# Pillar 3 Disclosures

Banco Sabadell Group – 2022

Sabadell

## Contents

## Glossary of acronyms and abbreviations

| | |
|---|---|
| AEB | Asociación Española de Banca |
| AIFMD | Alternative Investment Fund Managers Directive |
| AIRB | Advanced Internal Ratings-Based |
| ALCO | Assets and Liabilities Committee |
| AMA | Advanced Measurement Approach |
| AMCESFI | Autoridad Macroprudencial Consejo de Estabilidad Financiera |
| AT1 | Additional Tier 1 |
| AVA | Additional Valuation Adjustment |
| BBLS | Bounce Back Loan Scheme |
| BCBS | Basel Committee on Banking Supervision |
| BCFT | Blanqueo de Capitales y Financiación del Terrorismo |
| BdE | Banco de España |
| BOE | Boletín Oficial del Estado |
| BoE | Bank of England |
| BRRD | Bank Recovery and Resolution Directive |
| BSA | Banc Sabadell d'Andorra |
| CBILS | Coronavirus Business Interruption Loan Scheme |
| CBP | Código de Buenas Prácticas |
| CCF | Credit Conversion Factor |
| CCP | Central Counterparty |
| CCR | Counterparty Credit Risk |
| CCyB | Countercyclical Capital Buffer |
| CDP | Carbon Disclosure Project |
| CECA | Confederación Española de Cajas de Ahorros |
| CEO | Chief Executive Officer (Director Ejecutivo) |
| CESCE | Compañía Española de Seguros de Crédito a la Exportación |
| CET1 | Common Equity Tier 1 |
| CIRBE | Central de Información de Riesgos del Banco de España |
| CLBILS | Coronavirus Large Business Interruption Loan Scheme |
| CMOF | Contrato Marco de Operaciones Financieras |
| CMRP | Capital Markets Recovery Package |
| CNAE | Clasificación Nacional de Actividades Económicas |
| CNBV | Comisión Nacional Bancaria y de Valores |
| CNMV | Comisión Nacional del Mercado de Valores |
| COP25 | Conferencia de las Naciones Unidas sobre el Cambio Climático de 2019 |
| COREP | Common Reporting |
| CRD | Capital Requirements Directive |
| CRM | Credit Risk Mitigation |
| CRMT | Credit Risk Mitigation Techniques |
| CRO | Chief Risk Officer |
| CRR | Capital Requirements Regulation |
| CSA | Credit Support Annex |
| CSRBB | Credit Spread Risk in the Banking Book |
| CTA | Cooperativa de Trabajo Asociado |
| CVA | Credit Valuation Adjustment |
| DGS | Deposit Guarantee Scheme |
| DGSFP | Dirección General de Seguros y Fondos de Pensiones |
| DIS | Disclosure requirements |
| DLGD | Downturn Loss Given Default |
| DMO | Declaración Mensual de Operaciones |
| DoD | Definition of Default |
| DOUE | Diario Oficial de la Unión Europea |
| DSGD | Directiva Sistemas de Garantía de Depósitos |
| DT | Downturn |
| DTA | Deferred Tax Asset |
| DVA | Debt Valuation Adjustment |
| EAD | Exposure at Default |
| EBA | European Banking Authority |
| EC | European Commission |
| ECAF | Eurosystem Credit Assessment Framework |
| ECAI | External Credit Assesment Institution |
| ECB | European Central Bank |
| EDIS | European Deposit Insurance Scheme |
| EEFF | Estados Financieros |
| EFQM | European Foundation for Quality Management |
| EINF | Estado de Información No Financiera |
| EL | Expected Loss |
| EMA | European Master Agreement |
| EMTN | Euro Medium Term Note |
| ESG | Environmental, Social and Governance |
| ESMA | European Securities and Markets Authority |
| ESRB | European Systemic Risk Board |
| EU | European Union |
| EUC | End User Computing |
| EWI | Early Warning Indicators |
| EVE | Economic Value of Equity |

| | |
|---|---|
| **FaS** | Financiación con aplicación sostenible |
| **FCA** | Financial Conduct Authority |
| **FCR** | Factor Corrector de Riesgos |
| **FIRB** | Foundation Internal Ratings-Based |
| **FPC** | Financial Policy Committee |
| **FRE** | Fondos de Recuperación Económica |
| **FSB** | Financial Stability Board |
| **FTF** | Fichero de Titularidades Financieras |
| **FTP** | Funds Transfer Pricing |
| **FvS** | Financiación Vinculada a la Sostenibilidad |
| **GEI** | Gases de Efecto Invernadero |
| **GMRA** | Global Master Repurchase Agreement |
| **GMSLA** | Global Master Securities Lending Agreement |
| **G-SIB** | Global Systemically Important Bank / Institution |
| **HQLA** | High Quality Liquid Assets |
| **IAS** | International Accounting Standards |
| **IASB** | International Accounting Standards Board |
| **ICAAP** | Internal Capital Adequacy Assessment Process |
| **ICLP** | Incentivo Complementario a Largo Plazo |
| **ICMA** | International Capital Market Association |
| **ICO** | Instituto de Crédito Oficial |
| **ICS** | Informe corporativo de sostenibilidad |
| **ICT** | Information and Communication Technology |
| **IDD** | Insurance Distribution Directive |
| **IEA** | Agencia Internacional de la Energía |
| **IFRS** | International Financial Reporting Standard |
| **IIC** | Instituciones de Inversión Colectiva |
| **ILAAP** | Internal Liquidity Adequacy Assessment Process |
| **IMA** | Internal Model Approach |
| **IMI** | Internal Model Investigation |
| **IORP** | Institutions for Occupational Retirement Provision |
| **IRB** | Internal Ratings-Based |
| **IRCA** | International Register of Certificated Auditors |
| **IRP** | Informe con Relevancia Prudencial |
| **IRRBB** | Interest Rate Risk in the Banking Book |
| **IRS** | Interest Risk Swap |
| **ISDA** | International Swaps and Derivatives Association |
| **ISDA-CSA** | ISDA Credit Support Annex |
| **IT** | Information Technology |
| **ITS** | Implementing Technical Standards |
| **JST** | Joint Supervisory Team |
| **KRI** | Key Risk Indicator |
| **KYC** | Know Your Costumer |
| **LBG** | Lloyds Banking Group |
| **LCR** | Liquidity Coverage Ratio |
| **LDA** | Loss Distribution Approach |
| **LGD** | Loss Given Default |
| **LR** | Leverage Ratio |
| **LtD** | Loan to Deposits |
| **LTV** | Loan-to-Value |
| **MCD** | Mortgage Credit Directive |
| **MDA** | Maximum Distributable Amount |
| **MiCA** | Regulación de Mercados en Cripto-Activos |
| **MiFID** | Markets in Financial Instruments Directive |
| **MREL** | Minimum Requirement for own funds and Eligible Liabilities |
| **MtM** | Mark to Market |
| **NFRD** | Non-Financial Reporting Directive |
| **NGEU** | Next Generation EU |
| **NGFS** | Network for Greening the Financial System |
| **NIF** | Número de Identificación Fiscal |
| **NPEs** | Non-Performing Exposures |
| **NPLs** | Non-Performing Loans |
| **NPS** | Net Promoter Score |
| **NSFR** | Net Stable Funding Ratio |
| **NZBA** | Net Zero Banking Alliance |
| **OCI** | Other Comprehensive Income |
| **ODR** | Observed Default Rate |
| **ODS** | Objetivos de Desarrollo Sostenible |
| **OFEX** | Oficinas en el Exterior |
| **OFISO** | Observatorio español de financiación sostenible |
| **OIT** | Organización Internacional del Trabajo |
| **OMM** | Ongoing Model Monitoring |
| **O-SII** | Other Systemically Important Institutions |
| **OTC** | Over-the-counter |
| **PBCFT** | Prevención de Blanqueo de Capitales y Financiación del Terrorismo |
| **PCAF** | Platform Carbon Accounting Financials |

| | |
|---|---|
| PCO | Primary Corporate Objectives |
| PD | Probability of Default |
| PIB | Producto Interior Bruto |
| PiT | Point-in-time |
| POCI | Assets purchased or originated with credit impairment |
| POG | Guidelines on product oversight and governance arrangements for retail banking products |
| PPU | Permanent Partial Use |
| PRA | Prudential Regulation Authority |
| PRI | Principios de Inversión Responsable |
| PRPs | Personas con Responsabilidad Pública |
| PSD | Payment Services Directive |
| PYME | Pequeñas y medianas empresas |
| QCCP | Qualifying Central Counterparty |
| RAF | Risk Appetite Framework |
| RaRoC | Risk-Adjusted Return on Capital |
| RAS | Risk Appetite Statement |
| RBA | Rating Based Approach |
| RCP | Representative Concentration Pathways |
| RCSA | Risk and Control Self-Assessment |
| RDA | Risk Data Aggregation |
| RDL | Real Decreto Ley |
| ROE | Return on Equity |
| RoRAC | Return on Risk-Adjusted Capital |
| RTS | Regulatory Technical Standards |
| RWA | Risk Weighted Assets (Activos ponderados por riesgo) |
| S.A. | Sociedad Anónima |
| SA-CCR | Standardized approach (Counterparty Credit risk) |
| S.A.U. | Sociedad Anónima Unipersonal |
| S.C.A. | Strong Consumer Authentication |
| S.G.I.I.C. | Sociedad gestora de instituciones de inversión colectiva |
| S.U. | Sociedad Unipersonal |
| SAC | Servicio de Atención al Cliente |
| SBBS | Sovereign Bonds Backed Securities |
| SEC- | Securitisation Internal Ratings-Based Approach |
| SEPBLAC | Servicio Ejecutivo de la Comisión de Prevención del Blanqueo de Capitales |
| SFT | Securities Financing Transaction |
| SGS | Sector Guidance Strategy |
| SIV | Special Investment Vehicles |
| SMEs | Small and medium-sized enterprises |
| SMF | Sterling Monetary Framework |
| SOFOM | Sociedad Financiera de Objeto Múltiple |
| SOT | Supervisory Outlier Test |
| SOT | Supervisory Outlier Test |
| SR | Securitisation Regulation |
| SRB | Single Resolution Board |
| SRD | Shareholder Rights Directive |
| SREP | Supervisory Review and Evaluation Process |
| SRM | Single Resolution Mechanism |
| SRMR | Single Resolution Mechanism Regulation |
| SSM | Single Supervisory Mechanism |
| STDA | Standardised Approach |
| STS | Simple, transparent and standardised |
| T1 | Tier 1 |
| T2 | Tier 2 |
| TCFD | Task Force on Climate-related Financial Disclosures |
| TFS | Term Funding Scheme |
| TFSME | Bank of England Term Funding Scheme for Small and Medium-sized Enterprise |
| TIE | Tipo de Interés Efectivo |
| TIC | Tecnologías de la Información y la Comunicación |
| TLAC | Total Loss-Absorbing Capacity |
| TLTRO | Targeted Longer-Term Refinancing Operations |
| TREA | Total Risk Exposure Amount |
| TRIM | Targeted Review of Internal Models |
| TTC | Through the Cycle |
| UCITS | Undertakings for Collective Investment in Transferable Securities |
| UGB | Unidad de Gestión de Balance |
| UGL | Unidad de Gestión de Liquidez |
| UAT | User Acceptance Testing |
| UNACC | Unión Nacional de Cooperativas de Crédito |
| UNEP | United Nations Environment Programme Finance Initiative |
| VaR | Value at Risk |

# 1

# Introduction

## 1.1 Introduction

This report complies with the obligation of the constituent financial institutions of Banco Sabadell Group to publish Pillar III Disclosures pursuant to that set forth in Part Eight of Regulation (EU) 575/2013 of the European Parliament and of the Council, of 26 June 2013 (hereinafter, CRR – Capital Requirements Regulation) and Commission Implementing Regulation (EU) 2021/637, which further develops Titles II and III of Part Eight of the aforesaid CRR to provide disclosure formats, templates and tables.

This report contains information regarding:

- **Structural aspects:** description of fundamental aspects related to the document's content and its governance, the statement of the Board of Directors and the scope of consolidation represented by the disclosed information.
- **Risk profile and management:** presentation of a set of key financial figures used to determine Banco Sabadell Group's risk profile for the different types of risk on which information is required: credit risk, counterparty credit risk, market risk, liquidity risk, structural risks, operational risk and ESG risks.

It also sets out objectives relating to the management and control of each of the aforesaid risks, describing the Global Risk Framework, cross-cutting aspects about risk management and the specific characteristics of each type of material risk .

- **Pillar I information,** or regulatory capital disclosures, pursuant to BCBS standards. Mainly includes information on eligible own funds, regulatory capital requirements for each type of risk and Banco Sabadell Group's level of solvency pursuant to the criteria set forth in the CRR.
- **Pillar II information and other risks:** includes information on risks and the economic capital calculation process, in relation to the capital require7ments self-assessment to be carried out by Banco Sabadell Group and other additional requirements following the supervisory review process. It also includes the disclosure requirements on risks that are not subject to capital requirements, encumbered assets and the leverage ratio.
- **Corporate Governance and Remuneration:** disclosures on aspects related to the activity of the Board of Directors and the various governing bodies, as well as in relation to qualitative and quantitative aspects of the Remuneration Policy and the Identified Staff.

**Figure 1. Structure and contents of the Pillar III Disclosures 2022 report.**

| Disclosure requirements – Pillar III | | | | |
|---|---|---|---|---|
| Structural sections | Risk profile and management | Pillar I information | Pillar II information and other risks | Corporate governance and Remunerations |

## 1.2 Overview

### 1.2.1 Scope

Any references made to the "Group" or "Banco Sabadell Group" shall refer interchangeably to the institutions for which the Group measures capital adequacy, specific details of which are given in this report. "Banco Sabadell" or "Bank" refers to the information of the Group, excluding the contributions of TSB Banking Group PLC (also referred to as "TSB" or "TSB Group").

The disclosed information refers to the activities of Banco Sabadell Group in 2022, therefore the data presented herein, unless otherwise stated, are the data available as at 31 December 2022.

This document should be read together with the information published on Banco Sabadell Group's website, specifically the documentation included in the sections containing the Annual Report, Corporate Governance disclosures and the Remuneration Policy.

In the event of any discrepancies between the data included in this report and the data published in the Annual Report in relation to eligible own funds and capital requirements, the data indicated in the Pillar III Disclosures report shall prevail, as this report is prepared and published at a later date.

*The **Pillar III Disclosures report** is available on the Banco Sabadell Group website, in the Shareholder and Investor Information section, in the Economic and Financial Information sub-section.*

*The **Annual Report** can be found in this same sub-section.*

***Banco Sabadell Group's consolidated annual financial statements** can be found in the document 'Group Legal Information 2022', located in the same sub-section as the Annual Report.*

*The **Information on Corporate Governance and Remuneration Policy** is available on the Banco Sabadell Group website, in the section on Corporate Governance and Remuneration Policy.*

To supplement the information included in this document, and pursuant to Article 13 of the CRR, for Banco Sabadell Group's subsidiaries which are of material importance to their local market, information is published in relation to own funds, capital requirements and buffers, credit risk adjustments, credit risk mitigation techniques and remuneration policies (Articles 437, 438, 440, 442, 450, 451 and 453 of the CRR).

Banco Sabadell Group publishes an annex to this document containing information relative to TSB Banking Group PLC both on the Group's website and on the subsidiary's website.

*The **TSB Large Subsidiary Disclosures** report is available on the Banco Sabadell Group website, in the Shareholder and Investor Information section, under the sub-section on Economic and Financial Information and within the section on Pillar III Disclosures, as well as on the website of TSB Bank in the section Results, reports and presentations.*

In addition, following the recommendations included in the *Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013*, in order to improve comparability, the tables of this document are published in Excel format and including the previous period for the most significant data.

*The **Excel tables** are available on the Banco Sabadell Group website, in the Shareholder and Investor Information section, under Economic and Financial Information.*

### 1.2.2 Document governance, approval and publication

Banco Sabadell Group has a Financial and Non-Financial Disclosures Policy in place, which has been approved by the Board of Directors and is reviewed at least once a year. The last review was approved by the Board of Directors on 23 March 2023.

Following the guidelines of this policy, this document was approved by the Board of Directors on 23 March 2023. The Board of Directors declares that the Pillar III Disclosures report has been prepared in accordance with the aforementioned disclosures policy.

Prior to the approval by the Board, the Pillar III Disclosures report was favourably reviewed by the Board Audit and Control Committee at its meeting held on 20 March 2023 and by the Board Risk Committee on 14 February 2023.

By approving the content of the 2022 Pillar III Disclosures report, the Board of Directors also approved the content of this section of the report and the statements appearing herein in relation to the provisions of Article 435(1)(e) and (f) of the CRR.

The Annual General Meeting held on 28 March 2019 appointed KPMG Auditores, S.L. as the statutory auditor of the consolidated Group for 2020, 2021 and 2022.

Also, in accordance with the aforementioned policy, and pursuant to the provision of Bank of Spain Circular 2/2016 on verifying Pillar III disclosures, this report has been subject to review and verification by a statutory audit firm (KPMG). In the latter's report, no statements were made in relation to any issues relating to the accuracy and consistency of the reviewed information or relating to compliance with the disclosure requirements set forth in Part Eight of the CRR.

### 1.2.3 Disclosure frequency

This document is published on an annual basis. However, pursuant to Article 433 of the CRR, and following the EBA's Guidelines on materiality, proprietary and confidentiality and on disclosure frequency, of 23 December 2014, part of the information is published on a more frequent basis. To access this quarterly information, please refer to our website, in the same section as the **Pillar III Disclosures.**

*The **quarterly disclosures** are available on the Banco Sabadell Group website, in the Shareholder and Investor Information section, under Economic and Financial Information, and within the Pillar III Disclosures sub-section.*

## 1.3 Compliance with disclosure requirements

In addition to the applicable European and State regulations, EBA guidelines have also been taken into account when preparing this report, particularly its Guidelines on disclosure requirements under Part Eight of Regulation (EU) No 575/2013, published on 14 December 2016, and the disclosure principles set out in the document Enhancing the Risk Disclosure of Banks – Report of the Enhanced Data Task Force, of 29 October 2012.

The current disclosure standards (DIS) of the Basel Framework, published by the Basel Committee on Banking Supervision, have also been considered.

**Annex I** set out the legal acts and observed best practices that have been taken into account in the preparation of this document, and includes the following information on compliance:

- Disclosure requirements set forth in Part Eight of the CRR, at the highest level of detail.
- Disclosure requirements set forth in the legal acts and best practices.

- Inventory of improvements made in relation to the previous version of Banco Sabadell Group's annual Pillar III Disclosures, in order to improve the transparency of the information set out in this report.

**Annex II** gives details of the disclosure requirements set forth in Part Eight of the CRR that are not applicable to Banco Sabadell Group:

- Requirements of the various articles of the CRR which are not applicable to Banco Sabadell Group as at 31 December 2022 and the reasons for this. Sections whose application is at the discretion of the regulator and in relation to which no requests have been received, as well as sections in which the text of the corresponding chapter already mentions and explains why they are not applicable, have been excluded.

- Waivers for materiality reasons, which were approved by the Planning and Capital Committee on 13 March 2023 for this report.

For further information on the prudential regulatory framework, please refer to chapter 3. Supervisory and regulatory framework of this report.

### Application of waivers

Pursuant to that set forth in the Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013, the regulatory framework governing Pillar III disclosures permits the application of certain waivers of disclosure requirements in particular circumstances.

The Banco Sabadell Group Financial and Non-Financial Disclosures Policy, whose update was approved by the Board of Directors on 23 March 2023, and its implementing procedure, establish the thresholds and mechanisms for approving disclosure waivers on the grounds of the materiality of the information.

Banco Sabadell Group has not made use of any waivers owing to any proprietary, confidential information or materiality.

# 2

# Statement of the Board of Directors and Risk Profile

## 2.1 Statement of the Board of Directors

The Board of Directors of Banco Sabadell Group hereby declares that:

The risk management arrangements in place are deemed adequate regarding the Group's risk profile and corporate strategy.

Banco Sabadell Group has a Global Risk Framework in place that aims to ensure the control and proactive management of all material risks. This Framework allows risk to be addressed using a structured approach that is consistent throughout Banco Sabadell Group, bringing the level of accepted risk in line with the risk strategy and risk appetite and ensuring that critical risks are identified, understood, managed and controlled efficiently, in line with the Board of Directors' guidelines.

The Framework's components are:

- Banco Sabadell Group Global Risk Framework Policy.
- Risk Appetite Framework (RAF).
- Risk Appetite Statement (RAS).
- The set of management Policies associated with each risk, together with the Procedures and the operating and conceptual Manuals that make up part of the body of regulations of Banco Sabadell Group and its constituent entities.

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

- Risk governance, Board of Directors involvement and model of three lines of defence.
- Alignment with Banco Sabadell Group's business strategy and implementation of the risk appetite throughout the entire organisation.
- Integration of the risk culture.
- Holistic vision of risk.
- Alignment with the interests of stakeholders.

This Framework provides Banco Sabadell Group with adequate risk management and control mechanisms in relation to the Group's risk profile and corporate strategy.

2022 has been a year marked by the monitoring and control of risks associated with the war between Russia and Ukraine, through the assessment of the Institution's direct and indirect exposures. Similarly, the consequences of rising inflation and interest rates on the retail and business credit portfolios has led to a more extensive rollout of credit risk monitoring and management tools.

In Banco Sabadell Group, Risk Appetite is a key element to determine the risk strategy, and through the Risk Appetite Statement (RAS) it is ensured that the risk profile is consistent with the risk tolerance approved by the Board of Directors. The RAS establishes the quantity and diversity of risks that Banco Sabadell Group seeks and tolerates in the pursuit of its business objectives, maintaining a balance between risk and return.

This appetite is conveyed to the entire organisation through the Risk Appetite Framework (RAF), which sets out the mechanisms for controlling and monitoring the risk appetite, tolerance and limit thresholds set by decision-making bodies. This Framework covers all the Group's business lines and units, in accordance with the proportionality principle, and must enable adequately informed decisions to be made, taking into account the material risks to which it is exposed, including both financial and non-financial risks.

Lastly, to ensure that Banco Sabadell Group's risk profile is in line with the risk appetite approved by the Board of Directors, the main first-tier RAS metrics are evaluated in planning exercises and internal stress tests.

The Group's risk profile is Medium-Low, which is appropriate to its business model based on universal commercial banking and to the risk appetite framework defined and approved by the Board of Directors.

The **main elements** that define Banco Sabadell Group's risk profile and on which the risk appetite is based are:

- Banco Sabadell Group has an overall Medium-Low risk profile, which is adequate for the sustainable development of the Group's business model, based on universal commercial banking, which is less volatile than other business models based on wholesale activities. The Group's international diversification also helps to reduce its risk profile.
- Banco Sabadell Group seeks to consolidate a business model that favours a stable and long-term relationship with customers, allowing their prosperity to be fostered without undermining the achievement of a fair profit for the Group, which is necessary as the first line of solvency.
- Banco Sabadell Group aims to maintain a Medium-Low residual risk profile, attained through prudent and balanced risk policies, which ensures the profitable, predictable and sustainable growth of the Group's activity in the medium term and which is in line with the Group's strategic objectives.
- Banco Sabadell Group seeks to maintain a risk profile compatible with an investment grade rating to allow a comfortable access to a wider funding base.

The **key risks** of the Institution are those inherent in the banking business, and which comprise Banco Sabadell Group's risk profile: credit risk, market risk, liquidity risk, structural risks (interest rate risk and foreign exchange risk) and operational risk.

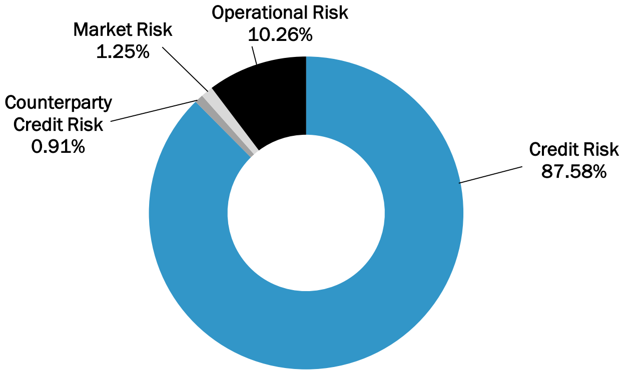
- Credit risk is the most significant balance sheet risk and arises from the business model, which essentially targets the commercial segment of companies and the retail segment of individuals.
- In relation to other risks, the exposure to market risk is negligible, due to the very small size of the trading book. The distribution of other risks (Operational, Structural and other types) is in line with the structure of a retail commercial banking business.

The vulnerabilities identified during the COVID-19 crisis became less prevalent during 2022, paving the way to a reactivation of the main economies.

Additionally, the maturity of ICO-backed loans during the past year did not have a significant impact on defaults. However, 2022 was marked by rising inflation rates, a steep interest rate hike implemented by the main central banks and the conflict between Russia and Ukraine. Although most of these factors are considered temporary, adverse scenarios are envisaged in which their duration and impact on the economy may be significant, taking into consideration key factors as the ability of businesses to manage rising costs and the ability of individuals to cope with debt repayments. Based on the above, it is considered that the inherent risk corresponding to credit risk should be maintained at Medium-High.

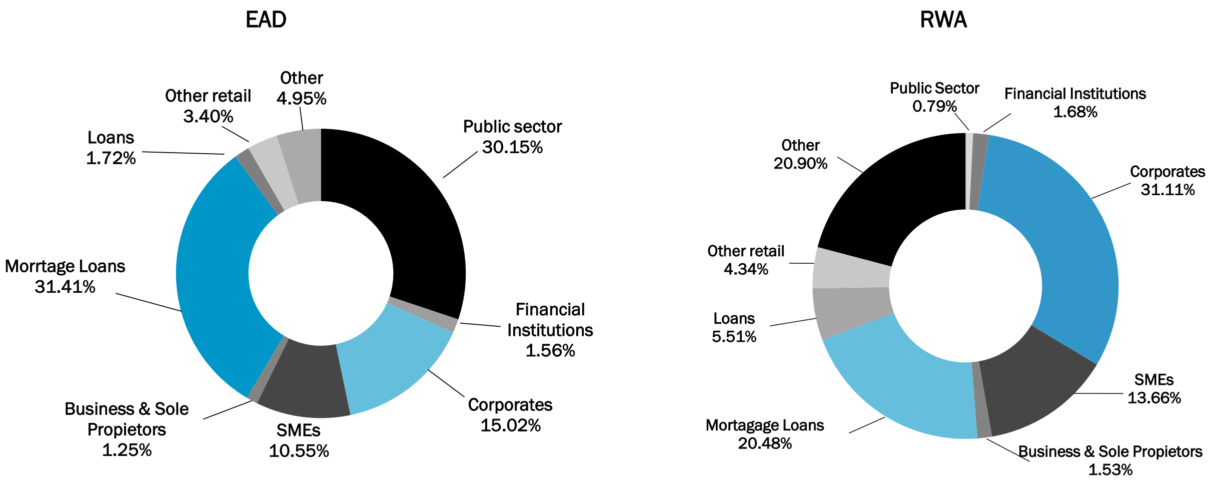
In this case, through active management, Banco Sabadell has managed to considerably reduce the volume of Non-Performing Assets (NPAs) and maintains an appropriate level of coverage which, combined with appropriate management of portfolio concentration and stewardship through the Sector Guidance Strategy and the control framework deployed, indicate that the residual credit risk is mitigated and therefore the risk is assessed as Medium-Low.

**Figure 2. RWAs, by type of risk.**




*Counterparty credit risk includes the CVA and requirements for contributions to the CCP default fund.*

**Figure 3. EAD and RWAs, by credit risk segment.**



Banco Sabadell Group has the following **key metrics** in line with the Risk Appetite established by the Board of Directors.

- **Solvency:** solid capital position, in order to keep an adequate level of capital to meet legal and internal requirements and ensure its adequate composition, fostering the selection of eligible items of the highest possible quality to ensure their stability and support Banco Sabadell Group's strategy for sustained growth. Capital management is based on capital targets that are consistent with the Group's risk profile, at both a local and Group-wide level.
- **Liquidity:** comfortable liquidity position to enable payment obligations to be fulfilled at a reasonable cost, in both business-as-usual conditions and in stress situations. Maintenance of a stable and balanced funding structure, in line with the risk appetite and the defined funding strategy, in which deposits acquired through the branch network represent the predominant source of funding and are supplemented by wholesale funding where an adequate level of asset encumbrance is sought. A level of high-quality assets that allows regulatory requirements in relation to the LCR to be met, combined with an adequate capacity to generate liquidity through the available liquid asset buffer (counterbalancing capacity).
- **Profitability:** solid ability to generate recurring revenue (net interest income + fees and commissions), supported by a differential position in profitable segments, diversification in terms of products and regions, and the importance attached to quality of service; combined with a moderate risk profile focused towards achieving a balance between risk and return, which enables stable income and the maximisation of risk-adjusted return.
- **Asset quality:** ongoing management of non-performing assets, in order to reduce cost of risk, NPL ratios, stock of NPLs and Banco Sabadell Group's problematic assets coverage. An NPA transformation strategy has been implemented, aimed at optimising and maximising recovery, as well as a strategy to anticipate the management of defaults and preventive management efforts of entries into default, which is an essential aspect in the normalisation of NPL balance levels.

## Main metrics of Banco Sabadell Group's risk profile

### SOLVENCY

| | Phase-in | | |
|---|---|---|---|
| | 31/12/2022 | 31/12/2021 | 31/12/2020 |
| Ratio Common Equity Tier 1 (CET1) | 12.68% | 12.50% | 12.57% |
| Ratio Tier 1 | 14.75% | 15.47% | 14.03% |
| Capital Ratio | 17.08% | 17.98% | 16.14% |
| Leverage Ratio | 4.62% | 5.90% | 5.25% |

| | Fully loaded | | |
|---|---|---|---|
| | 31/12/2022 | 31/12/2021 | 31/12/2020 |
| Ratio Common Equity Tier 1 (CET1) | 12.55% | 12.22% | 12.02% |
| Ratio Tier 1 | 14.62% | 15.19% | 13.49% |
| Capital Ratio | 17.03% | 17.70% | 15.91% |
| Leverage Ratio | 4.59% | 5.80% | 5.06% |

### LIQUIDITY

| | 31/12/2022 | 31/12/2021 | 31/12/2020 |
|---|---|---|---|
| Loan to Deposits (LTD) | 95,60% | 96,33% | 97,59% |
| Net Stable Funding Ratio (NSFR) | 137,86% | 140,76% | >100% |
| Liquidity Coverage Ratio (LCR) | 234,17% | 221,41% | 197,95% |

| Banco Sabadell (Ex TSB) | | | |
|---|---|---|---|
| | 31/12/2022 | 31/12/2021 | 31/12/2020 |
| Counterbalancing Capacity | 58,010 | 56,596 | 46,453 |
| Asset Encumbrance Ratio | 23.41% | 27.53% | 28.30% |

*Amount in million euros.*

TSB

| | 31/12/2022 | 31/12/2021 | 31/12/2020 |
|---|---|---|---|
| Counterbalancing Capacity | 12,285 | 14,608 | 14,301 |
| Asset Encumbrance Ratio | 23.90% | 21.90% | 15.40% |

*Amount in million euros.*

## PROFITABILITY

| | 31/12/2022 | 31/12/2021 | 31/12/2020 |
|---|---|---|---|
| Return on Equity (ROE) | 6,31% | 4,05% | 0,02% |
| Return to tangible equity (ROTE) | 7,76% | 5,05% | 7,37% |
| Cost to income (%) | 45,12% | 55,33% | 55,41% |

## ASSET QUALITY

| | 31/12/2022 | 31/12/2021 | 31/12/2020 |
|---|---|---|---|
| NPA Ratio (1) | 4.05% | 4.42% | 4.41% |
| NPA coverage with total provisions(2) | 52.27% | 53.07% | 52.65% |
| Cost of risk(3) | 44 bps | 49 bps | 86 bps |
| NPL ratio | 3.41% | 3.65% | 3.60% |

*(1) NPAs/ (gross lending + foreclosed assets). Lending figure includes accrual adjustments.*

*(2) Calculation includes all credit and foreclosed assets.*

*(3) Credit cost of risk not including recoveries expenses. The denominator of cost of risk is based on gross lending at year-end including guarantees.*

### Transactions with a material impact on the risk profile

In 2022, Banco Sabadell Group did not carry out any relevant transactions with an impact on the Group’s risk profile.

## 2.2 Risk profile

### Risk profile during 2022

The following milestones have been achieved in relation to Banco Sabadell Group's risk profile during 2022:

- Non-performing assets:
  - Decrease in the NPL ratio in the year, from 3.65% to 3.41%, due to a reduction of stage 3 volumes as a result of improved credit quality.
- Lending performance:
  - Gross performing loans continue to increase year-on-year in all geographies, excluding the impact of the evolution of foreign currencies, with annual growth figures of +1.7% in Spain, +3.3% in 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.
  - At TSB, at a constant exchange rate, annual growth was 3.3%, supported by the positive evolution of the mortgage book.
  - From a sectoral point of view, the loan portfolio is diversified, has limited exposure to the sectors most sensitive to the current environment and follows a downward trend.
  - Similarly, in terms of individual concentration, the risk metrics relating to concentration of large exposures do show a slight upward trend but nevertheless remain within the appetite 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 exposures account for 36% of the loan book.
- Strong capital position:
  - The CET1 ratio improved by 33 bps to 12.54% in fully loaded terms as at 2022 year-end, (compared to 12.22% at the end of 2021).
  - The phase-in Total Capital ratio stood at 17.08% as at 2022 the end of 2022, thus remaining above requirements with an MDA buffer of 399 basis points. The leverage ratio was 4.59% (in fully-loaded terms).
  - The MREL requirement is still being met.
- Sound liquidity position:
  - The LCR stood at 234% (compared to 221% as at 2021 year-end) and the loan-to-deposit ratio was 95,6% at the end of 2022.

### Strengthened credit risk management and control environment

2022 has been marked by the monitoring and control of the measures introduced to mitigate the effects of Covid-19, as well as high inflation and the effects of the war in Ukraine.

To that end, particular attention has been paid to monitoring and controlling the measures introduced (mainly ICOs). RAS metrics have also been strengthened and exposure to the sectors most affected by the crisis has been assessed to mitigate its impact.

In the case of individuals, the management and control framework has been reinforced, with changes in RAS metrics and with new origination rules and proposals for interest rate adjustments, effort rates and available income to cope with higher interest rates and the inflationary environment.

#### Performance of the main solutions offered in Spain

In terms of the ICO Covid lines, as at 31 December 2022, the amount of the loans granted was approximately 7.4 billion euros (8.6 billion euros as at 31 December 2021). As at year-end, the bulk of the payment holidays had already expired.

In 2022, Banco Sabadell took up the new ICO guarantee line in the context of war in Ukraine and undertook to adhere to the new Code of Good Practice, which includes measures to ease the mortgage burden of vulnerable individuals.

#### Performance of the main solutions offered in the United Kingdom

In the United Kingdom, the main solutions offered during 2020 and 2021 to help SMEs during the Covid-19 pandemic were government-guaranteed loans to companies, known as BBLs (Bounce Back Loans). These loans have been benefitting from extensions (Pay-as-you-Grow) introduced by the government during the year, facilitating repayment conditions for customers. The exposure to these loans as at 2022 year-end amounted to 379 million pounds, representing 64% of the business customer portfolio (546 million pounds as 31 December 2021, representing more than 75% of the business customer portfolio). In response to the more recent cost-of-living crisis, regulators and financial Institutions in the country have focused on establishing adequate communication channels, tools and training to support and proactively help their customers, in particular those in vulnerable situations.

## Credit ratings

In 2022 the four agencies that have assessed the credit quality of Banco Sabadell have been 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), upgrading its outlook from negative to stable, in order to reflect the lower impact that the COVID-19 crisis will have on Banco Sabadell's operating environment in both Spain and the United Kingdom. The short-term rating has also been maintained, 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 Banco Sabadell 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 remains 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 the respective review reports were published.

**Table 1. Ratings assigned by credit rating agencies.**

| Agency | Date | Long term | Short term | Outlook |
|---|---|---|---|---|
| DBRS Ratings | 07/07/2022 | A (low) | R-1 (low) | Stable |
| S&P Global Ratings | 21/11/2022 | BBB | A-2 | Stable |
| Moody's Investors Service(1) | 21/12/2022 | Baa3/Baa2 | - /P-2 | Positive |
| Fitch Ratings | 15/07/2022 | BBB- | F3 | Stable |

*(1) Corresponds to senior debt and deposits, respectively.*

# 3

# Supervisory and regulatory framework

## 3.1 Supervisory framework

Banco Sabadell Group, as a significant institution, is supervised by the Single Supervisory Mechanism (SSM). The SSM carries out various activities which are set out in the supervision manual, mostly in accordance with the CRD. The main activities are indicated hereafter:

Continuous supervision is the responsibility of Joint Supervisory Teams (JSTs), which include members of the ECB and of the Bank of Spain staff. Among other responsibilities, they supervise the financial solvency and equity situation, liquidity situation and the risks to which the Institution is exposed, taking part in the supervisory review and evaluation process (SREP) which determines the Pillar 2 capital requirements and recommendations.

The supervision of internal models aims to evaluate whether regulatory requirements are being complied with, whether models can reliably calculate Pillar 1 own funds and whether they are mutually comparable.

On-site inspections focus on aspects relating to specific risks, their controls and the governance of institutions. They take place on banks' premises following a previously established schedule and scope, and they are carried out by a specific inspection team.

Thematic reviews are reviews carried out in a horizontal manner for all entities targeting risks in which threats to the stability of the financial system have been detected.

Deep dives focus on more specific aspects and are carried out by the JST.

While at European level microprudential supervision is the responsibility of the SSM, the European Systemic Risk Board (ESRB) is responsible for macroprudential supervision. This body has been set up to oversee the European financial system, and its actions are intended to prevent and mitigate systemic risks.

As a national authority that works closely with the ESRB, the Bank of Spain is responsible, among other aspects, for determining the countercyclical capital buffer for institutions within the Spanish financial system and for activating the macroprudential instruments contemplated in regulations.

Furthermore, in 2019, the Spanish Macroprudential Authority Financial Stability Council (AMCESFI) was created to identify, prevent and mitigate the development of systemic risk and, thereby, ensure the sustainable contribution of the financial system to economic growth.

The AMCESFI has powers to adopt opinions, warnings and recommendations on macroprudential analysis and policy matters.

On the other hand, Banco Sabadell Group is also subject to supervisory requirements and market conduct oversight, and to compliance with regulations on reporting transparency and the protection of banking customers, aspects that are within the remit of the Bank of Spain. Other authorities involved in the supervision of credit institutions are:

The CNMV (National Securities Market Commission), which supervises activities associated with the securities market, and the ESMA has the same powers as a European authority.

SEPBLAC (the Executive Service of the Spanish Commission for Anti-Money Laundering and the Prevention of Monetary Infractions), which supervises anti-money laundering and counter-terrorist financing procedures, as well as procedures relating to monetary infractions.

By virtue of the powers in terms of macroprudential policy measures attributed to it in the transposition of the CRD into Spanish law, the Bank of Spain designates systemically important institutions every year. Thus, in its latest update to these categories carried out in July 2022, Banco Sabadell Group is among the Spanish financial institutions that meet the criteria to be considered as an other systemically important institution (O-SII).

Meanwhile, as regards the United Kingdom, the PRA, a Bank of England organisation, is responsible for the microprudential supervision of financial institutions in the UK that manage significant risks in their balance sheets, including banks, insurance firms and some investment firms. When exercising its role, the primary aim of the PRA is to promote the safety and soundness of the firms it regulates, whilst also facilitating effective competition in markets.

Another major body in the United Kingdom is the Financial Conduct Authority (FCA), which is responsible for actively supervising conduct in relation to authorised entities, and for the prudential regulation of entities not included in the regulatory scope of the PRA.

TSB Bank has been authorised by the PRA and is subject to the regulatory framework defined by both the PRA and the FCA.

Banco Sabadell México is an institution with a banking licence, authorised and under the supervision of the National Banking and Securities Commission (CNBV, by its acronym in Spanish).

## 3.2 Regulatory framework

This section contains the main regulatory and supervisory determining factors upon which Banco Sabadell Group bases its operation as a financial institution, at both a European and a domestic level, as well as a review of the main regulatory developments of the past year.

The current regulatory framework complies with the regulatory package issued by the Basel Committee, Basel III, in order to guarantee the correct operation of the financial system. The European Parliament and the Council of the European Union reached an agreement on its adoption, adopting the recommendations set out in Basel III. These recommendations are in force as of 1 January 2014 with the entry into force of Regulation 575/2013 (CRR) and Directive 2013/36/EU (CRD V). Although having a Single Rulebook in place is a key aspect for European regulatory harmony, the regulatory framework envisages a certain degree of flexibility to member states in the transposition of European directives.

In this sense, at the national level the regulatory changes introduced were adopted through the transposition of the CRD IV by Law 10/2014, Bank of Spain Circular 2/2014 and Royal Decree 84/2015 and, finally, by Bank of Spain Circular 2/2016.

Following a negotiation period of over two years, this regulatory framework was partially amended in June 2019 through the introduction of CRR II, Regulation 2019/876, generally applicable as of June 2021, with various phase-in periods until 2023 and CRD V, Directive 2019/878, in effect since the end of 2020. Meanwhile, CRD V was transposed into Spanish law through Royal Decree-Law 7/2021 and Royal Decree 970/2021.

In 2020, the extraordinary circumstances of the COVID-19 pandemic and the scale of the resulting challenges have required prompt measures to be taken to ensure that banks are able to effectively channel funds to companies and households so as to mitigate the economic impact caused by the COVID-19 pandemic. The CRR was amended (an amendment referred to as the ‘quick fix’), through Regulation 2020/873, providing temporary and targeted relief from prudential rules applicable to banks in the European Union.

Moreover, some legislative initiatives were delayed because of the pandemic. In March 2020, the Basel Committee decided to postpone the implementation of the pending Basel III reforms by one year, to January 2023. Subsequently, the publication of the proposal was also delayed to the first half of 2021; however, the proposal was not published until 27 October 2021, thereby postponing the effective implementation of most of its provisions until 2025. The final legislative proposal is expected over the course of 2023.

In terms of resolution regulations and as a way to tackle the crisis, the rules to deal with unsound institutions are set out, with a view to avoiding future bail-outs with taxpayers’ money, standardising the rules to recover and restructure failing banks. The directive that regulates the existing framework is BRRD, i.e. Directive 2014/59/EU on restructuring and resolution. BRRD was transposed in Spain by Law 11/2015 and Royal Decree 1012/2015. Subsequently, in November 2021, the resolution regulation was updated in parallel to the capital framework, with Regulation 2019/877 and Directive 2019/877, BRRD II. Nationally, Royal Decree 970/2021 was published making progress in the transposition of the resolution regulation and Royal Decree 1041/2021, whereby BRRD II was fully transposed into Spanish law.

Finally, the deposit guarantee schemes (hereinafter, DGSs) are governed by DGSD or Directive 2014/49/EU. Its aim is to protect depositors of all credit institutions, in addition to acting as a safeguard for the stability of the financial system of the European Union as a whole. Deposit guarantee schemes are a key part of the prudential supervision of financial credit institutions, as they create a support link between institutions operating in the same financial market should a bank declare bankruptcy. This directive was implemented nationally via Royal Decree 1041/2021, of 23 November, amending Royal Decree 2606/1996 on deposit guarantee schemes, introducing changes as regards contributions, calls for funds, coverage of deposits made by certain institutions on behalf of customers and other issues.

At the macroprudential level, the applicable framework is defined in CRD IV and the corresponding national legal developments that have taken place since its approval, especially that of Circular 2/2016.

Royal Decree-Law 22/2018 reformed Law 10/2014 on the organisation, supervision and solvency of credit Institutions and introduced additional macroprudential tools to Spanish law. The BoS, CNMV and DGSFP can thus have the necessary tools to mitigate the possible disturbances with a potential systemic impact. Law 10/2014, on its version before this reform, already considered instruments such as the countercyclical capital buffer, the buffers for systemically important institutions or the systemic risk buffer, with its corresponding implementation in Circular 2/2016.

Article 15.1 of Royal Decree 102/2019 contains specific provisions for the Bank of Spain to adopt the additional tools mentioned above.

Likewise, the third final provision of Royal Decree 102/2019, Section 2, empowers the Bank of Spain, by means of a circular, and in accordance with the provisions of the Law of Autonomy, to issue any provisions necessary for the development, implementation and compliance with the tools.

Finally, Bank of Spain Circular 5/2021 was published in December amending Circular 2/2016 and introducing three new macroprudential tools (a sectoral component of the countercyclical capital buffer, limits on sectoral concentration and restrictions on lending conditions).

## Covid-19 measures

The specific support measures put in place to combat the economic effects of the pandemic were in effect during the first months of 2022 and were gradually phased out as the economic situation began to normalise. The measures still in place are detailed below:

In Europe, we highlight that the EBA clarified in a notification dated 17 January 2022 that its Guidelines on reporting and disclosure of exposures subject to measures applied in response to the COVID-19 crisis adopted 2 June 2020 will continue to apply until further notice.

At the national level, both Covid-19 ICO lines and the Code of Good Practices received amendments in 2022:

On one hand, the government approved, through a resolution of the Spanish Council of Ministers on 21 June 2022, the possibility of extending the lines of ICO-Covid guarantees beyond 30 June 2022, when the EU's temporary aid framework ends. The extension of the term of the guarantees allows companies and self-employed workers, subject to approval by the financial institution, to extend the repayment period of their loans for up to 8 or 10 years.

On the other hand, on 29 March 2022, the Spanish Council of Ministers agreed to modify the Code of Good Practices for the renegotiation framework for customers with guaranteed loans provided for in RDL 5/2021, of 12 March. The most relevant update introduced is the elimination of the requirement of a drop of at least 30% in turnover in 2020 compared to 2019 in order to be eligible for the mandatory application of the term extension for transactions with public guarantees. In addition, self-employed workers and SMEs in agriculture, livestock, fisheries and road transport sectors are granted the right to a six-month grace period for the term extensions they request and receive as from 31 March 2022.

## Measures to mitigate the effect of the war in Ukraine

However, when the impact of the pandemic was started to be left behind and governments made plans for the economic recovery, the war between Russia and Ukraine, which started at the end of February 2022 and continues until today, undermined the entire economic reactivation process. The consequences of the conflict (inflation, interest rate hikes, etc.) caused governments to undertake plans and measures similar to those put in place to face the health emergency and mitigate its impact (ICO guarantee lines and direct aid to affected sectors), which are briefly described below:

In the European Union, the Commission adopted on 23 March 2022 a Temporary State Aid Framework aimed at mitigating the consequences of the conflict. The three types of actions envisaged in it are: i) limited amounts of aid to affected companies; ii) state guarantees to facilitate the provision of liquidity to companies; and iii) compensation to companies for the additional costs they incurred as a result of higher gas and electricity prices.

The continuation of the conflict and its impact have required a review for the adaptation and extension of the European Temporary Framework initially adopted. To that end, the Commission amended the European Temporary Framework on 20 July 2022. This amendment includes, among other measures, the modification to the limited amounts of aid that can be granted.

Finally, on 28 October 2022, the European Commission adopted a subsequent amendment to the European Temporary Framework, whereby member states can continue to make use of the flexibility envisaged in the regulations on state aid to support the economy in light of the war against Ukraine. In particular, it allows for an extension of all the measures set out in the Temporary Crisis Framework until 31 December 2023, an increase in the aid ceilings and the introduction of additional flexibility with regard to liquidity support.

At the national level, on 29 March 2022, the government approved, through Royal Decree-Law 6/2022, the plan to respond to Russia's invasion of Ukraine which includes, among other measures, an ICO guarantee line of 10 billion euros, in order to ensure access to liquidity for companies affected by the energy and raw materials price increases as a result of the conflict.

The line of guarantee has the following characteristics, among others: all companies and self-employed persons can benefit from this measure except the financial and insurance sectors. The deadline to apply to these guarantees is 1 December 2022, and banks must keep their customers' working capital lines open until 31 December 2022.

Subsequently, on 10 May 2022, the Spanish Council of Ministers approved the first tranche of this line of guarantees for 5 billion euros, conditioning the granting of these guarantees to the authorisation of the guarantee line by the European Commission, which was finally received on 2 June 2022.

Following this, the Spanish Council of Ministers, at its meeting on 11 October 2022, adopted an agreement amending its agreement dated 10 May 2022 in order to raise the thresholds for guarantees to be granted under the European Temporary Framework in line with the new ceilings for limited aid of the European Temporary Framework.

In this regard, on 23 November 2022 (following the decision reached by the Council of Ministers the previous day), Royal Decree-Law 19/2022 was published, which on one hand adapts to the European public aid framework the line of guarantees to provide liquidity to companies affected by the war in Ukraine (the deadline to request the guarantees is extended until 1 December 2023 and two different categories are created to ensure a better distribution of the first tranche: one for 3.500 million euros for SMEs and self-employed workers and another for 1.500 million euros for large enterprises. In addition, the maximum amounts of the aid and guarantees are also modified).

On the other hand, this Royal Decree introduced measures to support vulnerable families and those at risk of being vulnerable during the increase in their mortgages as a result of interest rate hikes. The aforementioned measures are implemented through three pillars: improving the experience of vulnerable families, by modifying and extending the 2012 Code of Good Practices (principal grace period, interest rate reduction, extension of the maturity period); the creation of a new framework of action for middle-class families at risk of vulnerability (new temporary Code of Good Practices, lasting two years, which entails a 12-month freeze on repayments, a lower interest rate on the deferred principal and an extension of the term of up to 7 years); and, lastly, the early repayment of loans and the conversion of variable rate mortgages to fixed rate mortgages is made easier through the temporary elimination and subsequent reduction of the penalty or fee charged for these items.

### United Kingdom

As regards the United Kingdom, the Bank of England (BoE) has the power to implement prudential regulations and is also responsible for the supervision of financial institutions through the Prudential Regulation Authority (PRA).

At a regulatory level, where the PRA is the body responsible for microprudential regulation and supervision of financial institutions, the Financial Policy Committee (FPC), which is also part of the BoE, is responsible for implementing macroprudential regulations, ensuring the stability and resilience of the entire financial system.

In 2020, under the EU Withdrawal Act, the PRA transposed CRD V into UK law, at the same time retaining the CRR and its 'quick fixes' introduced in response to COVID-19. The PRA and FPC also indicated their expectation that UK banks would continue to use capital and liquidity buffers to support the country's economy in the face of the challenges posed by the pandemic. It is worth noting that with regard to COVID-19, the UK, just like the rest of Europe, adopted a number of government and regulatory measures in order to support the economy and protect customers affected by the pandemic, including protection plans for employed and self-employed workers, the establishment of payment holidays and the granting of government backed loans. All these measures have ended.

With regard to the capital framework, in November 2020, the UK HM Treasury and the PRA issued a joint statement confirming the implementation of the outstanding elements of CRR II, which are applicable in the European Union from June 2021 and in the UK from 1 January 2022. As regards the Basel III reforms, the UK published its proposal at the end of November 2022. The date set for the implementation of the changes to be approved is January 2025.

Finally, it is important to point out that on 20 July 2022, the Financial Services and Markets Bill was presented in the British Parliament. This bill revises the entire British regulatory framework applicable to financial services. Following Brexit, the aim is to repeal EU legislation in relation to financial services and allow the UK HM Treasury and regulators to replace it with laws designed specifically for UK markets, improve the existing regulatory regime by focusing it on long-term growth and international competitiveness and secure the UK's position as an open, safe and digital financial centre. The proposal is under parliamentary review as at the date of preparation of this report.

## 3.3 New regulatory aspects

### ESG – Sustainable finance

At a regulatory level, the majority of the initiatives put forward by the European Commission (EC) and the EBA are currently in the development stage. Many supervisory initiatives were carried out during 2022. The main regulatory and supervisory developments in the area of climate-related risks in the EU are summarised below. First, it is important to note that on an international level, the Basel Committee on Banking Supervision published the ESG risk management and supervision principles in June 2022 (with which the ECB's expectations in terms of governance, internal control, capital and liquidity, scenarios, reporting, market risk, etc. are fully aligned).

#### European Commission

In the field of the European Commission, the Action Plan on Sustainable Finance, published in March 2018 stands out, which was subsequently reinforced by the publication of the European Green Deal in November 2019, and the review of the Renewed Sustainable Finance Strategy, finally communicated in July 2021. With these initiatives contained in the EU agenda for climate and sustainable development, the EC plans to: (i) redirect capital flows towards sustainable and inclusive investments; (ii) manage financial risks arising from climate change; and (iii) promote transparency and a long-term view of economic and financial activity.

To this end, a roadmap has been established in different areas which includes a number of regulatory developments. Many of the initiatives envisaged are already underway and include those relating to the EU Taxonomy, EU Ecolabel, EU Green Bond Standard, MiFID II, UCITS & AIFMD, and also IORP II, IDD and Solvency II, development of sustainable benchmarks, Ratings & Research, Sustainable Disclosure (SFDR), Reporting (CSRD), Due Diligence (CSDDD), CRR II / IORP II / IDD / SOLVENCY II, Non-Financial Reporting (NFRD), and Shareholder Rights (SRD II), etc.

#### European Banking Authority (EBA)

The EBA has once again included ESG risks as a horizontal priority in its Work Programme 2023. The EBA will continue to comply with the mandates stemming from the action plan of the Commission and the Sustainable Finance Strategy and will continue to contribute to European and international efforts (in particular, through the platform on sustainable finance, the Basel Committee, the Network for Greening the Financial System and the ESRB).

In accordance with its Work Programme of 2023, the EBA's efforts in this area will also be guided by the recommendations of the EBA Advisory Committee on Proportionality in four pillars: 1. Standardised/Aligned definitions, 2. Pillar III disclosure requirements 3. Reporting requirements, and 4. Pillar II.

In addition, it should be noted that the EBA must also fulfil the Commission's mandate by June 2023 to produce a report on the prudential treatment of climate-related risks, to be followed, if appropriate, by a legislative proposal from the same Commission.

Finally, apart from the Commission and the EBA, the European Securities and Markets Authority (ESMA) has also carried out some work within its remit during 2022 with an impact in the ESG area (revision of its guidelines on governance requirements for MiFID II products –currently underway– or support to the EC in its assessment of the need to introduce regulatory safeguards for ESG ratings).

### Single Supervisory Mechanism (SSM)

In terms of supervision, the ECB published on November 2020 the guide of supervisory expectations on climate-related and environmental risks which acts as a reference for all supervisory initiatives subsequently undertaken. Two of them are explained hereafter due to their relevance:

*Stress Test* de Riesgo Climático: el ejercicio duró de marzo de 2022 a julio de 2022 y sus resultados se integrarán en el SREP de manera cualitativa.

*Thematic Review*: realizada durante varios meses del año 2022. A principios de noviembre de 2022, se publicaron los resultados y las buenas prácticas observadas en dicho ejercicio. Asimismo, el SSM estableció una serie de hitos temporales -además de unos específicos propios de cada entidad- que los bancos deben cumplir de cara a su plena alineación en 2024 con las expectativas de su Guía de 2020. Sus resultados también se incluirán de manera cualitativa en el SREP.

## Digital

In terms of digital, a large number of initiatives are being carried out as part of the Commission's Work Programme with the aim of shaping a European digital future by driving innovation in financial services and ensuring the security of the EU's digital sovereignty and financial stability through the implementation of standards, with a clear focus on data, technology and infrastructure.

Open Finance: The creation of an Open Finance regulatory framework is part of the wider digital strategy of the Commission. The initiative aims to promote the exchange, access and reuse of both personal and non-personal details of customers and encourage responsible innovation and competitiveness in the European financial sector. During 2022, the Commission has launched two specific public consultations directly linked to the review of PSD2 and on Open Finance. The publication of a legislation is expected for the second quarter of 2023.

Digital euro: The Digital Euro project aims to provide a European public money solution to serve as a monetary anchor in Europe. Although still at an early stage, some key principles are already defined, such as the need for it to be easy to use, low cost and highly secure. Limits on individual holdings are a key factor. The legislative proposal expected from the Commission in the second quarter of 2023 will complement the ongoing project that the ECB officially launched in July 2021 and which is currently in the research phase, until the start of a development phase that would begin in October 2023 and is expected to last three years. It will not be until 2026 that the ECB will decide on its final issuance.

Regulation of crypto-asset markets (MiCA): The Markets in Crypto-Assets (MiCA) regulation aims to establish a single framework in the EU for crypto-assets that will regulate both issuers and service providers. Crypto-asset service providers should be established in the EU and authorised by national authorities. Requirements for capital, governance, IT risk management and segregation of customer assets, among others, will be required. The framework will also regulate stablecoins or significant e-money tokens. With the final text already approved by the Council, it is pending full approval by the European Parliament, and subsequently, it will be published in the OJEU. Its entry into force is therefore scheduled for 2024.

Digital Operational Resilience Act (DORA): Published by the Commission together with MiCA, the aim of DORA is to reinforce and harmonise the IT risk management framework for the entire financial sector in the context of an accelerated digital transformation. This will include strengthening IT risk management in prevention and recovery aspects such as business continuity plans, recovery of essential services and operational resilience testing. Moreover, essential IT service providers will be subject to a supervisory framework exercised by the European Supervisory Authorities (ESAs). Processes for identifying and reporting significant incidents to the authorities will also be required. Its approval is expected before the end of 2022; therefore, its full implementation will begin in the last quarter of 2024.

Artificial Intelligence Act: This is a pioneering global Artificial Intelligence (AI) legislative proposal that aims to: ensure that AI systems are safe and respect fundamental rights; ensure legal certainty to drive investment and innovation in AI; and avoid market fragmentation. The approach aims to regulate applications that pose a risk to citizens' rights and values and will create a governance infrastructure between the Commission and national competent authorities to guarantee the harmonised implementation of the regulation. For the banking industry, the proposal would particularly affect the application of AI in credit scoring models. The final text is in its final stage, and final adoption could take place as early as December 2022.

# 4

# Scope of application

# 4

The information contained in this chapter is in line with the disclosure requirements relating to the scope of application, in accordance with Article 436 of the CRR and Article 3 of Commission Implementing Regulation (EU) 2021/637.

Information is given below on the corporate name and the scope of consolidation of Banco Sabadell Group for the purpose of Pillar III.

## 4.1 Corporate name

The corporate names of the institutions included in the scope of application to which this chapter refers for the purpose of existing European regulations on the calculation of own funds (also called for prudential or solvency purposes), are those indicated in **table EU LI3**, Banco de Sabadell S.A., hereinafter referred to as the "Bank", "Banco Sabadell" or "the Institution" being the parent company of the Group, holder of tax identification number (NIF) A-08000143, with registered offices in Avda. Óscar Esplá 37, 03007 Alicante (Spain), entered in the Alicante Companies Register, under volume 4070, folio 1, sheet A-156980, and entered in the Credit Institutions Register of the Bank of Spain under number 0081. The supervision of Banco Sabadell on a consolidated basis was taken on by the European Central Bank (ECB).

## 4.2 Differences in the basis of consolidation for accounting and prudential purposes

Due to the differences between the consolidated group of credit institutions for prudential purposes, and the group of credit institutions for accounting purposes, there are two different scopes of consolidation referred to as the regulatory scope and financial scope, respectively.

For solvency purposes, as defined in Part One, Title II, Chapter 2 of the CRR, the following companies form part of the consolidated group:

- Financial institutions that can be consolidated due to their activities, including:
  - Credit institutions.
  - Investment firms.
  - Investment firms, as defined in Article 9 of Law 35/2003 of 4 November 2003 on Collective Investment Undertakings.
  - UCITS management companies, pension fund management companies and managing companies of mortgage securitisation or asset securitisation funds, whose corporate purpose is the administration and management of the aforementioned funds.
  - Venture capital firms and venture capital fund management firms.
  - Institutions whose primary activity is the ownership of shares or stocks, except in the case of mixed financial holding companies which are supervised at the level of the financial conglomerate and which are not controlled by a credit institution.
  - All institutions, regardless of their name, charter or nationality, that carry out activities typical of the institutions listed above.
- Similarly, special purpose entities whose business activities involve extending one or more consolidated financial institutions, or which consist primarily of providing ancillary services to those institutions, shall also be eligible for consolidation.
- Conversely, insurance undertakings shall not form part of consolidated groups of credit institutions.

For accounting purposes, the consolidated annual financial statements for 2022 of Banco Sabadell Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union applicable at the end of 2022, taking into account Bank of Spain Circular 4/2017 of 27 November and other financial reporting regulations applicable to the Group.

These accounting criteria determine that institutions will be part of the consolidated group when the parent company exercises or is entitled to exercise control over those institutions. This is understood to occur when Banco Sabadell Group is exposed, or is entitled, to variable returns as a result of its involvement in the investee and when it has the ability to influence those returns through its power over the subsidiary.

Control is deemed to exist in the following circumstances:

- Power: an investor has power over an investee when it holds rights which provide it with the ability to lead the significant activities, i.e., those that significantly affect the investee's returns.
- Returns: an investor is exposed, or is entitled, to variable returns due to its involvement in the investee when the returns obtained from such involvement may vary depending on the investee's economic performance. The investor's returns may be only positive, only negative or both positive and negative.
- Relationship between power and returns: an investor controls an investee if the investor not only has power over the investee and is exposed, or is entitled, to variable returns due to its involvement with the investee, but also the ability to use their power to affect the returns obtained due to their involvement with the investee.

In the Group's Annual Accounts for the year ended 31 December 2022, the financial statements of subsidiary undertakings and structured undertakings are consolidated with those of the Bank by applying the full consolidation method, and those of associate undertakings are consolidated by applying the equity method.

### 4.2.1 Differences between prudential exposures and carrying values

In order to explain the differences between the information disclosed in financial statements and in this report, the breakdown required by the EBA in Templates EU LI1 and EU LI2 in its Guidelines on disclosure requirements under Part Eight of Regulation (EU) no. 575/2013 is shown below.

Template EU LI1 breaks down the assignment of carrying values for prudential purposes to the various risk frameworks established in Part Three of the CRR. It is worth highlighting that the sum of the breakdown may not be equal to the total carrying value considered for prudential purposes, as there are certain items with capital requirements that apply to more than one risk framework.

## Table 2. Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (EU LI1).

| | | | Carrying value of items | | | | |
|---|---|---|---|---|---|---|---|
| | Carrying values as reported in published financial statements | Carrying values under scope of prudential consolidation | Subject to the credit risk framework | Subject to the CCR framework | Subject to the securitisation framework | Subject to the market risk framework | Not subject to own funds requirements or subject to deduction from own funds |
| **Breakdown by asset classes according to the balance sheet in the published financial statements** | | | | | | | |
| Cash and cash balances at central banks and other demand deposits | 41,260,395 | 41,260,020 | 41,260,021 | – | – | – | – |
| Financial assets held for trading | 4,017,253 | 4,017,254 | – | 3,446,523 | – | 4,017,254 | – |
| Financial assets designated at fair value through profit or loss | 77,421 | 77,421 | 77,421 | – | – | – | – |
| Financial assets measured at fair value through other comprehensive income | 5,802,264 | 5,802,264 | 5,802,264 | – | – | – | – |
| Financial assets at amortised cost | 185,045,452 | 185,072,893 | 176,916,177 | 5,487,621 | 2,669,095 | – | – |
| Held-to-maturity investments | – | – | – | – | – | – | – |
| Derivatives – Hedge accounting | 3,072,091 | 3,072,091 | – | 3,072,091 | – | – | – |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | -1,545,607 | -1,545,607 | – | – | – | – | -1,545,607 |
| Investments in subsidiaries, joint ventures and associates | 515,245 | 515,680 | 515,680 | – | – | – | – |
| Tangible assets | 2,581,791 | 2,528,991 | 2,528,991 | – | – | – | – |
| Intangible assets | 2,484,162 | 2,484,162 | 328,930 | – | – | – | 2,155,232 |
| Tax assets | 6,851,068 | 6,849,100 | 6,330,023 | – | – | – | 519,077 |
| Other assets | 479,680 | 479,673 | 389,944 | – | – | – | 89,729 |
| Non-current assets and disposal groups classified as held for sale | 738,313 | 738,313 | 738,313 | – | – | – | – |
| Assets under insurance and reinsurance contracts | – | – | – | – | – | – | – |
| **Total assets** | **251,379,528** | **251,352,255** | **234,887,764** | **12,006,235** | **2,669,095** | **4,017,254** | **1,218,431** |
| **Breakdown by liability classes according to the balance sheet in the published financial statements** | | | | | | | |
| Financial liabilities held for trading | 3,598,483 | 3,598,483 | – | 3,503,204 | – | 3,598,483 | – |
| Financial liabilities designated at fair value through profit or loss | – | – | – | – | – | – | – |
| Financial liabilities measured at amortised cost | 232,529,932 | 232,490,711 | – | 7,142,902 | – | – | 225,347,809 |
| Derivatives – Hedge accounting | 1,242,470 | 1,241,268 | – | 1,241,268 | – | – | – |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | -959,106 | -959,106 | – | – | – | – | -959,106 |
| Provisions | 644,509 | 659,409 | – | – | – | – | 659,409 |
| Tax liabilities | 226,711 | 225,112 | – | – | – | – | 225,112 |
| Expenses on share capital repayable on demand | – | – | – | – | – | – | – |
| Other liabilities | 872,108 | 871,955 | – | – | – | – | 871,955 |
| Liabilities included in disposal groups classified as held for sale | – | – | – | – | – | – | – |
| Liabilities under insurance and reinsurance contracts | – | – | – | – | – | – | |
| **Total liabilities** | **238,155,107** | **238,127,832** | **–** | **11,887,375** | **–** | **3,598,483** | **226,145,178** |

*Data as at 31/12/2022, in thousand euro.*

The largest difference is found in Tangible assets mainly corresponding to Fuerza Eólica San Matías, S.R.L. de C.V. (50,894 thousand euros), which are recognised as such in the financial scope of consolidation, whilst in the regulatory scope of consolidation, given that this company is integrated by the equity method, its net assets have been recorded as investments in subsidiaries, joint ventures and associates.

The following table shows the breakdown of amounts disclosed in the balance sheet and their mapping with the risk framework categories. Some of the items included may be subject to more than one risk framework.

**Table 3. Main sources of differences between regulatory exposure amounts and carrying values in financial statements (EU LI2).**

| | Total | Items subject to | | | |
|---|---|---|---|---|---|
| | | Credit risk framework | Securitisation framework | CCR framework | Market risk framework |
| **Assets carrying value amount under the scope of prudential consolidation (as per template LI1)** | 253,580,348 | 234,887,763 | 2,669,095 | 12,006,236 | 4,017,254 |
| **Liabilities carrying value amount under the scope of prudential consolidation (as per template LI1)** | 15,485,858 | — | — | 11,887,375 | 3,598,483 |
| Total net amount under the scope of prudential consolidation | 238,094,490 | 234,887,763 | 2,669,095 | 118,861 | 418,771 |
| Off-balance-sheet amounts | 36,408,787 | 36,408,787 | — | — | — |
| Differences in valuations | — | — | — | — | — |
| Differences due to different netting rules, other than those already included in row 2 | 602,958 | — | — | 602,958 | — |
| Differences due to consideration of provisions | 2,286,028 | 2,309,558 | -23,530 | — | — |
| Differences due to the use of credit risk mitigation techniques (CRMs) | 531 | 214,650 | -214,119 | — | — |
| Differences due to credit conversion factors | -16,331,611 | -16,331,611 | — | — | — |
| Differences due to Securitisation with risk transfer | -2,669,095 | -2,669,095 | — | — | — |
| Other differences | 1,459,040 | 655,731 | — | 1,222,080 | -418,771 |
| **Exposure amounts considered for regulatory purposes** | **259,851,127** | **255,475,782** | **2,431,446** | **1,943,898** | **-** |

*Data as at 31/12/2022, in thousand euro.*

The largest differences between assets and liabilities in the financial scope and the prudential exposure are due to:

- Consideration, for prudential purposes, of balances consisting of contingent risks and commitments that are reduced by credit conversion factors.
- The methodology for calculating counterparty credit risk within the prudential framework (SA-CCR), because while the accounting framework only includes assets and liabilities, the exposure considered in the prudential framework also considers the nominal amounts included in off-balance sheet items.
- The asymmetry in the consideration of provisions, as provisions are reduced in the accounting framework but in the prudential framework, in the case of exposures calculated under advanced approaches, the exposure is considered gross of provisions.

## Reconciliation between balance sheet items used to calculate own funds and regulatory own funds

The following table shows the reconciliation between balance sheet items used to calculate own funds and regulatory own funds, showing how the latter are obtained from equity.

Sabadell

## Table 4. Reconciliation between balance sheet items used to calculate own funds and regulatory own funds (EU CC2).

| | Balance sheet as in published financial statements | Under regulatory scope of consolidation | Reference[(1)] |
|---|---|---|---|
| Assets – Breakdown by asset classes according to the balance sheet in the published financial statements | As at period end | As at period end | |
| Cash and cash balances at central banks and other demand deposits | 41,260,395 | 41,260,020 | – |
| Financial assets held for trading | 4,017,253 | 4,017,254 | – |
| Financial assets that are not held for trading designated at fair value through profit or loss | 77,421 | 77,421 | – |
| Financial assets designated at fair value through profit or loss | – | – | – |
| Financial assets at fair value with changes in other comprehensive income | 5,802,264 | 5,802,264 | – |
| Financial assets at amortised costs | 185,045,452 | 185,072,893 | – |
| Derivatives – Hedge accounting | 3,072,091 | 3,072,091 | – |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | -1,545,607 | -1,545,607 | – |
| Investments in joint ventures and associates | 515,245 | 515,680 | – |
| Assets under insurance and reinsurance contracts | – | – | – |
| Tangible assets | 2,581,791 | 2,528,991 | – |
| Intangible assets | 2,484,162 | 2,484,162 | – |
| Tax assets | 6,851,068 | 6,849,100 | – |
| Memorandum item: Deferred tax assets | 6,644,507 | 6,643,954 | – |
| Other assets | 479,680 | 479,673 | – |
| Non-current assets and disposal groups classified as held for sale | 738,313 | 738,313 | – |
| **TOTAL ASSETS** | **251,379,528** | **251,352,255** | **–** |
| **Liabilities - Breakdown by liability classes according to the balance sheet in the published financial statements** | | | |
| Financial liabilities held for trading | 3,598,483 | 3,598,483 | – |
| Financial liabilities designated at fair value through profit or loss | – | – | – |
| Financial liabilities measured at amortised cost | 232,529,932 | 232,490,711 | – |
| Derivatives – Hedge accounting | 1,242,470 | 1,241,268 | – |
| Fair value changes of the hedged items in portfolio hedge of interest rate risk | -959,106 | -959,106 | – |
| Liabilities under insurance and reinsurance contracts | – | – | – |
| Provisions | 644,509 | 659,409 | – |
| Tax liabilities | 226,711 | 225,112 | – |
| Memorandum item: Deferred tax liabilities | 113,717 | 112,127 | – |
| Expenses on share capital repayable on demand | – | – | – |
| Other liabilities | 872,108 | 871,955 | – |
| Liabilities included in disposal groups classified as held for sale | – | – | – |
| **TOTAL LIABILITIES** | **238,155,107** | **238,127,832** | **–** |
| **Shareholders' Equity** | | | |
| Own funds | 13,840,724 | 13,840,723 | [(*)]1, 30, 46, 47 |
| Capital | 703,371 | 703,371 | 1 |
| Share premium | 7,899,227 | 7,899,227 | [(*)]1 |
| Equity instruments | – | – | – |
| Other equity | 21,548 | 21,548 | [(*)]3 |
| Retained earnings | 5,859,520 | 5,871,695 | 2 |
| Reserves appreciation | – | – | [(*)]3 |
| Other reserves | -1,365,777 | -1,377,953 | [(*)] 3 |
| Own shares | -23,767 | -23,767 | – |
| Results assigned to the owners of the dominant | 858,642 | 858,642 | [(*)]5a |
| Dividends out of profit | -112,040 | -112,040 | [(*)]5a |
| Accumulated other comprehensive income | -650,647 | -650,645 | [(*)]3 |
| Minority interest (non-controlling interest) | 34,344 | 34,345 | [(*)]5 |
| **Total shareholders' equity** | **13,224,421** | **13,224,423** | **–** |

*Data as at 31/12/2022, in thousand euro.*

*[(*)] Reference from table CC1 with partial coverage with respect to reference from table CC2.*

*[(1)] Cross reference with respect to table CC1. Composition of own regulatory funds.*

### 4.2.2 Differences in consolidation scopes, by entity

Template EU LI3 below summarises the information on differences in the consolidation method applied for each Banco Sabadell Group entity, for the various scopes of consolidation. The Group does not consolidate any entity throughthe proportional consolidation method. Furthermore, as at December 31, 2022 no participation in a Group entity is deducted from own resources for the purposes of calculating regulatory capital.

