 countries, with representative offices and operational branches, it offers financial and advisory solutions to large Spanish and international corporations and financial institutions. It has branches operating in London, Paris, Lisbon, Casablanca and Miami.
- Banking business UK: the TSB franchise covers business conducted in the United Kingdom, which includes current and savings accounts, loans, credit cards and mortgages.
- Banking business Mexico: Offers banking and financial services for Corporate Banking and Commercial Banking.

Banco Sabadell is the parent company of a group of companies that, as at 31 December 2022, numbered a total of 88. Of these, aside from the parent company, 68 are considered subsidiaries and 19 are considered associates (as at 31 December 2021, there were 96 companies, including 73 subsidiaries and 22 associates).

1.1 Mission, values and business model

Mission and values

Banco Sabadell helps people and businesses to bring their projects to life, anticipating their needs and taking care to help them make the best economic decisions. It does this through socially and environmentally responsible management.

This is Banco Sabadell's *raison d'être*: to help its customers make the best financial decisions so that they may see their personal or business projects take shape. To that end, it gives customers the benefit of the opportunities offered by big data, digital capabilities and the expert knowledge of its specialist managers.

The Bank, and those who form part of it, share the values that help make it possible to fulfil this mission.

Banco Sabadell delivers on its mission by being true to its values:

- Commitment and Non-Conformism, values that define its way of being.
- Professionalism and Effectiveness, values that define its way of working.
- Empathy and Openness, values that define its way of interacting.

Business model, main objectives achieved and actions carried out

The Bank's business model is geared towards profitable growth that generates value for shareholders. This is achieved through a strategy of business diversification based on profitability, sustainability, efficiency and quality of service, together with a conservative risk profile, while maintaining high standards of ethics and professional conduct combined with sensitivity to stakeholders' interests.

The Bank's management model focuses on a long-term vision of customers, through constant efforts to promote customer loyalty and by adopting an initiative-based, proactive approach to the relationship. The Bank offers a comprehensive range of products and services, competent and highly qualified personnel, an IT platform with ample capacity to support future growth, and a relentless focus on quality.

Since the financial crisis of 2008, the Spanish banking industry has been involved in an unprecedented process of consolidation. The need for higher capital levels, stricter requirements in terms of provisions, the economic recession and pressures on the capital markets have been some of the factors that have forced Spanish financial institutions to merge and, by doing so, gain scale advantages, maximise efficiency and strengthen their balance sheets.

Over the last eleven years, Banco Sabadell has expanded its geographical footprint and increased its market share in Spain through a number of acquisitions, the most significant of which was Banco CAM in 2012. In 2013, Banco Sabadell was able to undertake other corporate transactions as part of the restructuring of banks under suitable economic terms, such as the acquisition of the branch network of Caixa d'Estalvis del Penedès, Banco Gallego and Lloyds España.

As a result of these acquisitions and the organic growth of recent years, Banco Sabadell has strengthened its position in some of Spain's most prosperous regions (Catalonia, Valencia and the Balearic Islands) and it has also increased its market share in other key areas. According to the most recent information available, Banco Sabadell has a market share of 8% in loans and 7% in deposits at the domestic level. Banco Sabadell also has a good market share in other products, including 9% in trade credit, 9% in business lending, 6% in investment funds, 5% in securities trading and 17% in PoS turnover.

With regard to international business, Banco Sabadell has always been a benchmark. This has not changed in 2022 and Sabadell continues to be present in strategic areas, supporting companies in their international activity. Over the last few years, Banco Sabadell has expanded its international footprint. The main milestones have been the acquisition of British bank TSB in 2015 and the creation of a bank in Mexico in 2016.

With these developments, the Group has become one of the largest institutions in Spain's financial system. It has a geographically diverse business (76% in Spain, 22% in the UK and 2% in Mexico) and its customer base is now six times larger than it was in 2008. It has achieved all of this while safeguarding its solvency and liquidity.

The main factors at play in 2022 were the conflict in Ukraine, the energy crisis in Europe, new upside inflation surprises, the interest rate hikes introduced by central banks and the management of Covid-19 in China. All these factors have resulted in a gradual deterioration of the growth-inflation mix, driving many economies into stagflation towards the end of the year. Covid-19 has become less prominent as a factor influencing the economy and financial markets in an environment in which the reduced severity of the latest variants of the virus has been confirmed. In most countries, Covid-19 has been transitioning to an endemic phase, the main exception being China. Generally, 2022 was a very negative year for financial assets, both equities and fixed income.

Against this background, Banco Sabadell significantly increased its net profit year-on-year. The Group's increased net profit was mainly driven by solid core results (net interest income + fees and commissions – recurrent costs), which improved as a result of increased net interest income, higher income from fees and commissions, and the cost reduction effort.

The reduction in provisions is also noteworthy, both in terms of fewer credit provisions and reduced real estate provisions.

Banco Sabadell conducts its business in an ethical and responsible manner, delivering on its commitment to society by ensuring that its activities have a positive impact on people and the environment. Each and every person in the organisation plays their part in applying the principles and policies of corporate social responsibility, ensuring quality and transparency in customer service.

In addition to complying with the applicable regulations and standards, Banco Sabadell has a set of policies, internal rules and codes of conduct that guarantee ethical and responsible behaviour at all levels of the organisation and in all Group activities.

1.2 Strategic plan 2021-2023

The Group's Strategic Plan was presented on 28 May 2021. This plan defined the Group's strategic priorities, which include (i) an increased focus on core businesses in Spain, with different levers of action for each business that will strengthen the Bank's competitive position in the domestic market, and (ii) a significant improvement in the profitability of international businesses, in both the United Kingdom and other geographies. The cost base will also be reduced during the plan to bring it in line with competitive realities. These changes will be implemented based on a more efficient allocation of capital, fostering the Group's growth in those geographies and businesses that offer a higher capital-adjusted return.

In this way, the Strategic Plan sets out a specific strategic approach for each business:

In Retail Banking the approach is to undertake a major transformation, which entails a profound change in the offering and the customer relationship model.

On the supply side, transactional servicing is being made more readily available to customers in a simple and agile way through digital channels. As for the commercial offering of products and services, a fundamentally digital and remote offer is being developed for those products in which the customer wants autonomy, immediacy and convenience, such as consumer loans, accounts and cards. On the other hand, for more complex products such as mortgages, insurance and savings/investment products, where customers require support, specialised product managers are currently being deployed and multi-channel support is offered.

The objective in Retail Banking is to better respond to customers' needs and, at the same time, reduce the cost base of the business.

In Business Banking, the Bank's notable franchise in this segment is being strengthened and specific levers have been established for profitable growth: launch of sectoral solutions for businesses, support for customers in their internationalisation process, expansion of specialised solutions for SMEs, and a comprehensive support plan for Next Generation EU funds. This is reinforced by an optimal risk management framework, complementing the vision of risk and business experts with new business intelligence and data analytics tools.

The objective in Business Banking is to drive growth while preserving risk quality and boosting profitability.

The approach in Corporate Banking Spain is to develop plans to improve customer profitability and increase the contribution of specialised product units to income generation.

The goal in this business is to obtain an adequate profitability for each customer and to satisfy their needs.

TSB has focused its business on what it does best and what it is known for in the market: retail mortgages. TSB has an excellent platform, with a high operational capacity to manage mortgages and a well-established network of financial intermediaries, a key aspect in the UK market where a large proportion of new mortgages are granted through this channel.

TSB's objective is to increase its contribution to the Group's profitability.

In the Group's other international businesses, the priority is to actively manage the capital that the Group allocates to these businesses. In addition, there are specific priorities in each geographical area: in Mexico, the focus is on rigorous cost management; in Miami, the Private Banking business will be strengthened; while in the rest of the foreign branches priority will be given to supporting Spanish customers in their international activity.

Now that 2022 has ended and with the plan in action for over a year, the progress achieved is very significant. Some examples include: deployment of more than 600 specialised managers, a new digital landing page for mortgages, an online mortgage simulator, a new portal for customers to monitor their mortgage payments, a new pricing model for consumer loans and mortgages, digitisation of consumer loans, 100% digital card application process, expansion of pre-approved consumer loans and cards, integration of Sabadell Wallet in the mobile app, optimisation of product campaigns, launch of a customer retention plan, launch of the Sabadell online account... and the list goes on.

The specialised managers now sell 31% of mortgages, 46% of savings and investment products and 69% of insurance. In terms of other products, 47% of new cards are issued through the app, pre-approved loans have increased by 43% year-on-year and, thanks to the digital account, new customers can sign up 100% digitally in less than five minutes.

In Business Banking, 30 specific sectoral offerings have been introduced for business customers and customer acquisition in those sectors has increased by 22% in the year, the risk approval process has been improved and made more specialised and flexible, new improved functionalities have been added in online banking, thus expanding the digital offering and interaction between the customer and Bank/manager. The use of data analytics in risk management has been enhanced to ensure greater discrimination and appropriate channelling of new credit. In terms of capabilities, the middle market team has been bolstered to increase the knowledge base already in use in Corporate Banking.

With regard to costs, a cross-cutting efficiency plan involving Business and Retail banking has been executed, enabling a 3.5% reduction in recurrent costs year-on-year.

In Corporate Banking Spain, greater focus has been placed on continuous monitoring of customer profitability.

For its part, in line with the strategic goals, TSB has grown its market share in mortgages. It too has executed an efficiency plan to reduce costs and adjust the size of its branch network. This plan was completed in the last quarter of 2021, achieving annual savings of 70 million euros.

These actions have enabled TSB to turn around its income statement and, following years of losses, it now contributes positively to the Group's earnings.

In Mexico the cost base has been reduced and it is focusing on the business areas that it knows best and where it has most growth potential: Corporate Banking and Business Banking. In the other international business lines, the focus has been on supporting Spanish customers abroad and local customers who have a presence in Spain, focusing their growth potential on the most profitable assets.

The key financial targets established were (i) to achieve a return on tangible equity (ROTE) above 6% in 2023, and (ii) to maintain the fully-loaded CET1 capital ratio above 12% throughout the Plan.

The first target has already been achieved and surpassed in 2022, with ROTE of 7.8% at year-end, and the Group's fully-loaded CET1 capital ratio is also above the target level established in the Plan, at 12.55%.

Beyond 2023, the strategic transformation undertaken will continue to deliver results and, therefore, profitability should continue to improve.

To conclude, the Strategic Plan was conceived on the assumption that the various milestones would be met in the short term and, in that respect, in 2021, all of the targets established for the end of that year were achieved. As regards 2022, the different lines of the income statement have continued on a positive trend and in the right direction to meet the targets for 2023: (i) net interest income grew by +10.9% in the year, (ii) fees and commissions increased by +1.5%, (iii) total costs were below 2.9 billion euros, thanks to the various efficiency plans implemented, (iv) credit cost of risk stood at 44 basis points, and lastly, (v) the capital ratio stood at 12.55% with an MDA buffer of 399 basis points.

Furthermore, with the aim of increasing shareholder remuneration, and on the strength of the Group's improved profitability, the Board agreed to put forward a proposal to the Annual General Meeting to raise the payout ratio to 50%, to be paid from 2022 earnings, combining a cash dividend with a share buyback. This share buyback is conditional upon obtaining the relevant mandatory authorisations.

1.3 Banco Sabadell share performance and shareholders

The share capital of Banco Sabadell amounts to 703,370,587.63 euros, represented by 5,626,964,701 shares of a single class with a par value of 0.125 euros. The number of shares in the Bank has remained unchanged for more than five years as the Group has no remuneration policies that could have a dilutive effect on the current share capital and rights to convert preferred securities issued as contingently convertible into newly issued ordinary shares of the Bank (AT1) have not been exercised. Nor has the Group implemented any other corporate actions that could have an effect on current share capital.

The main factors at play in 2022 were the conflict in Ukraine, new upside inflation surprises, the hawkish tone of central banks and the management of Covid-19 in China. All these factors have resulted in a gradual deterioration of the growth-inflation mix, driving many economies close to stagflation.

Covid-19 was less prominent as a factor influencing the economy and financial markets in an environment in which the reduced severity of the latest variants of the virus was gradually confirmed. In most countries, Covid-19 has been transitioning to an endemic phase, the main exception being China.

Generally, 2022 was a very negative year for the financial markets because these factors have led to a sharp downturn in prospects for economic growth. Most financial assets recorded heavy losses in 2022. In fact, it was the worst year in several decades if we consider the combined performance of fixed income and equities. The volatility of securities was particularly high due to the sharp repricing of official interest rates in the markets.

Liquidity conditions and market depth were at their lowest levels since the global financial crisis, which exacerbated market swings. Corporate and peripheral risk premiums have recorded significant upturns, reaching levels not seen since the pandemic. The euro has depreciated substantially against the dollar, to levels not seen since 2002.

The central banks have focused on fighting inflation, prioritising this objective in view of signs of an economic slowdown and slumps in the financial markets. With that aim in mind, the monetary authorities have tightened monetary policy, in line with the high levels of inflation.

In the Eurozone, the European Central Bank took significant steps to normalise its monetary policy. It increased interest rates by 250 basis points, bringing the deposit rate into positive territory for the first time since 2012. In fact, at one meeting it implemented the highest interest rate hike in its history (75 basis points). The European Central Bank also discontinued its quantitative easing programmes and began to discuss quantitative tightening.

As a result of these heightened inflationary expectations, banking sector results trended in the direction of a return to normal levels, driven by interest rate rises implemented by the central banks, which supported the capacity of the financial sector to intervene in the economy. Although banks have increased their interest income, funding costs have also become more expensive for them. Nevertheless, on balance the outlook is generally positive and profitability in the banking sector has surpassed pre-pandemic levels.

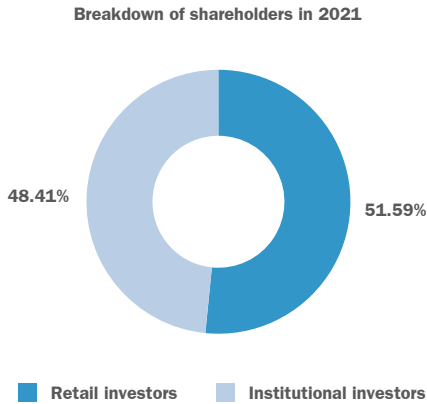
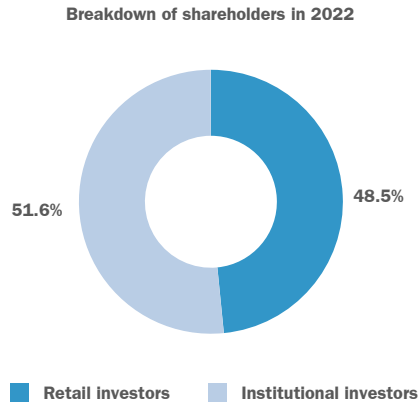
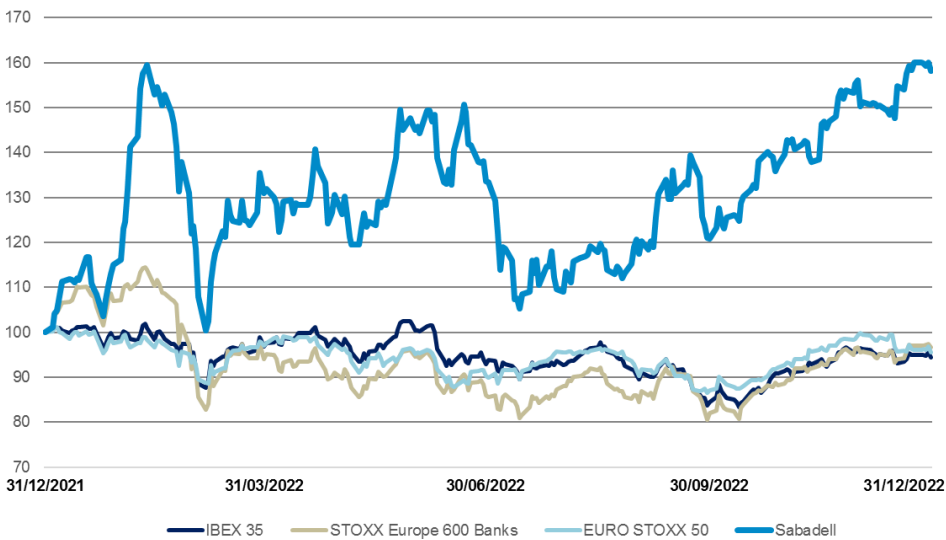
Banco Sabadell's share price performed well, gaining +58% over the year, making it the second best performing IBEX 35 stock in 2022 and the best performing in the 2021/22 period, among the companies that made up the index since the beginning of 2021. On a like-for-like basis, the market revaluation has been above the European banking industry benchmark (STOXX Europe 600 Banks) which depreciated by 3.4%, and also above general indices such as EURO STOXX 50 and IBEX 35 which fell cumulatively by 4.5% and 5.6%, respectively, over the year. The systemic factors mentioned above have had a significant influence on the share price performance. Banco Sabadell's idiosyncratic factors include better-than-expected annual results and a higher contribution of the UK franchise, TSB, to the Group's results. This has been well received by financial analysts and the market in general.

At the end of 2022, 96% of equity analysts covering Banco Sabadell had a Buy or Hold recommendation on the stock.

In terms of shareholder structure, in the financial year 2022, institutional shareholders increased in representation with 52% of the Bank's shares, while minority shareholders hold 48%. Within the Bank's shareholding structure, at year-end 2022, four investor groups reported a holding of more than 3% according to figures reported to the CNMV. The aggregate holding of those four shareholders represents 13.16% of the total share capital; the remaining holdings are free-float capital. The members of the Board of Directors, one of whom is considered to control the voting rights attributed to the shares held by one of the aforesaid investors, hold 3.62% of the Bank's share capital.

Banco Sabadell's market capitalisation stood at 4,927 million euros at year-end, with a price/book value ratio of 0.43.

The graph below shows the evolution of the share price performance over the year:



Analysis of shareholdings at 31 December 2022			
No. of shares	Shareholders	Shares in tranche	% of capital
From 1 to 12,000	172,396	544,828,582	9.68%
From 12,001 to 120,000	45,145	1,345,690,480	23.92%
From 120,001 to 240,000	1,773	292,025,971	5.19%
From 240,001 to 1,200,000	970	436,083,675	7.75%
From 1,200,001 to 15,000,000	150	462,045,729	8.21%
More than 15,000,000	32	2,546,290,264	45.25%
TOTAL	218,610	5,626,964,701	100.00%

Analysis of shareholdings at 31 December 2021			
No. of shares	Shareholders	Shares in tranche	% of capital
From 1 to 12,000	179,459	573,130,438	10.19%
From 12,001 to 120,000	45,899	1,427,423,280	25.37%
From 120,001 to 240,000	1,866	307,959,112	5.47%
From 240,001 to 1,200,000	1,039	469,333,426	8.34%
From 1,200,001 to 15,000,000	139	433,432,171	7.70%
More than 15,000,000	30	2,415,686,274	42.93%
TOTAL	228,432	5,626,964,701	100.00%

	Million	Million Euro	Euros	Million Euro	Euros
	Average number of shares (*)	Profit attributable to the Group	Profit attributable to the Group, per share	Own funds	Book value per share
2019	5,538	768	0.125	13,172	2.38
2020	5,582	2	—	12,944	2.32
2021	5,586	530	0.080	13,357	2.39
2022	5,594	859	0.134	13,841	2.47

(*) The average number of shares is shown net of the treasury share position.

Share performance

Below are a number of indicators of the Bank's share performance:

	2022	2021	Year-on-year change (%)
Shareholders and trading			
Number of shareholders	218,610	228,432	(4.3)
Total number of shares (million)	5,627	5,627	—
Average daily trading (million shares)	41	33	24.0
Share price (euro)			
Initial	0.592	0.354	—
High	0.950	0.743	—
Low	0.565	0.343	—
Closing	0.881	0.592	—
Market capitalisation (million euro)	4,927	3,306	—
Market ratios			
Earnings per share (EPS) (euro)	0.13	0.08	—
Book value per share (euro)	2.47	2.39	—
P/TBV (price/tangible book value per share)	0.43	0.31	—
Price/earnings ratio (P/E)	6.58	7.69	—

Dividend policy

The Bank's shareholder remuneration policy conforms to the provisions of its Articles of Association. It is proposed by the Board of Directors and is submitted to the Annual General Meeting for approval each year.

In 2022, the Bank paid its shareholders a dividend of 0.03 euros per share from 2021 earnings, through a single cash payment. This payout represented a share price return of 5.1% at year-end 2021.

On 26 October 2022, the Board of Directors agreed to distribute a cash interim dividend of 0.02 euros gross per share from 2022 earnings, amounting to 112 million euros, which was paid out on 30 December 2022. On the same date, the Board of Directors approved an increase of the payout ratio applicable to 2022 results to at least 40%.

On 25 January 2023, the Board of Directors approved the shareholder remuneration policy, which establishes the principles and parameters that should govern the Group's dividend and shareholder remuneration policy. In that same meeting, and in accordance with the aforesaid shareholder remuneration policy, the Board of Directors agreed to submit a proposal to the Annual General Meeting to increase of the payout ratio to 50%, to be paid out of 2022 earnings, combining a cash dividend with a share buyback. This share buyback is conditional upon obtaining the relevant mandatory authorisations. This resulted in a total distributable amount of 430 million euros, representing a dividend yield of 8.7% on the share price at the end of 2022.

To reach the aforesaid payout level, the Board of Directors will ask the Annual General Meeting to approve the distribution of a supplementary gross cash dividend, from 2022 earnings, of 0.02 euros per share, payable in April 2023. As a result, cash dividend remuneration in the year would reach 0.04 euros per share or 225 million euros, representing a share price return, based on share price at the end of 2022, of 4.5% and an increase of 33.3% on the cash dividend distributed in 2021.

Furthermore, the Board of Directors agreed to submit a proposal to the Annual General Meeting regarding a share buyback in the amount of 204 million euros, which would be equivalent to close to 4% of the market capitalisation as at the end of 2022 and which, subject to obtaining the mandatory authorisations, would complement the shareholder remuneration paid out of the earnings for 2022.

Credit rating

In 2022, the four agencies that assessed Banco Sabadell's credit quality were S&P Global Ratings, Moody's Investors Service, Fitch Ratings and DBRS Ratings GmbH.

On 18 May 2022, DBRS Ratings GmbH maintained Banco Sabadell's long-term rating of A (Low), improving the outlook from negative to stable, in order to reflect the lower impact that the Covid-19 crisis is expected to have on Banco Sabadell's operating environment in both Spain and the United Kingdom. The short-term was also unchanged, remaining at R-1 (Low). The full rating review report was published on 7 July.

On 30 June 2022, Fitch Ratings affirmed Banco Sabadell's long-term rating of BBB- with a stable outlook, reflecting the Group's adequate capitalisation and risk diversification and its challenges in relation to profitability and keeping cost of risk contained. They indicated that the factors that had a negative outlook (asset quality and profitability) have stabilised. The short-term rating was maintained at F3. The full rating review report was published on 15 July.

On 20 October 2022, S&P Global Ratings revised and improved Banco Sabadell's long- and short-term ratings from BBB-/A-3 to BBB/A-2 with stable outlook. It also revised and upgraded the Bank's senior preferred debt rating from BBB- to BBB, and its long-term resolution counterparty rating from BBB to BBB+. This rating improvement stems from the accumulation of a buffer of subordinated products that can absorb losses. Other credit ratings remained unchanged. The stable outlook reflects progress achieved with the Strategic Plan and the expectation that the Bank will continue to deliver on that plan and improve the solidity and profitability of the franchise. The full rating review report was published on 21 November.

On 7 November 2022, Moody's Investors Service affirmed its ratings of Banco Sabadell's long-term deposits and long-term senior debt at Baa2 and Baa3, respectively, upgrading the outlook from stable to positive, suggesting the possibility of a rating upgrade in the next 12-18 months if Banco Sabadell continues to improve its profitability on the strength of increased net interest income and the containment of operating costs and credit provisions. The short-term rating was also unchanged, remaining at P-2. The full rating review report was published on 21 December.

During 2022, Banco Sabadell has maintained continuous interaction with the four agencies. In both virtual and face-to-face meetings, issues such as progress with the strategic plan 2021-2023, results, capital, liquidity, risks and credit quality, and management of NPAs were discussed with analysts from these agencies.

The table below details the current ratings and the last date on which any publication reiterating this rating was made.

	Long-term	Short-term	Outlook	Last updated
DBRS	A (low)	R-1 (low)	Stable	07/07/2022
S&P Global Rating	BBB	A-2	Stable	21/11/2022
Moody's Investors Service	Baa3	P-2	Positive	21/12/2022
Fitch Ratings	BBB-	F3	Stable	15/07/2022

1.4 Corporate governance

Banco Sabadell has a solid corporate governance structure which ensures effective and prudent management of the Bank and which prioritises ethical, sound and transparent governance, taking into consideration the interests of shareholders, customers, employees and society in all geographies in which it operates. The internal governance framework, which sets out, among other aspects, its shareholding structure, the governing bodies, the Group's structure, the composition and operation of corporate governance, the internal control functions, key governance matters, the risk management framework, the internal procedure for the approval of credit transactions granted to Directors and their related parties and the Group's policies, is published on the corporate website: www.grupbancsabadell.com (see the section "Corporate Governance and Remuneration Policy - Internal Governance Framework" on the website).

As required by Article 540 of the Spanish Capital Companies Act, Banco Sabadell Group has prepared the Annual Corporate Governance Report for the year 2022, which, in accordance with Article 49 of the Spanish Commercial Code, forms part of the Directors' Report accompanying the 2022 consolidated annual financial statements. It includes a section on the extent to which the Bank adheres to the recommendations on corporate governance currently in force in Spain.

In line with previous years, Banco Sabadell has once again opted to prepare the Annual Corporate Governance Report in free PDF format in order to explain and publicise, with maximum transparency, the main aspects contained therein.

Annual General Meeting 2022

The Bank's main governing body is the Annual General Meeting, in which shareholders decide on matters attributed to the Meeting by law, the Articles of Association (available on the corporate website under "Corporate Governance and Remuneration Policy - Articles of Association") and its own Regulations, and those business decisions that the Board of Directors considers to be of vital importance for the Bank's future and for the interests of the shareholders.

The Annual General Meeting of Shareholders has adopted its own Regulations, which sets out the principles and basic rules of action (available on the corporate website under "Shareholders' General Meeting – Regulations of the Shareholders' Meeting") and safeguards shareholder rights and transparency.

In the Annual General Meeting, shareholders may cast one vote for every thousand shares that they possess or represent. The Policy on communication and contact with shareholders, institutional investors and proxy advisors approved by the Board of Directors and adapted to the Good Governance Code of Listed Companies after its June 2020 revision, aims to promote transparency *vis-à-vis* the markets and build trust while safeguarding, at all times, the legitimate interests of institutional investors, shareholders and proxy advisors and of all other stakeholders of Banco Sabadell.

In order to improve and encourage shareholder participation, the following key aspects have been implemented:

- Extension of shareholders' methods of participation in the Annual General Meeting of 24 March 2022, which they were able to attend in person or remotely through a live broadcast, and at which they were able to vote on motions on the agenda and speak during question time.
- Provision of new electronic channels through Banco Sabadell's websites (corporate website and BSOonline) and the mobile app (BSMóvil) so that shareholders could delegate and cast their vote in advance of the Annual General Meeting.

The Annual General Meeting held on 24 March 2022, on second call, approved all the items on the agenda, including the annual financial statements and corporate management for the 2021 financial year and, as regards appointments, the ratification and appointment of Luis Deulofeu Fuguet as Independent Director, as well as the re-election as members of the Board of Directors of Pedro Fontana García, George Donald Johnston III and José Manuel Martínez Martínez as Independent Directors and of David Martínez Guzmán as Proprietary Director.

Furthermore, in 2022, reinforcing its commitment to transparency, the Bank submitted for the approval of the Annual General Meeting a Supplement to the Banco Sabadell Director Remuneration Policy for the years 2021-2023, with the aim of developing and expanding the information available on certain aspects of that Policy that were introduced by Law 5/2021, of 12 April, which came into force subsequent to the Policy's approval.

For the second consecutive year, Banco Sabadell has obtained certification of its Annual General Meeting as a "Sustainable Event", having satisfactorily met the sustainability criteria for certification and having passed the preliminary assessment process and the in-person audit by Eventsost.