## Table 5. Outline of the differences in the scopes of consolidation (entity by entity) (EU LI3).

| Name of the Entity | Method of accounting consolidation | Method of prudential consolidation: Full consolidation | Proportional consolidation | Equity method | Neither consolidated nor deducted | Deducted | Description of entity |
|---|---|---|---|---|---|---|---|
| Aurica Coinvestments, S.L. | Full Consolidation | X | – | – | – | – | Holding |
| Banco Atlantico (Bahamas) Bank & Trust Ltd. | Full Consolidation | X | – | – | – | – | Credit Institution |
| Banco de Sabadell, S.A. | Full Consolidation | X | – | – | – | – | Credit Institution |
| Banco Sabadell, S.A., Institución de Banca Múltiple | Full Consolidation | X | – | – | – | – | Credit Institution |
| BanSabadell Factura, S.L.U. | Full Consolidation | X | – | – | – | – | Other investees with their own business |
| BanSabadell Financiación, E.F.C., S.A. | Full Consolidation | X | – | – | – | – | Credit Institution |
| BanSabadell Inversió Desenvolupament, S.A.U. | Full Consolidation | X | – | – | – | – | Holding |
| Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del Grupo Banco Sabadell, S.A. | Full Consolidation | X | – | – | – | – | Other regulated Institutions |
| Bitarte, S.A.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| BStartup 10, S.L.U. | Full Consolidation | X | – | – | – | – | Holding |
| Business Services for Operational Support, S.A.U. | Full Consolidation | X | – | – | – | – | Other investees with their own business |
| Compañía de Cogeneración del Caribe Dominicana, S.A. | Full Consolidation | – | – | X | – | – | Utilities |
| Crisae Private Debt, S.L.U. | Full Consolidation | X | – | – | – | – | Other investees with their own business |
| Desarrollos y Participaciones Inmobiliarias 2006, S.L.U. en Liquidación | Full Consolidation | X | – | – | – | – | Real Estate |
| Duncan de Inversiones S.I.C.A.V., S.A, en Liquidación | Full Consolidation | X | – | – | – | – | UCITS, funds and similar financial corporations |
| Duncan Holdings 2022-1 Limited | Full Consolidation | X | – | – | – | – | UCITS, funds and similar financial corporations |
| Ederra, S.A. | Full Consolidation | X | – | – | – | – | Real Estate |
| ESUS Energía Renovable, S.L. | Full Consolidation | – | – | X | – | – | Utilities |
| Fonomed Gestión Telefónica Mediterráneo, S.A.U. | Full Consolidation | X | – | – | – | – | Other investees with their own business |
| Fuerza Eólica De San Matías, S. de R.L. de C.V. | Full Consolidation | – | – | X | – | – | Utilities |
| Galeban 21 Comercial, S.L.U. | Full Consolidation | X | – | – | – | – | Services |
| Gazteluberri, S.L. | Full Consolidation | X | – | – | – | – | Real Estate |
| Gest 21 Inmobiliaria, S.L.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| Gestión Financiera del Mediterráneo, S.A.U. | Full Consolidation | X | – | – | – | – | Other financial services |
| Gier Operations 2021, S.L.U. | Full Consolidation | X | – | – | – | – | Auxiliary activities of the financial and insurance services |
| Guipuzcoano Promoción Empresarial, S.L. | Full Consolidation | X | – | – | – | – | Holding |
| Hobalear, S.A.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| Hondarriberri, S.L. | Full Consolidation | X | – | – | – | – | Holding |
| Hotel Management 6 Gestión Activa, S.L.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| Hotel Management 6 Holdco, S.L.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| Interstate Property Holdings, LLC. | Full Consolidation | X | – | – | – | – | Holding |
| Inverán Gestión, S.L. en Liquidación | Full Consolidation | X | – | – | – | – | Real Estate |
| Inversiones Cotizadas del Mediterráneo, S.L. | Full Consolidation | X | – | – | – | – | Holding |
| Manston Invest, S.L.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| Mariñamendi, S.L. | Full Consolidation | X | – | – | – | – | Real Estate |
| Mediterráneo Sabadell, S.L. | Full Consolidation | X | – | – | – | – | Holding |
| Paycomet, S.L.U. | Full Consolidation | X | – | – | – | – | Payment Institution |
| Puerto Pacific Vallarta, S.A. de C.V. | Full Consolidation | X | – | – | – | – | Real Estate |
| Ripollet Gestión, S.L.U. | Full Consolidation | X | – | – | – | – | Other financial services |
| Rubí Gestión, S.L.U. | Full Consolidation | X | – | – | – | – | Other financial services |
| Sabadell Consumer Finance, S.A.U. | Full Consolidation | X | – | – | – | – | Credit Institution |
| Sabadell Information Systems Limited | Full Consolidation | X | – | – | – | – | Technological services |
| Sabadell Information Systems, S.A.U. | Full Consolidation | X | – | – | – | – | Technological services |
| Sabadell Innovation Capital, S.L.U. | Full Consolidation | X | – | – | – | – | Holding |

| Name of the Entity | Method of accounting consolidation | Method of prudential consolidation: Full consolidation | Proportional consolidation | Equity method | Neither consolidated nor deducted | Deducted | Description of entity |
|---|---|---|---|---|---|---|---|
| Sabadell Innovation Cells, S.L.U. | Full Consolidation | X | – | – | – | – | Other investees with their own business |
| Sabadell Patrimonio Inmobiliario, S.A.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| Sabadell Real Estate Activos, S.A.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| Sabadell Real Estate Development, S.L.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| Sabadell Real Estate Housing, S.L.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| Sabadell Securities USA, Inc. | Full Consolidation | X | – | – | – | – | Other financial services |
| Sabadell Strategic Consulting, S.L.U. | Full Consolidation | X | – | – | – | – | Other investees with their own business |
| Sabadell Venture Capital, S. L.U. | Full Consolidation | X | – | – | – | – | Holding |
| Sabcapital, S.A de C.V., SOFOM, E.R. | Full Consolidation | X | – | – | – | – | Credit Institution |
| Sinia Capital, S.A. de C.V. | Full Consolidation | X | – | – | – | – | Holding |
| Sinia Renovables, S.A.U. | Full Consolidation | X | – | – | – | – | UCITS, funds and similar financial corporations |
| Sogeviso Servicios Gestión Vivienda Innovación Social, S.L.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| Stonington Spain, S.L.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| Tasaciones de Bienes Mediterráneo, S.A. en Liquidación | Full Consolidation | X | – | – | – | – | Other investees with their own business |
| Tenedora de Inversiones y Participaciones, S.L. | Full Consolidation | X | – | – | – | – | Holding |
| TSB Bank PLC | Full Consolidation | X | – | – | – | – | Credit Institution |
| TSB Banking Group PLC | Full Consolidation | X | – | – | – | – | Holding |
| TSB Banking Group plc Employee Share Trust | Full Consolidation | X | – | – | – | – | Other investees with their own business |
| TSB Covered Bonds (Holdings) Limited | Full Consolidation | X | – | – | – | – | Holding |
| TSB Covered Bonds (LM) Limited | Full Consolidation | X | – | – | – | – | Other investees with their own business |
| TSB Covered Bonds LLP | Full Consolidation | X | – | – | – | – | UCITS, funds and similar financial corporations |
| Urquijo Gestión, S.A.U., S.G.I.I.C. | Full Consolidation | X | – | – | – | – | Fund management activities |
| Urumea Gestión, S.L. en Liquidación | Full Consolidation | X | – | – | – | – | Other investees with their own business |
| VeA Rental Homes , S.A.U. | Full Consolidation | X | – | – | – | – | Real Estate |
| Venture Debt SVC, S.L.U. | Full Consolidation | X | – | – | – | – | Holding |
| Aurica III, Fondo de Capital Riesgo | Equity Method | – | – | X | – | – | UCITS, funds and similar financial corporations |
| Aurica IIIB, S.C.R., S.A. | Equity Method | – | – | X | – | – | UCITS, funds and similar financial corporations |
| BanSabadell Pensiones, E.G.F.P., S.A. | Equity Method | – | – | X | – | – | Other regulated Institutions |
| BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros | Equity Method | – | – | X | – | – | Other regulated Institutions |
| BanSabadell Vida, S.A. de Seguros y Reaseguros | Equity Method | – | – | X | – | – | Other regulated Institutions |
| Catalana de Biogás Iberia, S.L. | Equity Method | – | – | X | – | – | Architectural and engineering technical services, technical testing and analysis |
| Doctor Energy Central Services, S.L. | Equity Method | – | – | X | – | – | Other business management consulting activities |
| Parque Eólico Casa Vieja S. L. | Equity Method | – | – | X | – | – | Utilities |
| Parque Eólico Villaumbrales S. L. | Equity Method | – | – | X | – | – | Utilities |
| Parque Eólico Perales S. L. | Equity Method | – | – | X | – | – | Utilities |
| Parque Eólico Los Pedrejones S. L. | Equity Method | – | – | X | – | – | Utilities |
| Energíes Renovables Terra Ferma, S.L. | Equity Method | – | – | X | – | – | Utilities |
| Financiera Iberoamericana, S.A. | Equity Method | – | – | X | – | – | Credit Institution |
| Flex Equipos de Descanso, S.A. | Equity Method | – | – | X | – | – | Manufacturing |
| Murcia Emprende, S.C.R. de R.S., S.A. | Equity Method | – | – | X | – | – | Other financial services |
| Plaxic Estelar, S.L. | Equity Method | – | – | X | – | – | Real Estate |
| Portic Barcelona, S.A. | Equity Method | – | – | X | – | – | Data processing, hosting and related activities |
| Promontoria Challenger I, S.A. | Equity Method | – | – | X | – | – | Holding |
| SBD Creixent, S.A. | Equity Method | – | – | X | – | – | Real Estate |

*Data as at 31/12/2022.*

## 4.3 Other qualitative information on the scope of application

### Possible impediments to the prompt transfer of own funds

In Banco Sabadell Group, there is currently no material, practical or legal impediment to the prompt transfer of own funds or to the reimbursement of liabilities between subsidiary undertakings and their parent undertaking, although given that they operate in different geographies, the obligation of subsidiaries to comply with their individual solvency requirements may entail some form of limitation in future, whether in the form of dividends or other items.

#### Identification of subsidiary undertakings with own funds below the required minimum level

As at 31 December 2022, Banco Sabadell Group, on both a standalone (parent company) and consolidated basis, is compliant with minimum own funds requirements, as are all of its subsidiaries that are subject to compliance therewith on either a standalone or consolidated subgroup basis.

There are no subsidiary undertakings outside of the consolidated group whose own funds are below the minimum requirements set forth in applicable regulations.

#### Waivers of prudential requirements

On 29 October 2009, Banco Sabadell Group was granted a waiver by the Bank of Spain in relation to own funds requirements on a standalone basis for the subsidiary Sabadell Consumer Finance, E.F.C., S.A. (formerly, BanSabadell Fincom, E.F.C., S.A.) and for BanSabadell Financiación, E.F.C., S.A.

On 21 March 2017, the ensuing waiver was obtained from the European Central Bank for Sabadell Consumer Finance, S.A.U. This waiver confirmed the already existing waiver for Sabadell Consumer Finance, E.F.C., S.A., which was applied for again due to the change in the legal form of this subsidiary, which went from being a specialised credit institution to being an institution with a bank identification number and a licence to operate, to all intents and purposes, as a credit institution.

## 4.4 Prudent valuation adjustments

Banco Sabadell Group meets the conditions set out in Chapter II of Commission Delegated Regulation (EU) 2016/101, with the sum of the absolute value of fair-valued assets and liabilities being less than 15 billion euros, in accordance with the applicable accounting framework. Therefore, the Simplified Approach is used to determine additional valuation adjustments.

Consequently, from a disclosure standpoint, the Group is not required to comply with Point (e) of Article 436 of the CRR, nor with the proposed format for compliance based on the Template EU PV1 set out in Regulation (EU) 2021/637, which requires institutions that determine additional valuation adjustments under the core approach to disclose quantitative information on such adjustments.

# 5

# Global risk management

# 5

The information provided in this chapter is in line with the disclosure requirements in relation to the main risks, with detailed information on policies and objectives relating to risk management, in accordance with Article 435(1) of the CRR and Article 2 of Commission Implementing Regulation (EU) 2021/637.

The Global Risk Framework is described below, as well as relevant aspects of the Group's risk management and control.

## 5.1 Global Risk Framework

Banco Sabadell Group faces risks in the course of its activity; risks are an inherent part of its existence, and their management is a key part of the business.

**Figure 4. Overview of the risk management cycle in Banco Sabadell Group.**


In order to adequately manage and control risks, a series of principles needs to be defined, set out in policies and deployed through procedures, strategies and processes, which seek to increase the likelihood of achieving the strategic objectives pursued by the Group in its various activities, making it easier to manage such risks in an uncertain environment. This series of principles is called the Global Risk Framework.

The main advantages of having a Global Risk Framework are:

- Address risk through a structured approach that is consistent throughout the Group.
- Foster an open and transparent culture in relation to risk management and control, encouraging the involvement of the entire organisation.
- Make the decision-making process easier, with options based on better information and a wide range of viewpoints in relation to risk, allowing actions to be prioritised and the different options to be more clearly distinguished.
- Align the accepted risk with the risk strategy and the risk appetite.
- Understand the risk environment in which it operates.
- Ensure, following the guidelines of the Board of Directors, that critical risks are identified, understood, managed and controlled efficiently.

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

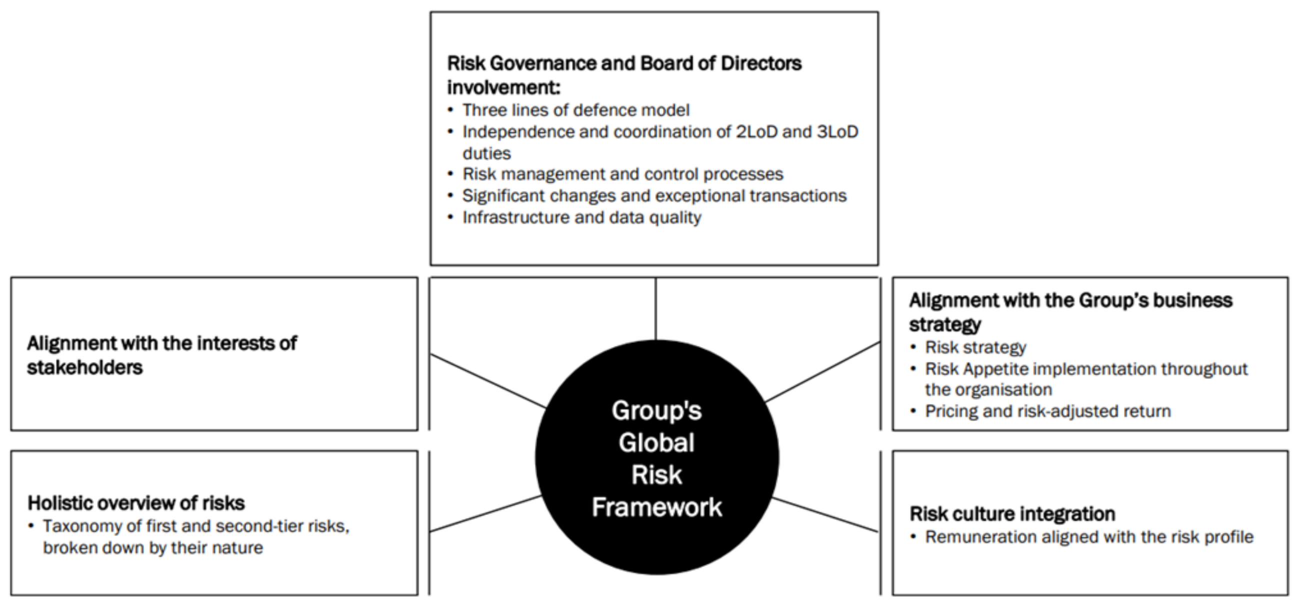
- The Group's Global Risk Framework Policy, which sets out a general framework for establishing other policies linked to risk management and control, determining core and common aspects that are applicable to the different risk management and control policies.
- The Risk Appetite Framework (RAF) Policy, which establishes the structure and mechanisms associated with the governance, definition, communication, management, measurement, monitoring and control of the Group's Risk Appetite. The Group's RAF is complemented at the level of each subsidiary by the subsidiaries' own RAFs, which are adapted to their local situation but in line with the Group's RAF at all times.
- The Risk Appetite Statement (RAS), which sets out a written statement of the level of risk that the Group is willing to accept, or would want to avoid, in order to achieve its business objectives.
- The series of policies associated with each risk, together with the Procedures and operating and conceptual Manuals that form part of the body of regulations of the Group and its subsidiaries.

### 5.1.1 Global Risk Framework Policy

#### Principles of the Global Risk Framework Policy

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

**Figure 5. Principles of the Group's Global Risk Framework.**




### 5.1.2 Risk assessment and risk taxonomy

Banco Sabadell Group's risk management pivots on the Global Risk Framework which is anchored in management through the RAF, RAS and the set of policies that cover each risk. The ultimate aim is to identify, measure, monitor, control and report on risks.

The Global Risk Framework identifies the different types of material risks to which Banco Sabadell Group is exposed when carrying out its banking activities. The Risk Control function assesses, at least annually, for each risk:

- The inherent risk in which the threats and vulnerabilities of the banking sector, or of the Bank in particular, are considered.
- The governance, management and control systems deployed by the Institution that aim to mitigate the identified risks.
- The residual risk reflected by the assessment of inherent risk having considered the management and control systems that act as mitigating factors, and the risk remaining after the assessment of threats or vulnerabilities.

The resulting risk profile should be compared against the target profile established by the Board of Directors.

The Banco Sabadell Group Risk Taxonomy, which details the risks to which the Group is exposed, is set out below as well as it's location in this document:

## Figure 6. Risk taxonomy.

| Risk Taxonomy | | | Pillar III Disclosure |
|---|---|---|---|
| Strategic | Solvency | Risk of not having sufficient capital to meet strategic and business objectives, withstand operating losses or comply with regulatory requirements and/or the expectations of the market in which it operates. | 6. Capital |
| | Business(*) | Possibility of incurring losses derived from adverse events that negatively affect the capacity, strength and recurrence of the income statement, either for its viability or sustainability. | – |
| | Reputational(*) | This is the current or future risk that the bank's competitive capacity may be negatively affected due to i) actions or omissions, carried out by or attributed to the Group, Senior Management or its governing bodies, ii) or by maintaining business relationships with counterparties with inadequate reputation, generating a negative perception by its stakeholders (regulators, employees, customers, shareholders, investors and society in general). | – |
| | Environmental | The risk of loss arising from the present and potential future impacts of environmental risk factors on counterparties or invested assets, as well as those aspects that affect financial institutions as a legal entity. Environmental factors relate to the quality and functioning of natural systems and environments, and include factors such as climate change and environmental degradation. All of these can impact positively or negatively on the financial performance or solvency of an entity, sovereign and individual. These factors can materialize mainly in physical aspects (effects derived from climate change and environmental degradation, including more frequent extreme weather events and gradual changes in climate patterns and ecosystem balances) and transitional aspects (derived from the adjustment processes towards an environmentally sustainable economy (lower emissions, greater energy efficiency and lower consumption of natural resources, among others). | 14. ESG Risk |
| Credit | Default of the borrower | Risk that borrowers fail to meet their payment obligations on time and includes the risk of admission fraud. | 8. Credit Risk |
| | Concentration | Refers to exposures with the potential to generate losses large enough to threaten the solvency of the institution or the viability of its ordinary business. | |
| | Counterparty | This is a type of credit risk that arises in the event that the counterparty, in a derivative transaction or a transaction with a repurchase commitment, with deferred settlement or collateral financing, may default before the final settlement of the cash flows of such transaction or operation. | |
| | Country | Risk arising from a country's debts globally considered as a consequence of reasons inherent to the sovereignty and economic situation of a country, i.e., due to circumstances other than the usual credit risk. It arises from the eventual inability of a debtor to meet its foreign currency payment obligations to external creditors, among other reasons, because the country does not allow access to the currency, is unable to transfer it, or because of the ineffectiveness of legal actions against the borrower for sovereignty reasons, or because of situations of war, expropriation or nationalization. Country risk affects not only debts contracted with a State or entities guaranteed by it, but also all private debtors belonging to that State and which, for reasons beyond their own evolution or decision, experience a general inability to meet their debts. | |
| | NPAs | Risk of incurring higher costs or losses associated with the management of non-performing assets and/or foreclosed assets received in payment of debt. | |
| | Equity | Risk of incurring losses arising from negative changes in the value of an equity instrument. This basically includes the Company's own portfolio of equity investments (listed or not), including the portfolio of associates in which it has significant influence. | |
| Financial | Liquidity | Liquidity risk is the possibility of incurring losses due to the inability to meet payment commitments, even temporarily, because of the lack of liquid assets or the inability to access the markets to obtain financing at a reasonable price. Therefore, liquidity risk is inherent to the entity's financing structure and market conditions. | 12. Liquisity Risk |
| | Exchange rate | Risk arising from variations in exchange rates between different currencies, in the event that such variations could generate losses in the income statement or a reduction in equity due to permanent investments in foreign offices and subsidiaries. | 11.2 Structural exchange rate risk |
| | IRRBB | Interest rate risk of positions that are not part of the trading book (IRRBB) refers to the potential current or future losses to an entity's capital or earnings as a result of adverse fluctuations in interest rates. | 11.1 Structural interest rate risk |
| | Market | It is defined as that which arises in the event of incurring losses in market value in the positions held in financial assets, due to the variation of risk factors affecting their prices or quotations, their volatilities or the correlations between them. In particular, it refers to positions held within the trading activity. | 9.Market Risk |
| | CSRBB(*) | This is the risk of potential losses arising from changes in the market perception of the price of credit risk, the liquidity premium and other potential components of credit risk-bearing instruments, which is not captured in IRRBB risk or jump to default risk. | – |

(*) *Due to the disclosure requirements established in Part Eight of CRR II, a specific chapter on these risks has not been developed.*

| | Risk Taxonomy | | Pillar III Disclosure |
|---|---|---|---|
| Operational | Fraud | Current or future possibility of losses arising from acts intended to defraud, usurp property or evade regulation, law or company policies, whether performed by employees or third parties. | 10. Operational Risk |
| | Conduct | It is defined in a broad sense as the current or future possibility of losses derived from the inadequate provision of financial services or any other activity carried out by the entity, by maintaining improper conduct with clients (current or potential), employees (with respect to human rights, equality, welfare, inclusion, hygiene or safety in the workplace), shareholders and suppliers, markets, political parties or society in general, including cases of wilful or negligent conduct. | |
| | Process | Possibility of incurring losses due to failures in the management, execution or delivery of processes or inadequate processes. | |
| | Technological | This is the current or future risk of loss due to the inadequacy or failure of technical infrastructure hardware and software, which may compromise the availability, integrity, accessibility, confidentiality or traceability of infrastructure, applications and data, or the inability to change technology platforms within reasonable timeframes and costs when the environment or business needs change. Security risks resulting from inadequate or failed internal processes or external events, including cyber attacks, or inadequate physical security related to data processing centers are also included. | |
| | Outsourcing | Current or future risk of loss arising from the use of the resources and/or means of a third party for the standardized, permanent and stable performance over time of certain processes of the outsourcing company, which in itself involves exposure to a series of underlying risks by nature such as operational risk, including conduct risk, information and communication technology (ICT) risks, legal risks and compliance risks; reputational risk, concentration risk, step-in risk and country risk. | |
| | Talent/management | This is the risk of incurring losses due to events arising from the Group's relationship with its employees, associated for example with the unavailability of suitable profiles, staff turnover and replacement, lack of employee satisfaction, etc. | |
| | Model | Current or future risk of losses that an entity could incur as a result of decisions based primarily on the results of internal models, due to errors in the design, application or use of such models. | |
| | Data | Risk associated with inappropriate treatment and/or consideration of data in the entity that could affect the accuracy, preparation, dissemination and, where appropriate, publication of relevant reporting used in decision making including, among others, risk, regulatory and financial reporting data. | |
| | Regulatory compliance | It is the possibility of incurring legal or administrative sanctions, significant financial losses or reputational losses due to non-compliance with laws, regulations, internal rules and codes of conduct applicable to banking activities. | |
| | Tax | It is the probability of not complying with the objectives established in the Group's tax strategy from a double perspective and due to internal or external factors: On the one hand, the probability of incurring in a breach of tax obligations that may result in an undue lack of income, or the concurrence of any other event that generates a potential damage for the Group in the fulfillment of its objectives. On the other hand, the probability of incurring in an undue income in the fulfillment of tax obligations, thus generating a prejudice to the shareholder or other stakeholders. | |

### 5.1.3 Risk Appetite Framework (RAF) Policy

Risk appetite is a key element in determining the risk strategy, since it determines the scope of action. The Group has a Risk Appetite Framework (RAF) Policy which sets out the governance framework that regulates the Risk Appetite.

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

An effective implementation of the RAF requires an adequate combination of policies, processes, controls, systems and procedures that enable the effective and continuous achievement of a set of defined objectives.

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

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

### 5.1.4 Risk Appetite Statement (RAS)

The Risk Appetite Statement (RAS) is the written statement of the types of risk that the Group is willing to accept, or wishes to avoid, in order to achieve its business objectives. Depending on the nature of each risk, the RAS includes both qualitative aspects and quantitative metrics, which are expressed in terms of capital, asset quality, liquidity, profitability or any other measure deemed to be relevant. The RAS is therefore a key element in setting the risk strategy, as it determines the area of activity.

#### Quantitative aspects

The set of quantitative metrics defined in the RAS is intended to provide objective elements with which to compare the Group's situation against the goals or challenges proposed at the risk management level. These quantitative metrics follow a hierarchical structure, in accordance with the RAF, establishing three levels or tiers:

- **First tier**: Board metrics, intended to set limits which should not be exceeded under any circumstances and which, in general, will be monitored by the Group's most senior governing bodies. This category will include the most relevant metrics for the Group, which require particular attention to be paid by the Board of Directors (for example, those which are associated with a regulatory requirement, or which include the most relevant aspects of the business model and the Group's position in the market).
- **Second tier:** Executive metrics, intended to complement the foregoing and which will be monitored by the Board Risk Committee, although they may also be monitored by executive levels or committees depending on their area of responsibility.
- **Third tier:** Operational metrics, focused on monitoring and control of specific aspects when considered relevant. Monitoring, in general, may be delegated to operational levels or Committees, which may escalate the task to more senior levels in the event a threshold deemed to be significant is ruptured. In addition, for those Operational metrics in which it is considered necessary and appropriate for efficiency in risk management and control, the Operational Committees may define and approve specific autonomies for the Risk Control function to approve threshold crossings.

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

The quantitative RAS metrics of Banco Sabadell Group are established according to the following taxonomy:

Figure 7. Quantitative aspects of the Risk Appetite Statement (RAS).

| Strategic risk | Credit risk | Financial risk | Operational risk |
|---|---|---|---|
| • Solvency<br>• Business<br>• Reputational<br>• Climate | • Borrower default<br>• Concentration<br>• Counterparty<br>• Country<br>• NPAs<br>• Equity | • Liquidity – Regulatory liquidity metrics<br>• Exchange rate<br>• IRRBB (Tipo de interés)<br>• Insurance<br>• Markets<br>• CSRBB (*Credit SpreadBB*) | • Fraud<br>• Conduct<br>• Process<br>• IT<br>• Outsourcing<br>• Talent/managemnet<br>• Property<br>• Model<br>• Data<br>• Compliance<br>• Tax |
| **Among others, the metrics used are:** | | | |
| - Regulatory solvency metrics<br>- Profitability metrics | - NPL ratios<br>- Concentration ratios | - Liquidity metrics<br>- Structural risk metrics | - Non-financial risk quantitative metrics (number of incidents, system unavailability) |

The establishment of thresholds is based on compliance with the regulatory framework and Group strategy, among other things.

The incorporation of the Risk Appetite into management procedures, and consequently into the RAS, includes reporting and regular monitoring of the quantitative metrics of the RAS and the activation of a specific protocol of action ('playbook') associated with the breach of the various thresholds established for each metric.

The reference thresholds established by Banco Sabadell Group are set forth below:

| RAS thresholds | |
|---|---|
| (green) | Target/Appetite It reflects the Group's strategy and target risk profile. |
| (yellow) | EWI Early warning level that seeks to avert a potential deterioration. A breach entails considering specific actions to return to the target level. |
| (orange) | Limit/Tolerance Maximum risk tolerance. A breach requires the activation of a more intense action plan than in the EWI. |
| (red) | Recovery Plan. A breach would trigger the escalation of the decision-making process on whether or not to invoke the Recovery Plan to the Board of Directors. |

The mechanisms used to regularly monitor the RAS ensure a high level of involvement at all times of the Group's governing bodies, which have an up-to-date overview of the compliance and alignment with the risk appetite defined for the Group, enabling informed decisions to be made. The RAS metrics, depending on their nature and hierarchy, will be reported to different governing bodies and committees with a certain frequency, and a procedure will also be put in place for reporting any breaches.

### Qualitative aspects

The RAS incorporates the definition of a set of qualitative aspects, which fundamentally allow the Group's position in relation to certain risks to be defined, when these are difficult to quantify.

The qualitative aspects of the RAS complement the quantitative metrics, establishing the overall focus of the Group's risk-taking and articulating the reasons for taking or avoiding certain types of risks, products, geographical exposures and other matters.

These qualitative aspects are described below:

Figure 8. Qualitative aspects of the Risk Appetite Statement.

| | | Qualitative aspects |
|---|---|---|
| RAS | 1 | Consolidation of a business model with a stable and long-term relationship with customers at its core, which allows their prosperity to be fostered without undermining the achievement of a fair profit for the Group, which is necessary as the first line of solvency. |
| | 2 | A Medium-Low residual risk profile, attained through prudent and balanced risk policies, which ensures the profitable, predictable and sustainable growth of the Group's activity in the medium term and which is in line with the Group's strategic objectives. |
| | 3 | The maintenance of a risk profile that is compatible with an Investment Grade rating that allows comfortable access to a wider funding base. |
| | 4 | Minimum appetite in the event of threats to the Bank's reputation. |
| | 5 | Special consideration of restrictions on transactions with borrowers from political parties and the media, as well as industries that could compromise environmental sustainability. |
| | 6 | No investment or finance for companies linked to the development, manufacture, distribution, storage, transfer or sale of controversial weapons, as defined in the various United Nations conventions currently in force. |
| | 7 | The products and services offered to customers need to be known by all parties involved in the Institution, who must be duly trained for such purposes, and they should be offered to customers in a way that is appropriate to their needs and in their best interests. |
| | 8 | Minimum risk appetite for operational risks, in order to keep any potential losses below a reasonable threshold and addressing any reputational impacts arising from idiosyncratic events, which are typical of these risks. This includes a minimum appetite for causing service disruptions (lack of availability) due to technological reasons that negatively affect our customers though the different channels at their disposal, particularly digital channels. |
| | 9 | Strict compliance with regulations (accounting, prudential, legal and fiscal), legislation on market abuse (misuse of insider information or price manipulation) and other legal requirements in all of the countries in which the Group operates, particularly those related to laws and regulations on anti-money laundering, counter-terrorist financing, as well as compliance with international sanctions. |
| | 10 | The Group does not aim to incur any actuarial risk arising from pension commitments. |
| | 11 | The employee remuneration policy should enable individual interests to be aligned with the risk appetite. |

### 5.1.5 Specific policies for the different significant risks

The set of policies for each of the risks, together with the Procedures and operating and conceptual Manuals that form part of the body of regulations of the Group and its subsidiaries, are tools that the Group and subsidiaries rely on to expand on more specific aspects of each of the risks.

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

The policies establish the framework of action in a certain area and based on these, the Board of Directors of Banco Sabadell, S.A., the parent company of Banco Sabadell Group, gather its general guidelines for managing and controlling the Group's activities on these documents. Policies make up the highest level within the hierarchy of documentation and the top category of the hierarchy of documentation defined by the Group.

Specifically, for a document to be considered a policy, it needs to meet a series of specific criteria.

The Map of Policies is made up of Group Policies and Local Policies of the different Group entities (geographies, subsidiaries, etc.):

- Group Policies define the core general Principles and Criteria that the Group wishes to establish in order to guarantee a particular level of alignment and standardisation across the various geographies in which it operates. These policies are used to establish and set guidelines in different areas. They are also used to oversee compliance with these principles in the various geographies.
- Local Policies define Principles and Criteria for tasks carried out by the various Entities (geographies, subsidiaries, etc.) and which need to be adjusted individually depending on local regulations, market situations, etc.

The Board of Directors is responsible for approving Banco Sabadell's Corporate Policies and Local Policies, once they have received a favourable opinion from the Policies Forum and the Board Delegated Committees in the relevant subject matter. Policies are reviewed on an annual basis, provided no circumstances arise that require an extraordinary review to be carried out prior to the annual review.

## 5.2 Risk management and control

Banco Sabadell Group has a clear organisational structure of risk management and control and clearly defined responsibilities.

Banco Sabadell Group fosters a risk culture that is embedded throughout the Group, with units specialising in the treatment of different risks, guaranteeing the independence of the risk function, as well as a high level of involvement of Senior Management.

The Board of Directors has defined the following basic principles related to risk management and control.

| | |
|---|---|
| **SOLVENCY** | Banco Sabadell Group follows a prudent and balanced risk policy to ensure the sustained and profitable growth of its business activity and to guarantee its alignment with the Group's strategic objectives in order to maximise the generation of value. |
| **RESPONSIBILITY** | The Board of Directors is committed to risk management and control procedures: it approves policies, limits, the management model and procedures, as well as methodologies for risk measurement, monitoring and control. At the executive level, there is a clear segregation of tasks between business units, where risks originate, and risk control units. |
| **MONITORING AND CONTROL** | Risk management is underpinned by solid, ongoing procedures for ensuring that risks are in line with predefined limits, with clearly defined responsibilities for identifying and monitoring early warning and other indicators, as well as an advanced risk assessment methodology. |

The risk management framework of Banco Sabadell Group pivots on a series of factors that seek to ensure the appropriate supervision and monitoring of risk. The main elements used by the Group to achieve this objective are the corporate risk culture, the governance structure, the organisation of the risk function and the Group's planning and stress test exercises.

### 5.2.1 Corporate risk culture

Corporate culture and corporate values are key elements as they reinforce ethical and responsible behaviour by all members of the organisation. Although organisations can have and establish rules, procedures and standards to manage and control risks, these can be misinterpreted or misunderstood (deliberately or otherwise) in the day-to-day running of the organisation. A solid risk culture can prevent this from happening.

In this respect, Banco Sabadell Group's risk culture is one of the differentiating aspects of the Group, firmly rooted throughout the organisation as a result of its progressive development over decades.

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

In addition to regulatory compliance, Banco Sabadell Group also has some key values related to its risk culture, which are defined by the Board of Directors and Senior Management and are as follows:

**Figure 9. Risk culture values.**


In this respect, the Group establishes, as one of its priorities, the maintenance of a solid risk culture in the aforesaid terms, as it believes that this encourages adequate risk-taking, eases the identification and management of emerging risks (which may, at a given time and depending on how recent they are, not yet be specifically provided for in the Risk Appetite Statement) and it allows employees to carry out their activities and develop business in a legal and ethical manner. Similarly, a strong risk culture creates an environment that is able to ensure that any activities not specifically covered in the Risk Appetite Statement (RAS) are quickly and effectively identified, escalated and resolved.

The risk culture in Banco Sabadell Group is implemented through the development of policies and procedures, proactive communication and staff training, mainly in relation to the critical aspects of the risk strategy and profile and, specifically, in relation to risk-taking and risk management. In this respect, particular care is taken to ensure an alignment between staff remuneration and good risk management and control.

The risk culture is cross-cutting across all functions of the organisation and is inherent in the management of each risk.

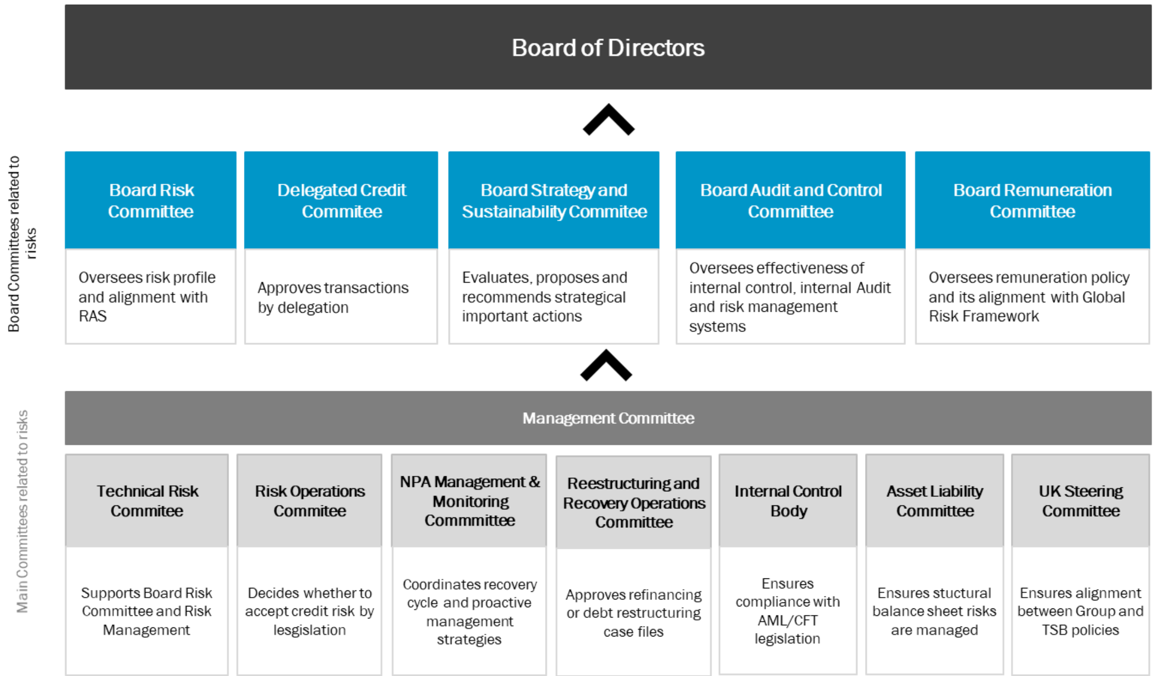
### 5.2.2 Governance structure

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

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

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

**Figure 10. Governing bodies, responsibilities and reporting channels in risk management.**




In addition to those shown in the figure, there are other specific committees in place for particular areas, such as the Models Committee, the Planning and Capital Committee, the Provisions Committee or the Investments and Liquidity Committee.

The defined governance structure aims to ensure the adequate development and implementation of the Global Risk Framework and, therefore, of the risk management and control activity within the Group, while at the same time it aims to facilitate:

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

#### Risk information flow

To ensure the effective transfer of information related to risks and their evolution to the governing bodies and to senior management, Banco Sabadell Group has established reporting procedures that guarantee the management, control and monitoring of risk.

Banco Sabadell Group ensures that risk is regularly monitored in order to, on one hand, continuously monitor changes in risk through the key risk indicators and, on the other hand, enable a swift identification and rectification of any weaknesses in the mechanisms implemented to manage and control risk. This information flow ensures the involvement of all areas responsible for the management of each type of risk, and it ensures that senior management and the Board of Directors are also involved.

To that end, the Group has various tools and dashboards that facilitate the monitoring and communication of risk levels by the units and Committees involved for each risk.

The reports escalated to the governing bodies and to senior management contain information on the activities carried out, profitability and the level of risk taken. The frequency of communications varies depending on the nature and characteristics of the risk, consistent always with efficient management and in line with the RAF.

In addition to internal reporting, Banco Sabadell Group prepares the information required in order to comply with legal and supervisory obligations and to follow best practices relating to market transparency.

### 5.2.3 Organisation of the risk function

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

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

- **First line of defence:** is responsible for maintaining adequate and effective internal control and implementing corrective actions to rectify deficiencies in its processes and controls. It is formed by business lines and business units. The functions attributed to this line of defence in the Global Risk Framework are:
  - Maintain effective internal controls and performing risk assessment and control procedures on a daily basis.
  - Identify, quantify, controlling and mitigating risks, complying with internal policies and procedures and ensuring that activities are consistent with the established targets and objectives.
  - Implementing adequate management and oversight processes to ensure compliance with regulations, focusing mainly on control errors, inadequate processes and unforeseen events.
- **Second line of defence:** in general, the second line of defence ensures that the first line of defence is well designed and performs its assigned duties. It also puts forward suggestions for its continuous improvement. The core duties attributed to this line are:

  **Internal control function**

  - Ensure the existence and regular updating of a Global Risk Framework that establishes the basic principles for the appropriate management and control of risks.
  - Propose the Institution's Risk Appetite Statement (RAS) for its approval.
  - Supervise the risk management and control activities carried out by the first line of defence.
  - Prepare independent opinions to support decision-making processes.
  - Analyse and regularly report to the governance and management bodies on the Institution's risk profile through the RAS.
  - Report to the Board Risk Committee on the situation and potential evolution of the Institution's risks.
  - Provide guidance and support to identify, assess, monitor, manage and mitigate the Institution's risks.

  **Compliance function**

  - Monitoring and supervising the adaptation to new regulations through proactive management to ensure regular and systematic monitoring of legal actions.
  - Identifying and periodically assessing compliance risk in the different areas of activity and contributing to their management in an efficient manner.
  - Establishing an updated supervision and control programme.
  - Supervising the risk management activities carried out by the first line of defence.
  - Keeping documentary evidence of checks carried out by Compliance.
  - Submitting to the administrative and management bodies the regular or *ad hoc* reports on regulatory compliance that are legally required at any given time.
  - Reporting to the administrative and management bodies on relevant information concerning compliance.
  - Assisting the Board of Directors or Senior Management in compliance matters.
  - Overseeing and coordinating inspections, responses to the requirements of supervisors and regulators and reviewing compliance with their recommendations.
  - Taking on institutional and communication responsibilities with public bodies and supervisory entities in relation to matters in its sphere of competence.
  - Assigning functional responsibilities for regulatory compliance when necessary.
  - Intervening in the development of remuneration policies and practices.
  - In relation to anti-money laundering and counter-terrorist financing (AML/CTF) and international sanctions, implementing, managing and updating the corresponding policies and procedures.
  - Promoting a culture of compliance and appropriate conduct in each of the Group entities, adopting measures that will enable employees to obtain the training and experience they need to carry out their duties properly.
  - Collaborating in the development of training programmes in order to advise and make employees aware of the importance of complying with established internal procedures.
  - Ensuring the existence of a protocol for coordination with national and international subsidiaries and the foreign branches and offices.
  - Providing advice on data protection matters through the Data Protection Office to subsidiaries based in Spain.

- The second line of defence has a cross-cutting role covering all risks identified by Banco Sabadell Group and it aims to minimise the possibility of any breach of regulations occurring in relation to the Group's risks, and ensure that any such breach is promptly identified, reported and resolved, and that appropriate preventive measures are put in place.
- **Third line of defence:** helps the Group to achieve its objectives by providing a systematic, disciplined approach to assess the adequacy and effectiveness of the organisation's governance processes and its risk management and internal control activities.

  The role of the third line of defence falls to the Internal Audit unit which is tasked with assisting the Governing Bodies and Management in safeguarding the organisation's assets, reputation and sustainability through an independent, objective service that assures the quality, consistency and effectiveness of internal control, risk management and governance systems, including the first and second lines of defence.

  The Internal Audit function shall be responsible for:

  – Drawing up an annual internal audit plan using an appropriate risk-based approach for its review and approval by the relevant governing body.

  – Reviewing and adjusting the internal audit plan, as necessary, in response to changes in the Group's businesses, risks, activities, programmes, systems and controls.

  – Carrying out each action indicated in the internal audit plan, including the establishment of objectives and the scope of activity, the allocation of appropriate resources and their supervision, the appropriate documentation of work schemes and the results of tests, and the communication to stakeholders of the results of the engagement, along with the applicable conclusions and recommendations.

  – Monitoring the observations and corrective actions, and regularly inform the Audit Committee any corrective action not been effectively implemented.

  – Reviewing compliance with the relevant policies and procedures of the organisation.

  – Assisting executive units in the deterrence and detection of fraud, by reviewing and evaluating the adequacy and effectiveness of existing controls and measuring the level of exposure/risk in the Group's various operational processes.

  – Providing updates on the status of the proposed recommendations and their level of implementation.

The above duties of the three lines of defence apply to all of the risks described in the corresponding chapters of this report, irrespective of the unit carrying out the duties in each case.

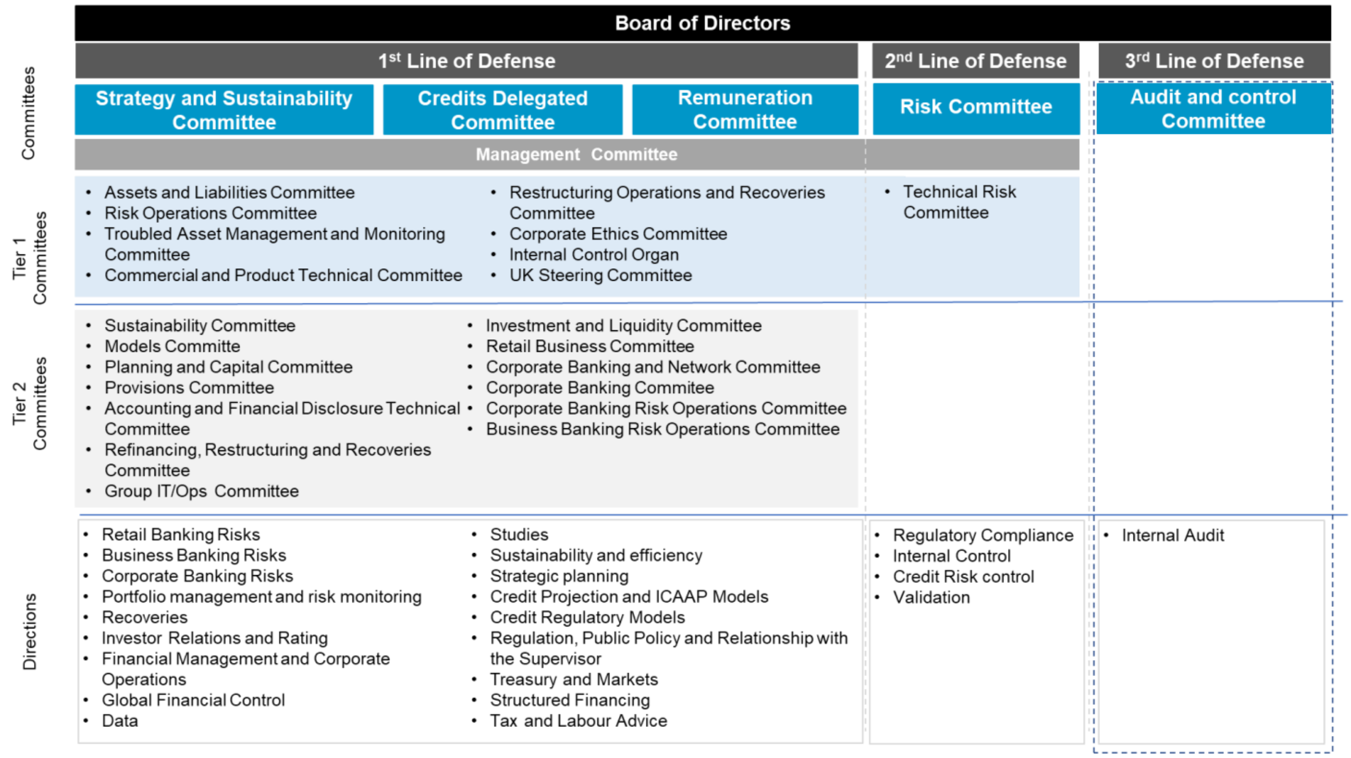
The Group has a robust Control Function (Internal Control and Credit Risk Control) in place, which is independent of business units. Note should be taken of the following:

- The supervisory role of the Board Risk Committee, which is made up of non-executive members of the Board of Directors, and whose main responsibility is to ensure that all of the Institution's risks are adequately taken, controlled and managed in accordance with the RAS approved by the Board of Directors.
- The Risk Control function, which monitors and assesses the most significant risks, ensuring that all of the identified risks are effectively supervised by the various business units and ensuring that the Group's risk profile is in line with its Risk Appetite Statement at all times.
- The Risk Control function is responsible for reporting on the evolution of risk to Senior Management and the Board of Directors. Every month (with the exception of August), the Regulation and Risk Control Unit reports on the evolution of the main risk metrics, focusing particularly on first-tier RAS metrics. This information is submitted to the Board Risk Committee, which is assigned responsibility for risk oversight by the Board of Directors. Additionally, more detailed metrics relating to each risk are submitted to the Technical Risks Committee once a month.
- The Internal Audit function oversees the effective enforcement of risk management policies and procedures, evaluating the sufficiency and effectiveness of the management and control activities carried out by each functional and executive unit. This includes the verification of the design and effectiveness of everything set out in the RAS, its alignment with the supervisory framework and the assurance of its implementation and subsequent integration into the Group's management processes.

The CRO has the aggregated responsibilities of the second line of defence and the supporting duties of generating context and content relating to continued management and interactions with supervisors. The CRO is responsible for the following units: Credit Risk Control Unit, Internal Control Unit, Compliance Unit and Validation Unit. In addition, the Models Unit, Regulation, Public Policy and Supervisor Relations Unit report directly to the CRO.

The figure below shows the structure of the governing bodies and key units involved in risk management, differentiated according to their place in the model of the three lines of defence.

Figure 11. Governing bodies and the model of three lines of defence.




Tier 1 Committees are understood to be those committees whose members and functions are approved by the Board of Directors, while in the case of Tier 2 Committees, they are approved by the Management Committee.

### 5.2.4 Planning and stress test exercises

Under the risk management, control and mitigation framework, Banco Sabadell Group carries out stress tests and projections of the main risks, which enable their early and appropriate management.

Banco Sabadell Group has an internal process in place to conduct planning and stress testing exercises, which involves teams that have extensive experience in these exercises and entails carrying out an in-depth analysis of changes in the Group's income statement and balance sheet in a given scenario.

Risk forecasting models are a key component of the Group's management, as they enable an assessment to be made of the potential impact on solvency and on compliance with the Risk Appetite arising from a series of economic scenarios that consider the main risk factors that could affect the Group's earnings and solvency. There are three main uses of the forecasting techniques developed by the Group: preparation of the Strategic and financial plans, development of internal stress tests and development of regulatory stress tests.

The various exercises related to internal forecasts, the Strategic Plan or the stress tests are not independent of each other, rather, they are interconnected in terms of the definition of the economic scenarios used and in relation to other exercises such as liquidity stress tests and the establishment of Recovery Plans.

Internal economic scenarios are described in terms of the main macroeconomic figures (GDP, unemployment rate, etc.) and in terms of financial variables (house prices, interest rates, exchange rates, etc.) and generally adhere to the following structure:

- Baseline scenario: this is the most likely economic scenario, which is used in the development of financial planning and as a baseline scenario in the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment process (ILAAP).

- Global systemic adverse scenario: this is an adverse scenario that, though possible, is unlikely to materialise. It considers a global economic recession. This scenario is used as the most adverse scenario in the ICAAP and is also considered in the ILAAP.

- Specific adverse scenarios: these are adverse scenarios that reflect situations affecting the specific risk profile of the Group and its main vulnerabilities.

- Recovery scenario: this is the most adverse of all possible scenarios. Based on the global systemic adverse scenario, it introduces an additional level of stress that is sufficient to make it comparable to the type of situation for which the recovery plan has been prepared.

## Internal Stress test

As part of the ICAAP, the Group regularly conducts multi-year stress test exercises (forecast over three years) in order to assess the potential impact of adverse economic scenarios on the Group's solvency and compliance with the Risk Appetite Framework. The economic scenarios are designed and selected to reflect feasible but unlikely adverse situations, which have also been adapted to the specific characteristics of the Group's business: composition and geographical location of the risks.

The stress tests conducted internally by the Group are integrated into its management procedures. They assess the impact of adverse economic scenarios on the level of compliance with the Risk Appetite Framework as well as the impact that a potential adverse scenario could have on each business unit. Reporting the results of the tests to management bodies for approval makes it possible to ensure that the Group has the necessary information to determine the Group's solvency and situation in terms of compliance with its Risk Appetite in adverse situations.

The results of these tests are used as an input factor that is included in the review and definition of the different thresholds (targets or tolerance limits) in relation to the metrics used to define the Group's risk appetite.

These scenarios are complemented by the identification of specific events, under the framework of carrying out reverse stress testing exercises, which could represent significant risks to the Group's solvency.

## Regulatory Stress test

The Group participates in the regulatory stress tests carried out by the European Banking Authority, in cooperation with national competent authorities, the European Central Bank and the European Systemic Risk Board. These tests are carried out every two years and address the main risks taken by the Group. They evaluate institutions' solvency in a baseline scenario and in an adverse scenario covering a three-year period, and they are used as a basis to establish Pillar 2G.

The Group conducts regulatory stress tests using existing internal methodologies, although these are subject to the methodological restrictions of the regulatory stress test. This allows it to analyse and consider, in internal processes, the results of the regulatory stress test as an additional element to assess internal stress tests and vice versa.

# 6

# Capital

6

The information in this chapter complies with the information requirements in relation to capital, with detailed information from the following articles of the CRR: Article 437 on own funds, Article 437a on own funds and eligible liabilities, Article 438 on capital requirements, Article 440 on capital buffers and Article 447 on key indicators. It is also in line with the requirements related to capital set out in Article 1, 4 and 5 of Implementing Regulation (EU) 2021/637.

Information on relevant aspects of capital management and capital adequacy is disclosed below, as well as the main capital figures and metrics, including Pillar II and capital buffers.

## 6.1 Capital management

### Introduction

The management of capital is the result of an ongoing capital planning process. This process considers the expected evolution of the economic, regulatory and sectoral environment, as well as central and adverse scenarios.

The planning takes into account the expected capital requirements for the various activities engaged in by the Group and which arise from its business model, under the various envisaged scenarios, and the market conditions that could determine the effectiveness of the various actions that may be considered. The process is always in line with the strategic objectives of the Group and aims to ensure a level of own funds that is appropriate to the risks inherent in banking activities and the business model, whilst also ensuring returns for shareholders.

As regards capital management, as a general policy, the Group aims to adjust its available capital to the risk profile.

Each year, the Group carries out an internal capital adequacy assessment process. This process consists of an analysis and assessment of the Group's business model, based on which the risks incurred are identified. The Group carries out a qualitative self-assessment of the inherent risk taken in each risk type, the residual risk after considering the policies and procedures, as well as the acceptance, measurement and control systems for each risk, in addition to the relevant mitigation techniques.

Based on the inventory of the Group's material risks and their management, a comprehensive quantitative assessment of the necessary capital based on internal approaches (economic capital) is established, its scope exceeding the risks covered by Pillar I, integrating the models used by the Group (for example, borrower rating systems, credit ratings and credit scores) and other internal estimates appropriate to each type of risk (for example, AMA model in the case of operational risk). Additionally, forward-looking exercises are carried out which consider the Institution's financial and business plans as well as stress tests, in order to verify whether the performance of the business, risk and income statement in the event of potential adverse scenarios could pose a risk to the Group's solvency based on the available own funds or the Group's compliance with its Risk Appetite Statement.

Assessing risks in terms of the capital that needs to be allocated enables the risk to be linked to the profitability obtained at both the transaction and customer level, all the way up to the business unit level. The Group has implemented a risk-adjusted return on capital (RaRoC) system which provides this assessment, enabling uniform comparisons to be made and included in the transaction pricing process.

The level of solvency and capital quality are elements which are integrated in the definition of the Group's risk appetite, within the Risk Appetite Framework, which also includes a definition of target ratios and tolerance or alert thresholds.

For its part, the measurement, control and monitoring of solvency levels form an integral pillar in the management of the Group and its constituent companies.

### 6.1.1 Capital management objectives

Capital management at Banco Sabadell Group is carried out in accordance with the Group's Capital Management Policy, approved by the Board of Directors and reviewed at least annually. This policy sets forth the strategic, operating, management and control principles, as well as the internal governance principles that govern capital management in the Group. It also identifies the critical management parameters that support the effective enforcement of the principles.

Banco Sabadell Group manages capital to achieve three objectives:

- Establish capital as an integral element of risk management that contributes an element of prudence to such management, guaranteeing that the level of capital is quantitatively and qualitatively proportionate to the risks taken, as well as to internal and external requirements.

- Efficiently assign capital to those business units which, throughout the economic cycle, show a better risk/reward ratio, in order to guarantee that capital remuneration is sufficient and adequate for the Group's business model. This assignment is based on the business lines' relative returns on the capital required for their activities, and is aligned with the Group's risk appetite.

- Ensure that sufficient capital is available to meet capital requirements from a static perspective, and from a dynamic, forward-looking perspective (under a baseline or central scenario and under relevant adverse scenarios for the Group), taking into account the growth of each business unit and the Group's strategic objectives, and seeking to allow the Group to comfortably implement its defined business and funding plans.

In order to achieve these objectives, the Group bases its capital management on the following strategic principles:

| Strategic principles on the Capital Management | |
|---|---|
| | **Capital autonomy**: the Group's corporate structure is based on a model of legally independent subsidiaries with autonomy in terms of capital and liquidity, with an allocation of own funds in accordance with and proportionate to the effective location of the risks taken, and with centralised monitoring that complements the control exercised at local level, thereby ensuring an end-to-end vision. |
| | **Capital resilience and discipline**: ensure an adequate composition of available capital, promoting the selection of eligible items with the highest possible quality. The Group's solvency and that of its constituent companies needs to be guaranteed without losing sight of an optimal use of capital and its profitability. |
| | **Maximum value creation**: investment decisions should be taken with a view to creating value for shareholders by optimising the invested capital, allowing business management to be aligned with capital management. |

### 6.1.2 Solvency levels

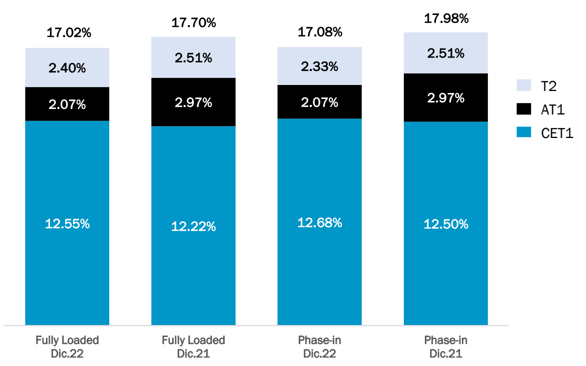
Banco Sabadell Group maintains a comfortable solvency position, and comfortably complies with the capital requirements to which it is subject, both in phase-in terms (i.e. pursuant to the IFRS 9 transitional schedule) and in fully loaded terms (i.e. without considering the transitional effects of this schedule).

The Group maintains levels of capital that are far higher than the regulatory minima required as at 31 December 2022, in line with the defined capital objective, in order to maintain a management buffer that will allow it to adjust the growth strategy of the Group's businesses to its capital levels.

Similarly, the Group's leverage ratio is also significantly higher than the regulatory minimum of 3%, both in phase-in terms and in fully loaded terms.

Banco Sabadell Group's solvency levels are shown below in both fully loaded and phase-in terms.

**Figure 12. Fully loaded vs. phase-in.**




The fully loaded CET1 ratio increased by 0.33% during the year, standing at 12.55% as at year-end, partly explained by the reduction of credit RWAs over the period, and by the increase in CET1 capital due to the profits earned in the year and the reduction of deductions for goodwill due to the sale of the interest held in Solvia Servicios Inmobiliarios and for intangible assets and non-monetisable deferred tax assets. Details of these changes are provided in sections 6.2 Eligible own funds and 6.3 Own funds requirements.

The fully loaded Total Capital ratio was reduced during the year 2022 by 0.68%, standing at 17.02% as at the year-end closing. This reduction was the result of the 735 million euro reduction of the capital base. This in turn was mainly due to the voluntary early redemption of the total amount of preferred securities envisaged in the conditions of the AT1 Preferred Securities 1/2017 issue, whose value amounted to 750 million euros, placing the Tier 1 ratio at 14.62%. Details of these changes are provided in sections 6.2 Eligible own funds and 6.3 Own funds requirements.

In phase-in terms, all of these actions and events, in terms of both available capital and risk-weighted assets, have enabled Banco Sabadell Group to reach a CET1 ratio, as at 31 December 2022, of 12.68%, above the standard established in the Supervisory Review and Evaluation Process (SREP) which, for 2023, was 8.65% (8.65% for 2022) thus being 399 basis points above minimum requirement and prudential buffers, called MDA (Maximum Distributable Amount). On the other hand, Tier 1 ratio of 14.75% and a Total Capital ratio of 17.08%,

The fully loaded leverage ratio was reduced during the year 2022 by 1.21% compared to the ratio as at 31 December 2021, standing at 4.59% as at the year-end closing. This was mainly due to the voluntary early redemption of the total amount of preferred securities envisaged in the conditions of the AT1 Preferred Securities 1/2017 issue, whose value amounted to 750 million euros, and to the end of the transitional arrangements that allowed exposures consisting of deposits in central banks to be excluded.

The main figures and ratios mentioned above in relation to solvency, in both fully loaded and phase-in terms, are set out here below:

Table 6. Key capital figures and solvency ratios.

| | Fully loaded | | Phase-In | |
|---|---|---|---|---|
| | 31/12/2022 | 31/12/2021 | 31/12/2022 | 31/12/2021 |
| Common Equity Tier 1 (CET1) | 9,985,006 | 9,859,600 | 10,082,751 | 10,079,533 |
| Tier 1 | 11,635,006 | 12,259,600 | 11,732,751 | 12,479,533 |
| Total capital | 13,546,337 | 14,280,869 | 13,587,753 | 14,500,802 |
| RWA | 79,559,621 | 80,689,104 | 79,544,790 | 80,645,579 |
| CET1 Ratio | 12.55% | 12.22% | 12.68% | 12.50% |
| Tier 1 Ratio | 14.62% | 15.19% | 14.75% | 15.47% |
| Total capital Ratio | 17.03% | 17.70% | 17.08% | 17.98% |
| Leverage Ratio | 4.59% | 5.80% | 4.62% | 5.90% |

*Data in thousands of euro.*

For more details on the performance and transitional nature of the various capital ratios, see Table KM1 in Annex III.

## 6.1.3 Minimum capital requirements

### Pilar II. Supervisory review and evaluation process

The Supervisory Review and Evaluation Process (SREP) encompasses the processes carried out by the supervisor in order to ensure that the institutions have adequate processes, strategies, mechanisms, capital and liquidity to guarantee sound management and hedging of the risks to which they are exposed, including risks that may be revealed by a stress test or those that the Institution could pose to the financial system.

The result of the SREP, of which the ICAAP is an input, establishes from a supervisory standpoint the minimum prudential capital requirements applicable to each institution. This process defines additional requirements to those set in Pillar I (established in Article 92 of the CRR). These Pillar II requirements are divided in two categories:

- Pillar II Requirement (Pillar 2R), which aims to hedge those risks that affect the Institution and that are not adequately or sufficiently covered by Pillar I. This requirement is mandatory.
- Pillar II Guidance (Pillar 2G), which aims to protect against the deterioration of the solvency of an institution during an adverse situation, beyond the capital conservation buffer. Compliance with this requirement is not strictly binding in the sense that non-compliance does not trigger automatic measures by the ECB. Nonetheless, the ECB does monitor compliance with this requirement, and in the event of non-compliance, it may request the necessary action plans to go back to that level, as well as the establishment of additional control measures.

The various elements of the regulatory framework stipulate that credit institutions must comply with a Total Capital ratio of 8% at all times. However, regulators may exercise their powers and require institutions to maintain additional capital.

### Minimum ratios required for each type of Capital

The CRR not only establishes the division of eligible own funds into Tier 1, Tier 2 and Common Equity Tier 1 (which is a sub-category of Tier 1), but also includes in its Article 92 the requirement of reaching a minimum ratio for each capital tier: 4.5% for CET1, 6% for Tier 1 and 8% for the Total Capital ratio.

In addition to these requirements, institutions are also required to comply with a specific buffer that combines the different capital buffers (the capital conservation buffer, the specific countercyclical buffer and the systemic risk buffer), on top of CET1 capital. For more details on capital buffer requirements see section 6.4 Capital buffers.

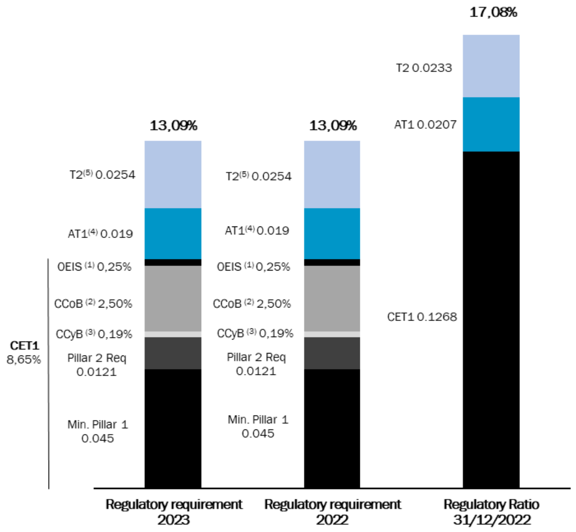
However, it must be taken into account that regulators can exercise their powers and require institutions to maintain additional levels of capital.

On 2 February 2022, Banco Sabadell received the decision of the European Central Bank concerning the minimum prudential requirements applicable to it from 1 March 2022 onwards, as a result of the Supervisory Review and Evaluation Process (SREP). The requirement, applicable on a consolidated basis, calls for Banco Sabadell to keep a phase-in Common Equity Tier 1 (CET1) ratio of at least 8.46% and a phase-in Total Capital ratio of at least 12.90%. These ratios include the minimum required under Pillar I (8.00%, of which 4.50% corresponds to CET1), the Pillar 2R (2.15%, of which 1.21% corresponds to CET1), the capital conservation buffer (2.50%), the requirement arising from the Institution's being considered as an "other systemically important institution" (0.25%) and the countercyclical buffer (0%).

On 14 December 2022, Banco Sabadell received the decision of the European Central Bank with regard to the minimum prudential requirements applicable from 1 January 2023 onwards as a result of the Supervisory Review and Evaluation Process (SREP). At a consolidated level, Banco Sabadell is required to keep a phase-in Common Equity Tier 1 (CET1) ratio of at least 8.65% and a phase-in Total Capital ratio of at least 13.09%. These ratios include the minimum required by Pillar 1 (8%, of which 4.50% corresponds to CET1), the Pillar 2 requirement (Pillar 2R) (2.15%, of which 1.21% must be met with CET1), the capital conservation buffer (2.50%), the requirement arising from its consideration as an O-SII (other systemically important institution) (0.25%) and the countercyclical buffer (0.19%) stemming from the decision made by the Bank of England's Financial Policy Committee (FPC) on 13 December 2021 to increase the countercyclical buffer from 0% to 1% starting 13 December 2022, and from Regulation No 22-06 of Luxembourg's Commission de

Surveillance du Secteur Financier, which increases the aforesaid buffer from 0% to 0.5% starting 30 September 2022.

**Figure 13. Summary of buffer requirements and compliance with regulatory ratio.**




(1)Buffer for other systematically important institutions.
(2)Capital conservation buffer.
(3)Countercyclical capital buffer.
(4)Pillar 1 AT1 and Pillar2R AT1.
(5)Pillar 1 T2 and Pillar 2RAT1.

This CET1 requirement for 2023 includes:

- The minimum required by Pillar I (4.50%).
- The Pillar 2R (1.21%).
- The capital conservation buffer (2.50%).
- The requirement arising from its consideration as an O-SII (other systemically important institution) (0.25%).
- The countercyclical capital buffer (0.19%).

### 6.1.4 Internal Capital Adequacy Assessment Process

This process aims for institutions to establish complete, effective and solid processes and strategies that enable the assessment and maintenance of the necessary internal resources, and their composition, according to their risk profile, as well as a robust internal control and governance framework.

The internal capital adequacy assessment process (ICAAP) is a key element of capital management in Banco Sabadell Group.

#### ICAAP regulatory framework

The internal capital adequacy assessment process is contemplated in the existing regulations on capital adequacy (Article 73 of Directive 2013/36/EU, transposed to Law 10/2014 of 26 June). It is carried out following the principles and information requirements described in the guidelines issued by the EBA, Guidelines on ICAAP and ILAAP Information Collected for SREP Purposes (EBA/GL/2016/10). It also considers the principles described by the ECB in the guide issued in November 2018, ECB Guide to the Internal Capital Adequacy Assessment Process (ICAAP).

Law 10/2014 on the organisation, supervision and solvency of credit institutions also mentions in Article 41 the need for credit institutions to conduct a regular self-assessment of capital adequacy.

In addition to the EBA and ECB guides, any guidelines or recommendations that may have arisen from the supervisory review and evaluation process of the ICAAP are considered in the development of the process.

#### ICAAP process at Banco Sabadell Group

Banco Sabadell Group conducts its internal capital adequacy assessment process on a consolidated basis throughout the year, in order to carry out a complete assessment of the risks taken by the Group and generate a relevant, up-to-date, all-encompassing and prospective understanding of the adequacy of the levels of capital.

The ICAAP has a solid governance framework, with high involvement from Senior Management, the Board of Directors being ultimately responsible for its review and approval.

Banco Sabadell Group develops the ICAAP from an all-encompassing perspective, so as to generate an assessment of the adequacy of the level of internal capital, taking into account the Group's structure and business model from different perspectives.

The ICAAP process is seen as a complementary tool to Basel Pillar 1 (Regulatory Capital), which first analyses the Group's business model within its economic, financial and regulatory environment, and its sustainability and short- and medium-term feasibility. The Group's business model implies the acceptance of risks and, therefore, the definition of a risk profile. In this sense, as part of the ICAAP, an identification of the material risks derived from the Group's activities is included, and a self-assessment is carried out of the inherent and residual risk entailed by such risks after considering the risk governance, management and control systems.

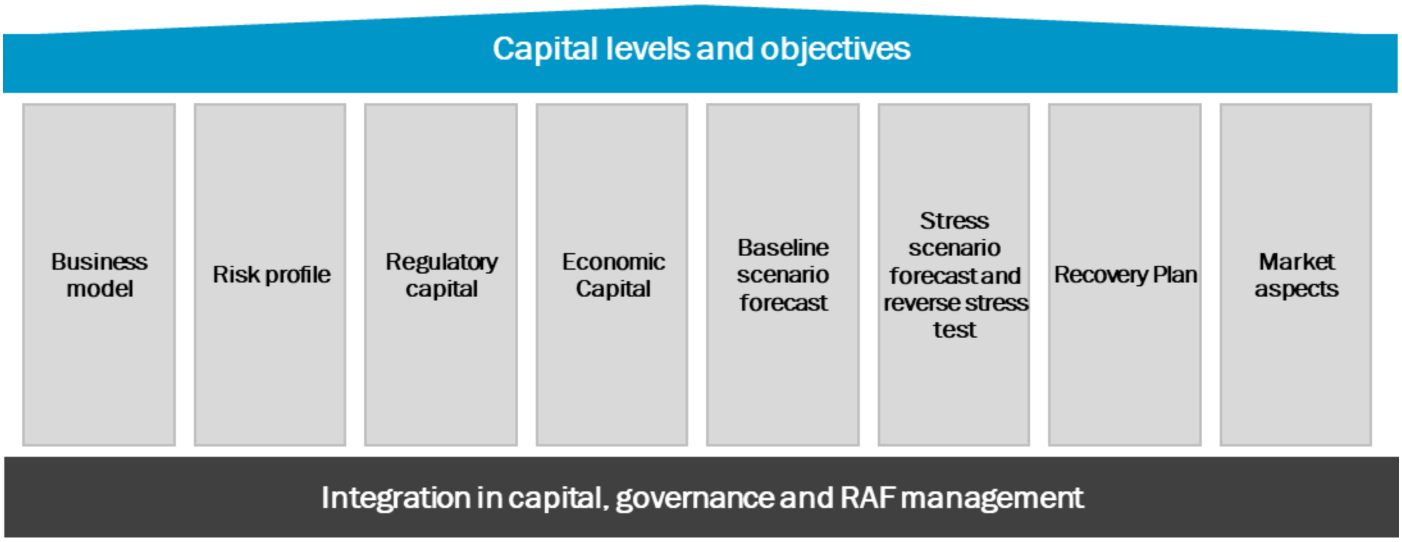
Based on the inventory of the Group's material risks and their management, a comprehensive quantitative assessment of the necessary capital based on internal approaches (economic capital) is established, its scope exceeding the risks covered by Pillar I, integrating the models used by the Group (for example, borrower rating systems, credit ratings and credit scores) and other internal estimates appropriate to each type of risk.

In addition, the ICAAP includes forward-looking analyses covering a time horizon of three years (or up to 30 years in the case of scenarios designed to forecast climate risk). These analyses are carried out under a baseline economic scenario, but also under plausible if unlikely adverse scenarios (stress tests), which are relevant to the Group and, therefore, reflect adverse situations that may have a particular effect on the Group. The baseline forecast includes the Group's business and financial plans. These forecasts are carried out to verify whether the performance of the business, risk and profit and loss accounts in the event of potential adverse scenarios could pose a risk to the Group's solvency based on the available own funds or the Group's compliance with its Risk Appetite Statement. As a result of these exercises, the Bank can detect weaknesses and propose, if necessary, action plans that mitigate the identified risks.

Forward-looking analyses under adverse scenarios are complemented by reverse stress tests, which identify idiosyncratic characteristics of the Group that may pose a relevant risk to its solvency if it were to materialise.

The combination of different solvency measurements (static or dynamic and regulatory or economic), taking into account the inventory of risks affecting the Group and the main vulnerabilities detected, makes it possible to draw a conclusion on Group's solvency position that is communicated quarterly to the Board of Directors, as the body ultimately responsible for the ICAAP. Additionally, the Board of Directors annually approves the conclusions on the solvency position.

**Figure 14. ICAAP Process structure.**




### Economic Capital

In the development of the ICAAP, the measuring of the risks assumed is specially important, beyond Pilar I risks, to ensure that sufficient internal capital is available to absorb the unexpected losses that may arise from these risks (Economic Capital). Banco Sabadell Group has the necessary tools to measure all material risks taken, including Pillar I risks, other aspects related to Pillar I risks not adequately considered in the regulatory framework (concentration risk in credit exposures, internal approaches to operational risk, etc.) and also other risks not considered in Pillar I (structural interest rate, business, etc.). Liquidity risk is excluded from the calculation of economic capital, as it is considered that it should not be managed or measured under a solvency approach.

The calculation of economic capital requirements also incorporates an overview of the portfolio. Therefore, the risks taken are measured within the context of a financial Group, including the effects of risk diversification that may arise, for instance, from having a credit portfolio with some degree of international diversification, but also with a balance between different asset and borrower classes.

The internal solvency level is set by comparing internal capital requirements and eligible own funds that include CET1. Banco Sabadell Group has an adequate level of capital for its risk profile based on an economic or internal perspective.

## 6.1.5 Organisation of the capital function

### Integration in management

The measurement, control and monitoring of solvency levels form an integral pillar in the management of the Group and its constituent companies. The key elements in which they are integrated into capital management procedures are as follows:

- Incorporation in the strategic and budget planning process to determine the capital levels that the Group needs to have in place to guarantee the successful implementation of its strategy. They form the basis of financial planning, which is part of the funding plan and of capital planning.
- Integration of capital levels into the Group's risk appetite and thresholds that can activate specific active management measures and, if necessary, recovery options.
- The ICAAP, as an ongoing process that includes a series of exercises, including a business model analysis, an assessment of the Group's risk profile, capital target-setting, capital planning and stress tests and capital adequacy, assessed from both a regulatory and economic perspective. This process enables a strategic, granular and holistic reflection firmly rooted in the Group's risk and capital situation to take place, with a high level of involvement of the Group's Senior Management.
- Definition of a pricing framework to remunerate capital requirements generated by the risks taken, in such a way as to ensure that the Group maintains a general target for creating shareholder value in specific transactions and business lines.
- Ensure the efficient allocation of capital by business and by risk, so as to enable appropriate decisions to be taken in accordance with the risk-return trade-off.
- The capital policy focuses on upholding shareholder remuneration without putting the Group's solvency at risk.

- Integration of the capital management policy in the development of remuneration policies and practices, in such a way as to ensure that these are consistent with the requirement to hold a sound and solid capital base, and generate the necessary incentives in that regard.
- Limiting the execution of treasury stock transactions to events which, within the limits authorised by the regulator, are carried out for specific purposes that do not endanger the Group's solvency.

### Control framework

Capital management is subject to a control framework based on the three lines of defence.