An external consultant verified the procedures established for the preparation and celebration of the 2022 Annual General Meeting and rendered a favourable opinion on compliance with the procedures. In particular, the consultant noted the developments observed over the last two years at Banco Sabadell's Annual General Meeting, particularly the aforementioned measures introduced to facilitate the participation of shareholders by electronic means.

Information regarding the 2022 Annual General Meeting of Shareholders is published on the corporate website www.grupbancsabadell.com (see the website section "Shareholders and Investors - Shareholders' General Meeting").

Composition of the Board of Directors

With the exception of matters reserved for the Annual General Meeting, the Board of Directors is the highest decision-making body of the Bank and its consolidated group, as it is responsible, under the law and the Articles of Association, for the management and representation of the Bank. The Board of Directors acts mainly as an instrument of supervision and control, and it delegates the management of ordinary business matters to the Chief Executive Officer.

The Board of Directors is subject to well-defined, transparent rules of governance, particularly the Articles of Association and the Regulation of the Board of Directors (available on the corporate website under "Corporate Governance and Remuneration Policy - Regulation of the Board"), and it conforms to best practices in the area of corporate governance.

At its meeting of 26 May 2022, the Board of Directors appointed Laura González Molero as an Independent Director to replace José Ramón Martínez Sufrategui. Having received the corresponding regulatory authorisations, Laura González Molero accepted the role on 19 September 2022.

The composition of the Board of Directors as at 31 December 2022 is as follows:

Board composition	Position
Josep Olliu Creus	Chair
Pedro Fontana García	Deputy Chairman
César González-Bueno Mayer	Sabadell Group CEO
Anthony Frank Elliott Ball	Lead Independent Director
Aurora Catá Sala	Director
Luis Deulofeu Fuguet	Director
María José García Beato	Director
Mireya Giné Torrens	Director
Laura González Molero	Director
George Donald Johnston III	Director
David Martínez Guzmán	Director
José Manuel Martínez Martínez	Director
Alicia Reyes Revuelta	Director
Manuel Valls Morató	Director
David Vegara Figueras	Director-General Manager
Miquel Roca i Junyent	Non-Director Secretary
Gonzalo Baretino Coloma	Non-Director Deputy Secretary

As at 31 December 2022, the Board of Directors is formed by fifteen members: its Chairman, ten Independent Directors, two Executive Directors, one Other External Director and one Proprietary Director. The composition of the Board has an appropriate balance between the various categories of Director.

The composition of the Board of Directors is diverse and efficient. It is of the appropriate size to perform its duties effectively by drawing on a depth and diversity of opinions, enabling it to operate with a level of quality and effectiveness and in a participatory way. Its members are suitably diverse in terms of competencies, professional background, origin and gender, and they have extensive experience in banking, finance, anti-money laundering & counter-terrorist financing, digital transformation & IT, insurance, risk & auditing, in regulatory affairs and the law, in academia, human resources & consultancy, responsible business & sustainability, as well as in international business. The Board's Matrix of Competencies can be consulted on the website under "Internal Governance Framework of Banco Sabadell" (see the corporate website "Corporate governance and Remuneration Policy – Internal Governance Framework" section).

Banco Sabadell has had a competency and diversity matrix in place since 2019, which is reviewed annually by the Board of Directors. The latest review was carried out on 29 September 2022, in light of the changes that took place within the Board of Directors. The diversity of the Board of Directors increased in 2022 in terms of the gender of its members and the knowledge, skills and experience they bring, which have been reinforced in the following areas: retail and corporate banking, financial and capital markets, risk management and control, governance, anti-money laundering and counter-terrorist financing, responsible business and sustainability, international experience, consultancy, regulatory and supervisory bodies, communications and institutional relations.

The Director Selection Policy of Banco Sabadell of 25 February 2016 (most recently amended on 29 September 2022) sets out the principles and criteria to be taken into account in the selection processes and, consequently, in the assessment of the initial and ongoing suitability of Board members, as well as the reappointment of members of this administrative body to ensure their appropriate succession, the continuity of the Board of Directors and its collective suitability.

The process to select candidates for Directorships and to reappoint existing Directors is governed by the principle of diversity, fostering diversity within the Board of Directors so that its composition reflects a diverse collective, and ensuring that the selected members bring a wide range of qualities and competencies to provide diverse points of view and experience, and to promote independent opinions and sound decision-making within the Board of Directors.

The Board of Directors should ensure that the procedures to select its members apply the principle of diversity and that they promote diversity with respect to issues such as age, gender, disability, geographical provenance, or professional training and experience, and other aspects that may be deemed appropriate to ensure a suitable and diverse composition of the Board of Directors. Those procedures should be free of any implicit bias that might lead to discrimination and, in particular, they should facilitate the selection of female directors so that a balanced presence of women and men on the Board may be achieved.

The appointment of Independent Director Laura González Molero increases female representation on the Board and brings different and complementary abilities to those already existing in the Board of Directors. As at year-end 2022, there were five female Directors, including four female Independent Directors out of a total of ten Independent Directors and one female "Other External" Director. Women represent 33% of the Board of Directors, fulfilling the Bank's commitment as set out in Sabadell's Commitment to Sustainability for the financial year 2022. They represent 40% of Independent Directors in line with the proposal of the Directive of the European Parliament and of the Council on improving the gender balance among non-executive directors of listed companies and related measures.

The Board of Directors has a Lead Independent Director who, in accordance with the Articles of Association, may request meetings of the Board of Directors, request the inclusion of new items on the agenda, coordinate and assemble Non-Executive Directors, articulate the opinions of External Directors and manage, as applicable, the regular assessment of the Chairman of the Board of Directors. The Lead Independent Director also coordinates the Succession Plan for the Chairman and CEO approved in 2016 and updated in January 2022 and, in practice, chairs any meetings with investors or proxy advisors.

To ensure a better and more diligent performance of its general supervisory duties, the Board of Directors is bound to directly exercise the responsibilities established under law, including:

- those that derive from generally applicable good corporate governance rules;
- approving the company's general strategy;
- appointing and, as necessary, removing directors of the various subsidiaries;
- identifying the company's main risks and implementing and monitoring suitable internal control and reporting systems;

- setting policies on the reporting and disclosure of information to shareholders, the markets and the general public;
- establishing the policy on treasury stock, which the General Meeting of Shareholders determines, where appropriate;
- approving the Annual Corporate Governance Report;
- authorising the company's operations with Directors and significant shareholders which might present conflicts of interests; and
- generally, deciding on business or financial transactions that are of particular importance for the company.

Board Committees

In accordance with the Articles of Association, the Board of Directors has established the following committees:

- The Board Strategy and Sustainability Committee.
- The Delegated Credit Committee.
- The Board Audit and Control Committee.
- The Board Appointments and Corporate Governance Committee.
- The Board Remuneration Committee.
- The Board Risk Committee.

The organisation and structure of the Board Committees are set out in the Articles of Association and in their respective Regulations, which establish their rules of composition, functioning and responsibilities (see the section of the corporate website "Corporate Governance and Remuneration Policy – Regulations of the Committees"), and develop and complete the rules of operation and basic functions set out in the Articles of Association and in the Regulations of the Board of Directors.

The Board Committees have sufficient resources to perform their duties, can draw on external advice and are entitled to obtain information about any aspect of the Institution, with unrestricted access to Senior Management and Group executives and to any type of information or documentation at the Bank's disposal in connection with the matters within their remit.

At its meeting of 29 September 2022, the Board of Directors approved the appointment of Laura González Molero as a voting member of the Board Audit and Control Committee and as voting member of the Board Remuneration Committee, replacing José Ramón Martínez Sufrategui.

The composition and number of meetings of these Board committees as at 31 December 2022 are shown in the table below:

Composition of the Committees						
Position	Strategy and Sustainability	Delegated Credit	Audit and Control	Appointments & Corporate Governance	Remuneration	Board Risk
Chair	Josep Oliu Creus	Pedro Fontana García	Mireya Giné Torrens	José Manuel Martínez Martínez	Aurora Catá Sala	George Donald Johnston III
Member	Luis Deulofeu Fuguat	Luis Deulofeu Fuguat	Pedro Fontana García	Anthony Frank Elliott Ball	Anthony Frank Elliott Ball	Aurora Catá Sala
Member	Pedro Fontana García	María José García Beato	Laura González Molero	Aurora Catá Sala	George Donald Johnston III	Alicia Reyes Revuelta
Member	María José García Beato	César González-Bueno Mayer	Manuel Valls Morató	Mireya Giné Torrens	Laura González Molero	Manuel Valls Morató
Member	César González-Bueno Mayer (*)	Alicia Reyes Revuelta				
Member	José Manuel Martínez Martínez					
Secretary non-member	Miquel Roca i Junyent	Gonzalo Baretino Coloma	Miquel Roca i Junyent	Miquel Roca i Junyent	Gonzalo Baretino Coloma	Gonzalo Baretino Coloma
Number of meetings in 2022	13	41	11	11	9	15

(*) Member for strategy matters only.

Board Strategy and Sustainability Committee

The Board Strategy and Sustainability Committee, which is formed by five Directors, two Other External Directors and three Independent Directors, is chaired by the Chairman of the Board of Directors. In matters of strategy, the Chief Executive Officer will participate in the meetings with the right to speak and vote, and, for this purpose, the Committee will be composed of six members.

In relation to strategy, the Board Committee's main responsibilities are to evaluate and propose to the Board of Directors strategies for the company's business growth, development, diversification or transformation, and to inform and advise the Board of Directors in matters related to the company's long-term strategy, identifying new opportunities to create value and bringing corporate strategy proposals to the Board's attention in relation to new investment or divestment opportunities, financial transactions with a material accounting impact, and relevant technological transformations. It also studies and puts forward recommendations and improvements to the strategic plans and updated versions that may be brought before the Board of Directors at any time, and it issues and submits to the Board an annual report setting out the proposals, assessments, studies and work carried out during the year.

In the area of sustainability, the Board Committee has the following competencies: review the Bank's sustainability and environmental policies; inform the Board of Directors of possible modifications and periodic updates of the sustainability strategy; review the definition and modification of diversity and integration, human rights, equal opportunity and reconciliation policies and periodically assess their degree of fulfilment; review the Bank's social action strategy and its sponsorship and patronage plans; review and report on the Bank's Non-Financial Disclosures Report prior to its review and report by the Board Audit and Control Committee and its subsequent sign-off by the Board of Directors; and receive information relating to reports, letters or communications from external supervisory bodies within the scope of this Board Committee's competencies.

Delegated Credit Committee

The main duties of the Delegated Credit Committee, which is formed by five Directors, one Executive, one Other External and three Independent Directors, are to analyse and, where appropriate, resolve credit operations, in accordance with the assumptions and limits established by express delegation of the Board of Directors, and to prepare reports on matters within its sphere of competence that may be required of it by the Board of Directors. Additionally, it shall be responsible for all duties ascribed to it by Law, the Articles of Association and the Regulations of the Board of Directors.

Board Audit and Control Committee

The Board Audit and Control Committee comprises four Independent Directors and the Chairwoman is an expert in auditing. It meets at least once per quarter. Its main functions are to oversee the efficacy of the Bank's internal control, internal audit and risk management systems; supervise the process of drafting and presenting regulated financial disclosures; advise on the Bank's annual and interim financial statements, liaise with external auditors, and ensure that suitable measures are taken to address any conduct or methods that might be inappropriate. It also ensures that the measures, policies and strategies defined by the Board of Directors are duly implemented.

Board Appointments and Corporate Governance Committee

The main responsibilities of the Board Appointments and Corporate Governance Committee, of which four Independent Directors are members, are to ensure compliance with the qualitative composition of the Board of Directors, assessing the suitability, skills and experience required of the members of the Board of Directors; to submit proposals for the appointment of Independent Directors and report on proposals for the appointment of the remaining Directors; to report on proposals for the appointment and removal of senior executives and the Identified Staff; to report on the basic conditions of the contracts of Executive Directors and senior executives; and to examine and organise the succession of the Chairman of the Board and the CEO of the Bank and, if appropriate, make proposals to the Board to ensure that such succession takes place in an orderly and planned manner. The Board Committee should also set a target for representation of the under-represented gender on the Board and produce guidelines on how to achieve that target.

In matters related to Corporate Governance, it is responsible for informing the Board of Directors of the Bank's corporate policies and internal regulations, unless they fall within the remit of other Board Committees; supervising compliance with the company's corporate governance rules, except for those that fall within the remit of other Board Committees; reporting to the Board of Directors on the Annual Corporate Governance Report for its approval and annual publication; supervising, within its sphere of competence, the Bank's communications with shareholders and investors, proxy advisors and other stakeholders, and reporting to the Board of Directors on these communications; and any other actions that may be necessary to ensure good corporate governance in all of the Bank's activities.

Board Remuneration Committee

Made up of four Independent Directors, the main responsibilities of the Board Remuneration Committee are to put forward proposals to the Board of Directors on the remuneration policy for Directors and General Managers, as well as on individual remuneration and other contractual conditions of Executive Directors, and to ensure compliance therewith. Additionally, it provides information for the Annual Report on Directors' Remuneration and reviews the general principles concerning remuneration and the remuneration schemes applicable to all employees, ensuring transparency in remuneration matters.

Board Risk Committee

The main functions of the Board Risk Committee, which comprises four Independent Directors, are to supervise and exercise oversight to ensure that all the risks of the Bank and its consolidated group are accepted, controlled and managed appropriately, and to report to the full Board on the performance of its duties, in accordance with the law, the Articles of Association, the Regulations of the Board of Directors and the Board Committee's own terms of reference.

Chairman of the Bank

Article 55 of the Articles of Association stipulates that the Chairman shall perform his duties as a non-Executive Director. The Chairman is the Bank's highest representative and is entrusted with the rights and obligations inherent to such representation. The Chairman, through the performance of his duties, is ultimately responsible for the effective operation of the Board of Directors and, as such, he represents the Bank in all matters and signs on its behalf, convenes and chairs meetings of the Board of Directors, sets the meeting agenda, leads discussions and deliberations during Board meetings and ensures the fulfilment of the motions adopted by the Board of Directors.

Chief Executive Officer (CEO)

Pursuant to Article 56 of the Articles of Association, the Chief Executive Officer has primary responsibility for managing and directing the business, and represents the Bank in the absence of the Chairman. The Board of Directors may also permanently delegate to the Chief Executive Officer any powers that may be legally delegated as it sees fit.

Control Units

The Internal Audit Division and the Risk Control and Regulation Division have access to and report directly to the Board of Directors and its Committees, specifically, to the Board Audit and Control Committee and the Board Risk Committee, respectively.

The Bank publishes the Annual Corporate Governance Report, which includes detailed information on the Bank's corporate governance, the Annual Report on Directors' Remuneration and the Non-Financial Disclosures Report, which form part of this Directors' Report, on the website of the National Securities Market Commission and on Banco Sabadell's corporate website www.grupbancsabadell.com.

1.5 Customers

At times of socio-economic change, as we are experiencing now, Banco Sabadell sees the customer experience as the differentiation lever that gives it a sustainable competitive advantage.

In that respect, the Bank works to offer products and services that adapt to the customer's needs, thus adopting a customer-centric approach, offering a wide range of products for each type of customer. This year, the Bank has focused on communication, striving for clearer and more easily understood messages, and on the introduction of relationship models that are more specialised and fine-tuned to current customer needs and that can facilitate customers' day-to-day interactions with Banco Sabadell.

Understanding the customer at all times during their relationship with Banco Sabadell is key. To achieve this, new methodologies are constantly being developed to enable the Bank to listen to the customer, to measure and assess the main reasons for customer satisfaction and dissatisfaction and how close or far we are from meeting our customers' expectations. The ultimate goal is to implement lines of approach that will not only improve their experience, but also try to exceed their expectations.

These methodologies allow the Bank to transform and adapt processes, making them more customer-centric so as to improve customer experience.

Measuring customer experience

To measure customer experience, Banco Sabadell focuses on obtaining insights that help with decision-making and drive an increasingly customer-centric culture.

The experience is measured by understanding the market, consumers and customers, using a range of qualitative and quantitative research methodologies.

Qualitative analysis

With the aim of better understanding the customer environment and the customers within it, Banco Sabadell carries out a number of qualitative studies and research using different methodologies. The goals of this process include:

- Listening carefully, actively and constantly to what the customer has to say, which enables us to ascertain how they experience their relationship with the Bank at a range of touch points.
- Understanding consumers' concerns, worries and attitudes and their current and future needs.

- Identifying the most emotional and least explicit part of consumer decision-making.
- Defining the value propositions specific to each type of customer.

The techniques used range from conventional in-depth interviews or focus groups, by segments, to more innovative methodologies based on behavioural economics and the detection of consumers' deepest emotions and motivations.

Quantitative analysis

Banco Sabadell also analyses its customers' experience through quantitative surveys. Some are more akin to conventional satisfaction surveys, while others incorporate an emotional component: to make the organisation aware of the importance of considering customers in decision-making, so as to make meaningful improvements.

1. Net Promoter Score (NPS)

The Net Promoter Score (NPS), considered to be the key market benchmark for measuring customer experience, enables Banco Sabadell to compare its performance to that of its competitors and even that of companies in other industries, at both the domestic and international levels. The NPS is measured in the main customer segments, products and relationship channels.

Banco Sabadell Spain data

Ranking			
Retail		HNW	
3rd		3rd	
		SMEs	
		3rd	
			Businesses
			2nd

Source: Accenture benchmarking of major Spanish financial institutions (2022 data).

In light of digital transformation, the measurement of customer satisfaction through digital channels has become more important. The NPS of the app for the retail segment is 40%.

TSB data

- NPS banking: +4.6
- NPS mobile app: +55.5
- NPS branch: +61.6
- NPS contact centre: +38.4
- NPS internet banking: +16.0

Source: Internal NPS tracking studies, December 2022 13-Week Rolling score

The results obtained in 2022 show a positive trend in customer satisfaction in relation to the use of the channels.

Stemming from the focus on always offering the best possible experience to each customer group, one of the Bank's objectives is to continuously improve our NPS, both in terms of KPIs and in terms of our position relative to other banks.

2. Satisfaction surveys

At present, there are a number of different indicators related to customer experience, some closer to the conventional concept of customer satisfaction and others that incorporate more emotive aspects.

The overall customer experience measurement and management model of Banco Sabadell Spain is based on different indicators obtained from around 700,000 surveys and at more than 20 touch points. The results

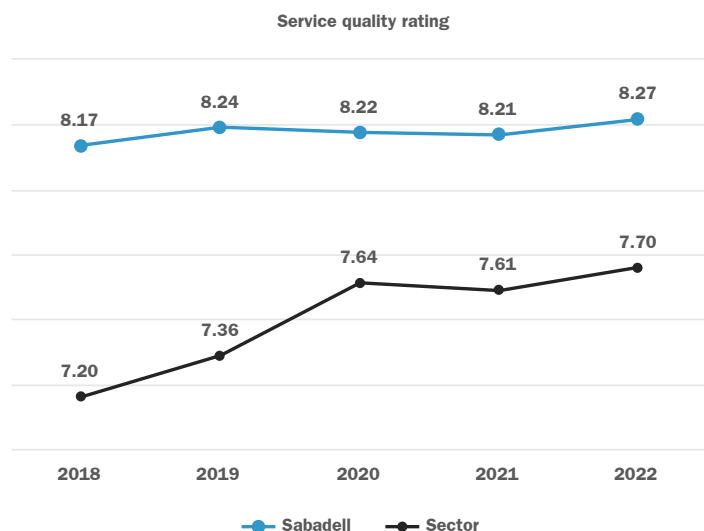
of the various surveys enable the Bank to ascertain the level of satisfaction of its customers and to identify areas where specific processes and contact channels could be improved. For each of these surveys, the Bank sets itself quality targets and monitors the results continuously.

In a multi-channel environment, the surveys related to specialised customer service, both in branches and in the digital sphere, are becoming increasingly relevant. For Banco Sabadell, the use of digital channels has reached a significant point, and this is precisely why the Bank has focused its efforts on the measurement of customer satisfaction and improvement of the customer experience with BSOline Particulares for individuals, BSOline Empresas for businesses, the mobile app, etc. In particular, we note the outstanding results of the call centre, which has seen an improvement of more than 6% in its rating over the last year, bringing the rating for customer care from managers above +8.9.

3. Branch quality surveys

In addition to analysing customer perceptions, Banco Sabadell carries out objective studies using techniques such as 'Mystery Shopping', whereby an independent consultant performs a pseudo-purchase to gauge the quality of service and the commercial approach applied by the sales team to potential customers.

EQUOS RCB (Stiga), the benchmark survey of service quality in Spanish financial institutions, is conducted using the Mystery Shopping technique. Banco Sabadell ranks among the leading players and continues to maintain a quality differential with respect to the sector.



Customer Care Service (SAC)

The Customer Care Service of Banco de Sabadell, S.A. conforms to the provisions of Ministry of the Economy Order 734/2004, of 11 March, the guidelines issued by the European Banking Authority (EBA) and the European Securities Market Authority (ESMA), and the Banco Sabadell regulations for the protection of customers and users of financial services. The most recent amendment to those regulations was approved by the Bank of Spain in June 2021.

In accordance with its terms of reference, Banco Sabadell's SAC handles complaints and claims received from customers and users of Banco Sabadell's financial services and those of the institutions associated with it: BanSabadell Financiación, E.F.C., S.A.U., Sabadell Asset Management, S.A., S.G.I.I.C. Sociedad Unipersonal, Urquijo Gestión, S.G.I.I.C, S.A. and Sabadell Consumer Finance, S.A.U.

The SAC is independent of the Bank's operations and business lines in order to ensure its decision-making autonomy, and it has the necessary resources to deal appropriately with complaints and claims, guided by the principles of transparency, independence, effectiveness, coordination, speed and security. The SAC also has sufficient authority to access all the necessary information and documentation in order to analyse each case, and the operational and business units are obliged to cooperate diligently in this regard. The Banco

Sabadell regulations for the protection of customers and users of financial services ensure compliance with the above-mentioned requirements.

In 2022, 41,887 complaints and claims were received: 38,726 in the Customer Care Service (SAC), 2,547 through the Customer Ombudsman, 579 through the Bank of Spain and 35 through the CNMV. A total of 31,191 complaints have been accepted and resolved; a further 10,141 were not accepted for processing as they did not meet the requirements set forth in the regulations.

See Note 42 to the 2022 consolidated annual financial statements for further details.

Multi-channel strategy

Banco Sabadell has a fully consolidated multi-channel strategy, which combines the best of the digital world with enhanced specialisation and value-added personal relations. This makes it possible to forge a relationship with the customer that is tailored to their real needs and built on trust and expertise. In this way, a winning combination is achieved to give customers optimal service, as they can operate through digital channels for daily banking (BSOnline, BSMóvil, Direct Branch, social networks, ATM network) and use face-to-face channels for specialist advice (national and international branch network).

Digitisation and the continuous provision of new capabilities on digital channels, incorporating new functionalities to operate and apply for products and services remotely, has been key to achieving this, as has the deployment of specialists throughout the branch network.

Branch network

Banco Sabadell ended 2022 with a network of 1,461 branches (220 TSB branches), indicating a net reduction of 132 branches with respect to 31 December 2021.

Of the total Banco Sabadell and Group branch network, 903 branches operate under the Sabadell brand (including 25 business banking branches and 2 corporate banking branches); 63 as SabadellGallego (including 3 business branches); 85 under the SabadellHerrero brand in Asturias and León (3 business banking branches); 63 as SabadellGuipuzcoano (5 business banking branches); 11 as SabadellUrquijo; 85 branches under the Solbank brand; and 251 offices that make up the international network, of which 220 are in TSB and 15 in Mexico.

Region	Branches	Region	Branches
Andalusia	108	Valencia	217
Aragon	25	Extremadura	5
Asturias	68	Galicia	63
Balearic Islands	37	La Rioja	7
Canary Islands	25	Madrid	111
Cantabria	4	Murcia	69
Castilla-La Mancha	18	Navarra	9
Castilla y León	37	Basque Country	50
Catalonia	355	Ceuta and Melilla	2

Country	Branches	Representative Offices	Subsidiaries & Investees
Europe			
France	.		
Portugal	.		
United Kingdom	.		.
Turkey		.	
Americas			
Colombia		.	
United States	.	.	
Mexico			.
Peru		.	
Dominican Republic		.	
Asia			
China		.	
United Arab Emirates		.	
India		.	
Singapore		.	
Africa			
Algeria		.	
Morocco	.		

ATM network

The number of ATMs in the self-service network in Spain as at 31 December 2022 is 2,561, comprising 1,741 in-branch ATMs and 820 out-of-branch ATMs. In 2021, the number of ATMs has decreased by 4% due to branch closures and application of the new ATM model defined in 2021.

In terms of ATM transactions carried out in 2022, the downward trend observed the year before continued. A total of 84 million transactions were carried out, indicating a 4% reduction in the total number of ATM transactions.

A change in customer behaviour has been observed over the past year, with the number of transactions carried out at ATMs decreasing, while the value of such transactions has been increasing.

In terms of the most common types of transactions, namely deposits and withdrawals of cash, in both cases similar volumes to those of the previous year were recorded, but in terms of transaction amounts, these increased by 7.5% and by 2%, respectively.

In 2022, efforts were focused on continuously improving the overall availability of the ATM network and enhancing customer experience.

In particular, approximately 540 ATMs were overhauled in 2022, providing an opportunity to standardise functionalities across the ATM network. Other initiatives in the year included the implementation of cash recycling, the introduction of dynamic drawers that allow the type of banknotes available at each ATM to be customised according to needs, a new distribution of ATM drawers to increase the capacity of the deposit-taking drawers, the availability of ATMs and, lastly, the introduction of the new option to send a transaction receipt, and receipts for BSO/BSM transactions, via email.

BSOnline and BSMóvil

In 2022, the ratio of digital retail customers reached 59.7%, increasing by 3.4 percentage points relative to the previous year.

In addition, the frequency of connection per customer, usage and contracting through digital channels has also continued to grow, as detailed below.

In 2022, the Bank continued to develop new digital capabilities to offer customers a better service through the website and the app. Both have helped to improve customer experience, boost digital sales and achieve the strategic plan targets.

BSOnline (bancosabadell.com website)

Although more digital customers use the Banco Sabadell app, visits to the BSOnline website and the frequency of BSOnline use have remained the same. The customer website maintains an average of 6 million logins per month, and is used predominantly for banking operations and transactions.

In BSOnline Empresas for businesses, improvements have been introduced in terms of ease-of-use and the transactionality and percentage of users who connect on a daily basis have increased. The main new features introduced this year are:

- New browsing pathways achieved through a welcome page and more intuitive and functional menus.
- New interfaces to facilitate day-to-day financial management (e.g. display and management of files, management of PoS invoices and remittances, requests for and management of pre-booked appointments, etc.).
- The expansion of the digital offering (e.g. new line of payments for financing needs).

The award received from *Global Finance* magazine, which considers the Banco Sabadell website for business customers as the best in Europe, is also noteworthy.

New features of note in BSOnline Particulares for individuals are the new functionalities launched, which have increased digital sales, and the adoption of new online operations related to financial products:

- In mortgages, as part of the plan to develop tools to facilitate remote mortgage applications, an online mortgage simulator and a new mortgages portal have been developed, giving customers an initial benchmark offer (instalments, terms, initial down payment, etc.) for mortgage applications and their subsequent approval, with no need to visit a branch.
- With regard to loans, the Bank continues to improve the pre-approved digital loan offering, increasing the amount that customers can request online without paperwork and without needing to visit a branch, thereby achieving a year-on-year increase of +36% in loans taken out online.
- The latest innovation in payment methods for the 100% online application process is the immediate card issue feature; now customers are offered the option of using the card from the moment of digital request, without having to wait for receipt of the physical card.

Growing adoption and usage of BSMóvil

This year work has been carried out to improve the customer experience for individuals using the app. By listening carefully to their suggestions we have incorporated improvements in usability and have significantly improved the app's stability and performance. All this has contributed to more widespread adoption of the Banco Sabadell app by users, with an increasing trend of individuals using the app, who now number 2.3 million. Frequency of access has increased by 3% compared with the previous year, with an average of 20.5 monthly logins per customer in the retail segment.