The first line of defence comprises the Finance Unit and the Credit Forecasting Models & ICAAP Unit:

- The duties of the Finance Unit notably include:
  - Calculation, analysis and reporting of regulatory capital and associated metrics, such as risk-adjusted return and value creation of the various business units.
  - Preparation of funding plans, capital requirements and forecasts under the different scenarios considered.
  - Development and management of the stress test analysis framework within the Institution's financial planning process.
  - Preparation, approval and submission of COREP statements.
  - Integration of capital-related metrics into business management.
  - Incorporation of capital management metrics into management information systems.
  - Dissemination of the Group's capital management principles and policies in subsidiaries.
  - Definition of the control and coordination framework between the Group and its subsidiaries for adequate monitoring and reporting of capital requirements and provisions.
  - Provision of support to the CEO and the Chief Risk Officer in developing the Global Risk Framework.
  - Within the planning, budgeting and management control processes, conduct capital allocation in a manner aligned with the Group's strategy.
  - Development of the Recovery Plan.
  - Monitoring and management of the MREL requirements.
- The duties of the Credit Forecasting Models & ICAAP Unit include:
  - Calculation, analysis and reports on economic capital and the associated metrics.
  - Calculation of the solvency level and preparation of the internal capital adequacy assessment (ICAAP), as well as coordination of the participation of other units in its preparation.
  - Quantification of economic capital calculations and assurance that specific risk measurement models follow generally accepted principles and methodologies, and in particular those accepted by supervisory bodies.

The second line of defence is formed by the Internal Control Unit and the Validation Unit:

- Internal Control Unit: It is mainly responsible for the identification and self-assessment of the material risks to which the Group is exposed (risk assessment), as well as for promoting the review and update of the Group's Risk Appetite Framework (RAF) and its risk appetite through the RAS. Its duties include the following:
  - Ensure the integration of capital management into the strategy and risk management framework, and ensure that capital management is consistent with the risk appetite.
  - Monitor capital and return on capital metrics in terms of their alignment with the risk appetite within the RAS monitoring framework.
- The Validation Unit is mainly responsible for:
  - The methodological review of the internal models used in the allocation of capital through their independent review, following the criteria established in the Group Model Governance Framework and the Internal Validation Framework.
  - Ensuring the adequacy of the process for calculating eligible own funds and reviewing the methodology for calculating RWAs.
  - Reviewing and controlling the capital calculation process, including regular checks on the development of the components of the capital calculation, as well as monitoring of the processes and controls established by the Finance Unit and implemented within the First Line of Defence's control environment.
  - The methodological review of the economic capital and financial planning models used in the framework of the Group's ICAAP.
  - Controlling the adequate generation and use of scenarios as specified in the Group's Scenario Policy.

Finally, the third line of defence is made up of Internal Audit, which is in charge of regularly supervising the control environment, following a risk-based approach, in order to verify its alignment and compliance with policies and procedures.

### Roles and responsibilities in capital management

Capital management is a fundamental aspect for Banco Sabadell Group. The involvement of the Group's governing bodies in this management takes place at the highest level in all aspects relating to the Group's solvency.

- Board of Directors: as the highest decision-making body in Banco Sabadell Group, its responsibility is the formal approval of capital principles and policies governing the same on both an individual and consolidated basis. Similarly, it is tasked with approving all decisions that have not been delegated to lower-level bodies related to capital.
- Management Committee: coordinates the executive management of Banco Sabadell, exercising for such purposes any powers conferred to it by the Board of Directors, which are indicated in detail in the Annual Report on Corporate Governance published by Banco Sabadell.

- Risk Control Committee: oversees the management of all of the Group's material risks.
- Audit and Control Committee: carries out the independent supervision and control of Banco Sabadell Group.
- Remuneration Committee: this is the main committee responsible for proposing the remuneration policy for Board members and general managers to the Group's Board of Directors.

Additionally, the Planning and Capital Committee has been established. Its duties include:

- Approval of non-material initiatives relating to capital management (changes of less than 5 basis points of CET1 ratio), which will be notified to higher Committees. For changes above this threshold, the Management Committee will establish the level to which the matter needs to be escalated.
- Approval of procedures related to the policy for capital management, financial planning, solvency stress tests and guarantees.
- Approval of updates relating to the Crisis Management and Control Procedure (both the Group procedure and the Banco Sabadell procedure) and to the Group's Recovery Plan Procedure.
- Semi-annual approval of the amount to be requested from the supervisor in terms of the eligibility of results.
- Review of the annual Pillar III Disclosures reports and approval of the quarterly disclosures (first and third quarter).
- Authorisation of the application of waivers on the grounds of the materiality, confidentiality or non-public nature of the prudential disclosures, based on that provided in the Financial and Related Non-Financial Disclosures Policy.
- Review of the financial planning processes under baseline, adverse and highly adverse scenarios, prior to their escalation to the corresponding bodies for approval.
- Review of the ICAAP prior to it being escalated to the corresponding bodies for approval.
- Monitoring, at least quarterly, of the validity of the ICAAP conclusions in relation to the adequacy of Banco Sabadell Group's solvency level and submission to the Management Committee.
- Review of the regulatory stress test exercises.
- Proposal, monitoring and coordination of initiatives to ensure the alignment of capital ratios with the Group's targets and objectives.
- Proposal to the relevant governing bodies of the maximum volume of treasury stock.
- Assessment of the main risks to the capital position in the near term.
- Review and approval of the eligibility of the different new types of collateral for risk mitigation purposes in the calculation of capital requirements.
- Review and update of the policies related to capital management and the stress test for subsequent approval by the relevant governing body.
- Monitoring of capital ratios and metrics during the monthly closing processes at the Group level and monitoring of capital allocated to business units.
- Monitoring of capital ratio forecasts during the quarterly closing processes.
- Analysis of the impact and establishment of proposals for actions required by changes in regulations or in their interpretation.
- Review of the findings and requirements identified by the supervisor and by the second and third lines of defence of the Institution.
- Analysis of the causes of quarterly and monthly changes in the main capital metrics and, depending on the metric, breakdown by business unit.
- Monitoring and benchmarking of competing institutions.
- Monitoring, review and approval, on a quarterly basis, of the new internal control framework of Banco Sabadell Group for regulatory capital purposes.
- Quarterly reconciliation between the publicly reported capital ratios and the final ratios subsequently reported in the COREP statements.

Finally, there are other Committees involved in capital management:

- Technical Risks Committee: provides adequate support to the Board Risk Committee for the performance of its duties and establishes the foundations that guide the main decisions and strategies for risk management and control.
- Models Committee: acts on the perimeter of models defined in the Group's internal model governance framework, and its main objective is the management, monitoring and control of these models throughout their life cycle. It also has various powers of approval according to the classification levels of the materiality of the changes in the models.
- Assets and Liabilities Committee (ALCO): this is the management body responsible for optimising and monitoring the management of the Group's structural balance sheet risks.

## 6.2 Eligible own funds

### 6.2.1 Composition of own funds Regulatory framework

#### Regulatory framework

The categorisation of own funds is conducted in accordance with Regulation (EU) 575/2013 and its subsequent amendments, the most relevant ones in the period being those brought by Regulation (EU) 2019/630 and Regulation (EU) 2019/876 which introduce the prudential backstop deduction and the bulk of CRR2 amendments, respectively.

Accordingly, own funds are considered to be Tier 1 capital items and instruments, defined as the sum of Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital, as referred to in Part Two, Title I, Chapters I to III, after making the adjustments set out in Articles 32 to 35 and the deductions set out in Article 36, and after applying the exemptions and options set out in Articles 48, 49 and 79 and after deducting the items referred to in Article 56 and applying Article 79, respectively.

In addition, Tier 2 capital items, as defined in Part Two, Chapter IV, Section I are considered, and the deductions defined as such in Section II of the same Chapter (Article 66) are applied, and Article 79 is also applied.

### 6.2.2 Total amount of eligible own funds

The following table shows the main items comprising eligible own funds in terms of solvency in Banco Sabadell Group (Common Equity Tier 1, Additional Tier 1 and Tier 2), in accordance with the criteria set forth in Part Two of the CRR:

### Table 7. Total amount of eligible own funds.

| | 31/12/2022 | 30/09/2022 | 30/06/2022 | 31/03/2022 | 31/12/2021 |
|---|---|---|---|---|---|
| **Minimum own funds requirements with no floor[(1)]** | **6,363,583** | **6,477,169** | **6,444,437** | **6,428,877** | **6,451,646** |
| (+) Share capital and similar funds | 703,371 | 703,371 | 703,371 | 703,371 | 703,371 |
| (+) Reserves | 12,409,580 | 12,430,663 | 12,453,051 | 12,480,841 | 12,157,819 |
| (+) Profit attributed to Group net of dividends | 429,321 | 157,463 | 157,463 | 0 | 361,429 |
| (+/-) Treasury portfolio and financing for the purchase of own shares[(2)] | -107,847 | -110,654 | -81,602 | -82,779 | -85,753 |
| (+) Minority interests | — | — | — | — | — |
| (+/-) Valuation adjustments | -641,901 | -552,411 | -499,846 | -437,546 | -368,285 |
| (-) Deductions and transitory effects[(4)] | -2,709,773 | -2,695,481 | -2,712,970 | -2,715,251 | -2,689,047 |
| **Common Equity Tier 1 own funds** | **10,082,751** | **9,932,951** | **10,019,467** | **9,932,468** | **10,079,533** |
| (+) Preference shares | 1,650,000 | 1,650,000 | 1,650,000 | 1,650,000 | 2,400,000 |
| (+) Convertible bonds | — | — | — | — | — |
| (+) Minority interests | — | — | — | — | — |
| (+) Negative valuation adjustments | — | — | — | — | — |
| (-) Deductions | — | — | — | — | — |
| **Additional Tier 1 own funds** | **1,650,000** | **1,650,000** | **1,650,000** | **1,650,000** | **2,400,000** |
| **Total Tier 1 own funds** | **11,732,751** | **11,582,951** | **11,669,467** | **11,582,468** | **12,479,533** |
| (+) Subordinated loans | 1,648,967 | 1,674,109 | 1,699,250 | 1,724,118 | 1,748,713 |
| (+) Minority interests | — | — | — | — | — |
| (+) Credit risk adjustments[(3)] | 262,364 | 266,702 | 273,828 | 272,647 | 272,557 |
| (-) Deductions | -56,330 | -31,264 | — | — | — |
| **Total Tier 2 own funds** | **1,855,001** | **1,909,547** | **1,973,078** | **1,996,764** | **2,021,270** |
| **Total eligible own funds (Phase-In)** | **13,587,753** | **13,492,498** | **13,642,545** | **13,579,233** | **14,500,802** |
| **CET1 Ratio** | **12.68%** | **12.27%** | **12.44%** | **12.36%** | **12.50%** |
| **Tier 1 Ratio** | **14.75%** | **14.31%** | **14.49%** | **14.41%** | **15.47%** |
| **Total capital Ratio** | **17.08%** | **16.66%** | **16.94%** | **16.90%** | **17.98%** |

*Amounts in thousand euro. Phase-in Scenario.*

*(1) Own funds requirements calculated as 8% of RWEA.*

*(2) Treasury shares: the maximum limit of own treasury shares authorized by the supervisor (-50.000 thousand euro) and the financing of treasury portfolio (-57.847 thousand euro) are deducted.*

*(3) Excess of provisions according to IRB over eligible expected losses. It takes into account the excess that occurs between the sum of the value corrections for asset impairment and the risk provisions assigned to the exposures calculated according to the IRB method once they are compared with the corresponding expected losses, in the part that does not exceed 0.6% of the risk-weighted exposures.*

*(4) Includes the main deductions (-2.807.519 thousand euro) from goodwill and intangible assets (-2.144.909 thousand euro) and tax loss carryforwards and DTA thresholds (-537.712 thousand euro), the difference corresponding to backstops, expected losses on equities, junior tranches of securitizations and other items (-124.898 thousand euro), as well as the transitional adjustment to CET1 due to IFRS9 (97.745 thousand euro).*

The Group's eligible own funds as at 31 December 2022 amount to 13,587,753 thousand euros. Common Equity Tier 1 capital amounts to 10,082,751 thousand euros, 74.20% of the total eligible capital in terms of solvency.

Additional Tier 1 own funds amounted to 1,650,000 thousand euros and represented 12.14% of the total eligible capital of the Bank in terms of solvency, consisting entirely of AT1 instruments.

Tier 2 own funds amount to 1,855,001 thousand euros. This figure represents 13.65% of the total eligible capital in terms of solvency.

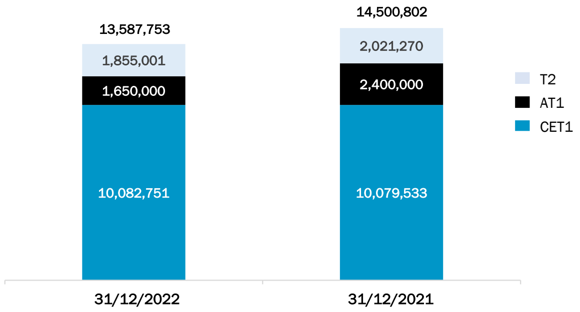
Main own funds variations in the period:

- Increased profit attributable to the Group (328,404 thousand euros), from which the estimated dividend should be deducted (-260,512 thousand euros). This entails a contribution to CET1 capital of 67,892 thousand euros.
- Variation of reserves (251,762 thousand euros) due to retained earnings from previous years, reduced by the payment of coupons of convertible bonds and preferred securities in the period, reflected in CET1 capital.
- In terms of deductions and transitory effects, it is worth noting the reduction of the transitory effect of IFRS 9 provisions (-122,187 thousand euros) due to the change in the transitional factor itself. On the other hand, the deduction derived from deferred tax assets originated by temporary differences increased by -72,648 thousand euros.
- There has been a reduction in the deduction for goodwill and intangibles (82,731 thousand euros), mainly due to the amortisation of IT intangibles.
- Valuation adjustments, which resulted in a Common Equity Tier 1 capital balance variation of -273,616 thousand euros, with the deduction going from -368,285 thousand euros to -641,901 thousand euros. This increase in the

deduction is mainly due to the evolution of the fixed income instruments item, in turn due to higher interest rates.

- In overall terms, Tier 1 capital has decreased by 746,782 thousand euros compared to the figure reported in 2021, Additional Tier 1 capital has decreased by 750,000 thousand euros, due to the voluntary early redemption of the total amount of preferred securities envisaged in the conditions of the AT1 Preferred Securities 1/2017 issue, while Tier 2 capital has decreased by 166,268 thousand euros due to the loss of eligibility of subordinated bonds (-99,745 thousand euros), to the change in the computation of the excess of provisions over expected losses (-10,193 thousand euros) and to the impact of the transitional adjustments under IFRS9 (-56,330 thousand euros), due to the drop in the surplus of provisions below the 0.6% cap in the phase-in scenario.
- With the above, there is a decrease of 913,050 thousand euros compared to the total own funds figure reported in 2021.

**Figure 15. Phase-in Total Capital evolution between 2021 and 2022.**




The table below shows the main movements recorded in terms of the composition of the Group's own funds during the period corresponding to the last financial year:

**Table 8. Movements of capital.**

| | CET1 Capital | AT1 Capital | T2 Capital | Total |
|---|---|---|---|---|
| **Balance at 31/12/2021** | **10,079,533** | **2,400,000** | **2,021,270** | **14,500,802** |
| Shares issued and share premium | -22,093 | — | — | -22,093 |
| Reserves | 251,762 | — | — | 251,762 |
| Attributed profit net of dividends | 67,892 | — | — | 67,892 |
| Valuation adjustments | -273,616 | — | — | -273,616 |
| Deductions and transitory effects | -20,726 | — | — | -20,726 |
| AT1 eligible instruments | — | -750,000 | — | -750,000 |
| Tier 2 eligible instruments | — | — | -99,745 | -99,745 |
| General funds and surplus provisions under IRB approach | — | — | -10,193 | -10,193 |
| Tier 2 Deductions and transitory effects | — | — | -56,330 | -56,330 |
| **Balance at 31/12/2022** | **10,082,751** | **1,650,000** | **1,855,001** | **13,587,753** |

*Amounts in thousand euro. Phase-In Scenario.*

### 6.2.3 Own funds instruments

Each of the aforementioned capital tiers is made up, among other items, of capital instruments that form part of these tiers due to their characteristics. In Banco Sabadell Group, the following instruments should be mentioned:

**Table 9. List of own funds instruments.**

| Instrument name | Issuer | ISIN | Type of instrument |
|---|---|---|---|
| Shares | BANCO SABADELL SA | ES0113860A34 | Ordinary Shares |
| Additional TIER 1 Preferred Securities 2/2017 | BANCO SABADELL SA | XS1720572848 | Preferred Securities |
| Subordinated Issue June 92 | CAM | 330112000046[1] | Subordinated Debt |
| Subordinated Bonds I/2016 | BANCO SABADELL SA | XS1405136364 | Subordinated Debt |
| Subordinated Issue I/2018 | BANCO SABADELL SA | XS1918887156 | Subordinated Debt |
| Subordinated Issue 1/2020 | BANCO SABADELL SA | XS2102931677 | Subordinated Debt |
| Subordinated Issue 1/2021 | BANCO SABADELL SA | XS2286011528 | Subordinated Debt |
| Additional TIER 1 Preferred Securities 1/2021 | BANCO SABADELL SA | XS2310945048 | Preferred Securities |
| Additional TIER 1 Preferred Securities 2/2021 | BANCO SABADELL SA | XS2389116307 | Preferred Securities |

*Data as at 31/12/2022.*

*[1] No ISIN code is available as it is a subordinated deposit.*

Details of each of these instruments can be found in **Annex V**, which gives details of their main characteristics.

### 6.2.4 Impact of transitional arrangements on capital: IFRS 9

The International Accounting Standards Board (IASB) published in 2014 the complete version of Standard IFRS 9 "Financial Instruments", which replaced the standard in effect until that time (IAS 39). These new standards include a new impairment model that requires losses to be recognised in advance: the Expected Loss model.

The European Parliament and the European Commission, through Regulation (EU) 2017/2395, of the European Parliament and of the Council, of 12 December 2017, amending Regulation (EU) 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds and for the treatment of large exposures of certain public sector exposures denominated in the domestic currency of any Member State, establish a mechanism that allows the impact of accounting standard IFRS 9 on capital ratios to be phased in.

The Group gave notice to the supervisory body of its adherence to this provision, opting to apply the static modified approach defined in Sections 2, 3 and 4 of the first article of the aforementioned Regulation.

Finally, Regulation 2020/873 which amended Regulation (EU) 575/2013 and Regulation (EU) 2019/876 as regards certain adjustments made in response to the COVID-19 pandemic, allows for more flexibility in the implementation of the transitional provisions to mitigate the impact of IFRS 9. Specifically, the transitional arrangements were extended by two years, allowing institutions to add back to their CET1 capital any increases in new provisions for loan losses expected to be recognised from 2020 onwards for their unimpaired financial assets.

The following table shows the impact that the application of the transitional arrangements in force in December 2022 has had on the various solvency ratios compared to the impact if the IFRS 9 rules were applied in full.

Table 10. Comparison between institutions' own funds, capital ratios and leverage ratios with and without applying the transitional arrangements of IFRS9 or analogous ECL provisions (IFRS9-FL).

| | 31/12/2022 | 30/09/2022 | 30/06/2022 | 31/03/2022 | 31/12/2021 |
|---|---|---|---|---|---|
| **Available capital (amounts)** | | | | | |
| Common Equity Tier 1 (CET1) capital | 10,082,751 | 9,932,951 | 10,019,467 | 9,932,468 | 10,079,533 |
| Common Equity Tier 1 (CET1) capital as if IFRS9 or analogous ECLs transitional arrangements had not been applied | 9,985,006 | 9,831,240 | 9,919,991 | 9,824,574 | 9,859,600 |
| Tier 1 Capital | 11,732,751 | 11,582,951 | 11,669,467 | 11,582,468 | 12,479,533 |
| Tier 1 capital as if IFRS9 or analogous ECLs transitional arrangements had not been applied | 11,635,006 | 11,481,240 | 11,569,991 | 11,474,574 | 12,259,600 |
| Total capital | 13,587,753 | 13,492,498 | 13,642,545 | 13,579,233 | 14,500,802 |
| Total capital as if IFRS9 or analogous ECLs transitional arrangements had not been applied | 13,546,337 | 13,422,051 | 13,543,068 | 13,471,338 | 14,280,869 |
| **Risk-weighted assets (amounts)** | | | | | |
| Total risk-weighted assets | 79,544,790 | 80,964,617 | 80,555,457 | 80,360,967 | 80,645,579 |
| Total risk-weighted assets as if IFRS9 or analogous ECLs transitional arrangements had not been applied | 79,559,621 | 80,979,022 | 80,569,750 | 80,386,946 | 80,689,104 |
| **Capital ratios** | | | | | |
| Common Equity Tier 1 (as a percentage of risk exposure amount) | 12.68% | 12.27% | 12.44% | 12.36% | 12.50% |
| Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS9 or analogous ECLs transitional arrangements had not been applied | 12.55% | 12.14% | 12.31% | 12.22% | 12.22% |
| Tier 1 (as a percentage of risk exposure amount) | 14.75% | 14.31% | 14.49% | 14.41% | 15.47% |
| Tier 1 (as a percentage of risk exposure amount) as if IFRS9 or analogous ECLs transitional arrangements had not been applied | 14.62% | 14.18% | 14.36% | 14.27% | 15.19% |
| Total capital (as a percentage of risk exposure amount) | 17.08% | 16.66% | 16.94% | 16.90% | 17.98% |
| Total capital (as a percentage of risk exposure amount) as if IFRS9 or analogous ECLs transitional arrangements had not been applied | 17.03% | 16.57% | 16.81% | 16.76% | 17.70% |
| **Leverage ratio** | | | | | |
| Leverage ratio total exposure measure | 253,840,350 | 257,020,894 | 258,059,177 | 213,316,122 | 211,616,215 |
| Leverage ratio | 4.62% | 4.51% | 4.52% | 5.43% | 5.90% |
| Leverage ratio as if IFRS9 or analogous ECLs transitional arrangements had not been applied | 4.59% | 4.47% | 4.49% | 5.38% | 5.80% |

*Amounts in thousand euro.*

*The Entity has not applied the temporary treatment of unrealised gains and losses measured at fair value through OCI in accordance with Article 468 of the CRR.*

*In compliance with Article 473 bis paragraph 7 of the Regulation 2020/873, the Institution informs that has applied a risk-weighted of 100% to the ABSA exposure referred to in paragraph 1, point a) of the mentioned article.*

As at the end of December 2022, the effects of the application of these transitional arrangements materialised in an increase in CET1 of 97,745 thousand euros, which partly mitigates the decrease in equity resulting from the entry into force of IFRS 9, due to the increase in accounting provisions. From December 2022 onwards, once the IFRS 9 static component of the transitional arrangements disappears, this CET1 increase would be reduced to 7,669 thousand euros.

As regards the effects materialised in risk-weighted assets, there are two opposite effects, the final outcome of which is a reduction of 14,830 thousand euros in terms of RWAs:

- Reduction in RWAs following the application of transitional arrangements to deferred tax assets generated by the entry into force of IFRS 9.
- Increase in RWAs as a result of applying the scaling factor to provisions allocated to exposures under the standardised approach, as set forth in Article 1(7)(b) of Regulation (EU) 2017/239.

**Annex IV** also provides details of all items and deductions that make up own funds, as well as details of the application of transitional provisions to these funds. This shows the result of the progressive implementation of all the changes introduced by the CRR in the composition of capital at the end of the transitional period. Specifically, the items and deductions due to the transitional application of IFRS 9 are disclosed.

## 6.3 Own funds requirements

### 6.3.1 Total amount of minimum own funds requirements

A summary of the evolution of risk-weighted assets and own funds requirements grouped by risk type is shown below:

**Table 11. Capital requirements by risk type.**

| | 31/12/2022 | | 30/09/2022 | | 30/06/2022 | | 31/03/2022 | | 31/12/2021 | |
|---|---|---|---|---|---|---|---|---|---|---|
| Type of risk | Risk weighted assets (RWAs) | Capital requirements[1] | Risk weighted assets (RWAs) | Capital requirements[1] | Risk weighted assets (RWAs) | Capital requirements[1] | Risk weighted assets (RWAs) | Capital requirements[1] | Risk weighted assets (RWAs) | Capital requirements[1] |
| Credit risk and counterparty risk | 67,263,946 | 5,381,116 | 68,636,759 | 5,490,941 | 69,403,014 | 5,552,241 | 69,445,284 | 5,555,623 | 69,892,141 | 5,591,371 |
| of which: counterparty Credit risk[2] | 720,425 | 57,634 | 690,156 | 55,213 | 523,078 | 41,846 | 566,782 | 45,343 | 792,751 | 63,420 |
| Market risk | 996,644 | 79,731 | 1,010,365 | 80,829 | 784,937 | 62,795 | 834,504 | 66,760 | 579,519 | 46,362 |
| Operational risk | 8,160,674 | 652,854 | 7,931,371 | 634,510 | 7,931,371 | 634,510 | 7,931,371 | 634,510 | 7,931,371 | 634,510 |
| Other exposure amounts[3] | 3,123,527 | 249,882 | 3,386,123 | 270,890 | 2,436,135 | 194,891 | 2,149,808 | 171,985 | 2,242,547 | 179,404 |
| **Total** | **79,544,790** | **6,363,583** | **80,964,617** | **6,477,169** | **80,555,457** | **6,444,437** | **80,360,967** | **6,428,877** | **80,645,579** | **6,451,646** |

*Amounts in thousand euro.*

*(1) Calculated as 8% of RWAs.*

*(2) Includes CVA and requirements for contributions to the default fund of a CCP.*

*(3) Includes the impact on the RWEA when applying additional prudential adjustments requested by the supervisor (SSM). It also includes some impacts mainly related to the achievement of the IRB Repair program, which the Entity has decided to compute in advance.*

The following table contains information related to own funds requirements, in line with the requirements of Part Three of the CRR regarding different types of risk, indicating the calculation approach used and, in the case of credit risk, giving details of the different regulatory exposure classes.

## Table 12. Total amount of risk-weighted assets and minimum own funds requirements.

| Exposure classes and types of risk | 31/12/2022 | | 30/09/2022 | | 30/06/2022 | | 31/03/2022 | | 31/12/2021 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | RWAs | Capital requirements[1] | RWAs | Capital requirements[1] | RWAs | Capital requirements[1] | RWAs | Capital requirements[1] | RWAs | Capital requirements[1] |
| **Credit Risk (standardised approach)** | **27,150,016** | **2,172,001** | **27,915,597** | **2,233,248** | **27,064,917** | **2,165,193** | **26,820,378** | **2,145,630** | **27,046,132** | **2,163,691** |
| Central governments and central banks | 169,768 | 13,581 | 181,145 | 14,492 | 204,623 | 16,370 | 153,105 | 12,248 | 171,240 | 13,699 |
| Regional governments and local authorities | 52 | 4 | 69 | 6 | 65 | 5 | 29 | 2 | 51 | 4 |
| Public sector entities and other public institutions | 385,515 | 30,841 | 374,135 | 29,931 | 326,182 | 26,095 | 220,681 | 17,654 | 267,808 | 21,425 |
| Multilateral development banks | 328.67 | 26.29 | 107 | 9 | 467 | 37 | 70 | 6 | 7 | 1 |
| International organisations | – | – | – | – | – | – | – | – | – | – |
| Institutions | 1,149,967 | 91,997 | 1,130,017 | 90,401 | 425,913 | 34,073 | 369,146 | 29,532 | 326,947 | 26,156 |
| Corporates | 5,077,860 | 406,229 | 5,342,993 | 427,439 | 5,095,973 | 407,678 | 4,874,098 | 389,928 | 4,930,211 | 394,417 |
| Retail | 1,710,980 | 136,878 | 1,708,094 | 136,648 | 1,670,302 | 133,624 | 1,663,188 | 133,055 | 1,700,568 | 136,045 |
| Secured with residential or commercial real estate | 5,420,378 | 433,630 | 5,644,120 | 451,530 | 5,719,546 | 457,564 | 5,912,695 | 473,016 | 5,902,509 | 472,201 |
| Exposures in default | 747,536 | 59,803 | 841,377 | 67,310 | 922,065 | 73,765 | 949,745 | 75,980 | 943,458 | 75,477 |
| High risk exposures | 674,290 | 53,943 | 643,395 | 51,472 | 617,498 | 49,400 | 574,088 | 45,927 | 626,088 | 50,087 |
| Covered bonds | – | – | – | – | – | – | 53,163 | 4,253 | 50,791 | 4,063 |
| Securitisation positions | – | – | – | – | – | – | – | – | – | – |
| Claims on institutions and corporates with a short-term credit assessment | – | – | – | – | – | – | – | – | – | – |
| Exposures to collective investment undertakings | 24,708 | 1,977 | 31,009 | 2,481 | 32,236 | 2,579 | 36,698 | 2,936 | 47,426 | 3,794 |
| Equity exposures | – | – | – | – | – | – | – | – | – | – |
| Other exposures | 11,788,634 | 943,091 | 12,019,136 | 961,531 | 12,050,048 | 964,004 | 12,013,672 | 961,094 | 12,079,028 | 966,322 |
| **Credit risk (IRB approach)** | **39,708,608** | **3,176,689** | **40,289,278** | **3,223,142** | **42,046,404** | **3,363,712** | **42,316,639** | **3,385,331** | **42,497,000** | **3,399,760** |
| Central governments and central banks | – | – | – | – | – | – | – | – | – | – |
| Institutions | – | – | – | – | 357,327 | 28,586 | 370,182 | 29,615 | 445,086 | 35,607 |
| Corporates | 20,414,486 | 1,633,159 | 20,337,162 | 1,626,973 | 20,991,357 | 1,679,309 | 21,731,190 | 1,738,495 | 21,975,859 | 1,758,069 |
| Retail | 17,369,189 | 1,389,535 | 17,984,803 | 1,438,784 | 18,705,687 | 1,496,455 | 18,289,176 | 1,463,134 | 17,943,943 | 1,435,515 |
| i) Mortgages on residential and commercial real estate | 10,964,062 | 877,125 | 11,484,998 | 918,800 | 11,736,704 | 938,936 | 11,205,784 | 896,463 | 10,854,252 | 868,340 |
| ii) Qualifying revolving | 1,545,726 | 123,658 | 1,601,672 | 128,134 | 1,603,773 | 128,302 | 1,565,793 | 125,263 | 1,687,455 | 134,996 |
| iii) Rest | 4,859,402 | 388,752 | 4,898,133 | 391,851 | 5,365,209 | 429,217 | 5,517,599 | 441,408 | 5,402,236 | 432,179 |
| Equities | 1,924,933 | 153,995 | 1,967,312 | 157,385 | 1,992,033 | 159,363 | 1,926,092 | 154,087 | 2,132,111 | 170,569 |
| By approach: | | | | | | | | | | |
| i) Simple[2] | 1,924,933 | 153,995 | 1,967,312 | 157,385 | 1,992,033 | 159,363 | 1,926,092 | 154,087 | 2,132,111 | 170,569 |
| ii) PD/LGD | – | – | – | – | – | – | – | – | – | – |
| iii) Internal models | – | – | – | – | – | – | – | – | – | – |
| By class: | | | | | | | | | | |
| i) Listed instruments | 20 | 2 | 48,739 | 3,899 | 52,054 | 4,164 | 1 | – | 1 | – |
| ii) Unlisted instruments included in sufficiently diversified portfolios | 973,270 | 77,862 | 1,033,563 | 82,685 | 1,092,032 | 87,363 | 1,110,352 | 88,828 | 1,124,226 | 89,938 |
| iii) Other equity exposures | 951,642 | 76,131 | 885,010 | 70,801 | 847,947 | 67,836 | 815,739 | 65,259 | 1,007,884 | 80,631 |
| Securitisation positions and exposures | – | – | – | – | – | – | – | – | – | – |
| Other non-financial assets | – | – | – | – | – | – | – | – | – | – |
| **Contribution to the default fund of a CCP** | **5,335** | **427** | **9,545** | **764** | **7,911** | **633** | **5,285** | **423** | **5,420** | **434** |
| **Securitisation positions (SEC - IRBA)** | **261,010** | **20,881** | **284,863** | **22,789** | **185,587** | **14,847** | **202,523** | **16,202** | **219,429** | **17,554** |
| **Trading book risk** | **883,431** | **70,674** | **883,210** | **70,657** | **671,093** | **53,687** | **655,027** | **52,402** | **456,336** | **36,507** |
| Position risk (standardised approach) | 883,431 | 70,674 | 883,210 | 70,657 | 671,093 | 53,687 | 655,027 | 52,402 | 456,336 | 36,507 |
| Large exposures | – | – | – | – | – | – | – | – | – | – |
| **Exchange rate risk (standardised approach)** | **113,213** | **9,057** | **127,156** | **10,172** | **113,845** | **9,108** | **179,477** | **14,358** | **123,184** | **9,855** |
| **Settlement risk** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Commodities risk** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Operational risk** | **8,160,674** | **652,854** | **7,931,371** | **634,510** | **7,931,371** | **634,510** | **7,931,371** | **634,510** | **7,931,371** | **634,510** |
| Operational risk (standardised approach) | 8,160,674 | 652,854 | 7,931,371 | 634,510 | 7,931,371 | 634,510 | 7,931,371 | 634,510 | 7,931,371 | 634,510 |
| Operational risk (basic indicator approach) | – | – | – | – | – | – | – | – | – | – |
| **Risk arising from general fixed expenses** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| **Credit Valuation Adjustment (CVA) risk** | **138,978** | **11,118** | **137,476** | **10,998** | **98,195** | **7,856** | **100,460** | **8,037** | **124,159** | **9,933** |
| **Other exposure amounts[3]** | **3,123,527** | **249,882** | **3,386,123** | **270,890** | **2,436,135** | **194,891** | **2,149,808** | **171,985** | **2,242,547** | **179,404** |
| **Total minimum own funds required** | **79,544,790** | **6,363,583** | **80,964,617** | **6,477,169** | **80,555,457** | **6,444,437** | **80,360,967** | **6,428,877** | **80,645,579** | **6,451,646** |

*Amounts in thousand euro.*

*(1) Calculated as 8% of RWAs.*

*(2) Includes the amounts of equity exposures subject to 250% risk weights in significant investments as they are below the thresholds for deduction from own funds, and amounts weighted at 370% corresponding to equity interests in insurance firms not deducted from own funds.*

*(3) Includes the impact on the RWEA when applying additional prudential adjustments requested by the supervisor (SSM). It also includes some impacts mainly related to the achievement of the IRB Repair program, which the Entity has decided to compute in advance.*

| Exposure classes and types of risk | 31/12/2022 | | 30/09/2022 | | 30/06/2022 | | 31/03/2022 | | 31/12/2021 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | RWAs | Capital requirements(1) | RWAs | Capital requirements(1) | RWAs | Capital requirements(1) | RWAs | Capital requirements(1) | RWAs | Capital requirements(1) |
| **Contribution to the default fund of a CCP** | 5,335 | 427 | 9,545 | 764 | 7,911 | 633 | 5,285 | 423 | 5,420 | 434 |
| **Securitisation positions (SEC - IRBA)** | 261,010 | 20,881 | 284,863 | 22,789 | 185,587 | 14,847 | 202,523 | 16,202 | 219,429 | 17,554 |
| **Trading book risk** | 883,431 | 70,674 | 883,210 | 70,657 | 671,093 | 53,687 | 655,027 | 52,402 | 456,336 | 36,507 |
| Position risk (standardised approach) | 883,431 | 70,674 | 883,210 | 70,657 | 671,093 | 53,687 | 655,027 | 52,402 | 456,336 | 36,507 |
| Large exposures | — | — | — | — | — | — | — | — | — | — |
| **Exchange rate risk (standardised approach)** | 113,213 | 9,057 | 127,156 | 10,172 | 113,845 | 9,108 | 179,477 | 14,358 | 123,184 | 9,855 |
| **Settlement risk** | — | — | — | — | — | — | — | — | — | — |
| **Commodities risk** | — | — | — | — | — | — | — | — | — | — |
| **Operational risk** | 8,160,674 | 652,854 | 7,931,371 | 634,510 | 7,931,371 | 634,510 | 7,931,371 | 634,510 | 7,931,371 | 634,510 |
| Operational risk (standardised approach) | 8,160,674 | 652,854 | 7,931,371 | 634,510 | 7,931,371 | 634,510 | 7,931,371 | 634,510 | 7,931,371 | 634,510 |
| Operational risk (basic indicator approach) | — | — | — | — | — | — | — | — | — | — |
| **Risk arising from general fixed expenses** | — | — | — | — | — | — | — | — | — | — |
| **Credit Valuation Adjustment (CVA) risk** | 138,978 | 11,118 | 137,476 | 10,998 | 98,195 | 7,856 | 100,460 | 8,037 | 124,159 | 9,933 |
| **Other exposure amounts(3)** | 3,123,527 | 249,882 | 3,386,123 | 270,890 | 2,436,135 | 194,891 | 2,149,808 | 171,985 | 2,242,547 | 179,404 |
| **Total minimum own funds required** | 79,544,790 | 6,363,583 | 80,964,617 | 6,477,169 | 80,555,457 | 6,444,437 | 80,360,967 | 6,428,877 | 80,645,579 | 6,451,646 |

*Amounts in thousand euro.*

*(1) Calculated as 8% of RWAs.*

*(2) Includes the amounts of equity exposures subject to 250% risk weights in significant investments as they are below the thresholds for deduction from own funds, and amounts weighted at 370% corresponding to equity interests in insurance firms not deducted from own funds.*

*(3) Includes the impact on the RWEA when applying additional prudential adjustments requested by the supervisor (SSM). It also includes some impacts mainly related to the achievement of the IRB Repair program, which the Entity has decided to compute in advance.*

Minimum own funds required to cover credit risk for exposures treated under the standardised approach amount to 2,172,001 thousand euros.

The Group calculates capital using the standardised approach in the portfolios of the subsidiaries, except for TSB, the “Other assets” segment, which includes, among others, Real Estate, DTAs and Other tangible assets, and lastly, in the "Sovereigns" and “Financial Institutions” segments, for which authorisation was received from the Supervisor in September 2022 to calculate these using this method on a permanent basis. Additionally, this same approach is used to calculate the exposures arising from the various entities that were acquired and that did not have authorisation to use IRB models and which are currently in the roll-out phase from the standardised approach to the IRB approach.

Minimum own funds required to cover credit risk of exposures treated under the internal ratings-based (IRB) approach amount to 3,176,689 thousand euros, of which 77,862 thousand euros correspond to the amount of the minimum own funds required to cover exposures included in the Equity category, calculated by the Group using the simple risk-weighted approach.

In the case of the trading book, the minimum own funds required for position risk for this portfolio amount to 70,674 thousand euros, and the minimum own funds required for exchange and currency risk amount to 9,057 thousand euros, all of which have been calculated using the standardised approach.

For operational risk, the minimum own funds required amount to 652,854 thousand euros and are also calculated using the standardised approach.

The requirements related to securitisations with significant risk transfer are 20,881 thousand euros and are calculated using the SEC-IRBA approach.

Additionally, Credit Valuation Adjustment Risk (CVA Risk) is included in minimum capital requirements and amounts to 11,118 thousand euros.

Lastly, the ‘Other risk exposure amounts’ category, for which the minimum own funds requirements amount to 249,882 thousand euros, includes the impact of applying the additional prudential adjustments requested by the supervisor (SSM). Certain impacts linked to the achievement of the IRB repair programme, which will materialise in the short and medium term, and which the Institution has decided to frontload in December 2022, are also included.

Due to the heavier relative weight of Credit Risk calculated according to the advanced approach in terms of minimum capital requirements, the following table indicates the factors that have caused the annual change in credit risk requirements between one reporting period and the next:

**Table 13. Statement of cash flows of risk-weighted credit risk exposure amounts calculated using the IRB approach (CR8).**

| | Risk weighted exposure amount |
|---|---|
| **Risk weighted exposure amount as at the end of the previous reporting period** | **40,949,005** |
| Asset size (+/-) | 858,112 |
| Asset quality (+/-) | -4,573,117 |
| Model updates (+/-) | 1,092,901 |
| Methodology and policy (+/-) | 909,305 |
| Acquisitions and disposals (+/-) | -150,935 |
| Foreign exchange movements (+/-)(1) | -489,170 |
| Other (+/-) | — |
| **Risk weighted exposure amount as at the end of the reporting period(2)** | **38,596,101** |

*Amounts in thousand euro.*

*This table shows the evolution of the RWEA for credit risk exposures by IRB method, excluding counterparty risk.*

*(1) Exchange rate variations are due to GBP and USD structural positions that are kept unhedged in order to protect the capital ratio against adverse exchange rate effects.*

*(2) Amount in the current reporting period = Credit Risk by F-IRB Method + Slotting Approach + Simple Risk Weighted Approach + A-IRB Method - Other Risk Exposure Amounts.*

To explain the variations in terms of risk-weighted assets, it is important to note the following:

- In terms of the size of the assets, it is worth noting the increase in lending during the period, offset by the two securitisations carried out: the Sabadell Consumo 2 traditional consumer loan securitisation executed on 8 July 2022 and the Boreas synthetic securitisation of project finance exposures executed on 28 September 2022. The sales of the Austro and Cora portfolios also had an impact, although to a lesser exten which are credit sales (mostly NPLs).
- In terms of portfolio density, it is worth noting the improvement in corporates’ ratings due to the improved financial situation and the improved LTV of the mortgage book, particularly in TSB, given the good performance of house prices in the UK.
- In terms of the updates of models, approaches and policies, it is worth noting the new PD, LGD and CCF models for the rating systems for corporates, RE developers and holdings of Banco Sabadell, although this impact had already largely been front-loaded in the calculation of RWAs through add-ons, in addition to the authorisation to use the standardised approach on a permanent basis for financial institutions, the use of the Foundation IRB approach for exposures to Corporates and Groups, and the implementation of the new rating models for specialised lending exposures. In terms of TSB, it is worth noting the implementation of the ECB’s new definition of default for the mortgage book.

**Table 14. Statement of cash flows of risk-weighted credit risk exposure amounts calculated using the IRB approach (CR8). (Quarterly).**

| | Risk weighted exposure amount |
|---|---|
| **Risk weighted exposure amount as at the end of the previous reporting period** [1] | **39,216,719** |
| Asset size (+/–) | 658,692 |
| Asset quality (+/–) | -1,411,560 |
| Model updates (+/–) | 478,000 |
| Methodology and policy (+/–) | — |
| Acquisitions and disposals (+/–) | -109,011 |
| Foreign exchange movements (+/–) [3] | -236,739 |
| Other (+/-) | — |
| **Risk weighted exposure amount as at the end of the reporting period** [2][4] | **38,596,101** |

*Amounts in thousand euro.*

*This table shows the evolution of the RWEA for credit risk exposures by IRB method, excluding counterparty risk.*

*(1) Data as at 30/09/2022.*

*(2) Data as at 31/12/2022.*

*(3) Exchange rate variations are due to structural GBP and USD positions that remain unhedged in order to protect the capital ratio against adverse exchange rate effects.*

*(4) Amount in the current reporting period = Credit Risk by F-IRB Method + Slotting Approach + Simple Risk Weighted Approach + A-IRB Method - Other Risk Exposure Amounts.*

To explain the variations in terms of risk-weighted assets, it is important to note the following:

- With regard to the size of the assets, it is worth noting the increase in lending and undrawn amounts during the period.
- In terms od asset quality in Group ex TSB, there were improvements in density due to lower LGDs, mainly as a sresult of lower LTVs due to the update of appraisals and the natural evolution of the stock, as well as the positive impact on PDs due to the update of the ratings with the new balance sheets of the companies. In TSB there is also an improvement in the portfolio partly due to the good performance of LGDs associated with the favorable evolution of the housing price index and on the other hand due to a revision of the ratings at the end of the year.
- With regard to the models' updates, it is worth noting the implementation of the new rating models for specialised lending exposures, whose impact had been front-loaded in previous quarters through an add-on.

The following tables show the amount of risk-weighted assets and minimum own funds requirements, breaking down credit risk and counterparty credit risk in line with the approach used.

**Table 16** also shows the information broken down by TSB and Group ex-TSB in order to show the subsidiary's contribution to the consolidated Group.

*For more information specific to TSB in relation to own funds requirements, please refer to the Annex to this document, the **TSB Large Subsidiary Disclosures** report, which is available on the Banco Sabadell Group website, in the Shareholder and Investor Information section, under Economic-Financial Information and within the Pillar III Disclosures report, as well as on the website of TSB Bank in the section "Results, reports and presentations".*

Table 15. Amount of risk-weighted assets and minimum own funds requirements by approach (EU OV1).

| | Total risk exposure amounts (TREA) | | | Total own funds requirements |
|---|---|---|---|---|
| | 31/12/2022 | 30/09/2022 | 31/12/2021 | 31/12/2022 |
| **Credit risk (excluding CCR)** | **65,985,310** | **67,736,840** | **67,757,878** | **5,278,825** |
| Of which the standardised approach | 24,265,683 | 25,133,998 | 24,566,325 | 1,941,255 |
| Of which the foundation IRB (FIRB) approach | 6,800,196 | 6,709,248 | 291,145 | 544,016 |
| Of which: slotting approach | 3,977,974 | 3,226,059 | 3,946,139 | 318,238 |
| Of which: equities under the simple risk weighted approach | 973,291 | 1,082,302 | 1,124,227 | 77,863 |
| Of which the advanced IRB (AIRB) approach(1) | 29,968,167 | 31,585,233 | 37,830,042 | 2,397,453 |
| **Counterparty credit risk - CCR** | **720,425** | **690,156** | **792,751** | **57,634** |
| Of which the standardised approach | 413,101 | 402,169 | 607,171 | 33,048 |
| Of which internal model method (IMM) | — | — | — | — |
| Of which exposures to a CCP | 19,163 | 31,811 | 31,098 | 1,533 |
| Of which credit valuation adjustment - CVA | 138,978 | 137,476 | 124,159 | 11,118 |
| Of which other CCR | 149,184 | 118,701 | 30,324 | 11,935 |
| **Settlement risk** | **—** | **—** | **—** | **—** |
| **Securitisation exposures in the non-trading book (after the cap)** | **261,010** | **284,863** | **219,429** | **20,881** |
| Of which SEC-IRBA approach | 261,010 | 284,863 | 219,429 | 20,881 |
| Of which SEC-ERBA (including IAA) | — | — | — | — |
| Of which SEC-SA approach | — | — | — | — |
| Of which 1250%/ deduction | — | — | — | — |
| **Position, foreign exchange and commodities risks (Market risk)** | **996,644** | **1,010,365** | **579,519** | **79,731** |
| Of which standardised approach | 996,644 | 1,010,365 | 579,519 | 79,731 |
| Of which IMA | — | — | — | — |
| **Large exposures** | **—** | **—** | **—** | **—** |
| **Operational risk** | **8,160,674** | **7,931,371** | **7,931,371** | **652,854** |
| Of which basic indicator approach | — | — | — | — |
| Of which standardised approach | 8,160,674 | 7,931,371 | 7,931,371 | 652,854 |
| Of which advanced measurement approach | — | — | — | — |
| **Amounts below the thresholds for deduction (subject to 250% risk weight)(2)** | **3,420,729** | **3,311,022** | **3,364,630** | **273,658** |
| **Total** | **79,544,791** | **80,964,618** | **80,645,579** | **6,363,583** |

*Amounts in thousand euro.*

*(1) Includes the impact on the RWEA when applying additional prudential adjustments requested by the supervisor (SSM). It also includes some impacts mainly related to the achievement of the IRB Repair program, which the Entity has decided to compute in advance.*

*(2) Includes the amount of significant investment exposures in financial sector entities and insurance companies (IRB Method for equities) and deferred tax assets arising from temporary differences (Standardized Method).*

The main movements in RWAs during the year by type of risk are shown below:

- Credit risk: in the period the RWAS for credit risk decreased by -1,772,568 thousand euros. Under the standard method, they have remained relatively constant in the year, with a variation of -300,643 thousand, with the variation concentrated in the IRB portfolio, which decreased by -1,471. 925 thousand mainly due to the improvement in asset quality as previously mentioned (for more details see table 13) and additionally due to the advanced impacts during 2021, corresponding to the implementation of the new definition of default in TSB's mortgage portfolio, which has gone from being charged on an aggregate basis as an add-on in December 2021 to being charged at the transaction level in December 2022. On the other hand, and also affecting the IRB portfolio, new add-ons have been included linked to the achievement of the IRB Repair Programme, which will materialize in the short/medium term.

- Counterparty risk: The variation of -72,326 thousand euros is due to movements in operations, changes in the underlying assets, especially interest rates, and the application of the permanent standard method for exposures to financial institutions, which were previously calculated according to the IRB Foundation methodology.

- Securitisation exposures: In the period RWAs vary by 41,581 thousand euros due to new securitizations made in the period offset by the amortisation of securitisations made in previous years.

- Market risk: The variation of 417,124 thousand euros is due to movements in operations in the period, especially in operations subject to interest rate risk requirements.

- Operating risk: The increase of 229,303 thousand euros is due to the annual update of the operational risk calculation, since the relevant revenue indicator for 2022 is higher than that for 2019, the year it replaces in the calculation of the average relevant revenue for the last three years.

## Table 16. Key regulatory reporting figures in the Group, broken down into different levels.

| Exposures classes and types of risk | Original balance (Group) | EAD (Group) | RWAs (Group) | Original balance (BS) | EAD (BS) | RWAs (BS) | Original balance (TSB) | EAD (TSB) | RWAs (TSB) |
|---|---|---|---|---|---|---|---|---|---|
| **Credit Risk (standardised approach)** | **123,522,234** | **125,224,494** | **27,150,016** | **111,719,174** | **113,487,645** | **25,741,034** | **11,803,061** | **11,736,849** | **1,408,982** |
| Central governments and central banks | 65,855,159 | 73,917,372 | 169,768 | 57,723,551 | 65,304,935 | 131,765 | 8,131,608 | 8,612,437 | 38,003 |
| Regional governments and local authorities | 9,227,807 | 8,821,610 | 52 | 9,227,807 | 8,821,610 | 52 | – | – | – |
| Public sector entities and other public institutions | 2,541,557 | 2,062,358 | 385,515 | 2,461,464 | 2,039,249 | 385,515 | 80,093 | 23,108 | – |
| Multilateral development banks | 408,690 | 767,278 | 328.67 | 196,620 | 555,209 | 328.67 | 212,070 | 212,070 | – |
| International organisations | 293,636 | 293,636 | – | 293,636 | 293,636 | – | – | – | – |
| Institutions | 3,520,948 | 3,127,866 | 1,149,967 | 2,633,513 | 2,240,431 | 910,466 | 887,435 | 887,435 | 239,501 |
| Corporates | 8,572,010 | 5,776,072 | 5,077,860 | 8,531,166 | 5,737,442 | 5,044,278 | 40,843 | 38,630 | 33,582 |
| Retail | 4,107,237 | 2,350,278 | 1,710,980 | 3,519,122 | 2,190,714 | 1,612,903 | 588,115 | 159,564 | 98,077 |
| Secured with residential or commercial real estate | 14,696,537 | 13,520,536 | 5,420,378 | 13,475,978 | 12,469,544 | 5,053,811 | 1,220,559 | 1,050,992 | 366,567 |
| Exposures in default | 1,431,867 | 713,445 | 747,536 | 1,326,177 | 632,024 | 665,685 | 105,690 | 81,421 | 81,850 |
| High risk exposures | 562,512 | 449,527 | 674,290 | 562,512 | 449,527 | 674,290 | – | – | – |
| Covered bonds | – | – | – | – | – | – | – | – | – |
| Securitisation positions | – | – | – | – | – | – | – | – | – |
| Claims on institutions and corporates with a short-term credit assessment | – | – | – | – | – | – | – | – | – |
| Exposures to collective investment undertakings | 2,636 | 2,636 | 24,708 | 2,636 | 2,636 | 24,708 | – | – | – |
| Equity exposures | – | – | – | – | – | – | – | – | – |
| Other exposures | 12,301,639 | 13,421,880 | 11,788,634 | 11,764,991 | 12,750,689 | 11,237,232 | 536,648 | 671,191 | 551,403 |
| **Credit risk (IRB approach)** | **152,616,406** | **132,195,187** | **39,708,608** | **105,187,650** | **85,032,487** | **30,365,030** | **47,428,756** | **47,162,700** | **9,343,577** |
| Central governments and central banks | – | – | – | – | – | – | – | – | – |
| Institutions | – | – | – | – | – | – | – | – | – |
| Corporates | 53,330,178 | 40,713,602 | 20,414,486 | 53,330,178 | 40,713,602 | 20,414,486 | – | – | – |
| Retail | 98,393,316 | 90,588,673 | 17,369,189 | 50,964,560 | 43,425,973 | 8,025,612 | 47,428,756 | 47,162,700 | 9,343,577 |
| i) Mortgages on residential and commercial real estate | 73,913,368 | 74,662,556 | 10,964,062 | 33,009,812 | 32,607,036 | 4,738,390 | 40,903,556 | 42,055,520 | 6,225,672 |
| ii) Qualifying revolving | 7,787,993 | 5,350,862 | 1,545,726 | 2,711,480 | 1,722,655 | 183,659 | 5,076,513 | 3,628,207 | 1,362,066 |
| iii) Rest | 16,691,955 | 10,575,255 | 4,859,402 | 15,243,268 | 9,096,283 | 3,103,563 | 1,448,687 | 1,478,973 | 1,755,839 |
| Equities | 892,912 | 892,912 | 1,924,932 | 892,912 | 892,912 | 1,924,932 | – | – | – |
| By approach: | | | | | | | | | |
| i) Simple[(1)] | 892,912 | 892,912 | 1,924,932 | 892,912 | 892,912 | 1,924,932 | – | – | – |
| ii) PD/LGD | – | – | – | – | – | – | – | – | – |
| iii) Internal models | – | – | – | – | – | – | – | – | – |
| By class: | | | | | | | | | |
| i) Listed instruments | 7 | 7 | 20 | 7 | 7 | 20 | – | – | – |
| ii) Unlisted instruments included in sufficiently diversified portfolios | 512,248 | 512,248 | 973,270 | 512,248 | 512,248 | 973,270 | – | – | – |
| iii) Other equity exposures | 380,657 | 380,657 | 951,642 | 380,657 | 380,657 | 951,642 | – | – | – |
| Securitisation positions and exposures | – | – | – | – | – | – | – | – | – |
| Other non-financial assets | – | – | – | – | – | – | – | – | – |
| **Contribution to the default fund of a CCP** | – | – | **5,335** | – | – | **5,233** | – | – | **102** |
| **Securitisation positions (SEC - IRBA)** | **2,868,692** | **2,431,994** | **261,010** | **2,868,692** | **2,431,994** | **261,010** | – | – | – |
| **Trading book risk** | – | – | 883,431 | – | – | 883,431 | – | – | – |
| Position risk (standardised approach) | – | – | 883,431 | – | – | 883,431 | – | – | – |
| Large exposures | – | – | – | – | – | – | – | – | – |
| **Exchange rate risk (standardised approach)** | – | – | **113,213** | – | – | **113,213** | – | – | – |
| **Settlement risk** | – | – | – | – | – | – | – | – | – |
| **Commodities risk** | – | – | – | – | – | – | – | – | – |
| **Operational risk** | – | – | **8,160,674** | – | – | **6,503,826** | – | – | **1,656,848** |
| Operational risk (standardised approach) | – | – | 8,160,674 | – | – | 6,503,826 | – | – | 1,656,848 |
| Operational risk (basic indicator approach) | – | – | – | – | – | – | – | – | – |
| **Risk arising from general fixed expenses** | – | – | – | – | – | 0 | – | – | – |
| **Credit Valuation Adjustment (CVA) risk** | – | – | **138,978** | – | – | **118,492** | – | – | **20,486** |
| **Other exposures to risk[(2)]** | – | – | **3,123,527** | – | – | **2,436,590** | – | – | **686,937** |
| **Total** | **279,007,332** | **259,851,675** | **79,544,790** | **219,775,516** | **200,952,126** | **66,427,858** | **59,231,817** | **58,899,549** | **13,116,933** |

*Data as at 31/12/2022, in thousand euro.*

*[(1)] Includes equity exposures subject to 250% risk weights in significant investments, are they are below the thresholds for deduction from own funds, and amounts weighted at 370% of equity interests in insurance firms not deducted from own funds.*

*[(2)] Includes the impact on the RWEA when applying additional prudential adjustments requested by the supervisor (SSM). It also includes some impacts mainly related to the achievement of the IRB Repair programme, which the Entity has decided to compute in advance.*

## 6.4 Capital Buffers

Details of the transparency requirements set out in Articles 440 and 441 of the CRR are given hereafter.

Pursuant to the aforementioned regulations, credit institutions must satisfy their specific requirement made up of different capital buffers required for Common Equity Tier 1 capital at all times:

- Capital conservation buffer
- Specific countercyclical buffer (CCyB)
- Systemic risk buffer (O-SII)

The following table gives details of requirements in relation to the capital buffers that Banco Sabadell Group is required to comply with in 2023.

**Table 17. Capital buffers required from Banco Sabadell Group for 2023.**

| Capital buffer | Requirement |
|---|---|
| Capital conservation | 2.50% |
| Specific countercyclical | 0.19% |
| Systemic (O-SII) | 0.25% |

The following points explain the rationale on which each of these requirements is based:

### Capital conservation buffer

Its implementation is mandatory for all institutions, and its objective is to ensure that institutions accumulate sufficient capital during periods of economic growth to absorb possible losses during periods of high stress. The phase-in implementation of the capital conservation buffer began in 2016, reaching a final percentage set for 2019 of 2.5%.

**Capital conservation buffer requirement**: The capital conservation buffer required for 2022 was 2.5%.

### Specific countercyclical buffer (CCyB)

The specific countercyclical buffer seeks to mitigate and prevent cyclical risks caused by an excessive growth of credit on an aggregate basis. This capital buffer accumulated over expansionary periods aims to strengthen banks' solvency and ease the credit cycle, offering risk mitigation tools during periods of recession.

The Bank of Spain sets the level for its specific countercyclical buffer on a quarterly basis, within the framework of the powers granted to it by Law 10/2014 on the organisation, supervision and solvency of credit institutions, by Royal Decree 84/2015 and by Bank of Spain Circular 2/2016, which implement the foregoing.

The level is calibrated in multiples of 0.25%, within a range that varies between 0% and 2.5% (in exceptional cases, it can be higher), and taking into account the initial reference indicator of the Basel Committee on Banking Supervision (BCBS), the recommendations and guidelines issued by the European Systemic Risk Board (ESRB) and any other variables deemed appropriate by the Bank of Spain.

The main indicators analysed can be found in the various press releases and on the Bank of Spain's website. The latest update, dated 30 September 2022, reports that it has been agreed to set the percentage of the specific countercyclical buffer applicable to credit exposures in Spain at 0% during the fourth quarter of 2022.

The Bank of Spain has stated that, although some indicators have showed values above the warning threshold since the start of the COVID-19 pandemic, "this has not been interpreted as being representative of a high level of systemic risk, as it is the consequence of the sharp decline in GDP experienced due to the health crisis and the effect of the liquidity support measures introduced for businesses and households. The transitional nature of the rebound of this indicator is reflected in the gradual correction that has been observed in recent quarters, triggered by the recovery of economic activity since mid-2021. Overall, the assessment of the indicators is consistent with maintaining the current CCyB of 0%. In any event, the Bank of Spain will continue to closely monitor the situation based on new available information, focusing its attention in particular on information related to the real estate sector".

The specific countercyclical buffer applicable to Banco Sabadell Group is calculated as the average of the own funds requirements percentages, relative to total Group requirements, resulting for each region in which the Bank has credit exposures, weighted by the countercyclical buffers applicable in each region.

It should be noted that in 2020 the Bank of England's Financial Policy Committee (FPC) maintained the 1% buffer until 11 March 2020, when the FPC announced that this buffer was being reduced to 0% with immediate effect to overcome the economic shock of COVID-19. The FPC kept this 0% rate until 13 December 2021, when it announced that the countercyclical buffer would increase to 1% in December 2022, 12 months following the announcement.

**Specific countercyclical buffer requirement**: On this basis and taking into account the weight of the United Kingdom within the Group's assets, Banco Sabadell Group's specific countercyclical capital buffer, calculated in accordance with the provisions of Bank of Spain Circular 2/2016, was 0.19% as at December 2022.

## Table 18. Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (EU CCyB1).

| | General credit exposures | | Relevant credit exposures – Market risk | | Securitisation exposures | | Own funds requirements[1] | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Exposure value under the standardised approach | Exposure value under the IRB approach | Sum of long and short positions of trading book exposures for SA | Value of trading book exposures for internal models | Exposure value for non-trading book | Total exposure value | Relevant credit risk exposures - Credit risk | Relevant credit exposures – Market risk | Relevant credit exposures – Securitisation positions in the non-trading book | Total | Risk-weighted exposure amounts | Own funds requirements weights (%)[2] | Counter-cyclical buffer rate (%) |
| Breakdown by country: | | | | | | | | | | | | | |
| United Kingdom[3] | 2,591,560 | 49,440,923 | 1,315 | – | 356,452 | 52,390,250 | 955,456 | 105 | 3,060 | 958,621 | 11,982,767 | 18.31% | 1.00% |
| Luxembourg[4] | 94,725 | 614,877 | – | – | – | 709,602 | 27,917 | – | – | 27,917 | 348,963 | 0.53% | 0.50% |
| Sweden | 10,232 | 136,982 | – | – | – | 147,214 | 3,093 | – | – | 3,093 | 38,658 | 0.06% | 1.00% |
| Hong Kong | 2,002 | 101,763 | – | – | – | 103,765 | 4,193 | – | – | 4,193 | 52,407 | 0.08% | 1.00% |
| Norway | 7,802 | 59,442 | – | – | – | 67,244 | 1,485 | – | – | 1,485 | 18,561 | 0.03% | 2.00% |
| Denmark | 5,669 | 19,914 | – | – | – | 25,582 | 966 | – | – | 966 | 12,078 | 0.02% | 2.00% |
| Iceland | 3,614 | 16,602 | – | – | – | 20,216 | 472 | – | – | 472 | 5,899 | 0.01% | 2.00% |
| Czech Republic | 6,913 | 7,843 | – | – | – | 14,756 | 451 | – | – | 451 | 5,640 | 0.01% | 1.50% |
| Estonia | 115 | 9,544 | – | – | – | 9,659 | 218 | – | – | 218 | 2,721 | – | 1.00% |
| Romania | 2,486 | 5,306 | – | – | – | 7,793 | 276 | – | – | 276 | 3,444 | 0.01% | 0.50% |
| Slovakia | 602 | 6,299 | – | – | – | 6,901 | 151 | – | – | 151 | 1,887 | – | 1.00% |
| Bulgaria | 253 | 2,324 | – | – | – | 2,577 | 37 | – | – | 37 | 468 | – | 1.00% |
| **Total countries with set countercyclical buffer** | **2,725,973** | **50,421,820** | **1,315** | **–** | **356,452** | **53,505,560** | **994,714** | **105** | **3,060** | **997,879** | **12,473,493** | **19.06%** | **0.1885%** |
| Spain | 25,247,530 | 71,789,045 | 8,293 | – | 1,764,373 | 98,809,241 | 3,420,196 | 663 | 15,149 | 3,436,008 | 42,950,103 | 65.63% | – |
| United States of America | 1,273,558 | 3,814,506 | – | – | – | 5,088,064 | 220,244 | – | – | 220,244 | 2,753,051 | 4.21% | – |
| Mexico | 4,689,482 | 155,085 | – | – | – | 4,844,567 | 257,287 | – | – | 257,287 | 3,216,092 | 4.91% | – |
| France | 391,416 | 1,849,046 | 1,922 | – | 242,689 | 2,485,073 | 112,237 | 154 | 2,084 | 114,475 | 1,430,934 | 2.19% | – |
| Netherlands | 31,164 | 974,541 | 2,355 | – | – | 1,008,061 | 19,440 | 112 | – | 19,552 | 244,397 | 0.37% | – |
| Portugal | 98,606 | 639,870 | – | – | 59,685 | 798,161 | 31,514 | – | 512 | 32,026 | 400,328 | 0.61% | – |
| Germany | 37,503 | 409,813 | 12,827 | – | 8,795 | 468,937 | 17,435 | 1,026 | 76 | 18,537 | 231,712 | 0.35% | – |
| Panama | 145,571 | 61,465 | – | – | – | 207,036 | 13,322 | – | – | 13,322 | 166,528 | 0.25% | – |
| **Total countries without a countercyclical buffer and percentage of own resources over the total higher than 0.20%** | **31,914,829** | **79,693,372** | **25,397** | **–** | **2,075,542** | **113,709,139** | **4,091,676** | **1,956** | **17,820** | **4,111,452** | **51,393,146** | **78.54%** | **–** |
| **Rest of countries** | **1,593,572** | **2,079,995** | **–** | **–** | **-0** | **3,673,567** | **125,850** | **0** | **-0** | **125,850** | **1,573,124** | **2.40%** | **–** |
| **TOTAL** | **36,234,374** | **132,195,186** | **26,712** | **–** | **2,431,994** | **170,888,267** | **5,212,239** | **2,061** | **20,881** | **5,235,181** | **65,439,763** | **100.00%** | **0.1885%** |

*Data as at 31/12/2022, in thousand euro.*

*(1) Equity calculated as 8% of RWEA.*

*(2) Weighting calculated as the RWA for each country divided by the total RWA.*

*(3) UK countercyclical buffer changes on December 13, 2022 to 1% from 0% in the previous benchmark.*

*(4) Luxembourg countercyclical buffer changes on September 30, 2022 to 0.5% from 0% (regulation No. 22-06 of the Luxembourg Commission de Surveillance de Secteur Financier).*

Table 19. Countercyclical capital buffer amount (EU CCyB2).

| | Amount |
|---|---|
| Total risk exposure amount | 79,544,790 |
| Institution specific countercyclical capital buffer rate | 0.1885% |
| Institution specific countercyclical capital buffer requirement | 149,957 |

*Data as at 31/12/2022, in thousand euro.*

## Systemic risk buffer

The systemic risk buffer includes two possibilities which could entail a requirement for additional capital: due to systemic risks or due to the Institution being qualified as a systemic institution. In the event of both being applicable, the one involving the highest capital requirement shall apply.

**Systemic risks**: Since 2014, the competent authority of each Member State has been able to require the implementation of a systemic risk buffer of Common Equity Tier 1 capital in order to prevent or avoid any long-term countercyclical systemic or macroprudential risks not covered by the CRR.

The systemic risk buffer must be assessed by the Supervisor. Where this buffer is applicable, it can vary between 1% and 3% of the ordinary capital of an institution, on either an individual or consolidated basis. This percentage will only be higher if a decision to this effect is reached by the European Commission.

**Systemic institution:** In accordance with the methodology set forth in Standard 13 of Circular 2/2016 and in the EBA's guidelines EBA/GL/2016/01: Revised guidelines on the further specification of the indicators of global systemic importance and their disclosure, adopted as its own by the Bank of Spain, the indicators based on which an institution will be considered a Global Systemically Important Bank (G-SIB) are as follows:

- Size of the institution on a consolidated basis.
- Interconnection with the financial system.
- Possibility of replacing the services or financial structure provided.
- Complexity of the Group.
- Importance of cross-jurisdictional activity, both within and outside of the EU.

The methodology applies an equal weight of 20% to each of the listed indicators to obtain a score that will determine whether an Institution is a G-SIB. On 5 June 2018, the BCBS published the document "Global systemically important banks: revised assessment methodology and the higher loss absorbency requirement" with the new methodology to be applied from 1 January 2021.

Banco Sabadell Group is not considered a G-SIB, and it is therefore exempt from the requirement of having the capital buffer applicable to systemic institutions.

As its leverage ratio exceeds the exposure limit of 200,000 million euros, it is required to provide the necessary information to evaluate the indicators, and it is also required to publish such information prior to 30 April of the following year, thereby complying with the disclosure requirements set forth in Article 441 of the CRR.

In the event that, in future, the Group is considered a G-SIB, a buffer of between 1% and 3.5% would be required, depending on the classification into the five tranches published by the FSB.

*For further details relating to information on the Group's quantitative indicators, please visit the Section "Shareholder and Investor Information," under "Economic-Financial information", sub-section **Other presentations,** on the Group's corporate website.*

Banco Sabadell Group is considered an Other Systemically Important Institution (O-SII).

The competent authority determines which institutions should be considered as O-SIIs based on the scoring system envisaged in the Guidelines on the criteria to determine the conditions of application of Article 131(3) of Directive 2013/36/EU (CRD) in relation to the assessment of other systemically important institutions (O-SIIs) published by the EBA (EBA/GL/2014/10). The criteria set forth in the aforementioned Guidelines have been included in Standard 14 and Annex I to the Bank of Spain Circular 2/2016.

The basic criteria for calculating the systemic importance score are the following:

- The size of the institution.
- The importance of the institution in the Spanish or EU economy, considering the substitutability of the institution's services and its financial infrastructure.
- The institution's complexity, including that arising from its cross-border activity.
- The institution's interconnection with the financial system.

For 2021, the Bank of Spain identified Spanish institutions which exceeded the threshold of 350 basis points compared with their previous score, whether on an individual, sub-consolidated or consolidated basis, as O-SIIs.

**Systemic risk buffer requirement**: In a press release dated 22 July 2022, the Bank of Spain updated the list of systemic institutions and established their capital buffers for 2022, confirming Banco Sabadell Group as an O-SII, with a score of 477 points, and therefore meaning that the Group is subject to a buffer of 0.25%. This requirement remains constant for the year 2023.

*For further information on the identification of systemic institutions in 2022 and the establishment of capital buffers, please visit the Bank of Spain website and refer to the **press release** published on 22 July 2022.*

## 6.5 Minimum Requirement for own funds and Eligible Liabilities – MREL

### Regulatory framework

On 15 May 2014, Directive 2014/59/EU was published in the Official Journal of the European Union, which establishes a framework for the restructuring and resolution of credit institutions and investment firms, known by its acronym BRRD (Bank Recovery and Resolution Directive).

Through the publication of the Royal Decree 1012/2015, of 6 November 2015, implementing Law 11/2015, of 18 June 2015, on the recovery and resolution of credit institutions and investment firms, the BRRD was transposed into Spanish law.

The BRRD arises from the need to establish a framework that provides authorities with a credible set of tools to intervene sufficiently in advance and with sufficient speed in a bank which is no longer viable, in order to ensure the continuity of the essential financial and economic activities of the organisation, to avoid significant negative repercussions on its financial stability and to adequately protect public funds, while minimising dependence on extraordinary public financial aid. Likewise, covered depositors enjoy special treatment.

The framework proposed by the BRRD is based on the principle that traditional insolvency proceedings are not, in many cases, the best option to achieve the aforementioned objectives. Therefore, the BRRD introduces the resolution procedure, whereby competent resolution authorities obtain administrative powers to manage a failing institution.

The preamble of Law 11/2015 defines a resolution process as a unique administrative process to address the failure of credit institutions and investment firms, when an insolvency proceeding is not appropriate for reasons of public interest and financial stability.

In order to achieve the aforementioned objectives, the BRRD envisages a series of instruments available to the competent resolution authority, including a bail-in tool. The BRRD introduces for this purpose a minimum requirement of own funds and eligible liabilities (MREL) that organisations must comply with at all times in order to ensure the existence of a sufficient capacity to absorb losses that guarantees the effective implementation of the resolution mechanisms and that, under the current regulatory environment, would be expressed as the amount of own funds and eligible liabilities expressed as a percentage of the total liabilities and own funds of the Institution.

Similarly, in 2015 the FSB defined the TLAC (Total Loss-Absorbing Capacity) requirement, which has been designed to ensure that institutions have sufficient capacity to absorb losses and execute a bail-in in the event of resolution. It should be noted that this requirement only applies to global systemically important banks (G-SIBs); therefore, it does not apply to Banco Sabadell Group.

In June 2019, after more than 2.5 years of negotiations, a reform of the bank resolution framework was agreed with the approval of the new resolution directive, BRRD II (Directive 2019/879), which implements the international TLAC standard in Europe. BRRD II was transposed into Spanish law by Royal Decree Law 7/2021, of 27 April 2021.

Responsibility for determining MREL falls to the Single Resolution Board (SRB), pursuant to that set forth in Regulation (EU) 806/2014, also revised in 2019 and replaced by Regulation (EU) 2019/877. Thus, the SRB, after consulting with the competent authorities, including the ECB, shall establish MREL for each institution, taking into account aspects such as the size, funding model, risk profile and potential contagion effect for the financial system.

In May 2020, the SRB published the MREL Policy under the Banking Package, which integrates the regulatory changes of the aforementioned reform of the resolution framework. The new SRB requirements are based on balance sheet data as at December 2021 and establish two binding MREL targets: the final MREL target, which will be binding on 1 January 2024, and an interim target that must be met from 1 January 2022 onwards. The latter corresponds to an intermediate level that allows for a linear build-up by institutions of their MREL capacity. Therefore, its calibration depends on the Institution's MREL capacity at the time of calibration and its final target.

### MREL implications for Banco Sabadell

On 10 January 2023, Banco Sabadell received a notification from the Bank of Spain regarding the decision taken by the Single Resolution Board (SRB) concerning the minimum requirement for own funds and eligible liabilities (MREL) applicable to the Institution on a consolidated basis.

The requirements to be met as of 1 January 2024 are as follows:

- The minimum MREL requirement 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 TREA and 6.36% of LRE.

The decision does not make any changes to the following interim requirements in effect since 1 January 2022:

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

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

Banco Sabadell already meets the requirements applicable from 1 January 2024, which coincide with Banco Sabadell's expectations and are in line with its funding plans. In 2022, the Institution issued 1,463 million euros of senior non-preferred debt eligible to meet MREL and 750 million euros of senior preferred debt.

The table below shows the MREL and subordination requirements explained above for the different periods:

Table 20. MREL requirement.

| | MREL requirement | | Subordination requirement | |
|---|---|---|---|---|
| | %TREA | %LRE | %TREA | %LRE |
| January 1st 2022 requirement | 21.05% | 6.22% | 14.45% | 6.06% |
| January 1st 2024 requirement | 22.22% | 6.36% | 17.23% | 6.36% |
| MREL 31 December 2022[1] | 23.41% | 8.26% | 18.81% | 6.82% |

*[1] TREA percentage does not include the capital dedicated to cover the CBR (2.93% TREA) as of December 2022 and an estimated 3.11% in 2024.*

## 6.6 Recovery and resolution plans

### Regulatory framework

On 15 May 2014, the Directive 2014/59/EU was published in the Official Journal of the European Union, which establishes a framework for the restructuring and resolution of credit institutions and investment firms, commonly known by its acronym BRRD (Bank Recovery and Resolution Directive).

The Directive, which began its implementation in January 2015, sets forth that Member States should ensure that banks prepare and maintain an up-to-date Recovery Plan aimed at enabling recovery options to be implemented by the Bank, with a view to restoring its financial position after a significant deterioration.

With the publication on 6 November 2015 of Royal Decree 1012/2015, implementing Law 11/2015, of 18 June 2015, on the recovery and resolution of credit institutions and investment firms, a further step was taken in the process to transpose the BRRD into Spanish law.

As regards recovery plans, it sets forth that, as a preventive measure, all banks shall prepare and maintain an up-to-date recovery plan, which must be approved by the Institution's governing body and subsequently reviewed by the competent supervisor. This process was completed with the publication of Royal Decree 1041/2021, of 23 November, which transposes Directive (EU) 2019/879, of 20 May 2019, into Spanish law, introducing appropriate amendments to Royal Decree 1012/2015, of 6 November and to Royal Decree 2606/1996, of 20 December.