All of the aforementioned new features on the website are also available in the app. We should also highlight the growth of Bizum: use is up by 20% relative to the previous year and is 0.8 percentage points above the market rate. The launch of Google Pay has allowed customers to use Google Wallet to activate Banco Sabadell cards and they can pay using their mobile devices instead of doing so through the near-field communication (NFC) facility, enabling the migration of customers who currently use this service to Google Pay or Samsung Pay and achieving this objective of simplifying mobile payment services, as well as extending their use to wearable devices.

In the process of making improvements and listening to customers, the opportunity has been identified to incorporate all of the Sabadell Wallet operations in the main app, thereby improving and simplifying the digital experience. Now with a single app customers can send or receive money via Bizum, use Instant Money (a service that allows cardless cash pick-up at an ATM by simply using a 6-digit keycode) or block their card if they suspect it has been stolen or lost.

In the business segment, the use of BSMóvil Empresas has stepped up a gear, with year-on-year growth of 20% in the number of logins in 2022. The most noteworthy improvements include:

- Easier access between BSMóvil Particulares (retail app) and BSMóvil Empresas (business app) for more than 150,000 customers with different user profiles.
- The new functionality to sign multiple files from the app.

Digital onboarding

Finally, we should highlight a major area of progress this year: the launch of the digital onboarding process, which allows potential customers to register as a Banco Sabadell customer and open an account, completely digitally, marking the beginning of a new way of interacting with our customers. In addition, the new Sabadell Online Account allows the Bank to position itself as a benchmark in retail banking as it is 100% free and digital.

Direct Branch

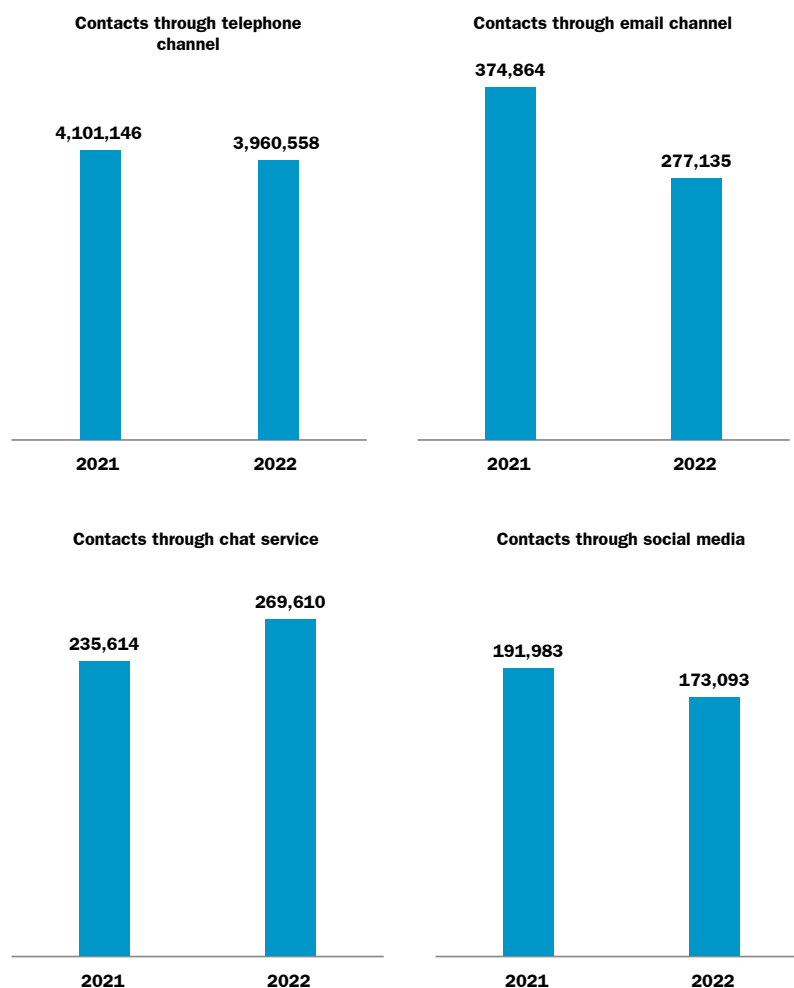
During 2022, Direct Branch contacts decreased by 4% compared to those recorded in 2021, and numbered 4.6 million.

The service channel that has experienced the greatest growth this year has been the chat feature. Telephone consultations accounted for 85% of total contacts across all channels, followed by e-mail, chat and social media. The graph below shows the contacts recorded, by channel.

As regards service levels, the Service Level Agreement (SLA) percentage for telephone enquiries was above 93%, followed by the SLA for chat at 98% and the SLA for the e-mail channel at 85%. Banco Sabadell received over 173,000 mentions in social media, and the SLA was 98%.

Highlights of 2022:

- Creation of the customer care service for senior and vulnerable customers in February, with its own telephone number and a specific procedure adapted to the customer profile.
- The launch of the new online account aimed at attracting digital customers.
- The introduction and development of the virtual assistant, which has led to reduced use of the telephone channel and has boosted the use of the chat feature in self-service.
- Improvement of procedures to provide Direct Branch with greater autonomy, more capacity for remote resolution and improved quality, whilst reducing the number of referrals to a branch.



Social media

Through social media Banco Sabadell aims to get to know digital customers and their needs, listen to their suggestions, and analyse how best to serve them. Banco Sabadell currently has a presence in five social media channels: Twitter, Facebook, LinkedIn, YouTube and Instagram, with 20 different profiles at the national level, and it has one of the best digital reputations in the financial sector.

Social media are among the main channels for engaging with our customers 24/7, both for handling banking queries and for broadcasting institutional and business messages, marketing campaigns and general interest messages.

Banco Sabadell currently has approximately 600,000 followers. Nearly 300,000 mentions of the brand were monitored or handled in 2022.

A key success factor is continuous tracking and monitoring of interactions with followers and customers. One of the most noteworthy KPIs in reports on social media positioning is the response rate, in which Banco Sabadell has a very high score. Social media are used to announce and webcast a large number of sponsored events and other initiatives in which we play an active role, and those that took place through digital platforms became particularly important this year. They include results presentations, the Annual General Meeting, the Barcelona Open Banc Sabadell Trofeo Conde de Godó tennis tournament, a superb example of digital coverage, as well as the South Summit and the Banco Sabadell Foundation research awards.

In line with the initial objectives, Banco Sabadell closely tracks trends, social conversations associated with the Bank, and audiences, and it uses the results to develop a strategy to expand and strengthen its presence, impact and engagement. This growth is evidenced by follower numbers in new channels such as Instagram, the collection of opinions and responses in mobile app markets, opinions expressed in industry forums and, this year, analysis and interaction of our branches in Google Maps reviews.

The Bank continues to expand its digital presence in fast-growing channels such as Instagram and LinkedIn, and continues with its segment-based specialisation through profiles related to such areas as the press (@SabadellPrensa, @SabadellPrensa and @SabadellPress), the Banco Sabadell Foundation (@FBSabadell), @BStartup aimed at entrepreneurs, @InnoCells in support of new business and the digital transformation, and @Sabadell_Help, which is specifically for customer service.

Digital transformation and customer experience

Banco Sabadell's digital transformation approach and priorities

In line with the new Strategic Plan presented in 2021, the digital transformation priorities are focused on improving customer experience in terms of both product offerings and quality of service received.

To that end, efforts have focused on the continuous development of digital onboarding through the improvement of the value proposition and contractual simplification, on expanding the card offer and online card application process, providing a digital loan and improving pre-approved loans, launching a digital mortgage platform, and on performing a thorough overhaul of the browsing experience and adding new functionalities in BSOline Empresas for businesses.

InnoCells

InnoCells has a multidisciplinary team capable of addressing challenges and projects end-to-end, through reflection and execution, enabling it to maximise the impact for Banco Sabadell Group and enhance the customer experience.

InnoCells adds key capabilities for the Group:

- Digital leadership: coordinating the Bank's digital innovation capabilities and providing a strategic vision from the ecosystem on key business aspects by identifying leading practices in the market.
- Strategic design and customer vision: evolving the value proposition towards the delivery of customer-centric digital experiences. Addressing the challenges holistically and incorporating customers' voices throughout the process: understanding users and their problems, proposing new products and services or amending existing processes, and validating solutions with users.
- Agile technology development: scaling the Bank's organisational capabilities by adopting new agile work methodologies that enhance delivery capacity and continuous learning in projects.
- Strategic alliances: combining internal innovation with external capabilities, actively participating in the innovation ecosystem and collaborating on a large scale with startups that complement the Banco Sabadell value proposition and enable it to reduce time-to-market and offer new services or features to customers.
- Driving technology architecture capabilities: developing new technology capabilities to improve productivity and connecting with third parties on a large scale.
- Capacity multiplier: designing, implementing and delivering key business projects for the Group.

Main deliveries in 2022

InnoCells contributed to Banco Sabadell's digital offer and to improving customer experience by both developing projects from scratch and adapting existing processes or exploring new environments.

Some recent examples of retail banking with a high impact on customers' user experience are:

Daily banking – Continuous improvement

Activation of the first three streams of the daily banking application, which continues to improve the perception of the Bank among customers in the online sphere, with high-impact initiatives in the areas and operations used most recurrently and those receiving more visits in our digital channels, especially BSMóvil. The Bank is thereby succeeding in reducing the digital gap and managing to make the experience of digital users as good as or better than in a bricks-and-mortar branch:

- Speed up: a stream focused on accelerating the continuous delivery of improvements to the customer experience in BSMóvil.
- Operations and access: a stream focused on improving the customer journey to access the app and carry out the most frequent transactions in BSMóvil.
- Digitisation: a stream aimed at improving the rate of our customers' digitisation.

Digital onboarding

Onboarding potential customers is a gateway to the sale of other products available in the Banco Sabadell portfolio. This project involves the implementation of digital onboarding capacity for new customers. Following the first phase, it is now possible for customers to:

- Register immediately through a 100% digital process.
- Sign up for the “digital package”: Expansión Digital account, Expansión Savings account, debit card and remote banking.
- Receive simplified legal acceptance and contract documentation.
- Gain access to the account, card and app in minutes (SLA: in one hour max).

Rollout of the mutual fund holders platform

At its current phase, this consists mainly of transferring all mutual funds distribution operations from the current mutual funds platform to the securities platform. Firstly, the access points for subscribing any type of mutual fund have been unified, and the sale of third-party funds has been enabled.

Rollout of the support portal for documentation provision and follow-up (customer/manager)

A simulation platform has been rolled out, together with a documentation upload function and a feature to follow up with customers showing interest in mortgage products.

This platform pre-filters leads, transferring the lead to CRM via the campaigns manager. Once in CRM, and based on the current “Digital Leads” solution, Banco Sabadell will apply a management strategy to those leads based on the capacities of existing Sales & Marketing tools, so that they will be managed in an organised and efficient manner in direct management, avoiding any wastage of leads due to ineffective follow-up.

The Direct Management managers can use the new platform for follow-up purposes, to contact the customer (by chat, email, push notifications, wall posts) and even to compile the different documents needed to initiate the usual internal mortgage process.

Reactive digital loan

This is one of the Institution's pivotal projects, as the objective is to provide retail customers with self-service capabilities in the consumer loan product segment, aiming for a 100% digital customer experience using the website and the app. The plan is to roll it out to customers during the first quarter.

Adobe Target in digital processes

Content customisation in line with the customer's profile in the digital channel is key to improving transaction conversion rates. This project incorporates the integration of the Adobe Target application in BSMóvil, providing the ability to apply changes in the content displayed to the customer, independently and without requiring changes to be applied by the technology division.

New Sabadell online account

Banco Sabadell continues to pursue the implementation of its new digital offering, which will be a multi-product offer comprising a current account, the Expansión savings account, mutual funds, securities, a debit card and pre-approved card credit, and the Expansión credit line.

Immediate card activation

The aim is to enable cards to be applied for, generated and activated immediately through instant selling (self-service) following signing of documentation.

This project has been prioritised in the Strategic Plan for retail customers and its current scope involves:

- Creating a catalogue to make it easier for customers to become familiar with and compare Banco Sabadell products and to highlight the cards recommended for each customer.
- Enabling the application for debit and credit cards by retail customers, for sole account holders, through our digital channels.
- Allowing the immediate activation of cards for use in secure e-commerce and XPay transactions, without having to wait for receipt of the physical card.
- Defining and establishing the experience and detailed functional design of expansions of scope and subsequent phases.

Bizum in BSMóvil

The project takes the services and operations available up to now in BSWallet and brings them together in BSMóvil, so that day-to-day banking can be managed using a single app. The migration of mobile payments through near-field communication (NFC) is not within the scope of this project, but it will be implemented in the first half of the current year.

- All Bizum operations are included (onboarding, portability, calendar, money transfers, single and multiple requests, QRBizum Payment and access to Bizum keycode for eCommerce).
- Instant Money 2.0
- Cards (see PIN, activate/deactivate cards, sign up for Apple Pay, block card, see payments, etc.)

With regard to Business Banking and Network, *Global Finance* magazine selected Banco Sabadell's Business Banking website as the best in Europe in 2022. Some recent examples of projects with a significant customer impact are:

BSMóvil dual login

The aim of the initiative is to facilitate the identification of customers that have two profiles (BSMóvil for individuals and BSMóvil for businesses). Users that have signed up with biometrics can access both profiles through the app.

Redesign of the home page of BSOOnline Empresas for businesses

New, more useful and functional home page for BSOOnline Empresas for businesses. The ease-of-use and user experience is being improved to enable the display of information of interest to the customer directly from the home page.

Online Payments Line

The purpose of the project is to provide a new drawdown facility in BSOOnline. Business customers that have an active payments line will be able to use the credit line to meet their day-to-day needs: payments of taxes, salaries and suppliers.

New browsing facility in BSOOnline Empresas for businesses

We continue to improve the browser and menus in BSOOnline Empresas for businesses, making it easier for customers to find the operations they need.

Additionally, InnoCells has executed, from the Collaboration area, both pilots and proofs of concept with third parties (seeking to accelerate the digital transformation of the business through the incorporation of products, services and differential third-party technologies, focusing mainly on the Fintech ecosystem), as well as participation in projects framed within the strategic line of Financing.

The following are particularly noteworthy:

- Participation in the Request for Proposal (RFP) for a solution for the loyalty and rewards system, with a system related to payments in member stores (analysing solutions such as Triple), offering added value to both retail and business customers of the Bank.
- Analysis and creation of a proposal for the development of the savings system and automatic rules to accelerate it, through value propositions such as Coinscrap, analysing different integration systems that have already been developed in other institutions.
- Full leverage of the Group's assets, such as the rollout of a customer acquisition campaign for Sabadell Consumer Finance to offer InstantCredit to current customers of Banco Sabadell.
- Analysis and participation in the RFP for the "financial move" service, inviting customers who access the Institution via the digital onboarding route to complete the value proposition by transferring the direct debits, salary payments, etc., that they have with their current bank to Banco Sabadell, thereby creating a valued customer from the outset. The final solution (analysed with third parties such as Finleap) will ultimately be approached through internal development, with a proposal to leverage and build on Banco Sabadell's existing capabilities.
- Creation of a framework for collaboration with third parties that will facilitate decision-making on market proposals based on a series of relevant factors, such as strategic alignment, business fit, costs and implementation lead times.
- Participation in the Proof of Concept (POC) for the digital euro, with the support of Spanish financial infrastructure players (Iberpay, Redsys and Bizum) and the main Spanish banks. The aim is to carry out an in-depth analysis of the technical, operational and business implications that its market entry would involve, and how it would co-exist with the digital payment instruments currently used by European citizens.
- Orchestration and active collaboration in two projects launched by the strategic line of Financing (ongoing):
 - Reactive Digital Loan: Management and rollout of the first phases of the project and activation of Family&Friends, prior to rollout to customers.
 - Sabadell Consumer Finance – Instant Credit: Implementation of the project, according to scope, underpinned by three key pillars: evolution of the InstantCredit digital journey, balancing capacity to obtain an omni-channel GlobalCredit solution, and improvement of risk models for transaction approval processes.

The initiative was recognised in the Forbes innovation awards.

In addition, the area of collaboration with third parties maintains continuous interaction with the startup ecosystem (collaboration with BStartup and Sabadell Venture Capital and participation in various events, such as SouthSummit, 4YFN, webinars, etc.) and a specific portal is available (www.partnerships.innocells.io) to centralise and receive value propositions that may be of interest to the Group in an orderly fashion. In 2022 more than 20 contacts were managed.

1.6 New work model

In 2020, SmartWork was created, stemming from the need to create a different work model adapted to the prevailing environment and that would prepare Banco Sabadell to continue growing in the future. In 2022, this developed into SmartWork 2.0, a new blended work model suited to the current environment, with new tools (Office 365) and new capabilities (mobile, WiFi, etc.).

To support the workforce in their adoption of this model and help them learn to take advantage of the best of both worlds (on-site and remote), a series of differential actions impacting working arrangements, technology, equality and well-being have been implemented. These actions include, among others:

- More technology, to enable staff to work even more efficiently, with tools such as the SmartApp, new screens, and new smartphones or Office 365 accessible from all environments.
- Training support with live events (start of the new season of SmartBreaks) and training courses (e.g. inclusive leadership).
- Digital spaces, such as the SmartSite or the Equality and Diversity Space, where employees can find comprehensive information about the model.
- Health and well-being, with initiatives that have an impact on people's health, such as Reto Yoga 21 Días (21-Day Yoga Challenge) and the cycle of health conferences held in collaboration with Sanitas.

The work environment in the branch network has been upgraded, with technology and processes that increase efficiency and that better connect the Bank with its customers.

2 – ECONOMIC, SECTORAL AND REGULATORY ENVIRONMENT

Economic and financial environment

The main factors at play in 2022 were the conflict in Ukraine, the energy crisis in Europe, further upside inflation surprises, the interest rate hikes introduced by central banks and the management of Covid-19 in China. All these factors resulted in a gradual deterioration of the growth-inflation mix, driving many economies into stagflation towards the end of the year. Covid-19 became less prominent as a factor influencing the economy and financial markets in an environment in which the reduced severity of the latest variants of the virus was gradually confirmed. In most countries, Covid-19 transitioned to an endemic phase, the main exception being China. Generally, 2022 was a very negative year for financial assets, both equities and fixed income.

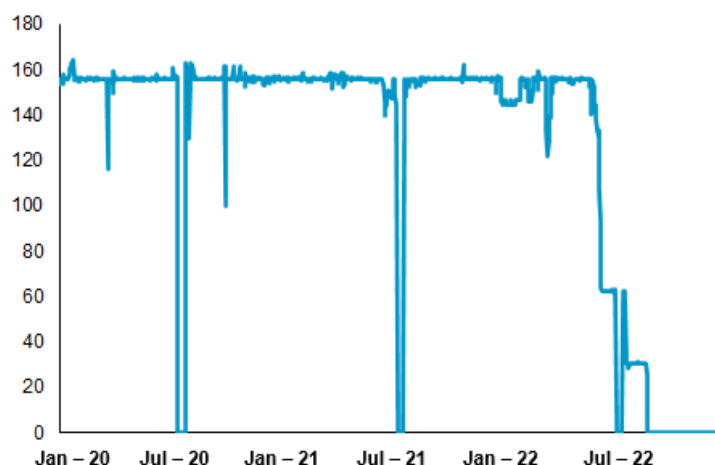
Conflict in Ukraine

The war between Russia and Ukraine was one of the year's defining events for financial markets. Russia invaded Ukraine at the end of February. Early on in the war, Russia succeeded in occupying certain key regions in Ukraine, but after the summer Ukrainian troops made gains in a counteroffensive and were able to recover part of the occupied territory. Russia responded by annexing the regions occupied by its troops, holding referendums in those regions, and it threatened to use nuclear weapons. The response by Western countries to Russia's aggression was emphatic, as they agreed to impose unprecedented economic and financial sanctions on Russia and refused to recognise Russia's annexation of the occupied Ukrainian territories.

With regard to energy, Russia gradually reduced its gas supplies to Europe, eventually completely and indefinitely cutting off the flow of gas through Nord Stream 1, the pipeline that connects Germany and Russia, in early September. This fuelled fears that there would be strict energy rationing during the winter, with dire consequences for the European economy, and it also caused the price of natural gas to skyrocket to an all-time high. Against this backdrop, European countries took measures to reduce their energy dependence on Russia. They reduced their gas consumption and increased their imports of liquefied natural gas. This, together with an unusually mild autumn, allowed European countries to build up their gas reserves ahead of the winter to 100% capacity.

European countries also announced different measures designed to protect households and companies from the dramatic increase in the cost of energy. These measures notably included, among others, windfall taxes for energy firms, the proceeds of which will be used to compensate consumers, as well as price caps for gas and electricity.

Russian gas flows through Nord Stream 1 (thousands m³/day). Source: Bloomberg.

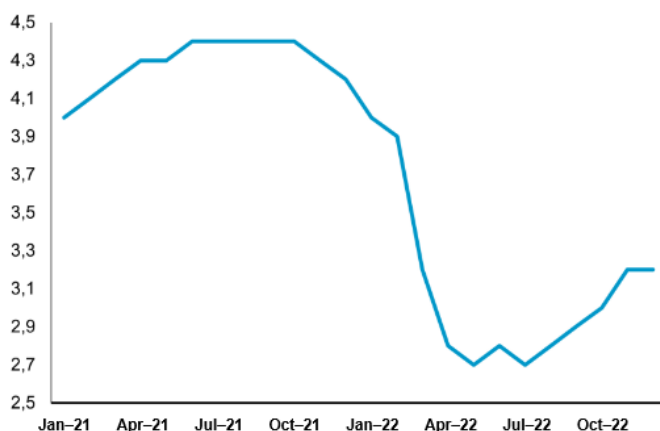


Economic activity and inflation

The global economy deteriorated over the year due to the consequences of the conflict in Ukraine, persistently high inflation and tighter financial conditions. The conflict mostly affected European countries due to their stronger links to Russia and their high energy dependence on the latter. The United States, for its part, proved more resilient to the consequences of the conflict, although activity in this country also began to drop as a result of interest rate hikes and high inflation.

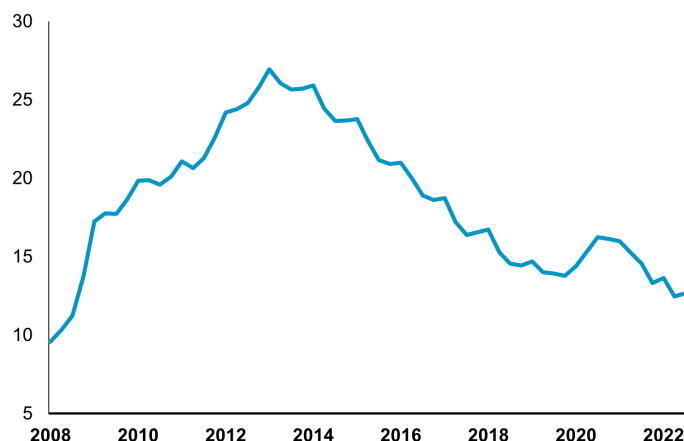
In the Eurozone, activity was robust in the first half of the year, driven by the post-Covid economic reopening and tourism. In the latter part of the year, however, the economy was weighed down by high energy prices, fears of energy rationing and tougher monetary policy. In the United Kingdom, activity also slowed during the year in reaction to higher inflation, interest rate hikes and the deteriorating confidence of households, with GDP contracting in the third quarter of 2022. In the United States, GDP performed poorly in the first half of the year, hampered by foreign trade and the accumulation of inventories, while consumption and the labour market remained steady. Domestic demand began to slow down significantly towards the end of the year, as a result of rapidly rising interest rates. This tightening also began to have a negative impact on the country's real estate sector.

Forecasts of economic growth in the Eurozone in 2022 (year-on-year change,%). Source: Consensus Economics.



In Spain, the start of the year was marked by the spread of the Omicron variant of the coronavirus. Although this did not result in the imposition of severe restrictions, it did have a negative effect on the confidence of economic operators and on activity. A little later in the year, the outbreak of war in Ukraine once again deteriorated economic sentiment and drove up the inflationary pressures that had begun to emerge in 2021. Nevertheless, the Spanish economy picked up throughout the second quarter of 2022 and the labour market in particular proved to be resilient, supported by the reopening of the economy and the recovery of tourism-related activities. In the third quarter of 2022, uncertainty affected lending, particularly lending to the construction sector, while the deteriorating situation of trade partners eroded the growth of exports. In spite of persistent inflation, private consumption performed well, supported by the government measures introduced to deal with the energy crisis and approved during the months following the outbreak of the war in Ukraine. The labour market reflected the economic slowdown experienced in the third quarter of 2022, although it remained relatively steady in the last few months of the year, while the unemployment rate remained at its lowest level since 2008.

Unemployment rate in Spain (%). Source: Instituto Nacional de Estadística, INE (Spanish Office for National Statistics).



Over the year, the Spanish government extended existing measures and rolled out new ones to deal with the energy crisis and the ensuing high levels of inflation. These measures notably included extensions of electric and thermal social bonds, an increase of the minimum living income, and a sector-based direct aid scheme for firms. Alongside these measures, taxes on electricity were reduced, fuel discounts were introduced and the ‘Iberian exception’ was launched, allowing Spain and Portugal to cap the price of the gas used to generate electricity.

In terms of economic policy, it is also worth mentioning the progress made in rolling out the Next Generation European funds. In 2022, calls for proposals for financial aid and tenders were published considerably earlier than usual, although the allocation and execution of these funds nevertheless fell short of the government’s expectations. By way of example, in one major tender process for strategic projects for economic recovery and transformation (*proyectos estratégicos para la recuperación y transformación económica*, or PERTE) relating to electric vehicles, only 30% of the available funds were ultimately allocated. In spite of this, the government continued to deliver on the milestones and reforms agreed with the European Commission to ensure it received the scheduled disbursements.

Emerging economies proved resilient to developments of the conflict in Ukraine, high inflation, rapid monetary tightening and the strength of the dollar. To a certain extent, this was because monetary tightening in these countries had begun earlier than in developed economies, which generally served to support emerging currencies. They also benefited from the increased price of commodities, as most of those countries are exporters of these products. However, risks remained in economies with weaker fundamentals.

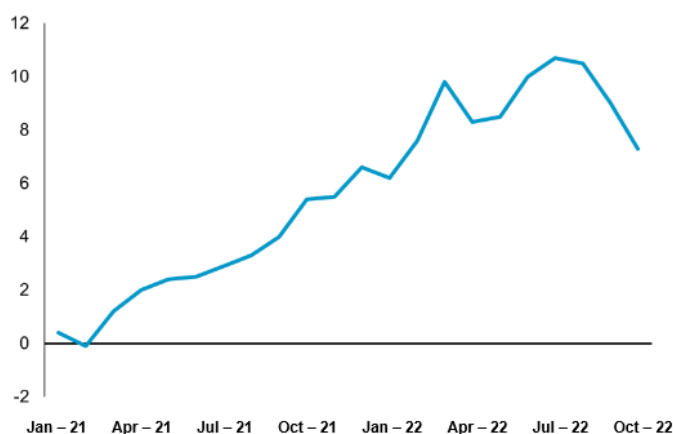
In the case of China, the economy was entirely constrained by the zero-Covid policy. The lockdown measures very evidently hampered activity and, as a result, economic growth fell considerably short of the Chinese government’s target. In light of the situation, the country’s authorities announced various different measures designed to support activity and, at the end of the year, after large-scale protests among citizens, the Chinese government practically abandoned its zero-Covid policy. In Mexico, economic activity was resilient to the consequences of the conflict, thanks to the country’s limited exposure to Ukraine. The country benefited from the trade war between the United States and China, which significantly boosted its trade and relations with the United States. Activity was also supported by the improvement of global supply chains, which in turn served to support the recovery of production and contributed to the sustained growth of consumption, driven by the high levels of savings accumulated during the pandemic, the sharp growth of remittances and the strength of the labour market. Mexico was able to recover pre-Covid GDP levels in the third quarter of 2022, much earlier than anticipated.

Inflation was the macroeconomic variable that aroused the most interest in 2022. For a good part of the year, inflation surprised to the upside, rebounding to its highest level in several decades in the main developed economies, while inflationary pressures became widespread across components. The conflict in Ukraine led to a surge of energy and commodity prices and new disruptions to some production chains, as a result of the sanctions imposed on Russia by Western countries. Global supply chains were also affected by China’s zero-Covid policy in the first half of the year.

In the Eurozone, inflation reached record-high levels, driven in particular by the price of energy and food, although inflationary pressures became increasingly widespread across components throughout the year. In the United Kingdom, inflation climbed to its highest level since the 1980s. The spike in prices of energy and transport was particularly severe, although significant price increases took place across the board. The substantial tightening of the labour market and the growth of wages, which went significantly beyond pre-Covid levels, also contributed to high inflation. In the same way, in the United States, inflation reached a four-decade high, with widespread inflationary pressures across components. In addition, the strength of the labour market and the steady growth of wages served to rein in the growth of inflation, in spite of the significant monetary tightening implemented.

In Spain, inflation trended upwards until August, reaching its highest level since 1984. This increase in inflation was initially driven by higher energy prices, particularly those of electricity, which later filtered through to a wider range of products. Food prices also became significantly higher, while the recovery of tourism drove up prices in the third quarter of 2022. Inflation began to ease off in the last few months of the year due to base effects and reduced pressure on energy prices.

HICP for Spain (year-on-year change in %). Source: Instituto Nacional de Estadística, INE (Spanish Office for National Statistics).

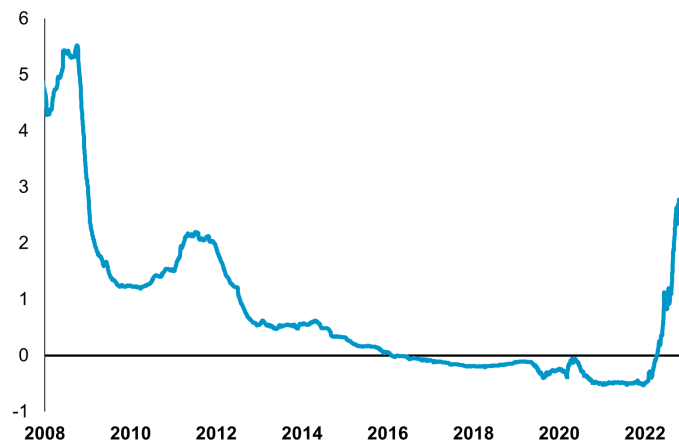


Monetary policy

Central banks focused more on tackling inflation and less on the signs of economic slowdown and slumps in financial markets. With that aim in mind, monetary authorities introduced widespread interest rate hikes, in line with the high levels of inflation.

In the Eurozone, the European Central Bank took significant steps to normalise its monetary policy. It increased interest rates by 250 basis points (thus far), bringing the deposit rate into positive territory for the first time since 2012. In fact, it implemented the largest interest rate hike in its history (75 basis points) in two consecutive meetings. The European Central Bank also discontinued its asset purchase programmes and it announced that as of spring 2023 it would no longer reinvest all of the principal payments from maturing securities.

12M Euribor (%). Source: Bloomberg



In the United States, the Federal Reserve (Fed) launched its most aggressive rate hike cycle in several decades, raising the Fed funds rate by 425 basis points to 4.25%-4.50% in just eight months, including four consecutive hikes of 75 basis points. The Fed also appeared intent on keeping interest rates at very restrictive levels for some time. In the meantime, halfway through the year, the Fed began its quantitative tightening process.

In the United Kingdom, the Bank of England (BoE), which had already begun its rate hike cycle in December 2021, raised rates in all of its monetary policy meetings of 2022, gradually increasing the scale of its rate hikes and giving rise to the most aggressive rate hike cycle of recent decades. The BoE also stopped reinvesting the proceeds of maturing bonds from its quantitative easing programme in March and began actively selling assets in November. Between September and October, the BoE was forced to make emergency interventions in the long-term public debt markets in order to safeguard financial stability and, more specifically, to indirectly help pension funds. This all took place following the sharp movements of government bond yields that took place upon the unveiling of the 'mini budget', which envisaged major tax cuts and ultimately led to the downfall of the government under Liz Truss.

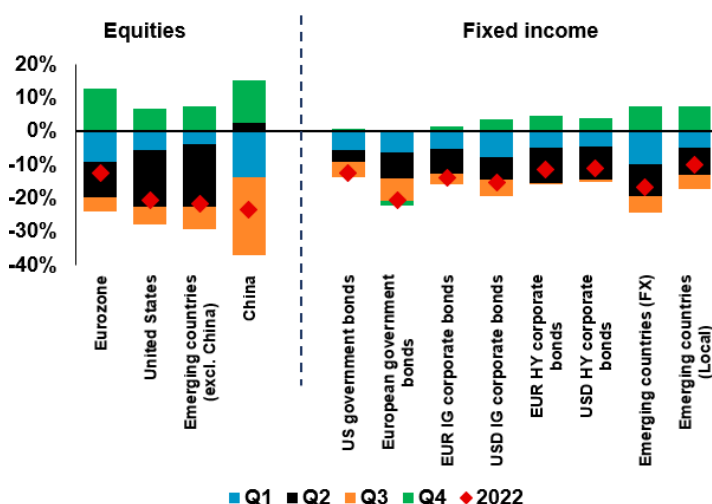
In emerging countries, aggressive and widespread rate increases continued in 2022. In the case of Mexico, the central bank (Banxico) continued with its rate hike cycle launched in 2021, accelerating the rate hikes and emulating the movements of the Fed. Banxico raised the official rate to 10.50%, accumulating 650 basis points of rate hikes in little more than a year. This level marked a new record and the most restrictive level since Banxico established its inflation-targeting scheme in 2008. In the meantime, in other emerging countries (such as Brazil and Colombia), central banks began to allude to an imminent end of the restrictive cycle after raising interest rates to a 10-year and 20-year high, respectively. The main exceptions to this policy were China, whose central bank maintained an accommodative tone, easing liquidity reserves, using and creating new liquidity facilities and introducing measures to support business lending, and Turkey, whose central bank cut the official rate, disregarding the high levels of domestic inflation, which climbed to over 80%.

Financial markets

Financial markets were particularly hard hit by interest rate hikes across the globe and also by the conflict in Ukraine and the ongoing zero-Covid policy in China, all of which led to a considerable deterioration of economic growth forecasts. Most financial assets recorded heavy losses in 2022. The volatility of markets was particularly high due to the sharp repricing of official interest rates in the markets. Liquidity conditions and market depth fell to their lowest levels since the global financial crisis, which exacerbated market swings. Corporate and peripheral risk premiums recorded significant upturns, reaching levels not seen since the pandemic. The euro depreciated substantially against the dollar, to levels not seen since 2002.

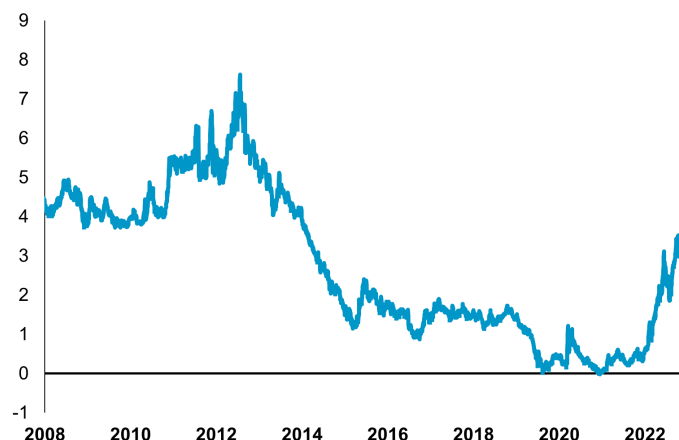
Long-term government bond yields rebounded by more than 200 basis points on both sides of the Atlantic, reaching levels not seen since 2008 in the United States and since 2011 in Germany. This increase in bond yields was mostly driven by high inflation and the interest hikes introduced by central banks. In the United Kingdom, the unveiling of its most expansionary fiscal plan since 1972 triggered a major sell-off of UK gilts after the summer, which led to considerable liquidity problems in some pension funds and forced the BoE to intervene in the public debt market. This movement was almost fully reversed later, when Liz Truss resigned and Rishi Sunak, the new Prime Minister, announced a more orthodox fiscal plan.

Returns on several fixed-income and equity assets (in %, by quarter and YTD). Source: Bloomberg



Peripheral sovereign debt risk premiums also rebounded throughout the year, although they remained at contained levels. The spread's widening was influenced by the withdrawal of the ECB's accommodative measures, although the subsequent announcement of an asset purchase programme that could be activated in an emergency served to contain the rebound of premiums. In the case of Italy, the increase of the risk premium was also temporarily affected by the increased political noise resulting from the snap elections, which put an end to the government led by former ECB president Mario Draghi. The aforesaid elections were won by the centre-right coalition with Giorgia Meloni, of Brothers of Italy, at the helm. The pro-European stance and the fiscal responsibility of the new Italian executive reduced uncertainty and put the financial markets at ease.

Spanish 10-year government bond yields (%). Source: Bloomberg.



Regarding the currencies of developed countries, the dollar appreciated steadily to reach a multi-decade high. The US currency benefited from the aggressive stance adopted by the Fed, the energy crisis in Europe and concerns over global economic growth. In its currency pair with the euro, the dollar appreciated by 16%, reaching levels not seen since 2002. Later, China's abandonment of its zero-Covid policy and the ECB's interest rate hikes served to halt the depreciation of the euro. The pound sterling, in its currency pair with the euro, gradually depreciated from the middle of the second quarter of 2022 onwards as the effects of inflation and rising interest rates on UK activity became increasingly apparent. The pound was also hit particularly hard, albeit briefly, by the mini-budget episode at the end of September.

USD/EUR. Source: Bloomberg.



Equity markets posted especially poor performance, weighed down by the sharp interest rate hikes and negative news regarding the conflict in Ukraine, as well as forecasts of global economic growth. The majority of global stock indices posted heavy losses in 2022. For instance, the Stoxx 600 tumbled by almost 13% compared to the end of the previous year (although its largest decline saw it plunge by more than -20%), while the S&P 500 posted a 19% correction (having fallen in excess of -25%). These were the greatest losses recorded in a single year since 2018 and 2008, respectively. The IBEX 35, which had already been trailing in the previous year, recorded a smaller decline of -5.6% in 2022.

In the financial markets of emerging countries, sovereign risk premiums climbed slightly in response to fears of a global recession as a result of the sharp tightening of financial conditions, but they remained far from their peaks. Domestic bond yields rebounded to their highest in several decades. The fact that monetary tightening in emerging economies had begun earlier than in developed economies generally served to support emerging currencies. The Mexican peso proved even more resilient than other emerging currencies, thanks to the interest rate hikes introduced by Banxico.

Cryptoassets, for their part, continued to move further into the spotlight given the dramatic collapse during the year of several key players in this ecosystem. It is particularly worth mentioning the downfall of stablecoin TerraUSD in May, which caused important hedge funds such as Three Arrows Capital and the Celsius platform to file for bankruptcy, in addition to the collapse of the fourth largest cryptocurrency exchange platform in the world, FTX, in November, which also ended up filing for bankruptcy after trying and failing to secure a bailout by other platforms. These events, together with the interest rate hikes implemented by central banks, resulted in plummeting quoted prices across several cryptoassets in 2022. Fortunately, the impact of these events remained contained within the crypto ecosystem and did not spill over into the traditional financial system, partly because the supply of financial services in the crypto ecosystem was fairly small and partly because the interconnections between both systems were still fairly limited. In any event, the authorities warned that it is vital that cryptoassets be regulated, as these could grow very rapidly and the interconnections with the traditional financial system could increase and even pose a systemic threat to financial stability.

Financial sector environment

Banking industry environment

In relation to the global banking industry, the outbreak of war in Ukraine prompted some banks with greater exposure to Ukraine and Russia to reduce their exposure to these countries and increase provisions although, in general, the overall exposure of international banks to these economies was small to begin with. Over the year, banks generally maintained adequate levels of capitalisation. In the main developed economies, CET1 ratios remained above the minimum levels required by regulations and, according to the authorities, they were expected to continue that way even in an adverse scenario. The interest rate hikes implemented by central banks had a positive effect on banks' results, in spite of the fact that as interest income increased, funding costs also became more expensive. The profitability of the banking industry surpassed pre-pandemic levels. In terms of liquidity, TLTRO III funds continued to provide considerable support, although the ECB's announcements regarding tougher conditions of TLTROs led to banks making plans to repay the amounts borrowed early, requiring them to make changes to their funding structures going forward.

Arrears during the Covid crisis did not perform as they typically do in a recessionary cycle, thanks, among other things, to the swift and decisive response of economic policy. The aggregate NPL ratio in the Eurozone fell during the first nine months of 2022 to 1.8%, while in Spain it dropped to 2.7%. The inflow of loans under special monitoring (stage 2) was moderate during the year. In spite of resilient asset quality, the exposures to certain businesses in the sectors hardest hit by the spike in energy prices recorded a degree of impairment. In terms of provisions, the authorities continued to advise caution in the face of the rebound of inflation and the expected deterioration of economic activity. They also stressed that the behaviour of arrears during Covid-19 should not be seen as a reference and that, in the current environment, in particular bearing in mind the interest rate hikes, there was a risk that arrears might rebound in the future.

With regard to the Spanish banking industry, the Bank of Spain (BoS) signalled that banks are facing the current environment (of economic slowdown, high inflation and extraordinary uncertainty) with solvency levels greater than those they had prior to the pandemic, in addition to lower NPL ratios. It also highlighted the fact that profitability was back to pre-pandemic levels (ROE was 10.5% up to September 2022) and that cost of capital was above average (7%). Furthermore, institutions' level of capital exceeded the level observed prior to the pandemic. However, the current environment increases the risks of credit impairment and of further tightening of financing conditions. The Bank of Spain warned that a greater portion of the benchmark rate hikes would likely be passed through to the cost of deposits, and that the payment capacity of households and firms would be affected by increased borrowing costs and the slowdown of their income, which could push up banking costs in terms of impairment allowances. It therefore recommended adopting a prudent policy for provisioning and capital planning to enable the increase in profits that is taking place at present to be used to build up the resilience of the industry so that it may be better equipped to deal with any losses that occur in the medium term as a result of the negative development of economic growth.

Financial stability and macroprudential policy

Throughout 2022, financial authorities declared that the risks to global financial stability had been increasing due to the high geopolitical risk, generating considerable uncertainty, in addition to the risks of higher inflation and the risk of an economic recession. They also showed concern over higher interest rates, which contributed to a substantial toughening of financial conditions and which could impact on the private sector's ability to service its debt. Furthermore, falling asset prices and volatile markets, together with future shocks, all have the potential to amplify the vulnerabilities associated with asset valuation, borrowing by households and firms, leverage in the financial sector and funding risks.

The considerable growth of the non-bank financial sector (NBFS) in recent years and the absence of a complete regulatory framework continued to open the door for the accumulation of vulnerabilities in this sector. These structural vulnerabilities and the interconnections between the NBFS and the banking industry pose a risk to financial stability. Various episodes throughout the year revealed the sensitivity of the NBFS to shocks (e.g. pension funds in the United Kingdom). Throughout 2022, the authorities showed particular concern over certain open-ended investment funds, which had accumulated risk exposures in recent years and whose liquidity positions were very tight. Even though investment funds in Spain had more comfortable liquidity positions, the authorities believed that Spanish investment funds and Spanish banks could both be affected by the exposures and corrections in these segments where the risks had accumulated. The progress made both on a global scale and in Europe with the development of a regulatory and macroprudential framework for this sector was scant in 2022.

In Europe, the authorities continued to express their concerns over the impact that a sluggish mortgage market was having on the financial stability of certain countries, although towards the end of the year they believed that there were signs that the trend was starting to change in this sector. In the residential segment, this concern centred around countries with pre-pandemic vulnerabilities in that sector (e.g. Germany), while in the commercial segment the focus was placed on the lack of recovery of lower quality assets. Against this backdrop, the ECB recommended that national authorities adopt macroprudential policies in the real estate sector.

Covid-19 presented a challenge for macroprudential policy, which also complemented fiscal and monetary policies. The review of the framework on a European scale, which may well be completed in 2023, could result in a recalibration of capital buffers. At the same time, several countries have started to rebuild their released capital buffers, to ensure they have room for manoeuvre should downside risks materialise and in the event the economies require support from the financial sector. The United Kingdom, France and Germany announced that they were increasing their countercyclical capital buffer (CCyB) by between 0.5% and 1%. In Spain, the CCyB was kept at 0%, as the BoS believed that the imbalances were contained and the activation of the CCyB could become pro-cyclical and slow lending.

Banking Union and Capital Markets Union

The progress made in the area of European integration was limited in 2022, in a context of war in Ukraine and amid a spike in energy prices and inflation. Efforts were put towards taking measures to mitigate the impacts of the current environment.

The Eurogroup meeting of June 2022 culminated in an agreement to work on completing the Banking Union. It was agreed that an immediate step would be to strengthen the common framework for bank crisis management and national deposit guarantee schemes (CMDI framework). Subsequently, action would be taken to review the state of the Banking Union and identify in a consensual manner possible further measures with regard to the other elements of the Banking Union. The European Deposit Insurance Scheme (EDIS) has been shelved for now. The Eurogroup also reiterated its commitment to making progress on the Capital Markets Union.

Despite the temporary standstill in European banking integration, financial authorities in the region stated that they believed that further progress should be made on European financial integration and they highlighted the positive effects of cross-border mergers.

Challenges for the banking industry

Sustainability was a prominent feature of supervisory agendas in 2022. The results of the ECB climate stress test showed that the majority of banks still had no climate risk stress testing framework in place and there were many that had not yet included climate risk in their credit models and still more that did not consider climate risk as a variable when granting loans. They also called attention to the high level of dependence that banks have on the income from greenhouse gas-intensive firms, the heterogeneous impact of physical risk across banks in the Eurozone and the lack of robust strategies to deal with transition risks. The results had no direct impact on capital requirements. In a separate exercise, the ECB also reviewed banks' level of compliance with supervisory expectations. The results showed that banks still did not adequately manage climate and environmental risks in the manner required by the ECB. The ECB consequently set staggered deadlines for banks to progressively meet the expectations set out in its Guide by the end of 2024. In the United States, the Fed announced that it would be carrying out a pilot climate scenario analysis exercise involving large banks in 2023. The data regarding climate risks continued to be one of the key challenges of 2022 and, although progress was made with regard the disclosure of information, there was still plenty of room to improve transparency.

Some progress was made on the regulatory agenda on climate risks, but more intensive action will be taken in 2023, when the European Banking Authority is due to publish its final report on the role played by climate risks in the prudential framework, and the first drafts of European and global standards for sustainability disclosures will be released.

Digitisation processes continued at an increasingly fast pace, giving rise to several focus areas. On one hand, in spite of the entry of Bigtech in the financial services sector and despite the banking industry's reiterated calls for regulations that adhere to the principle of "same activity, same risk, same regulation", the progress made in this regard was very limited. Another topic that caused considerable concern was the proliferation of cyberattacks, which were becoming more frequent and more severe.

On the regulatory topic of digitalisation, significant progress was made, with the release of the European regulation on markets in cryptoassets (MiCA), the final approval of which is expected imminently, as well as the Basel Committee's prudential treatment of cryptoasset exposures by banks, which will be favourable only for tokenised traditional assets and for suitably backed and regulated stablecoins. In any event, the regulatory developments in this regard continue to be scant and more effort is urgently needed to regulate these exposures on a global scale.

Regarding the digital currencies of central banks, projects were gradually implemented, especially in China and the Eurozone, while implementation was still in its early stages in the United States. In particular, the ECB publicly disclosed some of the features being considered for the design of the digital euro, such as a cap or ceiling on individual holdings and the need to make it attractive enough that economic operators will adopt it, but at the same time ensuring it does not threaten the viability of other private innovations. Significant progress was also made with research projects on the possibilities of interoperability between the digital currencies of the different central banks, in large part led by the Bank for International Settlements (BIS).

Outlook for 2023

Increased concern over economic growth should be expected in 2023. Once the impact of recent events (energy crisis and rate hikes) starts to gradually materialise, economic stagnation is expected to return and economic figures in certain countries may even be negative for several quarters. The Eurozone and the United States may experience a mild economic recession. Conversely, the economic reopening of China will serve to support global activity. The landscape will be particularly complex for emerging countries due, among other factors, to high interest rates.

Inflation could remain at high levels for much of 2023 due to the energy crisis in Europe and specific domestic factors in the United Kingdom and the United States, such as the situation with regard to labour markets and salaries. Inflation expectations will remain firmly anchored thanks to the response of central banks.

In terms of economic policy, central banks will likely maintain an orthodox stance and, given the high level of inflation, they will probably set and keep interest rates at levels above monetary neutrality and move ahead with their balance sheet reduction policies.

With regard to financial markets, financial conditions are expected to remain tight based on what was observed in 2022. In any event, long-term government bond yields are expected to be more stable, although they will also be affected by the increased scrutiny of economic growth. Peripheral countries' risk premiums could remain at relatively contained levels.

Spain would be in a more safeguarded position than the rest of Europe in this environment and its experience could therefore be relatively more favourable. The three main pillars of growth would be the robust balance sheets of economic agents (households and companies), the return to a normal growth momentum of the sectors hardest hit by the pandemic (such as tourism) and the use of the Next Generation European funds. The government measures introduced to counteract the energy price increase could also support economic activity.

Within the financial environment, further progress is expected on the global regulatory framework for activities linked to cryptoassets.

3 – FINANCIAL INFORMATION

3.1 Key figures in 2022

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

	2022	2021	Year-on-year change (%)
Income statement (million euro) (A)			
Net interest income	3,799	3,425	10.9
Gross income	5,180	5,026	3.1
Pre-provisions income	2,298	1,719	33.7
Profit attributable to the Group	859	530	61.9
Balance sheet (million euro) (B)			
Total assets	251,380	251,947	(0.2)
Gross performing loans to customers	156,130	154,912	0.8
Gross loans to customers	161,750	160,668	0.7
On-balance sheet customer funds	164,140	162,020	1.3
Off-balance sheet customer funds	38,492	41,678	(7.6)
Total customer funds	202,632	203,698	(0.5)
Funds under management and third-party funds	225,146	224,968	0.1
Equity	13,224	12,996	1.8
Shareholders' equity	13,841	13,357	3.6
Ratios (%) (C)			
ROA	0.34	0.22	
RORWA	1.08	0.66	
ROE	6.31	4.05	
ROTE	7.76	5.05	
Cost-to-income	45.12	55.33	
Risk management (D)			
Stage 3 exposures (million euro)	5,814	6,203	
Total NPAs exposures (million euro)	6,971	7,565	
NPL ratio (%)	3.41	3.65	
NPL (Stage 3) coverage ratio, with total provisions	55.0	56.3	
NPA coverage ratio (%)	52.3	53.1	
Capital management (E)			
Risk-weighted assets (RWA) (million euro)	79,554	80,646	
Common Equity Tier 1 phase-in (%) (1)	12.67	12.50	
Tier 1 (phase-in) (%) (2)	14.75	15.47	
Total capital ratio (phase-in) (%) (3)	17.08	17.98	
Leverage ratio (phase-in) (%)	4.62	5.90	
Liquidity management (F)			
Loan-to-deposit ratio (%)	95.6	96.3	
Shareholders and shares (as of reporting date) (G)			
Number of shareholders	218,610	228,432	
Total number of shares (million)	5,627	5,627	
Share price (euro)	0.881	0.592	
Market capitalisation (million euro)	4,927	3,306	
Earnings (or loss) per share (EPS) (euros)	0.13	0.08	
Book value per share (euro)	2.47	2.39	
P/TBV (price/tangible book value per share)	0.43	0.31	
Price/earnings ratio (P/E)	6.58	7.69	
Other information			
Branches	1,461	1,593	
Employees	18,895	20,070	

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

3.2 Profit/(loss) for the year

Million euro			
	2022	2021	Year-on-year change (%)
Interest income	4,989	4,148	20.3
Interest expenses	(1,190)	(722)	64.8
Net interest income	3,799	3,425	10.9
Fees and commissions (net)	1,490	1,468	1.5
Core revenue	5,289	4,893	8.1
Gains or (-) losses on financial assets and liabilities and exchange differences	104	344	(69.9)
Equity-accounted income and dividends	125	102	22.9
Other operating income and expenses	(337)	(313)	7.9
Gross income	5,180	5,026	3.1
Operating expenses	(2,337)	(2,781)	(15.9)
Staff expenses	(1,392)	(1,777)	(21.7)
Other general administrative expenses	(946)	(1,004)	(5.8)
Depreciation and amortisation	(545)	(527)	3.5
Total costs	(2,883)	(3,307)	(12.8)
Memorandum item:			
Recurrent costs	(2,883)	(2,988)	(3.5)
Non-recurrent costs	—	(320)	(100.0)
Pre-provisions income	2,298	1,719	33.7
Provisions for loan losses	(825)	(950)	(13.2)
Provisions for other financial assets	(111)	(97)	15.0
Other provisions and impairments	(96)	(178)	(46.1)
Capital gains on asset sales and other revenue	(23)	126	-
Profit/(loss) before tax	1,243	620	100.4
Corporation tax	(373)	(81)	359.2
Profit or loss attributed to minority interests	11	8	26.9
Profit attributable to the Group	859	530	61.9
Memorandum item:			
Average total assets	257,692	245,313	5.0
Earnings per share (euros)	0.13	0.08	

The average exchange rate used for TSB's income statement is 0.8532 (0.8594 in 2021).

Net interest income

Net interest income in 2022 amounted to 3,799 million euros, representing year-on-year growth of 10.9%, due to a higher-yielding loan book, improved fixed-income revenue, as well as strong growth of volumes, where it is particularly worth mentioning the growth of mortgages at TSB; all these facts served to offset the higher cost of capital markets.

Consequently, the net interest margin as a percentage of average total assets stood at 1.47% in 2022 (1.40% in 2021).

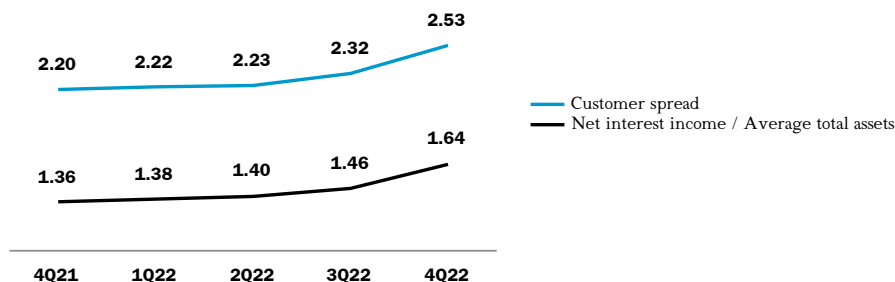
The breakdown of net interest income for the years 2022 and 2021, as well as the different components of total investment and funds, was as follows:

Thousand euro

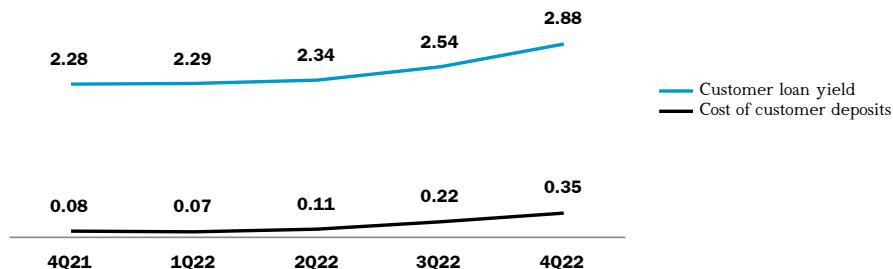
	2022			2021			Change			Effect	
	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Average balance	Profit/(loss)	Rate %	Volume	Days
Cash, central banks and credit institutions	53,538,412	208,485	0.39	48,693,390	(124,460)	(0.26)	4,845,022	332,945	333,136	(191)	—
Loans and advances to customers	157,870,419	3,965,858	2.51	152,176,194	3,513,182	2.31	5,694,225	452,676	294,806	157,870	—
Fixed-income portfolio	26,229,512	289,924	1.11	24,991,737	154,224	0.62	1,237,775	135,700	122,946	12,754	—
Subtotal	237,638,343	4,464,267	1.88	225,861,321	3,542,946	1.57	11,777,022	921,321	750,888	170,433	—
Equity portfolio	903,212	—	—	1,044,020	—	—	(140,808)	—	—	—	—
Property, plant and equipment and intangible assets	4,820,868	—	—	5,178,470	—	—	(357,602)	—	—	—	—
Other assets	14,329,341	180,022	1.26	13,229,640	39,565	0.30	1,099,701	140,457	—	140,457	—
Total capital employed	257,691,764	4,644,289	1.80	245,313,451	3,582,511	1.46	12,378,313	1,061,778	750,888	310,890	—
Central banks and credit institutions	48,310,994	8,713	0.02	46,243,711	328,381	0.71	2,067,283	(319,668)	(334,115)	14,447	—
Customer deposits	162,393,140	(309,002)	(0.19)	154,609,681	(135,354)	(0.09)	7,783,459	(173,648)	(139,206)	(34,442)	—
Capital markets	22,304,397	(316,115)	(1.42)	22,776,801	(265,876)	(1.17)	(472,404)	(50,239)	(46,445)	(3,794)	—
Subtotal	233,008,531	(616,404)	(0.26)	223,630,193	(72,849)	(0.03)	9,378,338	(543,555)	(519,766)	(23,789)	—
Other liabilities	11,491,130	(229,160)	(1.99)	8,953,529	(84,206)	(0.94)	2,537,601	(144,954)	—	(144,954)	—
Own funds	13,192,103	—	—	12,729,729	—	—	462,374	—	—	—	—
Total funds	257,691,764	(845,564)	(0.33)	245,313,451	(157,055)	(0.06)	12,378,313	(688,509)	(519,766)	(168,743)	—
Average total assets	257,691,764	3,798,725	1.47	245,313,451	3,425,456	1.40	12,378,313	373,269	231,122	142,147	—

Financial revenues or costs deriving from the application of negative interest rates are recognised as a function of the nature of the related asset or liability. The credit institutions line under liabilities refers to negative interest on the balance of liabilities with credit institutions, the most significant item being TLTRO III revenues.