### Banco Sabadell Group Recovery Plan

In September 2022, Banco Sabadell Group's Board of Directors approved the ninth version of the Recovery Plan, which has been submitted to the European Central Bank for review. It is worth mentioning that TSB, pursuant to local regulatory requirements, has prepared and keeps an up-to-date Recovery Plan on an individual basis, which is aligned with the Group Recovery Plan and is approved by local management bodies.

The Group has based the development of its Recovery Plan on guidelines set forth by the EBA and on non-binding recommendations made by the FSB.

In line with these recommendations and the content of Royal Decree 1012/2015, of 6 November 2015, the Recovery Plan addresses, amongst other aspects, various types of recovery options that the Institution may adopt in order to maintain or restore its financial position following a significant deterioration, a framework of indicators that determines the areas in which such options could be implemented, as well as four hypothetical systemic crisis scenarios, two of which give special consideration to the context of COVID-19 and on the basis of which the feasibility of the recovery options considered has been assessed. Given recent geopolitical events, the potential impacts of the conflict between Russia and Ukraine have also been considered when developing the stress scenarios and its importance for Banco Sabadell Group's business model has been evaluated.

In addition, it is important to mention that the Group's Recovery Plan is aligned with other processes, notably including the internal capital adequacy assessment process (ICAAP), the internal liquidity adequacy assessment process (ILAAP) and the risk appetite framework (RAF).

It is worth mentioning that, when preparing the Recovery Plan, special attention has been given to the integration of the Recovery Plan into the Institution's governance structure, guaranteeing a high degree of involvement of the Institution's governing bodies and Senior Management in terms of the preparation and implementation of the plan.

### Banco Sabadell Group Resolution Plan

As regards corporate resolution plans, the competent preventive resolution authority is generally responsible for preparing and approving the Group's Resolution Plan, acting together with the resolution authorities of subsidiaries under the framework of resolution bodies.

Banco Sabadell Group is currently actively working together with the preventive resolution authority to prepare the Group's Resolution Plan, ensuring the availability and delivery of all of the information required for its development.

# 7

# Leverage ratio

# 7

The information contained in this chapter is in line with the reporting requirements in relation to the disclosure of the leverage ratio, with detailed information on the leverage ratio and management of the risk of excessive leverage, in compliance with the requirements of Article 451 of the CRR and Article 6 of Commission Delegated Regulation (EU) 2021/637.

The composition and evolution of the leverage ratio is described below. Information concerning leverage risk management is also provided.

## 7.1 Leverage ratio definition and composition

The CRR defines Leverage as the “relative size of an institution’s assets, off-balance sheet obligations and contingent obligations to pay or to deliver or to provide collateral, including obligations from received funding, made commitments, derivatives or repurchase agreements, but excluding obligations which can only be enforced during the liquidation of an institution, compared to that institution’s own funds”.

Additionally, it defines risk of excessive leverage as “the risk resulting from an institution’s vulnerability due to leverage or contingent leverage that may require unintended corrective measures to its business plan, including distressed selling of assets which might result in losses or in valuation adjustments to its remaining assets”.

The Leverage Ratio (LR) aims to strengthen capital requirements by providing a supplementary measure which is not linked to the level of risk. It is defined as the ratio between eligible Tier 1 own funds and the exposure, whose calculation differs from the calculation of capital requirements for repos, derivatives and the application of Credit Conversion Factors (CCFs) for off-balance sheet items.

The CRR II introduces a minimum requirement for a mandatory leverage ratio, set at 3% of Tier 1 capital over the total exposure measure in force since June 2021.

The level of exposure is calculated by the Group in line with the definition introduced by Regulation (EU) 2019/876:

- Exposures recognised under assets, with the exception of derivatives and repos, are recorded net of allowances.
- Exposures in derivatives are calculated at replacement cost after applying netting agreements and collateral received (if any). Additionally, the adjustment for potential future risks (add-on) is included in the exposure measurement. In its calculation, this also takes into account contractual netting agreements.
- For securities financing transactions (SFTs), both the carrying amount and the counterparty credit risk add-on are taken into account.
- Exposures to contingent risks and commitments are calculated taking into account the carrying value net of allowances multiplied by the corresponding conversion factor (with a 10% floor), depending on the type of exposure in question.

**Table 21. LRSum: Summary reconciliation of accounting assets and leverage ratio exposures (EU LR1).**

| | Applicable amount |
|---|---|
| **Total assets as per published financial statements** | **251,379,528** |
| Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation | -27,273 |
| (Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference) | — |
| (Adjustment for temporary exemption of exposures to central bank (if applicable)) | — |
| (Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with point (i) of Article 429a(1) CRR) | — |
| Adjustment for regular-way purchases and sales of financial assets subject to trade date accounting | — |
| Adjustment for eligible cash pooling transactions | — |
| Adjustments for derivative financial instruments | -4,461,210 |
| Adjustment for securities financing transactions (SFTs) | -2,496,119 |
| Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures) | 12,561,405 |
| (Adjustment for prudent valuation adjustments and specific and general provisions which have reduced Tier 1 capital) | -3,233,205 |
| (Adjustment for exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR) | — |
| (Adjustment for exposures excluded from the total exposure measure in accordance with point (j) of Article 429a(1) CRR) | — |
| Other adjustments | 117,225 |
| **Leverage ratio total exposure measure** | **253,840,350** |

*Data as at 31/12/2022, in thousand euro. Phase-in scenario.*

Regarding the exposure described in the previous paragraphs, items accounted for under assets that have been deducted from Tier 1 capital have been reduced to ensure consistency between the measurement of capital and that of the exposure (amongst others, intangible assets and tax-loss carry-forwards).

The following table shows items considered in the leverage ratio calculated as at 31/12/2022.

Table 22. LRCom: Leverage ratio common disclosure (EU LR2).

| | CRR leverage ratio exposures | |
|---|---|---|
| | 31/12/2022 | 30/06/2022 |
| **On-balance sheet exposures (excluding derivatives and SFTs)** | | |
| On-balance sheet items (excluding derivatives, SFTs, but including collateral) | 245,750,992 | 251,741,871 |
| Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework | — | — |
| (Deductions of receivables assets for cash variation margin provided in derivatives transactions) | -476,575 | -412,955 |
| (Adjustment for securities received under securities financing transactions that are recognised as an asset) | — | — |
| (General credit risk adjustments to on-balance sheet items) | -3,221,641 | -3,210,610 |
| (Asset amounts deducted in determining Tier 1 capital) | -2,808,875 | -2,783,124 |
| **Total on-balance sheet exposures (excluding derivatives and SFTs)** | **239,243,901** | **245,335,181** |
| **Derivative exposures** | | |
| Replacement cost associated with SA-CCR derivatives transactions (i.e. net of eligible cash variation margin) | 517,194 | 261,700 |
| Derogation for derivatives: replacement costs contribution under the simplified standardised approach | — | — |
| Add-on amounts for potential future exposure associated with SA-CCR derivatives transactions | 886,414 | 855,641 |
| Derogation for derivatives: Potential future exposure contribution under the simplified standardised approach | — | — |
| Exposure determined under Original Exposure Method | — | — |
| (Exempted CCP leg of client-cleared trade exposures) (SA-CCR) | — | — |
| (Exempted CCP leg of client-cleared trade exposures) (simplified standardised approach) | — | — |
| (Exempted CCP leg of client-cleared trade exposures) (Original exposure method) | — | — |
| Adjusted effective notional amount of written credit derivatives | — | — |
| (Adjusted effective notional offsets and add-on deductions for written credit derivatives) | — | — |
| **Total derivatives exposures** | **1,403,608** | **1,117,341** |
| **Securities financing transaction (SFT) exposures** | | |
| Gross SFT assets (with no recognition of netting), after adjustment for sales accounting transactions | 3,255,069 | 5,081,007 |
| (Netted amounts of cash payables and cash receivables of gross SFT assets) | -2,844,438 | -3,784,784 |
| Counterparty credit risk exposure for SFT assets | 348,319 | 164,990 |
| Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429e(5) and 222 CRR | — | — |
| Agent transaction exposures | — | — |
| (Exempted CCP leg of client-cleared SFT exposure) | — | — |
| **Total securities financing transaction exposures** | **758,950** | **1,461,212** |
| **Other off-balance sheet exposures** | | |
| Off-balance sheet exposures at gross notional amount | 46,081,738 | 44,289,814 |
| (Adjustments for conversion to credit equivalent amounts) | -33,520,333 | -34,002,756 |
| (General provisions associated with off-balance sheet exposures deducted in determining Tier 1 capital) | — | — |
| **Off-balance sheet exposures** | **12,561,405** | **10,287,058** |
| **Excluded exposures** | | |
| (Exposures excluded from the total exposure measure in accordance with point (c) of Article 429a(1) CRR) | — | — |
| (Exposures exempted in accordance with point (j) of Article 429a (1) CRR (on and off balance sheet)) | — | — |
| (Excluded exposures of public development banks (or units) - Public sector investments) | — | — |
| (Excluded exposures of public development banks (or units) - Promotional loans) | — | — |
| (Excluding subrogated exposures on promotional loans from non-public development banks or units) | — | — |
| (Excluded guaranteed parts of exposures arising from export credits) | -127,514 | -141,616 |
| (Excluded excess collateral deposited at triparty agents) | — | — |
| (Excluded CSD related services of CSD/institutions in accordance with point (o) of Article 429a(1) CRR) | — | — |
| (Excluded CSD related services of designated institutions in accordance with point (p) of Article 429a(1) CRR) | — | — |
| (Reduction of the exposure value of pre-financing or intermediate loans) | — | — |
| **(Total exempted exposures)** | **-127,514** | **-141,616** |

| | CRR leverage ratio exposures | |
|---|---|---|
| | 31/12/2022 | 30/06/2022 |
| **Capital and total exposure measure** | | |
| Tier 1 capital | 11,732,751 | 11,669,467 |
| **Total exposure measure** | 253,840,350 | 258,059,177 |
| **Leverage ratio** | | |
| Leverage ratio (%) | 4.62% | 4.52% |
| Leverage ratio (excluding the impact of the exemption of public sector investments and promotional loans) (%) | 4.62% | 4.52% |
| Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) (%) | 4.62% | 4.52% |
| Regulatory minimum leverage ratio requirement (%) | 3.00% | 3.00% |
| Additional own funds requirements to address the risk of excessive leverage (%) | — | — |
| of which: to be made up of CET1 capital | — | — |
| Leverage ratio buffer requirement (%) | — | — |
| Overall leverage ratio requirement (%) | 3.00% | 3.00% |
| **Choice on transitional arrangements and relevant exposures** | | |
| Choice on transitional arrangements for the definition of the capital measure | N/A | N/A |
| **Disclosure of mean values** | | |
| Mean of daily values of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivable | 340,639 | 309,778 |
| Quarter-end value of gross SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables | 410,631 | 1,296,222 |
| Total exposures (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash pay | 253,770,358 | 257,072,733 |
| Total exposures (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash pay | 253,770,358 | 257,072,733 |
| Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash paya | 4.62% | 4.54% |
| Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves) incorporating mean values from row 28 of gross SFT assets (after adjustment for sale accounting transactions and netted of amounts of associated cash paya | 4.62% | 4.54% |

*Data as at 31/12/2022, in thousand euro. Phase-in scenario.*

As shown in this table, the leverage ratio of Banco Sabadell Group as at 31/12/2022 was 4,62%% (4,59%% in fully loaded terms), which is significantly higher than the aforementioned reference level.

The following table shows a breakdown of on-balance sheet exposures, excluding derivatives, repos and excluded exposures, classified by portfolio:

### Table 23. LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (EU LR3).

| | CRR leverage ratio exposures[1] |
|---|---|
| **Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:** | **241,925,262** |
| Trading book exposures | — |
| Banking book exposures, of which: | 241,925,262 |
| Covered bonds | — |
| Exposures treated as sovereigns | 83,491,749 |
| Exposures to regional governments, MDB, international organisations and PSE, not treated as sovereigns | 547,877 |
| Institutions | 1,523,124 |
| Secured by mortgages of immovable properties | 88,166,108 |
| Retail exposures | 11,890,474 |
| Corporates | 31,438,572 |
| Exposures in default | 3,038,736 |
| Other exposures (i.e. equity, securitisations, and other non-credit obligation assets) | 21,828,623 |

*Data as at 31/12/2022, in thousand euro. Phase-in scenario.*

*[1] The difference between total exposures in this table is due to the exposures excluded in the previous table, corresponding to the collateral provided by the Group for derivative netting agreements.*

## 7.2 Leverage ratio evolution

The leverage ratio during the year 2022 it has remained significantly above the mandatory minimum requirement.

**Table 24. Evolution of the phase-in leverage ratio (EU LRQua).**

| | 31/12/2022 | 30/09/2022 | 30/06/2022 | 31/03/2022 | 31/12/2021 |
|---|---|---|---|---|---|
| Tier 1 | 11,732,751 | 11,582,951 | 11,669,467 | 11,582,468 | 12,479,533 |
| Exposure | 253,840,350 | 257,020,894 | 258,059,177 | 213,316,122 | 211,616,215 |
| **Leverage ratio** | **4.62%** | **4.51%** | **4.52%** | **5.43%** | **5.90%** |

*Amounts in thousand euro.*

During 2022, the leverage ratio changed by -128 bps relative to the ratio as at 31 December 2021. The main components of this variation are:

- Tier 1 variation of -747 million euros (-35 bps) is mainly due to the voluntary early redemption envisaged in the conditions of the AT1 Preferred Securities 1/2017 issue, whose value amounted to 750 million euros.
- Change of +42,224 million in the exposure considered in the leverage ratio calculation (-92 bps) mainly due to the end, in March 2022, of the transitory period that allowed the exclusion of exposures of deposits held at central banks from the leverage ratio. This transitory period began to apply in September 2020 through Decision (EU) 2020/1306, which provided for a validity until 27 June 2021. This validity period was subsequently extended until 31 March 2022 through Decision (EU) 2021/1074.

## 7.3 Leverage ratio management

The leverage ratio is defined as the ratio between Tier 1 capital and the Group's total exposure, according to the calculation approach set forth in Article 429 of the CRR. Total exposure includes on-balance sheet exposures, derivative exposures, securities financing transactions and off-balance sheet items, without risk adjustment. This ratio is a key pillar in the regulation of post-crisis capital; it complements other risk-based capital recovery options.

Banco Sabadell Group controls the risk of excessive leverage through proactive and dynamic management of the leverage ratio. In addition to specific monitoring of the leverage ratio as part of the Risk Appetite Framework, the Group has additional metrics to complement the management and monitoring of risk of excessive leverage, which make it possible to identify the maturities, the type of encumbrance and movements of encumbered assets. These metrics include the Asset Encumbrance ratio and the Net Stable Funding Ratio (NSFR), which are defined as follows:

- **Asset Encumbrance:** a metric that identifies the proportion of assets that are pledged in funding operations relative to the Institution's total assets. Specifically, it is calculated as the ratio of total encumbered assets plus total collateral received and reused as a proportion of total assets plus total collateral received.
- **NSFR**: a regulatory balance sheet structure ratio which measures the amount of available stable funding over one year relative to the amount of required stable funding, based on the liquidity and residual maturities of assets and off-balance sheet exposures.

The leverage ratio, in its strictest "fully loaded" form, is part of the framework of quantitative indicators established in the Risk Appetite Statement (RAS) as a first-tier metric to ensure that the ratio comfortably exceeds the minimum regulatory requirements. This is verified through continuous monitoring of both the exposure and the Institution's available own funds. Within this framework, the Group has set limits and implemented different operational measures for this ratio, which guarantee that the leverage is maintained within acceptable risk levels consistent with the sustainable growth of the Group's balance sheet and well above the minimum levels that could be considered a risk.

The estimates of this ratio, its evolution and its comparison with different operational measures form part of the Group's monthly monitoring and reporting activities. The resulting information is relayed to various committees and governance bodies. Additionally, this ratio is forecast in the Capital Planning and internal stress test exercises, for the purpose of verifying their compliance.

Additionally, and with the aim of managing excessive leverage risk, the Net Stable Funding Ratio (NSFR) is used to measure and monitor mismatches between maturities and asset encumbrance. This ratio is a first-tier RAS metric that enables continuous monitoring of compliance with the objectives and limits established (taking into account maturity mismatches) which, if exceeded, would be managed with a series of pre-defined corrective measures. Additionally, the Group has designed and implemented a system of early warning indicators, which include market and liquidity indicators adapted to the Group's funding structure and business model.

Furthermore, encumbered assets are monitored using the Asset Encumbrance metric, which involves regular measurement of the used and available collateral pools for each maturity window. This indicator is a second-tier RAS metric. To this end, the Group's objective is to maintain a prudent level of encumbered assets, with the availability of an adequate collateral reserve that allows secured and unsecured funding sources to be accessed at all times. This metric is integrated in liquidity management and stress testing processes.

The Group has a capital monitoring and governance framework in place that allows it to take measures in the event of failure to achieve internal targets. It is monitored periodically and regularly reported to the Bank's Board Committees and to the Board of Directors.

The Group's Recovery Plan, approved by the Board of Directors, contains a wide range of extraordinary recovery measures of different kinds that are compared against different stress scenarios, both systemic and idiosyncratic. It also includes a detailed analysis of each of the potential measures, including the preparatory measures necessary for their implementation, as well as considerations regarding the execution of each measure, such as implementation periods and legal, operational and governance considerations, among other aspects.

Regarding the risk of excessive leverage, the corrective measures defined in both the Risk Appetite Framework and the Recovery Plan allow management measures to be taken in the event of a potential increase of Tier 1 capital or in order to adjust the leverage ratio denominator (total exposure measure). Among these measures, the option of capital injections/increases with subscription rights, the issuance of instruments admitted as capital or the sale of assets are all analysed, with specific execution timetables in each case.

# 8

# Credit Risk

8

The information provided in this chapter is in line with the disclosure requirements in relation to credit risk, with detailed information required by the following CRR articles: Article 438 on own funds requirements and risk-weighted exposure amounts, Article 439 on exposure to counterparty credit risk, Article 442 on credit risk adjustments, Article 444 on the use of ECAIs, Article 449 on exposures to securitisation positions, Article 452 concerning the use of the IRB approach to credit risk, Article 453 on the application of credit risk mitigation techniques and Article 473a on the introduction of IFRS 9. In relation to the previously mentioned articles, this chapter also details the requirements related to credit risk of Articles 2, 8, 9, 10, 11, 12, 13 and 14 of Implementing Regulation (EU) 2021/637, as well as Guidelines EBA/GL/2018/10.

The following section mainly analyses information related to the management and governance of credit risk, the credit quality of exposures and own funds requirements for credit risk of Banco Sabadell Group.

Credit risk is defined as the risk of incurring losses as a result of borrowers' failure to honour their payment obligations, as well as a loss of value due to the deterioration of borrowers' creditworthiness. Credit risk includes sub-risks such as concentration risk, counterparty credit risk and country risk.

- Concentration risk: supplementary to borrowers' default risk, concentration risk refers to exposures with the potential to generate losses large enough to threaten the solvency of the Institution or the viability of its ordinary business activity.
- Counterparty credit risk: this refers to the risk exposure of certain financial contracts (derivatives and repos) whose risk level is not in line with the notional value of the contract. A distinction is made between counterparty credit risk, settlement risk and delivery risk. Following the requirements of Pillar III Disclosures, this risk (broken down as a second tier risk inside credit risk in the Group's risk taxonomy) is described in section 8.8 "Counterparty credit risk" of this document.
- Country risk: this risk arises from the eventual inability of a debtor to meet its foreign currency payment obligations to external creditors, among other reasons, because the country does not allow access to the currency, the country is unable to transfer it, the ineffectiveness of legal actions against the borrower for sovereignty reasons, or because of situations of war, expropriation or nationalisation. Country risk affects not only debts contracted with a State or entities guaranteed by it, but also all private debtors belonging to that State and which, for reasons beyond their own evolution or decision, experience a general inability to meet their debts.

**Figure 16. Breakdown of EAD by segment.**

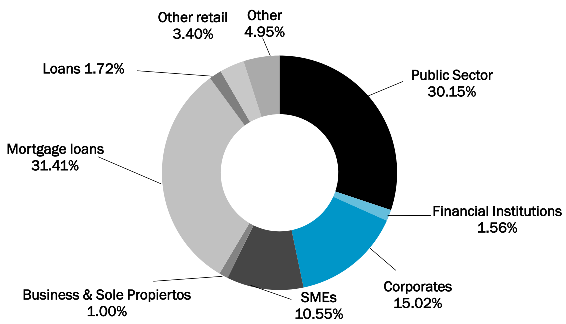
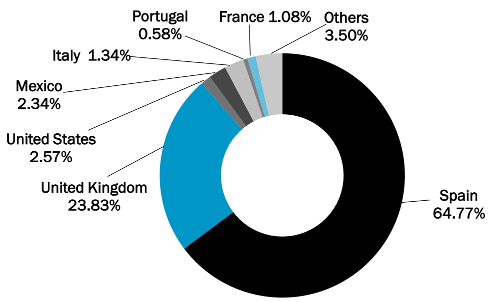



**Figure 17. Breakdown of EAD by geography.**




## 8.1 Credit risk management and governance

### Management strategies and processes

Banco Sabadell Group's current credit risk management strategy, in line with the business model and objectives, is fixed in accordance with the Risk Appetite Framework (RAF).

The criteria and approach for accepting Credit Risk are set out and described in the Credit Risk Acceptance and follow-up Policy, a document that establishes the principles, critical parameters, governance structure, roles and responsibilities, procedures and key tools relating to the acceptance of credit risk and the approval of transactions. The Board of Directors is responsible for its approval.

The Group's management of this risk is governed by the following fundamental principles:

- Involvement of the Board of Directors: ensure its involvement in setting strategies, policies and procedures for managing credit risk acceptance.

- Governance and consistency with the Institution's risk appetite: ensure activity is aligned with the risk profile defined by the Institution.
- Diligence when approving risk transactions: establish practices geared towards responsible lending, conducting an in-depth analysis of customers and transactions focusing on financial solvency, payment capacity and guarantees.
- Appropriate transaction pricing: ensure that transactions are approved observing the pricing framework defined by the Institution.
- Compliance with regulations and treatment of waivers: ensure that the acceptance process is in line with prevailing regulations and that waivers are dealt with correctly.

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

The Board of Directors grants powers and discretions to the Delegated Credit Committee to allow the latter to delegate responsibilities to different decision-making levels. The implementation of different authority thresholds for authorising transactions enables each level of authority to be established based on the expected loss calculated for each transaction.

In order to optimise the business possibilities with each customer and guarantee a sufficient level of security, responsibility for both the acceptance of risk and the monitoring of risk is shared between the account manager and the risk analyst (Basic Management Team) which, through effective communication, allows those responsible to have a comprehensive (360°) and forward-looking vision of each customer's individual circumstances and needs.

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

#### Consistency with the Risk Appetite Framework

Banco Sabadell Group ensures that the level of its credit risk exposures is consistent with its tolerance of this risk, as defined in the RAS. There are limits and specific Board, Executive and Operational metrics that monitor the main risks, as well as adequate internal controls to ensure that credit risk exposures do not exceed the risk appetite levels established by the Group.

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

- Quantitative metrics from the Risk Appetite Statement and their subsequent monitoring as Board, Executive and Operational metrics.
- Individual exposure or concentration limits for risks and customers considered to be significant, which are set by the Delegated Credit Committee.
- A structure of conferred powers, which requires major transactions with customers to be approved by the Group's Risk Operations Committee, or even by the Delegated Credit Committee.

#### Asset Allocation / Sectoral Strategic Outlook

Banco Sabadell Group has an environment for managing and controlling credit risk, in which it develops, deploys and maintains a series of management and control frameworks for specific portfolios, sectors and geographies. It is a powerful tool for deploying the Global Risk Framework and allows the growth of investment to be guided and an asset allocation strategy to be established while seeking to optimise the long-term risk/reward ratio.

Each of these frameworks defines the Group's appetite in each sector or portfolio and the requirements to achieve it, establishing:

- Asset allocation, setting the growth targets for each key pillar (quality, type, etc.).
- General principles that should govern activity in each portfolio, sector or geography.
- Basic policies for the approval and monitoring of loans and credit.
- Risk monitoring and control metrics (for both existing stock and new loans).

Lastly, the set of management and control frameworks, together with ongoing planning and management, allow portfolio performance to be anticipated, which enables growth to be guided in a way that is profitable in the long term.

The Group has further strengthened the sectoral outlook of its monitoring activities, by developing the Sector Guidance Strategy (SGS), as a mechanism for integrating all of the existing outlooks within the Group in relation to sectoral risk, and in which the Group's sectoral asset allocation strategy is established, integrating to this end the various existing outlooks within the organisation in relation to economic activity sectors.

Within this sectoral strategic outlook, the Group includes or takes into consideration not only the sectoral effect or impact of external events (such as COVID-19, the impact of Russia's invasion of Ukraine, the inflationary environment, the shortage of commodities, etc.), but also all inputs or aspects that could affect the future evolution of the different sub-sectors, such as the composition and characteristics of the Institution's credit portfolio, ESG factors, Economic Recovery Funds (ERFs), sectoral and market trends, etc.

#### Pricing system that guarantees an alignment with credit risk

This is a process for assigning prices that factors in the cost, risk and capital allocated at the transaction level, which is particularly important in the current context of high competitive pressure.

Banco Sabadell Group uses Risk adjusted Return on Capital (RaRoC) as a key risk screening factor to ensure the existence of a framework that measures return on the basis of risk and that contributes a coherent outlook of profitability through the various portfolios.

#### Discretions and risk approval

The Board of Directors grants powers and discretions to the Delegated Credit Committee to allow the latter to delegate responsibilities to different decision-making levels. In addition, the Board of Directors approves individual transactions of over 350 million euros.

The Delegated Credit Committee approves individual transactions in excess of 80 million euros (150 million euros for General Governments), up to a maximum of 350 million euros.

In extraordinary circumstances, which must be duly justified, the Delegated Credit Committee may approve a transaction in excess of 350 million euros, though this must be subsequently ratified by the Board of Directors.

Transactions above the target concentration threshold set out in Banco Sabadell Group's Risk Appetite Statement must be approved by the Board of Directors. Additionally, the Board of Directors must be notified of all transactions that entail an increase in credit risk exposures with the customer of over 50 million euros.

There is a control system in place with different authority thresholds for authorising transactions that do not meet the above parameters, which enables each level of authority to be established based on the expected loss calculated for each transaction of the companies in question.

This system for delegating authority based on expected loss is included in the risk record; the conferral of powers is automated and cannot be changed by employees.

To optimise the business opportunities offered by each customer and to ensure an appropriate level of security, responsibility for accepting and monitoring risks is shared between the account manager and the risk analyst who, by maintaining effective communication and a proactive attitude, are able to provide those responsible with a comprehensive view of each customer's individual situation.

### Non-performing risk management

Banco Sabadell Group has an advanced model in place to manage the non-performing risk of the impaired assets portfolio. The purpose of managing non-performing risk is to identify the best solution for the customer upon detecting the first signs of impairment, whilst reducing the entry into default of customers with financial difficulties, ensuring intensive management and avoiding any idle periods between the different stages.

The most notable aspect of the collection and recovery management process is its adaptability to the type of debt/segment of the borrower and how long they have been in arrears. The organisational structure of the specialists involved in the collection and recovery process is particularly important, as is the availability of an adequate information system that helps them in their coordination activities and gives them permanent access to information about the situation of the customer in question. Banco Sabadell Group continuously searches for the most efficient method of ensuring the highest possible recovery of the debt, whilst also opting to use, if necessary, external management systems with support from firms that specialise in this type of activity. It shall even consider implementing a mechanism to transfer the debt, if the cost associated with this mechanism is less than that associated with a different option, which could result in additional losses.

Each geography has its own management process in place to manage non-performing exposures, which takes into account the situation of each customer, their segment and the applicable legislation in each region.

Furthermore, Banco Sabadell Group has an action strategy for the divestment of its acquired real estate assets, which is used to accelerate the sale of real estate properties whilst minimising losses.

### Governance and organisation

The governance structure for credit risk management and control has as key pillars the direct involvement of Senior Management and the Board of Directors within the corporate model and a clear-cut definition of roles and responsibilities, including the approval of the management framework and ensuring its adequate implementation.

The Board of Directors is supported by the following committees, whose duties are described in Chapter 15. Corporate Governance, for the management and control of credit risk:

- Board Risk Committee
- Board Audit and Control Committee
- Delegated Credit Committee
- Board Remuneration Committee

Senior Management and the Board of Directors are directly and effectively involved in managing this risk by approving the Group's Global Risk Framework and Risk Appetite Framework, as well as its risk management policies.

Likewise, as indicated in sub-section 5.2.3. "Organisation of the risk function" section, Banco Sabadell Group establishes its control framework based on the model of Three Lines of Defence, and which in relation to the credit risk function broadly has the following structure:

**First line of defence:** comprises the Business Units (Sabadell Spain, Mexico, Corporate & Investment Banking Unit), Risk Management and Corporate Governance, highlighting the following roles and responsibilities for each of them:

Business Units:

- Identify opportunities and compile customer information.
- Conduct an initial analysis of the transaction and approve it according to the risk management model.

Risk Management:

- To carry out the management of the selective admission and monitoring at Group level of the activity and evolution of credit risk in the different entities of the Group.
- Align priorities of the Strategic Plan with the Risk outlook in all segments.
- Establish and develop processes that enable the credit risk management function to be optimised.
- Roll out credit risk rating systems.
- Develop Management and Control Frameworks and calculate and monitor credit risk metrics and indicators.

Corporate Governance:

- Send the necessary communications to the Regulator, requesting authorisation before granting transactions to members of the Board of Directors, Senior Management or similar, as well as their related parties or, where appropriate, merely giving notice of the foregoing, as required by the governing regulations.

**Second line of defence:** in addition to the Compliance Unit, whose duties are described in section 5.2.3, the second line of defence is comprised of the Credit Risk Control Unit and the Validation Unit.

The Credit Risk Control Unit is independent of the First Line of Defence and responsible for:

- Ensure the correct identification, assessment and monitoring of risks by the first line of defence, establishing specific controls and processes for the second line.
- Supervising the adequacy and effectiveness of policies and procedures and their associated processes.
- Validating Management Frameworks and developing Control Frameworks by monitoring compliance therewith (including credit risk RAS metrics).
- Supervise and control the risk strategy and the risk acceptance and monitoring processes, ensuring the quality and effectiveness of those processes, their alignment with policies, strategy and the risk appetite and the traceability of decisions.
- Supervise and control country risk and financial institutions risk, ensuring the quality of those exposures.
- Coordinating and standardising the 2LoD in relation to credit risk.

The Validation Unit is responsible for:

- Checking that credit risk models work as expected and that the results obtained from them are appropriate to their various uses.
- Establishing the principles, critical parameters, governance structure, roles and responsibilities, procedures and key tools relating to the identification, measurement, management, monitoring and control of model risk.

**Third line of defence:** Formed by the Internal Audit Unit, which acts as an independent unit to oversee the monitoring, management and control of credit risk. A series of periodic reviews are carried out on aspects related to the adequacy of credit risk management and control. These include audits of the corporate centre (aimed at reviewing risk management and control processes at all stages of the credit cycle), audits of the branch network (among others, to verify the accuracy and adequacy of the data entered in the internal credit rating systems), IT audits (migration processes, logical security and process outsourcing, fundamentally) and audits of operating processes (risk analysis and management, granting and monitoring of operations, administration of operations and guarantees, etc.), as well as other independent reviews (e.g., general IT controls or specific reviews of processes), as well as other independent reviews (e.g., general IT controls or specific process reviews). Details of its duties and responsibilities are described in section 5.2.3 "Organisation of the risk function".

## Measurement systems

The Board of Directors is in charge of defining the appetite to credit risk within the Group.

The Group ensures that the level of its credit risk exposures is consistent with its tolerance of this risk, as defined in the RAS. There are limits and specific Board, Executive and Operational metrics that monitor the main risks, as well as adequate internal controls to ensure that credit risk exposures do not exceed the risk appetite levels established by the Group.

In order to manage credit risk efficiently, Banco Sabadell Group has 27 Board metrics linked to credit risk, segmented between Asset Quality, Counterparty, Concentration and Sustainability metrics. These are supplemented with a larger number of Executive and Operational metrics more tailored or adapted to the different portfolios and/or risk management frameworks of the Institution.

In addition to the RAS metrics, Banco Sabadell Group has key indicators at the portfolio level that are aligned with the risk management and control frameworks, and which monitor the existing stock and new loans, including the breakdowns deemed relevant in each portfolio, by aspects such as products, sectors, geographies, quality, asset allocation, etc.

In addition to this, the implementation of advanced methodologies for managing credit risk (adapted to the Basel Capital Accord and best practices) benefits the process by ensuring that proactive measures can be applied once a risk has been identified. It is worth highlighting the use of rating tools such as credit rating systems for corporate borrowers and credit scoring systems for retail customers, as well as early warning indicators to monitor risks. These tools are checked regularly to determine their effectiveness in predicting borrower default.

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

The early warnings system allows an integrated measurement to be made of the level of the risk taken and allows it to be transferred to recovery management specialists, who determine the different types of procedures that should be implemented. Therefore, based on risks in excess of a set limit and according to predicted default rates, groups or categories are established to be treated individually. These warnings are additionally managed by the business manager and the risk analyst. Policies for these risks are set out, on one hand, in terms of the management framework and, on the other hand, in the form of maximum exposure limits or permitted mitigation/guarantee techniques. Both of these are established in specific regulations and training programmes which enable them to be distributed to all levels of the organisation.

A basic management tool for this type of risk is the use of advanced internal credit rating models of customers and transactions.

### Rating Systems

In general, credit risks incurred with corporates, developers, specialised lending projects, financial institutions and countries are rated using a rating system based on predictive factors and an internal estimate of the probability of default.

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

### Scoring Systems

In general, credit risks undertaken with individual customers are rated using credit scoring systems, which are based on a quantitative model of historical statistical data, where the relevant predictive factors are identified.

In geographies in which scoring takes place, scoring is divided into two types:

- Reactive scoring: used to evaluate applications for loans and other transactions before approving them. Once all of the data relating to the transaction has been entered, the system calculates a result based on the estimated repayment capacity, financial profile and, if applicable, the level of assets pledged as guarantees.

- Behavioural scoring: the system automatically classifies all customers based on information regarding their activity and each of the products that they have acquired. These scores are mainly used in approving transactions, setting (authorised) overdraft limits, advertising campaigns, monitoring and segmentation of claims and/or recovery procedures.

#### Warning Tools

In general, Banco Sabadell has an early warnings system in place comprised of both individual warnings and advanced early warning models for both Corporates and Individuals segments. These early warnings are based on behavioural factors obtained from available sources of information (credit ratings and scores, customer files, balance sheets, CIRBE (Bank of Spain Central Credit Register), information of a sector-based or operative nature, structural model, etc.). They measure the risk associated with the customer on a short-term basis (predicted propensity to default) obtaining a high predictive capacity to detect potential defaulters. The resulting rating or score, which is obtained automatically, is used as a basic input in monitoring the risk of Corporates and Individuals.

This warnings system enables:

- More efficient monitoring of customers with the lowest rating/score (different cut-off points for each group).

- The Institution to anticipate actions required to manage any negative change in the situation of the customer (change in rating/score, new severe warnings, etc.).

- Regular monitoring of customers whose situation remains unchanged and who have been analysed by the Basic Management Team.

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

#### Reporting

Banco Sabadell Group ensures that its credit risk (along with its various sub-risks) is regularly monitored in order to, on one hand, continuously monitor changes in the portfolio and in new lending products (and their key risk indicators) and, on the other hand, enable a swift identification and rectification of any weaknesses in the mechanisms implemented to manage and control this risk.

The Group has a Credit Risk Dashboard, generated and centralised in the Risk Management Unit and reported, after validation by the Credit Risk Control Unit, which monitors the status of key indicators in order to review this risk, in both overall terms and in terms of individual portfolios and frameworks, reporting monthly to the Technical Risks Committee and to the Delegated Risk Committee and following the established risk governance until the information reaches the Board of Directors.

This reporting includes Board and Executive credit risk metrics from the Group's RAS, in order to ensure that credit risk is managed within the established limits, and in order to monitor additional aspects of the portfolio analysis, such as the compliance with management and control frameworks, to verify their correct application.

In terms of credit risk models, the Group has a Models Dashboard in place, which it uses to verify that all internal credit rating models work as expected and that the results obtained from these models are appropriate to their uses.

### Mitigation measures

The main credit risk mitigation techniques used by the Group are summarised below.

#### Credit risk acceptance and control frameworks

Banco Sabadell Group continues to strengthen its credit risk management and control environment by developing and deploying management and control frameworks for certain portfolios, sectors and geographies, providing a powerful tool that allows the Global Risk Framework to be deployed and also guiding the growth of lending, seeking to optimise the long-term risk/reward ratio.

Each of these frameworks defines the Group's appetite in each sector or portfolio and the requirements to achieve it, establishing:

- Asset allocation, setting the growth targets for each key pillar (quality, type, etc.).

- General principles that should govern activity in each portfolio, sector or geography.

- Basic policies for the approval and monitoring of loans and credit.

- Workflows and governance related to transactions affected by the framework.

- Business strategy.

- Risk monitoring and control metrics (for both existing stock and new loans).

Lastly, the set of management and control frameworks, together with ongoing planning and management, allow portfolio performance to be anticipated, which enables growth to be guided in a way that is profitable in the long term.

#### RAS metrics

As mentioned in the section on measurement systems, Banco Sabadell Group ensures that the level of its credit risk exposures is consistent with its tolerance for this risk, as defined in the RAS. There are limits and specific Board, Executive and Operational metrics that monitor the main risks, as well as adequate internal controls to ensure that credit risk exposures do not exceed the risk appetite levels established by the Group.

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

- Quantitative metrics from the Risk Appetite Statement and their subsequent monitoring as Board, Executive and Operational metrics.

- Individual exposure or concentration limits for risks and customers considered to be significant, which are set by the Delegated Credit Committee.
- A structure of conferred powers, which requires major transactions with customers to be approved by the Group's Risk Operations Committee, or even by the Delegated Credit Committee.

Likewise, Banco Sabadell Group has defined in its RAS the establishment of action plans and mitigation measures for the treatment of exceptions of internally established limits, for which criteria need to be included to justify this exceptional treatment.

If necessary, the Group will take the corresponding measures to adapt the credit risk to the levels approved in the RAS by the Board of Directors.

#### Guarantees

Banco Sabadell Group's credit risk acceptance and follow-up policy firmly stipulates that guarantees cannot be the only element based on which a transaction is approved, nor the main means of repaying the amount loaned in a transaction. Guarantees need to be complementary, not a replacement, and they should be considered as a secondary and exceptional means of recovering debt.

Generally, these take the form of collateral, mainly mortgages on properties used as housing for which construction has mostly finished. The Institution also accepts, although to a lesser extent, other types of collateral, such as mortgages on retail properties, industrial warehouses, etc., as well as financial assets. Another credit risk mitigation technique commonly used by the Institution is the acceptance of sureties, in this case subject to the surety presenting a certificate of good standing.

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

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

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

### Risk Culture

The applicable information about the risk culture relating to all of the Group's risks is covered in sub-section 5.2.1 "Corporate risk culture".

In addition to the cross-cutting aspects of risk culture and training in Banco Sabadell Group, additional actions or aspects relating or specific to Credit Risk are described below.

The Group's risk culture facilitates the implementation of a solid risk culture driven by the highest level of authority within the Group, which involves the entire organisation, from Management itself to the various business units taking the risks.

Banco Sabadell is driving forward the consolidation of its credit risk culture among all its employees through an ongoing programme, whose basic pillars are:

- Risk Management Development Scheme: systematisation and guidance on risk management:
  - Definition of roles and responsibilities, including the mission and long-term vision.
  - Systematisation of interactions between different profiles.
  - Specific communication channels.
  - Monitoring model designed to measure the effectiveness of the system's application.
- Valora: internal system for appraisals at the employee/aggregate level, which indicates the key aspects of good management and identifies areas for improvement.
- Risk training: preparing teams for the shift towards a forward-looking risk management model and ensuring the maintenance of certain standards to take on the challenges facing the industry:
  - Training of risk teams (identification of necessary skills, definition of the career development roadmap, etc.).
  - Training of Business teams with technical knowledge relating to risks.
- Communication Plan: there is a communication plan for employees to allow the risk culture to be conveyed to the entire Organisation, extracting value from the Transformation Scheme and achieving the engagement of both Risk and Business teams:

It is also worth highlighting that, in line with Banco Sabadell Group's Global Risk Framework, to ensure the adequate management and control of credit risk, a series of principles have been defined, which are set out in policies and deployed through procedures and standards which are available to all Business and Risk teams.

## 8.1.1 Country risk

Country risk manifests itself in the eventual inability of obligors to honour their foreign currency payment obligations undertaken with external creditors due to, among other reasons, the country preventing access to that foreign currency, the inability to transfer it, or the non-enforceability of legal actions against borrowers for reasons of sovereignty, war, expropriation or nationalisation. Country risk not only affects debts undertaken with a State or entities guaranteed by it, but also all private debtors that belong to that State and who, for reasons outside their control and not at their volition, are generally unable to satisfy their debts.

**Specific management processes**

The Group's current country risk management strategy, in line with the business model and objectives, is fixed in accordance with the Risk Appetite Framework (RAF).

The main purpose in managing country risk is to establish the risk appetite in each country, depending on developments in the macroeconomic and political situation of each one, and to actively monitor and control the exposure to each country.

The Group's current country risk management strategy, in line with the business model and objectives, mainly involves establishing a risk limit for each country, applicable to the entire Banco Sabadell Group. These limits are approved by the Delegated Committee and corresponding decision-making bodies, as per their conferred powers.

Limits are continuously monitored to ensure that any deterioration in the economic, political or social situation of a country can be detected in good time. Different indicators and tools are used for this purpose: credit ratings, credit default swaps, macroeconomic indicators, etc.

One of the main components of the risk acceptance framework is the structure of country limits, which acts as a ceiling on the overall positions held with the country in question at the Group level (including sovereign risks and risks with the full set of obligors from that country).

**Governance and organisation**

The Board of Directors is in charge of defining the appetite to country risk within Banco Sabadell Group. Responsibility for managing and controlling the risk falls to the Credit Risk Control Unit.

As indicated in the "Organisation of the risk function" section defined in point 5.2.3, the Group establishes its control framework based on the model of Three Lines of Defence. With regard to the country risk functions, these are broken down according to the scheme below.

**First line of defence**:

- Identification of the existence of country risk in the activity carried out by Banco Sabadell Group.
- Process for approving and analysing transactions submitted by the various business units, as well as their submission to the different Committees, where applicable, according to the scheme of discretions of Banco Sabadell Group.
- Calculation reports on the country risk incurred.
- Representation of Banco Sabadell in different country risk forums.

**Second line of defence**:

- Definition of the risk appetite, establishing appropriate limits according to quantitative and qualitative indicators.
- Calculations of country risk ratings.
- Supervision of utilisation levels of existing risk limits, taking action in the event of possible excesses.
- Implementation of policies and procedures for authorising limits that are subject to country risk.

**Third line of defence:** Composed of the Internal Audit Unit, which acts as an independent unit to oversee the monitoring, management and control of market risk. Details of its duties and responsibilities are described in sub-section 5.2.3 "Organisation of the risk function".

**Specific measurement systems**

The framework for the acceptance of Country Risk, as well as for Financial Institutions of each country, entails establishing a structure of limits through which Senior Management and delegated bodies establish the Group's risk appetite.

Risk positions in a country are measured and continuously monitored against this limit.

Additionally, there are currently two first-tier RAS metrics that specifically monitor the Group's risks in Mexico, a country that is particularly important to the Group's strategy.

**Specific mitigation measures**

The Institution has mitigation techniques that can align the Institution's position with the one desired by Banco Sabadell Group.

In addition to the establishment of limits and the continued monitoring and proactive management of risks, there are also other measures that can be used to mitigate country risk, including:

- Authorised activity in each country: country limits are established for business activity and/or financial transactions, which in the latter case are limited to countries with a higher credit quality.
- The establishment of maximum durations for exposures, depending on each country's risk assessment.
- The structuring of transactions itself: request for guarantees that reduce or eliminate country risk, including, among others, the arrangement of country risk insurance policies.

## 8.1.2 Concentration risk

Concentration risk can be caused by two risk sub-types:

- Individual concentration risk: this refers to the possibility of incurring significant credit losses as a result of maintaining large exposures with specific customers, either individually or at the economic group level.
- Sectoral concentration risk: defined as the imperfect diversification of systematic components of risk within the portfolio, which can be sector-based factors, geographical factors, types of transactions, etc.

**Specific management processes**

The Group's current country risk management strategy, in line with the business model and objectives, is fixed in accordance with the Risk Appetite Framework (RAF).

Banco Sabadell Group has a series of specific tools and policies in place to ensure an efficient management of concentration risk:

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

- Individual limits for risks or customers considered to be significant, which are set by the Delegated Credit Committee.
- A structure of conferred powers, which requires major transactions with customers to be approved by the Group's Risk Operations Committee, or even by the Delegated Credit Committee.

To control its concentration risk, Banco Sabadell Group ensures that the level of its concentration risk exposures is consistent with its tolerance for this risk, as defined in the RAS. Overall concentration risk limits and adequate internal controls are in place to ensure that concentration risk exposures do not exceed the risk appetite levels established by the Group.

**Governance and organisation**

The Board of Directors is in charge of defining the appetite to concentration risk within Banco Sabadell Group.

As indicated in the "Organisation of the risk function" section defined in point 5.2.3, Banco Sabadell Group establishes its control framework based on the model of Three Lines of Defence. With regard to the concentration risk function, the scheme is as follows.

**First line of defence:** Within credit concentration risk, the Retail Banking Risks, Business Banking Risks and Corporate Banking Risks Units each perform the following duties for their respective areas:

- Manage and integrate the different exposures according to the pre-determined levels of discretion through selective acceptance, monitoring and assessment of credit risk that makes it possible to ensure its quality, in accordance with the Institution's strategy.
- Establish Group level limits for large risk groups, following the established governance arrangements. In relation to large risk groups, ensure that concentration risk limits are complied with at the customer and group level.
- Align the priorities of the strategic plan with the risk outlook in all segments, identifying initiatives to be developed in relation to credit risk.
- Establish and develop processes that enable the credit risk management function to be optimised.

Within credit concentration risk, Portfolio Management & Risk Monitoring performs the following duties:

- Calculates RAS indicators and metrics related to concentration risk and monitors the credit risk exposure limits defined internally, reconciling, together with the Retail Banking Risks, Business Banking Risks and Corporate Banking Risks Units, the total exposures to groups that are reviewed by the Delegated Credit Committee.
- Controls and brings the Institution's concentration indicators in line with the established regulatory requirements, limits and restrictions.
- Continuously monitors the level of concentration of credit risk portfolios from the different relevant standpoints: individual.
- Regularly reviews risk mitigation techniques and their value.

**Second line of defence:** The Credit Risk Control Unit has the following main duties:

- Supervise the adequacy, effectiveness, and level of compliance of the concentration policy.
- Define and review concentration risk appetite metrics for their subsequent escalation to the Board of Directors for approval.
- Monitor the compliance with risk appetite metrics and remediation plans, where necessary.
- Control and adjust risk appetite metrics to bring them in line with prevailing regulations.
- Ensure that the risk mitigation techniques included in the RAS metrics are fit for purpose.

**Third line of defence:** Made up of the Internal Audit Unit, which acts as an independent unit to oversee the monitoring, management, and control of market risk. Details of its duties and responsibilities are described in sub-section 5.2.3 "Organisation of the risk function".

**Specific measurement systems**

Concentration risk is measured using a metric developed in-house called the concentration metric, which is largely comprised of the current exposure (amounts drawn and available) after adjusting for the effect, mainly, of provisions.

Concentration risk is measured on a monthly basis, and there are specific metrics for individual, sectoral and geographical (e.g. Mexico) concentration risk and also for specific types of transactions (leveraged transactions).

The measurement methodology is established and calculated centrally at the Group level, and it is periodically reviewed and adapted to the market's best practices.

**Specific mitigation measures**

The Institution has mitigation techniques that can align the Institution's position with the one desired by the Group.

Concentration risk is mitigated by establishing risk limits for each identified significant risk. The structure of limits comprises three levels: first-tier RAS metrics, second-tier and third-tier or management limits.

## 8.2 Information on exposures' credit quality

### 8.2.1 Provisions governance framework

The Group has a Provisions Committee, which meets at least once a month. It is the body responsible for the classification and the provisions and allowances for credit risk and real estate asset impairment and seeks to strengthen the governance relating to risk classification and impairments, aligning it as much as possible with best practices observed in the industry and new regulatory requirements.

The duties of the Provisions Committee include:

- Review and approval of the significance thresholds, as well as other aspects that determine the borrowers that need to be assessed individually.
- Analysis and approval of the proposals for classifications as write-offs (through both an individual assessment and using automated methods; any subsequent changes between the date of the Committee meeting and the date when accounts are closed will be reported to the Committee).
- Definition and approval of materiality and proportionality thresholds, based on which transactions which could potentially be eligible for write-off are individually assessed, as well as the threshold whose breach requires the preparation of documents to justify the individual transfer to write-offs and the criteria defined for the automatic individual classification as write-offs.
- Approval of the type of guarantees that should be considered to be effective from the point of view of provisions calculations.
- Review and monitoring of the annual plan for the valuation of collateral (real estate and personal property) as well as the valuation method.
- Approval of procedures linked to policies associated with the scope of classification by credit risk and provisions.
- The Provisions Committee has discretion to approve the operational aspects mentioned in the preceding points and the non-material impacts on provisions, understood as those implying a change of less than +/-5 basis points in the CET1 ratio, which shall be reported to higher level Committees. For changes above this threshold, the Management Committee will establish the level to which the matter needs to be escalated.
- Monitoring of any changes in the classification of credit risk and foreclosed assets, indicating in the latter case the accounting portfolio into which they are classified.
- Monitoring of borrowers assessed individually, depending on the parameters that have been defined.
- Monitoring of regulations affecting the recognition of provisions, accounting classification of borrowers and the monitoring/management of non-performing assets, as well as actions to be taken in connection with such regulations.
- Monitoring of requests from the supervisor in connection with provisions or the classification of credit risk, whilst also ensuring the existence of controls to guarantee the consistency of the reported information.
- Monitoring of information relating to impairments and non-performing assets received from TSB and other Group subsidiaries.

In the event of extraordinary situations:

- Approval of a temporary framework of procedures relating to the accounting classification and the impairment calculations due to credit risk and acquisition of foreclosed assets or those or received in payment of debts.
- Propose to the corresponding body, if applicable, off-model adjustments of provisions, in order to reflect extraordinary situations.
- Monitor the adequate treatment in terms of classification and impairment of specific customer solutions, arising from an exceptional situation.

The Models Committee also exists on a complementary basis, strengthening the governance framework relating to internal models used to calculate provisions following the publication by the Bank of Spain of its Circular 4/2016 of 27 April 2016, subsequently amended by Circular 4/2017 of 27 November 2017.

### 8.2.2 Impairment of financial assets

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

- In the case of debt instruments, including loans and debt securities, a negative impact on future cash flows estimated at the time of formalising the transaction, due to the materialisation of credit risk.
- In the case of off-balance sheet exposures involving credit risk, expected cash flows which are lower than the contractual cash flows in the case of drawdowns, or lower than the expected payments in the case of financial guarantees given.
- In the case of investments in joint ventures and associates, a situation in which their carrying amount is extremely unlikely to be recovered.

**Accounting classification of transactions on the basis of credit risk attributable to insolvency**

Banco Sabadell Group has set forth criteria that allow borrowers showing significant increases in credit risk, weaknesses or objective evidence of impairment to be identified and classified in line with their credit risk.

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

- Stage 1: transactions with standard exposures, i.e. their risk profile has not been modified since the time they were approved and do not raise doubts as regards the fulfilment of the repayment commitments according to the contractually agreed terms.
- Stage 2: transactions with standard exposures under special monitoring, i.e. transactions which, while not meeting the criteria to be individually classified as stage 3 or write-offs, show significant increases in credit risk since initial recognition. This category includes, among others, transactions with amounts more than 30 days past-due, with the exception of non-recourse factoring, for which a threshold of more than 60 days applies, as well as forborne transactions until they are reclassified into a lower risk category when they meet the requirements set forth to modify such reclassification.
- Stage 3: a transaction is considered as such if there is reasonable doubt that it can be repaid in full according to the contractually agreed terms. It includes debt instruments, whether past due or not, for which, while not meeting the criteria to be classified as write-offs, there are reasonable doubts as to their full repayment (principal and interests) by the borrower, in addition to off-balance sheet

exposures whose payment by the Group is likely but whose recovery is doubtful.

– As a result of borrower arrears: all transactions, without exception, with any amounts of principal, interest or contractually agreed expenses that are more than 90 days past-due, unless they should be classified as write-offs. This category also includes debt transactions and guarantees given classified here due to the carry-over effect (over 20% of the borrower's transactions are more than 90 days past-due).

– For reasons other than borrower arrears: transactions which are not classifiable as write-offs or stage 3 due to borrower arrears, but for which there are reasonable doubts as to the receipt of the estimated cash flows of the transaction and off-balance sheet exposures not classified as stage 3 as a result of borrower arrears, whose payment by the Group is likely, but whose recovery is doubtful. Those transactions that were classified as stage 3 as a result of borrower arrears will be reclassified to the standard exposure under special monitoring category (stage 2) once they have passed a probation period classified as stage 3 for reasons other than default.

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

Write-offs:

– Banco Sabadell Group derecognises from the consolidated balance sheet transactions for which the possibility of full or partial recovery is considered remote after an individual assessment. It also includes transactions which, despite not being in any of the previous situations, are undergoing a manifest and irreversible deterioration of their solvency.

– The remaining portion of transactions with amounts derecognised ("partial derecognition") because the Group's claims are extinguished due to debt forgiveness or debt reductions ("definitive loss"), or because they are deemed irrecoverable without extinguishment of the Group's claims ("partial write-off"), shall be classified in full in the category corresponding to it on the basis of the credit risk.

– In the above situations, Banco Sabadell Group derecognises write-offs along with their associated provisions from the consolidated balance sheet, notwithstanding any actions taken to collect payment, until no more rights to collect payment exist, whether due to extinguishment, forgiveness or any other reasons.

**Degree of alignment of the stage 3 accounting category with the prudential definition of default**

The prudential definition of default adopted by the Group takes as reference the EBA/RTS/2016/06 standard regarding materiality thresholds and counting days past due and the EBA/GL/2016/07 guidelines for the rest of the conditions.

In general, all contracts impaired from an accounting point of view are also considered impaired for prudential purposes, except if they are impaired by reason of accounting default, but such defaults are equal to or below a materiality threshold (100 euros of exposure for the retail segment and 500 euros for the non-retail segment, and 1% of unpaid exposure for both cases).

However, the prudential definition is generally more conservative than the accounting definition. The main differential aspects are indicated below:

- Under the prudential criteria the computation of days in prudential default begins at the time of the first unpaid instalment that exceeds the materiality threshold, with no possibility of this counter being reset or reduced until the customer has paid all unpaid amounts or the unpaid instalments are below the materiality thresholds. Under the accounting criterion, a FIFO criterion can be applied to unpaid instalments when there are partial recoveries, allowing reductions in the number of days past due for that reason.
- Under the prudential criterion, there is a probation period of 3 months for all amounts in default and 12 months for amounts in default classified as refinancing. Under the accounting criterion, only the 3-month period applies to amounts classified as stage 3 as a result of borrower arrears and the 12-month period applies to amounts classified as stage 3 corresponding to refinancing.
- In terms of unlikely-to-pay defaulted amounts (for reasons other than default), there are criteria that are explicitly defined at the prudential level, in addition to those that apply at the accounting level.

*For further information on the points mentioned in the previous paragraph, please refer to the **Banco Sabadell Group consolidated annual accounts**, in the document **Group Legal Information 2022** in Section 1.3.4 Impairment of financial assets, available on the Banco Sabadell Group website, in the Shareholder and Investor Information section, Economic-Financial Information, sub-section Annual reports.*

**Forbearance**

The policies and procedures relating to credit risk management applied by Banco Sabadell Group guarantee an in-depth monitoring of borrowers, demonstrating the need to allocate provisions when there is any evidence of impairment to their solvency. Therefore, Banco Sabadell Group allocates the loan loss provisions for transactions requiring them due to the borrower's circumstances, prior to formalising the forborne (refinanced or restructured) transactions, which shall be understood as:

- Refinanced transactions: any transaction, irrespective of the borrower in question or the guarantees given, that is refinanced for economic or legal reasons associated with current or foreseeable financial difficulties of the borrower (or borrowers) to repay one or more transactions granted by Banco Sabadell Group to the borrower (or borrowers) or to one or more other companies within their group, or when refinancing will allow outstanding payments for such transactions to be satisfied in full or in part, by enabling borrowers of the refinanced transactions to pay their debt (principal and interest) when they are unable, or will predictably soon be unable, to honour their payment obligations in due time and form.
- Restructured transactions: any transaction in which, for economic or legal reasons associated with current or foreseeable financial difficulties of the borrower (or borrowers), the financial terms and conditions of a transaction are modified in order to facilitate the repayment

of their debt (principal and interest) when they are unable, or will predictably soon be unable, to comply with such terms and conditions in due time and form, even when such modification is already envisaged in the contract. In any case, restructured transactions are those in which the debt is reduced or property is received to reduce the debt, or in which terms and conditions are amended to extend the term to maturity, to modify the repayment schedule in order to reduce the amounts of short-term repayment instalments or to reduce their payment frequency, or to establish or extend the grace period for the repayment of principal, interest, or both, unless it can be proven that the terms and conditions are being amended for reasons other than borrowers' financial difficulties and that the amended terms are equivalent to the terms applied in the market on the date of the amendment to transactions granted to borrowers with a similar risk profile.

If a transaction is classified in a certain risk category, refinancing does not automatically improve its risk classification. For refinanced transactions, the algorithm establishes their initial classification based on their characteristics, mainly that the borrower has financial difficulties (e.g. an inadequate business plan), that there are certain clauses such as long grace periods or that there are amounts written off as they are deemed irrecoverable; subsequently the algorithm modifies the initial classification based on the fixed cure periods. A downgrade to a lower risk category will only be considered if a significant improvement in the recovery of the transaction over time has been shown; therefore, refinancing does not in itself produce any immediate improvement.

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

- It has been determined, following a review of the holder's asset and financial situation, that it is not foreseeable that they may have financial difficulties.
- A minimum two-year period has elapsed from the date of formalisation of the forborne transaction or, if later, from the date of reclassification from the stage 3 risk category.
- The holder has paid the accrued principal and interest instalments since the date on which the forborne transaction was formalised or, if later, since the date of reclassification from the stage 3 risk category.
- The holder does not have other transactions with amounts more than 30 days past-due at the end of the probation period.

On the other hand, refinancing, refinanced or restructured transactions remain in stage 3 until the general criteria that determine the reclassification of transactions out of the stage 3 category are verified, and in particular, when the following requirements are met:

- It has been determined, following a review of the holder's asset and financial situation, that it is not foreseeable that they may have financial difficulties.
- One year has elapsed since the refinancing or restructuring date.
- The holder has paid the accrued principal and interest instalments.
- The holder does not have any other transaction with amounts more than 90 days past due as at the date of reclassification into the stage 2 risk category of the refinancing, refinanced or restructured transaction.

As regards forborne loans classified into stage 2, various types of transactions are analysed to, where appropriate, reclassify them into one of the higher risk categories described above (i.e. into stage 3 as a result of the counterparty's arrears, when they are generally more than 90 days past-due, or for reasons other than arrears, when there is reasonable doubt as to their recoverability).

The loss estimation methodology for these portfolios is, in general, similar to that for other financial assets valued at amortised cost, but we do take into account that, a priori, a transaction that has had to be restructured in order to meet its payment obligations should have a higher loss estimate than a transaction that has never had any payment problems, unless sufficient additional collateral is provided to justify the opposite.

*For further information on the points mentioned in the previous paragraph, please refer to the **Banco Sabadell Group consolidated annual accounts**, in the document **Group Legal Information 2022** in Section 1.3.4 Impairment of financial assets, available on the Banco Sabadell Group website, in the Shareholder and Investor Information section, Financial Information, sub-section Annual reports.*

### Measurement of allowances

To determine credit risk allowances, the Group uses the parameters described below:

- Exposure at Default (EAD): the Institution defines Exposure at Default as the expected amount of the exposure at the time of default.

The exposure metrics considered by Banco Sabadell Group to cover this risk are the currently drawn balances and the estimate of the amounts expected to be disbursed in the event of entry into default of off-balance sheet exposures through the application of a credit conversion factor (CCF).

- Probability of Default (PD): estimation of the likelihood of a borrower defaulting within a given period of time.

Banco Sabadell Group has tools to help in its credit risk management that it uses to predict the probability of default of each borrower and which cover practically all of its lending activities.

Banco Sabadell Group reviews the quality and stability of its internal credit rating tools currently in use on an annual basis. The review process includes the definition of the sample used and the methodology to be applied in order to monitor rating models.

The tools intended to evaluate an obligor's probability of default comprise behavioural scores to monitor the risk of natural persons and an early warnings tool and ratings to monitor the risk of corporates.

- Loss Given Default (LGD): estimation of expected loss on transactions which are in default. This loss also takes into account outstanding debt, late payment interest and expenses relating to the recovery process. Additionally, for each cash flow (outstanding balances and recoveries), an adjustment is applied to consider the time value of money.
- Effective interest rate (EIR): interest rate that exactly matches the estimated future cash flows to be received or paid during the expected life of the financial asset or

financial liability with the gross book value of the financial asset or the amortised cost of the financial liability.

- Multiple scenarios: in order to estimate expected losses, the Group applies different scenarios to identify the effect of the non-linearity of losses. To this end, an estimation is made of the provisioning requirements in different scenarios for which a probability of occurrence has been established. Specifically, the Group considered three macroeconomic scenarios: a baseline scenario, the most likely of all (61%), an alternative scenario 1, which is more optimistic and envisages absence of disruptions in the production chains and productivity gains (9%), and an alternative scenario 2, which is more adverse and envisages a synchronized global recession (30%). To carry out the forecasts of these scenarios, 5-year time horizons are used. The main variables considered are changes in GDP, the unemployment rate and house prices. In fiscal year 2021, the Group considered three macroeconomic scenarios with weights of 60%, 15% and 25% respectively and the same macroeconomic variables as in 2022.

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

- Expected credit losses over twelve months, when the risk of a default event occurring associated with the transaction has not significantly increased since its initial recognition (assets classified as stage 1).
- Expected credit losses over the life of the transaction, if the risk of any default event occurring associated with the transaction has significantly increased since its initial recognition (assets classified as stage 2).
- Expected credit losses, when a default event has occurred in the transaction (assets classified as stage 3).

*For further information on the points mentioned in the previous paragraph, please refer to the* ***Banco Sabadell Group consolidated annual accounts,*** *in the document* ***Group Legal Information 2022*** *in Section 1.3.4 Impairment of financial assets, available on the Banco Sabadell Group website, in the Shareholder and Investor Information section, Economic-Financial Information, sub-section Annual reports..*

## 8.2.3 General credit risk information

When carrying out its activities, Banco Sabadell Group is exposed to credit risk losses; therefore, it calculates capital requirements associated with unexpected credit losses of this exposure.

**Definitions of metrics**

The metric used throughout this section with regard to exposure measurements generally refers to the net value, although in some information charts the use of different metrics has been deemed more appropriate. The terms used and their definitions are as follows:

- Original Exposure/Gross Value: this refers to the exposure to credit and dilution risk without adjustments due to impairment of assets and provisions, and without applying credit risk mitigation techniques or adjustments of off-balance sheet balances.

Although conceptually the original exposure and the gross value are the same, there are differences related to the scope, since for example in credit risk COREPs, items deducted from capital, such as financing of treasury shares or those calculated under the securitisation framework would not be included.

- Net Exposure/Net Value: refers to the exposure to credit and dilution risk, net of impairment value adjustments and provisions, and without applying credit risk mitigation techniques and adjustments of off-balance sheet balances.

The difference between these two concepts is that Net Exposure refers to amounts reported in COREP, while the Net Value refers to on-balance sheet accounting values. In this section, the term Net Value is used with the same meaning as Net Exposure, as derivatives and repos are reported in EAD. Furthermore, certain items, such as tangible assets, are reported net of allowances, with the exception of credit adjustments, whose calculations of Net Value in COREP exclude the portion that is directly deducted from capital when calculated under the standardised approach.

- Mitigated Exposure: refers to a fully adjusted value of the exposure to credit and dilution risk following the application of credit risk mitigation techniques, but without including allowances for off-balance sheet balances.
- Exposure at Default (EAD): refers to the exposure subject to own funds requirements in accordance with the CRR, i.e. the exposure in the event of default. It includes both credit risk mitigation techniques and off-balance sheet items that have been adjusted either in line with the corresponding risk weights (exposures calculated using the standardised approach) or in line with internal estimates of conversion factors (exposures calculated using the IRB approach).

The following figures show the breakdown of the exposures of Banco Sabadell Group with its various counterparties, in terms of the segment into which they are classified. It also distinguishes between the approaches used to calculate minimum own funds requirements.

Figure 18. EAD by segments.

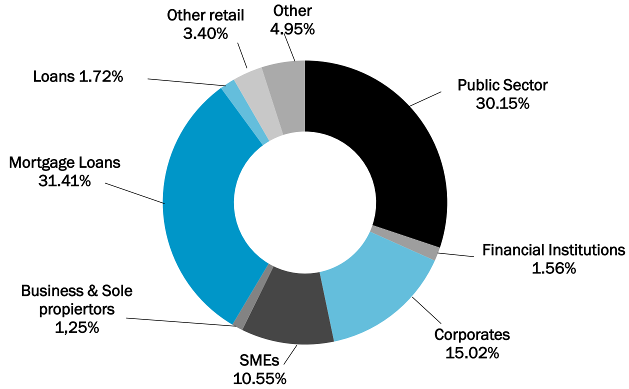



Figure 19. EAD by segments under standardised approach.

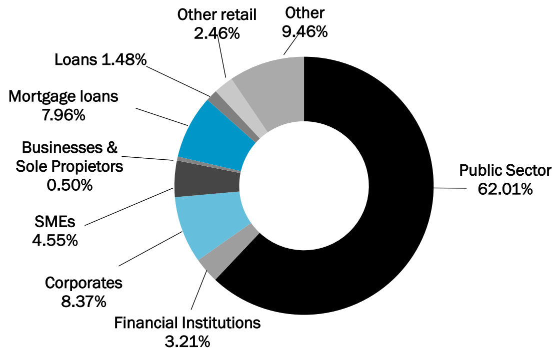
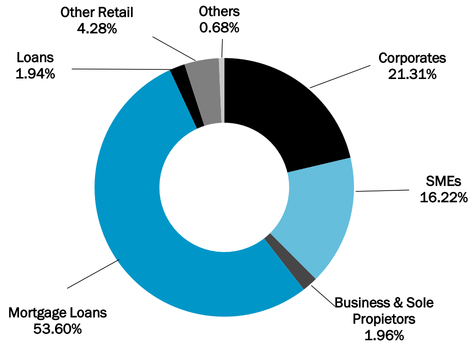



Figure 20. EAD by segments under IRB approach.




### Information on exposure breakdowns

This section includes information on credit risk and excludes counterparty credit risk. The tables below give details of Banco Sabadell Group's credit risk exposure of assets, liabilities and off-balance sheet items with the following level of breakdown:

- Geographical area.
- Activity sector.
- Residual maturity.

### Quality of exposures by geographical area

The following table shows exposures to credit risk, broken down by geographical area.

#### Table 25. Quality of non-performing exposures by geography (EU CQ4).

| | Gross carrying/nominal amount | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Of which non-performing | | Of which subject to impairment | Accumulated impairment | Provisions on off-balance-sheet commitments and financial guarantees given | Accumulated negative changes in fair value due to credit risk on non-performing exposures |
| | | Total | Of which defaulted | | | | |
| **On-balance-sheet amounts** | **234,349,824** | **5,859,506** | **5,594,325** | **234,295,522** | **-3,026,175** | | **-26** |
| Spain | 150,305,800 | 4,556,783 | 4,434,326 | 150,280,750 | -2,489,782 | | -26 |
| United Kingdom | 55,306,029 | 596,489 | 479,869 | 55,306,029 | -253,691 | | — |
| United States of America | 6,237,627 | 1,085 | 456 | 6,208,376 | -25,100 | | — |
| Mexico | 6,090,436 | 107,544 | 97,518 | 6,090,436 | -75,312 | | — |
| France | 4,104,012 | 20,317 | 18,450 | 4,104,012 | -62,329 | | — |
| Italy | 3,502,238 | 710 | 693 | 3,502,237 | -975 | | — |
| Portugal | 1,258,401 | 1,641 | 1,637 | 1,258,401 | -3,892 | | — |
| Germany | 1,071,706 | 2,387 | 2,098 | 1,071,706 | -2,196 | | — |
| Netherlands | 972,163 | 405,377 | 405,342 | 972,163 | -27,255 | | — |
| Luxembourg | 658,162 | 1,566 | 1,566 | 658,162 | -5,186 | | — |
| Other countries | 4,843,250 | 165,607 | 152,370 | 4,843,250 | -80,457 | | — |
| **Off-balance-sheet amounts** | **39,221,990** | **557,446** | **535,336** | | | **176,823** | |
| Spain | 27,044,760 | 513,207 | 509,394 | | | 143,668 | |
| United Kingdom | 7,315,633 | 32,297 | 14,043 | | | 19,364 | |
| United States of America | 808,143 | 5 | 5 | | | 3,095 | |
| Mexico | 902,766 | 1 | 1 | | | 135 | |
| France | 1,256,850 | 4,056 | 4,056 | | | 3,865 | |
| Italy | 50,027 | 9 | 9 | | | 20 | |
| Portugal | 371,654 | 1 | 1 | | | 823 | |
| Germany | 175,787 | 500 | 500 | | | 1,408 | |
| Netherlands | 94,021 | 65 | 65 | | | 175 | |
| Luxembourg | 347,131 | 1 | 1 | | | 1,005 | |
| Other countries | 855,218 | 7,304 | 7,261 | | | 3,265 | |
| **Total** | **273,571,814** | **6,416,952** | **6,129,661** | **234,295,522** | **-3,026,175** | **176,823** | **-26** |

*Data as at 31/12/2022, in thousand euro.*

## Activity sector

The breakdown of exposures to credit risk by activity sector is shown below.

### Table 26. Credit quality of loans and advances to non-financial corporations by industry (EU CQ5).

| | a | b | c | d | e | f |
|---|---|---|---|---|---|---|
| | Gross carrying amount | | | | Accumulated impairment | Accumulated negative changes in fair value due to credit risk on non-performing exposures |
| | | Of which: non-performing | | Of which loans and advances subject to impairment | | |
| | Total | Total | Of which defaulted | | | |
| 010 Agriculture, forestry and fishing | 1.076.502 | 74.183 | 74.058 | 1.076.502 | -42.865 | – |
| 020 Mining and quarrying | 369.936 | 8.900 | 8.842 | 369.936 | -7.452 | – |
| 030 Manufacturing | 9.868.505 | 502.033 | 495.311 | 9.868.505 | -256.971 | – |
| 040 Electricity, gas, steam and air conditioning supply | 4.785.320 | 103.082 | 103.082 | 4.785.320 | -86.295 | – |
| 050 Water supply | 352.310 | 6.251 | 6.202 | 352.310 | -3.257 | – |
| 060 Construction | 4.233.888 | 311.144 | 306.224 | 4.233.888 | -173.834 | – |
| 070 Wholesale and retail trade | 8.944.060 | 478.910 | 467.031 | 8.944.060 | -256.582 | – |
| 080 Transport and storage | 3.794.633 | 146.228 | 145.717 | 3.794.633 | -79.969 | – |
| 090 Accommodation and food service activities | 4.592.388 | 425.966 | 424.095 | 4.592.388 | -143.964 | – |
| 100 Information and communication | 1.836.754 | 42.152 | 41.777 | 1.836.754 | -25.602 | – |
| 110 Financial and insurance actvities | 4.595.168 | 506.150 | 506.120 | 4.595.168 | -83.165 | – |
| 120 Real estate activities | 6.779.311 | 307.082 | 297.201 | 6.779.311 | -162.317 | – |
| 130 Professional, scientific and technical activities | 2.358.265 | 188.167 | 185.196 | 2.358.265 | -95.985 | – |
| 140 Administrative and support service activities | 1.670.244 | 96.991 | 96.369 | 1.670.244 | -36.732 | – |
| 150 Public administration and defense, compulsory social security | 378.164 | 3.289 | 3.289 | 378.164 | -664 | – |
| 160 Education | 321.192 | 16.130 | 15.983 | 321.192 | -10.179 | – |
| 170 Human health services and social work activities | 937.181 | 21.008 | 20.917 | 937.181 | -12.758 | – |
| 180 Arts, entertainment and recreation | 511.259 | 78.358 | 78.126 | 511.259 | -78.890 | – |
| 190 Other services | 1.043.584 | 27.468 | 26.604 | 1.043.584 | -126.549 | – |
| 200 **Total** | **58.448.664** | **3.343.492** | **3.302.144** | **58.448.664** | **-1.684.030** | **–** |

*Data as at 31/12/2022, in thousand euro.*

## Residual maturity

The following table shows the breakdown of exposures by residual maturity tranches.