Quarterly evolution of net interest income (%)



Quarterly evolution of customer spread (%)



Gross income

Net fees and commissions amounted to 1,490 million euros as at the end of 2022, representing year-on-year growth of 1.5%, driven by service fees, where it is particularly worth mentioning the higher levels of card transactions and of banknote and foreign currency exchange, and also driven by fees related to risk transactions.

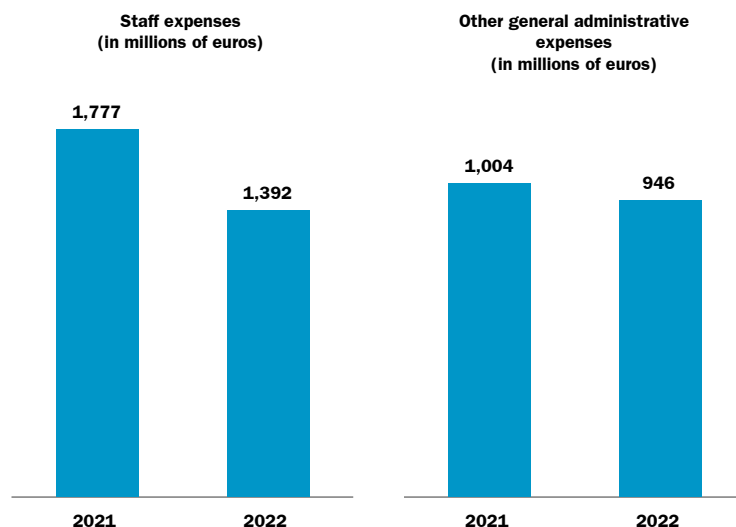
Gains/(losses) on financial assets and liabilities and exchange differences amounted to 104 million euros, while at the end of 2021 this item amounted to 344 million euros, as it mainly included 324 million euros of gains on sales from the amortised cost portfolio conducted to fund the second phase of the efficiency plan executed in Spain.

Dividends received and earnings of companies consolidated under the equity method together amounted to 125 million euros, compared with 102 million euros in 2021, after recognising generally higher earnings from the insurance business.

Other operating income and expenses amounted to 337 million euros, compared with 313 million euros in 2021. Particularly worthy of note in this heading are the contributions to deposit guarantee schemes, amounting to 129 million euros throughout the year (in line with the previous year), with Banco Sabadell's individual contribution amounting to 114 million euros, the contribution to the Single Resolution Fund of 100 million euros (88 million euros in the previous year) and the payment corresponding to the tax on deposits of credit institutions (*Impuesto sobre Depósitos de las Entidades de Crédito*, IDEC) of 35 million euros (33 million euros in the previous year). In addition, during this financial year it is worth noting the negative impact of 57 million euros stemming from the fine received by TSB for the migration of its IT platform, which was partially offset with 45 million euros (gross) of insurance claims.

Pre-provisions income

Total costs followed a positive trend, amounting to 2,883 million euros as at the end of 2022, representing a 12.8% reduction from the figure as at the end of 2021, which included 320 million euros of non-recurrent costs arising from the efficiency plans carried out in Spain and the United Kingdom. Not including this impact, recurrent costs fell by 3.5% year-on-year, driven by savings on staff expenses delivered by the efficiency plans and also by a reduction of general expenses.



The cost-to-income ratio stood at 45.1% in 2022, compared to 55.3% in 2021.

As at the end of 2022, core results (net interest income + fees and commissions – recurrent costs) amounted to 2,406 million euros, increasing by 26.3% year-on-year as a result of the steady growth of net interest income and fees and commissions, as well as the recorded reduction of costs.

Total provisions and impairments amounted to 1,032 million euros as at the end of 2022, compared to 1,225 million euros at the end of the previous year, representing a year-on-year reduction of 15.7% thanks to fewer credit provisions and the reduction of real estate provisions.

Gains on asset sales and other revenue amounted to -23 million euros as at the end of 2022. The change from the end of the previous year is due to the fact that the previous year mainly included 83 million euros (gross) from the sale of the depository business and 42 million euros (gross) from the sale of the BanSabadell Renting business.

Profit attributable to the Group

After deducting corporation tax and minority interests, net profit attributable to the Group amounted to 859 million euros as at the end of 2022, representing a year-on-year increase of 61.9% that is mainly the result of improved core revenue, cost savings and the booking of fewer provisions.

3.3 Balance sheet

Million euro			
	2022	2021	Year-on-year change (%)
Cash, cash balances at central banks and other demand deposits	41,260	49,213	(16.2)
Financial assets held for trading	4,017	1,972	103.8
Non-trading financial assets mandatorily at fair value through profit or loss	77	80	(2.7)
Financial assets designated at fair value through profit or loss	—	—	—
Financial assets at fair value through other comprehensive income	5,802	6,870	(15.5)
Financial assets at amortised cost	185,045	178,869	3.5
Debt securities	21,453	15,190	41.2
Loans and advances	163,593	163,679	(0.1)
Investments in joint ventures and associates	515	639	(19.3)
Tangible assets	2,582	2,777	(7.0)
Intangible assets	2,484	2,581	(3.8)
Other assets	9,596	8,946	7.3
Total assets	251,380	251,947	(0.2)
Financial liabilities held for trading	3,598	1,380	160.8
Financial liabilities designated at fair value through profit or loss	—	—	—
Financial liabilities measured at amortised cost	232,530	235,179	(1.1)
Deposits	203,294	209,307	(2.9)
Central banks	27,844	38,250	(27.2)
Credit institutions	11,373	8,817	29.0
Customers	164,076	162,239	1.1
Debt securities issued	22,578	21,051	7.3
Other financial liabilities	6,659	4,822	38.1
Provisions	645	886	(27.3)
Other liabilities	1,382	1,505	(8.2)
Total liabilities	238,155	238,950	(0.3)
Shareholders' equity	13,841	13,357	3.6
Accumulated other comprehensive income	(651)	(386)	68.7
Non-controlling interests	34	25	37.5
Equity	13,224	12,996	1.8
Total equity and total liabilities	251,380	251,947	(0.2)
Loan commitments given	27,461	28,403	(3.3)
Financial guarantees given	2,087	2,034	2.6
Other commitments given	9,674	7,385	31.0
Total memorandum accounts	39,222	37,822	3.7

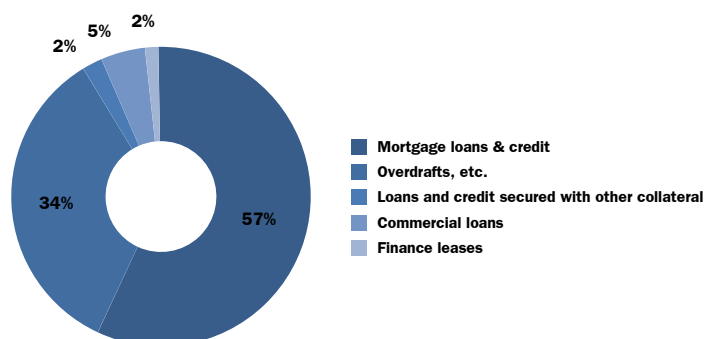
The EUR/GBP exchange rate used for the balance sheet is 0.8869 as of 31 December 2022.

Gross performing loans to customers ended the year 2022 with a balance of 156,130 million euros, representing an increase of 0.8% year-on-year. At constant exchange rates, this increase was 2.0%. Home equity loans formed the largest single component of gross loans and receivables, amounting to 89,340 million euros as at 31 December 2022 and representing 57% of total gross performing loans to customers.

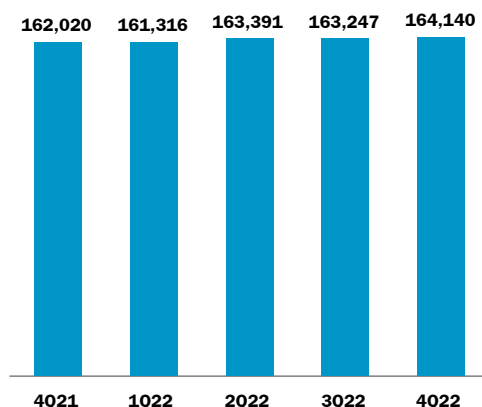
Million euro			
	2022	2021	Year-on-year change (%)
Mortgage loans & credit	89,340	90,718	(1.5)
Loans and credit secured with other collateral	3,412	3,596	(5.1)
Commercial loans	7,489	6,050	23.8
Finance leases	2,227	2,106	5.7
Overdrafts, etc.	53,663	52,443	2.3
Gross performing loans to customers	156,130	154,912	0.8
Assets classified as stage 3 (customers)	5,461	5,698	(4.2)
Accruals	159	58	173.2
Gross loans to customers, excluding repos	161,750	160,668	0.7
Repos	—	—	—
Gross loans to customers	161,750	160,668	0.7
NPL and country-risk provisions	(3,020)	(3,302)	(8.5)
Loans and advances to customers	158,730	157,366	0.9

The EUR/GBP exchange rate used for the balance sheet is 0.8869 as of 31 December 2022.

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



On-balance sheet customer funds

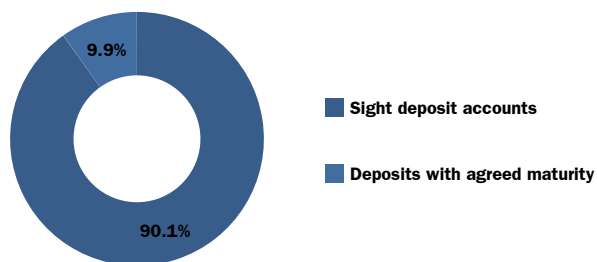


As at the end of 2022, on-balance sheet customer funds amounted to 164,140 million euros, compared to 162,020 million euros as at the end of 2021, increasing by 1.3% due to both the positive evolution of term deposits and the growth of sight deposit accounts.

Sight deposit balances amounted to 147,540 million euros, increasing by 0.2% year-on-year.

Term deposits came to a total of 16,141 million euros, growing by 9.0% compared to the end of 2021.

The breakdown of customer deposits as at 2022 year-end is shown below:



Total off-balance sheet customer funds amounted to 38,492 million euros as at the end of 2022, falling by -7.6% year on-year, impacted by financial market volatility, particularly in mutual funds.

Total funds under management as at 31 December 2022 amounted to 225,146 million euros, compared to 224,968 million euros as at 31 December 2021, representing a year-on-year increase of 0.1%, as the growth of on-balance sheet customer funds was counteracted by the aforesaid reduction of off-balance sheet funds.

Million euro

	2022	2021	Year-on-year change (%)
On-balance sheet customer funds (*)	164,140	162,020	1.3
Customer deposits	164,076	162,239	1.1
Current and savings accounts	147,540	147,268	0.2
Deposits with agreed maturity	16,141	14,813	9.0
Repos	405	60	-
Accrual adjustments and hedging derivatives	(9)	98	-
Bonds and other marketable securities	19,100	16,822	13.5
Subordinated liabilities (**)	3,478	4,229	(17.8)
On-balance sheet funds	186,654	183,290	1.8
Mutual funds	22,581	24,593	(8.2)
Managed funds	—	—	-
Investment companies	703	1,365	(48.5)
UCITS sold but not managed	21,878	23,228	(5.8)
Asset management	3,532	3,795	(6.9)
Pension funds	3,182	3,525	(9.7)
Personal schemes	2,065	2,300	(10.2)
Workplace schemes	1,112	1,219	(8.8)
Collective schemes	5	6	(10.6)
Insurance products sold	9,197	9,765	(5.8)
Off-balance sheet customer funds	38,492	41,678	(7.6)
Funds under management and third-party funds	225,146	224,968	0.1

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

(**) Refers to outstanding subordinated debt securities.

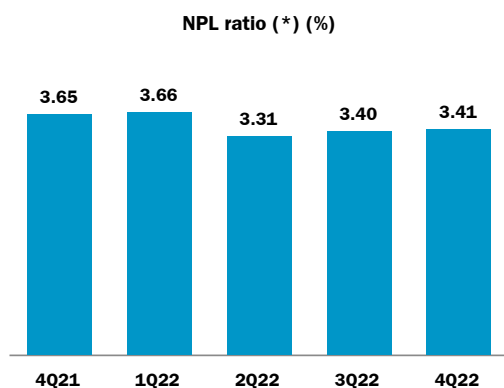
The EUR/GBP exchange rate used for the balance sheet is 0.8869 as of 31 December 2022.

Non-performing assets have decreased over the year 2022. The quarterly performance of these assets in 2022 and 2021 is shown below:

	2022				2021			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net ordinary increase in balance of stage 3 assets	153	(421)	208	68	415	1	139	287
Change in real estate assets	(63)	(22)	(68)	(53)	6	(9)	3	(11)
Ordinary net increase in NPAs + real estate	89	(443)	140	15	420	(8)	142	276
Write-offs	146	74	92	83	95	133	129	89
Ordinary quarter-on-quarter change in balance of stage 3 assets and real estate	(56)	(517)	48	(68)	325	(142)	13	187

As a result of the reduction of exposures classified as stage 3, the NPL ratio reached 3.41% as at 2022 year-end, compared to 3.65% as at 2021 year-end (decrease of 25 basis points). The coverage ratio of exposures classified as stage 3 with total provisions as at 31 December 2022 was 55.0% compared to 56.3% one year earlier, while the coverage ratio of foreclosed real estate assets stood at 38.3% as at 31 December 2022, compared to 38.2% at the end of the previous year.

As at 31 December 2022, the balance of exposures classified as stage 3 in Banco Sabadell Group amounted to 5,814 million euros (including contingent exposures) and declined by 389 million euros in 2022.



(*) Calculated including contingent exposures.

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

Million euro	2021				2022			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Exposures classified as stage 3	6,127	5,995	6,004	6,203	6,210	5,714	5,830	5,814
Total provisions	3,453	3,378	3,477	3,495	3,456	3,159	3,214	3,200
NPL (Stage 3) coverage ratio, with total provisions	56.4	56.3	57.9	56.3	55.7	55.3	55.1	55.0
Stage 3 provisions	2,335	2,374	2,513	2,553	2,560	2,263	2,273	2,292
NPL coverage ratio of stage 3 (%)	38.1	39.6	41.9	41.2	41.2	39.6	39.0	39.4
Non-performing real estate assets	1,379	1,370	1,373	1,362	1,299	1,277	1,209	1,157
Provisions for non-performing real estate assets	510	511	508	520	494	499	470	443
Non-performing real estate coverage ratio (%)	37.0	37.3	37.0	38.2	38.0	39.1	38.9	38.3
Total non-performing assets	7,507	7,365	7,377	7,565	7,508	6,991	7,039	6,971
Provisions for non-performing assets	3,963	3,889	3,985	4,014	3,950	3,658	3,684	3,644
NPA coverage ratio (%)	52.8	52.8	54.0	53.1	52.6	52.3	52.3	52.3

Includes contingent exposures.

3.4 Liquidity management

In 2022, the funding gap widened, driven mainly by a greater increase in customer funds than in lending. Funding in capital markets increased, with senior non-preferred debt being the item with the greatest net increase, in order to keep an adequate level of own funds and eligible liabilities above the applicable regulatory requirement or MREL (Minimum Requirement for own funds and Eligible Liabilities). The Group's loan-to-deposit (LTD) ratio as at 31 December 2022 was 95.6%.

The Institution has made use of the various issuance windows to access capital markets at different times of the year, in a market environment characterised by the war in Ukraine and monetary policy tightening, with widespread credit spread widening across all instruments. Maturities and early repayments in capital markets over the year amounted to 3,097 million euros. On the other hand, Banco Sabadell executed five issues under the prevailing Fixed Income Programme amounting to a total of 1,638 million euros, specifically the following: one issue of straight non-preferred green bonds on 30 March 2022 for a total amount of 120 million euros and a 15-year tenor, one issue of mortgage covered bonds on 30 May 2022 for an amount of 1 billion euros and a 7-year tenor, one issue of straight non-preferred bonds on 3 June 2022 for an amount of 8.9 million euros and a 5-year tenor, one issue of straight non-preferred bonds on 1 August 2022 for an amount of 9.2 million euros and a 5-year tenor, and one issue of mortgage covered bonds on 21 December

2022 for an amount of 500 million euros and an 8-year tenor. Similarly, under the EMTN Programme, Banco Sabadell executed four issues amounting to a total of 2,075 million euros, specifically the following: one green senior non-preferred debt issue on 24 March 2022 for an amount of 750 million euros and a 4-year tenor with an option for Banco Sabadell to call early in the third year, one senior non-preferred debt issue on 8 September 2022 for an amount of 500 million euros and a 4-year tenor with an option for Banco Sabadell to call early in the third year, one green senior preferred debt issue on 10 November 2022 with a 6-year tenor and an option for Banco Sabadell to call early in the fifth year for an amount of 750 million euros, and one green senior non-preferred debt issue on 23 November 2022 for an amount of 75 million euros and a 10-year tenor with an option for Banco Sabadell to call early in the ninth year.

With regard to securitisations, Banco Sabadell redeemed the funds IM Sabadell PYME 11, FT and Caixa Penedés 2 TDA, FTA early in June and October, respectively, at the decision of Banco Sabadell as sole bondholder. The multiseller fund TDA 23, FTA was also redeemed early in September, having reached the clean-up call date. New securitisations were also issued during the year. On 13 July 2022, Banco Sabadell sold all of the collateralised tranches of the securitisation fund Sabadell Consumo 2, FT to the market, retaining the uncollateralised tranche, which funded the reserve fund and initial expenses. This is Banco Sabadell's second consumer loan securitisation and it amounted to 750 million euros. On 18 August 2022, TSB issued the fund RMBS Duncan Funding 2022-1 PLC, for 1,333 million pounds sterling. The securities were retained in their entirety and the senior tranche (1.2 billion pounds) is expected to be eligible for liquidity operations with the Bank of England.

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

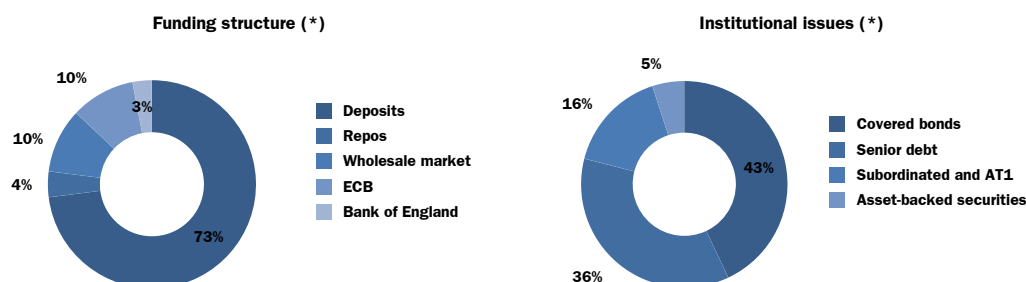
In terms of the LCR, since 1 January 2018, the regulatory minimum requirement has been 100%, a level amply surpassed by all of the Institution's LMUs, with the ratio of the TSB LMU and Banco Sabadell Spain standing at 196% and 270%, respectively, in December 2022. At the Group level, the Institution's LCR remained well above 100% on a stable basis at all times throughout the year, ending 2022 at 234%. As for the Net Stable Funding Ratio (NSFR), which came into force on 28 June 2021, the Institution has remained steadily above the minimum requirement of 100% in all LMUs. As at 31 December 2022, the NSFR was 151% for the TSB LMU, 132% for Banco Sabadell Spain and 138% for the Group.

The key figures and basic liquidity ratios reached at the end of 2022 and 2021 are shown here below:

Million euro	2022	2021
Gross loans to customers, excluding repos	161,750	160,668
Impairment allowances	(3,020)	(3,302)
Brokered loans	(1,806)	(1,290)
Net loans and advances excluding ATAs, adjusted for brokered loans	156,924	156,076
On-balance sheet customer funds	164,140	162,020
Loan-to-deposit ratio (%)	95.6	96.3

The EUR/GBP exchange rate used for the balance sheet is 0.8869 as of 31 December 2022 and 0.8403 as of 31 December 2021.

The main sources of funding as at the end of 2022, broken down by type of instrument and counterparty, are shown below (in %):



(*) Excluding adjustments for accrual and derivatives hedging.

(*) Excluding adjustments for accrual and derivatives hedging.

For further details about the Group's liquidity management, liquidity strategy and liquidity performance during the year, see Note 4 to the 2022 consolidated annual financial statements.

3.5 Capital management

Key capital figures and solvency ratios

	<i>Fully loaded</i>		<i>Phase in</i>	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
Common Equity Tier 1 (CET1) capital	9,985,006	9,859,600	10,082,751	10,079,533
Tier 1 (T1) capital	11,635,006	12,259,600	11,732,751	12,479,533
Tier 1 (T2) capital	1,911,331	2,021,270	1,855,001	2,021,270
Total Tier (Tier 1 + Tier 2) capital	13,546,337	14,280,869	13,587,753	14,500,802
Risk weighted assets	79,568,639	80,689,118	79,553,809	80,645,593
CET1 (%)	12.55%	12.22%	12.67%	12.50%
Tier 1 (%)	14.62%	15.19%	14.75%	15.47%
Tier 2 (%)	2.40%	2.51%	2.33%	2.51%
Total capital ratio (%)	17.02%	17.70%	17.08%	17.98%
Leverage ratio	4.59%	5.80%	4.62%	5.90%

As of 31 December 2022, the main difference between the phase-in and fully-loaded ratios was due to transition to IFRS 9.

In 2018, after the entry into force of IFRS 9, the group chose to apply the transitional provisions established in Regulation (EU) 2017/2395.

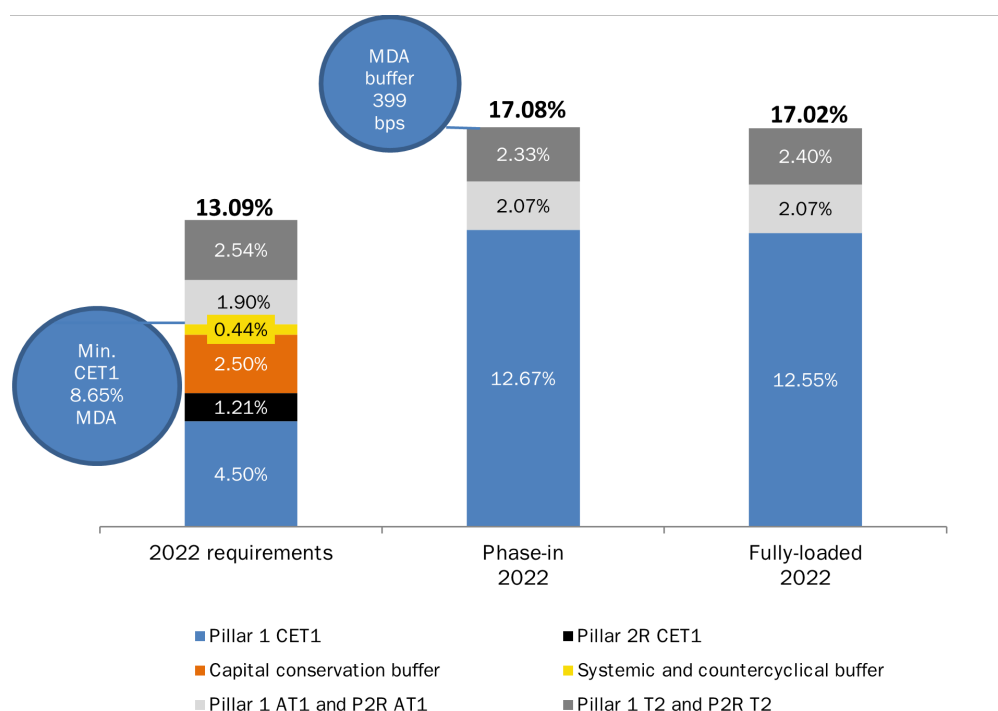
During 2022, the Group decreased its capital base by 735 million euros in fully-loaded terms.

The voluntary early redemption of the full amount of preferred securities envisaged in the conditions of the AT1 Preferred Securities 1/2017 issue, whose value amounted to 750 million euros, took place in 2022.

In terms of risk-weighted assets, over the period two securitisations have been carried out: the traditional consumer loan securitisation Sabadell Consumo 2 executed on 8 July 2022 and the Boreas synthetic securitisation of project finance exposures executed on 28 September 2022. It is also worth calling attention to the improved ratings of businesses, as a result of the improved financial situation and the improvements of house prices in the United Kingdom, both of which had a positive impact on risk-weighted assets. During the period, new PD, LGD and CCF calibrations were implemented for the businesses segments, the Foundation IRB approach began to be used for exposures to corporates and groups and the new rating models were implemented for project finance exposures. Furthermore, after receiving approval from the Supervisor, exposures to financial institutions, which in 2021 were calculated under the Foundation IRB approach, began to be calculated under the Standardised approach. Lastly, in 2022, impacts linked to the completion of the IRB Repair Programme and due to materialise in the short/medium term have been front-loaded.

As a result, the fully-loaded CET1 ratio stood at 12.55% as at year-end 2022.

As at 31 December 2022, the Group had a phase-in CET1 capital ratio of 12.67%, well above the requirement established in the Supervisory Review and Evaluation Process (SREP), which for 2022 was 8.65%, meaning that the aforesaid ratio is 402 basis points above the minimum requirement.



Banco Sabadell received a communication from the Bank of Spain regarding the decision reached by the Single Resolution Board (SRB) concerning the minimum requirement for own funds and eligible liabilities (MREL) and the subordination requirement on a consolidated basis that it is required to meet.