### Table 27. Maturity of exposures (EU CR1-A).

| | Net exposure value | | | | | |
|---|---|---|---|---|---|---|
| | On demand | <= 1 year | > 1 year <= 5 years | > 5 years | No stated maturity | Total |
| Loans and advances[1] | 5,376,197 | 28,444,840 | 37,921,058 | 111,372,596 | 759,269 | 183,873,961 |
| Debt securities | — | 2,177,745 | 8,023,935 | 16,849,007 | — | 27,050,688 |
| **Total** | **5,376,197** | **30,622,585** | **45,944,993** | **128,221,603** | **759,269** | **210,924,649** |

*Data as at 31/12/2022, in thousand euro.*
*The amount corresponds to the net book value (net original balance of provisions).*
*[1] Sight deposits, other assets, contingent risks and exposures subject to counterparty risk or other risks other than credit risk are excluded. On the other hand, exposures in contingent commitments are included.*

The following table presents a breakdown of non-performing and performing exposures, including provisions broken down by stage:

## Table 28. Performing and non-performing exposures and related provisions (EU CR1).

| | Gross carrying/nominal amount | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | | | Accumulated partial write-off | Collaterals and financial guarantees received | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Performing exposures | | | Non-performing exposures | | | Performing exposures - Accumulated impairment and provisions | | | Non-performing exposures - Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | | | On performing exposures | On non-performing exposures |
| | Total | of which: stage 1 | of which: stage 2 | Total | of which: stage 2 | of which: stage 3 | Total | of which: stage 1 | of which: stage 2 | Total | of which: stage 2 | of which: stage 3 | | | |
| **Cash balances at central banks and other demand deposits** | **40,570,201** | **40,570,201** | **—** | **3,693** | **—** | **3,693** | **-132** | **-132** | **—** | **—** | **—** | **—** | | **—** | **—** |
| **Loans and advances** | **160,789,974** | **147,497,005** | **13,200,829** | **5,854,592** | **363,033** | **5,460,412** | **-798,465** | **-347,269** | **-451,168** | **-2,226,028** | **-30,179** | **-2,195,218** | **—** | **110,083,782** | **3,155,532** |
| Central banks | 162,664 | 162,664 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| General governments | 10,150,643 | 10,145,935 | 4,708 | 8,630 | 499 | 8,131 | -23 | -11 | -12 | -2,245 | -306 | -1,939 | — | 48,220 | 151 |
| Credit institutions | 4,703,057 | 4,696,494 | 6,563 | 7 | — | 7 | -2,773 | -2,773 | — | -4 | — | -4 | — | 71,971 | 3 |
| Other financial corporations | 1,863,434 | 1,832,227 | 31,207 | 17,502 | 53 | 17,449 | -3,618 | -3,131 | -487 | -15,646 | -6 | -15,640 | — | 805,344 | 1,807 |
| Non-financial corporations | 55,105,172 | 48,923,280 | 6,181,892 | 3,343,492 | 238,571 | 3,104,921 | -433,996 | -222,382 | -211,614 | -1,250,034 | -21,950 | -1,228,084 | — | 28,162,339 | 1,802,648 |
| Of which: SMEs | 26,233,009 | 22,527,903 | 3,705,106 | 2,526,793 | 154,360 | 2,372,433 | -231,807 | -114,542 | -117,265 | -793,287 | -13,177 | -780,110 | — | 17,843,382 | 1,554,661 |
| Households | 88,805,004 | 81,736,405 | 6,976,459 | 2,484,961 | 123,910 | 2,329,904 | -358,055 | -118,972 | -239,055 | -958,099 | -7,917 | -949,551 | — | 80,995,908 | 1,350,923 |
| **Debt Securities**[(1)] | **27,130,143** | **27,076,807** | **202** | **1,221** | **—** | **53** | **-1,521** | **-1,319** | **-202** | **-55** | **—** | **-29** | — | **—** | **—** |
| Central banks | — | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| General governments | 25,533,808 | 25,521,957 | — | — | — | — | -107 | -107 | — | — | — | — | — | — | — |
| Credit institutions | 1,178,485 | 1,178,485 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| Other financial corporations | 213,258 | 180,844 | — | — | — | — | -536 | -536 | — | — | — | — | — | — | — |
| Non-financial corporations | 204,592 | 195,521 | 202 | 1,221 | — | 53 | -878 | -676 | -202 | -55 | — | -29 | — | — | — |
| **Off-balance sheet amounts** | **38,664,544** | **36,750,953** | **1,889,721** | **557,446** | **167,056** | **390,327** | **72,872** | **50,496** | **22,376** | **103,951** | **7,508** | **96,380** | | **—** | **—** |
| Central banks | — | — | — | — | — | — | — | — | — | — | — | — | | — | — |
| General governments | 1,054,053 | 1,054,051 | 2 | 352 | — | 352 | 0 | 0 | — | 341 | — | 341 | | — | — |
| Credit institutions | 3,345,869 | 3,344,759 | 1,110 | 1,939 | 29 | 1,910 | 605 | 501 | 104 | 1,280 | — | 1,280 | | — | — |
| Other financial corporations | 270,616 | 264,075 | 6,541 | 16 | 10 | 6 | 502 | 467 | 35 | 2 | 2 | — | | — | — |
| Non-financial corporations | 23,504,402 | 22,319,688 | 1,184,714 | 502,029 | 162,758 | 339,271 | 50,746 | 38,745 | 12,001 | 98,902 | 7,269 | 91,633 | | — | — |
| Households | 10,489,604 | 9,768,380 | 697,354 | 53,110 | 4,259 | 48,788 | 21,019 | 10,783 | 10,236 | 3,426 | 237 | 3,126 | | — | — |
| **Total** | **267,154,862** | **251,894,966** | **15,090,752** | **6,416,952** | **530,089** | **5,854,485** | **-872,990** | **-399,216** | **-473,746** | **-2,330,034** | **-37,687** | **-2,291,627** | **—** | **110,083,782** | **3,155,532** |

*Data as at 31/12/2022, in thousand euro.*

*Assets purchased or originated credit-impaired (POCI) are not included in the classification of amounts by stages.*

*(1) In the case of debt instruments, non-defaulted exposures and non-performing exposures do not add up to the total due to the non-inclusion in the FINREP template of the corresponding breakdown by stages.*

The following table shows a breakdown of forborne exposures, based on their accounting classification.

**Table 29. Credit quality of forborne exposures (EU CQ1).**

| | Gross carrying amount/ Nominal amount of exposures with forbearance measures | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | Collaterals received and financial guarantees received on forborne exposures | |
|---|---|---|---|---|---|---|---|---|
| | Performing forborne | Non-performing forborne | | | On performing forborne exposures | On non-performing forborne exposures | Total | Of which: Collateral and financial guarantees received on non-performing exposures with forbearance measures |
| | | Total | Of which defaulted | Of which impaired | | | | |
| Cash balances at central banks and other demand deposits | — | — | — | — | — | — | — | — |
| Loans and advances | 2,709,507 | 2,884,130 | 2,677,350 | 2,670,466 | -92,033 | -989,610 | 3,712,876 | 1,691,117 |
| Central banks | — | — | — | — | — | — | — | — |
| General governments | 876 | 7,339 | 7,339 | 7,038 | — | -1,049 | 100 | 100 |
| Credit institutions | — | — | — | — | — | — | — | — |
| Other financial corporations | 9,243 | 16,578 | 16,578 | 16,564 | -127 | -15,119 | 9,759 | 1,460 |
| Non-financial corporations | 1,933,149 | 1,685,068 | 1,591,337 | 1,517,635 | -57,933 | -634,753 | 2,269,678 | 922,099 |
| Households | 766,239 | 1,175,145 | 1,062,096 | 1,129,229 | -33,973 | -338,689 | 1,433,339 | 767,458 |
| Debt securities | — | — | — | — | — | — | — | — |
| Loan commitments given | 136,343 | 47,103 | 34,775 | 42,483 | 4,253 | 4,168 | — | — |
| **Total** | **2,845,850** | **2,931,233** | **2,712,125** | **2,712,949** | **-96,286** | **-993,778** | **3,712,876** | **1,691,117** |

*Data as at 31/12/2022, in thousand euro.*

The following table shows a breakdown of credit risk exposures, based on their accounting classification and the number of days elapsed since maturity.

## Table 30. Credit quality of performing and non-performing exposures by past due days (EU CQ3).

| | Gross carrying/nominal amount | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Performing exposures | | | Non-performing exposures | | | | | | | | |
| | Total | Not past due or past due ≤ 30 days | Past due > 30 days ≤ 90 days | Total | Unlikely to pay that are not past due or are past due ≤ 90 days | Past due > 90 days ≤ 180 days | Past due > 180 days ≤ 1 year | Past due > 1 year ≤ 2 years | Past due > 2 years ≤ 5 years | Past due > 5 years ≤ 7 years | Past due > 7 years | Of which defaulted |
| **Cash balances at central banks and other demand deposits** | **40,570,201** | **40,570,201** | **—** | **3,693** | **3,693** | **—** | **—** | **—** | **—** | **—** | **—** | **654** |
| **Loans and advances** | **160,789,974** | **160,450,383** | **339,591** | **5,854,592** | **3,474,317** | **404,385** | **461,911** | **505,185** | **597,147** | **62,689** | **348,958** | **5,593,618** |
| Central banks | 162,664 | 162,664 | – | – | – | – | – | – | – | – | – | – |
| General governments | 10,150,643 | 10,150,518 | 125 | 8,630 | 7,538 | – | - | 0 | 1,092 | – | – | 8,538 |
| Credit institutions | 4,703,057 | 4,702,826 | 231 | 7 | 7 | – | – | – | – | – | – | 7 |
| Other financial corporations | 1,863,434 | 1,863,308 | 126 | 17,502 | 3,468 | 188 | 51 | 299 | 13,453 | – | 43 | 17,362 |
| Non-financial corporations | 55,105,172 | 55,015,616 | 89,556 | 3,343,492 | 2,282,381 | 177,050 | 243,096 | 253,747 | 264,229 | 30,274 | 92,715 | 3,302,144 |
| Of which SMEs | 26,233,009 | 26,154,308 | 78,701 | 2,526,793 | 1,651,700 | 146,897 | 203,628 | 224,430 | 198,066 | 27,982 | 74,090 | 2,499,691 |
| Households | 88,805,004 | 88,555,451 | 249,553 | 2,484,961 | 1,180,923 | 227,147 | 218,764 | 251,139 | 318,373 | 32,415 | 256,200 | 2,265,567 |
| **Debt securities** | **27,130,143** | **27,130,143** | **—** | **1,221** | **1,221** | **—** | **—** | **—** | **—** | **—** | **—** | **53** |
| Central banks | – | – | – | – | – | – | – | – | – | – | – | – |
| General governments | 25,533,808 | 25,533,808 | – | – | – | – | – | – | – | – | – | – |
| Credit institutions | 1,178,485 | 1,178,485 | – | – | – | – | – | – | – | – | – | – |
| Other financial corporations | 213,258 | 213,258 | – | – | – | – | – | – | – | – | – | – |
| Non-financial corporations | 204,592 | 204,592 | – | 1,221 | 1,221 | – | – | – | – | – | – | 53 |
| **Off-balance sheet amounts** | **38,664,544** | | | **557,446** | | | | | | | | **535,336** |
| Central banks | – | | | – | | | | | | | | – |
| General governments | 1,054,053 | | | 352 | | | | | | | | 352 |
| Credit institutions | 3,345,869 | | | 1,939 | | | | | | | | 1,939 |
| Other financial corporations | 270,616 | | | 16 | | | | | | | | 14 |
| Non-financial corporations | 23,504,402 | | | 502,029 | | | | | | | | 500,320 |
| Households | 10,489,604 | | | 53,110 | | | | | | | | 32,711 |
| **Total** | **267,154,862** | **228,150,727** | **339,591** | **6,416,952** | **3,479,231** | **404,385** | **461,911** | **505,185** | **597,147** | **62,689** | **348,958** | **6,129,661** |

*Data as at 31/12/2022, in thousand euro.*

The following table shows the collateral obtained by taking possession and execution processes.

**Table 31. Collateral obtained by taking possession and execution processes (EU CQ7).**

| | Collateral obtained by taking possession | |
|---|---|---|
| | Value at initial recognition | Accumulated negative changes |
| Property, plant and equipment (PP&E) | — | — |
| Other than PP&E | 1,489,709 | -559,356 |
| Residential immovable property | 1,035,727 | -355,322 |
| Commercial Immovable property | 449,464 | -204,034 |
| Movable property (auto, shipping, etc.) | 4,518 | — |
| Equity and debt instruments | — | — |
| Other collateral | — | — |
| **Total** | **1,489,709** | **-559,356** |

*Data as at 31/12/2022, in thousand euro.*

*Considers the total foreclosed assets, including those that have already been sold but are pending transfer.*

### Information about loans with moratoria and ICO guarantees

The following table shows general information on the loans and advances subject to moratoria at the Banco Sabadell Group level, in accordance with the EBA/GL/2020/02 Guidelines.

## Table 32. Information on loans and advances subject to legislative and non-legislative moratoria (EU COVID-19 1).

| | Gross carrying amount | | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk | | | | | | | Gross carrying amount |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Performing | | | Non performing | | | | Performing | | | Non performing | | | |
| | Total | Total | Of which: exposures with forbearance measures | Of which: Instruments with significant increase in credit risk since initial recognition but not credit impaired (Stage 2) | Total | Of which: exposures with forbearance measures | Of which: Unlikely to pay that are not past-due or past-due ≤ 90 days | Total | Total | Of which: exposures with forbearance measures | Of which: Instruments with significant increase in credit risk since initial recognition but not credit impaired (Stage 2) | Total | Of which: exposures with forbearance measures | Of which: Unlikely to pay that are not past-due or past-due ≤ 90 days | Inflows to non-performing exposures |
| Loans and advances subject to moratorium | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| of which: Households | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| of which: Collateralised by residential immovable property | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| of which: Non-financial corporations | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| of which: Small and Medium-sized Enterprises | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| of which: Collateralised by commercial immovable property | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |

*Data as at 31/12/2022, in thousand euro.*

There is no balance of loans and advances subject to legislative and non-legislative moratoria, as all moratoria in both Banco Sabadell Spain and TSB expired during the period. In general, it is observed a good performance after the resumption of payments.

The following table shows the volume of loans and advances subject to legislative and non-legislative moratoria broken down by their residual maturity.

**Table 33. Breakdown of loans and advances subject to legislative and non-legislative moratoria by the residual maturity of the moratoria (EU COVID-19 2).**

| | Number of obligors | Gross carrying amount | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Total | Of which: legislative moratoria | Of which: expired | Residual maturity of moratoria | | | | |
| | | | | | ≤ 3 months | > 3 months ≤ 6 months | > 6 months ≤ 9 months | > 9 months ≤ 12 months | > 1 year |
| Loans and advances for which moratorium was offered | 118,806 | 6,795,434 | | | | | | | |
| Loans and advances subject to moratorium (granted) | 118,800 | 6,794,789 | 4,374,169 | 6,794,789 | – | – | – | – | – |
| of which: Households | | 6,457,307 | 4,050,901 | 6,457,307 | – | – | – | – | – |
| of which: Collateralised by residential immovable property | | 6,073,476 | 3,947,439 | 6,073,476 | – | – | – | – | – |
| of which: Non-financial corporations | | 337,217 | 323,004 | 337,217 | – | – | – | – | – |
| of which: Small and Medium-sized Enterprises | | 307,376 | 293,172 | 307,376 | – | – | – | – | – |
| of which: Collateralised by commercial immovable property | | 282,878 | 271,431 | 282,878 | – | – | – | – | – |

*Data as at 31/12/2022, in thousand euro.*

In terms of residual maturity, 100% of the moratoria granted at the end of the 2022 financial year have expired.

The following template contains information on those new loans and advances that are subject to new guarantee schemes due to COVID-19:

**Table 34. Information on new loans and advances subject to State guarantee schemes introduced in response to the COVID-19 crisis (EU COVID-19 3).**

| | Gross carrying amount | | Maximum amount of the guarantee that can be considered | Gross carrying amount |
|---|---|---|---|---|
| | Total | of which: forborne | Public guarantees received | Inflows to nonperforming exposures |
| Newly originated loans and advances subject to public guarantee schemes | 7,824,731 | 783,440 | 5,978,744 | 88,279 |
| of which: Households | 830,511 | | | 8,919 |
| of which: Collateralised by residential immovable property | — | | | — |
| of which: Non-financial corporations | 6,991,468 | 740,600 | 5,320,481 | 79,312 |
| of which: Small and Medium-sized Enterprises | 5,341,435 | | | 60,950 |
| of which: Collateralised by commercial immovable property | 26,901 | | | 503 |

*Data as at 31/12/2022, in thousand euro.*

Loans and advances subject to public guarantee schemes declined over the year by 1,538 million euros (from 9,363 million euros as at 2021 year-end to 7,825 million euros as at 2022 year-end), mainly due to the discontinuation of new ICO lines in Spain and the repayment of existing loans in both Spain and TSB.

## 8.3 Standardised approach

Banco Sabadell Group has been authorised to calculate own funds requirements by means of the AIRB (Advanced Internal Ratings-Based) approach for a significant portion of its credit risk exposures. However, the Group uses the standardised approach in the portfolios of subsidiaries except TSB, in the “Other assets” segment, which includes, among others, Real Estate, DTAs and Other tangible assets, and lastly, in the "Sovereigns" and “Financial Institutions” segments, for which authorisation was received from the Supervisor in September 2022 to calculate these using this method on a permanent basis. Additionally, this same approach is used to calculate the exposures arising from the various entities that were acquired and that did not have authorisation to use IRB models and which are currently in the roll-out phase from the standardised approach to the IRB approach; supervisory approval to calculate these exposures under the IRB approach is expected to be received in 2023.

The information below relates to the main criteria on which Banco Sabadell Group bases its use of the standardised approach, as well as the levels of exposure that are treated using this approach for solvency purposes.

### 8.3.1 Nominated external credit assessment institutions and export credit agencies and reasons for any changes made in relation to these ECAIs and ECAs

Banco Sabadell Group uses assessments from external credit assessment institutions (ECAIs) designed to be eligible by the EBA (European Banking Authority) in order to determine risk weights applicable to the calculation of capital requirements.

The ECAIs used in the external credit assessment process by virtue of the agreements signed with each of them are:

- Standard & Poor’s.
- Moody’s.
- Fitch.
- DBRS.

The association of the external rating of each ECAI with the credit quality steps complies with the standard association of the EBA.

The process to determine applicable risk weights based on ECAI assessments acknowledged by the Group is governed by the criteria expressed in Article 138 of the CRR. Therefore:

- In the event that only one credit assessment from an ECAI is available, this shall be used to determine the applicable RW (risk weight).
- In the event that two credit assessments are available, and where these have produced different RWs, the most conservative one shall be assigned.
- For exposures where more than two credit assessments are available, the better of the two most conservative assessments shall be assigned.

It should be noted that Banco Sabadell Group does not use assessments of any export credit agency.

### 8.3.2 Exposure classes for which assessments of each ECAI or ECA are used

Banco Sabadell Group uses assessments from nominated ECAIs for exposure classes in which borrowers have generally received a credit assessment by such institutions. In essence, the exposure classes in which the Group uses assessments from external agencies correspond to:

- Central governments and central banks.
- Regional governments and local authorities.
- Public sector entities and other public non-profit organisations.
- Multilateral development banks.
- Institutions.
- Corporates.
- Covered bonds.
- Securitisation positions.
- Exposures to institutions and corporates with a short-term credit assessment.
- Exposures to collective investment undertakings (CIUs).

There is no usage criterion for the assessments of each ECAI on the basis of certain exposure classes.

In terms of the Corporates category, most of the exposure is treated under the AIRB approach. However, for a small proportion of this exposure (mainly exceptions to the rating established by internal rating models), the calculation of solvency requirements is carried out under the standardised approach, using ECAI assessments in cases in which they have rated the borrower.

### 8.3.3 Process used to transfer credit assessments of public issuances of securities onto comparable assets not included in the trading book

Banco Sabadell Group does not currently transfer credit assessments of public issuances of securities onto comparable non-trading book assets for exposures treated under the standardised approach.

### 8.3.4 Exposure to credit risk and credit risk mitigation effects

The table below shows a breakdown of the impact of the application of Credit Conversion Factors (CCF) on exposures, as well as credit risk mitigation techniques. The table also shows RWAs and the RWA density for each exposure class under the standardised approach (including the application of the SME supporting factor, if applicable).

It is important to note that, in accordance with the specifications of the CRR, the risk mitigation for exposures treated using the standardised approach materialises in the application of the most favourable risk weights, which are determined based on the credit quality of the guarantors. This explains why the “mitigated exposure” contains values lower than those in the “net exposure” in nearly every exposure class, except in those corresponding to mitigating guarantees, given that a transfer occurs from the mitigated exposure class to the guarantor category.

Of particular relevance is the increase in the mitigated exposure in respect of the net exposure within the “Central governments and central banks” class, as these are the counterparties most commonly used in the risk mitigation process, as they benefit from lower risk weights.

**Table 35. Standardised approach – Credit risk exposure and CRM effects (EU CR4).**

| | Exposures before CCF and before CRM | | Exposures post CCF and post CRM | | RWAs and RWAs density | |
|---|---|---|---|---|---|---|
| Exposure classes | On-balance sheet amounts | Off-balance sheet amounts | On-balance sheet amounts | Off-balance-sheet exposures | RWAs | RWAs density (%) |
| Central governments or central banks | 65,854,930 | 99 | 73,477,224 | 440,148 | 169,768 | 0.23% |
| Regional government or local authorities | 8,622,187 | 604,452 | 8,622,187 | 198,297 | 52 | — |
| Public sector entities | 1,648,216 | 888,741 | 1,717,519 | 340,261 | 383,226 | 18.62% |
| Multilateral development banks | 399,309 | 9,378 | 761,595 | 5,683.32 | 328.671 | 0.04% |
| International organisations | 293,636 | — | 293,636 | — | — | — |
| Institutions[1] | 1,417,009 | 626,785 | 1,422,349 | 231,319 | 780,873 | 47.22% |
| Corporates | 6,686,824 | 1,782,719 | 5,310,247 | 412,903 | 5,036,213 | 88.00% |
| Retail | 3,436,768 | 625,672 | 2,283,631 | 64,642 | 1,709,518 | 72.80% |
| Secured by mortgages on immovable property | 13,171,575 | 1,446,171 | 13,165,139 | 355,398 | 5,420,378 | 40.09% |
| Exposures in default | 772,906 | 48,151 | 708,592 | 4,350 | 746,781 | 104.75% |
| Exposures associated with particularly high risk | 401,773 | 139,774 | 401,552 | 47,975 | 674,290 | 150.00% |
| Covered bonds | — | — | — | — | — | — |
| Institutions and corporates with a short-term credit assessment | — | — | — | — | — | — |
| Collective investment undertakings[2] | 2,636 | — | 2,636 | — | 24,708 | 937.36% |
| Equity exposures | — | — | — | — | — | — |
| Other items[3] | 12,140,264 | 153,486 | 13,294,572 | 127,308 | 11,788,634 | 87.83% |
| **Total** | **114,848,033** | **6,325,427** | **121,460,877** | **2,228,282** | **26,734,769** | **21.61%** |

*Data as at 31/12/2022, in thousand euro.*

*(1) Authorization has been received from the supervisor to calculate exposures to Institutions under the standardised approach on a permanent basis.*

*(2) The density corresponding to collective investment schemes includes the weighted exposures according to the Fall Back method (RW of 1,250%).*

*(3) Includes the subsidiaries' portfolios, with the exception of TSB and the "Other assets" segment, which includes, among others, Real Estate, DTAs and Other tangible assets.*

## 8.3.5 Value of exposure after the application (where applicable) of credit risk mitigation techniques for each credit quality step

The following table shows a breakdown by risk weight of the fully adjusted value of the exposure following the application of credit risk mitigation techniques and CCFs for each exposure class in which the Institution has exposures under the standardised approach.

### Table 36. Standardised approach (EU CR5).

| | Risk weight | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Exposure class** | **0%** | **2%** | **4%** | **10%** | **20%** | **35%** | **50%** | **70%** | **75%** | **100%** | **150%** | **250%** | **370%** | **1250%** | **Others** | **Total** | **Of which unrated** |
| Central governments or central banks | 73,615,911 | – | – | 77,352 | 0 | – | 176,333 | – | – | 25,997 | 6,578 | 15,201 | – | – | – | 73,917,372 | 1,082,181 |
| Regional government or local authorities | 8,820,245 | – | – | – | 233 | – | – | – | – | 5 | – | – | – | – | – | 8,820,483 | – |
| Public sector entities | 1,248,978 | – | – | 1,036 | 69,201 | – | 738,564 | – | – | – | – | – | – | – | – | 2,057,779 | – |
| Multilateral development banks | 765,635 | – | – | – | 1,643 | – | – | – | – | – | – | – | – | – | – | 767,278 | 740 |
| International organisations | 293,636 | – | – | – | – | – | – | – | – | – | – | – | – | – | – | 293,636 | – |
| Institutions | – | – | – | – | 929,708 | – | 461,291 | – | – | 59,433 | 203,235 | – | – | – | – | 1,653,667 | 646,177 |
| Corporates | – | – | – | – | 502,461 | – | 104,230 | – | – | 5,057,387 | 59,073 | – | – | – | – | 5,723,150 | 5,225,904 |
| Retail | – | – | – | – | – | – | – | – | 2,348,273 | – | – | – | – | – | – | 2,348,273 | – |
| Exposures secured by mortgages on immovable property | – | – | – | – | – | 10,234,842 | 2,294,140 | – | 841,103 | 150,452 | – | – | – | – | – | 13,520,536 | – |
| Exposures in default | – | – | – | – | – | – | – | – | – | 645,265 | 67,678 | – | – | – | – | 712,942 | 68,108 |
| Exposures associated with particularly high risk | – | – | – | – | – | – | – | – | – | – | 449,527 | – | – | – | – | 449,527 | 237,655 |
| Covered bonds | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Exposures to institutions and corporates with a short-term credit assessment | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Units or shares in collective investment undertakings | 659 | – | – | – | – | – | – | – | – | – | – | – | – | 1,977 | – | 2,636 | – |
| Equity exposures | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Other items | 3,035,556 | – | – | – | 70,968 | – | – | – | – | 9,342,055 | 868 | 972,434 | – | – | – | 13,421,880 | – |
| **Total** | **87,780,620** | **–** | **–** | **78,388** | **1,574,214** | **10,234,842** | **3,774,558** | **–** | **3,189,376** | **15,280,592** | **786,958** | **987,635** | **–** | **1,977** | **–** | **123,689,159** | **7,260,766** |

*Data as at 31/12/2022, in thousand euro.*

## 8.4 Internal ratings based (IRB) approach

### 8.4.1 Internal models of Banco Sabadell Group

Banco Sabadell Group has extensive experience in using internal models to assess and monitor the credit risk of its most representative portfolios. To this end, it has been continuously developing and perfecting its rating and scoring tools and internal estimates of risk parameters (PD, LGD and EAD). The initial IRB (Internal Rating Based) authorisation for Banco Sabadell to calculate own funds requirements for credit risk was granted in 2008 and has been in force ever since.

TSB also has IRB models authorised for the calculation of requirements at an individual level by the PRA (Prudential Regulation Authority) for all its significant portfolios, and at a consolidated level by the ECB (European Central Bank) for its secured portfolio. It is in the process of getting authorisation for its unsecured portfolio, although until it is received, authorisation has been granted to use individual models at the consolidated level, by including an add-on for additional requirements.

In accordance with the review process of internal models used to calculate requirements launched by the EBA in 2016 (i.e. IRB repair programme), banks are required to revise their PD, LGD and EAD estimates in line with the new definition of default, the EBA's guidelines and RTS, and the ECB's expectations expressed in the ECB Guide to Internal Models according to a previously defined plan (i.e. return-to-compliance plan). The Group completed the developments related to that plan in 2021 and 2022 and has finalize it execution in March 2023, pending review and authorization for implementation by the ECB. Within the framework of the IRB repair program, the Group has carried out the following actions during 2022:

- Implementation of new models for the rating system of Corporates, RE Developers and Holdings.
- Implementation of the new definition of default in TSB's mortgage book.

In addition, the Group devised a medium-term strategic plan in order to simplify the map of IRB models and ensure that the models are aligned with the Bank's business strategy. In accordance with that plan, the following changes were implemented during 2022:

- New project finance model (slotting criteria) aligned with the specifications of Standard EBA/RTS/2016/02.
- Reversion to the permanent partial use of the standardised approach for the financial institutions segment.
- Reversion to the Foundation IRB approach for the rating system of Corporates & Groups and the business customers of foreign branches.

**Calculation of credit risk-weighted exposure amounts for credit risk under IRB approach**

The following table summarises the situation of the portfolios authorised by the supervisor to calculate own funds requirements using the internal ratings-based (IRB) approach:

**Table 37. Breakdown of portfolios for which authorisation has been obtained from the supervisor to use or progressively apply the internal ratings-based (IRB) approach.**

| Entity | Regulatory exposure portfolio | Internal portfolio | Internal estimates used | Internal ratings based approach (IRB) | Date of authorisation for use of IRB models(1) |
|---|---|---|---|---|---|
| BS | Corporates | Enterprises, RE Developers and Holdings | PD LGD CCF | Advanced IRB | Authorised on 06/2008 |
| BS | Corporates | Corporates and groups | PD | Foundation IRB | Authorised on 06/2008 |
| BS | Retail | Mortgage Scoring | PD LGD | Advanced IRB | Authorised on 06/2008 |
| BS | Retail | Consumer Loans Scoring | PD LGD | Advanced IRB | Authorised on 06/2008 |
| BS | Retail | Performance Scoring of Credit Cards | PD LGD CCF | Advanced IRB | Authorised on 12/2011 |
| BS | Retail | Businesses and Sole Proprietors | PD LGD CCF | Advanced IRB | Authorised on 12/2010 |
| BS | Retail | Project Finance | Slotting criteria | Supervisory Slotting Criteria | Authorised on 12/2009 |
| TSB | Retail | Mortgage Scoring | PD LGD CCF | Advanced IRB | Authorised on 12/2020 |
| TSB | Retail | Consumer Loans Scoring | PD LGD CCF | Advanced IRB | Authorised on 10/2014 (PRA) |
| TSB | Retail | Current Accounts and Credit Cards Scoring | PD LGD CCF | Advanced IRB | Authorised on 06/2015 (PRA) |

*Data of models approved by the supervisor, as at 31/12/2022.*

*(1) The date of authorisation refers to the date on which the supervisor authorised the use of IRB models for each specific portfolio.*

As it can be seen, Banco Sabadell has been authorised to apply the internal models developed for the following rating systems:

- Mortgage loans and consumer loans granted to individuals, applying in-house estimates of PD and LGD (Advanced IRB).
- Cards and credit granted to individuals, applying in-house estimates of PD, LGD and CCF (Advanced IRB).
- Businesses and Sole Proprietors, applying in-house estimates of PD, LGD and CCF (Advanced IRB).
- Corporates (micro-enterprises, SMEs), Real Estate Developers and Holdings, applying in-house estimates of PD, LGD and CCF (Advanced IRB).
- Large Corporations and Groups, applying in-house estimates of PD and other parameters provided by the regulator (Foundation IRB).

The Individuals category includes the reactive scores used at the time of approving transactions with a mortgage guarantee and consumer loans, and the behavioural scores, which evaluate, on a monthly basis, card transactions, credit facilities, mortgage loans and consumer loans that have been on the balance sheet for 6 months or longer. The Corporates, Large Corporations and Groups category includes rating models. Such ratings have been determined on the basis of their turnover, the sector in which they operate (developers, industry and services), the type of borrower (Holdings, Groups), their inclusion in a consolidated group and their level of engagement with the Bank. Similarly, there are ratings for the Businesses and Sole Proprietors, Project Finance and Financial Institutions categories (STA since 2022).

In addition to models from which estimates are obtained regarding the Probability of Default (PD), Banco Sabadell Group makes its own estimates of loss parameters in case of default (LGD – Loss Given Default) and Credit Conversion Factors (CCF).

Thus, having obtained the supervisory authorisation for the regulatory use of PD, LGD and CCF parameters, Banco Sabadell Group applies the AIRB (Advanced Internal Ratings-Based) approach to calculate its own funds requirements, with the exception of the rating system for Corporates and Groups, for which it applies FIRB (Foundation Internal Ratings-Based Approach), and Project Finance, for which it applies the Slotting Criteria.

The portfolios for which Banco Sabadell Group has been granted authorisation to use the IRB approach (Foundation or Advanced) to calculate own funds requirements for solvency purposes (from 1 January 2008) represent 49% of the total credit risk exposures of the Group (calculated based on the figures shown in table EU CR6.A).

The following table shows the number of internal rating models for the various portfolios, broken down by regulatory exposure class and calculation approach.

### Table 38. Model structure for calculating IRB parameters in different portfolios.

| Internal rating approach | Portfolio | Models with PD estimates | Models with LGD estimates | Models with CCF estimates |
|---|---|---|---|---|
| Advanced IRB | Enterprises, RE Developers and Holdings | 4 | 12 | 4 |
| Foundation IRB | Corporates and Groups | 4 | — | — |
| Advanced IRB | Retail and freelance. Of which: | 31 | 24 | 6 |
| Advanced IRB | Retail | 9 | 9 | 1 |
| Advanced IRB | Non-mortgage | 22 | 15 | 5 |
| Supervisory Slotting Criteria | Financial institutions | — | — | — |
| Ratings Based Method | Project Finance | — | — | — |
| Simple Risk-Weight Approach | Equities | — | — | — |
| **Total Models** | | **39** | **36** | **10** |

*Data of models approved by the supervisor, as at 31/12/2022.*

## Table 39. Summary by approach.

| Exposure Class | Approach | EAD | EAD | | | | RWA | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | IRB | % IRB | STDA | | RWA | IRB | % IRB | STDA |
| | | | | | STDA | Roll-out | | | | |
| **Banco Sabadell** | | | | | | | | | | |
| **Retail** | | | | | | | | | | |
| Mortgages | AIRB | 38,758,561 | 28,801,486 | 74.31% | 138,362 | 9,818,713 | 7,461,429 | 3,399,657 | 45.56% | 4,061,772 |
| Consumer loans | AIRB | 1,124,090 | 1,090,499 | 97.01% | 33,591 | – | 608,831 | 588,076 | 96.59% | 20,756 |
| Credit cards | AIRB | 1,793,384 | 1,718,952 | 95.85% | 74,431 | – | 238,995 | 182,226 | 76.25% | 56,769 |
| Credit facilities | AIRB | 398,477 | 309,316 | 77.62% | 89,161 | – | 152,760 | 93,581 | 61.26% | 59,180 |
| **Retail Total** | | **42,074,512** | **31,920,254** | **75.87%** | **335,546** | **9,818,713** | **8,462,016** | **4,263,539** | **50.38%** | **4,198,476** |
| **Corporates** | | | | | | | | | | |
| Retailers and sole proprietors | AIRB | 3,222,088 | 2,596,327 | 80.58% | 625,761 | – | 1,023,706 | 965,448 | 94.31% | 58,259 |
| SMEs | AIRB | 20,675,387 | 15,593,673 | 75.42% | 5,081,714 | – | 6,313,726 | 6,183,037 | 97.93% | 130,689 |
| Corporates | AIRB | 8,709,312 | 6,824,341 | 78.36% | 1,884,970 | – | 3,952,373 | 3,281,621 | 83.03% | 670,752 |
| Holdings | AIRB | 5,850,436 | 5,554,240 | 94.94% | 296,196 | – | 2,217,045 | 2,145,667 | 96.78% | 71,378 |
| Corporations | FIRB | 10,661,488 | 10,171,848 | 95.41% | 489,640 | – | 4,835,682 | 4,717,042 | 97.55% | 118,641 |
| Groups | FIRB | 5,023,417 | 4,592,930 | 91.43% | 430,486 | – | 1,830,355 | 1,769,482 | 96.67% | 60,873 |
| Real estate developers | AIRB | 1,744,186 | 1,702,565 | 97.61% | 41,621 | – | 1,070,982 | 1,065,604 | 99.50% | 5,378 |
| **Corporates Total** | | **55,886,314** | **47,035,924** | **84.16%** | **8,850,389** | **–** | **21,243,870** | **20,127,901** | **94.75%** | **1,115,969** |
| Project Finance | Slotting criteria | 5,183,397 | 5,183,397 | 100.00% | – | – | 4,048,658 | 4,048,658 | 100.00% | – |
| Equities | Simple Approach | 892,911 | 892,911 | 100.00% | – | – | 1,924,932 | 1,924,932 | 100.00% | – |
| **Other Total** | | **6,076,308** | **6,076,308** | **100.00%** | **–** | **–** | **5,973,590** | **5,973,590** | **100.00%** | **–** |
| **Sabadell Total** | | **104,037,134** | **85,032,486** | **81.73%** | **9,185,934** | **9,818,713** | **35,679,476** | **30,365,031** | **85.11%** | **5,314,445** |
| **TSB** | | | | | | | | | | |
| Mortgages | AIRB | 42,055,520 | 42,055,520 | 100.00% | – | – | 6,225,672 | 6,225,672 | 100.00% | – |
| Consumer loans | AIRB | 1,478,973 | 1,478,973 | 100.00% | – | – | 1,755,839 | 1,755,839 | 100.00% | – |
| Credit cards | AIRB | 1,598,033 | 1,598,033 | 100.00% | – | – | 795,928 | 795,928 | 100.00% | – |
| Overdrafts | AIRB | 2,030,174 | 2,030,174 | 100.00% | – | – | 566,138 | 566,138 | 100.00% | – |
| **Total TSB** | | **47,162,700** | **47,162,700** | 100.00% | **–** | **–** | 9,343,577 | **9,343,577** | 100.00% | **–** |
| **IRB Total** | | **151,199,834** | **132,195,186** | **87.43%** | **9,185,934** | **9,818,713** | **45,023,053** | **39,708,608** | **88.20%** | **5,314,445** |

| Exposure Class | Approach | EAD | EAD | | | | RWA | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | IRB | % IRB | STDA | | RWA | IRB | % IRB | STDA |
| | | | | | STDA | Roll-out | | | | |
| **Banco Sabadell** | | | | | | | | | | |
| Other Retail | STDA | 1,024,182 | – | – | 1,024,182 | – | 246,431 | – | – | 246,431 |
| Project Finance (Real Estate + Object) | PPU | 3,064,998 | – | – | 3,064,998 | – | 848,528 | – | – | 848,528 |
| Retail Ofex | STDA | 1,337,218 | – | – | 1,337,218 | – | 606,840 | – | – | 606,840 |
| Non-customers non-recourse factoring | PPU | 397,022 | – | – | 397,022 | – | 272,000 | – | – | 272,000 |
| Object Finance | PPU | 247,998 | – | – | 247,998 | – | 218,335 | – | – | 218,335 |
| Public institutions | PPU | 9,261,801 | – | – | 9,261,801 | – | 199,926 | – | – | 199,926 |
| Sovereigns | PPU | 57,560,225 | – | – | 57,560,225 | – | 217,976 | – | – | 217,976 |
| Other institutions | STDA | 614,140 | – | – | 614,140 | – | 361,715 | – | – | 361,715 |
| Other assets - ATD | STDA | 6,120,954 | – | – | 6,120,954 | – | 7,808,572 | – | – | 7,808,572 |
| Other assets | STDA | 3,364,521 | – | – | 3,364,521 | – | 2,337,631 | – | – | 2,337,631 |
| Real Estate | STDA | 1,573,276 | – | – | 1,573,276 | – | 1,113,634 | – | – | 1,113,634 |
| Participations in CII | STDA | 2,312 | – | – | 2,312 | – | 24,708 | – | – | 24,708 |
| **Total Sabadell** | | **84,568,647** | **–** | **–** | **84,568,647** | **–** | **14,256,296** | **–** | **–** | **14,256,296** |
| **TSB** | | | | | | | | | | |
| Sovereigns | PPU | 8,635,545 | – | – | 8,635,545 | – | 38,003 | – | – | 38,003 |
| Multilateral Organisations | PPU | 212,070 | – | – | 212,070 | – | – | – | – | – |
| Financial institutions | PPU | 887,435 | – | – | 887,435 | – | 239,501 | – | – | 239,501 |
| Corporates | PPU | 3,964 | – | – | 3,964 | – | 3,964 | – | – | 3,964 |
| SMEs | PPU | 211,628 | – | – | 211,628 | – | 122,706 | – | – | 122,706 |
| Other SME | STDA | 1,115,015 | – | – | 1,115,015 | – | 453,406 | – | – | 453,406 |
| Other assets | PPU | 671,191 | – | – | 671,191 | – | 551,403 | – | – | 551,403 |
| **Total TSB** | | **11,736,849** | **–** | **–** | **11,736,849** | **–** | 1,408,982 | **–** | **–** | **1,408,982** |
| **Other subsidiaries** | | | | | | | | | | |
| Sabadell Consumer | PPU | 1,806,692 | – | – | 1,806,692 | – | 1,384,996 | – | – | 1,384,996 |
| Mexico Sofom | PPU | 5,901,371 | – | – | 5,901,371 | – | 3,396,791 | – | – | 3,396,791 |
| Otras subsidiarias | PPU | 2,206,288 | – | – | 2,206,288 | – | 1,388,506 | – | – | 1,388,506 |
| **Other Subsidiaries Total** | | **9,914,351** | **–** | **–** | **9,914,350** | **–** | **6,170,293** | **–** | **–** | **6,170,293** |
| **STDA Total** | | **106,219,847** | **–** | **0.00%** | **106,219,847** | **–** | **21,835,571** | **–** | **0.00%** | **21,835,571** |
| **Total** | | **257,419,681** | **132,195,186** | **51.35%** | **115,405,781** | **9,818,713** | **66,858,624** | **39,708,608** | **59.39%** | **27,150,016** |

*Data as at 31/12/2022, in thousand euro.*

Article 150(1) of the CRR establishes the criteria according to which exposures can be considered under the Permanent Partial Use (PPU) approach.

Of the exposures calculated under the standardised approach, 59% corresponds to risks with Sovereigns, for which the Bank has authorisation for permanently calculating capital under the standardised approach, given their characteristics, based on Article 150(1)(a). Based on Article 150(1)(b), in 2022 the Bank requested authorisation to use PPU for the portfolio of Financial Institutions, for which it had previously been using the Foundation IRB approach.

In order to monitor the materiality of exposures under the Permanent Partial Use (PPU) approach, Banco Sabadell has developed a series of metrics and thresholds in line with the requirements of the supervisor. Banco Sabadell monitors compliance with these thresholds on an annual basis in order to identify portfolios that could be included in the roll-out plan[1]:

Concerning the forementioned plan, during 2022 the following changes have been performed:

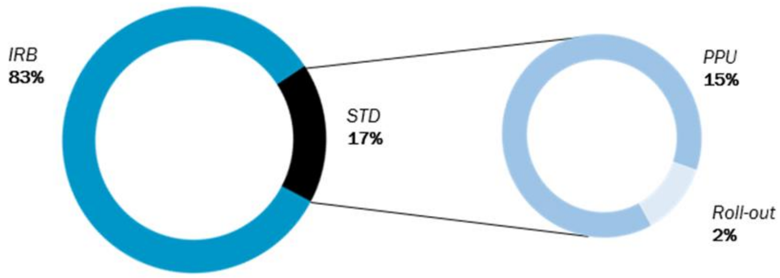
- Pending activities were completed in relation to the mortgage book of retail customers obtained from the different institutions that were acquired (Banco CAM, BMN branch network in Catalonia and Aragon, Banco Gallego and the branch network of Lloyds Banking Group in Spain). The Bank is currently in the process of obtaining authorisation from the ECB to use the IRB approach for this portfolio.
- As a result of changes in the strategy of Banco Sabadell Group, TSB's Business Banking portfolio has been removed from the roll-out plan, while the portfolio of Groups and Large Enterprises of the subsidiary Banco Sabadell Mexico has been included.

**Table 40. Roll-out model structure for calculating IRB parameters in different portfolios.**

| Entity | Portfolio pending roll-out | IRB calculation date |
|---|---|---|
| BS Mexico | Corporates and Groups with risk in Banco Sabadell Mexico | March 2023 |
| BS | Retail customers with risk originated in banks acquired in Spain relating to mortgage and consumer loans: Banco CAM, BMN branch network in Catalonia and Aragón, Banco Gallego and Lloyds Banking Group Spain branch network. | February 2022 |

The following figure shows the percentage of exposure, considering the total of all credit risk portfolios (1), calculated using internal models (i.e. IRB) for solvency purposes by Banco Sabadell Group. The IRB ratio calculated on the basis of regulatory requirements is 83%[2].

**Figure 21. Percentage EAD under each calculation approach.**




(1) The following exposures have been excluded for the calculation of the IRB coverage percentage:
- Equity exposures referred to in Articles 133(1) and 147(6) of the CRR.
- The exposures referred to in Article 150(1)(d), (e), (f), (i) and (j) of the CRR, basically exposures to central governments and central banks of the Member States and to their regional and local authorities, administrative agencies and public sector entities.
- Exposures classified as "items representing securitisation positions" and "other assets other than credit obligations" in Article 147(2)(f) and (g) of the CRR.
- Exposures classified as "other items" in Article 112(q) of the CRR.

1 Plan for the successive application of the IRB approach of portfolios currently under the standardised approach.

2 Differs from the 49% shown in table EU CR6.A due to the exclusions carried out in the calculation of the regulatory IRB ratio.

## 8.4.2 Internal rating systems

This section summarises the main aspects that make up the structure of credit rating internal systems which Banco Sabadell Group has been granted authorisation to use when calculating Risk weighted assets.

In all cases, Banco Sabadell follows a process of continuous and recurrent monitoring and internal validation of these models in order to ensure that they are constantly updated and to guarantee that estimates are reliable and consistent with their defined uses.

### 8.4.2.1 Structure of internal rating systems

**Internal Probability of Default (PD) estimates**

The probability of default used by Banco Sabadell Group for solvency purposes is the long-term and is intended to reflect the average level of an economic cycle that is representative of the portfolio under analysis.

In general, the process for assigning internal PD ratings within Banco Sabadell involves defining a relationship between PD and the uniform risk pools calculated based on Banco Sabadell Group’s historical experience (observed data of defaults) and the application of the respective algorithms, which make it possible to establish an ordering of borrowers (in the case of rating systems) or transactions (in the case of scoring systems).

Once these have been identified, a correspondence is established between these pools and their regulatory PD level through a calibration process, which according to the requirements set forth in the CRR, are long-term PDs or those that represent a situation that includes sufficiently representative good years and bad years in terms of economic performance.

According to regulatory requirements, the PD of an exposure or customer must be at least 0.03%.

The following table shows the equivalence between the internal master scale (reduced to 10 groups according to the internal sorting algorithm) and the external credit quality steps and the probability of default:

**Table 41. Master Scale.**

| Internal ratings | Average PD | External classification equivalence (S&P) |
|---|---|---|
| 9 | 0.03% | AAA a AA |
| 8 | 0.05% | AA a A+ |
| 7 | 0.11% | A+ a A / A- |
| 6 | 0.26% | A / A- a BBB |
| 5 | 0.60% | BBB a BB+ |
| 4 | 1.39% | BB+ a BB- |
| 3 | 3.22% | BB- a B+ |
| 2 | 7.44% | B+ a B |
| 1 | 17.19% | B a B- |
| 0 | 31.52% | B- a CCC+ |
| *Default* | 100.00% | D |

*Note: The existing Master Scale has a greater disaggregation, therefore, the midpoint has been selected.*

**Internal Loss Given Default (LGD) estimates**

For defaulted transactions in which actions are taken to recover the debt, the Bank shall not necessarily lose the full outstanding amount. LGD precisely measures the percentage loss on the outstanding debt, taking into account any recovered amounts, expenses incurred during the recovery process and the time value of money.

In the estimation of this parameter, the realised LGD observed during the time for which data is available for transactions in default status is used as an input. Once this calculation has been made, LGD is divided into specific pools based primarily on the segment, the collateral of the transaction and other drivers.

Pursuant to the guidelines set forth in the regulatory framework, and given the limitations associated with the single-factor nature of the underlying model for the definition of the formula used to calculate capital requirements, the Bank applies its own internal DLGD (Downturn Loss Given Default) estimates, i.e. the estimated LGD resulting from a severe crisis situation during the economic cycle, which increases the value of the realised LGD (average of historic LGDs observed in the Bank’s default portfolio) and, therefore, leads to the adoption of conservative criteria.

This estimate is particularly relevant to mortgage-secured exposures, for which the value of the collateral is reduced due to sharp declines values and the additional price discount that the Institution applies to these assets to sell them during a period of economic downturn.

**Internal Credit Conversion Factor (CCF) estimates**

For customer loans with contingent commitments or contingent risks in which there have been instances of default, empirical evidence shows a progressive increase in the use of the loan as the predicted default date of the loan approaches. This fact is partly explained by the decline in the borrowers’ solvency and, as a result, their growing financial needs, which result in an increased use of available financing options.

In this sense, the so-called of Credit Conversion Factors (CCFs) are estimated for those transactions in which the contractual commitment undertaken by Banco Sabadell with its borrowers is to grant additional financing up to a pre-defined limit.

Banco Sabadell Group calculates CCFs using statistical techniques that characterise the explanatory factors of the increase in the use of funds to finance defaulted transactions, based on available historic information. Estimates are made separately for different types of transactions with variable drawdowns (credit facilities, credit cards, etc.).

### 8.4.2.2 Rating models

When describing the structure of internal credit rating systems used to obtain PD estimates, representative of an annual long-term average, it is important to clearly establish the differences between rating and scoring models.

Rating models are used to estimate the PD of borrowers which, generally, are included in different segments of the Corporates portfolio, and the rating is updated at least once a year or more frequently if necessary due to a change in the risk profile of the borrower. These models provide through a calibration process an estimate of the PD of borrowers, which is regularly updated in accordance with Banco Sabadell Group's policies in each case.

Reactive scoring models, on the other hand, are used in the process of analysing and accepting mortgage transactions (mortgage scoring) and transactions carried out for consumer purposes (consumer scoring), which are mainly retail-based. They provide an estimate of the PD on the basis of data analysed during the approval stage; therefore, unlike ratings, they are static in nature. This PD is at transaction level.

Lastly, behavioural scoring models are implemented, which rate on a monthly basis the risk of transactions with outstanding exposure and intended specifically for natural persons. Reactive scores are used in management for the first 5 months of seniority of the on-balance operation, based on which it is considered whether sufficient information on borrowers is available to use behavioural scores. The behavioural scores are updated on a monthly basis and provides an estimate of PD at a transaction level.

TSB has reactive scoring models to rate the granting of new transactions for each of its four risk portfolios (mortgage loans, consumer loans, credit cards and current account overdrafts). It also has behavioural scores for these portfolios that rate the existing risk based on how much time they have been on the balance sheet (starting from three months).

#### Rating of Corporates, Large Enterprises and Businesses and Sole Proprietors

The rating model of Corporates, Large Enterprises and Businesses and Sole Proprietors is an internal model characterised by the incorporation of both factors which have been selected as a result of a purely statistical assessment and a series of factors based on the practical experience of the Bank's risk managers (account managers and risk analysts).

Banco Sabadell uses different rating models divided according to various concepts: the size of the borrowers (estimated by their turnover), the sector in which they operate (developers, industry and services), the type of borrower (holdings, groups), their membership of a group and their level of engagement with the Bank (new customers, existing customers).

The structure of these rating models follows a unitary approach that, depending on the information available for each customer, can be made up of the following rating units:

- Financial unit: formed of factors defined using information from financial statements of borrowers and which attempt to characterise different aspects of their economic and financial situation (profitability, liquidity, solvency, efficiency.
- Qualitative unit: formed of factors defined using the practical experience of the account managers and risk analysts, which is the structure used by Banco Sabadell Group to monitor risks. This unit uses factors that attempt to evaluate the business aspects that are assessed in this process, such as the managerial capabilities of the management team or the competitive position within the market, amongst others.
- Operational unit/CIRBE: this unit analyses factors related to information on the credit risk of borrowers in the system, in accordance with the Bank of Spain Central Credit Register (CIRBE), as well as borrowers within Banco Sabadell Group itself.
- Adjustments unit: this unit takes into account other factors such as types and levels of default.

The combination of different factors and units translates into a final score for each borrower, which allows them to be organised in terms of their propensity to default.

#### Ratings of Financial Institutions (Low Default)

In the case of the portfolio of financial institutions, which is considered a low default portfolio, a rating methodology is used which is very aligned with that currently used by various rating agencies.

The model gives three types of ratings:

- Basic rating: only considers the financial and business fundamentals of the Institution.
- Individual rating: adjusts the basic rating in accordance with the economic outlooks of the geographical environment in which the business is carried out.
- Individual support rating or long-term rating: incorporates support, in the final instance, which the Institution may receive from the State or from the financial group to which it belongs in order to prevent it from defaulting, i.e. the impact of this support from the country and/or the parent undertaking on the Institution's solvency.

This rating is only used for management purposes, as the portfolio is currently under the Standardised approach.

#### Reactive mortgage, consumer and behavioural scores of individuals' cards and loans, mortgages and consumer loans

Mortgage and consumer reactive scoring models are internal models that are used when approving risk transactions with natural persons, providing a risk assessment of the transaction at the time when the loan is granted.

These models combine information regarding the key factors that determine the feasibility of transactions in the assessment phase. In particular:

- Details of the transaction: including factors that enable aspects such as the term of the transaction and its purpose to be incorporated into the assessment carried out by the models.
- Socio-economic profile: incorporates factors related to socio-demographic aspects of borrowers.
- Relationship with the Bank: when approving transactions, factors are included to characterise the level of borrowers' engagement, as well as past experience in terms of their repayment history.
- Economic data: this unit is used to gather data regarding the debt capacity of borrowers before approving a transaction.
- Collateral: this unit is particularly important in mortgage transactions, as it allows information regarding collateral that secures transactions to be entered into the models.

The final output of the reactive mortgage and consumer scoring models allows transactions to be ordered by credit quality based on their score.

Lastly, the Bank has developed behavioural scoring models which calculate, on a monthly basis, a score for all current products, the holders of which are natural persons, after being on the balance sheet for a certain period of time (6 months). This scoring model means it is possible to generate a monthly update of the status of the contract and the characteristics of the contract holders. Currently, payment card, credit, consumer loan and mortgage loan models have the authorisation to use behavioral scoring models to calculate regulatory capital requirements.

For Banco Sabadell, transactions included in the “Mortgages for residential or commercial real estate” exposure class are rated using the reactive scoring model during the first five months. Given the reactive nature of this score, the process for assigning regulatory PDs is determined in terms of combinations (pools) of similar scores and other variables such as the type of customer or the intended purpose of the transaction. These combinations are determined by the historical default ratio. The similarity of these pools is determined using statistical criteria similar to those described previously for corporates' ratings. After 6 months, the rating is carried out based on behavioural scores.

For retail exposures included in the “Others” category, Banco Sabadell has been granted authorisation to use consumer scores (reactive and behavioural) for regulatory purposes, and to use behavioural scores for cards and loans. The Bank also has its own rating models for Businesses and Sole Proprietors with exposure allocation criteria similar to those described for corporate ratings.

In the case of TSB, these models reflect the characteristics of the business and market in the United Kingdom, although the information that they use is similar to that described previously for Banco Sabadell Group's other scoring models. The regulatory PD of the unsecured portfolio (consumer loans, credit cards and current account overdrafts) is estimated on the basis of these models' scores. On the other hand, the regulatory PD of the mortgage portfolio is based on a Hybrid PD based on scores as the main variable, although they have a differentiation by sub-portfolio and by type of score in the ranking of the underlying PD. The PDs are calibrated against a central trend.

### 8.4.2.3 Use of internal estimates for purposes other than the calculation of own funds requiriments

One of the most important principles in using internal rating systems to estimate the PD of borrowers included in the various portfolios, as well as the LGD parameter and CCFs, is that these systems are not used solely to calculate own funds requirements, as they can also be used in daily risk management procedures. Within Banco Sabadell Group, these additional uses are:

- Approval of transactions: in the case of rating models, the process whereby transactions are approved is based on the risk management model of Banco Sabadell Group. Levels of discretion for approving credit risk transactions are established on the basis of expected losses, measured based on available internal estimates, in order to manage PD and LGD parameters, as well as CCFs (through the use of EAD).

In the case of reactive scores, their result, in addition to consultations of internal and external default databases and the risk criteria applied by the corresponding account manager based on their own experience, allows a decision to be reached in terms of the approval or rejection of transactions. Behavioural scores of loans are also used for the direct approval of transactions for the most creditworthy borrowers.

- Pricing: the pricing of lending transactions takes into consideration the risk premium and the cost of capital calculated based on regulatory capital. Both items form part of the cost to be applied to prices and include LGDs and PDs estimated based on internal models for each borrower or transaction.
- Profitability and limits: the Bank has tools which allow it to calculate Risk-adjusted Return on Capital (RaRoC). This metric is used particularly often for Corporate Banking customers (Corporates and Groups) and it can be calculated *ex ante*, affecting the price, or *ex post*, for the monitoring of its risk-adjusted return. Furthermore, the internal ratings obtained through the assessment of each customer are used implicitly in order to establish limits.
- Economic capital: in the case of credit risk, Banco Sabadell Group uses available PD, LGD and EAD estimates to calculate economic capital, and also uses its own correlations estimates.
- Capital planning: risk parameters which are conditional upon the defined economic situation are used to forecast the scenarios of eventual losses in the regulatory stress tests, capital planning and ICAAP, allowing the impact of these scenarios on Banco Sabadell Group's income statement or capital adequacy to be assessed.
- Provisions: Banco Sabadell Group has been using internal models to calculate provisions under IFRS 9 since 1 January 2018.
- Risk monitoring: the rating of borrowers is an integral part of the establishment of warnings included in risk monitoring. In general, a lower rating determines the need for a more frequent review of the risk associated with an exposure.
- Recovery process: recovery rates are used as a fundamental metric to monitor and manage recovery processes.
- Management reporting: internal estimates such as data related to risk volumes form part of the risk management reporting and allow the risk profile of the portfolio to be analysed for different disaggregation levels.
- Other management processes: in addition to the aforementioned uses, the rating is also used as an input for both tolerance of bill discounting facilities (the authorised excess of these facilities is calculated based on the rating) and the possibility of incorporating authorised overdrafts in sight deposit accounts.

### 8.4.2.4 Process for managing and recognising credit risk mitigation

Grupo Banco Sabadell pays special attention to the adequacy of the management and monitoring in the guarantees constituted, both from a legal point of view, to guarantee their validity and legal enforceability, and from an operational point of view, by means of a whole set of procedures and controls defined with the purpose of guaranteeing their adequate formalisation, registration, and control in the information systems of Grupo Banco Sabadell.

In section 8.7 Credit risk mitigation techniques, a detailed description is provided of procedures used to manage and recognise credit risk mitigation. In accordance with the criteria of Part Three, Title II, Chapter 4 of the CRR, which outlines the accepted credit risk mitigation techniques, these procedures mainly apply to two types of guarantees:

- Funded credit protection: this category includes mortgage guarantees, collateral to secure deposits and securities, as well as interbank netting agreements for transactions carried out in financial markets.

- Unfunded credit protection: this category encompasses hedging instruments based on credit insurance and signature guarantees, as Banco Sabadell Group does not currently use credit derivatives as a credit risk mitigation technique.

On the other hand, in the case of exposures of debtors calculated via the IRB method, in the event that the guarantor is a company with an internal rating, PD and LGD substitution will be applied. For cases in which the guarantor belongs to a segment with a permanent standard method, the exposure is calculated according to the standard method by assigning the RW corresponding to the guarantor according to its nature and its external rating.

Lastly, in terms of the calculation of minimum capital requirements for exposures treated under the IRB approach to which this section refers, it is important to note that Banco Sabadell Group has been authorised to use its own internal LGD estimates as a credit risk mitigation technique. When estimating loss given default, guarantees are a key element used to identify pools of similar transactions in terms of their observed or estimated LGD in stress scenarios.

### 8.4.2.5 Governance of internal models of credit risk

Banco Sabadell establishes in its Model Risk Management and Control Policy and in the model risk procedure relating to the IRB scope the governance that the models in this area must follow.

With regard to the approval of IRB models, Banco Sabadell identifies that the need for approval of an IRB model may arise from:

- New models subject to the sequential implementation plan of the IRB approach (roll-out plan).
- Changes or extensions of use of IRB models already implemented.

In order to assess and classify the materiality of changes or extensions in IRB models, Banco Sabadell has developed the Manual for the classification and management of regulatory changes in credit risk IRB models which defines, in accordance with current regulations, the criteria for classifying materiality based on quantitative and qualitative criteria and, as a result, the following classification of changes is obtained:

- Material changes, which require the supervisor's authorisation prior to their implementation.
- Non-material changes, within which a distinction is made between *ex ante* and *ex post* non-material changes depending on whether the supervisor needs to be notified or not, respectively, prior to implementation (2 months in advance in the case of *ex ante* changes). Banco Sabadell has developed a protocol to facilitate the identification of non-material changes to ensure that all non-material changes are properly assessed and reported to the supervisor.
- Revocation of the use of IRB models due to reversion to less sophisticated approaches (i.e. FIRB or PPU).

Based on the above classification, Banco Sabadell establishes two possible approval levels that are mostly aligned with the criteria required by the regulator for approval of IRB models. These levels give Banco Sabadell Group's Models Committee the authority to approve those changes in models classified as non-material, according to the internal criterion, while it is the responsibility of Banco Sabadell Group's Board of Directors (after review by other governing bodies such as the Technical Risks Committee and the Board Risk Committee) to approve the more material aspects of IRB models, including changes and extended usage periods of models classified as material, models subject to a roll-out plan and the revocation of models due to a reversion to less sophisticated approaches.

Following internal approval, for changes classified as material or new models subject to a roll-out plan, a request for the supervisor's approval is required prior to implementation. Material changes are subject to the pre-application process which requires the submission of the documentation package associated with the change at least two months before the official application date. Material changes require an internal model investigation (IMI) prior to authorisation.

#### Credit Risk Control Unit

The Credit Risk Control Unit (CRCU) is part of the Banco Sabadell Group's first line of defence. This unit is responsible for the design and development of the IRB models, as well as their supervision and operation. Accordingly, Banco Sabadell Group has set up specific teams for the construction and monitoring of the models.

The model building teams, which are independent from the management functions responsible for the acceptance or renewal of existing risks, are responsible for the design and construction of robust and stable models ensuring that they comply with both internal and regulatory requirements. In addition, they ensure that the data needed to calibrate the models are available, complete and meet the required quality standards, and they prepare and maintain adequate documentation according to internal and supervisory standards.

The model monitoring teams are responsible for checking that the IRB models continue to perform as expected and are in line with the use for which they were developed. Each of Banco Sabadell's IRB rating systems is monitored at least once a year. The monitoring activities cover at least the following aspects:

- Check that the models continue to comply with the applicable regulatory requirements.
- Regular review of estimates: including analyses to assess model performance (e.g. predictive ability, screening power), methodology (e.g. representativeness) or model usage (e.g. forcing), among others.
- Monitoring of the margins of conservatism applied to IRB models.

Based on the results of the monitoring and as established in the model risk procedure for the IRB scope, specific actions are devised in relation to the models under analysis.

In addition, there are teams dedicated to the coordination and management of IRB models whose responsibilities include the management and materiality assessment of changes in IRB models, the preparation and monitoring of the IRB model plan and supervisory remediation plans, monitoring of the roll-out plan and portfolios in the permanent partial use of the standardised approach (i.e. PPU) and the maintenance of the IRB model inventory.

The above activities generate a series of regular reports that are submitted to the relevant governing bodies (i.e. Models Committee and higher bodies depending on the relevance of the issue) for review:

- IRB model quality reports resulting from the monitoring activities described above. These reports are submitted on an annual basis for each of the rating systems.
- IRB model dashboard that provides a summary of Banco Sabadell Group's exposures, together with their regulatory treatment. It is submitted on a quarterly basis to the Models Committee.
- PPU portfolio monitoring reports and monitoring of Banco Sabadell Group's roll-out plan. It is submitted on an annual basis.
- IRB model remediation plan monitoring reports. They are submitted on a quarterly basis to the Models Committee.
- Monitoring reports on the annual IRB models plan. They are submitted on a quarterly basis to the Models Committee.

**Validation function**

The Validation function is integrated into the model risk management and control framework as Banco Sabadell Group's second line of defence for the various scopes of the models (e.g. IRB, IFRS9, etc.). In this regard, Banco Sabadell Group provides the Validation function with maximum independence in respect of those that develop the internal models, make risk parameters estimates and use them. Furthermore, the powers of the Validation function stem from its direct reporting line to the Chief Risk Officer (CRO), which improves the process for issuing, monitoring and reporting on recommendations issued to the designated governing bodies.

As set forth in the model risk policy and in the IRB procedure, the opinion of the Validation Unit is an unavoidable requirement for the approval of any new model, methodological change in the internal rating systems and internal risk estimates, an aspect that represents an additional assurance with regard to the internal control of these systems, thus ensuring a robust approval process in Banco Sabadell Group. In addition, the Validation function ensures the appropriate classification of the materiality of changes or extensions to IRB models and compliance with current regulations and internal policies.

**Internal Audit**

Internal credit rating systems used by Banco Sabadell Group are the subject of regular reviews and reports by the Internal Audit unit, based on the framework set out by the SSM. Internal Audit assesses, on at least an annual basis and with a risk-based approach, whether the Group's rating systems comply with the requirements set forth in the applicable regulatory framework for their use in the calculation of capital requirements to cover credit risk. The scope of these reports includes rating and scoring models, parameter estimation processes, the calculation of capital requirements to cover credit risk and the technological environment, as well as the Validation function, governance processes and the control environment. In addition, the implementation in the Bank's systems of all requirements associated with the new Definition of Default is also reviewed, assessing the main developments and compliance with requirements set out in the guidelines.

The Internal Audit unit acts with full autonomy when carrying out its duties, as it reports directly to the Board Audit and Control Committee. Therefore, it is fully separate from the units responsible for generating exposures and for the development, monitoring and internal validation of internal models. The latter unit is also regularly audited and its validation framework is reviewed.

### 8.4.2.6 Exposure values by exposure class

The following table shows the value of exposures to credit and dilution risk, broken down by exposure classes, as well as the value, where applicable, of the exposure in those cases where Banco Sabadell Group applies its own estimated losses in the event of default or credit conversion factors:

**Table 42. Exposure at Default (EAD) subject to internal ratings-based (IRB) approach by exposure class.**

| Exposure class | Exposure | Exposure with internal LGD or CCF estimates |
|---|---|---|
| Central governments and central banks | — | — |
| Institutions | — | — |
| Corporates[(1)] | 40,713,602 | 20,057,452 |
| Retail | 90,588,673 | 90,588,673 |
| i) Mortgages on residential and commercial real estate | 74,662,556 | 74,662,556 |
| ii) Qualifying revolving | 5,350,862 | 5,350,862 |
| iii) Rest | 10,575,255 | 10,575,255 |
| Equity[(2)] | 892,912 | — |
| Securitisation positions and exposures | — | — |
| Other non-financial assets | — | — |
| **Total** | **132,195,187** | **110,646,126** |

*Data as at 31/12/2022, in thousands of euros. Includes Counterparty Risk.*

*(1) In the case of exposures to large corporations, groups and operations originated in the foreign offices, only internal estimates of Probability of Default (PD) are used.*

*(2) The equity exposure includes the amount corresponding to significant shareholdings.*

For cases within the Equity category and the Project Finance portfolio (in the Corporates category), the simple risk-weighted approach and slotting criteria are applied respectively which do not depend on internal risk parameters, but rather on a mapping between certain attributes and regulatory RWA percentages.

**Breakdown of information for credit risk under internal ratings-based (IRB) approach**

The following tables show, for Banco Sabadell Group and the various regulatory exposure classes, a breakdown by obligor grades which includes:

- PD scale.
- Gross original exposure included in the balance sheet.
- Off-balance sheet exposure prior to applying credit conversion factors.
- Average credit conversion factor (CCF).
- EAD after credit risk mitigation and after applying credit conversion factors (on-balance sheet and off-balance sheet).
- Average weighted PD per exposure.
- Number of obligors.
- Average weighted LGD per exposure.
- Average weighted maturity per exposure.
- RWAs.
- RWA density.
- Expected Loss (EL).
- Value adjustments and provisions.

This breakdown does not apply to the Equity and Project Finance categories, due to the calculation approach used to calculate minimum own funds requirements.

The table below gives an aggregated summary of the information included in the tables that follow it (Table 44. (EU CR6), which provide a breakdown of the information of the various credit risk portfolios by obligor grade based on internal approaches (IRB) between Banco Sabadell and TSB.

## Table 43. Exposures and risk-weighted assets (RWAs) by exposure class.

| | Average PD | Original exposure | EAD | | | Number of obligors | Average LGD | Average maturity (years) | RWAs | RWA density (%) | Expected loss |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | On-balance sheet amounts | Off-balance sheet amounts | Total EAD | | | | | | |
| **Corporates** | **1.30%** | **45,021,100** | **27,278,938** | **6,199,897** | **33,478,835** | **22,832** | **40.36%** | **2.46** | **15,841,845** | **47.32%** | **175,205** |
| Non-SMEs | 0.75% | 30,186,067 | 17,392,383 | 5,034,570 | 22,426,953 | 7,455 | 41.92% | 2.36 | 10,359,882 | 46.19% | 73,452 |
| SMEs | 2.40% | 14,835,033 | 9,886,555 | 1,165,327 | 11,051,882 | 15,377 | 37.18% | 2.66 | 5,481,963 | 49.60% | 101,753 |
| **Retail** | **1.21%** | **96,246,486** | **81,419,345** | **7,350,587** | **88,769,933** | **6,239,845** | **22.61%** | **–** | **16,541,108** | **18.63%** | **333,780** |
| Mortgages on immovable property - SMEs | 3.10% | 3,212,009 | 2,828,728 | 165,497 | 2,994,225 | 15,990 | 22.30% | – | 1,008,979 | 33.70% | 22,538 |
| Mortgages on immovable property - Non-SMEs | 0.87% | 69,693,751 | 68,921,543 | 1,746,075 | 70,667,618 | 547,935 | 15.78% | – | 9,429,596 | 13.34% | 88,761 |
| Qualifying revolving | 1.44% | 7,643,780 | 1,062,443 | 4,159,734 | 5,222,177 | 5,220,179 | 70.50% | – | 1,444,870 | 27.67% | 64,281 |
| Other retail exposures - SMEs | 3.00% | 11,030,088 | 4,642,930 | 1,063,287 | 5,706,217 | 112,258 | 38.48% | – | 1,799,208 | 31.53% | 78,022 |
| Other retail exposures - Non-SMEs | 3.02% | 4,666,857 | 3,963,702 | 215,994 | 4,179,695 | 343,483 | 56.71% | – | 2,858,456 | 68.39% | 80,180 |
| **Total credit risk under IRB approach** | **1.24%** | **141,267,586** | **108,698,283** | **13,550,484** | **122,248,767** | **6,262,677** | **27.47%** | **–** | **32,382,953** | **26.49%** | **508,986** |

*Data as at 31/12/2022, in thousand euro.*
*Includes counterparty credit risk. Excludes non-performing exposuress.*

Exposures and risk-weighted assets (RWAs) by exposure class:

- In the period, although the original exposure has remained stable, there has been an increase of 1,629 million euros in EAD as a result of the updates of CCFs due to the switch to IRB Foundation in the large corporates and groups portfolio, and the implementation of the new business models in the SME portfolio. These increases are partially offset by a reduction in the non-SME retail portfolio concentrated in mortgages, by the reduction of pipelines in TSB, and in revolving operations.

- Despite the increase in EAD, RWAs decreased by 2,394 million euros in the period. It is worth highlighting the improvements in the large corporates and groups portfolio due to the application of the Foundation IRB method, which has led to a reduction in LGD, and the impact of the ratings upgrade in PD, as a result of the improved financial situation. In addition, there was also an improvement in the non-SME retail category, concentrated in the mortgage portfolio due to the reduction in LTVs due to the natural amortisation of the portfolio and the good performance of house prices, especially in the United Kingdom. These movements are partially offset by the increase in the average PD in the SME portfolio, given that, although it has a positive impact due to the improvement in ratings, this has been absorbed by the implementation of the new business models.

- Lastly, it should be noted that following the authorization of the permanent standard method for the category of institutions, these are no longer calculated under the advanced methodology.

Table 44. Breakdown of information relating to credit risk under the internal ratings-based (IRB) approach in Banco Sabadell, by obligor grade for the Corporates category (EU CR6).

| | PD range | On-balance sheet exposures | Off- balance sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years)[1] | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Corporates | 0,00 a < 0,15 | 8,269,915 | 6,618,437 | 44.42% | 11,455,235 | 0.07% | 2,705 | 43.68% | 2.02 | 2,699,868 | 23.57% | 3,751 | -27,055 |
| | 0,00 a < 0,10 | 6,593,461 | 5,496,962 | 43.73% | 9,218,067 | 0.06% | 2,588 | 43.37% | 2.01 | 1,946,092 | 21.11% | 2,555 | -20,585 |
| | 0,10 a < 0,15 | 1,676,454 | 1,121,475 | 47.81% | 2,237,168 | 0.12% | 117 | 44.98% | 2.04 | 753,776 | 33.69% | 1,196 | -6,471 |
| | 0,15 a < 0,25 | 4,644,038 | 2,286,386 | 42.95% | 5,574,774 | 0.17% | 2,075 | 41.87% | 2.23 | 1,966,165 | 35.27% | 3,958 | -14,322 |
| | 0,25 a < 0,50 | 6,186,579 | 2,708,213 | 41.97% | 6,404,528 | 0.33% | 2,952 | 41.10% | 2.27 | 3,074,657 | 48.01% | 8,651 | -35,850 |
| | 0,50 a < 0,75 | 2,970,132 | 758,480 | 39.99% | 2,837,443 | 0.64% | 2,888 | 37.43% | 2.55 | 1,556,935 | 54.87% | 6,864 | -22,618 |
| | 0,75 a < 2,50 | 4,294,471 | 1,781,209 | 40.78% | 4,222,354 | 1.44% | 4,450 | 36.20% | 2.88 | 2,858,915 | 67.71% | 22,183 | -56,950 |
| | 0,75 a < 1,75 | 2,771,453 | 1,223,545 | 38.72% | 2,793,583 | 1.14% | 2,560 | 35.38% | 2.88 | 1,777,093 | 63.61% | 11,136 | -33,759 |
| | 1,75 a < 2,5 | 1,523,018 | 557,664 | 45.12% | 1,428,772 | 2.05% | 1,890 | 37.80% | 2.77 | 1,081,822 | 75.72% | 11,047 | -23,191 |
| | 2,50 a < 10,00 | 1,726,404 | 683,852 | 37.44% | 1,549,191 | 5.25% | 2,502 | 37.42% | 2.77 | 1,472,355 | 95.04% | 31,329 | -33,707 |
| | 2,5 a < 5 | 942,093 | 526,642 | 37.88% | 950,247 | 3.87% | 1,518 | 34.20% | 2.72 | 770,817 | 81.12% | 12,604 | -18,412 |
| | 5 a < 10 | 784,311 | 157,210 | 36.14% | 598,944 | 7.46% | 984 | 42.54% | 2.87 | 701,538 | 117.13% | 18,725 | -15,296 |
| | 10,00 a < 100,00 | 1,460,297 | 386,732 | 41.07% | 1,189,353 | 19.81% | 4,182 | 40.19% | 2.86 | 2,130,425 | 179.12% | 98,007 | -53,014 |
| | 10 a < 20 | 1,102,064 | 230,187 | 27.37% | 872,742 | 15.28% | 2,405 | 38.00% | 2.85 | 1,438,057 | 164.77% | 50,336 | -45,105 |
| | 20 a < 30 | 44,533 | 90,255 | 68.36% | 104,963 | 25.02% | 189 | 44.34% | 3.00 | 197,998 | 188.64% | 11,651 | -2,171 |
| | 30,00 a < | 313,700 | 66,290 | 49.07% | 211,648 | 35.90% | 1,588 | 47.18% | 3.00 | 494,369 | 233.58% | 36,020 | -5,737 |
| | 100,00 (default) | 2,174,161 | 454,135 | 28.08% | 2,046,570 | 100.00% | 9,738 | 38.72% | 2.38 | 523,882 | 25.60% | 792,379 | -886,979 |
| | **Subtotal** | **31,725,998** | **15,677,444** | **42.30%** | **35,279,449** | **7.03%** | **31,492** | **40.85%** | 2.33 | **16,283,203** | **46.15%** | **967,122** | **-1,130,495** |
| Of which: SMEs | 0,00 a < 0,15 | 1,482,562 | 555,772 | 40.16% | 1,702,034 | 0.07% | 1,323 | 41.61% | 2.11 | 261,474 | 15.36% | 488 | -3,659 |
| | 0,00 a < 0,10 | 1,404,341 | 537,981 | 39.01% | 1,610,492 | 0.07% | 1,320 | 41.41% | 2.06 | 240,509 | 14.93% | 439 | -3,339 |
| | 0,10 a < 0,15 | 78,220 | 17,791 | 74.89% | 91,543 | 0.12% | 3 | 45.00% | 3.00 | 20,965 | 22.90% | 48 | -320 |
| | 0,15 a < 0,25 | 1,243,697 | 410,930 | 38.73% | 1,277,243 | 0.16% | 1,339 | 39.01% | 3.00 | 308,972 | 24.19% | 797 | -3,096 |
| | 0,25 a < 0,50 | 1,884,436 | 417,448 | 37.31% | 1,806,544 | 0.35% | 1,913 | 35.93% | 2.97 | 582,927 | 32.27% | 2,282 | -5,669 |
| | 0,50 a < 0,75 | 1,676,116 | 371,656 | 43.31% | 1,548,479 | 0.63% | 2,454 | 33.05% | 3.00 | 623,161 | 40.24% | 3,260 | -7,645 |
| | 0,75 a < 2,50 | 2,916,686 | 1,062,300 | 40.48% | 2,768,794 | 1.50% | 3,882 | 35.74% | 3.00 | 1,607,193 | 58.05% | 14,884 | -34,188 |
| | 0,75 a < 1,75 | 1,683,045 | 732,930 | 41.05% | 1,670,950 | 1.13% | 2,217 | 35.26% | 3.00 | 886,872 | 53.08% | 6,640 | -17,531 |
| | 1,75 a < 2,5 | 1,233,641 | 329,370 | 39.20% | 1,097,843 | 2.05% | 1,665 | 36.46% | 3.00 | 720,320 | 65.61% | 8,244 | -16,656 |
| | 2,50 a < 10,00 | 1,383,602 | 428,341 | 37.80% | 1,190,841 | 5.53% | 2,339 | 38.75% | 3.00 | 1,098,434 | 92.24% | 25,844 | -27,247 |
| | 2,5 a < 5 | 675,563 | 299,299 | 37.42% | 654,661 | 3.91% | 1,431 | 36.35% | 3.00 | 514,939 | 78.66% | 9,303 | -14,165 |
| | 5 a < 10 | 708,040 | 129,041 | 38.75% | 536,181 | 7.51% | 908 | 41.67% | 3.00 | 583,495 | 108.82% | 16,541 | -13,082 |
| | 10,00 a < 100,00 | 827,530 | 116,624 | 60.36% | 700,612 | 19.79% | 1,500 | 38.09% | 3.00 | 983,039 | 140.31% | 53,947 | -25,351 |
| | 10 a < 20 | 665,932 | 51,916 | 35.30% | 510,765 | 15.21% | 1,105 | 36.05% | 3.00 | 648,641 | 126.99% | 27,790 | -19,514 |
| | 20 a < 30 | 28,904 | 54,653 | 89.29% | 76,441 | 26.00% | 52 | 47.07% | 3.00 | 142,851 | 186.88% | 9,288 | -1,983 |
| | 30,00 a < | 132,694 | 10,055 | 33.13% | 113,407 | 36.26% | 343 | 41.26% | 3.00 | 191,547 | 168.90% | 16,870 | -3,854 |
| | 100,00 (default) | 928,588 | 51,528 | 25.47% | 797,222 | 100.00% | 979 | 33.99% | 2.98 | 357,304 | 44.82% | 270,984 | -288,656 |
| | **Subtotal SME** | **12,343,217** | **3,414,598** | **40.26%** | **11,791,769** | **9.01%** | **15,729** | **36.94%** | **2.88** | **5,822,504** | **49.38%** | **372,485** | **-395,510** |

| | PD range | On-balance sheet exposures | Off- balance sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years)(1) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Of which: Rest | 0,00 a < 0,15 | 6,787,354 | 6,062,666 | 44.81% | 9,753,200 | 0.08% | 1,382 | 44.05% | 2.00 | 2,438,394 | 25.00% | 3,264 | -23,397 |
| | 0,00 a < 0,10 | 5,189,120 | 4,958,981 | 44.24% | 7,607,576 | 0.06% | 1,268 | 43.78% | 2.00 | 1,705,583 | 22.42% | 2,116 | -17,245 |
| | 0,10 a < 0,15 | 1,598,234 | 1,103,684 | 47.37% | 2,145,625 | 0.12% | 114 | 44.98% | 2.00 | 732,811 | 34.15% | 1,148 | -6,151 |
| | 0,15 a < 0,25 | 3,400,341 | 1,875,456 | 43.88% | 4,297,531 | 0.17% | 736 | 42.72% | 2.00 | 1,657,193 | 38.56% | 3,161 | -11,225 |
| | 0,25 a < 0,50 | 4,302,144 | 2,290,765 | 42.82% | 4,597,984 | 0.32% | 1,039 | 43.14% | 2.00 | 2,491,730 | 54.19% | 6,369 | -30,181 |
| | 0,50 a < 0,75 | 1,294,016 | 386,824 | 36.79% | 1,288,964 | 0.66% | 434 | 42.68% | 2.00 | 933,774 | 72.44% | 3,604 | -14,974 |
| | 0,75 a < 2,50 | 1,377,784 | 718,909 | 41.23% | 1,453,561 | 1.35% | 568 | 37.07% | 2.66 | 1,251,723 | 86.11% | 7,299 | -22,762 |
| | 0,75 a < 1,75 | 1,088,408 | 490,615 | 35.23% | 1,122,632 | 1.15% | 343 | 35.55% | 2.69 | 890,221 | 79.30% | 4,496 | -16,228 |
| | 1,75 a < 2,5 | 289,376 | 228,294 | 53.67% | 330,929 | 2.02% | 225 | 42.25% | 2.00 | 361,502 | 109.24% | 2,803 | -6,534 |
| | 2,50 a < 10,00 | 342,802 | 255,511 | 36.84% | 358,350 | 4.34% | 163 | 33.03% | 2.00 | 373,921 | 104.35% | 5,485 | -6,460 |
| | 2,5 a < 5 | 266,531 | 227,343 | 38.50% | 295,586 | 3.78% | 87 | 29.43% | 2.10 | 255,877 | 86.57% | 3,301 | -4,246 |
| | 5 a < 10 | 76,271 | 28,169 | 24.19% | 62,764 | 6.97% | 76 | 49.99% | 1.80 | 118,043 | 188.08% | 2,184 | -2,214 |
| | 10,00 a < 100,00 | 632,767 | 270,108 | 32.73% | 488,741 | 19.83% | 2,682 | 43.20% | 2.65 | 1,147,386 | 234.76% | 44,060 | -27,663 |
| | 10 a < 20 | 436,132 | 178,270 | 25.06% | 361,977 | 15.38% | 1,300 | 40.75% | 2.63 | 789,416 | 218.08% | 22,546 | -25,591 |
| | 20 a < 30 | 15,629 | 35,602 | 36.22% | 28,522 | 22.39% | 137 | 37.01% | 3.00 | 55,147 | 193.35% | 2,363 | -189 |
| | 30,00 a < | 181,006 | 56,235 | 51.93% | 98,241 | 35.48% | 1,245 | 54.01% | 3.00 | 302,823 | 308.24% | 19,151 | -1,883 |
| | 100,00 (default) | 1,245,573 | 402,608 | 28.42% | 1,249,348 | 100.00% | 8,759 | 41.73% | 2.00 | 166,578 | 13.33% | 521,395 | -598,324 |
| | **Subtotal Rest** | **19,382,781** | **12,262,846** | **42.86%** | **23,487,680** | **6.04%** | **15,763** | **42.81%** | **2.06** | **10,460,699** | **44.54%** | **594,636** | **-734,985** |
| **Retail** | 0,00 a < 0,15 | 15,988,335 | 3,851,311 | 55.51% | 17,991,019 | 0.06% | 1,719,163 | 23.08% | – | 567,785 | 3.16% | 2,884 | -6,189 |
| | 0,00 a < 0,10 | 11,274,315 | 2,745,573 | 53.81% | 12,634,683 | 0.04% | 1,001,601 | 21.61% | – | 275,369 | 2.18% | 1,198 | -3,650 |
| | 0,10 a < 0,15 | 4,714,020 | 1,105,738 | 59.73% | 5,356,337 | 0.11% | 717,562 | 26.56% | – | 292,416 | 5.46% | 1,686 | -2,539 |
| | 0,15 a < 0,25 | 4,751,050 | 1,478,113 | 57.94% | 5,455,164 | 0.18% | 729,022 | 24.71% | – | 378,619 | 6.94% | 2,577 | -4,808 |
| | 0,25 a < 0,50 | 22,008,515 | 2,958,445 | 80.40% | 24,459,734 | 0.32% | 897,617 | 18.37% | – | 2,668,928 | 10.91% | 15,860 | -21,021 |
| | 0,50 a < 0,75 | 15,548,719 | 1,176,068 | 69.33% | 16,169,488 | 0.55% | 1,155,565 | 18.98% | – | 2,432,734 | 15.05% | 17,726 | -24,104 |
| | 0,75 a < 2,50 | 17,961,736 | 2,279,024 | 55.44% | 18,102,797 | 1.26% | 1,015,251 | 26.04% | – | 5,760,704 | 31.82% | 65,967 | -97,884 |
| | 0,75 a < 1,75 | 14,941,721 | 1,711,286 | 55.11% | 15,311,079 | 1.11% | 817,192 | 24.26% | – | 4,373,007 | 28.56% | 43,620 | -61,579 |
| | 1,75 a < 2,5 | 3,020,015 | 567,738 | 56.41% | 2,791,717 | 2.10% | 198,059 | 35.81% | – | 1,387,697 | 49.71% | 22,348 | -36,306 |
| | 2,50 a < 10,00 | 5,221,129 | 729,584 | 63.07% | 4,864,431 | 5.03% | 523,344 | 34.07% | – | 3,033,784 | 62.37% | 84,800 | -128,103 |
| | 2,5 a < 5 | 3,183,233 | 468,737 | 61.70% | 3,013,627 | 3.64% | 325,029 | 34.92% | – | 1,772,431 | 58.81% | 39,808 | -58,849 |
| | 5 a < 10 | 2,037,897 | 260,847 | 65.59% | 1,850,804 | 7.30% | 198,315 | 32.67% | – | 1,261,353 | 68.15% | 44,992 | -69,254 |
| | 10,00 a < 100,00 | 1,990,147 | 258,466 | 51.64% | 1,681,456 | 24.82% | 201,020 | 36.43% | – | 1,690,998 | 100.57% | 143,845 | -132,239 |
| | 10 a < 20 | 1,088,763 | 181,689 | 51.69% | 862,822 | 13.85% | 124,090 | 42.43% | – | 878,695 | 101.84% | 51,970 | -62,455 |
| | 20 a < 30 | 315,138 | 20,298 | 57.47% | 316,127 | 23.15% | 45,535 | 27.91% | – | 339,340 | 107.34% | 22,435 | -24,041 |
| | 30,00 a < | 586,245 | 56,479 | 49.20% | 502,506 | 44.70% | 31,395 | 31.50% | – | 472,963 | 94.12% | 69,439 | -45,743 |
| | 100,00 (default) | 2,077,896 | 68,933 | 19.12% | 1,818,740 | 100.00% | 178,481 | 33.17% | – | 828,081 | 45.53% | 569,597 | -662,843 |
| | **Subtotal Retail** | **85,547,527** | **12,799,944** | **62.96%** | **90,542,828** | **3.20%** | **6,419,463** | **22.81%** | **–** | **17,361,634** | **19.18%** | **903,256** | **-1,077,190** |

| | PD range | On-balance sheet exposures | Off- balance- sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years)(1) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Of which: Mortgages | 0,00 a < 0,15 | 15,223,754 | 154,863 | 31.21% | 15,272,245 | 0.06% | 165,416 | 17.57% | – | 450,962 | 2.95% | 1,661 | -2,233 |
| | 0,00 a < 0,10 | 10,700,772 | 128,791 | 30.79% | 10,740,588 | 0.04% | 121,722 | 16.90% | – | 212,943 | 1.98% | 690 | -1,301 |
| | 0,10 a < 0,15 | 4,522,981 | 26,072 | 33.28% | 4,531,657 | 0.11% | 43,694 | 19.15% | – | 238,019 | 5.25% | 971 | -932 |
| | 0,15 a < 0,25 | 4,073,633 | 59,725 | 39.56% | 4,153,562 | 0.18% | 32,851 | 14.56% | – | 247,341 | 5.95% | 1,151 | -1,848 |
| | 0,25 a < 0,50 | 20,723,776 | 1,594,130 | 97.30% | 22,764,293 | 0.31% | 148,502 | 15.68% | – | 2,333,984 | 10.25% | 12,293 | -13,731 |
| | 0,50 a < 0,75 | 14,100,190 | 43,461 | 41.00% | 14,447,179 | 0.54% | 89,699 | 14.39% | – | 1,895,279 | 13.12% | 11,352 | -13,511 |
| | 0,75 a < 2,50 | 13,192,394 | 314,502 | 60.05% | 13,610,520 | 1.19% | 98,584 | 16.91% | – | 3,397,646 | 24.96% | 27,612 | -24,511 |
| | 0,75 a < 1,75 | 11,779,134 | 272,769 | 62.08% | 12,177,058 | 1.08% | 86,316 | 16.72% | – | 2,878,796 | 23.64% | 22,023 | -18,240 |
| | 1,75 a < 2,5 | 1,413,260 | 41,733 | 46.74% | 1,433,462 | 2.11% | 12,268 | 18.50% | – | 518,850 | 36.20% | 5,589 | -6,271 |
| | 2,50 a < 10,00 | 2,473,769 | 66,837 | 46.03% | 2,530,120 | 5.14% | 21,330 | 17.38% | – | 1,405,692 | 55.56% | 21,935 | -25,466 |
| | 2,5 a < 5 | 1,525,130 | 50,175 | 46.83% | 1,564,898 | 3.71% | 13,049 | 18.42% | – | 811,221 | 51.84% | 10,674 | -9,201 |
| | 5 a < 10 | 948,639 | 16,662 | 43.62% | 965,222 | 7.45% | 8,281 | 15.71% | – | 594,471 | 61.59% | 11,261 | -16,265 |
| | 10,00 a < 100,00 | 868,308 | 16,418 | 38.18% | 883,923 | 28.05% | 7,467 | 16.16% | – | 707,672 | 80.06% | 35,295 | -20,250 |
| | 10 a < 20 | 356,449 | 8,637 | 25.18% | 358,479 | 14.06% | 2,916 | 20.63% | – | 339,152 | 94.61% | 10,358 | -10,224 |
| | 20 a < 30 | 212,628 | 1,614 | 47.13% | 217,384 | 22.36% | 1,875 | 13.13% | – | 173,655 | 79.88% | 6,479 | -4,280 |
| | 30,00 a < 100,00 | 299,231 | 6,168 | 54.20% | 308,060 | 48.35% | 2,676 | 13.10% | – | 194,865 | 63.26% | 18,459 | -5,745 |
| | 100,00 (default) | 1,001,982 | 5,626 | 5.12% | 1,000,713 | 100.00% | 9,522 | 15.91% | – | 525,487 | 52.51% | 136,626 | -177,331 |
| | **Subtotal Mortgages** | **71,657,806** | **2,255,562** | **82.77%** | **74,662,556** | **2.29%** | **573,371** | **16.04%** | **–** | **10,964,062** | **14.68%** | **247,925** | **-278,881** |
| Of which: Qualifying revolving | 0,00 a < 0,15 | 226,804 | 2,919,101 | 60.11% | 1,961,864 | 0.08% | 1,529,472 | 59.17% | – | 63,104 | 3.22% | 998 | -2,206 |
| | 0,00 a < 0,10 | 142,256 | 1,840,680 | 59.94% | 1,243,208 | 0.05% | 870,610 | 52.79% | – | 23,767 | 1.91% | 342 | -1,150 |
| | 0,10 a < 0,15 | 84,548 | 1,078,421 | 60.39% | 718,656 | 0.12% | 658,862 | 70.20% | – | 39,338 | 5.47% | 656 | -1,056 |
| | 0,15 a < 0,25 | 75,731 | 907,691 | 67.38% | 675,369 | 0.20% | 687,006 | 73.69% | – | 56,850 | 8.42% | 1,028 | -1,384 |
| | 0,25 a < 0,50 | 98,987 | 738,023 | 73.03% | 626,830 | 0.38% | 714,805 | 75.63% | – | 90,097 | 14.37% | 1,842 | -2,051 |
| | 0,50 a < 0,75 | 71,336 | 588,560 | 84.61% | 548,635 | 0.58% | 1,022,952 | 80.21% | – | 120,093 | 21.89% | 2,699 | -2,640 |
| | 0,75 a < 2,50 | 359,768 | 970,773 | 54.45% | 827,437 | 1.36% | 716,342 | 77.80% | – | 340,849 | 41.19% | 9,573 | -19,115 |
| | 0,75 a < 1,75 | 283,503 | 821,193 | 53.70% | 677,594 | 1.19% | 590,348 | 75.82% | – | 244,397 | 36.07% | 6,559 | -12,872 |
| | 1,75 a < 2,5 | 76,265 | 149,580 | 58.61% | 149,843 | 2.10% | 125,994 | 86.77% | – | 96,453 | 64.37% | 3,014 | -6,243 |
| | 2,50 a < 10,00 | 263,079 | 233,613 | 75.03% | 421,124 | 4.80% | 398,801 | 79.66% | – | 425,914 | 101.14% | 17,322 | -29,931 |
| | 2,5 a < 5 | 156,181 | 169,107 | 70.94% | 262,550 | 3.50% | 246,390 | 80.55% | – | 222,332 | 84.68% | 8,036 | -14,372 |
| | 5 a < 10 | 106,898 | 64,505 | 85.74% | 158,574 | 6.96% | 152,411 | 78.18% | – | 203,582 | 128.38% | 9,286 | -15,559 |
| | 10,00 a < 100,00 | 106,707 | 83,606 | 63.03% | 160,919 | 21.94% | 153,222 | 80.55% | – | 347,962 | 216.23% | 30,819 | -31,780 |
| | 10 a < 20 | 57,348 | 65,358 | 59.55% | 97,122 | 13.60% | 97,656 | 81.08% | – | 189,146 | 194.75% | 11,527 | -13,257 |
| | 20 a < 30 | 31,810 | 14,591 | 65.05% | 41,068 | 26.77% | 37,829 | 76.60% | – | 99,552 | 242.41% | 8,974 | -9,949 |
| | 30,00 a < 100,00 | 17,550 | 3,657 | 117.21% | 22,730 | 48.88% | 17,737 | 85.41% | – | 59,264 | 260.73% | 10,318 | -8,574 |
| | 100,00 (default) | 127,968 | 16,245 | 21.54% | 128,684 | 100.00% | 106,189 | 73.64% | – | 100,856 | 78.37% | 88,011 | -96,087 |
| | **Revolving** | **1,330,381** | **6,457,612** | **64.47%** | **5,350,862** | **3.81%** | **5,328,789** | **70.57%** | **–** | **1,545,726** | **28.89%** | **152,291** | **-185,195** |

| | PD range | On-balance sheet exposures | Off- balance- sheet exposures pre-CCF | Exposure weighted average CCF | Exposure post CCF and post CRM | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years)(1) | Risk weighted exposure amount after supporting factors | Density of risk weighted exposure amount | Expected loss amount | Value adjustments and provisions |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Of which: Rest** | 0,00 a < 0,15 | 537,777 | 777,347 | 43.10% | 756,910 | 0.07% | 24,275 | 40.78% | – | 53,719 | 7.10% | 226 | -1,750 |
| | 0,00 a < 0,10 | 431,287 | 776,103 | 43.09% | 650,887 | 0.06% | 9,269 | 39.71% | – | 38,660 | 5.94% | 165 | -1,199 |
| | 0,10 a < 0,15 | 106,491 | 1,245 | 49.73% | 106,024 | 0.12% | 15,006 | 47.39% | – | 15,059 | 14.20% | 60 | -551 |
| | 0,15 a < 0,25 | 601,685 | 510,696 | 43.32% | 626,233 | 0.16% | 9,165 | 39.17% | – | 74,428 | 11.89% | 398 | -1,576 |
| | 0,25 a < 0,50 | 1,185,751 | 626,292 | 46.10% | 1,068,610 | 0.36% | 34,310 | 42.17% | – | 244,847 | 22.91% | 1,724 | -5,239 |
| | 0,50 a < 0,75 | 1,377,193 | 544,047 | 55.06% | 1,173,675 | 0.63% | 42,914 | 46.90% | – | 417,362 | 35.56% | 3,674 | -7,953 |
| | 0,75 a < 2,50 | 4,409,574 | 993,749 | 54.94% | 3,664,839 | 1.52% | 200,325 | 48.25% | – | 2,022,209 | 55.18% | 28,782 | -54,258 |
| | 0,75 a < 1,75 | 2,879,084 | 617,325 | 53.90% | 2,456,427 | 1.25% | 140,528 | 47.39% | – | 1,249,814 | 50.88% | 15,037 | -30,466 |
| | 1,75 a < 2,5 | 1,530,489 | 376,424 | 56.61% | 1,208,412 | 2.08% | 59,797 | 50.02% | – | 772,395 | 63.92% | 13,745 | -23,792 |
| | 2,50 a < 10,00 | 2,484,282 | 429,134 | 59.22% | 1,913,186 | 4.95% | 103,213 | 46.09% | – | 1,202,178 | 62.84% | 45,543 | -72,706 |
| | 2,5 a < 5 | 1,501,922 | 249,454 | 58.43% | 1,186,179 | 3.58% | 65,590 | 46.59% | – | 738,878 | 62.29% | 21,098 | -35,277 |
| | 5 a < 10 | 982,359 | 179,680 | 60.40% | 727,008 | 7.17% | 37,623 | 45.27% | – | 463,301 | 63.73% | 24,445 | -37,429 |
| | 10,00 a < 100,00 | 1,015,131 | 158,442 | 47.02% | 636,614 | 21.05% | 40,331 | 53.43% | – | 635,364 | 99.80% | 77,731 | -80,210 |
| | 10 a < 20 | 674,966 | 107,695 | 49.05% | 407,222 | 13.72% | 23,518 | 52.40% | – | 350,398 | 86.05% | 30,086 | -38,974 |
| | 20 a < 30 | 70,700 | 4,093 | 34.54% | 57,676 | 23.51% | 5,831 | 48.99% | – | 66,132 | 114.66% | 6,982 | -9,812 |
| | 30,00 a < 100,00 | 269,465 | 46,654 | 43.21% | 171,717 | 37.60% | 10,982 | 57.37% | – | 218,834 | 127.44% | 40,663 | -31,423 |
| | 100,00 (default) | 947,946 | 47,063 | 19.96% | 689,342 | 100.00% | 62,770 | 50.68% | – | 201,738 | 29.27% | 344,961 | -389,424 |
| | **Subtotal Rest** | **12,559,339** | **4,086,770** | **49.64%** | **10,529,410** | **9.37%** | **517,303** | **46.49%** | **–** | **4,851,846** | **46.08%** | **503,040** | **-613,115** |
| **Total (all exposure categories)** | | **117,273,524** | **28,477,388** | **51.58%** | **125,822,278** | **4.27%** | **6,450,955** | **27.87%** | **2.33** | **33,644,836** | **26.74%** | **1,870,378** | **-2,207,685** |

*Data as at 31/12/2022, in thousand euro.*

*(1) The weighted average maturity per exposure has been calculated considering only the categories in which it is affected in the calculation of capital.*

## Scope for the use of capital requirements calculation approaches

### Table 45. Scope of the use of IRB and SA approaches (EU CR6.A)

| | Exposure value as defined in Article 166 CRR for exposures subject to IRB approach | Total exposure value for exposures subject to the Standardised approach and to the IRB approach | Percentage of total exposure value subject to the permanent partial use of the SA (%) | Percentage of total exposure value subject to IRB Approach (%) | Percentage of total exposure value subject to a roll-out plan (%) |
|---|---|---|---|---|---|
| Central governments or central banks | 77,202,979 | 76,896,922 | 100.00% | – | – |
| Of which Regional governments or local authorities | | 8,828,006 | 100.00% | – | – |
| Of which Public sector entities | | 2,035,269 | 100.00% | – | – |
| Institutions | 3,765,879 | 4,259,519 | 100.00% | – | – |
| Corporates | 54,631,112 | 50,660,570 | 25.65% | 74.35% | – |
| Of which Corporates - Specialised lending, excluding slotting approach | | 7,694,335 | 38.08% | 61.92% | – |
| Of which Corporates - Specialised lending under slotting approach | | 13,418,863 | 14.70% | 85.30% | – |
| Retail | 111,021,055 | 101,779,599 | 9.06% | 81.22% | 9.74% |
| Of which Retail – Secured by real estate SMEs | | 3,334,415 | 7.02% | 92.98% | – |
| Of which Retail – Secured by real estate non-SMEs | | 80,169,913 | 1.76% | 85.87% | 12.37% |
| Of which - Qualifying revolving | | 1,700,064 | 7.00% | 93.00% | – |
| Of which Retail- Other SMEs | | 9,177,467 | 44.23% | 55.77% | – |
| Of which Retail- Other non-SMEs | | 7,397,740 | 45.70% | 54.30% | – |
| Equity exposures | 512,255 | 512,255 | – | 100.00% | – |
| Other non-credit obligation assets | 11,997,534 | 12,436,670 | 100% | – | – |
| **Total** | **259,130,813** | **246,545,534** | **47.08%** | **48.89%** | **4.03%** |

*Data as at 31/12/2022, in thousand euro.*

The Group currently applies the permanent partial use of the standardised approach to exposures to public entities, to financial institutions, to other assets that are not credit obligations and to positions in subsidiaries, since the Institution is only authorised to use advanced models at Banco Sabadell, including Banco Sabadell Financiación and TSB.

Regarding the portfolios for which the use of advanced models has been approved, disregarding the exposures of subsidiaries that fall under the PPU, most of the exposure is calculated under advanced models, with a relevant percentage of the exposure in the corresponding roll-out process, mainly retail exposures of migrated institutions, the exposures from Banco CAM being especially relevant.

### 8.4.3 Backtesting of risk parameters

In accordance with current regulations and its internal policies, Banco Sabadell Group must ensure that the estimates made adequately reflect the risk profile and are in line with the use for which they were developed (i.e. calculation of risk-weighted assets, analysis of the Institution's solvency or other related complementary analyses). To this end, a comparison is made between estimates using observed data (backtesting) on an annual basis.

The backtesting exercises described here below cover the main IRB portfolios of Banco Sabadell Group and use as a reference the Guidelines on disclosure requirements under Part Eight of Regulation (EU) no. 575/2013 (EBA/GL/2016/11, Version 2, 14 December 2016, amended on 9 June 2017) issued by the EBA regarding disclosure formats. Banco Sabadell has internal metrics and tolerances for monitoring IRB models. These metrics and tolerances are aligned with the specifications of the ECB Guide to internal models (October 2019) and with the instructions for reporting the results of the annual internal validation reviews (Instructions for reporting the validation results of internal models - February 2019).

To verify the level of adequacy, this section shows a backtesting approach consisting of comparing estimates of parameters used to calculate regulatory capital (PD, LGD and EAD) against the actual observed values. A homogeneous definition of default is used in the various estimates, which corresponds to the prudential definition of default in force at the time these parameters are estimated. The reason for using this definition of default is to avoid introducing bias in the backtesting results due to discrepancies between the definition of default in the backtesting exercise and the one used in the estimation process[3]. The risk parameters estimated with the new EBA definition of default are in the process of being authorised by the supervisor according to an agreed schedule.

A brief description of each metric used in the comparison is given hereafter.

- Probability of Default (PD)long run: estimated annual probability of default over a long representative period time horizon of different economic situations that may occur during a full economic cycle. Credit quality steps are established based on the rating or score. Estimates are made at borrower level for the corporates and businesses and sole proprietors segments and at transaction level for the individuals segments. It is worth mentioning that PD estimates of corporate and group portfolios are carried out through specific models, considering the low default ratios in these segments (low default portfolios).

In the event of a defaulted firm/transaction, the PD will be 100%.

- Observed Default Rate (ODR): Observed default rate over a one-year period, calculated as the ratio between the number borrowers/transactions which have entered into default (according to the definition of default used for the borrower or transaction) during the following 12 months and the total borrowers/transactions with no default at the beginning of the year. In general, due to its long run nature, the PD is of a different nature from the ODR, since the latter has a Point-In-Time (PIT) nature. This difference in the concept must be taken into consideration when analysing the results obtained.
- Exposure at Default (EAD): Maximum amount that the Bank estimates could be drawn in a transaction where not all funds have been drawn and which is encumbered in the event the counterparty defaults in the next 12 months. It is estimated by considering the characteristics of the customers and various products, focusing particularly on working capital but which also applies to derivatives and repos, i.g. credit facilities or credit cards. The estimated parameter is the CCF (Credit Conversion Factor) or the proportion of the undrawn credit limit that the customer uses on an additional basis when they enter default status after 12 months. This EAD is confirmed to be downturn EAD, i.e. the highest observed EAD during a full economic cycle (normally at the time of an economic recession).

EAD = Balance drawn + Credit Conversion Factor (CCF) * Available balance

- Observed Exposure at Default: Exposure observed for products with CCFs at the time of their entry into default.
- Estimated Downturn Loss Given Default (DLGD or Downturn LGD): For defaulted exposures for which the Bank initiates actions to recover the outstanding debt, the full amount of the outstanding debt will not necessarily be lost. LGD precisely estimates the percentage loss of the outstanding debt, taking into account any recovered amounts, expenses incurred during the recovery process and the financial cost of money. LGD varies depending on the characteristics of the borrower and the recovery process, the guarantees associated with the transaction and the macroeconomic situation. Downturn LGD is the LGD that materialises in an economic recession, and is therefore higher than the LGD observed in times of economic prosperity.
- Realised Loss Given Default is the actual loss measured as LGD occurring for unpaid loans whose recovery process has ended.
- Annual regulatory expected loss: the product of each of the EAD, PD and LGD exposures estimated in accordance with how they have been defined previously.
- Annual realised loss: For each contract in default status, the loss is considered to be the sum of accumulated provisions allocated during the year and accumulated amortisations and depreciations (i.g. due to reclassification as write-offs). Both losses are expressed as a percentage of the EAD at the start of the annual period.

The backtesting shown in the Pillar III Disclosures Report is based on the comparison between the following estimated and observed/realised metrics:

[3] Regarding the EU CR9 table, the default rates reported for the last year are calculated based on the new EBA definition of default (the one implemented at the time of calculation), so the values reported may differ from those shown in the figures of sub-section 8.4.3.1 (aligned with the definition in force at the time of estimation of each model).

- PD vs. ODR.
- DLGD vs. Realised LGD.
- EAD vs. Observed Exposure at Default.
- Annual Expected Loss vs. Annual Realised Loss.

In general, the backtesting exercise aims to show that the estimates of stressed parameters (Downturn LGD and Downturn EAD) are higher than the observed data (mostly Point-in-Time). However, in the case of the PD and expected loss, as these include a long run PD, this statement is not so straightforward, as depending on the economic situation, the ODR may vary and be either above or below the long run PD. Further details on this aspect can be found in the following sections, which set out the data and conclusions drawn from the above comparisons.

#### 8.4.3.1 Comparison of Probability of Default estimates against observed default rates

The aim of the exercise considered in this section is to compare the estimated probabilities of default (long run PD) used to calculate regulatory capital as at December 2021 against the default rate in the past year (2022), as the most recent measurement, and against the average annual observed default rates during the last five years (2018 and 2022), as a measurement that takes into account a longer time horizon.

These metrics are not fully comparable in terms of their heterogeneity, as the long run PD could be considered as representative of the average default rate in an economic cycle, and therefore refers to a long-term horizon, whilst the observed default rate (ODR) presented below is associated with the economic situation of a specific period of time, which does not represent a full economic cycle and relates to the economic situation over the past few years. This explains the visible differences between both metrics. Firstly, figures are given for PD grades as at December 2021, the average regulatory PD and the ODR in 2022 for the most significant segments and with a sufficient number of borrowers to make a comparison at obligor grade level[4].

Figure 22. Corporates - SMEs.

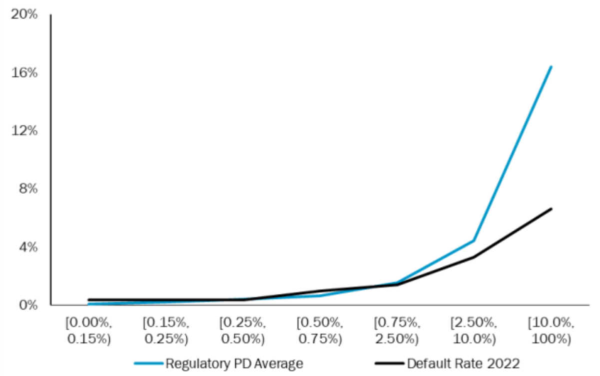



Figure 23. Corporates - Others.

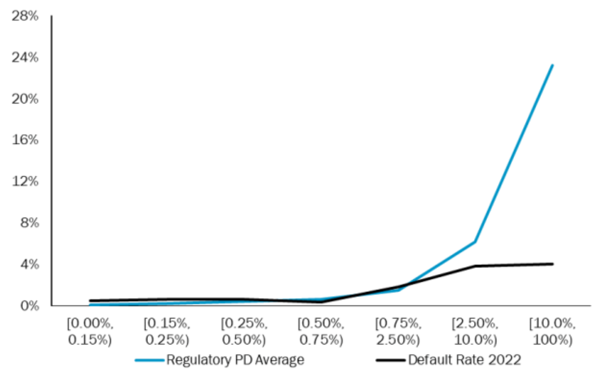



Figure 24. Retail - Mortgages on properties - Non-SMEs.

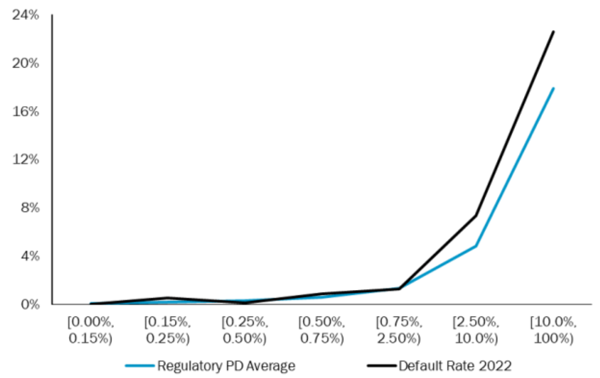
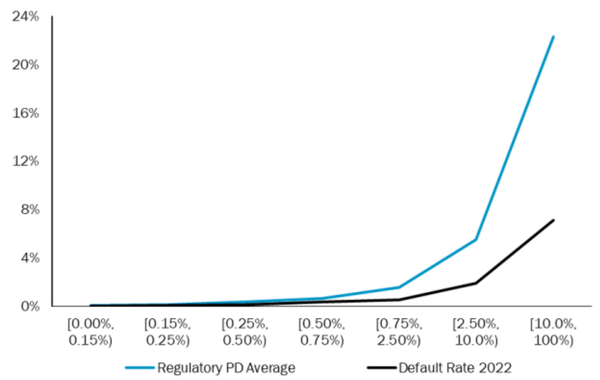



Figure 25. Retail - Mortgages on properties - SMEs.




4 The default rates shown in the figures refer to the definition of default in effect at the time of estimation of each PD model.

The ODRs show a steadily increasing behaviour for the defined obligor grades, which reflects the distinguishing capabilities of the model and the calibration of the PD considered. In general, PDs and observed default rates are similar, even though these two metrics, as mentioned previously, represent two different concepts.

In terms of the Corporates segment, a slight underestimation of tranches with lower PDs is observed. The PD of the Corporates portfolio has been reviewed in order to align the estimates with the new definition of default and the EBA guidelines. These new estimates were approved by the supervisor in June 2022 (and are therefore not reflected in the above figures as these relate to data as at December 2021).

On the other hand, it is worth mentioning that models in the Retail segment tend to slightly underestimate the observed default rate in higher PD buckets, mainly in non-SME segments. This is due to the estimation methodology that includes in the PD the migrations to a longer time horizon of the year – an aspect that reduces the PD in the worst buckets and increase on the best. The Retail segment models have conservative adjustments approved during 2020. Similarly, this segment also has new estimates that have been submitted to the supervisor. With regard to the loan portfolio (mortgage and consumer loans), authorisation to use the new models is expected to be received in the second quarter of 2023. These new models are aligned with the specifications of the IRB Repair Programme.

On the other hand, sub-section 8.4.3.5 Evolution of risk factors shows the observed default rates for Banco Sabadell over the last 5 years in the Corporates and Retail segments, where a largely downward trend, in line with the improved economic situation, can be seen clearly. In recent years, despite the COVID-19 crisis, there have been no relevant increases in the NPL ratios, mainly due to the financial aid provided by governments and the financial sector.

The criteria defined and the information contained in each column of the tables, together with the consolidated comparative figures for Banco Sabadell and TSB, are shown below:

- The Exposure class column shows the segmentation used to prepare the report based on the type of regulatory exposure.
- The PD Range column used to establish the benchmarking includes the PD tranches proposed in the document published by the Basel Committee on Banking Supervision (BCBS).
- The Number of obligors at end of previous period column contains the number of holders/contracts in the portfolio as at 2021 year-end.
- The Number of obligors that defaulted during the year column contains entries into default status throughout 2022.
- The Average observed default rate column gives the default rate for the last year, calculated as the ratio of the two previous columns.
- The next two columns contain the regulatory PDs weighted by EAD (Exposure-weighted average PD) and by customer or contract (Average PD) according to the exposure class.
- The Average historical annual default rate column is calculated as the average default rate over the past 5 years (defaults in 2018, 2019, 2020, 2021 and 2022).

The following table presents a summary of retrospective PD testing by exposure category, based on a fixed PD scale:

Table 46. IRB approach – Back-testing of PD per exposure class - fixed PD scale (EU CR9).

| Exposure class | PD range | Number of obligors at the end of previous year | | Observed average default rate (%) | Exposure weighted average PD (%) | Average PD (%) | Average historical annual default rate (%) |
|---|---|---|---|---|---|---|---|
| | | Total | Of which number of obligors which defaulted in the year | | | | |
| Corporates SME | 0.00 a <0.15 | 11,632 | 24 | 0.21% | 0.07% | 0.07% | 0.37% |
| | 0.00 a <0.10 | 11,509 | 24 | 0.21% | 0.07% | 0.07% | 0.32% |
| | 0.10 a <0.15 | 123 | – | – | – | – | 0.41% |
| | 0.15 a <0.25 | 13,002 | 74 | 0.57% | 0.16% | 0.16% | 0.63% |
| | 0.25 a <0.50 | 6,484 | 73 | 1.13% | 0.35% | 0.36% | 0.95% |
| | 0.50 a <0.75 | 7,597 | 92 | 1.21% | 0.63% | 0.63% | 1.17% |
| | 0.75 a <2.50 | 10,044 | 228 | 2.26% | 1.48% | 1.54% | 2.09% |
| | 0.75 a <1.75 | 6,681 | 125 | 1.87% | 1.13% | 1.20% | 2.03% |
| | 1.75 a <2.5 | 3,363 | 103 | 3.06% | 2.03% | 2.00% | 1.78% |
| | 2.50 a <10.00 | 6,833 | 298 | 4.33% | 5.56% | 5.27% | 7.27% |
| | 2.5 a <5 | 4,665 | 133 | 2.85% | 3.88% | 3.69% | 4.45% |
| | 5 a <10 | 2,168 | 165 | 7.61% | 7.53% | 7.35% | 12.27% |
| | 10.00 a <100.00 | 3,630 | 388 | 10.69% | 18.61% | 17.71% | 13.21% |
| | 10 a <20 | 2,820 | 247 | 8.76% | 15.21% | 14.45% | 11.68% |
| | 20 a <30 | 546 | 99 | 18.13% | 22.26% | 22.94% | 16.40% |
| | 30.00 a <100.00 | 264 | 42 | 15.91% | 35.63% | 34.43% | 17.59% |
| | 100.00 (Default) | 4,057 | – | – | 100.00% | 100.00% | – |
| Corporates Other | 0.00 a <0.15 | 10,868 | 27 | 0.21% | 0.08% | 0.07% | 0.52% |
| | 0.00 a <0.10 | 9,857 | 21 | 0.21% | 0.06% | 0.07% | 0.55% |
| | 0.10 a <0.15 | 1,011 | 6 | 0.59% | 0.12% | – | 0.48% |
| | 0.15 a <0.25 | 8,083 | 24 | 0.30% | 0.17% | 0.16% | 0.63% |
| | 0.25 a <0.50 | 4,661 | 41 | 0.88% | 0.32% | 0.35% | 1.42% |
| | 0.50 a <0.75 | 3,225 | 3 | 0.09% | 0.66% | 0.65% | 1.09% |
| | 0.75 a <2.50 | 2,162 | 33 | 1.43% | 1.39% | 1.62% | 2.18% |
| | 0.75 a <1.75 | 1,548 | 10 | 0.65% | 1.14% | 1.18% | 1.79% |
| | 1.75 a <2.5 | 614 | 23 | 3.75% | 2.07% | 2.20% | 4.41% |
| | 2.50 a <10.00 | 1,610 | 73 | 4.53% | 4.36% | 4.93% | 8.07% |
| | 2.5 a <5 | 504 | 57 | 11.31% | 3.84% | 3.84% | 4.81% |
| | 5 a <10 | 1,106 | 16 | 1.45% | 6.87% | 7.35% | 13.07% |
| | 10.00 a <100.00 | 3,802 | 234 | 6.15% | 21.13% | 21.24% | 15.38% |
| | 10 a <20 | 889 | 24 | 2.70% | 15.37% | 13.74% | 12.82% |
| | 20 a <30 | 2,432 | 143 | 5.88% | 26.11% | 22.74% | 13.68% |
| | 30.00 a <100.00 | 481 | 67 | 13.93% | 36.11% | 34.37% | 27.13% |
| | 100.00 (Default) | 22,910 | – | – | 100.00% | 100.00% | – |
| Retail Mortgage SME | 0.00 a <0.15 | 645 | 2 | 0.31% | 0.07% | 0.07% | 0.19% |
| | 0.00 a <0.10 | 642 | 2 | 0.31% | 0.07% | 0.07% | 0.23% |
| | 0.10 a <0.15 | 3 | – | – | – | – | 0.27% |
| | 0.15 a <0.25 | 3,067 | 6 | 0.20% | 0.16% | 0.16% | 0.26% |
| | 0.25 a <0.50 | 4,368 | 10 | 0.23% | 0.36% | 0.36% | 0.38% |
| | 0.50 a <0.75 | 2,548 | 14 | 0.55% | 0.66% | 0.66% | 0.78% |
| | 0.75 a <2.50 | 5,397 | 56 | 1.04% | 1.54% | 1.56% | 1.39% |
| | 0.75 a <1.75 | 3,800 | 42 | 1.11% | 1.15% | 1.17% | 1.25% |
| | 1.75 a <2.5 | 1,597 | 14 | 0.88% | 2.05% | 2.05% | 1.99% |
| | 2.50 a <10.00 | 3,032 | 67 | 2.21% | 5.58% | 5.47% | 6.57% |
| | 2.5 a <5 | 1,718 | 27 | 1.57% | 3.89% | 3.87% | 4.29% |
| | 5 a <10 | 1,314 | 40 | 3.04% | 7.53% | 7.42% | 9.31% |
| | 10.00 a <100.00 | 2,342 | 193 | 8.24% | 20.06% | 21.07% | 13.11% |
| | 10 a <20 | 1,345 | 84 | 6.25% | 14.45% | 13.77% | 10.95% |
| | 20 a <30 | 749 | 52 | 6.94% | 22.49% | 22.44% | 12.61% |
| | 30.00 a <100.00 | 248 | 57 | 22.98% | 34.59% | 34.40% | 30.54% |
| | 100.00 (Default) | 1,617 | – | – | 100.00% | 100.00% | – |
| Retail Mortgage no SME | 0.00 a <0.15 | 173,635 | 69 | 0.02% | 0.06% | 0.06% | 0.03% |
| | 0.00 a <0.10 | 120,124 | 22 | 0.02% | 0.04% | 0.04% | 0.02% |
| | 0.10 a <0.15 | 53,511 | 47 | 0.03% | 0.11% | 0.11% | 0.04% |
| | 0.15 a <0.25 | 86,961 | 186 | 0.44% | 0.18% | 0.17% | 0.15% |
| | 0.25 a <0.50 | 138,327 | 188 | 0.04% | 0.31% | 0.31% | 0.08% |
| | 0.50 a <0.75 | 55,448 | 293 | 0.71% | 0.54% | 0.55% | 0.33% |
| | 0.75 a <2.50 | 56,795 | 714 | 1.32% | 1.16% | 1.25% | 0.79% |
| | 0.75 a <1.75 | 46,922 | 460 | 1.00% | 1.08% | 1.09% | 0.51% |
| | 1.75 a <2.5 | 9,873 | 254 | 2.32% | 2.14% | 2.15% | 1.69% |
| | 2.50 a <10.00 | 18,597 | 1,009 | 5.05% | 5.03% | 5.08% | 5.69% |
| | 2.5 a <5 | 11,019 | 366 | 2.41% | 3.68% | 3.68% | 2.33% |
| | 5 a <10 | 7,578 | 643 | 8.97% | 7.42% | 7.44% | 9.83% |
| | 10.00 a <100.00 | 7,256 | 1,450 | 15.36% | 30.72% | 28.90% | 13.98% |
| | 10 a <20 | 4,739 | 554 | 9.40% | 13.76% | 14.84% | 12.50% |
| | 20 a <30 | 320 | 84 | 26.24% | 22.36% | 24.61% | 22.63% |
| | 30.00 a <100.00 | 2,197 | 812 | 31.52% | 51.56% | 52.04% | 19.25% |
| | 100.00 (Default) | 8,922 | – | – | 100.00% | 100.00% | – |

| Exposure class | PD range | Number of obligors at the end of previous year | | Observed average default rate (%) | Exposure weighted average PD (%) | Average PD (%) | Average historical annual default rate (%) |
|---|---|---|---|---|---|---|---|
| | | Total | Of which number of obligors which defaulted in the year | | | | |
| Retail Qualifying Revolving | 0.00 a <0.15 | 2,241,482 | 2,443 | 0.13% | 0.08% | 0.09% | 0.10% |
| | 0.00 a <0.10 | 1,711,779 | 1,482 | 0.09% | 0.05% | 0.06% | 0.08% |
| | 0.10 a <0.15 | 529,703 | 961 | 0.27% | 0.12% | 0.12% | 0.21% |
| | 0.15 a <0.25 | 531,684 | 1,345 | 0.41% | 0.20% | 0.20% | 0.33% |
| | 0.25 a <0.50 | 565,328 | 2,468 | 0.65% | 0.38% | 0.37% | 0.58% |
| | 0.50 a <0.75 | 935,102 | 2,439 | 0.26% | 0.58% | 0.55% | 0.38% |
| | 0.75 a <2.50 | 543,413 | 8,457 | 1.69% | 1.36% | 1.35% | 1.70% |
| | 0.75 a <1.75 | 438,019 | 6,250 | 1.67% | 1.19% | 1.20% | 1.66% |
| | 1.75 a <2.5 | 105,394 | 2,207 | 2.10% | 2.10% | 2.11% | 1.66% |
| | 2.50 a <10.00 | 351,309 | 18,768 | 5.52% | 4.80% | 4.95% | 5.26% |
| | 2.5 a <5 | 199,057 | 7,787 | 4.00% | 3.50% | 3.49% | 3.80% |
| | 5 a <10 | 152,252 | 10,981 | 7.47% | 6.96% | 7.04% | 7.53% |
| | 10.00 a <100.00 | 130,604 | 23,142 | 19.46% | 21.94% | 20.79% | 20.51% |
| | 10 a <20 | 74,401 | 9,238 | 13.52% | 13.60% | 13.67% | 14.56% |
| | 20 a <30 | 41,323 | 6,891 | 27.48% | 26.77% | 25.56% | 21.79% |
| | 30.00 a <100.00 | 14,880 | 7,013 | 47.41% | 48.88% | 44.01% | 43.06% |
| | 100.00 (Default) | 105,065 | – | – | 100.00% | 100.00% | – |
| Other Retail SME | 0.00 a <0.15 | 34,882 | 44 | 0.13% | 0.07% | 0.07% | 0.24% |
| | 0.00 a <0.10 | 34,601 | 40 | 0.12% | 0.07% | 0.07% | 0.20% |
| | 0.10 a <0.15 | 281 | 4 | 1.42% | 0.12% | 0.12% | 0.48% |
| | 0.15 a <0.25 | 54,577 | 185 | 0.34% | 0.16% | 0.16% | 0.50% |
| | 0.25 a <0.50 | 24,102 | 95 | 0.39% | 0.35% | 0.36% | 0.57% |
| | 0.50 a <0.75 | 40,885 | 414 | 1.01% | 0.65% | 0.65% | 1.24% |
| | 0.75 a <2.50 | 79,191 | 1,604 | 2.02% | 1.61% | 1.64% | 2.75% |
| | 0.75 a <1.75 | 50,358 | 673 | 1.34% | 1.17% | 1.19% | 2.06% |
| | 1.75 a <2.5 | 28,833 | 931 | 3.23% | 2.07% | 2.08% | 4.51% |
| | 2.50 a <10.00 | 49,887 | 2,507 | 5.02% | 5.67% | 5.71% | 8.21% |
| | 2.5 a <5 | 34,236 | 1,443 | 4.21% | 3.89% | 3.87% | 6.05% |
| | 5 a <10 | 15,651 | 1,064 | 6.80% | 7.28% | 7.28% | 13.76% |
| | 10.00 a <100.00 | 55,626 | 7,720 | 13.87% | 21.27% | 22.64% | 21.10% |
| | 10 a <20 | 36,042 | 4,277 | 11.87% | 14.21% | 14.14% | 18.57% |
| | 20 a <30 | 12,965 | 1,518 | 11.71% | 23.69% | 23.46% | 24.27% |
| | 30.00 a <100.00 | 6,619 | 1,925 | 29.08% | 34.29% | 34.33% | 39.16% |
| | 100.00 (Default) | 29,368 | – | – | 100.00% | 100.00% | – |
| Other Retail no SME | 0.00 a <0.15 | 48,046 | 157 | 0.34% | 0.09% | 0.10% | 0.22% |
| | 0.00 a <0.10 | 5,649 | 4 | 0.08% | 0.05% | 0.05% | 0.10% |
| | 0.10 a <0.15 | 42,397 | 153 | 0.37% | 0.12% | 0.12% | 0.31% |
| | 0.15 a <0.25 | 7,771 | 30 | 0.39% | 0.17% | 0.17% | 0.32% |
| | 0.25 a <0.50 | 45,846 | 357 | 0.85% | 0.41% | 0.39% | 0.83% |
| | 0.50 a <0.75 | 22,166 | 127 | 0.57% | 0.59% | 0.58% | 0.69% |
| | 0.75 a <2.50 | 208,044 | 4,320 | 2.17% | 1.46% | 1.43% | 2.44% |
| | 0.75 a <1.75 | 150,297 | 2,938 | 2.17% | 1.29% | 1.24% | 2.70% |
| | 1.75 a <2.5 | 57,747 | 1,382 | 2.50% | 2.11% | 2.16% | 2.13% |
| | 2.50 a <10.00 | 103,867 | 5,991 | 5.90% | 4.26% | 4.47% | 6.43% |
| | 2.5 a <5 | 74,780 | 3,269 | 4.47% | 3.40% | 3.45% | 4.17% |
| | 5 a <10 | 29,087 | 2,722 | 9.57% | 6.94% | 7.12% | 11.55% |
| | 10.00 a <100.00 | 28,776 | 7,493 | 26.04% | 20.71% | 19.13% | 23.23% |
| | 10 a <20 | 16,999 | 3,145 | 18.60% | 12.94% | 12.84% | 19.66% |
| | 20 a <30 | 8,160 | 2,337 | 28.72% | 23.50% | 23.29% | 22.24% |
| | 30.00 a <100.00 | 3,617 | 2,011 | 55.62% | 50.12% | 40.92% | 45.93% |
| | 100.00 (Default) | 78,961 | – | – | 100.00% | 100.00% | – |

*Data as at 31/12/2022, in thousand euro.*

*Note 1: Used criteria imply immaterial differences with the amounts seen in EU CR6 tables.*

As mentioned above, the EU CR9 table shows default rates calculated using the definition of default implemented for the calculation of regulatory capital (new EBA definition of default since May 2020). The average PD values shown in the table refer to models estimated on the basis of the prudential definition of default in force at the time the parameter was estimated. This difference between default definitions may lead to differences between observed default rates and assigned PDs (which should be larger by the new EBA definition of default). Regarding the figures with the backtest results shown in sub-section 8.4.3.1, the definition of default used for the calculation of default rates is the one in force at the time of parameter estimation, therefore it may differ from those shown in the EU CR9 table. As the new models aligned with the new EBA definition of default are implemented, this difference will disappear.

The results and conclusions of the EU CR9 table are consistent with those of the previous charts. In the Corporate segments, a slight underestimation is observed in the lower PD tranches, which is attributed to the effects of the COVID-19 crisis on this population. In the Retail segments, the effect of the migration methodology used implies slight underestimates in the higher PD brackets.

### 8.4.3.2 Comparison between downturn LGD and realised LGD

The comparison between the Institution's current downturn LGD and realised LGD is shown below for defaults, the recovery process of which was completed between September 2020 and September 2021 in Banco Sabadell Group (ex-TSB). This period has been selected to ensure that the selected sample is representative and that the default cycles observed as cured do not show any instances of re-default during the next 12 months. This is a relevant criterion in order to avoid LGD dilution.

This monitoring considers the definition of prudential default in force at the time of parameter estimation. The reason for using this definition of default instead of the new one defined by the EBA is to avoid introducing a bias in the backtesting results as a consequence of discrepancies between the backtest definition of default and the one used in the estimation process.

Another aspect to consider is that downturn LGD is a stressed LGD and representative of a situation of economic recession. The realised LGD is conceptually Point-In-Time, although it significantly depends on the years in which the defaults that it includes began, and the economic situation at that time. The comparison is carried out by segments and LTV tranches which are the most representative of LGD.

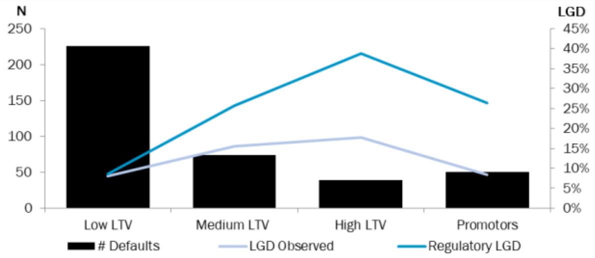
The default cycles closed in the period under review have originated in different years of entry into default. The oldest cycles are those with a higher associated loss, which at times is even higher than the downturn LGD. Part of these cycles have completed the recovery cycle by selling the debt, an aspect that increases LGD as these are sales of defaulted portfolios to large investors with a substantial discount on the expected value to be recovered.

Below is a comparison between the estimated LGDs currently in use and the realised LGDs for the default cycles whose recovery process was completed between September 2020 and September 2021 (ex-TSB).

For mortgage-secured portfolios, LGDs are shown by LTV tranches. The LTV is calculated as the ratio between the exposure observed at the time of default and the appraisal value associated with the approval of the transaction, which is the driver used in the estimation. The following charts illustrate the comparison for each segment by increasing LTV tranches:

#### Corporates and Developers mortgage portfolio

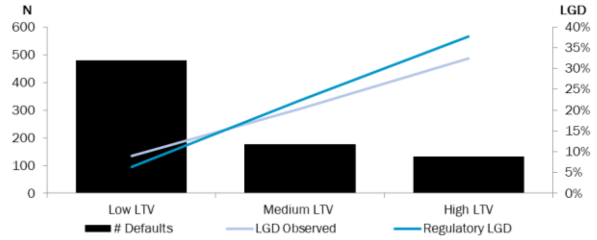
Figure 26. Corporates mortgage-secured loans by LTV tranche.




In the lower LTV tranches of the Corporates mortgage-secured portfolio (i.e. LTV <=50%), the realised LGD is in line with the regulatory LGD, given the larger concentration of foreclosures, while in the higher LTV tranches, the Downturn LGD is higher than the realised LGD. The distribution of transactions by LTV tranches, with a greater weight in the lower LTV tranches, is consistent with the Institution's lending policy, showing a greater appetite for low LTV transactions.

#### Natural persons mortgage portfolio

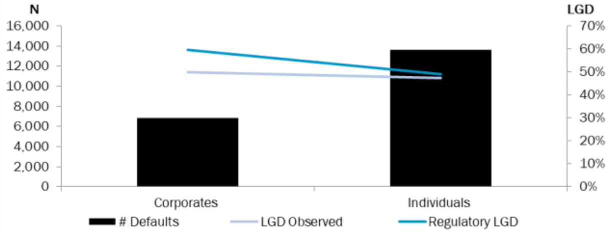
Figure 27. Natural persons mortgage-secured loans by LTV tranche.




In the Natural Persons portfolio, a slight underestimation of the Downturn LGD is observed in the tranches with lower LTV (i.e. LTV <=60%), due to the concentration of foreclosures, while in the tranches with higher LTV, the Downturn LGD is higher than the realised LGD. This segment is particularly affected by the anticipation of the default criteria of the new regulation.

#### Unsecured or non-mortgage-secured. Corporates and Natural Persons

Figure 28. Unsecured or non-mortgage-secured.




The comparison between the downturn LGD and the realised LGD for unsecured or non-mortgage secured exposures is shown on an aggregate basis, broken down by segment. In the Corporates and Natural Persons segments, Downturn LGDs are higher than realised LGDs, with high realised LGDs due to the concentration of write-offs during the years 2016 and 2017, as result of the implementation of the new classification policy to default by the end of 2019.

Lastly, it is important to bear in mind that in June 2022 the supervisor authorised the use of the new LGD models of the corporates portfolio; this authorisation is in the process of being obtained for the individuals portfolio. The new estimates are aligned with the specifications of the IRB Repair Programme (new definition of default and EBA guidelines), and it has been found that they allow the differences in the backtest presented here to be solved.

#### 8.4.3.3 Comparison between estimated and observed CCFs to calculate available credit in credit facilities.

An empirical comparison between estimated CCFs (Credit Conversion Factors) and observed CCFs is shown below. For this purpose, default events occurring during 2022 are considered for the population with active credit facilities and credit cards and with a limit available one year prior to the event. The value of the observed CCF is calculated on the basis of the following formula[5]:

$$\text{Observed CCF} = \frac{(\textit{Default EAD} - \textit{obs drowdown (1 year earlier)})}{(\textit{obs limit (1Y earlier)} - \textit{obs drowdown (1Y earlier)})}$$

The results obtained show that the estimated CCF values are higher overall than the observed CCF values, mainly for those segments with the highest population concentration. These results are justified by the conservative assumptions used in the estimation.

Table 47. Observed vs. Estimated CCF.

| Portfolio | Segment | Observed CCF | Estimated CCF |
|---|---|---|---|
| Credit cards | Retail | 62.0% | 62.2% |
| | Proprietors | 28.3% | 55.5% |
| | SMEs | 37.8% | 48.6% |
| | Developers | 14.4% | 27.8% |
| Credit facilities | Retail | 76.1% | 84.2% |
| | Proprietors | 98.9% | 107.8% |
| | SMEs | 91.3% | 91.6% |
| | Developers | 41.4% | 43.1% |
| **Total** | | **62.1%** | **63.4%** |

*CCF data observed during the years 2020 and 2021. The policies that had 0% available in the observation month have been filtered. Negative observed CCF limited at -100% and outliers discounted.*

Additionally, estimated exposure and the exposure observed during the following twelve months is compared for the aggregate portfolio of December 2021, calculating a ratio between them as a measure of accuracy. As expected from the above results, the coverage ratio between estimated and observed exposure is globally above 100%.

Table 48. Estimated and observed exposure.

| Portfolio | Segment | Estimated EAD | Default drawdone | Ratio |
|---|---|---|---|---|
| Credit cards | Retail | 9,828 | 9,163 | 107.27% |
| | Retailers and sole proprietors | 218 | 161 | 135.23% |
| | SMEs | 4,891 | 4,020 | 121.67% |
| | Corporates and developers | 238 | 120 | 199.13% |
| Credit facilities | Retail | 854 | 793 | 107.73% |
| | Retailers and sole proprietors | 2,669 | 2,556 | 104.42% |
| | SMEs | 43,918 | 38,870 | 112.99% |
| | Corporates and developers | 17,453 | 16,662 | 104.75% |
| **Total** | | **80,070** | **72,344** | **110.68%** |

*Data of defaults that occurred during the year 2022, in thousands of euros.*

#### 8.4.3.4 Comparison between expected losses and actual losses for 2022

- Below is a comparison between the estimated regulatory expected loss and the actual (accounting) loss for performing exposures for both Banco Sabadell and TSB. The selected periods are the last year (2022) and the last five years (2018-2022), taking the average annual value of both metrics and this period being representative of the economic expansion that occurred until the beginning of 2020, thereafter the economic crisis derived from COVID-19 and finally the subsequent recovery and current situation characterized by the rise in inflation and rates combined with a reduction in economic growth.
- The analysis aims to compare both metrics and assess whether the expected loss is conservative enough and whether its performance is consistent with that of other risk and management factors of the Institution. It is important to take into account the different nature of these metrics. The regulatory expected loss is an estimation and is made up of a long-term PD representative of an average value of an economic cycle and a stressed (downturn) LGD. On the

[5] The numerator refers to the increase in the draw between the observation time (1 year prior the default event) and the date of default (EAD default). The denominator refers to the drawable at the observation time (1 year prior the default event).

other hand, the actual (accounting) loss is the one recorded in the accounts, including the provision made and the losses due to write-offs or debt forgiveness, which may be influenced by events that have occurred such as the sale of defaulted portfolios.

With regard to Banco Sabadell, the following can be observed:

- The regulatory expected loss is above the average value observed over the last five years, possibly due to the impact of the COVID-19 crisis on risk parameters (i.e. PD). With regard to the actual (accounting) loss as a result of State-guaranteed aid during the pandemic and the economic reopening during 2022, there are no significant differences compared to the last five years.
- The point-in-time nature of the accounting loss allows it to adapt more quickly to changes in the economic environment, except for the unsecured retail portfolio (especially the credit card portfolio) which is the least cyclical. In contrast, the regulatory expected loss presents more stable (long-term PD) and higher (downturn LGD) values.
- On the other hand, the regulatory expected loss generally presents more stable values (long-term PD) and higher values (due to the downturn LGD used as input) than those of the accounting loss.

Table 49. Expected loss and actual loss of non-default exposures in Banco Sabadell.

| | Last year | | | Last 5 years | |
|---|---|---|---|---|---|
| | EAD | Expected regulatory loss (%) | Actual losses (%) | Expected regulatory loss (%) | Actual losses (%) |
| Institutions | 1,128 | 0.34% | — | 0.20% | 0.04% |
| Corporates - SME | 10,683 | 0.66% | 0.52% | 0.51% | 0.39% |
| Corporates - Other | 19,803 | 0.50% | 0.13% | 0.29% | 0.19% |
| Retail Secured - SME | 2,913 | 0.54% | 0.22% | 0.45% | 0.27% |
| Mortgages on immovable property - Non-SMEs | 27,050 | 0.12% | 0.07% | 0.12% | 0.06% |
| Qualifying revolving | 1,655 | 0.42% | 0.78% | 0.38% | 0.79% |
| Retail Other - SME | 5,216 | 1.45% | 0.78% | 0.94% | 0.77% |
| Other retail exposures - Non-SMEs | 3,169 | 1.19% | 1.17% | 1.08% | 1.06% |
| Retail Unsecured | 10,039 | 1.20% | 0.90% | 0.90% | 0.86% |

*Data as at 31/12/2022, in million euro.*

With regard to TSB, the expected loss and the actual (accounting) loss are mostly similar in the last year to the mean value registered in the last five years. The expected loss exceeds the accounting loss in both periods.

Table 50. Expected loss and actual loss of non-default exposures in TSB.

| | Last year | | | Last 5 years | |
|---|---|---|---|---|---|
| | EAD | Expected regulatory loss (%) | Actual losses (%) | Expected regulatory loss (%) | Actual losses (%) |
| Institutions | — | — | — | — | — |
| Corporates - SME | — | — | — | — | — |
| Corporates - Other | — | — | — | — | — |
| Retail Secured - SME | — | — | — | — | — |
| Mortgages on immovable property - Non-SMEs | 42,249 | 0.15% | 0.01% | 0.15% | 0.01% |
| Qualifying revolving | 3,802 | 1.38% | 0.62% | 1.40% | 0.80% |
| Retail Other - SME | — | — | — | — | — |
| Other retail exposures - Non-SMEs | 1,540 | 2.71% | 1.94% | 2.86% | 1.81% |
| Retail Unsecured | — | — | — | — | — |

*Data as at 31/12/2022, in million euro.*

### 8.4.3.5 Evolution of risk factors

The following is the recent evolution of different macroeconomic factors and internal risk metrics that would consistently explain the evolution of the loss parameters analyzed above:

- Systemic factor that summarizes the main macroeconomic variables of the Spanish economy (unemployment rate, year-on-year change in GDP and housing prices). Its time evolution graph allows us to see the movements of improvement or worsening of the economy (the systemic factor rises when the economy improves and falls when it worsens).

- ODR (Observed Default Rates). New default flows in recent years rebound slightly in corporates in 2021 and 2022 (consequence of COVID and energy-inflation shock). In Retail Other Non-SMEs, ODR improves slightly due to the previous peak observed in the COVID period. Customer support policies in terms of financing and liquidity exercised by the public and financial sector have resulted in new inflows into default that are virtually unchanged from other periods.
- NPL ratio of IRB portfolios calculated as EAD default over total EAD (post CRM post CCF). A slightly downward trend is observed in the retail portfolios (last year) while the corporate segment remains stable. This evolution shows the healthier situation of the entity in 2022 than in previous years and that the COVID crisis, although anticipated to be very material, has not led to a relevant worsening of this metric.
- Likelihood of asset foreclosure in mortgage portfolios by the year in which the default originates. It is calculated, considering the total number of default cycles in a given year, as the ratio between the number of default cycles that ended in foreclosure, payment in kind or purchase and the total number of default cycles.

Figure 29. Systemic factor evolution.

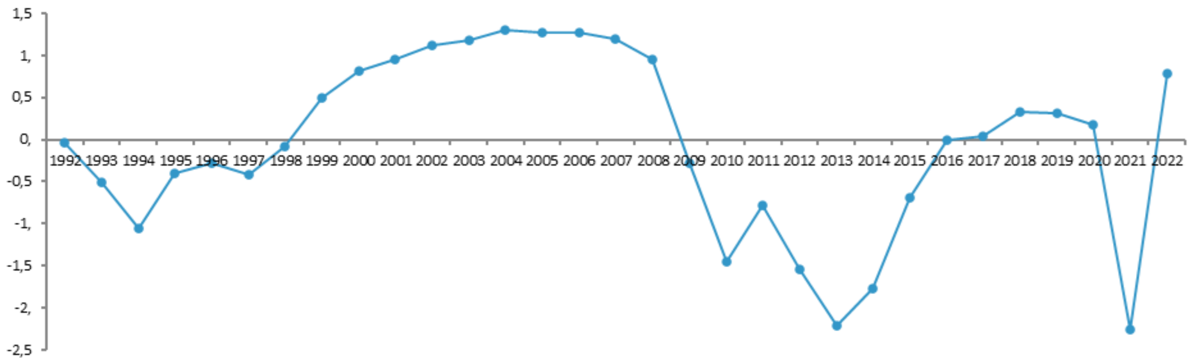



Figure 30. Observed default rates.

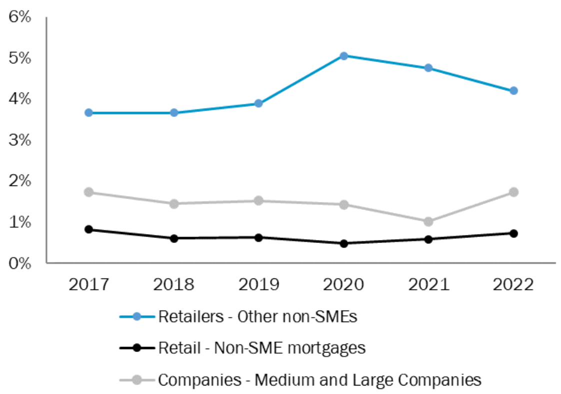



Figure 31. NPL ratios.

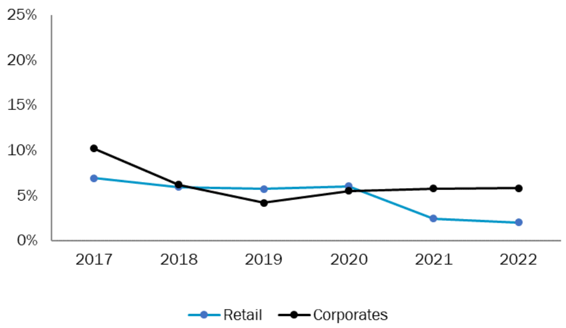
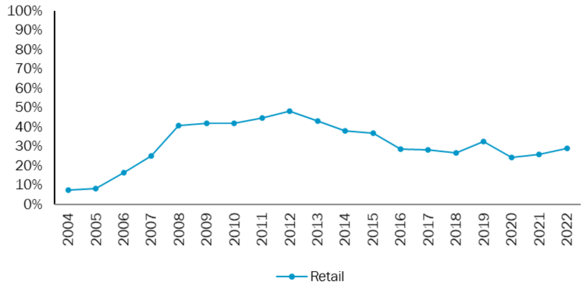



Figure 32. Probability of asset foreclosure.

### 8.4.3.6 Performance of provisions and exposures

The following table shows the performance of provisions under IFRS 9 and IRB exposures segmented by supervisory category in the last year (TSB exposures not included):

**Table 51. Evolution of IFRS9 provisions and IRB exposures.**

| IRB population | IFRS9 Provisions | | | | EAD | | | | Provisions on EAD | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2021 | 2022 | Dif | % Dif | 2021 | 2022 | Dif | % Dif | 2021 | 2022 |
| **Institutions** | **3,410** | **–** | **-3,410** | **-100%** | **1,129,002** | **–** | **-1,129,002** | **-100%** | **0.3%** | **0.0%** |
| Non-performing | 834 | – | -834 | -100% | 871 | – | -871 | -100% | 95.7% | 0.0% |
| Performing | 2,576 | – | -2,576 | -100% | 1,128,131 | – | -1,128,131 | -100% | 0.2% | 0.0% |
| **Corporates - SMEs** | **344,886** | **395,510** | **50,624** | **15%** | **11,634,377** | **11,853,590** | **219,213** | **2%** | **3.0%** | **3.3%** |
| Non-performing | 245,061 | 288,262 | 43,201 | 18% | 719,076 | 800,101 | 81,025 | 11% | 34.1% | 36.0% |
| Performing | 99,825 | 107,248 | 7,423 | 7% | 10,915,301 | 11,053,489 | 138,188 | 1% | 0.9% | 1.0% |
| **Corporates - Others** | **896,623** | **734,985** | **-161,638** | **-18%** | **20,972,449** | **23,676,615** | **2,704,165** | **13%** | **4.3%** | **3.1%** |
| Non-performing | 671,951 | 598,310 | -73,641 | -11% | 1,139,643 | 1,248,421 | 108,778 | 10% | 59.0% | 47.9% |
| Performing | 224,672 | 136,675 | -87,997 | -39% | 19,832,806 | 22,428,194 | 2,595,387 | 13% | 1.1% | 0.6% |
| **Retail - Mortgage on real estate - SMEs** | **99,999** | **57,849** | **-42,150** | **-42%** | **3,330,648** | **3,164,897** | **-165,751** | **-5%** | **3.0%** | **1.8%** |
| Non-performing | 87,196 | 41,366 | -45,830 | -53% | 284,605 | 170,309 | -114,296 | -40% | 30.6% | 24.3% |
| Performing | 12,803 | 16,483 | 3,680 | 29% | 3,046,043 | 2,994,587 | -51,455 | -2% | 0.4% | 0.6% |
| **Retail - Mortgages on real estate - Non-SMEs** | **143,505** | **163,430** | **19,925** | **14%** | **27,596,376** | **29,442,139** | **1,845,764** | **7%** | **0.5%** | **0.6%** |
| Non-performing | 115,883 | 122,605 | 6,722 | 6% | 516,642 | 442,160 | -74,482 | -14% | 22.4% | 27.7% |
| Performing | 27,622 | 40,825 | 13,203 | 48% | 27,079,734 | 28,999,979 | 1,920,245 | 7% | 0.1% | 0.1% |
| **Retail - Credit cards** | **83,464** | **91,668** | **8,205** | **10%** | **1,758,964** | **1,722,655** | **-36,309** | **-2%** | **4.7%** | **5.3%** |
| Non-performing | 72,977 | 79,756 | 6,779 | 9% | 104,332 | 104,438 | 105 | 0% | 69.9% | 76.4% |
| Performing | 10,487 | 11,912 | 1,425 | 14% | 1,654,631 | 1,618,217 | -36,415 | -2% | 0.6% | 0.7% |
| **Retail - Other - SMEs** | **299,250** | **298,985** | **-265** | **0%** | **5,698,267** | **6,080,225** | **381,958** | **7%** | **5.3%** | **4.9%** |
| Non-performing | 229,657 | 196,293 | -33,363 | -15% | 434,125 | 373,591 | -60,535 | -14% | 52.9% | 52.5% |
| Performing | 69,594 | 102,692 | 33,098 | 48% | 5,264,142 | 5,706,634 | 442,492 | 8% | 1.3% | 1.8% |
| **Retail - Other - Non-SMEs** | **387,960** | **240,466** | **-147,494** | **-38%** | **3,634,048** | **3,016,058** | **-617,990** | **-17%** | **10.7%** | **8.0%** |
| Non-performing | 321,973 | 177,602 | -144,372 | -45% | 499,121 | 289,588 | -209,534 | -42% | 64.5% | 61.3% |
| Performing | 65,986 | 62,865 | -3,122 | -5% | 3,134,927 | 2,726,470 | -408,457 | -13% | 2.1% | 2.3% |
| **Total** | **2,259,096** | **1,982,893** | **-276,203** | **-12%** | **75,754,131** | **78,956,178** | **3,202,047** | **4%** | **3.0%** | **2.5%** |
| Non-performing | 1,745,531 | 1,504,193 | -241,339 | -14% | 3,698,416 | 3,428,607 | -269,808 | -7% | 47.2% | 43.9% |
| Performing | 513,564 | 478,700 | -34,865 | -7% | 72,055,715 | 75,527,571 | 3,471,855 | 5% | 0.7% | 0.6% |

*Data in thousands of euro.*

### 8.4.3.7 Factors that have influenced the loss experience during the preceding period

**Macroeconomic factors**

The main factors at play in 2022 were the conflict in Ukraine, the energy crisis in Europe, further upside inflation surprises, the hawkish tone of central banks and the management of COVID-19 in China.