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

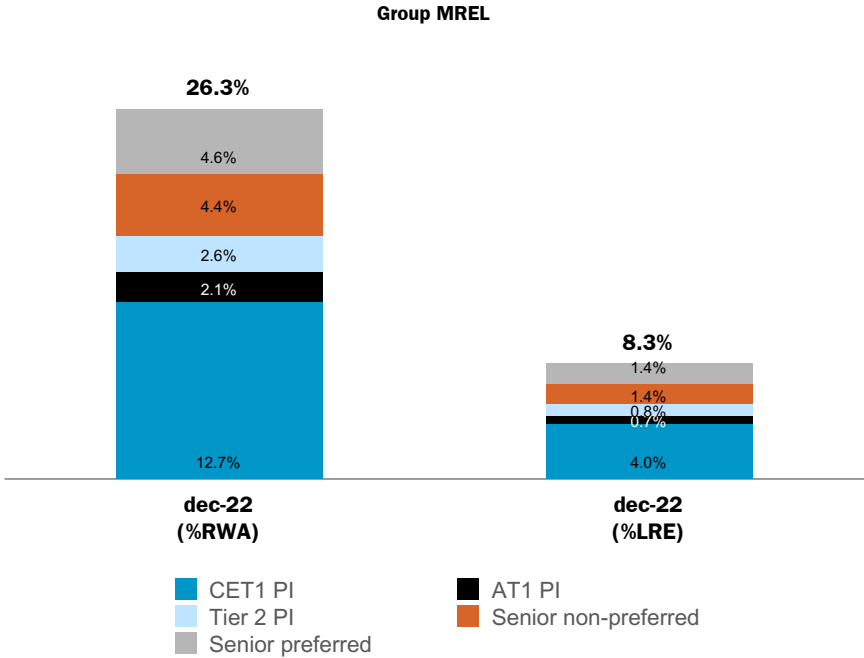
- The minimum MREL is 22.22% of the total risk exposure amount (TREA) and 6.36% of the leverage ratio exposure (LRE).
- The subordination requirement is 17.23% of the TREA and 6.36% of the LRE.

The decision sets out the following interim requirements that must be met from 1 January 2022:

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

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

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



The RWAs percentage includes the capital used to meet the Combined Buffer Requirement (CBR) (2.93% as at 31 December 2022 and estimated at 3.11% for 2024). This serves as a mechanism to accumulate capital to protect against cyclical and structural systemic risks, in order to build up own funds during periods of prosperity and thus be able to protect the regulatory minimum during periods of adverse economic conditions.

4 - BUSINESS

The key financial figures associated with the Group's largest business units are shown hereafter, in accordance with the segment information described in Note 38 to the consolidated annual financial statements for the financial year 2022.

4.1 Banking business Spain

Key figures

Net profit as at the end of 2022 amounted to 740 million euros, representing sharp year-on-year growth, mainly as a result of the good performance of net interest income, the reduction of costs, and the booking of fewer provisions.

Net interest income amounted to 2,499 million euros as at 2022 year-end, growing by 8.6% year-on-year due to higher loan book yields, in turn supported by higher interest rates, the increased contribution of the ALCO portfolio and the good progression of volumes, which all served to offset higher costs in capital markets.

Net fees and commissions amounted to 1,344 million euros, 0.6% higher than at the end of 2021, due to the increase in service fees, on which topic it is particularly worth mentioning the increases in payment card usage and in the exchange of banknotes and foreign currency, and also due to the increased fees received on risk transactions.

Gains/(losses) on financial assets and liabilities and exchange differences amounted to 95 million euros, a reduction compared to the previous year, which included 323 million euros gained on sales from the ALCO portfolio (at amortised cost) executed to fund the second phase of the efficiency plan.

Equity-accounted results and dividends showed year-on-year growth of 22.5% due mainly to the increased contribution of the insurance business.

Other income and expenses were positively impacted by the insurance claim recoveries associated with TSB's IT migration.

Total costs fell by 17.1% year-on-year, as the previous year included 301 million euros of non-recurrent costs related to the efficiency plan carried out. Not including this impact, costs decreased by 4.5% due to both lower staff expenses as a result of the cost savings delivered by the efficiency plans, and due to the recognition of lower general expenses.

Provisions and impairments amounted to -920 million euros, down by 22.9% year-on-year, due to the booking of fewer provisions for both loan losses and real estate assets.

Gains on asset sales and other revenue showed a year-on-year reduction, as the previous year mainly included 83 million euros (gross) from the sale of the depository business and 42 million euros (gross) from the sale of the BanSabadell Renting business.

Million euro

	2022	2021	Year-on-year change (%)
Net interest income	2,499	2,302	8.6
Fees and commissions (net)	1,344	1,336	0.6
Core revenue	3,843	3,638	5.6
Gains or (-) losses on financial assets and liabilities and exchange differences	95	342	(72.3)
Equity-accounted income and dividends	125	102	22.9
Other operating income and expenses	(225)	(269)	(16.6)
Gross income	3,837	3,812	0.7
Operating expenses and depreciation and amortisation	(1,887)	(2,276)	(17.1)
Pre-provisions income	1,951	1,536	27.0
Provisions and impairments	(920)	(1,193)	(22.9)
Capital gains on asset sales and other revenue	(9)	135	(106.9)
Profit/(loss) before tax	1,021	478	113.7
Corporation tax	(270)	(58)	367.1
Profit or loss attributed to minority interests	11	8	26.9
Profit attributable to the Group	740	412	79.8
Cumulative ratios			
ROTE (net profit / average shareholders' equity excluding intangible assets)	8.7 %	4.2 %	
Cost-to-income (general administrative expenses / gross income)	40.3 %	50.2 %	
NPL ratio	4.2 %	4.6 %	
NPL coverage ratio of stage 3 with total provisions	56.2 %	57.6 %	

Performing loans grew by 1.7% year-on-year, due mainly to customer lending, mortgage loans in particular, and business lending.

On-balance sheet customer funds increased by 2.9% year-on-year, supported by sight deposits and term deposits. Off-balance sheet funds fell by -7.6% year-on-year mainly on account of mutual funds, impacted by financial market volatility.

Million euro

	2022	2021	Year-on-year change (%)
Assets	189,545	191,162	(0.8)
Gross performing loans to customers	108,889	107,089	1.7
Non-performing real estate assets (net)	713	842	(15.3)
Liabilities	179,402	181,389	(1.1)
On-balance sheet customer funds	120,118	116,788	2.9
Wholesale funding in the capital markets	19,444	18,090	7.5
Allocated equity	10,143	9,773	3.8
Off-balance sheet customer funds	38,492	41,678	(7.6)
Other indicators			
Employees	12,991	13,855	(6.2)
Branches	1,226	1,288	(4.8)

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

Retail Banking

Business overview

The Retail Banking business unit offers financial products and services to individuals for personal use. These include investment products and medium- and long-term finance, such as consumer loans, home mortgages and leasing or rental services, as well as short-term finance. Funds come mainly from customer deposits and sight deposit accounts, savings insurance, mutual funds and pension plans. The main services also include payment methods such as cards and insurance products in their different forms.

Management milestones in 2022

The efforts made in 2022 have focused on setting the strategic priorities that are allowing the Retail Banking business to be transformed. The aforesaid priorities are the following:

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

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

Main products

The main Retail Banking products are described here below:

Mortgages

The performance of the mortgage market in 2022 was characterised by a substantial increase in interest rates and high levels of price variability in the system. New lending in Banco Sabadell increased by 4% compared to 2021, giving rise to a market share of new lending of 7.7% (cumulative data for the third quarter of 2022).

In 2022, the distribution model of mortgage specialists has been consolidated, with a total of 220 specialists deployed in the branch network and 40 specialists working remotely. It will continue to be developed over the coming months in order to ensure that this ratio of mortgages generated remotely continues to grow, offering a specialised service designed to improve the experience of customers during the process to take out a mortgage with Banco Sabadell.

Furthermore, the mortgage portal for customers is being rolled out, which makes it possible to digitalise interactions with customers and to provide a platform that can be used to complete the most important steps of the application process remotely and digitally, and also to check the status of transactions in real time.

Consumer loans

The trend followed by consumer loans in 2022 was shaped by continued growth of new lending, whose volume increased by 14% compared to the previous year.

The consumer loans trend in 2022, in line with that established in the Strategic Plan, was characterised by an increased use of digital tools and the growth of online loan applications, particularly in the case of digital pre-approved loans with greater personalisation and more competitive prices.

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

Payment services

2022 has been a good year in terms of card purchases, recording growth of 17.8% and reaching record high levels, while card turnover remained stable. Furthermore, payment card borrowing also recovered its growth trend during 2022.

Significant progress has been made on digitisation, with instantly issued payment cards for immediate use through e-commerce and mobile payments, without having to wait to receive the physical card, in both digital and in-branch sales. The percentage of sales carried out through the digital channel reached 38%. In terms of mobile payments, Banco Sabadell cards have been added to GooglePay, complementing the previously available offer through ApplePay and SamsungPay, and their use has increased by over 50% to account for 19.3% of payments in December.

Alternative payment systems such as Bizum still continue to record good levels of uptake, with sharp growth among Banco Sabadell customers in terms of the number of both users and transactions.

Sight deposit accounts

The main offering of retail accounts comprises the following:

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

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

In accordance with the Strategic Plan, in early 2022, a digital onboarding process was carried out, which made it possible to grow the digital customer base, improving productivity and customer experience. In less than 10 minutes and with just one contract signing session, new retail customers can register themselves with their mobile phone, quickly and simply, through an integrated onboarding process which, in addition to the Sabadell Online account, also includes a package of products that meet the basic needs of customers: a debit card for payments, the Sabadell Savings account for easy saving, the remote banking service to manage accounts, as well as the alerts and notifications service.

Furthermore, in June, the catalogue of retail accounts was simplified, migrating the Sabadell Expansion Account, the My Family Account, the Experience Account and the Advance Account to the new Sabadell Account and the Sabadell Premium Account, whose main new features include free access, with no requirements, and which, depending on the level of engagement, have a waived or reduced account maintenance fee.

The launch of both the Online Account and the Sabadell Account took place alongside a marketing and communication plan, offering customers clear and transparent explanations about the features of the accounts.

Savings and Investment

Market volatility, interest rates and the invasion of Ukraine weighed on asset performance and, consequently, on mutual fund returns. In spite of this, the equity of mutual funds in the first and second Morningstar quartiles was 70%, with just 3% of assets in the fourth quartile as at the end of December.

As a result, there was a sharp decline among off-balance sheet savings/investment products, concentrated exclusively in those whose assets under management for retail customers had fallen by 3%.

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

1. Strengthen and simplify the supply of mutual funds for retail customers, by incorporating starter products:
 - Products with a partial guarantee: in April, two funds were launched (Sabadell Consolida 85, FI and Sabadell Consolida 90, FI), designed specifically for investors who have no experience in financial markets, as these are multi-asset funds with a global investment vocation, which seek to generate returns whilst at the same time offering a high level of capital protection.
 - New offering of guaranteed products: launch of the guaranteed funds Sabadell Garantía Fija 18, FI and Sabadell Garantía Fija 19, FI in September and December 2022, respectively.

2. Improve and consolidate new instruments to provide support both for fund managers and, especially, information for customers. During 2022, the support plan was expanded to include more frequent updates sent to customers with information about their investments in funds, in the form of notes and quarterly videos summarising the performance, key investment decisions taken by professionals and the outlooks for the coming months.

With regard to retirement savings products, such as pension plans and Insured Retirement Plans (IRPs), these were affected by the gradual reduction of the limit on tax-deductible amounts. Market performance was also a contributing factor, although the repercussions for the Bank were less severe than for the sector on average, due to its improved position held in products not linked to market performance, such as IRPs with short-term interest rates. Similarly, subscriptions to Insured Retirement Plans with guaranteed long-term interest rates picked up again.

Lastly, the offering of structured products and deposits has been maintained over the year.

It is also worth noting that during 2022 the model of specialists has continued to be rolled out, with Savings and Investment specialists numbering 463 as at the end of the year.

Protection insurance

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

Furthermore, in 2022, the distribution model of specialists has been consolidated, with a total of 197 specialists deployed in the branch network and 87 specialists working remotely.

In 2022, the business has continued to grow in spite of the complicated and uncertain environment that exists at present. The main products that contribute to the insurance business are life insurance, home insurance and health insurance products. Specifically, the strong growth experienced in premiums in the area of health insurance products (41%) was the result of the agreement with the company Sanitas reached at the end of 2020. Also worthy of note is the positive evolution of Blink insurance products (home insurance and vehicle insurance, which recorded growth of 36% and 23% compared to the previous year), supported by the ability to apply for these products remotely.

It should also be mentioned that towards the end of 2022, the funeral insurance product was brought to market through BanSabadell Seguros Generales, through an agreement with the company Meridiano, a leading institution in this field.

The strategy for the insurance business in Retail Banking consists of offering the best option for protection insurance to the customers of the Bank. To that end, a product offering is proposed, adapted to the needs of each type of customer, so as to improve their experience each time they interact with the Bank and the insurer.

Private Banking

Through SabadellUrquijo Private Banking, Banco Sabadell offers comprehensive solutions to high-net-worth individuals who require specialised advice and attention. It has 175 private bankers, with MiFID II level 2, over 75% of whom are also certified by the European Financial Planning Association. They are distributed across 31 offices and assistance centres to serve those of the Bank's customers with a net worth of over 500 thousand euros located throughout Spain.

2022 will be remembered as one of the most volatile and complex periods of the global economy in the last 40 years. This environment has led the entire SabadellUrquijo Private Banking team to focus on supporting and advising customers at all times. Moreover, the number of in-person sessions on financial markets for customers has been increased to transmit the specialists' message on the outlook for the markets.

In terms of the product offer, the year can be divided in two stages:

1. The year started with inflation as the main macroeconomic problem that was tackled with subsequent interest rate hikes. This hampered the performance of both equities and fixed income. In light of this scenario, the Division proposed hedging strategies against inflation and recommended asset classes with real returns, as well as diversification strategies.

2. During the second half of the year, the markets had already discounted a large portion of the interest rate rises, so the economy moved to a new scenario with: (i) higher and persistent inflation, (ii) higher interest rates, and (iii) slower pace of growth. This environment increased the uncertainty as regards equities, while at the same time new investment opportunities in fixed income securities began to arise. This new scenario has reactivated guaranteed funds and fixed income maturity portfolios, while the Bank remained cautious in the stock markets with more defensive and higher quality recommendations and solid balance sheet positions.

SabadellUrquijo Private Banking has an open architecture with a robust product selection protocol that enables adapting portfolio to customers' objectives. The strategic agreement with Amundi, the first mutual funds manager in Europe, is particularly noteworthy, because it allows customers to enjoy all the capabilities and strengths of the Amundi Group.

In light of such complex environment in the markets, the bespoke discretionary portfolio management service offered by SabadellUrquijo Gestión, SGIIChas become especially relevant this year.

Furthermore, the structured deposit offer has been a very good alternative, providing customers with risk control and a predictable return on their investments.

Finally, alternative investments continue to have a high priority in the product offer, with a rigorous screening protocol.

Beyond aspects concerning the markets, for SabadellUrquijo Private Banking, the year 2022 has also been characterised by a plan to acquire new customers.

The focus on advisory services with positions in SICAVs has been strengthened, helping customers make the best decisions on this regard.

The commitment to sustainability continued with the roll-out of a Responsible Investment Training Plan for private bankers, as well as the creation of the Private Banking's "sustainable corner", from which the Bank aims to develop and encourage ideas that promote care and respect for the environment. In this regard, it has been supported by its strategic partner Amundi.

Once again, the professionalism, approachability and trust on the private bankers have been rated as excellent by customers. This drives the Bank to continue to improve the customer experience and competitive differentiation.

As a result of the new approach to facilitate greater growth of Banco Sabadell's Private Banking business, a change in the organisational structure has been implemented, a seed that will become the new Private Banking model to be fully deployed in 2023 and that will add new value customers, as well as the development of new operational, IT and commercial capabilities and increased investment in brand recognition, enabling further growth and profitability. The success of the implementation of this new model will be the biggest challenge for SabadellUrquijo Private Banking in 2023.

As at 2022 year-end, customers to whom the Bank offers wealth management advice numbered 29,359, with total business figures standing at 32,543 million euros, of which it is worth noting that 29,225 million euros are in funds, with a 39% contribution in mutual funds and SICAVs, while 2,462 million euros are under discretionary management contracts.

Sabadell Consumer Finance

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

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

Activity in 2022 was affected by a shortage of components in the automotive industry, which led to a supply shortage in the market. Nevertheless, the evolution of the company's vehicle business line has been positive compared to the industry, and the growth rates of this and the other business lines remained steady.

In 2022, efforts continued with regard to the focus areas for which work was already underway, such as training, homeowners' associations and sustainability, with new transactions reaching a weight of 23% of the consumer finance line, thus making Sabadell Consumer Finance a standard-bearer within its sector.

On the digital side of things, its “Instant Credit” tool for e-commerce offers an efficient response to both referrers and customers; the number of contracts has tripled and new business has been generated.

In 2022, Sabadell Consumer Finance executed 196,023 new transactions through more than 11,933 points of sale located throughout Spain, which translated into an inflow of new investments amounting to 1,099 million euros, placing the total outstanding exposures of Sabadell Consumer Finance at 1,919 million euros.

Business Banking

Business overview

The Business Banking business unit offers financial products and services to legal persons and natural persons for business purposes, serving all types of companies with a turnover of up to 200 million euros as well as the institutional sector. The products and services offered to companies are based on short- and long-term financing solutions, cash surplus management solutions, products and services to guarantee the daily operations of collections and payments through any channel and geographical area, as well as risk hedging and bancassurance products.

Banco Sabadell has a clearly defined relationship model for each business segment, which is innovative and differs from the competition and allows the Bank to be very close to its customers, gaining extensive knowledge about them, as well as a strong level of engagement.

Large enterprises (turnover > 10 million euros) are basically managed by specialised branches. The rest of the companies (SMEs, Businesses and Self-Employed) are managed from the branches. All of these have access to managers specialised in the segment as well as expert advice from product and/or sector specialists.

All this allows Banco Sabadell to be a trendsetter for all enterprises and a leader in customer experience.

Management milestones in 2022 and priorities for 2023

Management efforts in 2022 focused on the implementation of the priorities for action for the Business Banking business line, within the framework of the Strategic Plan (2021-2023), in coordination with the rest of the Bank and enhancing the value of its branch network.

During 2022, the various actions carried out have focused on offering specialised services to customers and adapting the commercial offer to more specifically meet the needs of the various segments. It is worth noting the particular importance of the sectoral commercial offer for businesses and the self-employed, which has been adapted to the changing and unique needs of each sector. On the other hand, in 2022, the Bank has developed sustainable investment programmes, which focus on self-consumption and Next Generation funds. Another priority aspect was improving the business system and making commercial processes more efficient.

Looking ahead to 2023, the challenges are growth and profitability to meaningfully contribute to the ROE targets of the Strategic Plan. Growth will focus on sustainable investment and on helping companies develop projects within the framework of the European funds. Profitability will be achieved by increasing managers' specialisation, with superb pricing management and streamlining of processes to be closer to customers and respond quickly to their needs. For the Large Enterprises segment, the Bank has the challenge of strengthening specialisation from a more sectoral perspective, providing more knowledge to its customers, a greater level of professionalism, adding more value and supporting customers by acting as a key player.

The various segments, specialists and commercial products within Business Banking are described below.

Customer segments

Large enterprises

Banco Sabadell has been at the side of large enterprises, providing end-to-end customer management through specialised managers to help them make the best economic decisions and with a pool of specialists who have supported customers depending on their business' needs.

In an economic environment marked by the complicated international situation, inflation and interest rate hikes, this end-to-end customer management has enabled the Bank to support companies by adapting to these new circumstances. Thus, for those customers with liquidity needs, Banco Sabadell has made available both basic financing solutions and complex solutions with 360° value propositions. And for those customers that are growing, Banco Sabadell has been by their side with specialised lending transactions, typical of middle market, either acting alone or in a pool with other credit institutions.

With regard to sustainability, Banco Sabadell has participated in the market as a key agent in the drive towards a more sustainable economy, providing financing for projects developed by its customers for purposes directly or indirectly linked to environmental, social or governance improvements.

In 2023, the Bank faces the challenge in the segment of strengthening specialisation from a more sectoral perspective, providing more knowledge to its customers, a greater level of professionalism, adding more value and supporting its customers by acting as a key player.

Enterprises

2022 was characterised on one hand by the return to normal after the health emergency, with the end of virtually all Covid-19-related restrictions, and on the other hand, by the sharp rise of inflation. Banco Sabadell has continued to bet on its forward-looking approach and has been by the side of businesses to meet their needs.

The end of restrictions has created the need for companies to jump-start their investment projects that were put on hold during the pandemic, and the return of economic activity to pre-Covid-19 levels entailed the activation of working capital financing needs arising from transactions among companies. To meet these needs and with the unequivocal commitment to support our customers, Banco Sabadell launched several campaigns to drive investment during the year.

The war in Ukraine resulted in a noticeable increase in the price of commodities and energy. Once more Banco Sabadell supported companies as they dealt with this situation and it launched its Sustainable Future programme, accompanying enterprises in their decision-making in order to prevent this increase in costs from affecting their productivity and/or viability. Within the framework of this Sustainable Future programme, Banco Sabadell focused specifically on financing self-consumption solutions for companies, reaching collaboration agreements with important partners in the market such as Iberdrola and EDP.

Towards the end of 2022, with rising inflation and interest rate hikes arising from the upward trend of the Euribor that will cause an increase in the financial debt burden of companies, Banco Sabadell launched a new support action by contacting all companies with greater potential impact and offering liquidity solutions to cushion the impact of rising operating and financial costs.

Within the framework of the Next Generation EU Funds, Banco Sabadell has continued to hold awareness-raising sessions among companies and has actively provided information on the open calls that the government has published and that are best suited to each of them according to their characteristics.

In terms of sustainability, Banco Sabadell has continued to create and offer sustainable financing and investment solutions to companies. In 2022, in addition to green loans, Banco Sabadell has offered companies sustainability-linked loans, which has enabled these companies to include in their management structures sustainable commitments aligned with their own Sustainable Development Goals.

It is worth highlighting that in 2022, Banco Sabadell has continued to evolve its specialisation model, concentrating the management of larger SMEs in branches specialised in this segment and providing more resources to their managers, in order to keep the customer at the heart of the business relationship in which the manager is a key component.

Small Businesses

Banco Sabadell continued to support the daily activities and new projects of self-employed workers, retailers and businesses, focusing on the development of the customer value proposition and making a concerted effort in 2022 to strengthen the Bank's position as a specialist in the minds of customers of this segment, based on the promotion and consolidation of a business methodology whose key component is a differential offer, specifically designed for each activity sector.

The aim is to be able to offer each customer the most suitable solutions based on an even better understanding of the specifics of their daily activities, building products by actively listening to customers and branch managers, professional groups and representatives from industry associations, ensuring that they really meet the needs identified. Currently, the catalogue of specific solutions includes 32 different activity sectors, prioritising those that offer a greater degree of opportunity in the current economic environment.

In line with this sector specialisation and in order to make it tangible and transfer it to the market, during the past year the Bank has consolidated a systematic approach to both customers and potential customers, through the frequent launch of sector campaigns that on one hand drive the commercial momentum of specialist managers and on the other hand help to convey a much clearer and more powerful message of

the product offer, by concentrating it on a target with common needs and interests. Examples of this in 2022 include the “Bars and Restaurants” campaign and the “Small Businesses campaign”. Both conveyed the idea of proximity as a common denominator and were supported by an innovative product, the Smart PoS, a smart payment terminal capable of adapting to each user by combining its various available applications, in addition to rewarding the merchants’ customers with free purchases during the campaign period as an additional incentive. These campaigns have increased customer acquisition in these key sectors by 28% and 30%, respectively, compared to the previous year.

On the other hand, during the past year, managers specialised in supporting self-employed workers, retailers and businesses have become the largest and most representative management figure of the entire branch network, thus demonstrating the Bank’s clear vocation for and commitment to a customer segment that especially values proximity and personalised assistance by an expert manager who understands their business. These managers had access to new management support elements designed to better understand the key aspects of each sector to thus provide the best response to the specific needs of each of them.

In parallel and in line with the development and consolidation of customers’ new financial services consumption habits, Banco Sabadell has continued to drive the digitalisation of customers, both to respond to their needs for self-service transactions and to enable new products and services to be applied for and managed remotely.

By 2023, the challenges in this segment mainly involve, on one hand, continuing to strengthen specialisation with a clearly differentiated offer for the professional sectors that present more opportunities and improving the training of specialised managers and, on the other hand, implementing a 100% online channel of acquisition and engagement for self-employed customers, which makes it possible to consolidate a digital management model for this segment, minimising reliance on brick-and-mortar branches, but all the while continuing to offer the best experience to each customer.

Institutional businesses

The Institutional Businesses unit was created to develop and enhance business related to public and private institutions, so as to position Banco Sabadell as a key player in this segment.

To achieve this, it is necessary to have a specialised range of products and services in order to provide a comprehensive value proposition to general governments, financial institutions, insurers, religious organisations and the third sector.

2022 has been a very busy year in all institutional businesses. It is worth noting the high degree of momentum in lending and borrowing activity in an environment in which negative rates have turned positive. In response to these new circumstances, Banco Sabadell strengthened its position in these segments through greater commercial activity, proximity and proposed solutions, resulting in an increase in customer acquisition, business volume and margins through a range of products offering higher value for customers and for the Bank.

Public Institutions

The economic activity of public institutions during 2022 was marked by the importance of governments in the economic recovery. Governments are essential for promoting and channelling the arrival of the European funds and for implementing economic policies at each of the local, regional and national levels.

The result is an increase in assets, stemming from the need to make investments to tackle the economic recovery, and an increase in liabilities, stemming from the additional funds related to the Recovery and Resilience Facility.

During the first half of 2022, some autonomous communities obtained authorisation to refinance the asset-side transactions that they had arranged with the State, thus decreasing their financing costs. As a result, it is the banks that have been granting new loans restructuring this debt.

Banco Sabadell’s market shares in lending and deposits were 12.16% and 9.22%, respectively (figures as at end of September 2022). Lending recorded a year-on-year increase of 167 basis points, growing above the system. Deposits were up 93 basis points, a sharper increase than in the system as a whole.

Financial Institutions and Insurers

In terms of investments, 2022 was marked by an environment of geopolitical uncertainty, high rates of inflation, contractionary monetary policies and considerable volatility in the markets. This has led to corrections in financial assets, both in more conservative fixed-income assets and in equities. As a result, investors have turned towards more liquid and less complex assets, which are currently returning to attractive profitability levels. Investors have shown a preference for positions in fixed-income products, such as government bonds, to the detriment of value-added products such as alternative investments.

The Financial Institutions and Insurers unit has continued to roll out the value-added proposition for these institutions, with a special focus on adapting the offer towards plain vanilla products. Therefore, with the new environment of positive interest rates, the Financial Institutions unit has adapted the interest offered on accounts in this segment, immediately after the first interest rate hike by the European Central Bank. On the other hand, for fixed-income products, the Bank has taken advantage of investors' interest for private issues of floating bonds (with a minimum rate) and for sustainable issues. At the same time, the senior debt fund has positioned itself with interesting transactions, while in terms of Private Equity, the participation of several institutional investors in the launch of the Aurica IV Private Equity fund is particularly noteworthy.

Religious Institutions and the Third Sector

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

During the year, the second edition of the university-level qualification of Financial Adviser to religious institutions and third-sector organisations was launched for employees and customers belonging to these groups. A total of 206 students (127 customers and employees of RI and TS, 9 from other sectors and 70 Sabadell employees) are currently enrolled on the course. This year the course was open to professionals from all sectors and a wide range of scholarships were made available covering up to 80% of the enrolment fee. The enrolment for the third edition, which will take place from 30 January to 30 June 2023, is now open.

Secure donation collection facilities have been increased by 4% using the "DONE" system which has contactless technology built in. Banco Sabadell had 928 donation collection devices installed and operational as at 2022 year-end, including donation lecterns, digital collection boxes and votive stands.

The Religious Institutions and Third Sector Division has coordinated the delivery of grants for charitable causes of the Sabadell Inversión Ética y Solidaria, FI fund, managed by Sabadell Asset Management, and it also managed the payments made together with beneficiary offices and entities. This year, for the 29 charitable projects of the 28 entities selected by the Ethics Committee in 2021, a total of 343 thousand euros has been awarded, bringing the cumulative figure since 2006 to over 2.4 million euros. Furthermore, in 2022, the Ethics Committee selected a total of 27 humanitarian projects primarily focused on addressing risks of social and labour exclusion, improving the living conditions of people with disabilities and meeting their basic needs in terms of food, health and education. Sabadell Asset Management will distribute this aid to these projects in 2023.

Segment specialists

Franchising

Banco Sabadell is a leader in the Franchising segment, where it has more than 26 years of experience reaching agreements with the foremost franchising brands, which refer potential customers wishing to open new franchises in Spain.

Banco Sabadell offers specific customised financing, transactionality and protection solutions via the branch network with the support of a team of franchise managers specialised by sector.

Banco Sabadell works closely with the Spanish Franchisors' Association and was the first bank to secure a partnership with this association and together they drive this business model. This year, the Bank has participated in various virtual coffee chats with the Spanish Franchisors' Association and it has also continued to be present at the franchise fair Expofranquicias, in fairs organised by FranquiShop and in various virtual fairs. Sabadell was recognised as the first financial institution to collaborate in the franchise sector by the Online Franchise Fair in which the Bank has actively participated, as well as sponsoring topics such as the Madrid Franchise Report, the Franchise Case Law Observatory, participations in specialised radio programmes, articles in the press and magazines, collaboration with various expert franchise

consultancies and an endless number of actions that the Bank has published on social media and which reinforce the Institution's renown and leadership in this business model.

The franchise market is a growing sector and is better able to withstand the impact of the health crisis due to the support of large franchisor brands. The Bank has more than 1,100 brands with referral agreements and almost 8,000 franchised customers.

Agriculture Segment

In 2022, Banco Sabadell's agriculture segment, which includes the agricultural, livestock, fisheries and forestry production sub-sectors and has more than 300 specialised branches, has increased its customer base, as well as the portfolio of specific financial products and services with features tailored to the demands of customers in the sector.

Banco Sabadell's firm commitment to this sector, in particular through its personalised customer support, led to a 13% increase in business volume compared to 2021. The Bank continues to earn the trust of its customers, whose number increased by 7% compared to the previous year.

During 2022, Banco Sabadell's agriculture segment has participated in nine fairs of the agri-food sector and has sponsored 37 events throughout the nation.

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

Hotel and Tourism Business

Banco Sabadell is the first financial institution to receive the "Q seal of Tourism Quality", granted by the Institute for Spanish Tourism Quality, cementing its position as a leader and trendsetter in this sector, offering expert advice coupled with the very highest quality standards.

The value proposition for this segment focuses mainly on offering specialised financial solutions to a diverse and highly fragmented group of customers, in three main areas: expert advice, a catalogue of specialised products and rapid response.

Within the value proposition, especially aimed at providing a specific solution to each customer, and taking into account the situation of complete inactivity that the sector has gone through due to the Covid-19 health crisis, which forced the closure of all establishments by decree, a large part of the activity has focused on the Support Plan, reviewing the entire hotels portfolio, identifying the specific situation of each customer and offering a specific solution for each need, providing a complete range of solutions, from the most basic ones such as grace periods and moratoria, debt injection, ICO and ICO investment lines, to others greater in scale such as divestment in establishments, replacement of operators and sale of production units.

The Tourism Business Division also received institutional accolade from leading entities in the industry, such as Spain's Tourism Council (*Consejo Español de Turismo*, or Conestur), the Tourism Commission of the Spanish Confederation of Business Organisations (CEOE, by its acronym in Spanish) and the Tourism Commission of the Spanish Chamber of Commerce.

As it does every year, Banco Sabadell was present at the main international tourism fair, FITUR, with its own stand. The fair welcomed 112,000 visitors and 8,937 companies.

Professional Associations and Associate Banking

Banco Sabadell is a leader in the management of agreements with professional and business associations and bodies throughout the country. Its differentiation lies in the close relationship it has with these groups, which starts with the support provided by specialised managers in order to meet the needs of its members through a range of tailored and differentiated financial products and services. During 2022, the Bank has participated in many events and sessions organised by these professional associations and bodies.

Furthermore, given the special relationship with the professional associations of property managers in Spain and to leverage the opportunity offered by the Next Generation EU Funds for the refurbishment of dwellings, professional forums have been organised for property managers throughout the country, within the framework of the strategic objective concerning sustainability.

Associate Banking continues to strengthen the link with corporate and business customers, based on a differential range of products and services for their executives and employees, as a significant channel for acquiring individual customers at Banco Sabadell.

Corporate Pensions

By means of its Corporate Pensions unit, Banco Sabadell Group offers solutions and responses to customers to help them better implement, manage and develop their welfare schemes through pension plans and group insurance policies.

During 2022, the Bank has made progress in the development and launch of Sabadell Flex Empresa, a fully digital flexible remuneration platform that enables companies to optimise their remuneration model at a very low cost. Worthy of note is the inclusion, in the last quarter of 2022, of the health insurance product in the mix of options available on the online platform and which, together with the Flexible Remuneration Retirement Plan, comprise a savings solution that makes it possible for executives or employees to maximise their savings and increase their net disposable income through fiscal optimisation. Furthermore, the Bank has seen great demand for joint life-cycle plans – with an investment profile adapted to age – among small and medium-sized companies.

Looking ahead at 2023, the Bank expects that demand for welfare schemes will continue to increase after the changes introduced by the publication of Law 12/2022, of 30 June, on regulating the promotion of employee pension plans. Thanks to the Bank's experience in innovative and life-cycle solutions, the Institution is poised to contribute to the development of new types of plans and funds that this new regulation defines such as, among others, employee pension plans streamlined for self-employed workers.

Real Estate Business

The Real Estate Division focuses on integrated services to the residential real estate development business by means of a mature specialised management model.

Banco Sabadell's commitment to this sector has led to a year-on-year increase in developer mortgage loans, guarantees and reverse factoring, with a growing associated margin.

2022 was marked by rising costs of commodities (steel, cement, aluminium); however, the Real Estate Business Division has granted 1,913 million euros (a 6.7% increase compared to the previous year) with a margin of 49.25 million euros which is similar to the previous year.

The Investment Property Division focuses on boosting new transactions and home deliveries so as to minimise the potential negative impact, as well as monitoring sales in progress.

The main strategy is to maintain the Bank's leadership in the sector and to consolidate its market share, prioritising the best business opportunities by pinpointing the most notable projects and soundest customers, with the aim of minimising risk and maximising profit for Banco Sabadell.

BStartup

BStartup by Banco Sabadell is the pioneering and benchmark financial service in Spanish banking for startups and scaleups. It is a unique project of Banco Sabadell that provides these companies with a 360° service of specialised banking and equity investment and that is part of the innovative entrepreneurial ecosystem of our country.

Specialised banking is based on a team of dedicated relationship managers for startups and scaleups in those territorial divisions with the highest concentration of this type of companies, as well as on a specific risk management process, specific products and a team of specialists that drive the business throughout Spain.

As at 2022 year-end, BStartup had 4,412 startup customers. They are very engaged, very internationalised customers, often with very complex transactions. The accelerated growth of many of these companies reaffirms the belief upon which the service was launched in 2013, i.e. that the great companies of the future would emerge from among these companies. Turnover reached 1,019 million euros (333 million euros of assets and 687 million euros of liabilities), with a 3.56% increase, and the trading margin increased by 34.34% compared to last year.

In 2022, BStartup's specialisation has been given a definite boost. The Catalonia Territorial Division manages all Business Banking and Network startup customers from the main branch in Barcelona, with six managers and one representative, all of them exclusively engaged in startups, scaleups and their investors. Moreover, all large startups have also been assigned to a single specialised relationship manager in terms of Large Enterprises Banking. This Territorial Division also has a risk analyst dedicated exclusively to this segment. Within the Central Territorial Division, in the Madrid autonomous community, a BStartup representative and a new specialised relationship manager have joined this year, meaning that there are now four exclusively dedicated BStartup enterprise managers located in the main Madrid branch, where most

startups in this autonomous community are based. The main branch of the Eastern Territorial Division is located in Valencia and has a fully dedicated startup manager, and the Bank expects to bring on board a new branch manager at the beginning of 2023. The other regions still have 23 BStartup branches with relationship managers that without working exclusively in this segment regularly receive specialised training and have a specific risk management process in place.

Equity investment mainly targets early-stage digital and technology companies with strong growth potential and innovative, scalable business models. During the whole year, the Bank has invested 950 thousand euros in nine startups. BStartup invests in all types of sectors, but maintains its two investment verticals. Thus, in 2022, BStartup opened the second application process for BStartup Green to invest in startups that, using technology or digitalisation, are able to facilitate the transition to a more sustainable world (from the perspective of the energy transition, industry 4.0, smart cities and the circular economy). 122 companies have applied for this second edition. The fifth edition of BStartup Health also took place during 2022, which strengthens the Bank's position as a leader in investments in early-stage science-to-market health startups in Spain. This year, applications for 127 projects were received. With the nine new companies associated with the projects, BStartup10's portfolio of investees today numbers 64, already yielding significant returns and very positive valuations. During the year, there was one exit with significant capital gains.

During the year, the Bank was very active at the main events of the entrepreneurial ecosystem. BStartup's team has organised or actively participated in 100 entrepreneurship events throughout Spain. This, coupled with all the previous activity, continues to reinforce Banco Sabadell's reputation and positioning as a leading bank for scaleups and startups. As a reference indicator, BStartup has had 1,264 mentions in various media (offline and online press), has amassed 13,788 followers on Twitter, and BStartup has been one of the main topics of conversation about the Bank on social media every month, always with a positive sentiment.

Companies Hub

The Companies Hub is Banco Sabadell's business hub, an instrument of communication of the Institution with SMEs, businesses and the self-employed, under a single brand based on valuable business content that is of great use to its customers and that at the same time highlights the specialisation in enterprises of Banco Sabadell, as well as its proximity to its customers. The Companies Hub is a hybrid environment that combines:

- A digital space where companies can connect with everything that matters to them through workshops and webinars led by the Bank's experts and leading external figures – inspiring and engaging sessions in which business experiences and relevant and current content are shared.
- A physical, landmark space for companies in the centre of Valencia, where they can meet and connect with other companies, receive training and business advice from experts in areas such as digital transformation or the sectoral economy, as well as other specialities like financing, internationalisation or startups.

All the activities organised at the Companies Hub, mainly in the form of workshops and webinars, are disseminated in other media such as articles, news or videos that can be accessed through the press and social media. The content generated around the Companies Hub is an instrument for the dissemination of the Bank's knowledge and expertise.

2022 has seen the consolidation of the blended model launched in 2020, which combines on-site presence in Valencia with a virtual presence across Spain. A new website and brand image were also launched this year.

The major thematic areas are established and agreed upon based on the Strategic Plan during the Editorial Committee held every six months. This year, the sessions have revolved around the following topics:

- The series of conferences "Inspiring Stories" with success stories from large customers interviewed by Banco Sabadell's employees who know them well. This year, seven sessions were organised: four in the Eastern Territorial Division (Ale Hop, Pikolinos, Grupo Saona and Chocolates Valor), one in the Central Territorial Division (Grupo García Carrión), one in the Northern Territorial Division (Bodegas Faustino) and another one in the Southern Territorial Division (Scalpers).
- Business financing: sessions on different financing needs, explaining the various instruments available and providing case studies, which have received excellent feedback from customers.

- The regular series of conferences on various very practical and topical aspects related to the Next Generation EU Funds and the opportunity they represent for the transformation of our economy.
- The series of conferences on enterprise digitalisation.
- The series of conferences on sustainability in order to generate awareness among SMEs of the need to have a sustainability strategy in place and provide information and tools to get started.
- The series of conferences on internationalisation solutions and information: holding a couple of sessions every month with new and interesting topics for the Bank's customers led by the Internationalisation Division.
- The monthly series of conferences "The World to Come" (*El Mundo que Viene*), discussing the trends of various sectors such as tourism, hospitality, agriculture, trade, etc.
- And many other sessions on a variety of topics such as business contingencies and insurance, trends in human resources, tax news, macroeconomic environment, leadership, public speaking, current topics such as companies and the metaverse, etc.

In 2022, the project kept intact the number of webinars as well as the impact generated by the Companies Hub in the entire territory, allowing the Bank to continue to reach a large number of companies and self-employed workers.

In total, 111 webinars have been held, in which 24,612 companies and self-employed workers have taken part.

In addition, on 2 June, face-to-face sessions in the physical space of the Companies Hub Valencia were restarted as normal, and 20 face-to-face events were held (in collaboration with other entities and the Bank's own sessions).

The space was also rented out to business entities on 50 occasions and meeting rooms were booked for corporate customers on 360 occasions. A total of 5,068 people took part in various activities at the Bank's physical space (our own sessions, collaborations, space rentals, meeting room bookings, advisory sessions and potential customers and additional traffic).

Thus, the total number of activities held at the Companies Hub this year amounted to 181, with 29,680 participants.

The assessments of the sessions continue to reflect the great reception and acceptance of the contents by the participating companies, with an overall rating of 8.93 out of 10, with 46% of the participants rating them with a 10.

In addition, 86 videos summarising the sessions were made for dissemination on the Bank's social media, and more than 35 articles and news items were published in different branded content spaces in print and online media about the Companies Hub and its support for companies, as well as the topics covered by the webinars. All this has generated 702 mentions in social media and offline and online media, reaching a total audience of 1.4 million users.

Sabadell Associates

Sabadell Associates is a lever for acquiring customers and business for the branch network via cooperation agreements with referrers.

This channel's contribution to the Business Banking and Network business is highly significant, most notably in terms of:

- Profit margin (in millions of euros): 263 (9% of the total).
- Mortgages (new agreements): 12,251 (34% of the total).
- Customer acquisition: 43,026 (10% of the total).
- AutoRenting vehicle leases (new agreements): 474 (9% of the total).
- Mutual funds (average balance in millions of euros): 1,469 (6% of the total).

Commercial products

Business services

Payment methods

During the past year, payment methods' turnover has significantly increased due to greater national consumption and international tourism. At Banco Sabadell, PoS turnover has reached record levels with a year-on-year increase of +33% in transactions and +45% in profit margin. The Bank also stood out from among its peers, increasing its market share by +8.23% year-on-year to 17.23% at the end of 3Q22.

The Bank has maintained its policy of offering an advanced and personalised service to retailers and, to that end, has strengthened its network of PoS and e-commerce specialists. In addition, the PAYCOMET subsidiary, specialised in digital payments, has continued to roll out innovative products and services.

In May, Banco Sabadell launched to the market Smart PoS, a terminal featuring Android technology that, in addition to payments, enables the use of third-party applications (loyalty, order management, tax free, etc.). Unlike the product offer of other competitors, the solution has an app store that offers customers a user experience similar to that of their smartphones. As a result, product uptake has been very high. As at year-end, 29,153 Smart PoS devices had been installed at shops and stores.

The use of corporate cards has also intensified, processing +27.6% more in purchases and +11.4% more in profit margin than in the previous year.

In addition, on 22 September 2022, the Bank announced that it was in the process of analysing a possible strategic agreement with an industrial partner specialising in its merchant acquiring business. This process of analysis currently underway aims to reinforce the competitive advantage and expand its value proposition in this area.

Company insurance

During 2022, the Bank has made progress in the development of the value proposition for businesses and the self-employed. The aim is to make Banco Sabadell a leader in company insurance. The Institution has worked together with the company insurance specialists who are in daily contact with customers to focus on the most demanded product enhancements with the aim of achieving a comprehensive and competitive product offering and of providing quality service. Special emphasis was placed on health insurance products for companies, in the form of social benefits and flexible remuneration, and this focus will continue in the coming year. The emphasis was also placed on the core products of company insurance, civil liability, multi-risk and the whole range of specialised products.

During the year, company insurance specialists received more training to provide a high quality experience to insurance customers in the enterprise, business and self-employed segments. This effort will continue through 2023, with a strong focus on product and regulation training and support for servicing existing insurance policies.

Business loans

Working capital loans have recovered to pre-pandemic levels thanks to the increase in business activity. This increase has resulted in companies facing a growing need for working capital loans in order to cover their usual payments and collections. In annual terms, the volume of working capital loans has grown by 24% compared to 2021.

Specialised lending solutions such as factoring and primarily reverse factoring have greater importance among the various credit lines used by companies. As a result, reverse factoring activity saw a year-on-year rise of 32%.

It is important to note a new working capital product that was launched in 2022: the Online Payment Line. This digital product will help self-employed workers and businesses to fund their regular payments such as payrolls, taxes and supplier payments.

The volume of new loans to corporates, SMEs and the self-employed was lower than in the previous year as a result of the current uncertainty.

Loans for sustainable projects are one of Management's priorities and this year the Bank has continued to arrange transactions with ECO products and, in addition, it has incorporated a better offer for these transactions, which will enable the Institution to achieve its objectives of strengthening its commitment and undertaking to support customers in the transition towards a more sustainable economy.

In 2022, more than 1.3 billion euros of green loans have been mobilised, mainly used in energy-efficient construction projects, renewable energies and self-consumption, sustainable mobility and efficient water and waste management.

Leasing and rental of capital goods

The rental of capital goods in 2022 has seen year-on-year growth of 1% in agreements and of 40% in volume, which bring us very close to pre-pandemic levels. This growth is mainly focused on the road transport and equipment sectors.

In terms of leases, the change in volume compared to the previous year was of 11%. The branch network this year has produced a higher volume of new leases compared to 2021 which, together with some one-off transactions, has led to total investment of 724 million euros as at the end of 2022.

Vehicle leases

The year saw the impact of the sale of the vehicle leasing subsidiary to ALD Automotive at the end of 2021, which entailed a complex migration and integration process.

At the same time, there were several negative impacts that have affected the vehicle leasing product such as the lack of stock due to the ongoing semiconductor crisis, prices of commodities affected by the war in Ukraine and the end of the moratorium on the registration tax rebate.

Nevertheless, the objective of establishing the new IT platform and keeping a competitive offer in terms of both volume and terms and conditions was achieved, so that the end of the year was similar to 2021.

It is worth noting that the focus was on maintaining the mobility of all users, and this has been achieved thanks to the meticulous work carried out between the two institutions, which can be considered very satisfactory.

In the last quarter of 2022, the managers' activity resumed and the foundations were laid for the Relaunch Plan scheduled for 2023.

Official Agreements and Guarantees

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

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

In the case of ICO, the Bank has once again adhered to the ICO Mediation lines, with a notable increase in new agreements compared to previous years, and it is the leading institution in the preparation of the Sustainability Questionnaire proposed by this body. 89% of the questionnaires have been completed and 71% of these are sustainable.

Through its adherence to the Agreement of the Spanish Council of Ministers, the Bank will allow its customers to extend the term of their ICO Covid-19 lines, thus providing a more favourable repayment schedule.

Banco Sabadell has also adhered to the ICO Ukraine line, which will enable the Institution to offer financing to all customers affected by the increase in energy prices as a result of the conflict in Ukraine.

The agreements signed with all the mutual guarantee societies (MGS) operating in Spain have also been reviewed, adapting them to the current needs of the market and including new products, such as the Industrialisation Support Programme whereby, through the support of the Next Generation funds, customers obtain financing, in which part of the interest rate and fees are subsidised, enabling the cost of this funding to be much lower than the standard conditions offered by mutual guarantee societies and institutions.

During 2022, there was a very large number of applications for the various EIB lines made available to customers, which has made it necessary to work quickly on new lines with this body, which will be available at the start of 2023.

In addition and through its BSCapital division, the Institution has signed an agreement with the European Investment Bank to provide growth-stage startups with venture debt.

As regards the EIF, Banco Sabadell Group has adhered to the Invest EU guarantee programme, which will allow banks to offer financing to companies with a guarantee from this body.

The aim for 2023 continues to be the launch of new lines and agreements with public bodies, which will enable the Bank to offer customers products with the best terms and conditions to fund their projects.

International

This year, the Bank had to support companies more closely to manage the geopolitical challenges encountered in various markets, as it was a very changing environment globally and Banco Sabadell focused on supporting and proactively managing the needs of customers:

- How to manage ongoing transactions with Russia and Belarus to be able to receive export payments and manage imports so that international sanctions are duly complied with.
- The management of operations with Algeria from Spanish companies that had ongoing transactions in this market for their correct payment as a result of the closure of the Algerian market to Spanish exports during the second half of 2022.
- Change of operations in Egypt, promoting the purchase or import of products, preferably with documentary credits, supporting customers to start this type of transactions in the country.

In terms of digital International Business solutions, the following aspects stand out in the 2022 financial year:

- Roll out of Direct L/C, issuance of import documentary credits in digital format through BSOOnline.
- Introduction of the new version of Sabadell Forex, which mainly seeks to streamline and facilitate access to customers through BSOOnline.
- New International Business website, which seeks to improve positioning and deliver a better customer experience for internationalised or foreign trade companies.

An agreement has also been reached with ICEX Spain, a Spanish public entity that seeks to jointly promote the internationalisation of Spanish companies.

At the business level, the Bank has supported Spanish companies in this financial year, with notable increases in foreign trade, maintaining its position in Spain as leader in export documentary credits (34.4% market share) and export remittances (36.1% market share), and keeping customers' confidence in the teams of International Business managers as a support lever to increase their business abroad.

Furthermore, the new foreign exchange and interest rate benchmarks have been included as substitutes for the Libor in force to date. All foreign currency financing products now incorporate the new benchmarks.

Corporate & Investment Banking

Business overview

Corporate & Investment Banking (CIB) offers financial solutions and advisory services to large corporations and financial institutions, both Spanish and foreign, through branches throughout Spain and in 15 other countries.

CIB is one of the three core units of the Bank, together with Retail Banking and Business Banking, a division structured by differentiating the needs of customers and the capabilities of each of the three banking business lines to provide the best service to them.

CIB structures its activity around two pillars: the customer pillar, whose aim is to serve its natural customers across the entire spectrum of their financial needs, defined by their nature and which includes the large Corporate Banking corporations, financial institutions, Private Banking in the USA, and the venture capital business developed through BSCapital and, secondly, the Specialised Businesses unit, which groups together the activities of Structured Finance, Treasury, Investment Banking and Trading, Custody and Research, whose aim is to advise, design and execute tailor-made transactions that anticipate the specific financial needs of its customers, whether companies or individuals, extending its scope from large corporations to smaller companies and customers, insofar as its solutions are the best response to increasingly complex financial requirements. In 2022, CIB added a new specialised business unit, the CIB Sustainability unit, focused on offering sustainable product solutions and ESG advice to CIB customers.

Management milestones in 2022 and priorities for 2023

CIB has maintained its objective of prioritising the delivery of value to customers and thereby contributing to their future growth and performance. In this endeavour, it has continued to innovate and boost its specialist capabilities, fundamentally in the areas of Investment Banking and Structured Finance, which are now able to meet 100% of its customers' financial requirements. The Bank's teams are also constantly expanding their international reach, always focusing on those markets in which its customers invest or have commercial interests.

The key areas in which Corporate & Investment Banking works to add value to its customers are as follows:

- Know-how through specialisation. The Corporate Banking teams, located in the different countries in which the Bank operates, have not only the specialisation of the large corporations segment but also the knowledge and penetration differentiated by sectors of activity in order to be able to better understand and serve customers according to their own and their sector's singularities.
- Coordination. Large corporations require special solutions that are the result of involving several of the Bank's areas (specialist teams or even teams from different regions). Coordination of all these teams is pivotal for providing and adding value to its customers.
- Specialisation. CIB has units that develop tailor-made products for large corporations and financial institutions (Corporate Finance, Project Finance, Project Bonds, Operation Syndication, Commercial Paper Programmes, Debt Issuance, M&A, Asset Finance, Derivatives, Risk Hedging, etc.). The units responsible for developing these customised products are cross-cutting across the entire Banco Sabadell Group, also extending their capabilities to the Business and Institutional Banking segment.
- Innovation. This is the last, but by no means the least important, of the key areas. Transitioning from idea to action is vital to evolve in such a dynamic and demanding market as that of specialised financing and large corporations. The Bank creates the necessary spaces and mechanisms for its teams to dedicate part of their time to innovation, understood in its broadest sense: innovation in products, in operations and also in the way it collaborates and interacts.

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

Customer Pillar

Corporate Banking Europe

Corporate Banking is the customer unit within CIB in charge of managing the segment of large corporations which, because of their size, complexity and unique features, require a tailor-made service in which the more traditional financial product range and transaction banking services are supplemented by specialised units; the result is a comprehensive solution model for their needs. The business model is based on close strategic relations with customers, providing them with end-to-end solutions that are tailored to their needs, to that end taking into account the specific features of their economic activity sector and the markets in which they operate.

This unit also includes a series of branches and offices abroad, notably in London, Paris, Casablanca and Lisbon, from where the international activity of the Bank's domestic customers is supported and served, and the international business of Corporate Banking is carried out.

In addition, this customer unit integrates the activity carried out by BSCapital, which carries out the Group's venture capital and private equity activities, managing the industrial (non-real estate) investees. Its activity is articulated through the acquisition of temporary shareholdings in companies, with the aim of maximising the return on its investments. In addition, it also offers support to companies through alternative financing (senior debt fund, venture debt or mezzanine loans).

In 2022, the Bank has actively supported its customers in the return to normal activity after the pandemic and focused on the search for optimal solutions to restore stability to their financial profiles, adapting them to the needs, demands and requirements arising as a result of changes in the economy, mainly during the second half of 2022, in an environment of rising inflation and the ensuing increase in interest rates in the various markets in which its customers operate.

Corporate Banking lending levels in Spain increased by 6.2% to 7.403 million euros. In the international arena, the evolution of the business was also characterised by the focus on optimising the Group's capital consumption, combined with improved profitability, lowering investment positions in the rest of EMEA by -2.0%.

As for profitability, Corporate Banking Spain had a ROTE of 12.0% (+257 basis points compared to December 2021) as at December 2022.

Meanwhile, BSCapital has actively managed the portfolio during 2022, carrying out its traditional activities of equity and debt, realising investment, divestment and portfolio revaluation transactions. One of the actions carried out by Aurica Capital Desarrollo was the first closing of the new Aurica IV fund, in which Banco Sabadell is anchor investor, conducting its first investments. A new framework for action for industrial mezzanine debt with a 3-year investment horizon has been approved and the first transactions have already been carried out.

BSCapital has continued to use the guarantee schemes granted by the European Investment Fund (EIF), with a high use rate. Furthermore, the EIF has approved the InvestEU guarantee product for revolving loans, venture debt and mezzanine loans, which is expected to be available starting in 2023.

The Bank has invested heavily in renewable energies, mainly in Spain and always within its scope of action. It has also divested some assets.

BSCapital will continue to prioritise equity and debt investments, with the support of international organisations such as the EIB and the EIF, while continuing to manage the current portfolio with the same standards as in previous years and with the clear objective of creating long-term value in mind.

As regards renewables, financing opportunities will continue to be sought, aligned with the new investment framework, and potential sales of assets in Spain and Latin America will be analysed.

The venture debt activity and the rotation of the venture capital portfolio will be supported by seeking divestments with capital gains, and Crisae will continue with the origination and execution of transactions (mobilisation of funds raised).

2023 poses a series of challenges, among which are the interest rate hikes that have already taken place in 2022 and the inflationary environment that directly affects consumption and manufacturing. Corporate Banking is supporting its customers in facing these challenges both at the national and international level, with a product offer that covers 100% of their financing requirements, both in the short and long term, to deal with this new macroeconomic situation.

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

Corporate Banking and Private Banking USA

Banco Sabadell has been operating in the United States for almost 30 years through an international full branch managed from Miami and through Sabadell Securities USA, incorporated in 2008 and operational since then. These business units together manage the international corporate banking and private banking business in the United States and Latin America.

The Banco Sabadell Miami Branch is the largest international branch in Florida. It is one of the few financial institutions in the area with the capacity and experience to provide all types of banking and financial services, from the most complex and specialised services for large corporations to international private banking products, including those products and services that may be required by professionals and companies of any size. To supplement its structure in Miami, the Bank has representative offices in New York, Peru, Colombia and the Dominican Republic.

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

2022 unfolded in a financial environment that compounded a sharp rise of interest rates with widespread falls in fixed-income and equity markets.

In this environment, the branch's positioning with a balance of interest rate-sensitive assets coupled with discipline in controlling the cost of deposits allowed it to increase its net interest margin. In addition, the Bank faced the challenge of defending loan volumes while maintaining an adequate level of capital. With a forward-looking approach, processes were deployed that improved the flow of data required for the calculation of regulatory capital, including the correct reflection of contractual guarantees and the appropriate allocation of existing mitigating factors.