The war in Ukraine prompted Western countries to impose significant economic and financial sanctions on Russia. Russia responded by gradually reducing its gas supplies to Europe, eventually completely cutting off the flow of gas through Nord Stream 1, the pipeline that connects Germany and Russia. This fuelled fears that there would be energy rationing during the winter and it also caused an unprecedented increase in the price of natural gas, which skyrocketed to an all-time high. Lastly, unusually mild temperatures in autumn, the reduction of natural gas consumption and the diversification of gas suppliers made it possible to fill gas reserves to almost 100% capacity in the EU, which reduced the risk of strict energy rationing.

COVID-19 became a less central aspect, China being the main exception. The Asian country continued to impose strict containment measures, which resulted in the economy growing considerably below the government's target.

Inflation was the main macroeconomic variable 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.

The global economy deteriorated over the year due to the consequences of the conflict in Ukraine, persistently high inflation and tighter financial conditions. This resulted in a gradual deterioration of the growth-inflation mix, driving many economies into stagflation towards the end of the year. The Spanish economy was in a more safeguarded position, due to its lower energy dependence on Russia and the growth of tourism, which benefited from the economic reopening following the pandemic.

Central banks focused more on tackling inflation and less on the signs of economic slowdown. With that aim in mind, monetary authorities undertook an unprecedented tightening of monetary policy, in line with the high levels of inflation.

Financial markets were particularly affected. 2022 was the worst year in several decades if one considers the combined performance of fixed income and equities. Market volatility was especially high, while liquidity conditions and market depth fell to their lowest levels since the global financial crisis.

**Risk management factors**

As a result of the aid provided by the Spanish government to alleviate the effects of the COVID-19 crisis, the economic reopening in Spain following the pandemic and the reduced energy dependence on Russia, NPL ratios did not increase significantly during 2022, and even decreased in the retail segment.

The regulatory expected loss showed values somewhat higher than the average of the past five years, mainly in the corporates segments, which can be attributed to the deterioration of the balance sheets (one of the main drivers of the ratings) as a result of the effects of the COVID-19 health crisis in 2021. However, there was barely any deterioration in the accounting loss compared to recent years, mainly due to the economic reopening following the pandemic. As for TSB, the expected loss and the actual (accounting) loss are similar in the last year to the mean value registered in the last five years. For a more detailed analysis linked to regulatory and accounting expected losses, refer to sub-section 8.4.3.4 Comparison between expected losses and actual losses for 2022.

## 8.5 Specialised lending exposures by risk weight

For institutions to assign a risk weight to their specialised lending exposures, the CRR sets out slotting criteria based on the classification of exposures into five classes, using factors such as the residual maturity (below or above 2.5 years), their financial soundness, the counterparty's political and legal environment, the specific characteristics of the transaction and/or the assets, the soundness of the sponsor and the developer, or collateral.

Implementing Regulation (EU) 2021/637 stipulates the disclosure of Template EU CR10, which contains information on specialised lending and equity exposures under the simple risk-weighted approach, in order to meet the regulatory requirements, set out in Article 438(a) of the CRR.

This template is divided into five sub-templates to disclose information separately for the following types:

- Project finance (EU CR10.1).
- Income-producing real estate and high volatility commercial real estate (EU CR10.2).
- Object finance (EU CR10.3).
- Commodities finance (EU CR10.4).
- Equity exposures under the simple risk-weighted approach (EU CR10.5).

Banco Sabadell Group only holds exposures in project finance and equities (categories 1 and 5), and hence the other sub-templates are not disclosed.

### 8.5.1 Own funds requirements for exposures encompassed within the Specialised Lending category

In accordance with the criteria described above, the following table shows the value of exposure to credit risk for Banco Sabadell Group's specialised lending portfolio (including counterparty credit risk in the on-balance sheet category) for the different risk weights.

Table 52. Project finance exposures (EU CR10.1).

| Specialised lending: Project finance (Slotting approach) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Regulatory categories[(1)] | Remaining maturity | On-balance sheet exposure | Off-balance sheet exposure | Risk weight[(2)] | Exposure value | Risk weighted exposure amount[(3)] | Expected loss amount[(4)] |
| Category 1 | Less than 2.5 years | 104,788 | 40,622 | 50% | 131,095 | 64,843 | — |
| | Equal to or more than 2.5 years | 1,146,068 | 325,103 | 70% | 1,359,438 | 852,244 | 5,438 |
| Category 2 | Less than 2.5 years | 247,755 | 208,266 | 70% | 396,546 | 251,536 | 1,586 |
| | Equal to or more than 2.5 years | 2,126,824 | 965,454 | 90% | 2,806,929 | 2,335,121 | 22,455 |
| Category 3 | Less than 2.5 years | 40,609 | — | 115% | 40,609 | 41,845 | 1,137 |
| | Equal to or more than 2.5 years | 279,515 | 50,929 | 115% | 315,846 | 357,741 | 8,844 |
| Category 4 | Less than 2.5 years | — | — | 250% | — | — | — |
| | Equal to or more than 2.5 years | 36,786 | 28,460 | 250% | 58,131 | 145,328 | 4,650 |
| Category 5 | Less than 2.5 years | 12 | — | — | 12 | — | 6 |
| | Equal to or more than 2.5 years | 74,791 | — | — | 74,791 | — | 37,395 |
| **Total** | **Less than 2.5 years** | **393,163** | **248,888** | **97%** | **568,262** | **358,224** | **2,729** |
| | **Equal to or more than 2.5 years** | **3,663,983** | **1,369,947** | **105%** | **4,615,136** | **3,690,434** | **78,783** |

*Data as at 31/12/2022, in thousand euro.*

*(1) Regulatory categories according to slotting criteria: 1 - Strong, 2 - Good, 3 - Satisfactory, 4- Weak, 5-Default.*

*(2) Risk weight to be applied to the total exposure based on the regulatory category and maturity of the transaction.*

*(3) Result of applying the risk weight according to the category to the total value of the exposure and including (if applicable) the supporting factor for project finance (75%).*

*(4) Weighting to be applied to the total exposure obtained according to the regulatory category (1.Strong: 0% < 2.5A and 0.4% > 2.5A, 2.Good: 0.4% < 2.5A and 0.8% > 2.5A , 3.Satisfactory: 2.8%, 4.Weak: 8% and 5: Default: 50%).*

In the project finance portfolio, it is worth noting the increase in portfolio density as a result of the implementation of new rating models in the last quarter of the year.

### 8.5.2 Minimum own funds requirements

The minimum required own funds to cover credit risk for exposures treated under the internal ratings-based approach amount to 3,176,689 thousand euros, of which 323,893 thousand euros correspond to the amount of the minimum own funds required for exposures included in the Project Finance category.

## 8.6 Equity exposures

### 8.6.1 Own funds requirements for exposures encompassed within the Equities category

At the consolidated level, Banco Sabadell Group uses the simple risk-weighted approach to calculate capital requirements for exposures in the equities category. This consists of applying a series of risk weights depending on the nature of the interest held (listed or unlisted shares, distinguishing in the latter case between sufficiently diverse portfolios and the rest of the instruments).

It should be noted that TSB, at subgroup level, calculates its equity exposures using the standardised approach, which means that different criteria are used when incorporating these exposures at Group level.

The internal ratings assignment process therefore aims to establish the correspondence between the various types of interest held subject to the calculation of minimum own funds requirements and the applicable risk weights, in accordance with the slotting criteria set out in the CRR.

The following table shows the value, where applicable, of the exposure to credit risk corresponding to the Equity exposure class, broken down by the risk weights applied under the simple risk-weighted approach to calculate own funds.

**Table 53. Specialised lending and equity exposures under the simple riskweighted approach - Specialised lending: Project finance (Slotting approach) (CR10.5).**

| Equity exposures under the simple risk-weighted approach | | | | | | |
|---|---|---|---|---|---|---|
| Categories | On-balance sheet exposure | Off-balance sheet exposure | Risk weight | Exposure value | Risk weighted exposure amount | Expected loss amount |
| Private equity exposures | 512,248 | — | 190% | 512,248 | 973,270 | 4,098 |
| Exchange-traded equity exposures | 7 | — | 290% | 7 | 20 | 0 |
| Other equity exposures | — | — | 370% | — | — | — |
| **Total** | **512,255** | **—** | | **512,255** | **973,291** | **4,098** |

*Data as at 31/12/2022, in thousand euro.*

### 8.6.2 Minimum own funds requirements

The minimum own funds required to cover credit risk for exposures treated under the internal ratings-based approach amount to 3,176,689 thousand euros, of which 77,862 thousand euros correspond to the amount of the minimum own funds required for exposures included in the Equities category.

## 8.7 Credit risk mitigation techniques

### 8.7.1 Collateral management policies and processes

As part of its routine procedures of credit risk assessment and acceptance, Banco Sabadell Group attaches particular importance to the adequate establishment, management and formalisation of guarantees for both on- and off-balance sheet positions. In compliance with the risk acceptance requirements stipulated in the CRR, a substantial proportion of these guarantees are applied in regulatory capital calculation procedures as Credit Risk Mitigation Techniques (CRMT), specifically:

- Funded credit protection: corresponds to guarantees materialised in tangible assets, called collateral, which are used to secure the successful completion of financing operations. There are different types of guarantees within this category: mortgage guarantees, collateral to secure deposits and collateral to back securities, as well as netting agreements.
- Unfunded credit protection: hedging instruments based on credit insurance and signature guarantees maintained by Banco Sabadell Group and provided by solvent hedging suppliers. Banco Sabadell Group does not use credit derivatives as a credit risk mitigation technique.

These guarantees are used as credit risk mitigation techniques when calculating minimum own funds requirements for exposures not treated using the internal ratings-based approach. In the specific case of exposures treated using the internal ratings-based approach, with the exception of the large corporates and groups segment, Banco Sabadell Group is authorised to use its own Loss Given Default (LGD) estimates for the purposes of credit risk mitigation. Banco Sabadell Group also considers personal guarantees for borrowers who are legal persons and, in that case, their PD or RWA density is substituted with that of their guarantor, provided that the guarantor is joint and several and is of better credit quality (depending on whether the guarantor belongs to an IRB or standardised segment).

Furthermore, Banco Sabadell Group attaches great importance to policies and procedures to ensure the legal certainty of these guarantees. Credit risk mitigation techniques are established under contracts that are legally binding for all parties. These contracts are also enforceable in all relevant jurisdictions, thus ensuring that the guarantee can be settled at any time. The entire process is subject to an internal verification of the legal adequacy of these contracts, using legal opinions of international specialists where these contracts have been entered into under foreign legislation.

In addition, various assessments are carried out to verify the adequacy of the techniques used, including an analysis of the correlation between guarantees and the quality of counterparties, to verify their adequacy and soundness. Depending on the type of guarantee, procedures have been prepared to assess and determine the necessary tools and resources to mitigate the risk incurred during the formalisation of transactions.

Lastly, several evaluations of the correct authorisation and formalisation of transactions are carried out as a mechanism to control possible residual risks that may arise from the application of mitigating techniques. These include reviews of guarantees and an appraisal of all the cases in which legal proceedings have been initiated, in which all aspects related to guarantees are also analysed.

This set of control policies and procedures, and the separation of duties and responsibilities, ensures that portfolios' guarantees meet the criteria for them to be considered valid, allowing them to be used as credit risk mitigation techniques. In any case, Banco Sabadell Group understands the importance of managing and overseeing CRM techniques, and therefore regularly reviews its procedures, drafting plans of action aimed at improving, where possible, the credit risk mitigation management process.

### 8.7.2 Policies and processes for on- and off-balance sheet netting, and indication of the extent of use

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

There are currently no transactions that meet the criteria set forth in IAS 32 for offsetting transactions involving financial assets and financial liabilities on the balance sheet. The netting of derivative and repo transactions is only material when calculating the amount pending collateralisation and is not material in terms of their presentation on the balance sheet.

### 8.7.3 Policies and processes for collateral valuation and management

In order to guarantee the legal certainty of collateral items, the latter are formalised before a notary public through a public document in order to ensure their enforceability before third parties. In the case of mortgages or movable assets, these public documents are registered with the corresponding property, commercial and movable property registries, so that they may have constitutive effect before third parties. The legal system in Spain, unlike other countries, states that defaults on mortgage loans shall not be settled when the mortgaged property is surrendered (if the value of the collateral securing the mortgage loan is less than the incurred debt), requiring the borrower to use their remaining assets until their debt is paid in full.

In cases where cash and securities are pledged as collateral, the pledged assets are generally deposited with one of Banco Sabadell Group's entities. The unilateral cancellation by the obligor is prohibited, which guarantees the effectiveness of the collateral until the debt is fully paid.

For collateral (mainly cash) that can be loaned between banks, particularly in the case of OTC (Over the Counter) derivatives, a collateral agreement called ISDA-CSA is generally signed between the parties, within the contracts framework backed by the ISDA as a market standard.

Banco Sabadell Group has defined a series of management policies aimed at limiting the risk acceptance to a series of maximum percentage figures, depending on the type of asset pledged as collateral. This aims to limit the impact that any possible changes in the valuation of collateral may have when covering risks associated with transactions. These limits are used mainly in financing operations guaranteed by pledging transferable securities (shares, bonds, etc.) or mutual funds, as well as in maximum thresholds based on the loan-to-value (LTV) of mortgage transactions.

In terms of the valuation of collateral at the beginning of transactions, in the case of mortgages, property is valued by property valuation firms approved by the Bank of Spain. For this type of collateral, Banco Sabadell Group has determined the need to have insurance policies that cover various contingencies, including events that could affect the property itself (fires, lightning, catastrophic damage, etc.) and, in certain cases, the solvency of the borrowers (life insurance policies and unemployment benefit schemes). Additionally, where mortgage guarantees are used to secure facilities that have been granted to corporates, their value is monitored in the regular rating revaluation process.

Banco Sabadell Group has defined the applicable principles and criteria in the management of guarantees linked to asset operations in its Guarantees Policy, from their admission to trading until their execution or maturity, as well as the principles and criteria applicable in the valuation of guarantees, considering their type.

In line with this policy, a procedure has been developed which explains the valuation methods of real estate and movable guarantees, and foreclosed assets or assets received in lieu of debt, as well as the initial appraisal criteria and criteria to update the value of the same. Furthermore, the treatment of appraisal constraints is established, which could result in haircuts being applied to certain valuations. The application of haircuts is based on the Institution's past experience and the application of expert judgement.

This same procedure identifies roles and responsibilities relating to the generation, execution and control of the annual reappraisal plan, in line with internal requirements and current regulations.

Financial guarantees are valued on a daily basis, and in previously established cases, a warning system sends out alerts for situations in which the value of collateral falls below the amount indicated in the contracts.

Lastly, market transactions under netting agreements are valued and reconciled on a daily basis, to allow risks and positions to be strictly monitored at all times.

### 8.7.4 Main types of collateral taken

In accordance with the criteria set out in Chapter 4, Title II, Part Three, Title II of the CRR, the main types of collateral accepted are as follows:

- Mortgage guarantees: these mainly include mortgage guarantees for residential real estate and, in some cases, mortgage guarantees for commercial real estate. Additionally, but to a lesser extent, Banco Sabadell Group also accepts mortgage guarantees on personal (movable) property, as in the case of naval mortgages.

- Collateral pledged to secure cash and securities: in this type of collateral the main types of assets that can be pledged are: cash deposits (fixed term deposits, current accounts and savings accounts), debt securities (mainly letters of credit, bonds and government bonds), shares, mutual funds, pension schemes and, to a lesser extent, other financial assets such as preferred securities and commercial paper.

- Netting agreements: in the case of interbank relationships, these include repo transactions with deferred settlement or collateral financing, in which GMRA, EMA and GMSLA contracts are used for netting purposes and for the periodic contribution of collateral. They also include trading of OTC derivatives not cleared in a clearing house, in which ISDA and CMOF (Spanish Master Agreement for Financial Transactions) agreements are entered into for netting purposes, together with their respective CSA and Annex III, for the daily provision of market value or variation margin collateral. In addition, CTA and SA agreements for the provision of collateral for potential future exposure or initial margin are signed with financial institutions, in accordance with Delegated Regulation (EU) 2251/2016.

**Main types of guarantor and credit derivative counterparty and their creditworthiness**

In the case of personal guarantees, sureties are the most commonly used credit risk mitigation technique employed by Banco Sabadell Group, provided that the guarantor can demonstrate proven solvency.

The main guarantors are corporates, individual customers and other financial institutions. Guarantees given by CESCE (Spanish Export Credit Company) are also used, as well as those given by General Governments. The guarantees given by the ICO as a response to the COVID-19 crisis are particularly relevant.

Personal guarantees are applied through various methodologies based on the application method.

For exposures to obligors under the IRB approach: In the event that the guarantor is a corporate with an internal rating, PD and LGD substitution is applied. For cases in which the guarantor belongs to a segment under the permanent partial use of the standardised approach, the exposure is calculated according to the standardised approach by assigning the RW corresponding to the guarantor based on its nature and its external rating.

For exposures of obligors under the standard method: In the event that the guarantor is also calculated under the standard method, the weighting of the guarantor based on its external rating provided by an ECAI may be applied, provided that it improves the weighting of the obligor.

As regards credit derivatives, Banco Sabadell Group has so far not made use of these instruments as a risk mitigation technique within the credit risk framework, although within the securitisation framework the Institution has carried out two synthetic securitisations, in which the risk of the mezzanine tranche has been transferred to a third party.

**Credit risk or market risk concentration within the credit risk mitigation technique**

There are no concentrations of credit risk or market risk among the counterparties or assets used as credit risk mitigation techniques. Banco Sabadell Group has defined policies aimed at avoiding excessive risk concentration, which also apply to counterparties and the credit risk mitigation techniques used.

**Total value of exposure hedged by personal guarantees or hedged by credit derivatives after netting between on-balance sheet and off-balance sheet items**

The following table shows the value, where applicable, of exposures covered by personal guarantees, as Banco Sabadell Group does not use credit derivatives to hedge exposures. It is broken down by exposure classes under the approach used to calculate own funds requirements:

### Table 54. Total value for each exposure category covered after the settlement, if applicable, between on-balance sheet and off-balance sheet items, by guarantee type.

| Exposure class | 31/12/2022 Financial guarantees | 31/12/2022 Personal guarantees | 31/12/2021 Financial guarantees | 31/12/2021 Personal guarantees |
|---|---|---|---|---|
| **Under Standardised Approach** | | | | |
| Central governments and central banks | — | 3,435 | — | 13,044 |
| Regional governments and local authorities | — | — | — | — |
| Public sector entities and other public institutions | 797 | 84,306 | 846 | 524,479 |
| Multilateral development banks | — | — | — | 2 |
| International organisations | — | — | — | — |
| Institutions | 13,264 | 127,100 | 7,849 | 1,894 |
| Corporates | 1,111,018 | 639,046 | 1,749,831 | 400,987 |
| Retail | 54,652 | 1,156,945 | 128,363 | 1,305,782 |
| Exposures secured with residential or commercial property | — | 6,437 | — | 19,834 |
| Exposures in default | 1,386 | 63,625 | 2,278 | 33,214 |
| High risk exposures | 1,550 | 5,149 | 15,399 | 272 |
| Covered bonds | — | — | — | — |
| Securitisation positions | — | — | — | — |
| Exposures to institutions and corporates with short-term credit rating | — | — | — | — |
| Exposures to collective investment undertakings | — | — | — | — |
| Equity exposures | — | — | — | — |
| Other exposures | — | 1 | 137 | 0 |
| **Under internal ratings-based (IRB approach)** | | | | |
| Central governments and central banks | — | — | — | — |
| Institutions | — | — | — | 237,262 |
| Corporates | — | 6,246,474 | — | 6,310,529 |
| Retail | — | 4,963,968 | — | 5,369,823 |
| Securitisation positions | — | — | — | — |
| Equity exposures | — | — | — | — |
| Other assets that are not credit obligations | — | — | — | — |
| **Total** | **1,182,668** | **13,296,485** | **1,904,703** | **14,217,123** |

*Data in thousands of euro.*

The following table shows, in net value, a summary of the use of guarantees as a credit risk mitigation technique in the Group, irrespective of how they are used in each of the calculation approaches. It excludes overcollateralisation.

### Table 55. CRM techniques overview: Disclosure of the use of credit risk mitigation techniques (EU CR3).

| | Unsecured carrying amount[1] | Secured carrying amount[2][3] | | | |
|---|---|---|---|---|---|
| | | Total | Of which secured by collateral | Of which secured by financial guarantees | |
| | | | | Total | Of which secured by credit derivatives |
| Loans and advances | 90,954,521 | 113,239,314 | 96,525,308 | 16,714,006 | — |
| Debt securities | 27,129,788 | — | — | — | — |
| Total | 118,084,309 | 113,239,314 | 96,525,308 | 16,714,006 | — |
| Of which non-performing exposures | 474,198 | 3,155,532 | 1,977,482 | 1,178,050 | — |
| Of which: defaulted[4] | 171,066 | 2,653,389 | | | |

*Data as at 31/12/2022, in thousand euro.*

*[1] Exposures are reported net of provisions according to the new specifications of the EBA mapping tool published in May 2022, in contrast to what was previously reported.*

*[2] Exposures are reported net of provisions.*

*[3] Does not include guarantees in Central Banks.*

*[4] Considered Regulatory Default.*

## Use of mitigation techniques under IRB approach

The following table discloses information on exposures subject to the AIRB and FIRB approaches, their corresponding conversion factors and the credit risk mitigation associated with the exposure, as well as the impact of mitigation techniques with and without substitution effect.

### Table 56. IRB approach – Disclosure of the extent of the use of CRM techniques (EU CR7-A).

| | | Credit risk Mitigation techniques | | | | | | | | | | | Credit risk Mitigation methods in the calculation of RWEAs | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Funded credit Protection (FCP) | | | | | | | | | Unfunded credit Protection (UFCP) | | | |
| | | | Part of exposures covered by Other eligible collaterals (%) | | | | Part of exposures covered by Other funded credit protection (%) | | | | | | | |
| A-IRB | Total exposures | Part of exposures covered by Financial Collaterals (%) | Total | Part of exposures covered by Immovable property Collaterals (%) | Part of exposures covered by Receivables (%) | Part of exposures covered by Other physical collateral (%) | Total | Part of exposures covered by Cash on deposit (%) | Part of exposures covered by Life insurance policies (%) | Part of exposures covered by Instruments held by a third party (%) | Part of exposures covered by Guarantees (%) | Part of exposures covered by Credit Derivatives (%) | RWEA without substitution effects (reduction effects only) | RWEA with substitution effects (both reduction and substitution effects) |
| Central governments and central banks | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Institutions | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Corporates | 19,859,140 | 3.97% | 31.78% | 29.88% | – | 1.90% | – | – | – | – | 5.45% | – | 9,466,345 | 9,483,007 |
| Of which Corporates – SMEs | 11,031,708 | 2.95% | 43.37% | 41.22% | – | 2.15% | – | – | – | – | 5.55% | – | 5,324,810 | 5,334,320 |
| Of which Corporates – Specialised lending | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Of which Corporates – Other | 8,827,432 | 5.25% | 17.29% | 15.71% | – | 1.58% | – | – | – | – | 5.33% | – | 4,141,535 | 4,148,687 |
| Retail | 90,542,828 | 0.29% | 142.38% | 142.08% | – | 0.30% | – | – | – | – | 1.19% | – | 17,360,022 | 17,361,634 |
| Of which Retail – Immovable property SMEs | 3,164,897 | – | 99.83% | 99.83% | – | – | – | – | – | – | 0.10% | – | 1,150,078 | 1,150,078 |
| Of which Retail – Immovable property non-SMEs | 71,497,660 | – | 174.27% | 174.27% | – | – | – | – | – | – | – | – | 9,813,985 | 9,813,984 |
| Of which Retail – Qualifying revolving | 5,350,862 | – | – | – | – | – | – | – | – | – | – | – | 1,545,725 | 1,545,726 |
| Of which Retail – Other SMEs | 6,034,392 | 3.06% | 7.83% | 4.56% | – | 3.27% | – | – | – | – | 15.41% | – | 1,841,608 | 1,843,220 |
| Of which Retail – Other non-SMEs | 4,495,018 | 1.81% | 15.26% | 13.53% | – | 1.73% | – | – | – | – | 3.28% | – | 3,008,626 | 3,008,626 |
| **Total** | **110,401,968** | **0.96%** | **122.49%** | **121.90%** | – | **0.59%** | – | – | – | – | **1.96%** | – | **26,826,367** | **26,844,640** |

*Data as at 31/12/2022, in thousand euro.*

*The CRMT process can produce segment and method migrations that impact exposure columns with or without mitigation.*

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| FIRB | Total exposures | Credit risk Mitigation techniques | | | | | | | | | | | Credit risk Mitigation methods in the calculation of RWEAs | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Funded credit Protection (FCP) | | | | | | | | | Unfunded credit Protection (UFCP) | | | |
| | | | Part of exposures covered by Other eligible collaterals (%) | | | | Part of exposures covered by Other funded credit protection (%) | | | | | | | |
| | | Part of exposures covered by Financial Collaterals (%) | Total | Part of exposures covered by Immovable property Collaterals (%) | Part of exposures covered by Receivables (%) | Part of exposures covered by Other physical collateral (%) | Total | Part of exposures covered by Cash on deposit (%) | Part of exposures covered by Life insurance policies (%) | Part of exposures covered by Instruments held by a third party (%) | Part of exposures covered by Guarantees (%) | Part of exposures covered by Credit Derivatives (%) | RWEA without substitution effects (reduction effects only) | RWEA with substitution effects (both reduction and substitution effects) |
| Central governments and central banks | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Institutions | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Corporates | 20,491,744 | – | – | – | – | – | – | – | – | – | 6.64% | – | 10,777,858 | 10,778,170 |
| Of which Corporates – SMEs | 760,061 | – | – | – | – | – | – | – | – | – | 6.85% | – | 488,184 | 488,184 |
| Of which Corporates – Specialised lending | 5,071,435 | – | – | – | – | – | – | – | – | – | – | – | 3,977,974 | 3,977,974 |
| Of which Corporates – Other | 14,660,248 | – | – | – | – | – | – | – | – | – | 8.93% | – | 6,311,701 | 6,312,012 |
| **Total** | **20,491,744** | **–** | **–** | **–** | **–** | **–** | – | **–** | **–** | **–** | **6.64%** | – | **10,777,858** | **10,778,170** |

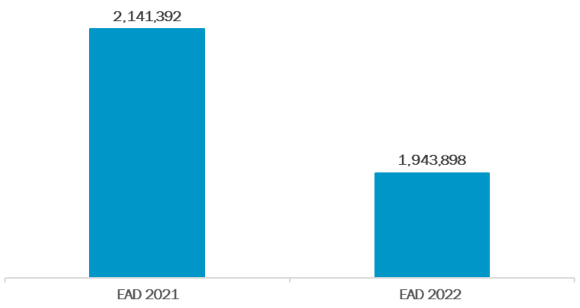
*Data as at 31/12/2022, in thousand euro.*

*The CRMT process can produce segment and method migrations that impact RWA columns with or without mitigation.*

## 8.8 Counterparty Credit Risk

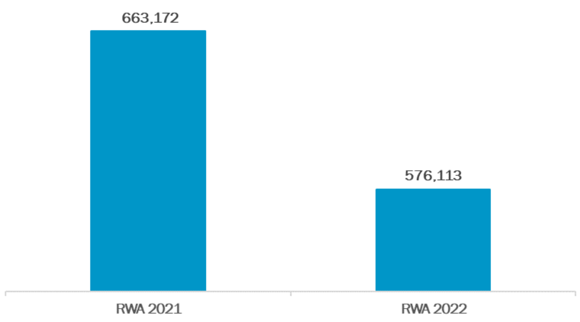
Counterparty credit risk is a type of credit risk that arises in the event of a counterparty defaulting before definitively settling cash flows of either a transaction with derivatives or a transaction with a repurchase commitment, with deferred settlements or collateral financing.

**Figure 33. Counterparty Credit Risk EAD.**




Data in million euro.

**Figure 34. Counterparty Credit Risk RWAs.**




### 8.8.1 Counterparty credit risk management and governance

#### Management strategies and processes

Banco Sabadell Group's current counterparty credit risk management strategy, in line with the business model and objectives, is fixed in accordance with the Risk Appetite Framework (RAF).

The philosophy behind counterparty credit risk management is consistent with the business strategy, and seeks to ensure the creation of value at all times whilst maintaining a balance between risk and return. To this end, criteria have been established for controlling and monitoring counterparty credit risk arising from activity in financial markets, which ensures that the Bank can carry out its business activity whilst adhering to the risk thresholds approved by Senior Management.

Counterparty credit risk is submitted for the corresponding approval and thereafter incorporated into credit risk management and control systems, and it is assessed together with other risks in the analysis that takes place before approving transactions. To this end, both the credit quality of all counterparties with which the Bank intends to do business and the nature of the proposed transactions are analysed, considering both existing and potential risks.

#### Governance and organisation

The governance structure for counterparty credit risk management and control has as key pillars the direct involvement of Senior Management and the Board of Directors within the corporate model and a clear-cut definition of roles and responsibilities, including the approval of the management framework and ensuring its adequate implementation.

The Board of Directors is supported by the following committees, whose duties are described in Chapter 15. Corporate Governance, for the management and control of the risk:

- Delegated Credit Committee
- Board Risk Committee
- Board Audit and Control Committee

These governing bodies receive regular information from all units associated with counterparty credit risk management, through the various Committees and/or Units and General Sub-Units.

As indicated in sub-section 5.2.3. "Organisation of the risk function", Banco Sabadell Group establishes its control framework based on the model of Three Lines of Defence. With regard to the risk function:

**First line of defence:** this is decentralised in the various subsidiaries and it is made up of the respective business units, which are responsible for managing counterparty credit risk, which mainly involves the admission, monitoring, measurement, assessment and mitigation of this risk as well as the corresponding processes. They are responsible for implementing corrective actions to rectify weaknesses in their processes and controls.

**Second line of defence:** In addition to the Compliance Unit, whose responsibilities are set out in sub-section 5.2.3 "Organisation of the risk function" the role of second line of defence is performed by:

- The Banco Sabadell Internal Control Unit, responsible for identifying, measuring and monitoring counterparty credit risk and for providing information on it.
- Banco Sabadell Credit Risk Control Unit, responsible for assigning credit lines for financial institutions and sovereigns, for calculating RAS metrics and for reporting on them.

**Third line of defence:** made up of the Internal Audit Unit, which acts as an independent unit to oversee the monitoring, management and control of counterparty credit risk. Details of its duties and responsibilities are described in sub-section 5.2.3 "Organisation of the risk function".

#### Measurement systems

The Board of Directors is in charge of defining the appetite to counterparty credit risk within the Group.

To measure and manage this risk, Banco Sabadell Group makes use of the following RAS metrics, which are calculated on a monthly basis:

- Top 20 Financial Institutions Concentration Metric: Ratio between the top 20 largest risk exposures to financial institutions and Tier 1 capital. With regard to exposure, the risks stemming from commercial activity (confirmation of letters of credit, forfaiting and sureties) are taken into account, as is the direct lending granted to institutions, as well as the risks stemming from financial transactions (interbank deposits, repos, derivatives, forex, debt issues, etc.). In the case of certain treasury activity (repos, derivatives and forex), the exposure is taken into account in terms of risk drawn rather than in nominal terms.
- Investment Grade Financial Institutions Concentration Metric: Considers the proportion of exposures to financial institutions with a credit quality of at least BBB- (according to S&P ratings scale) out of the total exposure to financial institutions. With regard to exposure, the risks stemming from commercial activity (confirmation of letters of credit, forfaiting and sureties) are taken into account, as is the direct lending granted to institutions, as well as the risks stemming from financial transactions (interbank deposits, repos, derivatives, forex, debt issues, etc.). In the case of certain treasury activity (repos, derivatives and forex), the exposure is taken into account in terms of risk drawn rather than in nominal terms.

In addition, counterparty credit risk is measured, controlled and monitored based on the exposure at default (EAD) metric, which quantifies the loss that the Group would incur if a counterparty were to default. This metric does not include any other credit risk components such as the counterparty's probability of default or the loss given default.

The exposure at default (EAD) metric comprises the existing exposure (loss incurred in the event the counterparty were to default at the present time) and the potential future exposure (potential loss incurred due to fluctuations in the market value of positions up to a specified time horizon as a result of movements in market risk factors). Counterparty credit risk is measured on a daily basis at the level of each subsidiary and aggregated at the Group level on a monthly basis.

#### Mitigation measures

The mitigation of counterparty credit risk is essential to managing this risk in Banco Sabadell Group. The Group has different tools at its disposal to this end:

- Banco Sabadell Group has risk appetite RAS metrics and a system of limits assigned at the borrower level.
- Banco Sabadell Group uses counterparty clearing houses (CCPs) for its derivative and repo transactions. CCPs interpose themselves between bilateral counterparties, acting as counterparty for each one, at the same time requiring both parties to provide guarantees for the transactions to which the agreements relate. The use of CCPs is mandatory for certain derivative products, in accordance with Commission Delegated Regulation (EU) 2205/2015.
- In bilateral transactions, the adopted mitigation techniques are as follows:
  - Netting agreements: these allow positive and negative market values to be aggregated for transactions with a single counterparty, in such a way that in the event of default, a single payment or collection obligation is established in relation to all of the transactions closed with that counterparty. The Group has signed netting agreements with all of its counterparties. The Group's counterparty credit risk policy requires these agreements to be signed and their effectiveness is procedurally ensured as a pre-requisite for any approval of transactions.
  - Collateral mitigation agreements of the current exposure (Variation Margin): these agreements, as well as including the netting effect, also provide for the regular exchange of guarantees at the present value of the positions, and therefore mitigate the current exposure with a counterparty in respect to the transactions subject to that agreement. Guarantees and collateral are reviewed practically every day for all current agreements in force. Collateral agreements are in place to operate in derivatives, repos or securities lending with all financial counterparties. The Group's counterparty credit risk policy requires this type of agreement to be signed. Their arrangement is assured in a procedural manner, and their effectiveness is assured by having them reviewed daily by the Operations units of the various subsidiaries.
  - Collateral agreements to mitigate potential future exposure (Initial Margin): in addition to Variation Margin collateral agreements, these agreements mitigate potential future exposure and, unlike the former, they are set out in gross terms, in other words, each party is required to deliver collateral to the other party so that the latter may mitigate the default risk of the former. To that end, it is necessary to have a third party involved to act as custodian for the guarantees given. Initial Margin agreements exist only for derivative transactions with other financial institutions, in accordance with Commission Delegated Regulation (EU) 2251/2016. Their arrangement is assured in a procedural manner, and their effectiveness is assured by having them reviewed daily by the Operations units of the various subsidiaries. Guarantees are reviewed on a daily basis.
  - Formalisation of financial transaction policy: this is a risk mitigation technique used with customers that are not financial institutions. It is an executive document available in the event of negative settlements from customers.
  - Delivery versus payment (DVP) settlement mechanisms: these ensure that both parties honour their payment obligations, in such a way that neither party runs the risk of paying their share without receiving the corresponding amount in return, thus fully mitigating settlement risk. Banco Sabadell Group uses delivery versus payment settlement mechanisms in all transactions where these mechanisms can technically be applied.

#### Risk Culture

The applicable information relating to the counterparty credit risk culture is covered in sub-section 5.2.1 "Corporate risk culture".

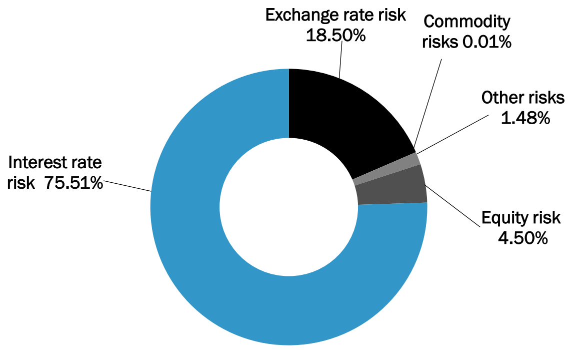
### 8.8.2 Exposure to Counterparty Credit Risk and approach used to calculate minimum own funds requirements

To calculate its exposure to Counterparty Credit Risk, Banco Sabadell Group uses the SA-CCR approach, implemented in June 2021 by Regulation (EU) 2019/876 (CRR2), amending the previous Regulation 575/2013 (CRR). This approach calculates exposure based on the replacement cost (fair value) plus the potential future exposure, multiplied by an alpha factor of 1.4. Additionally, netting agreements and collateral are applied to obtain the final EAD amount.

Based on the aforementioned risk exposure, the method used to calculate minimum own funds requirements depends on the borrower.

The following figure shows the breakdown, by type of product, of derivatives exposures, using the notional values contained in the contracts:

Figure 35. Derivatives expousures by product type.




The following table shows the exposure data (EAD) and the RWAs for Counterparty Credit Risk, broken down by calculation approach, over the past two years:

Table 57. Breakdown of Exposures and RWAs for Counterparty Credit Risk.

| | 31/12/2022 | | 31/12/2021 | |
|---|---|---|---|---|
| Approach | EAD | RWEA | EAD | RWEA |
| IRBA | 408,563 | 160,866 | 1,185,880 | 540,110 |
| SA | 1,535,335 | 415,247 | 955,513 | 123,062 |
| Total | 1,943,898 | 576,113 | 2,141,392 | 663,172 |

*Amounts in thousand euro.*

*Includes operations with deferred settlement.*

### 8.8.3 Methodology used to assign internal capital and to establish limits for counterparty credit risk exposures

The philosophy behind counterparty credit risk management is consistent with the business strategy, and seeks to ensure the creation of value at all times whilst maintaining a balance between risk and return. To this end, criteria have been established for controlling and monitoring counterparty credit risk arising from activity in financial markets, which ensures that Banco Sabadell Group can carry out its business activity whilst adhering to the risk thresholds approved by Senior Management.

Exposure to counterparty credit risk is primarily concentrated in financial institutions, customers and central counterparties. Banco Sabadell Group generally manages its counterparty credit risk in a manner that is consistent with the management of credit risk, adapted to the various segments. The substantial difference is that to determine the value of the exposure to this risk, an internal approach is used, which takes into account both the current and potential future exposure. Current exposure represents the cost of replacing a transaction at market value in the event that a counterparty defaults at the present time. To calculate it, the current or Mark-to-Market (MtM) value of the transaction is required. The future exposure represents the risk that a transaction could potentially represent over a certain period of time, given the characteristics of the transaction and the market variables on which it depends. In the case of transactions carried out under a collateral agreement, the future exposure represents the possible fluctuation of the MtM between the moment the default occurs and the replacement of such transactions in the market. In the case of transactions not carried out under a collateral agreement, it represents the possible changes in MtM throughout the life of the transaction. In the case of central counterparties, the collateral deposited with them is considered, in addition to the current and future exposure.

The majority of counterparties involved in transactions with associated counterparty credit risk are financial institutions and central counterparties, and these are therefore subject to the routine risk management and control procedures set forth for the financial institutions segment. These mainly consist of:

- Management based on a system of pre-defined limits, which are approved annually by the Risk Operations Committee, the Delegated Credit Committee and the Board of Directors (for limits exceeding 350 million euros). The Credit Risk Control Unit proposes maximum limits for each counterparty which are subsequently distributed by operational unit and broken down by products and terms.
- When defining maximum risk limits, Banco Sabadell Group considers factors such as the rating of each institution calculated using the internal model, the long-term rating assigned by credit rating agencies and Banco Sabadell Group's own funds. These limits are conditional upon the total limit of the country in which the counterparties are located.
- Monitoring carried out by an independent specialised unit, to ensure that the various transactions remain within the established limits using an advanced system. Where the risk limits in place are breached, the transaction is subject to a separate and specific approval process.

### 8.8.4 Policies for ensuring the effectiveness of collateral and for allocating impairment allowances for counterparty credit risk

In order to mitigate its exposure to counterparty credit risk, Banco Sabadell Group has signed various contractual netting agreements with all of the financial counterparties with which it trades in derivative instruments and conducts repo transactions, as well as collateral agreements with financial counterparties which allow any incurred risk to be significantly reduced by means of the provision of guarantees.

Netting agreements allow positive and negative MtM values to be aggregated for transactions with a single counterparty, in such a way that in the event of default, a single payment or collection obligation is established in relation to all of the transactions closed with that counterparty.

Collateral agreements, as well as including the netting effect, also include the regular exchange of guarantees, which mitigate the current exposure (Variation Margin) with a counterparty in respect of the transactions subject to such agreement.

The Banco Sabadell Group Counterparty Credit Risk Policy sets forth the need to have netting agreements with all counterparties wishing to trade in derivatives.

This Policy also establishes the requirement to have collateral agreements in order to trade in derivatives or repos with financial institutions. Furthermore, for derivative transactions with such institutions, Banco Sabadell Group is required to exchange Variation Margin collateral with financial counterparties in order to mitigate the current exposure, pursuant to Delegated Regulation (EU) 2251/2016. The Policy sets forth that the Group's standard collateral agreement should, in line with the aforementioned regulation, be bilateral (i.e. both parties are obliged to deposit collateral) and that it should include a daily exchange of guarantees in the form of cash. In addition, in compliance with the aforesaid Regulation, Initial Margin contracts with financial counterparties under the obligation to enter into them are also required.

The contracts entered into with counterparties are the GMRA, GMSLA and the EMA for repo and securities lending transactions, the ISDA Master Agreement with its CSA Annex for derivative transactions and the CMOF with Annex III for the Variation Margin, while CTA and SA contracts are used for the Initial Margin. These documents constitute the market standard for the establishment of these guarantees. Both the Internal Control Unit and the Legal Advice Unit take part in negotiating the clauses of these contracts, in order to ensure that they have the necessary legal basis for the netting of transactions, and to ensure that the risk-taking and mitigation environment is in line with the Bank's policies.

Additionally, the Policy establishes that various monitoring exercises need to be carried out over transactions and levels of exposure in order to have available, at all times, an assessment of the levels of risk taken and the effect on those risk levels of netting agreements and collateral. This monitoring is carried out by the Internal Control Unit.

Regarding the methods used to apply allowances for this risk, the general criteria set forth by Banco Sabadell Group shall apply. These have been described previously in sub-section 8.2.2. Impairment of financial assets.

### 8.8.5 Policies with respect to wrong-way risk exposures

Derivative instruments and repos may, depending on the nature of specific transactions, give rise to adverse effects when the exposure to a specific counterparty is adversely correlated with the credit quality of that counterparty, such that, when the credit quality diminishes, the counterparty credit risk exposure rises (adverse correlation risk or wrong-way risk).

A distinction is drawn between general wrong-way risk, which arises when a counterparty's creditworthiness is adversely related to general market risk factors, and specific wrong-way risk, which arises when a given transaction's exposure is positively correlated with the counterparty's probability of default.

Banco Sabadell Group takes general wrong-way risk into account when monitoring counterparties, given that transactions that carry counterparty credit risk are covered by the usual procedures for setting exposure limits and monitoring credit risk in general.

Specific wrong-way risk, on the other hand, can arise particularly frequently in repo transactions, in which the guarantee provided by the transaction's counterparty is closely correlated with the counterparty itself.

The Banco Sabadell Group Counterparty Credit Risk Policy stipulates the need to monitor specific wrong-way risk, to take it into consideration when calculating exposures and to ensure it is subject to a specific framework. In this respect, there is a framework in place for issuing repo transactions that has been approved by the Technical Risks Committee, which lays down the general criteria for accepting transactions with specific wrong-way risk as well as cases where specific approval is required from both the Investments and Liquidity Committee and the Risk Operations Committee.

Specific wrong-way risk is identified through daily monitoring of transactions and is quantified by assigning higher exposures than those applied to transactions without this risk. In terms of its monitoring, monthly reports on specific wrong-way risk in repo transactions are prepared and submitted to the Investments and Liquidity Committee.

In terms of derivative transactions, the risk of these effects occurring is minimal, as there are no material exposures in which they can materialise.

### 8.8.6 Impact of collateral in the event of a downgrade of the Institution's credit rating

In the event of a downgrade in Banco Sabadell Group's credit rating, the impact is non-existent for all of the collateral agreements currently in effect. This is because in all of our netting agreements, the contribution of collateral is linked exclusively to the valuation of positions (mark-to-market).

### 8.8.7 Notional amount of credit derivative hedges and breakdown of current credit exposures

There are currently no credit derivative hedges in the Group, as all of its credit derivative transactions are concentrated in the trading book.

### 8.8.8 Notional amount of credit derivative transactions

Banco Sabadell Group has no credit derivatives as at 31/12/2022.

### 8.8.9 Quantitative information on Counterparty Credit Risk

The two tables below show, for Banco Sabadell Group's Counterparty Credit Risk, the same information reflected in previous chapters with regard to Credit Risk:

- Information on the exposure for which own funds requirements are calculated under the standardised approach, depending on the regulatory segment and risk weight.
- Information on the exposure for which own funds requirements are calculated under the IRB approach, depending on the regulatory segment and risk parameters.

## Table 58. Standardised approach – CCR exposures by regulatory exposure class and risk weights (EU CCR3).

| Exposure class | Risk weight | | | | | | | | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 0% | 2% | 4% | 10% | 20% | 50% | 70% | 75% | 100% | 150% | Other | |
| Central governments or central banks | – | – | – | – | – | – | – | – | – | – | – | – |
| Regional government or local authorities | 1,127 | – | – | – | – | – | – | – | – | – | – | 1,127 |
| Public sector entities | – | – | – | – | – | 4,579 | – | – | – | – | – | 4,579 |
| Multilateral development banks | – | – | – | – | – | – | – | – | – | – | – | – |
| International organisations | – | – | – | – | – | – | – | – | – | – | – | – |
| Institutions | – | 691,436 | – | – | 120,387 | 662,376 | – | – | – | – | – | 1,474,199 |
| Corporates | – | – | – | – | – | – | – | – | 52,922 | – | – | 52,922 |
| Retail | – | – | – | – | – | – | – | 2,005 | – | – | – | 2,005 |
| Institutions and corporates with a short-term credit assessment | – | – | – | – | – | – | – | – | – | – | – | – |
| Other items | – | – | – | – | – | – | – | – | – | 503 | – | 503 |
| **Total exposure value** | **1,127** | **691,436** | **–** | **–** | **120,386.8198** | **666,955** | **–** | **2,005** | **52,922** | **503** | **–** | **1,535,335** |

*Data as at 31/12/2022, in thousand euro.*

The majority of the exposure to counterparty credit risk calculated under the standardised approach is concentrated in transactions with qualified central counterparty clearing houses, which are weighted at 2%, and with financial institutions that have good credit quality and which are therefore weighted at 20% or 50%.

Table 59. IRB approach – CCR exposures by exposure class and PD scale (EU CCR4).

| | PD Scale | Exposure value | Exposure weighted average PD (%) | Number of obligors | Exposure weighted average LGD (%) | Exposure weighted average maturity (years) | RWEA | Density of risk weighted exposure amount |
|---|---|---|---|---|---|---|---|---|
| Corporates (F-IRB) | 0,00 a < 0,15 | 16,152 | 0.08% | 28 | 45.00% | 3.00 | 4,418 | 27.36% |
| | 0,15 a < 0,25 | 3,852 | 0.18% | 11 | 45.00% | 3.00 | 1,699 | 44.11% |
| | 0,25 a < 0,50 | 27,187 | 0.31% | 25 | 45.00% | 3.00 | 15,817 | 58.18% |
| | 0,50 a < 0,75 | 1,567 | 0.63% | 6 | 45.00% | 3.00 | 1,277 | 81.53% |
| | 0,75 a < 2,50 | 458 | 1.45% | 1 | 45.00% | 3.00 | 507 | 110.73% |
| | 2,50 a < 10,00 | 17 | 7.68% | 1 | 45.00% | 3.00 | 31 | 185.32% |
| | 10,00 a < 100,00 | 2 | 11.72% | 2 | 45.00% | 3.00 | 5 | 216.71% |
| | 100,00 (default) | 3,208 | 100.00% | 3 | 45.00% | 3.00 | — | — |
| | Subtotal | 52,443 | 6.35% | 77 | 45.00% | 3.00 | 23,755 | 45.30% |
| Corporates (A-IRB) | 0,00 a < 0,15 | 85,256 | 0.07% | 150 | 45.34% | 1.00 | 12,177 | 14.28% |
| | 0,15 a < 0,25 | 49,280 | 0.16% | 83 | 45.55% | 1.00 | 12,270 | 24.90% |
| | 0,25 a < 0,50 | 34,902 | 0.34% | 97 | 44.56% | 1.00 | 14,623 | 41.90% |
| | 0,50 a < 0,75 | 17,917 | 0.60% | 52 | 43.95% | 1.17 | 10,693 | 59.68% |
| | 0,75 a < 2,50 | 7,704 | 1.33% | 53 | 44.72% | 1.00 | 5,392 | 69.99% |
| | 2,50 a < 10,00 | 776 | 5.87% | 21 | 53.21% | 2.55 | 1,057 | 136.22% |
| | 10,00 a < 100,00 | 885 | 30.03% | 21 | 66.38% | 4.66 | 2,558 | 289.08% |
| | 100,00 (default) | 1,593 | 100.00% | 14 | 26.42% | 1.17 | 101 | 6.35% |
| | Subtotal | 198,312 | 1.19% | 491 | 45.08% | 1.00 | 58,871 | 29.69% |
| Retail (A-IRB) | 0,00 a < 0,15 | 16,504 | 0.07% | 85 | 44.18% | 1.00 | 1,083 | 6.56% |
| | 0,15 a < 0,25 | 12,596 | 0.16% | 50 | 44.48% | 1.00 | 1,567 | 12.44% |
| | 0,25 a < 0,50 | 7,784 | 0.32% | 64 | 44.16% | 1.00 | 1,533 | 19.69% |
| | 0,50 a < 0,75 | 3,993 | 0.61% | 43 | 44.30% | 1.00 | 1,142 | 28.60% |
| | 0,75 a < 2,50 | 4,032 | 1.30% | 50 | 43.86% | 1.00 | 1,569 | 38.91% |
| | 2,50 a < 10,00 | 649 | 5.12% | 17 | 46.54% | 1.00 | 361 | 55.61% |
| | 10,00 a < 100,00 | 285 | 33.66% | 6 | 50.36% | 1.00 | 301 | 105.75% |
| | 100,00 (default) | 1 | 100.00% | 1 | 33.86% | 1.00 | 0 | 2.63% |
| | Subtotal | 45,845 | 0.57% | 316 | 44.31% | 1.00 | 7,556 | 16.48% |
| **Total (all CCR relevant exposure classes)** | | **296,600** | **2.01%** | **884** | **44.95%** | **1.35** | **90,181** | **30.41%** |

*Data as at 31/12/2022, in thousand euro.*

*Counterparty risk exposures are not included in Project Finance.*

Having received authorisation for the permanent use of the standardised approach for financial institutions, the majority of the exposure to counterparty credit risk calculated under the AIRB and FIRB approaches is concentrated in the Corporates segment, the exposure in the Retail segment being residual. In addition, it is worth noting that the exposure is concentrated in segments with higher credit quality (lower PD).

A breakdown is given here below of the collateral received or given under derivative transactions or repos, indicating whether they are immune to default or not.

## Table 60. Composition of collateral for CCR exposures (CCR5).

| | Collateral used in derivative transactions[1] | | | | Collateral used in SFTs[2] | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair value of collateral received | | Fair value of posted collateral | | Fair value of collateral received | | Fair value of posted collateral | |
| Collateral type | Segregated[3] | Unsegregated[4] | Segregated[3] | Unsegregated[4] | Segregated[3] | Unsegregated[4] | Segregated[3] | Unsegregated[4] |
| Cash – domestic currency | 1,415,728 | 1,623,453 | 680,742 | 565,232 | — | 306,236.22 | — | 324,269.52 |
| Cash – other currencies | — | — | — | — | — | — | — | — |
| Domestic sovereign debt | — | — | 55,415 | — | — | 1,827,788.74 | — | 5,390,842.61 |
| Other sovereign debt | 115,661 | — | — | — | — | 1,571,906.93 | — | 1,316,185.85 |
| Government agency debt | — | — | — | — | — | — | — | — |
| Corporate bonds | — | — | — | — | — | 1,722,035.7 | — | 467,672.35 |
| Equity instruments | — | — | — | — | — | — | — | — |
| Other collateral | — | — | — | — | — | — | — | 1,002,037.39 |
| **Total** | **1,531,390** | **1,623,453** | **736,157** | **565,232** | **—** | 5,427,967.6 | — | 8,501,007.71 |

*Data as at 31/12/2022, in thousand euro.*

*[1] For the calculation of collateral in derivative transations, the Initial Margin and the Variation Margin contributed/received with each counterparty (including CCPs) are included.*

*[2] For the collateral used in SFTs, in addition to the Initial and Variation margin, the securities delivered/received as part of the repo operation itself are also included.*

*[3] Refers to collateral protected against bankruptcy.*

*[4] Refers to collateral non protected against bankruptcy.*

The following table shows a breakdown of the exposure and RWA calculation components, excluding positions with central counterparties (CCPs). For reconciliation purposes, it must be taken into account that the breakdown does not include potential future exposure, but only reflects the effect of the netting agreements and collateral on the risk exposure.

### Table 61. Analysis of CCR exposure by approach (EU CCR1).

| | Replacement cost (RC) | Potential future exposure (PFE) | EEPE | Alpha used for computing regulatory exposure value | Exposure value pre-CRM | Exposure value post-CRM | Exposure value | RWEA |
|---|---|---|---|---|---|---|---|---|
| EU - Original Exposure Method (for derivatives) | – | – | | 1.40 | – | – | – | – |
| EU - Simplified SA-CCR (for derivatives) | – | – | | 1.40 | – | – | – | – |
| SA-CCR (for derivatives) | 549,031 | 411,619 | | 1.40 | 937,290 | 937,290 | 946,880 | 413,101 |
| IMM (for derivatives and SFTs) | | | – | – | – | – | – | – |
| Of which securities financing transactions netting sets | | | – | | – | – | – | – |
| Of which derivatives and long settlement transactions netting sets | | | – | | – | – | – | – |
| Of which from contractual cross-product netting sets | | | – | | – | – | – | – |
| Financial collateral simple method (for SFTs) | | | | | – | – | – | – |
| Financial collateral comprehensive method (for SFTs) | | | | | 210,196 | 210,196 | 210,196 | 101,457 |
| VaR for SFTs | | | | | – | – | – | – |
| **Total** | | | | | **1,147,485** | **1,147,485** | **1,157,075** | **514,558** |

*Data as at 31/12/2022, in thousand euro.*

Lastly, a breakdown is set out here below of exposures with QCCPs and the corresponding capital requirements, breaking them down between QCCPs (qualified) and non-QCCPs (not recognised as qualified).

Table 62. Exposures to CCPs (EU CCR8).

| | Exposure value | RWEA |
|---|---|---|
| **Exposures to QCCPs (total)** | | **19,163** |
| Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which | 346,483 | 6,930 |
| (i) OTC derivatives | 90,583 | 1,812 |
| (ii) Exchange-traded derivatives | 208,295 | 4,166 |
| (iii) SFTs | 47,605 | 952 |
| (iv) Netting sets where cross-product netting has been approved | — | — |
| Segregated initial margin | 513,232 | |
| Non-segregated initial margin | 344,953 | 6,899 |
| Prefunded default fund contributions | 77,513 | 5,335 |
| Unfunded default fund contributions | — | — |
| **Exposures to non-QCCPs (total)** | | — |
| Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which | — | — |
| (i) OTC derivatives | — | — |
| (ii) Exchange-traded derivatives | — | — |
| (iii) SFTs | — | — |
| (iv) Netting sets where cross-product netting has been approved | — | — |
| Segregated initial margin | — | |
| Non-segregated initial margin | — | — |
| Prefunded default fund contributions | — | — |
| Unfunded default fund contributions | — | — |

*Data as at 31/12/2022, in thousand euro.*

### 8.8.10 Own funds requirements for Credit Valuation Adjustment (CVA) and Default Fund contribution

Own funds requirements for CVA and Default Fund contributions have been included in this chapter in order to be consistent with the pooling proposed by the EBA in Template EU OV1, in which Counterparty Credit Risk is separated from other risks.

The Credit Valuation Adjustment (CVA) indicates an adjustment made to the valuation, based on average market prices, of the portfolio of transactions with a counterparty in order to reflect the impact of the counterparty's credit risk on the fair value.

This adjustment reflects the current market value of the counterparty's credit risk with regard to the Institution, but it does not reflect the current market value of the Institution's credit risk with regard to the counterparty (Debt Value Adjustment, or DVA).

It is calculated for all OTC derivatives for all of its activities, with the exception of credit derivatives recognised for the purpose of reducing credit risk-weighted exposures.

Certain transactions are excluded from own funds requirements for CVA risk, including transactions with central counterparties, transactions with non-financial counterparties and intragroup transactions.

Table 63. Transactions subject to own funds requirements for CVA risk (EU CCR2).

| | Exposure value | RWEA |
|---|---|---|
| Total transactions subject to the Advanced method | — | — |
| i) VaR component (including the 3× multiplier) | | — |
| ii) Stressed VaR component (including the 3× multiplier) | | — |
| Transactions subject to the Standardised method | 497,964 | 138,978 |
| Transactions subject to the Alternative approach (Based on the Original Exposure Method) | — | — |
| **Total transactions subject to own funds requirements for CVA risk** | **497,964** | **138,978** |

*Data as at 31/12/2022, in thousand euro.*

Own funds requirements for pre-funded contributions to the default fund of CCPs amounted to 5,335 thousand euros as at 31 December 2022.

## 8.9 Securitisations

### 8.9.1 Definitions

Regulations on securitisations have recently undergone far-reaching reform, with the aim of providing greater protection for investors and increasing transparency through the creation of simple, transparent and standardised securitisations ("STS securitisation"), in addition to redefining the regulatory capital requirements.

The first stage of the reform was carried out through the publication of Regulation (EU) 2017/2401, amending Regulation (EU) 575/2013 on prudential requirements for credit institutions and investment firms, and the publication of Regulation (EU) 2017/2402, laying down a general framework for securitisations and creating a specific framework for simple, transparent and standardised (STS) securitisations. Both regulations became applicable as from 1 January 2019.

Banco Sabadell Group describes the treatment of securitisation transactions in accordance with the provisions of Regulation (EU) 575/2013, as amended by Regulation (EU) 2017/2401.

An explanation of a series of basic concepts is given here below, to assist with comprehension of the content of this chapter:

- Securitisation: transaction or scheme whereby the credit risk associated with an exposure or pool of exposures is divided into tranches, having both of the following characteristics:
  - Payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures.
  - The subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.
- Tranche: a contractually established segment of the credit risk associated with an exposure or a number of exposures, where each position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each of the other segments in line with the order of payment priority set forth in the securitisation, without taking into account credit risk protection provided by third parties directly to the holders of positions in the segment in question or in other segments. To this end, every securitisation position either forms part of a tranche or constitutes a tranche in itself. Therefore, different types of tranches may be distinguished, namely:
  - First loss tranche (or equity tranche): this is the most subordinated tranche in a securitisation. It is the first tranche to bear losses incurred on the securitised exposures and, consequently, it provides protection to the second loss tranche and, where relevant, higher ranking tranches.
  - Intermediate risk tranche (or mezzanine tranche): this tranche differs from a first loss tranche. It has a lower ranking than the highest ranking position in the securitisation, and ranks lower than any securitisation position within said agreement which has been assigned a level 1 credit quality where the securitisation has been treated using the standardised approach, or a level 1 or 2 credit quality where the securitisation has been treated under the IRB approach. It does not consider the credit risk protection offered directly by third parties to holders of the positions in the tranche in question or in other tranches.
  - High priority tranche (or senior tranche): any tranche that is not a first loss tranche or an intermediate risk tranche. The 'highest priority tranche' is the tranche of highest priority among the securitisation payments. This excludes any sums due under derivative contracts on interest rates or currencies, brokerage or other similar payments.
- Traditional securitisation: securitisation involving the economic transfer of the exposures being securitised to a 'securitisation special purpose entity' (SSPE) that issues securities. This can be accomplished by the transfer of ownership of the securitised exposures from the originator institution or through sub-participation, which shall include the signing of mortgage securities, mortgage transfer certificates and other similar securities by the 'securitisation special purpose entities' (SSPEs). Securities issued by SSPEs do not represent any legally binding payment obligations for the originator institution.
- Securitisation fund: companies incorporated under national or regional law, the principal activity of which is to:
  - Carry out securitisation transactions with no loan loss risk or any other compliance risk for the originator.
  - Issue securities, shares in securitisation funds, other debt instruments or financial derivatives, or which has, or intends to hold, in legal or economic terms, assets underlying the issue of securities, shares in securitisation funds, other debt instruments or financial derivatives which are offered for sale to the public or sold as private investments.
- Synthetic securitisation: means a securitisation where the transfer of the credit risk of an asset portfolio is achieved by the use of credit derivatives or guarantees (mainly Credit Default Swaps (CDS) or Financial Guarantees). In these transactions, protection sellers acquire a position equivalent to that of a direct investor in the tranche that they are securing.
- Re-securitisation: a securitisation in which at least one of the underlying exposures is a position in a securitisation.
- Originator institution:
  - An entity which, directly by itself or indirectly through other entities controlled by it or acting in concert with it, participates in the original agreement to create the obligations or potential obligations of the obligor or potential obligor, giving rise to the securitisation of the exposure. For securitisations of financial liabilities which represent collection rights of the issuing institution, the institution issuing such financial

liabilities shall not be considered an originator institution for the purposes of solvency.

– An entity which purchases a third party's exposures, recognises them on its balance sheet and then securitises them.

- Sponsor: an institution other than an originator institution that establishes and manages an asset-backed commercial paper programme or other securitisation scheme through which third party exposures are purchased.
- Investor institution: any institution or subject, other than the originator or sponsor, that holds a securitisation position.
- Management company: a company regulated by the specific legislation on securitisation market (Law 5/2015, of 27 April on the Promotion of Business Financing) and supervised by the CNMV, specialised in the incorporation, management and legal representation of securitisation funds.
- Arranger: entity responsible for designing the structure of a securitisation and determining credit enhancements and the different tranches of securities that will be issued. The arranger may also participate in their placing on the market. At an international level, this role is usually performed by investment banks, which work together with the credit rating agencies to reach a consensus on the ultimate structure although, if the structure is simple, the rating agencies may not be required to take part.
- Securitisation position: an exposure to a securitisation.
- Excess spread: difference between the interest rate received by the securitisation fund and the coupons paid on the bonds issued plus the fund's expenses.
- Simple, Transparent and Standardised (STS) Securitisation: introduced by Regulation (EU) 2017/2401 and Regulation (EU) 2017/2402, which create a new European legislative framework to harmonise the regime applicable to securitisations. Specifically, the aim is to differentiate simple, transparent and standardised securitisations from complex, opaque and risky securitisations. Originator institutions may only use the term STS when the securitisation is included in a list drawn up by the European Securities and Markets Authority (ESMA) that includes securitisations in which the originator institution has demonstrated that they comply with the requirements of simplicity, transparency and standardisation established in Articles 20, 21 and 22 of the aforementioned Regulation (EU) 2017/2402. In addition, STS securitisations carry more stringent requirements in terms of the volume of information to be reported to the regulator.

### 8.9.2 Objectives in relation to securitisation activity

The securitisation of assets facilitates the efficient management of the balance sheet, as it is a tool that allows:

- Generation of liquidity: transformation of relatively illiquid assets into marketable securities, which can allow liquidity to be gained in wholesale markets either through their sale or use as collateral, or as collateral to access central banks' facilities.
- Diversification of sources of funding: the diversification of the sources that Banco Sabadell Group uses to finance its activities, arising from its objective of obtaining liquidity.
- Capital management: securitisations in which there is a significant transfer of risk contribute to optimising capital management and to the generation of value.

Banco Sabadell Group operates a securitisation scheme which involves appropriate diversification of its securitised asset portfolios, adapting the volume of the scheme to the Group's liquidity and capital requirements and market circumstances. This scheme is supplementary to other sources of funding and capital, thereby diversifying the recourse to wholesale markets.

As occurs with any other wholesale funding transaction, the authorisation and approval of the various governing bodies is required to define Banco Sabadell Group's securitisation strategy and to realise or execute transactions.

### 8.9.3 Nature of other risks inherent in securitisation activity

Securitisation offers a series of advantages in terms of liquidity, capital and risk management, however, there are also certain risks associated with securitisation activities which are mainly assumed by the originator institution and/or the investor institutions. Specifically, these risks are the following:

- Credit risk: the risk of borrowers being unable to honour their contractual obligations in due time and form (e.g. the non-payment of mortgage loan instalments), which leads to the impairment of the asset which is backing the issued securities. This is the main risk transferred to investors through securities issued in the securitisation.
- Prepayment risk: risk arising from the early amortisation, either in full or in part, of assets that back the securitisation. As a result, the actual maturity of asset-backed securities is shorter than the contractual maturity of the underlying assets.
- Basis risk: risk that arises when interest rates or the maturity schedule of securitised assets do not coincide with those of issued bonds. This risk is generally covered by the originator institution using interest rate swaps.
- Commingling risk: this is the risk that affects all investors and which exists in transactions wherein the payment of interest on the underlying portfolio is not immediately transferred from the administrator to the securitisation fund.
- Liquidity risk: this risk can be interpreted in several ways. From the point of view of the originator, it is decreased by the securitisation process, which consists of transforming assets which are illiquid by nature into debt securities that can be traded in organised financial markets.

  In addition, in some securitisations there is a need to cover gaps between interest payments on the underlying assets and interest payments on the securitisation positions issued, which can be mitigated by liquidity facilities included in the securitisation structure itself.

  From the point of view of the investor, there is no guarantee that the bonds will be traded in the market with any minimum frequency or volume that will enable the investor to sell positions at any given time.
- Legal and operational risks: as with other types of financial transactions, securitisations are subject to operational risks, associated with the inadequacy of applied processes. In any securitisation, the greatest operational risk relates to

the operations required to claim and settle payments of cash flows related to the structure. Legal risks, however, are diverse in nature.

- Risk of loss of the STS denomination: the risk of loss of the STS denomination during the transaction lifetime. This risk is mainly due to material changes in the transaction or significant events that would oblige Banco Sabadell Group to review compliance with the STS designation. The loss of the STS designation could adversely affect investors, credit institutions and investment firms, as well as the Institution's reputation, and any other negative impact in accordance with Regulation (EU) 2017/2402.

### 8.9.4 Type of risks in terms of seniority of underlying securitisation positions

As mentioned in section 8.9.1 on definitions, asset-backed securities are issued following a specific order of priority for payment. The funds in which Banco Sabadell Group has participated tend to contain a specific number of tranches, each with its own credit rating and financial structure in line with market standards.

The first set of tranches, known as preferred or senior, which includes the series of bonds with the highest credit quality and therefore the highest rating, is followed by the intermediate or so-called mezzanine tranches, which are subordinate to the first set.

The lower part of the structure contains the tranches with the lowest credit quality, known as 'first loss' or 'equity' tranches. In some cases, these are subordinated loans or credit that Banco Sabadell Group has granted to the fund and, in other cases, they comprise a series of bonds. These equity tranches are used to cover the first losses of the securitised portfolio. For securitisations in which Banco Sabadell Group is the originator, these tranches have been retained in almost all cases. There are also tranches that fund the excess spread of the securitisation.

As originator, and in compliance with the provisions of Chapter 2, Article 6 of Regulation (EU) 2017/2402, Banco Sabadell Group has a commitment to constantly retain a significant net economic interest of at least 5% in securitisation funds which it has originated as from 1 January 2011, which it has done in Banco Sabadell Group securitisation transactions through the different options specified in the aforementioned regulation.

The traditional securitisation funds Sabadell Consumo 1, FT, incorporated in September 2019, Sabadell Consumo 2, FT, incorporated in July 2022 and Duncan Funding 2022-1 PLC, incorporated by TSB in August 2022, as well as the two synthetic securitisations of the portfolio of loans to SMEs and corporates carried out in June 2020 and September 2021 (Galera 1 and 2, respectively), together with the Boreas project finance securitisation carried out in September 2022, are all STS securitisations. It is worth noting that none of the other traditional securitisation funds of Banco de Sabadell have the STS denomination as they predate the securitisation regulation.

The traditional and synthetic securitisation funds originated by Banco Sabadell Group and issued through a vehicle are listed here below.

Table 64. Traditional and synthetic securitisation funds originated by Banco Sabadell Group.

**Traditional securitisation funds fully retained on the balance sheet.**

| Year | Securitisation Fund | Transferor |
|---|---|---|
| 2005 | TDA CAM 4 F.T.A | Banco Sabadell |
| 2005 | TDA CAM 5 F.T.A | |
| 2006 | TDA 26-MIXTO, F.T.A | |
| 2006 | TDA CAM 6 F.T.A | |
| 2006 | FTPYME TDA CAM 4 F.T.A | |
| 2006 | TDA CAM 7 F.T.A | |
| 2006 | CAIXA PENEDES 1 TDA, FTA | |
| 2007 | TDA 29, F.T.A | |
| 2007 | TDA CAM 8 F.T.A | |
| 2007 | TDA CAM 9 F.T.A | |
| 2007 | CAIXA PENEDES PYMES 1 TDA, FTA | |
| 2008 | CAIXA PENEDES FTGENCAT 1 TDA, FTA | |
| 2009 | GAT-ICO-FTVPO 1, F.T.H (CP) | |
| 2017 | TDA SABADELL RMBS 4, FT | |
| 2022 | SABADELL CONSUMO 2, FT | |
| 2022 | DUNCAN FUNDING 2022 PLC | TSB Bank PLC |

**Traditional securitisation funds fully derecognised from the balance sheet.**

| Year | Securitisation Fund | Transferor |
|---|---|---|
| 2006 | TDA 25, FTA | Banco Sabadell |
| 2010 | FPT PYMES 1 LIMITED | |
| 2019 | SABADELL CONSUMO 1, FT | |

**Synthetic securitisation funds.**

| Year | Securitisation Fund | Transferor |
|---|---|---|
| 2022 | BOREAS 1-2022 | Banco Sabadell |

With regard to the traditional securitisation transactions issued by Banco Sabadell and TSB, the purpose of the vehicles is to acquire the transactions originated by the originator. With regard to synthetic securitisation transactions, the purpose of the vehicles is to act as service providers and administrators.

### 8.9.5 Roles and involvement of the Institution in securisitation processes

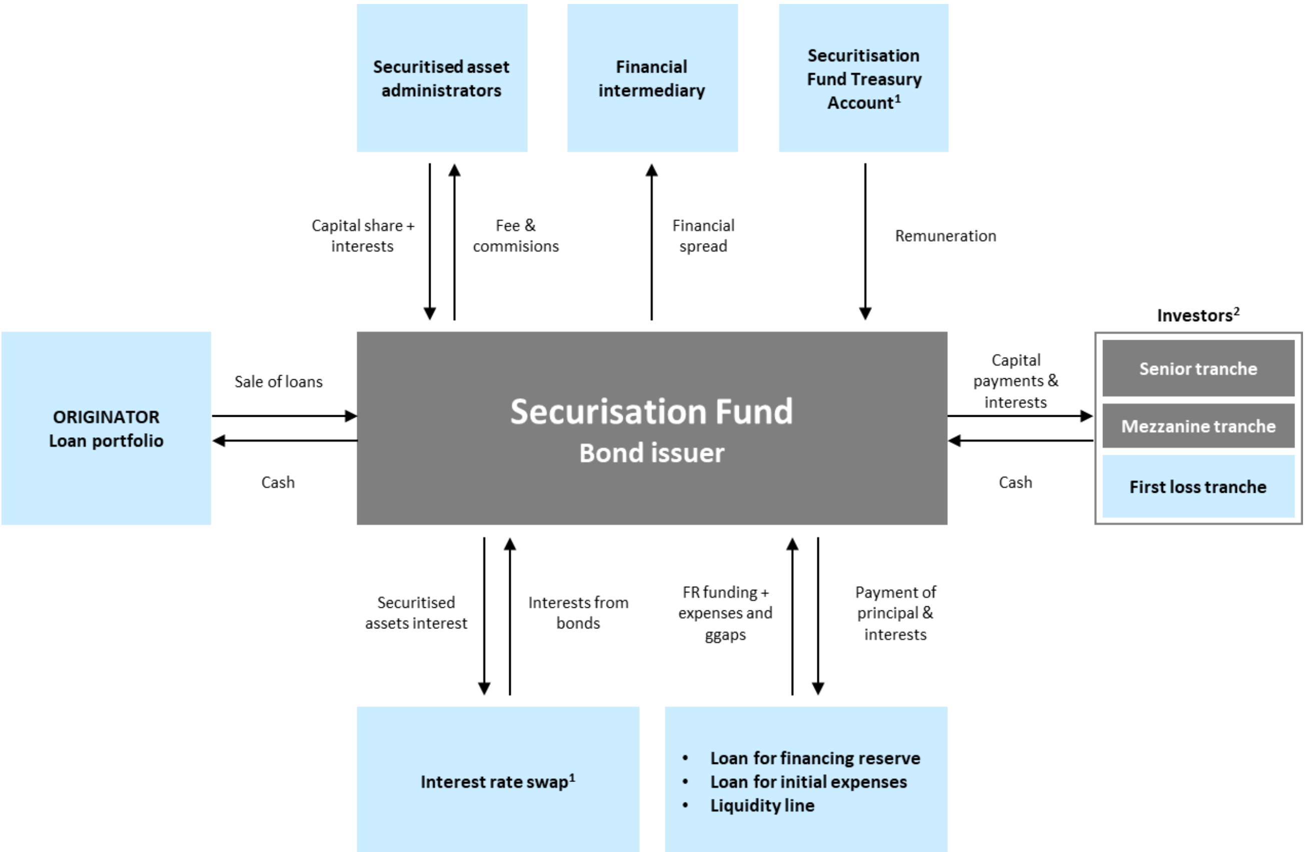
The main roles carried out by Banco Sabadell Group in its traditional securitisation processes have been the following:

- Originator: Banco Sabadell Group has participated in various securitisation programmes in which, either individually or, on occasion, together with other highly solvent institutions, the Group has assigned a portion of its residential mortgage loans, loans to small and medium-sized enterprises (SMEs), loans to corporates, financial lease rights and personal consumer loans, to be converted into asset-backed securities.
- Administrator of securitised portfolios: Banco Sabadell Group also acts as the administrator of securitised assets, managing the collection of principal and interest payments

as well as providing services issuing securities backed by these assets. Additionally, TSB's duties as an administrator are somewhat broader than the duties carried out by Banco Sabadell in Spain, and include the management of funds and the preparation of all necessary information in relation therewith.