The operational improvement plan continued to be implemented during the year, achieving productivity improvements that were successful in keeping operating costs stable compared to 2021, despite rising inflation. Moreover, the project to update the IT platform (Project Aspire) continued to be implemented in order to enhance the capabilities available both to customers and to business and support units. The Bank expects to complete this project in 2023.

The combination of the increase in net interest margin, the optimisation of capital employed and the exercise of discipline when controlling operating costs allowed the branch to increase its profitability (ROTE) from 10% at 2021 year-end to 24% this year, maintaining its position as one of the most profitable units within the Bank.

Turning to financial figures, during the 2022 financial year, the volume of business managed stood at 14.2 billion US dollars, representing a decrease of 2.3%. The decline largely stemmed from capital market valuations, which had a negative impact on private banking business volumes. Off-balance sheet customer assets under management declined by 15% to stand at around 4.1 billion US dollars at year-end. Meanwhile, the balance of loans increased by 9%, to around 6.3 billion US dollars, and customer deposits decreased by 3%, standing at 3.8 billion US dollars at year-end.

Net interest income stood at 154 million US dollars, up 27% year-on-year, mainly due to higher market interest rates. Net fees and commissions were almost 44 million US dollars, down 7% compared to 2021 if windfall profits are excluded. Gross income increased by 13%, exceeding 198 million US dollars for the year, while administrative and amortisation costs remained stable, despite including investments in the IT platform. Net profit for the year was 90.7 million US dollars, up 21% from the previous year.

Specialised businesses

Structured Finance

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

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

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

In 2022, Banco Sabadell, thanks to its policy of supporting customers and adapting to their needs so as to seek the best responses to their credit requirements within the possibilities offered by the credit markets in the specific macroeconomic environment, maintained its benchmark position in the business banking segment in Spain – an activity that is being exported to other regions. In this context, Structured Finance ranked fourth in the MLA rankings for syndicated loans and fifth in Project Finance in the Spanish market.

MLA league table for syndicated loans in the Spanish market in 2022:

Million euro			
Ranking	Mandated Lead Arranger	Deal Value	Number of transactions
1	Santander	6,306	109
2	BBVA	5,758	103
2	CaixaBank	5,805	103
4	Banco de Sabadell	2,675	56
5	BNP Paribas	3,643	37
6	Credit Agricole CIB	2,975	31
7	SG Corporate & Investment Banking	2,939	30
8	ING	1,798	23
9	Abanca Corporacion Bancaria	745	20
9	Intesa Sanpaolo SpA	2,074	20

Source: Dealogic

MLA league table for project finance in the Spanish market in 2022:

Million euro			
Ranking	Mandated Lead Arranger	Deal Value	Number of transactions
1	Santander	777	16
2	Abanca Corporacion Bancaria	311	8
2	ING	311	8
2	SG Corporate & Investment Banking	445	8
5	Banco de Sabadell	321	7
5	BBVA	361	7
5	BNP Paribas	663	7
8	CaixaBank	840	6
8	Credit Agricole CIB	203	6
10	Bankinter	117	4

Source: Dealogic

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

Treasury and Markets

Treasury and Markets is responsible, on one hand, for selling Treasury products to the Group's customers, through the Group's units assigned for this purpose, both from commercial networks and through specialists and, on the other hand, for managing the Bank's current liquidity, as well as managing and complying with its regulatory ratios. It also manages the risk of trading activity in interest rate, foreign exchange and fixed-income products, mainly due to flows of transactions with customers, both internal and external, originated through the activity of the distribution units themselves and the activity arising from short-term liquidity management.

In 2022, the Treasury and Markets Division further developed the digitalisation and optimisation of its transactions with customers by enhancing the Sabadell Forex currency application, expanding its range of services and improving customer experience. Furthermore, the range of products and solutions offered by the division continued to increase, adapting it to new customer needs arising from a changing market. In terms of trading, the capacity to take on and control various risk factors such as currency, fixed income and interest rates was enhanced.

Looking ahead to the new financial year 2023, it is expected that the activity related to currency products will continue to be a central pillar of the strategy and, in this regard, projects related to the Sabadell Forex platform will be launched to provide differential value-added services to customers. As regards the institutional customer segment, efforts will continue to be made to expand the international investor base for capital market products. In trading, the aim is to continue to build up the capacity to manage risk on the Bank's own books, reducing hedges with other entities and continuing to develop collateral management in order to take the fullest advantage of it.

Investment Banking

Investment Banking (IB) is the CIB Division that coordinates the channelling of institutional investors' liquidity to Banco Sabadell customers, through both debt products and capital instruments. Furthermore, via its M&A (Mergers & Acquisitions) area, it gives advice on company acquisitions and sales, mergers and the incorporation of new shareholders.

During 2022, the Investment Banking team was very active in the origination of public issues, notably participating in corporate, public sector and financial issuer transactions, both in long-term and short-term financing. One of the markets in which the Bank was most active was that of commercial paper programmes, participating in programmes from 50 different issuers.

One of the core pillars of this activity is the closing of niche transactions, such as project bonds, securitisations or direct lending, with a view to becoming a leader in the ESG segment.

IB continues to focus on offering tailor-made financing solutions, in bond or loan format, in various sectors, from real estate and infrastructure to renewable energy project finance and corporate finance in the domestic middle market segment.

During a complex year for the activity in equity capital markets, Banco Sabadell has continued to support its customers, participating as co-bookrunner in Atrys Health's capital increases through an accelerated private placement of 72.4 million euros.

The Bank was very active in Mergers and Acquisitions (M&A), successfully completing several transactions, including advising on the sale of the photovoltaic tracker manufacturer STI Norland to the US NASDAQ-listed group Array Technologies, to create the world leader in its segment; advising the US fund KPS Capital through its investee Siderforgerossi on the acquisition of the Euskalforging Group, one of Europe's leading manufacturers of flanges and large diameter rings for the offshore wind sector; advising on the sale of Colegio Meres to the British group Cognita; the sale of two 100 MW wind farms to the Italian group PLT Energía; and the sale of several portfolios of photovoltaic and wind projects to the Altano Energy and CIMD groups.

IB's strategy for 2023 is to consolidate, maintain and improve the quality standards in this activity, mainly in the process of channelling institutional financing to SME customers, as well as to conclude the commercialisation of two large projects: the Senior Debt Fund and the institutional factoring initiative.

Trading, Custody and Research

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

It has a Research Department, whose aim is to provide guidance and recommendations regarding investments in equity and credit markets for customers. To this end, they produce podcasts, webinars, videos, daily reports, sector reports, company reports, etc.

Enhancements were made to the online platforms throughout 2022, in line with the new strategic objectives of Banco Sabadell Group, based on the pillars of sustainability, digitalisation and customer focus. These enhancements, which will continue over the next few years, will considerably increase the level of service offered to customers, with more information during and after transactions and greater support in decision-making.

The Bank has been able to verify a very high percentage of equity execution transactions carried out through self-service channels, with 93% of orders channelled directly by customers using the tools that Banco Sabadell makes available to them, the mobile app being the preferred channel for these transactions.

During 2022, a new campaign to drive the dedicated access and intermediation service through the Bank's equity trading desk was launched, to meet the liquidity needs of Spanish companies listed not only on Spanish stock exchanges but also on other international markets. In addition, training events/seminars for companies were resumed, providing greater visibility to the custody and agent bank, liquidity provider, research and investment banking services that Banco Sabadell offers.

The main objective for 2023 is to increase the volumes of intermediation in equity markets, both Spanish and international, through the following levers of action: optimise the online customer experience by redesigning the Sabadell Broker platform, integrating more information from Research with improved and more sophisticated intermediation capabilities and services; launch campaigns to activate inactive customers; review the pricing of some of the services offered and step up relations with issuers through collaboration with Business and Corporate Banking.

4.2 Banking business United Kingdom

Business overview

TSB (TSB Banking Group plc) offers a wide range of retail banking services and products to individuals and small and medium-sized enterprises in the UK. TSB has a multi-channel distribution model, which includes fully digital capabilities (internet and mobile), telephony channels and a network of branches located throughout Great Britain.

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

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

Management team priorities in 2022

TSB's relentless focus on its customers and delivering its Money Confidence purpose has been instrumental in its response to the cost-of-living crisis. The successful early execution of the 2019 growth strategy means TSB is in good shape not only to weather this latest economic storm, but also to continue its momentum to be a stronger and better bank.

Despite the uncertain economic environment, TSB has continued to perform strongly. In 2022, TSB continued to improve the service offered to customers across all channels which, in turn, has supported growth. In December 2022, TSB reached an agreement with UK regulators regarding the conclusions of the investigation into the causes and circumstances of the incidents that arose following the migration of TSB's IT platform, which required TSB to pay 48.65 million pounds sterling to UK regulators. The actions TSB has taken in the years since to be truly customer-focused has created strong future foundations. Growth in both customer lending and deposit balances was solid, but more muted than in previous years, and is evidence of management action to navigate the volatile and competitive retail banking markets during the year. TSB has continued to grow income and reduce costs, and its capital and liquidity remain strong and stable.

Executing the strategy

TSB's customer service is improving and customers have more ways of engaging with the Bank than ever before. TSB is a simpler, more efficient and more resilient bank and has become more streamlined in how customers are supported with both modern digital services and reassuring personal support in branch or over the phone when life events demand it.

In 2022, TSB:

- remained the only bank in the UK with a Fraud Refund Guarantee, refunding over 98% of customers who are innocent victims of fraud, compared to an industry average of 56%. Over 80% of fraud victims were refunded within 5 days or less;
- rewarded active customers with 1.3 million pounds in cashback payments, while 630,000 customers opened a new savings account, more than double the previous year. TSB customers have enjoyed the benefits of the Spend & Save account features, with over 36.5 million pounds rounded up into Savings Pots using the ‘Save the Pennies’ feature on its award-winning current account;
- helped 13,000 first-time buyers get onto the property ladder and supported over 30,000 customers switching to a new mortgage. TSB continues to deliver a leading mortgage service, with a broker trust rating of 87% – TSB's highest score to date (and increased from 72% at the start of 2021);

- further strengthened its digital banking offer, improving the look and feel of the Internet banking proposition and added features to its TSB Mobile Banking App. New customers can now open a Spend & Save current account in less than ten minutes through the App and apply for a credit card or a loan, and manage their cards. Customers can also access fintech partners such as ApTap, Wealthify and Farewill from their TSB Mobile App;
- upgraded a further 84 branches this year to create more inviting spaces for customers, whilst reducing the branch footprint to 220. Self-serve deposit capability and video banking options have been expanded, allowing customers greater flexibility in how and when they bank. The branch network is complemented by over 40 'pop-ups' serving communities across Great Britain, and TSB is an active participant in the Cash Access Group Banking Hubs sectoral initiative, a programme that aims to create banking hubs in the country's most remote communities;
- established early warning indicators to assist customers before they get into financial difficulty which, combined with almost 2,000 hours of cost-of-living training for TSB employees, helped over 2,100 customers get back on track after struggling with payments. The 'Money Worries' pages on TSB's website, which contains information of interest to those who are concerned about their financial situation, has been visited over 100,000 times.

As regards its next steps, TSB has drawn up an ambitious three-year plan to take forward its Money Confidence purpose. The strategy has four key areas of focus, centred around service excellence, customer focus, simplification and efficiency and doing what matters for people and the planet, reflecting the growing expectations of its customers with regard to the Bank's values.

The strategy has been set against a fluid economic backdrop. The battle to control inflation while returning the UK economy to a sustainable growth trajectory will be challenging, and it is sensible to anticipate that the continued impact that the rising cost of living is having on its customers will also have an effect on the Bank. Its robust capital and liquidity position means that TSB is well placed to navigate these headwinds and continue to support the customers, employees and communities it serves.

The regulatory landscape for financial services is also set to undergo important changes in the years ahead with the introduction of the FCA's new Consumer Duty. TSB's customer focus, high standards of governance and commitment to responsible business practices mean that the Bank is well placed to deliver on this to continue to improve outcomes for customers.

Key figures

Net profit stood at 87 million euros as at 2022 year-end, impacted by -57 million euros (net) stemming from the agreement to pay a fine to UK regulators for the incidents following the IT platform migration, recorded in the last quarter of 2022.

Net interest income totalled 1,151 million euros, 13.8% higher than the previous year, supported by the growth of mortgage volumes and the interest rate hikes.

Net fees and commissions increased by 11.0% year-on-year, mainly due to higher service fees, particularly card fees.

Total expenses stood at -909 million euros, a year-on-year decrease of -3.5%, as in the previous year this item had been impacted by -19 million euros of non-recurrent costs as a result of the efficiency plan. Not including this impact, expenses decreased by -1.5%, due to both improved staff expenses and lower general expenses.

Provisions and impairment amounted to -104 million euros, increasing in year-on-year terms mainly due to the release of provisions in the previous year.

Corporation tax included an impact of -15 million euros as at 2022 year-end, as a result of the effects on deferred tax assets following the review of the UK Bank Levy, which was reduced from 8% to 3%. On the other hand, +23 million euros were booked under the same item due to the corporation tax increase as at 2021 year-end.

Million euro

	2022	2021	Year-on-year change (%)
Net interest income	1,151	1,011	13.8
Fees and commissions (net)	134	121	11.0
Core revenue	1,284	1,132	13.5
Gains or (-) losses on financial assets and liabilities and exchange differences	6	2	127.7
Equity-accounted income and dividends	—	—	-
Other operating income and expenses	(95)	(33)	186.4
Gross income	1,195	1,101	8.5
Operating expenses and depreciation and amortisation	(909)	(942)	(3.5)
Pre-provisions income	285	159	79.6
Provisions and impairments	(104)	—	102,632.7
Capital gains on asset sales and other revenue	1	(9)	(108.7)
Profit/(loss) before tax	182	150	21.5
Corporation tax	(95)	(32)	197.6
Profit or loss attributed to minority interests	—	—	-
Profit attributable to the Group	87	118	(26.2)
ROTE (net profit / average shareholders' equity excluding intangible assets)	4.2 %	4.5 %	
Cost-to-income (general administrative expenses / gross income)	63.0 %	71.3 %	
NPL ratio	1.3 %	1.4 %	
NPL coverage ratio of stage 3 with total provisions	42.3 %	38.1 %	

Lending dropped by -2.1% year-on-year, negatively affected by the depreciation of the pound. At a constant exchange rate, this item increased by 3.3% due to the growth of the mortgage portfolio.

Similarly, on-balance sheet customer funds decreased by -4.3% year-on-year, due to the depreciation of the pound, while at a constant exchange rate, they grew by 1.0% due to a larger volume of term deposits.

Million euro

	2022	2021	Year-on-year change (%)
Assets	55,810	55,657	0.3
Gross performing loans to customers	43,110	44,050	(2.1)
Liabilities	53,316	53,012	0.6
On-balance sheet customer funds	40,931	42,779	(4.3)
Wholesale funding in the capital markets	2,537	2,975	(14.7)
Allocated equity	2,494	2,645	(5.7)
Off-balance sheet customer funds	—	—	-
Other indicators			
Employees	5,482	5,762	(4.9)
Branches	220	290	(24.1)

4.3 Banking business Mexico

Business overview

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

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

The rollout of business capabilities considers the two vehicles mentioned above and the following business lines:

- Corporate Banking, focusing on corporations and large enterprises: three main branches (Mexico City, Monterrey and Guadalajara) and sector-specific specialisation.
- Business Banking, which mimics the Group's original business banking model: launched in 2016, it has been expanding ever since.

Management priorities in 2022

The performance of the Mexican subsidiaries (Banco Sabadell and SabCapital) has been positive, since it exceeded the expectations for the year, largely due to the increase in benchmark rates and the superb management of costs and administrative and operating expenses by the entities.

During 2022, the Mexican subsidiaries continued to focus on growth, financial self-sufficiency and profitability. It is worth highlighting the following initiatives implemented during the year:

- In Corporate Banking, Banco Sabadell's Fiduciary Division and the transaction of derivative financial instruments were consolidated, enabling a more comprehensive service to be offered to the structured finance segment, thus strengthening the link with customers.
- In Business Banking, the Bank continued to enhance its transactional capabilities, an initiative that will continue in 2023. Initiatives in the commercial model and an incentive scheme seek to boost banker productivity and efficiency and to continue offering an outstanding service, which has been a distinctive feature since this segment was created.
- The digital Personal Banking segment was completely closed at the start of the year to focus on corporate and business banking segments, in which the greatest competitive advantages are achieved to improve the Bank's profitability.

A financial planning exercise was conducted in 2022 in line with that of the Group to determine the main strategic courses of action for Banco Sabadell in Mexico that will generate greater value for the Group's Mexican franchise. To summarise, these concern the enhancement of ROE by increasing the generation of income without capital consumption (through the generation of higher income from fees and commissions and fostering new business lines, such as derivatives, currency trading, trusts, etc.), as well as improved funding costs.

On 6 July 2022, HR Ratings ratified the long-term and short-term credit ratings in Mexican national scale, keeping the long-term rating of HR AA+ with a stable outlook and also keeping the short-term rating of HR1, which is based on the fact that the Bank has maintained better asset quality indicators compared to those of the Mexican financial system and most niche banks in Mexico.

Key figures

Net profit as at 2022 year-end amounted to 31 million euros, a strong year-on-year growth supported mainly by the improvement of net interest income and the reduction of provisions.

Net interest income amounted to 149 million euros, increasing by 32.4% year-on-year, due to the interest rate hike and the appreciation of the Mexican peso.

Net fees and commissions amounted to 12 million euros as at 2022 year-end, growing by 1 million euros relative to the previous year due to more commercial activity.

Total expenses amounted to -86 million euros, thus falling by -3.5% year-on-year, mainly due to improved general expenses that offset the increase in amortisations and depreciations.

Provisions and impairment were below the previous year's levels due to an improvement in the loan book, as well as payments received from single-name customers.

The item "Capital gains on asset sales and other revenue" includes write-offs of technology assets.

Million euro			
	2022	2021	Year-on-year change (%)
Net interest income	149	113	32.4
Fees and commissions (net)	12	11	17.2
Core revenue	162	123	31.1
Gains or (-) losses on financial assets and liabilities and exchange differences	3	—	3,921.7
Equity-accounted income and dividends	—	—	—
Other operating income and expenses	(17)	(10)	-
Gross income	148	114	30.2
Operating expenses and depreciation and amortisation	(86)	(89)	(3.5)
Pre-provisions income	62	24	154.3
Provisions and impairments	(9)	(32)	(73.0)
Capital gains on asset sales and other revenue	(14)	—	-
Profit/(loss) before tax	39	(8)	(577.2)
Corporation tax	(8)	9	(187.2)
Profit or loss attributed to minority interests	—	—	-
Profit attributable to the Group	31	1	6,141.3
ROTE (net profit / average shareholders' equity excluding intangible assets)	6.6 %	0.1 %	
Cost-to-income (general administrative expenses / gross income)	48.7 %	71.1 %	
NPL ratio	2.3 %	1.0 %	
NPL coverage ratio of stage 3 with total provisions	70.1 %	265.7 %	

Performing loans grew by 9.5% year-on-year, supported by the appreciation of the Mexican peso and the US dollar. Considering a constant exchange rate, this increase was 1.4%.

Similarly, on-balance sheet customer funds increased by 26.0% year-on-year, supported by the appreciation of these currencies. At a constant exchange rate, growth was 14.6%.

Million euro			
	2022	2021	Year-on-year change (%)
Assets	6,025	5,128	17.5
Gross performing loans to customers	4,131	3,773	9.5
Real estate exposure (net)	—	—	—
Liabilities	5,437	4,550	19.5
On-balance sheet customer funds	3,090	2,453	26.0
Allocated equity	587	578	1.6
Off-balance sheet customer funds	—	—	—
Other indicators			
Employees	422	453	(6.8)
Branches	15	15	—

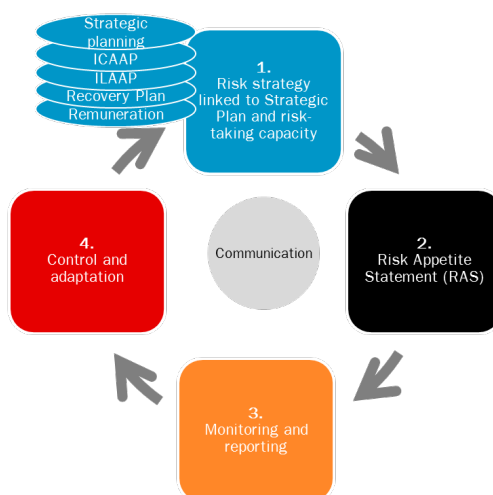
5 - RISKS

In 2022, Banco Sabadell Group continued to strengthen its Global Risk Framework by making improvements in line with best practices in the financial sector.

The Group continues to have a medium-low risk profile, in accordance with the risk appetite defined by the Board of Directors.

The Group's risk strategy is fully implemented and linked to the Strategic Plan and the Group's risk-taking capacity, articulated through the Risk Appetite Statement (RAS), under which all material risks are monitored, tracked and reported, and the necessary control and adaptation systems are in place to ensure compliance:

Strategic risk management and control processes



Main 2022 milestones in risk management and control

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

Strategic risk

Definition: the risk of losses (or negative impacts in general) materialising as a result of strategic decisions or their subsequent implementation. It also includes the inability to adapt the Group's business model to changes in the environment in which it operates.

Key 2022 milestones:

(i) Strategy and reputation

- Supporting customers in the transition to a more digital model and in the adoption of good practices and initiatives in terms of greater consumer protection.
- The Bank has finished implementing the Efficiency Plan, with a significant cost reduction that has contributed to an improvement in the cost-to-income ratio and levels of profitability in excess of the target disclosed to the market for 2023.
- The performance of the Bank's business and its results are reflected in various reputational indicators, including the stock market performance, which is above the average of Spanish banks.

(ii) TSB

- Throughout 2022, TSB has been completing the actions of its Strategic Business Plan to improve profitability and efficiency.

(iii) Improvement in the capital position

- The CET1 ratio improved to 12.55% in fully-loaded terms as at 2022 year-end, driven significantly by organic capital creation. Generalised fulfilment of regulatory capital requirements.
- Total capital remained stable, ending 2022 at 17.02%, and the leverage ratio decreased from 5.81 to 4.59% year-on-year (in fully-loaded terms).

(IV) Profitability

- The Group's net profit amounted to 859 million euros as at the end of 2022. It is particularly worth mentioning the good performance of core results (net interest income + fees and commissions – recurrent costs), which showed a 26.3% increase year-on-year, as a result of the good performance of net interest income and the growth in fees and commissions, as well as the cost reduction.
- The Group achieved a year-end ROTE of 7.8%, exceeding the May 2021 guidance of ROTE >6% by 2023.

Credit risk

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

Key 2022 milestones:

(i) Non-performing assets:

- Decrease in the NPL ratio in the year, from 3.7% to 3.4%, due to a reduction in stage 3 assets as a result of an improved credit quality.

(ii) Concentration

- From a sectoral point of view, the loan portfolio is diversified and has limited exposure to the sectors most sensitive to the current environment and shows a downward trend.
- Similarly, in terms of individual concentration, the metrics relating to concentration of large exposures do show a slight upward trend but nevertheless remain within the target level. The credit ratings of top segments improve significantly as more recent balance sheets with a more diluted impact of the health crisis are introduced.
- Geographically speaking, the portfolio is positioned in the most dynamic regions, both in Spain and worldwide. International exposure accounts for 36% of the loan book.

(iii) Lending performance

- Performing loans continue to increase year-on-year in all geographies, factoring out the impact of the performance of currencies, with annual growth figures of 1.7% in Spain, 3.3% in the UK (TSB) and 1.4% in Mexico.
- In Spain, the year-on-year growth is primarily driven by loans to individuals (the increase in the mortgage portfolio is noteworthy) and by business loans.

(IV) TSB lending performance

- In TSB, at a constant exchange rate, annual growth was 3.3%, supported by the positive evolution of the mortgage book.

Financial risk

Definition: Possibility of obtaining inadequate returns or having insufficient levels of liquidity that prevent an institution from meeting future requirements and expectations.

Key 2022 milestones:

(i) Robust liquidity position

- Solid liquidity position, where the LCR (Liquidity Coverage Ratio) stands at 234% at the Group level (196% at TSB LMU and 270% at Banco Sabadell Spain) and the NSFR (Net Stable Funding Ratio) stands at 138% at the Group level (151% at TSB LMU and 132% at Banco Sabadell Spain) both at

2022 year-end, after having optimised the funding sources with access to long-term financing, having borrowed 22 billion euros from the ECB and 6,201 million euros from the Bank of England, as well as increasing the funding gap in 2022.

- The loan-to-deposit (LtD) ratio as at 2022 year-end was 95.6% with a balanced retail funding structure.
- Moreover, Banco Sabadell has fulfilled the capital markets issuance plan, which it had set for itself for 2022, with strong investor appetite. This allowed it to optimise the associated financing costs.

(ii) Structural interest rate risk

- The Institution continued to accommodate higher levels of new fixed rate lending in an environment of higher interest rates in all relevant currencies, where in particular the euro interest rates went from negative to positive. The variable rate loan book has gradually included the revaluation of benchmark indices (mainly the 12-month Euribor). On the liabilities side, there is a customer deposit base, predominantly comprising sight deposit accounts.

Operational risk

Operational risk is defined as the risk of incurring losses due to inadequacies or failures of processes, staff or internal systems or due to external events.

Operational risk remains a material risk for the Group, with impacts that, although acceptable, have increased in recent years due to the problems associated with conduct risk. The current scenario of high awareness and increased regulatory pressure, aimed especially at providing greater protection for consumers and vulnerable customers, places conduct risks as the main focus of attention. Its current relevance and the expectation that this scenario will likely continue requires the focus to remain fixed on these risks, monitoring their evolution and adequately monitoring the planned mitigation measures.

The focus remains on complaints related to floor clauses, mortgage application and arrangement fees, high interest charges associated with revolving credit cards and appropriate assistance for vulnerable customers, especially in the UK, given the demanding regulatory environment. The creation of the new financial customer protection authority planned for the first few months of 2023 could have an impact on the complaints received, as it facilitates this process. The materialisation of conduct risk involves a potential reputational risk for the Institution, although it remains in line with the sector.

Compliance risk

Compliance risk, which is part of operational risk, is defined as the risk of incurring legal or administrative penalties, significant financial losses or reputational damage as a result of an infringement of laws, regulations, internal rules or codes of conduct applicable to the banking business, minimising the possibility of any infringements occurring and ensuring that any that do occur are identified, reported and dealt with diligently.

Main milestones of 2022:

(I) Continue to promote a culture of ethics and compliance among employees

Compliance has developed a training model that contributes to:

- (i) learning for the compliance team, as its employees can obtain official compliance certifications and participate in courses and events.
- (ii) learning for the entire Institution, through training courses aimed at the branch network and other divisions, as well as Senior Management, and the design of compliance courses and follow-up on their completion.
- (iii) the compliance culture, in relation to which it is worth highlighting: (a) the role of the Regulatory School, which symbolises a change of paradigm, a friendly, pleasant and very graphic space in which to convey mandatory and regulatory standards, (b) the daily distribution to all employees who are part of Compliance of relevant news that may be of interest in their areas of work, (c) the weekly sending of communications to all the Bank's employees by Human Resources, which include relevant aspects related to Compliance, and (d) the quarterly sending of a newsletter from Risk Control and Regulation with relevant news on compliance.

(ii) Planning and monitoring

The Compliance function establishes, applying the principle of proportionality in accordance with the nature, volume and complexity of its activities, a compliance programme which includes a detailed schedule of its activities. This programme covers all services provided and activities carried out by the Institution and defines its priorities based on the assessment of compliance risk and in coordination with the Risk Control function.

In order to guarantee the effectiveness of the Programme, Monitoring Plans have been drawn up, which include two types of information: those that illustrate the activities carried out from a quantitative perspective, with KPIs linked to the operational execution of the programme, and those that deal with qualitative variables.

(iii) Relationship with supervisors

Management maintains constant interaction with the main authorities supervising the Bank's activities.

All requests received from the various supervisors have been dealt with within the established deadlines.

(IV) Evolution of the Senior Management reporting model

Compliance has adapted its Senior Management reporting model during 2022. To this end, the number of reports has been increased, as has their frequency.

For more details on the corporate risk culture, the global risk framework and the overall organisation of the risk function, as well as the main risks, see Note 4 to the consolidated annual financial statements for 2022.