- Provider of financing: Banco Sabadell Group also acts as a provider of financing for securitisation funds associated with subordinated loans for the creation of reserve funds and for loans to fund the initial expenses incurred by these vehicles.
- Counterparty: additionally, on occasion Banco Sabadell Group acts as counterparty in swaps made with securitisation funds to mitigate structural interest rate risk.
- Provider of the Fund's Treasury accounts.
- Subscribing entity: Banco Sabadell Group acts as subscribing entity in certain securitisation funds. The role of the subscribing entity or investor entity mainly relates to transactions originated to create collateral and which are retained. To a lesser extent, in transactions placed on the market, the Institution at times subscribes the more subordinated tranches of the fund.

Figure 36. Roles performed by Banco Sabadell Group in traditional securitisation processes.




*Functions performed by Banco Sabadell or TSB*

1 *This service is outsourced for some funds.*

2 *Senior and mezzanine tranches may be retained by Banco Sabadell or TSB, or placed amongst investors.*

In securitisation transactions originated outside of Spain, TSB mainly acts as: originator and administrator of the securitised portfolios, provider of financing and financial agent.

With regard to synthetic securitisation transactions, Banco Sabadell acts as originator and also services the underlying portfolio. For that reason, it acts as protection buyer, transferring credit risk to investors, and as monitoring and controlling agent of credit events, managing amortisations, debt collections and recoveries of credit events.

Banco Sabadell Group has not acted as sponsor in any of the securitisations carried out. Furthermore, it has not participated in structures known as Special Investment Vehicles (SIV) or conduits, which usually involve commitments by the transferors on the securitised assets, nor has it carried out transactions that could be considered re-securitisations, understood as securitisations in which at least one of the underlying exposures is itself a position in a securitisation.

Article 250 of the CRR, as amended by Regulation (EU) 2017/2401, sets forth that sponsor institutions, or originator institutions, which in respect of a securitisation have made use of Article 247(1) and (2) to calculate risk-weighted exposure amounts or that have sold instruments from their trading books, shall not provide financial support to the securitisation beyond their contractual obligations with a view to reducing investors' potential or actual losses.

The implicit support to which this article refers is a concept linked to the transfer of risk and refers to a situation in which originator institutions may be providing support to a securitisation beyond that contractually agreed, as a result of an actual or expected impairment in the credit quality of the securitised portfolio in order to reduce the actual or potential losses of investors.

Banco Sabadell Group does not provide implicit support in synthetic securitisations which involve significant risk transfer at the regulatory level

### 8.9.6 Affiliated entities investing in securitisations originated or issued by sponsored SSPEs

With the exception of amounts retained in Banco Sabadell's portfolio, no subsidiary of Banco Sabadell Group has in its portfolio asset-backed securities of funds constituted by Banco de Sabadell.

### 8.9.7 Accounting policies for securitisation activities

As mentioned in previous sections, one of the financing instruments that Banco Sabadell Group has used in the past to strengthen its liquidity position is asset securitisation.

Since 1993, Banco Sabadell Group has taken part in various securitisation programmes, sometimes acting together with other highly solvent institutions, assigning mortgage loans, loans to small and medium-sized enterprises, consumer loans and credit rights deriving from financial lease contracts. Generally, a portion of the bonds issued by securitisation funds have been placed in the capital markets and the remainder have been kept in the Group's portfolio. Of the latter, the majority have been pledged as collateral in return for access to Banco Sabadell's credit facility in the Bank of Spain. By retaining part of the tranches, the conditions to determine whether this produces an effective transfer of risk have not materialised.

The accounting of securitised transactions is conditional upon the extent and way in which the risks and benefits associated with the assets transferred are passed on to third parties, as set forth in applicable regulations.

Financial assets are derecognised from the balance sheet when they no longer generate cash flows or when their inherent risks and benefits have been substantially transferred to third parties, and no subordinated loans or any other type of credit enhancements of a significant amount are retained. While the assets are pending securitisation, they are kept in the same accounting portfolio with the same valuation criteria.

Additionally, assets securitised through securitisation funds prior to 2004, in accordance with the forward-looking application mentioned in paragraph 7.2.1 of IFRS 9, and in accordance with the First Transitional Provision of Bank of Spain Circular 4/2017, are not recognised on the balance sheet.

Transfers which do not involve derecognition from the balance sheet are accounted for in the following manner:

- A financial liability is recognised for the same amount as the consideration received for the securitised transactions. The financial liability is measured at amortised cost.
- The bonds or other type of financial instrument issued by the securitisation funds acquired by the Institution are accounted for, in both the individual and consolidated financial statements, as a deduction from the recognised financial liability.
- The transferred assets are kept on the balance sheet in the same accounting portfolio before and after the transfer and, as such, no changes are applied to the valuation criteria before and after securitisation.

Gains from the sale of financial instruments in transfers that entail derecognition from the balance sheet are only recognised once the requirements regarding the substantial transfer of risks and benefits described previously have been met. The result will be calculated as the difference between the carrying value and the sum of the consideration received, including any new assets obtained minus any liabilities assumed.

In relation to the accounting treatment of synthetic securitisations, securitised exposures remain on the balance sheet without entailing their transfer or sale, although their credit risk is transferred through financial guarantee contracts. For a contract to qualify as a financial guarantee, IFRS 9 stipulates that its issuer must make payments to reimburse the holder for the loss incurred when a specified debtor defaults on their payment obligations. In the case of the Institution, payments arising from synthetic securitisations are established exclusively for credit events and therefore refer to situations where there is a payment default or a similar situation. Thus, guarantees received are considered as financial guarantees for the purpose of calculating impairment losses on the securitised portfolio.

The asset-backed securities arising from the securitisations that are not consolidated and which are therefore recognised as "Financial assets at fair value through other comprehensive income" or "Non-trading financial assets mandatorily at fair value through profit or loss" are measured at fair value.

For the valuation of securitisation bonds, the market price will be used where reliable published prices exist. If no such price is available, the valuation is based on two fundamental input data, in addition to the yield curve, namely, the conditional prepayment rate (CPR) and the credit spread. CPRs are used to estimate the amortisation schedule of each securitisation. Generic securitisation indices are used for the credit spread. Using these input data, in addition to the yield curve, expected future flows of the bonds are estimated, which are valued by calculating their present value. Changes in values are generally due to changes in the envisaged amortisation schedule or changes in the bond's rating. During the current period, no changes were made to the valuation model.

In order to analyse the possible consolidation of securitisation funds to which Banco Sabadell Group's entities transfer their loan portfolios, the deciding factor in terms of determining who controls the entity and therefore its consolidation, is not voting or other similar rights; instead, the following factors are taken into account:

- Analysis of Banco Sabadell Group's influence over the significant activities of the vehicle that could influence the amount of its returns.
- Implicit or explicit commitments of the Group to provide financial support to the vehicle.
- Identification of the vehicle manager and analysis of the remuneration scheme.
- Existence of removal rights (possibility of dismissing managers).

- Significant exposure of Banco Sabadell Group to the variable returns on the assets of the vehicle.

For these securitisation transactions, in general there are contractual agreements relating to financial aid commonly used in the securitisations market. Therefore, it is considered that for most securitisations carried out by Banco Sabadell Group, the securitised assets cannot be derecognised from the asset side of the consolidated balance sheet and the issues of securitisation funds are recognised as liabilities. As at 31 December 2022, there was no significant financial aid from Banco Sabadell Group for unconsolidated securitisations.

### 8.9.8 Approaches to calculating risk-weighted exposure in securitisation activities

The approaches used to calculate risk-weighted exposure amounts in securitisation activities differ in terms of the fulfilment or non-fulfilment of conditions required to assume that a significant amount of risk has been transferred, as set forth in Articles 244 and 245 of the CRR.

For those securitisations in which such a significant transfer of risk occurs, Banco Sabadell Group uses the SEC-IRBA method (the Internal Ratings Based Approach). For those securitisation positions held for investment purposes, Banco Sabadell Group would use an external Rating Based Approach (RBA).

Where no risk has been transferred, capital requirements are calculated for the original securitised exposures, in line with the portfolio and the approach used, determined at the outset on the basis of their characteristics (standardised or IRB).

Specifically, as at 31 December 2022, Banco Sabadell Group calculates its capital requirements using the calculation of original securitised exposures for most securitisations, as it does not follow Article 247(1) of the CRR, since it does not consider that it entails a significant transfer of risk and the existence of positions with a risk weighting of 1,250% does not apply in any case.

The exceptions to the treatment explained in the previous paragraph are the Galera 1, Galera 2 and Boreas synthetic securitisations and the Consumo 2 traditional securitisation, for which significant risk transfer is considered to exist and for which the SEC-IRBA approach is used to calculate the risk-weighted exposures of the retained positions.

In addition, there are two securitisation funds in which all bond tranches have been sold, and Banco Sabadell Group does not grant any subordinated loans or liquidity facilities. These funds are PYMES 1 FPT originated in 2010 and Sabadell Consumo 1 originated in 2019. In the case of the latter, the tranche arranged to fund the brokerage margin was sold as well. These funds are fully deconsolidated based on compliance with IFRS 9, entailing full transfer of risks for Banco Sabadell Group. As all the cash flows from the securitised loans are transferred, the requirements for derecognition from the balance sheet apply to the entire portfolio.

As regards the STS consideration, the Galera 1, Galera 2, Boreas, Sabadell Consumo 1 and Sabadell Consumo 2 securitisations are considered STS as at 31 December 2022, while the other Banco Sabadell Group securitisations are not STS.

The Group does not currently use personal and hedging guarantees specifically to mitigate the risks of retained securitisation exposures.

### 8.9.9 ECAIs used for securitisations

As part of its securitisation activity, Banco Sabadell Group obtains an initial rating for bonds issued by the funds from any the following External Credit Assessment Institutions (ECAIs): Fitch Ratings, Moody’s Investors Service, S&P Global Ratings and DBRS, although there are also cases where bonds have not received a rating from any rating agency. The agencies monitor the ratings they have assigned to the bonds and review them at least once a year.

As part of its securitisation activity, if considered appropriate, Banco Sabadell requests an initial rating of the bonds issued by the funds by at least two ECAIs. Currently, the Institution generally uses two ECAIs which are among those accepted by the Eurosystem Credit Assessment Framework (ECAF) and, consequently, approved by the European Central Bank for its monetary policy. The only four ECAF-approved agencies are: S&P Global Ratings, Moody’s Investors Service, Fitch Ratings and DBRS Ratings which are the ones that the Bank usually uses, irrespective of the type of securitisation exposure. In specific cases, the Institution may select an agency that is excluded from the ECAF list, if it considers that the agency in question has sufficient market share and its methodology is widely accepted by investors. When selecting specific agencies for each tranche of a securitisation, factors such as the agency’s methodology and their product and service offering are taken into account.

In addition, Banco Sabadell Group monitors securitised positions by tracking changes in the credit quality of the underlying exposures and based on reports provided by the securitisation fund managers.

### 8.9.10 Monitoring of the main risks associated with securitisation

#### Credit risk

Banco de Sabadell Group generally applies the same criteria, policies and systems in its standard credit risk monitoring processes, irrespective of whether or not the exposures are securitised. Changes in the credit risk of securitisation positions correspond to changes in the risk of the underlying assets.

Banco Sabadell Group monitors on a monthly basis the overall default rate of the securitised portfolios and other indicators of the performance of each of the funds, for both securitisation funds held on the balance sheet and those fully derecognised from the balance sheet.

Banco Sabadell Group also monitors the credit ratings assigned by credit rating agencies to each tranche of the rated securitisation funds.

#### Market risk

Asset securitisation funds that are consolidated are recognised as liabilities on Banco Sabadell Group’s consolidated balance sheet and the retained exposures are determined by subtracting the value of on-balance sheet liabilities. On the other hand, bonds issued by asset securitisation funds that are not consolidated and have been purchased by Banco Sabadell Group are recognised under “Financial assets at fair value through other comprehensive income” and “Non-trading financial assets mandatorily at fair value through profit or loss”, therefore there are no securitisation positions in the trading book.

Most of Banco Sabadell Group's securitisation funds have arranged interest rate swaps in order to mitigate interest rate risk.

### 8.9.11 Banco Sabadell Group securitisation activity during 2022

The Bank currently has 16 outstanding traditional asset securitisation transactions held on the balance sheet (including securitisations of Banco Guipuzcoano, Banco CAM, BMN and TSB). Although a portion of the bonds issued are retained by the Bank and some of which are used as liquid assets that are eligible for ECB or Bank of England funding operations, the remaining bonds are placed in the capital markets.

In particular, the traditional securitisation funds fully retained by Banco Sabadell are the following: TDA SABADELL RMBS 4, FT, CAIXA PENEDES FTGENCAT 1 TDA, FTA, and GAT-ICO-FTVPO 1, F.T.H (CP).

With regard to Banco Sabadell Group's activity as an issuer of securitisations, the fund Sabadell Consumo 2, FT was incorporated in July 2022, with 750 million euros worth of securities placed on the market, comprising performing consumer loans granted to individuals resident in Spain. The securities were rated by DBRS and Fitch Ratings and it is the second transaction of these characteristics, following the launch of Sabadell Consumo 1, FT in September 2019. The fund will be fully retained on the balance sheet of Banco de Sabadell and the transaction was issued with an STS rating.

In August 2022, TSB incorporated the fund RMBS Duncan Funding 2022-1 PLC, in the amount of 1,333 million pounds sterling. The securities were retained in full and rated by Fitch Ratings and Moody's. The senior tranche (1.2 billion pounds) rated 'AAA' is expected to be eligible for liquidity operations with the Bank of England. Furthermore, the transaction was issued with an STS rating under the UK's securitisation regulation.

As at the end of 2022, the balance of traditional asset-backed securities placed in the market, corresponding to these traditional securitisations in which Banco Sabadell Group holds positions, stood at 1,251 million euros.

In September 2022, the Bank carried out its third synthetic securitisation, Boreas 1-2022, of a portfolio of project finance loans of 1 billion euros, having received a collateralised guarantee from institutional investors for 105 million euros, covering the tranche of between 0% and 10.5% of losses on the securitised portfolio. This transaction did not involve the derecognition of the securitised assets from the balance sheet.

The transaction has a preferential treatment for capital consumption purposes, because of its consideration as a significant transfer of risk and its STS securitisation denomination, in accordance with Articles 251 and 252 of Regulation (EU) 575/2013 as amended by Regulation 2017/2401, as well as Articles 26 bis to 26 sexies of Regulation (EU) 2017/2402 as amended by Regulation (EU) 2021/557.

In 2022, the following traditional securitisation funds have been called: the fund IM Sabadell PYME 11, FT was called early in June, by decision of the Bank as sole bondholder. The multi-seller fund TDA 23 was called early in September through a clean-up call, while the fund Caixa Penedés 2 TDA, FTA, whose securities had been fully retained by the Bank, was called in October.

No sales of retained asset-backed securities giving rise to income or expenses in Banco Sabadell Group's income statement have taken place in 2022.

Banco Sabadell has not, at any time, carried out an asset re-securitisation, understood as a securitisation in which at least one of the underlying exposures is itself a position in a securitisation.

The balance of Banco Sabadell Group's securitisation positions as at 2022 year-end by type of securitised asset is shown below.

The information in these tables does not include the Sabadell Consumo 1 F.T. fund, which was set up in September 2019 and which is an STS, as this is a fully deconsolidated fund in which Banco Sabadell Group does not hold a position. Nor does it include information on the private fund FPT PYMES 1 LTD, issued in June 2010, as it a fund that has been fully derecognised from the balance sheet and in which Banco Sabadell Group does not hold a position. This fund is not an STS securitisation as it predates the securitisation regulation.

The following table shows the exposures relating to the Institution's securitisations in the banking book, broken down by product type. The table sets out exposures corresponding to traditional securitisations, which amounted to 201,515 thousand euros and, separately, exposures related to synthetic securitisations, which represent a total of 2,433,156 thousand euros. The table also breaks down the securitisations according to the Group's role in each one although, as mentioned previously, Banco Sabadell only has securitisations in which it acts as originator.

## Table 65. Securitisation exposures in the non-trading book (EU SEC1).

| | Institution acts as originator | | | | | | | Institution acts as sponsor | | | | Institution acts as investor | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Traditionals[1] | | | | Synthetic | | | Traditionals[1] | | | | Traditionals[1] | | | |
| | STS | | No STS | | | | | | | | | | | | |
| | | of which: SRT | | of which: SRT | | of which: SRT | Subtotal | STS | Non-STS | Synthetic | Subtotal | STS | Non-STS | Synthetic | Subtotal |
| **Total exposures** | **179.093** | **–** | **201.515** | **–** | **2.433.156** | **2.433.156** | **2.813.764** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| Retail (total) | 179.093 | – | 201.515 | – | – | – | 380.608 | – | – | – | – | – | – | – | – |
| Residential Mortgage | 179.093 | – | 201.515 | – | – | – | 380.608 | – | – | – | – | – | – | – | – |
| Credit card | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Other Retail Exposures | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Re-securitisation | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Wholesale (total) | – | – | – | – | 2.433.156 | 2.433.156 | 2.433.156 | – | – | – | – | – | – | – | – |
| Loans to Corporates | – | – | – | – | 2.433.156 | 2.433.156 | 2.433.156 | – | – | – | – | – | – | – | – |
| Commercial Mortgage | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Lease and Receivables | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Other Wholesale | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Re-securitisation | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |

*Data as at 31/12/2022, in thousand euro.*

*[1] Calculated as the outstanding balance of the underlying of the traditional securitization applying the actual retention percentage for those securitizations with First Loss. The retained outstanding balance of traditional securitizations amounted to 6.520 million euros at June 30, 2023 at Group level.*

The following table provides details of the exposures relating to securitisations in which the Institution acts as originator or sponsor, broken down by product type and by segment. The table also shows securitisation exposures in default, which amount to a total of 314,061 thousand euros. The securitisations belonging to the Retail segment are those with the greatest exposure in default, amounting to 258,239 thousand euros. The table also includes the amount corresponding to the specific credit risk adjustment for securitisations, which amounts to 216,137 thousand euros.

**Table 66. Exposures securitised by the Institution - Exposures in default and specific credit risk adjustments (EU SEC5).**

| | Exposures securitised by the institution - Institution acts as originator or as sponsor | | |
|---|---|---|---|
| | Total outstanding nominal amount | | Total amount of specific credit risk adjustments made during the period |
| | Total | Of which exposures in default | |
| **Total exposures** | **9,269,679** | **314,061** | **216,137** |
| Retail (total) | 6,420,376 | 258,239 | 178,373 |
| Residential mortgage | 5,761,050 | 254,019 | 162,526 |
| Credit card | — | — | — |
| Other retail exposures | 659,327 | 4,220 | 15,847 |
| Re-securitisation | — | — | — |
| Wholesale (total) | 2,849,303 | 55,822 | 37,764 |
| Loans to corporates | 2,849,303 | 55,822 | 37,764 |
| Commercial mortgage | — | — | — |
| Lease and receivables | — | — | — |
| Other wholesale | — | — | — |
| Re-securitisation | — | — | — |

*Data as at 31/12/2022, in thousand euro.*

## 8.9.12 Securitisation structure with risk transfer

The following table shows the exposure and risk-weighted exposure of securitisations that meet the regulatory conditions for significant risk transfer, broken down according to their risk weighting and by the approach used to calculate the exposures.

Banco Sabadell Group currently has four securitisation funds that meet these characteristics: Galera I, Galera II, Boreas and Sabadell Consumo 2, the first three of these being synthetic securitisations. In addition, the risk-weighted exposure of all of these securitisations is calculated using the IRBA.

## Table 67. Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor (EU SEC3).

| | Exposure values (by RW bands/deductions) | | | | | Exposure values (by regulatory approach) | | | | RWEA (by regulatory approach) | | | | Capital charge after cap | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ≤20% RW | >20% to 50% RW | >50% to 100% RW | >100% to <1250% RW | 1250% RW/ deductions[1] | SEC-IRBA | SEC-IRBA (including IAA) | SEC-SA | 1250% RW/ deductions[1] | SEC-IRBA | SEC-IRBA (including IAA) | SEC-SA | 1250% RW/ deductions[1] | SEC-IRBA | SEC-IRBA (including IAA) | SEC-SA | 1250% RW/ deductions[1] |
| **Total exposures** | **2,431,994** | **–** | **–** | **–** | **1,162** | **2,431,994** | **–** | **–** | **1,162** | **261,010** | **–** | **–** | **–** | **20,881** | **–** | **–** | **–** |
| Traditional transactions | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Securitisation | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Retail | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Of which STS | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Wholesale | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Of which STS | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Re-securitisation | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Synthetic transactions | 2,431,994 | – | – | – | 1,162 | 2,431,994 | – | – | 1,162 | 261,010 | – | – | – | 20,881 | – | – | – |
| Securitisation | 2,431,994 | – | – | – | 1,162 | 2,431,994 | – | – | 1,162 | 261,010 | – | – | – | 20,881 | – | – | – |
| Retail underlying | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |
| Wholesale | 2,431,994 | – | – | – | 1,162 | 2,431,994 | – | – | 1,162 | 261,010 | – | – | – | 20,881 | – | – | – |
| Re-securitisation | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – | – |

*Data as at 31/12/2022, in thousand euro.*

[1] *The amount reported in this column corresponds entirely to the exposure value excluded from own funds.*

# 9

# Market Risk

# 9

The information contained in this chapter is in line with the reporting requirements in relation to market risk, with detailed information on market risk exposure in compliance with Article 445 of the CRR and detailed information on the use of the market risk internal models approach (IMA) in compliance with Article 455 of the CRR. It is also in line with the requirements related to market risk, Articles 2 and 15 of Commission Implementing Regulation (EU) 2021/637.

As is set forth below, information concerning the management and governance of market risk own funds requirements, and an explanation of the process to measure the fair value of financial assets and the system used to monitor financial asset valuations are disclosed bellow.

'Market risk' is defined as the risk of financial asset positions losing some or all of their market value due to changes in risk factors affecting their quoted price or market performance, their volatility, or the correlations between them. Banco Sabadell Group incurs market risk on the positions taken in its trading activity. Trading activity is defined as the activity carried out to serve customers and own positions taken by the Institution in order to obtain a short-term benefit by leveraging market opportunities.

**Figure 37. Trading book VaR over the past year.**

| | Minimum | Maximum | Medium |
|---|---|---|---|
| By interest rate | 0.61 | 2.21 | 1.08 |
| By exchange rate operating position | 0.90 | 2.42 | 1.30 |
| Equities | 0.00 | 1.24 | 0.13 |
| Credit Spread | 0.11 | 0.57 | 0.25 |
| **Aggregate VaR** | **2.10** | **4.81** | **2.75** |

*Data as at 31/12/2022, in million euros.*

## 9.1 Market risk management and governance

### Management strategies and processes

The management strategy is established in accordance with the RAF, in a way that enables the profitability targets set in the budget to be met and in line with the risk appetite established in the Group's RAS.

Market risk is managed through business units or trading desks that focus on a defined, specific activity. This activity corresponds to a particular type of business and this determines a market risk factor (interest rate, credit spread, exchange rate, equity) which is a predominant factor in the management of the desk's market risk. Each trading desk has a management strategy and key management objectives with a time period that is appropriate to the trading activity, as well as an annual business plan and certain defined limits in terms of market risk metrics. These limits are established in accordance with the RAS limits.

Banco Sabadell Group carries out stress tests on a regular basis (at least once a month), which are additional to regular market risk measurements. The results of these tests are reported to the trading desks and governing bodies.

### Governance and organisation

The governance structure for market risk management and control has as key pillars the direct involvement of Senior Management and the Board of Directors within the corporate model and a clear-cut definition of roles and responsibilities, including the approval of the management framework and ensuring its adequate implementation.

The Board of Directors is supported by the following committees, whose duties are described in Chapter 15. "Corporate Governance", for the management and control of market risk:

- Board Risk Committee
- Board Audit and Control Committee

As indicated in sub-section 5.2.3 "Organisation of the risk function", Banco Sabadell Group establishes its control framework based on the model of Three Lines of Defence. As regards the market risk function, the three lines of defence are the following:

**First line of defence:** comprised of the Treasury and Markets Division and the Financial Division, in charge of managing market risk and primarily focused on:

- The management of positions aimed at servicing customers, focusing on the management of interest rate risk, credit spread and foreign exchange risk, as well as the management of liquidity.
- The management of positions in interest rate and fixed income derivatives in search of market opportunities.

- The management of forex positions from investments in financial assets denominated in foreign currency.

**Second line of defence:** in addition to the Compliance Division, whose duties are described in sub-section 5.2.3, the second line of defence is comprised of the Internal Control Division. It is independent from the first line of defence and is responsible for:

- Identifying market risks associated with trading activity
- Defining the risk measurement methodologies
- Defining, reviewing and monitoring the established limits
- Establishing the market risk reporting framework

**Third line of defence:** comprised of the Internal Audit Division, which acts as an independent unit to oversee the monitoring, management and control processes for market risk. Details of its duties and responsibilities are described in sub-section 5.2.3 “Organisation of the risk function”.

### Measurement systems

The Board of Directors is in charge of defining the appetite to market risk within Banco Sabadell Group.

Market risk can be measured in a number of different ways, each of which gives a slightly different outlook which is complementary to the risk taken. Depending on the calculation complexity and the information provided, some methods may be more appropriate for an in-depth management while others may be best suited for the provision of a general overview of the risk taken.

For market risk measurement and management, the Banco Sabadell Group uses VaR and Stressed VaR RAS metrics, whose limits are transmitted to the various management arrangements, firstly at the level of each subsidiary and, subsequently, each subsidiary assigns a sub-limit of these metrics to each trading desk, together with sensitivity and stop-loss limits which are analysed and monitored on a daily basis. This makes compliance of their management objectives easier and reflects the market risk profile.

The VaR metric has a backtesting process, which is carried out daily, to ensure that it meets the model’s assumptions. This process consists of carrying out an assessment by comparing the actual results against the risk measurements forecast by the models. These types of tests also enable the identification of any potential shortcomings in the quality of the models.

To control market risk, different technological tools are used that enable a calculation to be made of all of the identified risks and results in relation to the trading desks, and which allow these calculations to be received and used in market risk monitoring and in subsequent reporting exercises. Financial information platforms are also used to consult prices and market quotations of the various instruments, as are end-of-trading data platforms, such as the repository of past market data that are subsequently distributed to other tools.

The Institution has a robust reporting system in place to manage market risk, enabling current and historical information to be obtained in order to facilitate the performance of management and control tasks.

Within this system, there are tools that enable the risk identification and measurement by the first and second lines of defence through:

- The capture, by the first line of defence, of details of all the economic information of financial transactions.
- The accounting reconciliation of positions managed in this tool, as well as full access for control and audit processes.
- The availability of market prices and data for the various instruments.

### Reporting

The Internal Control Division draws up a series of internal reports which are sent to the trading desks, the Investments and Liquidity Committee, the Board Risk Committee and the Board of Directors.

The reports escalated to governing and management bodies contain information on the activities carried out, profitability and the level of risk taken.

The reporting frequency is daily for the trading desk and monthly for other governing bodies.

### Mitigation measures

For market risk, mitigation is included within its own active management and continuous control and is reflected in the structure of limits, which is set consistently from the higher tier RAS metrics to the specific limits assigned to each trading desk. Each desk is responsible for its own risk management in accordance with the set limits. This risk is managed by arranging transactions in financial markets (fixed income, equity, foreign exchange and derivatives). The frequency of risk measurement and monitoring for all trading desks is daily.

### Risk Culture

The applicable information relating to the market risk culture is covered in sub-section 5.2.1 “Corporate risk culture”.

## 9.2 Own funds requirements for Market Risk

Banco Sabadell Group uses the standardised approach to calculate own funds requirements for market risk.

Banco Sabadell Group calculates its own funds requirements for the trading book for interest rate risk, share price and credit spread (known as position risk) of derivative, fixed-income and equity positions.

Additionally, Banco Sabadell Group is also subject to certain own funds requirements in relation to foreign exchange risk, due to its global foreign currency position. For this purpose, it should be considered that on 13 May 2016, the ECB granted Banco Sabadell Group a waiver from the calculation of own funds requirements to cover foreign exchange risk, with retroactive effect from December 2015, for structural positions in GBP and USD, pursuant to Article 352(2) of the CRR. The aim of requesting this waiver is to keep these positions open in order to protect the capital ratio against adverse effects of exchange rate fluctuations. Furthermore, the Group also received authorisation to exclude from the calculation of own funds requirements those positions already previously deducted from the calculation of own funds. On 15 July 2020, the ECB authorised said exemption for open positions in MXN.

The trading book can also be subject to certain additional capital requirements for concentration risk in a single counterparty, provided that the position in the latter exceeds the limits stipulated in Article 395 of the CRR.

Banco Sabadell Group is not subject to any additional requirements due to concentration risk in the trading book, since as at 31 December 2022 none of its counterparties exceeded the aforementioned limits.

Settlement and commodity risks are non-existent for Banco Sabadell Group, and therefore their associated capital requirements are also zero, as the Group holds residual exposures, both directly and in underlying assets.

Similarly, there are no capital requirements for interest rate risk of securitisation positions, as there are no instruments of this type in the trading book.

This chapter does not include minimum own funds requirements to cover counterparty credit risk, as these are included in **Chapter 8. Credit risk** of this document under the headings on standardised and IRB approaches, as applicable.

The following table shows the composition of the capital requirements for market risk of Banco Sabadell Group as at 31 December 2022:

**Table 68. Market risk under the standardised approach (EU MR1).**

| | RWEAs |
|---|---|
| **Outright products** | |
| Interest rate risk (general and specific) | 859,898 |
| Equity risk (general and specific) | — |
| Foreign exchange risk | 94,319 |
| Commodities risk | — |
| **Options** | |
| Simplified approach | — |
| Delta-plus approach | 42,427 |
| Scenario approach | — |
| **Securitisation (specific risk)** | — |
| **Total** | **996,644** |

*Data as at 31/12/2022, in thousand euro.*

Between 31 December 2021 and 31 December 2022, RWAs recorded a change of +417 million euros. The key components were:

- Change of +10 million euros in RWAs corresponding to foreign exchange risk, mainly due to small currency fluctuations in open positions.
- The rest of the change mainly corresponds to the evolution of the portfolio subject to interest rate risk.

In addition to the calculation of capital requirements for market risk, Article 105 of the CRR sets forth the requirements for a prudent valuation of positions measured at fair value. This article is developed in Commission Delegated Regulation (EU) 2016/101, which defines the portfolio subject to additional valuation adjustment (AVA) and the different calculation approaches, and which establishes its deduction from CET1 capital.

The amount deducted from own funds for AVA in Banco Sabadell Group as at 31 December 2022 amounted to 12 million euros. This amount has been calculated using the simplified approach, as defined in Article 4 of Commission Delegated Regulation (EU) 2016/101, as Banco Sabadell Group complies with the conditions necessary for the application of this approach.

## 9.3 Fair value of financial instruments

The fair value of a financial asset or financial liability at a given date is understood as the amount at which it could be sold or transferred, respectively, as at that date, between two independent and knowledgeable parties acting freely and prudently and without coercion in market conditions. The most objective and commonly used reference for the fair value of a financial asset or financial liability is the price that would be paid in an organised, transparent and deep market (“quoted price” or “market price”).

When there is no market price for a particular financial asset or financial liability, the fair value is estimated from the values established for similar instruments in recent transactions or, alternatively, by using mathematical valuation models that have been suitably tested by the international financial community. When using these models, the particular characteristics of the financial asset or financial liability to be valued are taken into account, particularly the different types of risk that may be associated therewith. The above notwithstanding, the limitations inherent in the valuation models that have been developed and possible inaccuracies in the assumptions and parameters required by these models may produce an estimated fair value of a financial asset or financial liability that does not precisely match the price at which the asset or liability could be delivered or settled on the valuation date.

The fair value of financial derivatives quoted on an active market is the daily quoted price.

In the case of instruments for which quoted prices cannot be determined, prices are estimated using internal models developed by Banco Sabadell Group, most of which take data based on observable market parameters as significant inputs. Otherwise, the models make use of other inputs which rely on internal assumptions based on generally accepted practices within the financial community.

All of these prices and values are calculated and disclosed by the Market Risk, Counterparty and Valuation Division for their use by the various stakeholders of the Institution.

Financial instruments are classified using the following fair value hierarchy levels:

- Level 1: fair values are obtained from the (unadjusted) prices quoted on active markets for that instrument.
- Level 2: fair values are obtained from the prices quoted on active markets for similar instruments, the prices of recent transactions, expected flows or other valuation techniques in which all significant inputs are based on directly or indirectly observable market data.
- Level 3: fair values are obtained from valuation techniques in which some significant inputs are not based on observable market data.

Banco Sabadell Group obtains the prices of Level 1 listed assets from external suppliers. With regard to standardised Level 2 financial instruments, the Group’s systems are standardised and automatically determine the value of the instruments. Non-standardised Level 2 instruments are valued by internal resources with the help of specialised systems.

*For further information on the main valuation methods, assumptions and inputs used to estimate the fair value of financial instruments, please see **Note 6** of the **Banco Sabadell Group consolidated annual financial statements,** in the document **Consolidated Annual Financial Report for 2022,** available on the Banco Sabadell Group website, under Shareholders and Investors, in the Economic and Financial Information section, sub-section Annual Reports.*

## 9.4 Control system for the valuation of financial instruments

Banco Sabadell Group establishes the need to carry out a daily valuation of all its positions, preferably at market prices (mark-to-market) or, failing that, using valuation models commonly accepted in the market (mark-to-model).

To ensure control over these valuations, there are units in place that implement specific control processes on the prices of financial instruments and also on the valuations carried out within Banco Sabadell Group, which ensure that these are recognised in the financial statements in accordance with the valuations used by the Group for their management.

With regard to market prices, Banco Sabadell Group implements control processes, in some cases on a daily basis, through which it monitors the prices reported by both external and internal suppliers, as well as their evolution. These procedures include warning systems which allow any errors that have occurred and that affect the valuation of financial instruments to be detected and corrected.

With regard to valuations carried out internally, Banco Sabadell Group verifies their consistency using internal checks, comparing these valuations against market price movements, as well as external checks, such as counterparties and clearing houses, particularly in relation to its bilateral derivative trades.

# 10

# Operational Risk

# 10

The information contained in this chapter is in line with the reporting requirements in relation to operational risk, with detailed information on operational risk exposures, in compliance with the requirements of Article 446 of the CRR and Articles 2 and 16 of Implementing Regulation (EU) 2021/637, respectively. This chapter does not contain the information required pursuant to Article 454 of the CRR, in relation to the use of Advanced Measurement Approaches (AMA) to calculate operational risk, as this is not applicable given that the Institution is not authorised to use advanced measurement approaches.

Information is provided hereafter regarding the management and governance of operational risk and the own funds requirements for operational risk, including the approach used for their calculation.

Banco Sabadell Group defines operational risk as the risk of incurring losses due to inadequacies or failures of processes, staff or internal systems and due to external events.

Figure 38. Losses by type of risk over the past year.

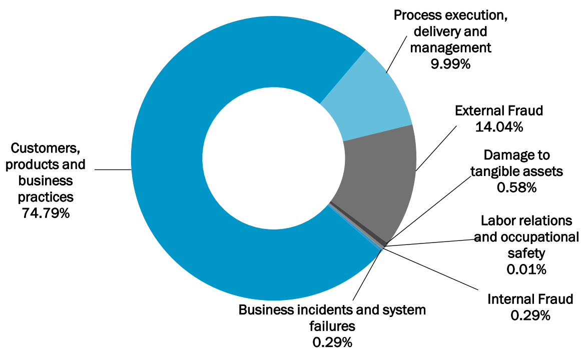
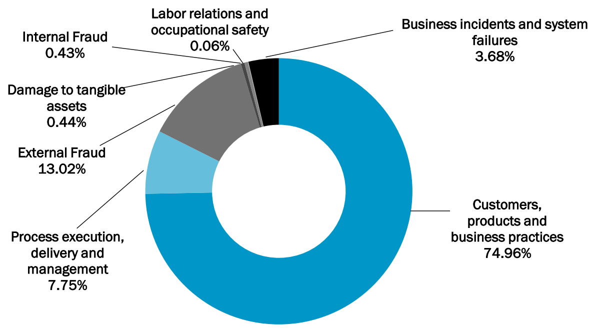



Figure 39. Losses by type of risk over the past 3 years.




## 10.1 Operational risk management and governance

Banco Sabadell Group understands that operational risk is inherent in its business activity; therefore, its existence, in economic terms, can only be justified when there is a positive relationship between the capital used by the value at risk and the return obtained with such value.

Given the diverse nature of operational events, Banco Sabadell Group includes the management and control of the following material risks: IT risk, Outsourcing risk and Model risk.

### Management strategies and processes

Banco Sabadell Group's current operational risk management strategy, in line with the business model and objectives, is fixed in accordance with the Risk Appetite Framework (RAF).

The general policy is to reduce its levels of exposure to this risk, seeking an economic balance between such reduction and the cost that this entails for mitigating activities or instruments and adhering at all times to the limits set forth in the RAS and its management framework.

Banco Sabadell Group's current operational risk management strategy is based on a decentralised model with a cross-functional layer of control to ensure consistency, and it is built on the following principles and pillars, according to the business model and the defined strategic objectives:

- Risk classification, following the definitions and criteria established in the Group's Operational Risk Policy, in order to ensure compliance with regulatory requirements (Regulation UE 575/2013 on prudential requirements of credit institutions and other related standards, guidelines and circulars), as well as consistent identification and management of operational risk.
- Identification and assessment of operational risk, using the following mechanisms to facilitate the identification and assessment of the operational risk inherent in all products, activities, processes and systems, which make it possible to ensure adequate management of this risk at all times:
  - Map of operational risks
  - Self-assessment questionnaires

- Scenario analysis
- Internal and external loss databases
- Risk indicators

- Establishment of management objectives, so as to reduce the levels of exposure to it at the same time, as seeking the economic benefit between this reduction and the cost that this entails in mitigating activities or instruments.
- Definition of action plans and monitoring of improvements, aimed at enhancing a process, the result of which is to make it more robust by mitigating the associated operational risk.
- Assessment of Operational Risk in change management processes (new products/services, important projects, new outsourcing arrangements), identifying and assessing the operational risks inherent to those changes that may increase exposure to operational risk, and in particular, to organisational changes, launch and implementation of new products and services, changes in work systems or marketing channels, as well as changes in business processes and transformations.
- Availability of a business continuity plan, ensuring the quality and completeness of the Institution's disaster recovery and business continuity plans in scenarios of serious business disruptions that could plausibly affect the Institution.
- Culture, training and staff awareness, promoting a culture of operational risk management and awareness of it throughout the organisation, establishing training initiatives for staff and setting objectives to reduce operational losses.
- Capital adequacy for operational risk, ensuring the inclusion and verification of capital adequacy for operational risk purposes in the Internal Capital Adequacy Assessment Process (ICAAP) approved by the governing body, in line with the Institution's established appetite for operational risk.

Banco Sabadell Group calculates its requirements using the Advanced Measurement Approach (AMA) for Pillar 2, which it reports to the Internal Control Unit, although it has not been granted supervisory authorisation to use it in the calculation of Pillar 1 requirements (calculated using the Standardised Approach).

In addition, Banco Sabadell Group carries out stress tests on a regular basis, which are additional to regular operational risk measurements.

## Governance and organisation

The governance structure for operational risk management and control has as key pillars the direct involvement of Senior Management and the Board of Directors within the corporate model and a clear-cut definition of roles and responsibilities, including the approval of the management framework and ensuring its adequate implementation.

The Board of Directors is supported by the following committees, whose duties are described in Chapter 16. Corporate Governance, for the management and control of the risk:

- Board Risk Committee
- Board Audit and Control Committee

As indicated in sub-section 5.2.3 "Organisation of the risk function", Banco Sabadell Group establishes its control framework based on the model of Three Lines of Defence. With regard to the operational risk function, the scheme is as follows:

**First line of defence:** it is made up of the senior managers of the various Business Units who are the key players of the first line of defence of the Institution's activity, due to their knowledge and experience in these areas and to the proximity of the controls to existing operational risks. This line of defence also includes Operational Risk Coordinators who are responsible for facilitating communication between the second line of defence and their area of responsibility, as well as promoting the risk culture:

- Carry out regular self-assessments of these risks and controls.
- Register and report losses that must be accounted for within their scope of responsibility.
- Start the workflow for possible allocation or revision of provisions when a potentially material event is detected, providing an analysis of potential impacts in different risk scenarios, including that of maximum total theoretical risk.
- Design, maintain, manage and operate KRIs.
- Participate in scenario analysis.
- Follow any mitigation plans that may have been determined.
- Provide management information on operational risk that is necessary for monitoring and decision-making by the Management Committee or equivalent body to which they are attached.
- Provide the Internal Control Unit with the necessary minutes and documentation to monitor the operation of the management model.
- Implement the management model when new activities are added to its scope of responsibility.
- Carry out operational risk training and awareness-raising activities.

In addition, there are expert units in various areas which, due to their skills and knowledge, facilitate the management and control of some of the Institution's most significant risks.

The effective management of operational risk is decentralised and devolved to process managers throughout the organisation. All of these processes are indicated in the corporate process flowchart, which facilitates the integration of data throughout the organisation. The map of operational risks and controls is built on the basis of these processes, which are reviewed every year. The main Banco Sabadell Group subsidiaries have a central unit specialising in the management of operational risk, whose main duties are to coordinate, supervise and promote the identification, assessment and management of risks by the process managers, based on the management model adopted by Banco Sabadell Group.

**Second line of defence:** in addition to the Compliance Unit, whose duties are described in sub-section 5.2.3 ''Organisation of the risk function'', the second line of defence is comprised of:

- The Internal Control Unit, whose main duties are to:
  - Ensure compliance with the regulation in force for operational risk and compliance with the approved objectives.
  - Develop and maintain the operational risk management model across all the Institution.

- Analyse the Institution's operational risk profile. Communicate and roll out the operational risk management model.
- Provide adequate training and awareness-raising activities for all staff.
- Coordinate and ensure the integrity of the identification of operational risk events and monitor or follow up on the mitigation actions associated with losses that are material, either due to their individual amount or due to the accumulation of certain causal factors.
- Ensure prudence and quantification of provisions, and their suitability and sufficiency for operational risk events.
- Plan, coordinate and supervise the annual self-assessment of risks and controls across all the Institution.
- Coordinate and promote the development and management of key operational risk indicators (KRIs).
- Plan and promote the execution of scenario analysis activities.

• Validation Unit: Responsible for measuring operational risk. As it uses statistical models, it is subject to methodological validation by a unit that is separate from the Internal Control Unit and the Finance Unit.

**Third line of defence:** comprised of the Internal Audit Division, which acts as an independent unit to oversee the monitoring, management and control of operational risk. Details of its duties and responsibilities are described in sub-section 5.2.3 "Organisation of the risk function.

## Measurement system

The Board of Directors is in charge of defining the appetite to credit risk within Banco Sabadell Group.

The self-assessment of risks and their controls is used to identify and evaluate potential operational risks and their controls/mitigating factors and to obtain an economic quantification of each process and area of activity. In this assessment, economic impacts are estimated in a central scenario and in a stress scenario using a forward-looking approach, and a qualitative estimate of the reputational impact on both customers and the general public is included.

To measure and manage this risk, Banco Sabadell Group makes use of RAS metrics calculated monthly and which are subject to the established approval process, so that they reflect the Institution's risk appetite. The main aspects monitored are the following:

• Losses due to operational risk, separating those due to conduct risk from the rest.

• Indicators of customer complaints.

This set of indicators is complemented with other metrics and indicators for the most material types of risk facing each entity, in particular for conduct risk, IT risk, compliance risk, talent risk and tax risk.

The acceptance level for this risk is analysed via this self-assessment, as well as the implementation of new products and services, changes in work systems or sales channels and organisational changes. These changes include an analysis of their impact on the levels of exposure to operational risks and specify the control and prevention mechanisms that need to be taken into account during the implementation stage.

In addition, cross-sectional scenario analysis exercises are carried out in order to identify potential events that have a very low likelihood of occurrence, but which may entail a very high loss. Internal and/or external subject-matter experts are used to assess them using a forward-looking approach. Furthermore, through these exercises, an assessment is made of the Institution's readiness for this type of situation, its response capability and integration into management procedures for those actions that are less recurrent.

A database is available containing historical records of actual losses arising from operational risk for most territories dating back to 2002. It is constantly being updated as information is received on losses and recoveries, whether resulting from the Bank's own efforts or from insurance. Other management tools are also used: internal assessments of risks and controls, benchmarking of operational events external to Banco Sabadell Group, etc.

## Reporting

The Bank has established reporting flows that cover the needs of the various participants in the management, control and monitoring of operational risk, through regular reports and *ad hoc* reports.

The operational risk control function periodically assesses and reports the Group's risk profile to the Board Risk Committee. It also provides the latter with a consolidated report that includes the most relevant information on the management and control of this risk and on matters requiring a decision to be made by the Board Risk Committee. This report includes forward-looking metrics to monitor risk management and control. Accordingly, this includes information on the current status of the risk, its evolution in recent years, an overview of the main lines of management and comments on the most relevant milestones. For those risks that are more relevant, specific dashboards are prepared that provide complementary information to the previous one and specific to the type of risk in order to offer an overview that is more comprehensive and focused on its monitoring. In addition, monographs are prepared on the most relevant issues that have occurred in the Institution or that, being systemic problems in the sector, may have a big impact on it.

The various first line of defence participants involved in operational risk management have at their disposal a tool that periodically updates information on management elements such as risks and controls, their assessments, recorded events, risk indicators established for monitoring purposes and the improvement plans and actions associated with the processes under their areas of responsibility. They also have daily information on the evolution of these risks in relation to the events that are recorded.

Upon completion of the regular review and re-evaluation of the risk and control map, a report is prepared for each area involved in that exercise, with complete information on the level of risk exposure, estimates, comparison with the other management elements and conclusions from the second line of defence and likely recommendations.

In addition, the Group prepares the information required in order to comply with applicable legal and supervisory obligations and to follow best practices relating to market transparency.

## Mitigation measures

The mitigation of operational risk is included in the risk's active management and ongoing control arrangements and reflected in the structure of limits, which is established in a consistent manner based on the RAS metrics. The active management of the risk ensures that the exposure to operational risk is consistent with the tolerance level defined in the RAS.

The operational risk management and control framework defines a continuous improvement process for the Institution's processes which, when it has an effect or impact on operational risk, is reflected in the review and re-evaluation of the risk and control map which is updated annually. To this end, the Bank has a flowchart to register these actions and the necessary evidence to ensure their implementation and effectiveness.

In addition, there are points in time when a review is needed outside the planning previously carried out and which ensures that it is done at least annually.

The management of operational risks entails an ongoing improvement process in order to place the risk exposure at acceptable levels in accordance with the approved Risk Appetite Statement. Improvement and mitigation actions are recorded in a specific application which is available to the entire organisation, which allows the improvement process to be traceable. Once implemented, their mitigating effect is included in the subsequent internal risk and control assessment process, thereby adapting the assessment to the new situation. All of the information generated by the management model is accessible to the entire management structure, so as to allow all persons responsible for the processes and hierarchical structure to be aware of any changes in their respective risk profiles at all times.

## Risk Culture

The applicable information relating to the operational risk culture is covered in sub-section 5.2.1 "Corporate risk culture".

## 10.2 Internal model for the measurement of Operational Risk

Banco Sabadell Group has a tool and an advanced measurement methodology which enables it to carry out the quantification and management of the exposure to operational risks in a way that is more aligned with the Institution's risk profile. It is currently not authorised to use AMA in its Pillar 1 capital requirements calculation, although it is used for other purposes, such as the calculation of economic capital needs, financial planning, stress tests and operational risk control.

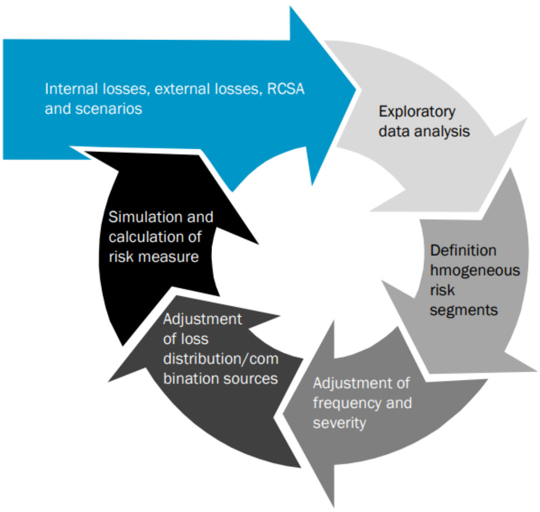
The methodology is based on a Loss Distribution Approach (LDA) and combines the internal historical experience in operational risk losses, external losses observed in the sector in Europe and in institutions of a comparable size, as well as the valuations of this risk and the internal control environment carried out by experts in Banco Sabadell Group's processes and operational risk, resulting in an estimate of expected (or most likely) loss and of the potential maximum losses which could arise over one year with a high (i.e. stressed) confidence interval of 99.9%.

The items which are included in the model and guarantee a sound assessment of the risk are:

- Historical record of internal losses: Banco Sabadell has a database which has been reconciled with the accounts and which includes the loss events which imply a gross loss above 0 euros. Said database is the result of the Institution's historical operational risk exposure and the risk management carried out. TSB also has its own database reconciled with the accounts, with a loss threshold starting at 5,000 pounds.
- Risk Control Self-Assessment (RCSA): the Institution has a risk map and, on an annual basis, it carries out a forward-looking qualitative assessment of the risk assumed at this level, as it estimates potential losses for the next year. The assessment takes into account controls and their efficiency.
- External losses: data related to significant loss events due to operational risk of the international consortium ORX are also used as an input in the calculation process. In this way, information is included on losses arising in companies in the sector comparable in size to the Institution and which have possibly not been observed internally but which could potentially materialise.
- Scenarios: a qualitative assessment is made of hypothetical severe operational risk events, in which various causal factors to which the Institution is exposed occur simultaneously. These hypothetical events are assigned an estimated probability of occurrence, which is also evaluated in an expert manner. This makes it possible to quantify losses in the event of the materialisation of improbable, but not impossible, high-impact events.

The risk quantification process consists of the stages shown below:

**Figure 40. Operational risk quantification stages.**



## 10.3 Calculation of own funds requirements to cover Operational Risk

Banco Sabadell Group calculates its own funds requirements using the standardised approach, in accordance with Chapter 3, Title III of Part Three of the CRR.

### Calculation approach

To calculate own funds requirements using the standardised approach, the relevant income for each of the last three financial years must be calculated, adding the following components of the consolidated income statement under the prudential scope of consolidation:

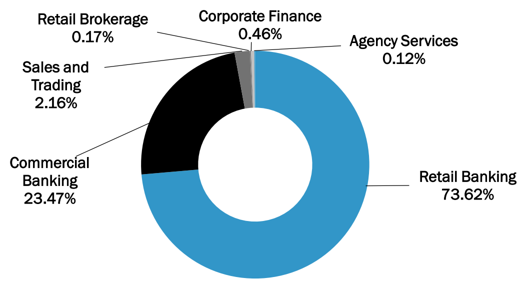
- Interest receivable and similar income.
- Interest payable and similar charges.
- Returns on capital instruments.
- Commissions/fees receivable.
- Commissions/fees payable.
- Net trading income.
- Exchange differences (net)
- Other operating income and expenses.

Banco Sabadell Group allocates relevant income associated with regulatory lines of business using an internal income statement broken down into business segments, which is more detailed and which has been adapted to the provisions of the relevant regulations. It is thus possible to allocate each of the internal businesses to one of the business lines defined in the regulation and apply the respective ratios in order to calculate own funds requirements (Article 317 of the CRR). The average ratio of the Institution for 2022 was 12.86%.

Article 316 of the CRR states that relevant income should not include income from insurance, extraordinary or irregular items, or results from the sale of non-trading book items.

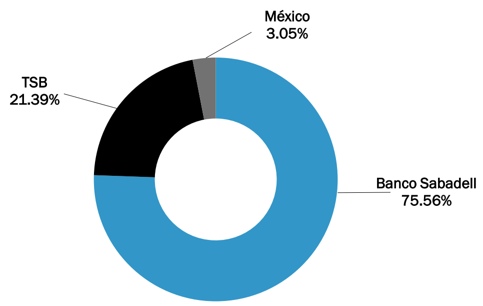
In the calculation carried out by Banco Sabadell Group, as at 31 December 2022, the regulatory scope automatically excludes income from insurance. Extraordinary gains from insurance claim recoveries linked to TSB's migration have been excluded and so too have profits/losses from non-trading book items. The following charts show the average weights of relevant income over the last three years for each line of business. It is clear that the business lines with the highest weight in the Group are Retail Banking and Commercial Banking, in that order. The comparatively low weight of other wholesale businesses in the Group is also evident. In addition, it is worth noting the non-existent contribution of the asset management business line as a result of the sale of the asset management company in 2021.

Figure 41. Percentage of average revenue by line of business.




Additionally, the breakdown of the percentage of income recognised for the purpose of each subsidiary's capital requirements calculation and the contribution to consolidated capital requirements to hedge against operational risk represented by each of the most significant subsidiaries is also shown, and illustrates the level of the Group's geographical diversification, where TSB is a retail business, whereas Mexico is a business that mostly focuses on business banking.

Figure 42. Percentage of revenue by subsidiary.




The following table shows the relevant income for the last three years, and the own funds requirements for operational risk corresponding to Banco Sabadell Group, broken down according to the calculation method used. The total amount of operational risk-weighted assets as at 31 December 2022 amounted to 8,160,674 thousand euros, representing a change of +229,303 thousand euros compared to the amount in the previous year, fundamentally due to an increase in the relevant indicator as the year 2019 was replaced with the year 2022 in the calculation of that indicator.

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Table 69. Operational risk own funds requirements and risk-weighted exposure amounts (EU OR1).

| | Relevant indicator | | | Own funds requirements | Risk exposure amount |
|---|---|---|---|---|---|
| | Year-3 | Year-2 | Last year | | |
| Banking activities subject to basic indicator approach (BIA) | – | – | – | – | – |
| Banking activities subject to standardised (TSA) / alternative standardised (ASA) approaches | 4,828,143 | 4,950,573 | 5,445,919 | 652,854 | 8,160,674 |
| Subject to TSA: | 4,828,143 | 4,950,573 | 5,445,919 | 4 | – |
| Subject to ASA: | – | – | – | | |
| Banking activities subject to advanced measurement approaches AMA | – | – | – | – | – |

*Data as at 31/12/2022, in thousand euro.*

## 10.4 Other risks

Given the diverse nature of operational events, Banco Sabadell Group includes the management and control of the risks classified as material during 2022: IT risk, Outsourcing risk and Model risk[6]. Based on their idiosyncrasy and irrespective of any particularities that may exist, these risks hinge on the same governance and organisation mechanisms and risk culture described in section 10.1. Operational risk management and governance.

### 10.4.1 IT Risk

IT risk (or Information and communication technology (ICT) risk) is defined as the current or future risk of losses due to the inadequacy or deficiencies of hardware and software of technical infrastructures, which may compromise the availability, integrity, accessibility, confidentiality or traceability of infrastructures and data, or the inability to change technology platforms within reasonable timeframes and at reasonable costs when the environment or business needs change. This also includes security risks resulting from inadequate or failed internal processes or external events, including cyberattacks or inadequate physical security relating to data processing centers.

In relation to IT risk, it should be noted that it has become a key focus area in the risk management of Banco Sabadell Group for different reasons:

- Increase in the significance, complexity and use of technology in banking processes.
- Increase in external threats (cybercrime) and their potential impacts on institutions and the financial system in general.
- Implementation of new business models based on data and new technologies and which therefore bring new risks (emerging risks) which could potentially change Banco Sabadell Group's risk profile.

Additionally, this risk is not only applicable to Banco Sabadell Group's own systems, but it is also applicable to suppliers, given the widespread use of third parties for support in technological and business processes, and this therefore represents a significant risk when it comes to managing outsourcing.

#### Management strategies and processes

The main aim is to proactively manage this risk in order to anticipate, detect and respond, to the extent possible, to potentially problematic risk situations in an appropriate and timely way, in order to mitigate the impacts stemming from the materialisation of IT risks, seeking to ensure that the level of exposure to IT risk is within the risk appetite. The goal is also to have a solid and transparent management and control framework that covers IT systems and services, focusing especially on those considered to be critical.

IT risk management is decentralised across subsidiaries, following guidelines set by Banco Sabadell Group through the Group IT Risk Management and Control Policy. IT risk in Banco Sabadell has been structured on the basis of the taxonomy defined by the EBA in its Guidelines on ICT Risk Assessment under the Supervisory Review and Evaluation Process (SREP) (EBA/GL/2017/05) and the new Guidelines on ICT and Security Risk Management (EBA/GL/2019/04), thus taking into account the risk associated with the governance of ICT (information and communication technology), information security, the availability and continuity of systems, changes in systems, IT infrastructures or tools, data integrity in systems and the management of ICT outsourcing. Given their significance, other risk categories associated with the management of (digital) transformation, as well as training and the provision of resources and profiles to the IT unit, have also been added to these risk categories.

#### Governance and organisation

The governance model follows the structure of operational risk, including the Group IT/OPs Committee as the management body in charge of coordinating and aligning decisions linked to

[6] Model risk was not classed as material during the most recent risk assessment process. Nevertheless, given its centrality and importance within Banco Sabadell Group, a decision was made to include information about its management.

the management and governance of Information Technology (IT), including the associated IT risks.

As indicated in sub-section 5.2.3. “Organisation of the risk function”, Banco Sabadell Group establishes its control framework based on the model of Three Lines of Defence. As regards the IT risk function, the three lines of defence are the following:

**First line of defence:** comprising the Operations and Technology Unit, responsible for identifying, assessing, monitoring, managing, mitigating and reporting IT risk and the associated controls, for defining and implementing the strategies and procedures related to instruments to manage and mitigate IT risk and for ensuring compliance therewith throughout the entire organisation, for establishing and implementing controls over the different IT management processes, for proactively collaborating in the preparation of policies and procedures linked to the management and control of IT risk, for promoting the implementation and leverage of training and awareness-raising actions, for recording and reporting losses and quasi-losses, for managing the incidents stemming from IT risk that should be accounted for within its area of responsibility and for generating the necessary reports to provide information about the different Information Technology management activities and the associated IT risks.

**Second Line of Defence:** comprising the Internal Control Unit on one hand, responsible for promoting the existence of policies and procedures for management and control, for supervising activities to manage and control risks carried out by the First Line of Defence, for monitoring the adequacy and effectiveness of the controls through a series of mechanisms, including the development of indicators and metrics, for formulating independent opinions to provide support in decision-making processes, for analysing and reporting on a regular basis to the Administrative Bodies and Management Bodies on the IT risk profile, for reporting to the Administrative Bodies on the materialisation and general control environment of IT risks and the measures taken to manage and mitigate them, for providing guidance and support for identification, assessment, monitoring, management and mitigation purposes and for validating the Policies and Procedures prior to their approval, as well as, on the other hand, the Compliance Unit, responsible for implementing the regulatory obligations affecting Banco Sabadell Group in this regard.

**Third line of defence:** comprised of the Internal Audit Division, which acts as an independent unit to oversee the monitoring, management and control of IT risk. Details of its duties and responsibilities are described in sub-section 5.2.3 “Organisation of the risk function”.

## Measurement systems

The approach used to measure IT risk, in line with the measurement of other risks included in the RAS, is mainly based on the assessment and continuous monitoring of key risk indicators (KRIs), which consider events that have occurred and also contribute a forward-looking vision (i.e. of the latent risk). These indicators have been established for the various available risk categories, thus enabling the Institution to:

- Identify and proactively manage the various IT risks, anticipating their evolution to allow for their adequate mitigation.
- Provide the various governing bodies with information on the evolution of Banco Sabadell Group’s IT risk profile, along with the causes of such evolution.

These indicators correspond to parameters, indices or measures, which are diverse in nature, and which contribute information about the various risk exposure levels and the control framework within Banco Sabadell Group, allowing changes in risk levels to be detected. These are checked regularly and thresholds and warnings have been defined which anticipate potential risks in the control environment.

In terms of monitoring and tracking, there are also Second Tier RAS metrics for the main IT risks such as security, digital fraud, changes and transformation.

In addition to the measurement systems contemplated in the operational risk management and control model, the following specific tools are available for IT risk management and control:

### Management tools

- Database of quantitative information on loss events in which it is possible to log information on events that have generated losses due to IT risk. They also indicate events that have not generated losses and even those which have generated gains, or where the loss is negligible (‘quasi-losses’).
- Repository containing the IT risk map and qualitative information prepared with the use of self-assessment questionnaires.
- Repository of useful indicators for IT risk management, which can search and consult risk indicators, as well as the addition or modification of risk indicators.
- Repository of identified weaknesses (findings) and corrective and preventive actions for the optimisation of IT risk circuits, processes and mitigation, modification to processes, creation of controls, IT systems, procedures, changes to documentation, amongst others.
- Action protocols and established workflows for risk mitigation: process to record and monitor Banco Sabadell Group’s exposure to IT risk, within acceptable levels, and the corresponding improvement and mitigating actions, in such a way as to ensure that this improvement process is traceable.

### Control tools

- Mechanisms (among others, indicators and metrics) that enable the control environment and the level of IT risk exposures to be effectively monitored, contributing to the identification of causes and the monitoring of the performance of IT risk mitigating actions in accordance with the established risk appetite.
- Reports to monitor IT risk which include, amongst others, the evolution of IT risk profiles, loss events associated with IT risk events, indicators and metrics for monitoring this risk and the improvement actions adopted.

It is also worth noting that Banco Sabadell Group has established minimum requirements to be considered in the specific control frameworks for IT risk of the different Group entities.

## Mitigation measures

The Institution has mitigation measures for IT risk in place, among them the definition and monitoring of RAS metrics. Banco Sabadell Group has different tools and measures at its disposal to this end.

The mitigation measures are based, among other things, on the establishment of a framework of policies and standards on business resilience and the control environment, an adequate identification of critical IT processes and the related systems that back them, mechanisms that enable effective monitoring and the detection and timely response to incidents involving IT systems, the separation between functions and environments during the different phases of the IT change processes carried out, focusing particularly on the segregation of tasks and the solutions to manage and control changes in systems and data, the existence of testing environments that adequately reflect the production environments, an adequate procedure for monitoring and managing the life cycle of the assets, the assessment and control of the impact that outsourcing has on the management of the Institution's IT risks in relation to the use of service providers and their services during the acquisition process, mechanisms to ensure that the Institution has resources and sufficient capabilities to implement the IT internal governance procedures to execute and support the planned material strategic changes, mechanisms that ensure the adequate planning, execution and monitoring of programmes for the transformation of IT services and systems and the associated risks and the availability of sufficient resources, with the necessary qualifications and sufficient professional skills to develop and implement the IT strategy of the Institution.

The IT risk management and control framework defines a process of continuous improvement of the Institution's processes. To this end, Banco Sabadell Group has a tool to register these remediation or mitigation actions associated with the different findings or weaknesses that have been identified, facilitating their monitoring and traceability from their identification to their implementation. As with operational risk, insurance policies are one of the levers with which to comply with the risk appetite defined by the Institution, streamlining the exposure to residual risks and the cost involved in taking out such insurance.

The identification and management of these weaknesses is carried out by the different lines of defence and covering various areas or IT risk categories defined by the EBA guidelines on ICT Risks (EBA/GL/2017/05) mentioned above.

With regard to cyber risk, Banco Sabadell Group has a team specialised in the active monitoring of public networks in search of potential cyber threats that may pose a risk to the various Group entities, in order to anticipate their identification and management.

Additionally, different exercises are carried out to analyse IT risk scenarios, including cyber tests or crisis management simulations with a technological origin, and which are jointly defined and coordinated between the second line of defence and the units in Banco Sabadell Group's first line of defence. It is also worth highlighting the various specific sessions carried out in connection with Banco Sabadell Group's exposure and position to cyber risks, which have been carried out by the various governing bodies in order to increase the culture and awareness of this type of risk.

## 10.4.2 Outsourcing risk

Outsourcing risk is defined as the current or future risk of incurring losses as a result of the use of resources and/or means of a third party for the standardised, permanent and stable performance over time of certain processes of the outsourcing company, which in itself entails exposure to a series of underlying risks, such as operational risk, including conduct risk, information and communications technology (ICT) risk, legal risk and compliance risk, as well as reputational risk, concentration risk, step-in risk and country risk.

In relation to this risk, it is worth noting the current preponderance of outsourced technological services, including outsourcing in cloud services, due mainly to:

- Frequent use of outsourced technological services in banking processes.
- Growing and inexorable use of cloud services in their different forms: SaaS (Software as a Service), PaaS (Platform as a Service), CaaS (Container as a Service), IaaS (Infrastructure as a Serviced), mainly provided by large multinational and at times systemic suppliers, with limited options for negotiation and control.

### Management strategies and processes

Banco Sabadell Group's current outsourcing risk management strategy, in line with the business model and objectives, is fixed in accordance with the Risk Appetite Framework (RAF).

Banco Sabadell Group bases its framework of policies and procedures on the EBA's Guidelines on Outsourcing Arrangements (EBA/GL/2019/02), undertaking the requirements stemming from this document.

Banco Sabadell Group has established adequate mechanisms to ensure the identification and assessment of the risks related to outsourcing in such a way as to ensure that they are identified and assessed in the different phases of the life cycle, particularly in the pre-engagement, monitoring and exit phases. These assessments combine both qualitative and quantitative information, making it possible to obtain a holistic overview of the level of risk taken and to establish appropriate management and control mechanisms for each outsourcing arrangement.

An annual report is prepared for the Board of Directors containing the most relevant information and the risk profile of the services classed as essential.

The main aim is to proactively manage this risk in order to anticipate, detect and respond, to the extent possible, to potentially problematic risk situations in an appropriate and timely way, in order to mitigate the impacts stemming from the materialisation of outsourcing risks, seeking to ensure that the level of exposure is within the risk appetite. Furthermore, the aim is to have a solid and transparent management and control framework that covers IT outsourcing services, focusing especially on those considered to be critical.

The management of outsourcing risks is devolved to subsidiaries, following guidelines established by Banco Sabadell Group through the Policy on Outsourcing of Functions, and following the EBA Guidelines (EBA/GL/2019/02), Bank of Spain Circular 3/2022 and the Guidelines on ICT and Security Risk Management (EBA/GL/2019/04).

### Governance and organisation

The governance model follows the structure of operational risk, including for the outsourcing of technological services the Group IT/OPs Committee as the management body in charge of coordinating and aligning decisions linked to the management and governance of Information Technology (IT), including the risks associated with outsourcing to technology providers.

As indicated in sub-section 5.2.3. “Organisation of the risk function”, Banco Sabadell Group establishes its control framework based on the model of Three Lines of Defence. As regards the outsourcing function, the three lines of defence are the following:

**First line of defence**: formed by the Supplier Management Unit, responsible for drawing up Banco Sabadell Group’s Outsourcing Policy and keeping it up to date, periodically reviewing its effectiveness, defining the outsourcing management model at the Group level in accordance with the Policy, promoting the assessment of risks, proposing the internal classification model of suppliers and functions, promoting the monitoring evaluations of suppliers in accordance with the Policy, integrating the reports of each subsidiary in order to draw up an annual report on the provision of services or the performance of critical functions for its subsequent submission to the Board of Banco de Sabadell, obtaining evidence of the roll-out and compliance of the Policy, and for furnishing the 2LoD and 3LoD with any information they may require to perform their duties.

It also comprises business and support units that outsource functions, which are responsible for this process and for its management and monitoring.

**Second line of defence:** formed by the Internal Control Unit, responsible for ensuring that the risk associated with the outsourcing activity is managed and controlled in accordance with Banco Sabadell Group’s Risk Policies, and for analysing and periodically reporting to the Board Risk Committee on the profile of risks stemming from the Outsourcing of Critical Functions.

**Third line of defence:** made up of the Internal Audit Division which acts as an independent unit to oversee the monitoring, management and control of outsourcing risk. Details of its duties and responsibilities are described in sub-section 5.2.3 “Organisation of the risk function”.

## Measurement systems

The Board of Directors is in charge of defining the appetite to outsourcing risk within Banco Sabadell Group.

The approach used to measure outsourcing risk, in line with the measurement of other risks included in the RAS, is mainly based on the assessment and continuous monitoring of key risk indicators (KRIs), which consider events that have occurred and also contribute a forward-looking vision (i.e. of the latent risk). These indicators have been established for the various available risk categories, thus enabling the Institution to:

- Identify and proactively manage the various risks, anticipating their evolution to allow for their adequate mitigation.
- Provide the various governing bodies with information on the evolution of Banco Sabadell Group’s risk profile, along with the causes of such evolution.

These indicators, which also implicitly include the risk associated with the outsourcing of technological services in their measurements, correspond to parameters, indices or measures, which are diverse in nature, and which contribute information about the risk exposure levels and the control framework within Banco Sabadell Group, allowing changes in risk levels to be detected. These are checked regularly and thresholds and warnings have been defined which anticipate potential risks in the control environment.

In addition to the measurement systems contemplated in the operational risk management and control model, the following specific management and control tools are available for the management and control of outsourced technological services.

In terms of management tools, the following are available:

- Each subsidiary sends different reports to the Group function: a consolidated repository of each institution’s outsourcing agreements and a record of all outsourcing arrangements.
- Tool to manage outsourced services and the suppliers that provide those services.
- Tool to manage and control outsourcing risks, available for assessment by the 1LoD involved in the outsourcing of services.
- Database of quantitative information on loss events in which it is possible to log information on events that have generated losses due to outsourcing risk.
- Repository of useful indicators for managing risk, including outsourcing risk.
- Repository of identified control weaknesses (findings) and of corrective and preventive improvement actions.

Lastly, the control tools are detailed here below:

- Mechanisms (among others, indicators and metrics) that enable the control environment and the level of risk exposure to be effectively monitored, contributing to the identification of causes and the monitoring of the performance of outsourcing risk mitigating actions in accordance with the established risk appetite.
- Reports for monitoring the risk, which implicitly and explicitly include the risk generated by the outsourcing of technological services, which among others include loss events associated with technology outsourcing risk, monitoring indicators and metrics for this risk, as well as the improvement actions taken.

## Mitigation measures

The Institution has different measures in place to mitigate risks, which include the risk associated with the outsourcing of technological services, among them the definition and monitoring of RAS metrics. Banco Sabadell Group has different tools and measures at its disposal to this end.

The mitigation measures are based, among other things, on the establishment of a framework of policies, an adequate identification of critical processes and their association with resources and services, including those provided by third parties, mechanisms that enable effective monitoring and the detection and timely response to incidents, and the evaluation and control of the impact of outsourcing on the Institution’s risk management in relation to the use of providers of services with technological components and their services during the acquisition process.

In terms of monitoring and tracking, there are also Second Tier RAS metrics for the main risks, which in the case of IT risks implicitly include the outcome of outsourcing arrangements for technological services.

The IT risk management and control framework defines a process of continuous improvement of the Institution’s processes. To this end, there is a record-keeping tool for these remediation or mitigation actions associated with the different findings or weaknesses that have been identified, including those identified in outsourcing services with technological and cloud components, facilitating their monitoring and traceability from their identification to their implementation. As with operational risk, insurance policies are one of the levers with which to comply with the risk appetite defined by the Institution, streamlining the exposure to residual risks and the cost involved in taking out such insurance, whose coverage includes the impacts stemming from suppliers.

### 10.4.3 Model risk

Banco Sabadell Group considers a model to be any methodology, algorithm, system or quantitative approach that applies theories, techniques and assumptions of a statistical, economic, financial, mathematical or other nature in order to process input data and produce outputs that can be used to make business decisions, manage risks or generate reports.

The definition of model takes into account that input data may be quantitative and/or qualitative, or based on expert judgement, and that the outputs may be quantitative or qualitative.

Model risk is defined as the current or future risk of losses being incurred by an institution as a result of decisions based primarily on the outputs of internal models due to errors in the design, application or use of those models.

#### Management strategies and processes

- Banco Sabadell Group's current model risk strategy, in line with the business model, is fixed in accordance with the Risk Appetite Framework (RAF).
- The model risk management processes are based on the adoption of a series of policies and procedures that prescribe the principles and minimum quality standards to be met by the models and their users to ensure that the level of model risk taken is in line with the Institution's appetite.
- These standards, which are deployed throughout the life cycle of the models, establish the requirements for the acceptance of model risk (i.e. the approval of models) and its monitoring, as well as on the controls and likely mitigating actions. Thus, the aim is to ensure that adequate controls are in place to mitigate model risk throughout all phases of the life cycle, through the key processes listed below:
- Identification and inventory of the model: the main objective of this phase is to identify, record and characterise all of the models that are subject to the model risk framework. To that end, Banco Sabadell Group has a centralised record of models within the scope of application of the Banco Sabadell Group Model Risk Management and Control Policy which are subject to review by Validation.
- Model construction: Models are constructed according to the uses for which they are needed and it must be ensured that:
- The model has been constructed meeting the different regulatory requirements that may be applicable and following the minimum standards stipulated in the model risk procedure of the area to which the model belongs for the development of models.
- The model is suitable for the envisaged uses.
- The model complies with the minimum standards for model development stipulated in the model risk procedure of the area to which it belongs.
- The construction of the model has been documented in accordance with the minimum documentation standards stipulated in the model risk procedure of the area to which it belongs
- Pre-implementation validation of the model: the model's validation takes place through a set of processes and analyses whose purpose is to provide a critical, efficient and independent validation of the development of the models. Likewise, it is also verified that these models are adapted to requirements set forth in applicable regulations. It includes at the very least the review of the following elements:
- Checking that the model documentation is in accordance with the documentation standards defined in the model risk procedures of the area to which it belongs.
- Reviewing the quality of the data used for the model's estimates, based on the minimum data quality standards defined in the model risk procedures of the area to which it belongs.
- Checking that the model's methodology is adequate and in line the model development standards defined in the model risk procedures.
- Checking that the performance of the model is adequate based on the metrics and tolerance thresholds stipulated for the model area to which it belongs and as provided in such procedure.
- Checking that the possible mitigating factors and conservative adjustments associated with the model are adequate and meet any applicable regulatory requirements.
- Checking that the model is suitable for the requested uses.

Once all the analyses have been completed, Validation generates the documentation associated with the review and the reports associated with the results and conclusions of the process, appraising the adequacy or suitability of the model under review. This documentation gives details of the incidents or shortcomings detected in the course of the validation and, where applicable, recommendations are put forward to promote continuous improvement in Banco Sabadell Group.

- Approval: the model's approval must follow the established governance and workflow, in terms of the levels of escalation required, which determine the approval by the competent bodies in each case, depending on the materiality of the model or the materiality of the change.
- Implementation and use: The model owner designs and documents the necessary requirements for the correct implementation of the model with the collaboration of the model constructor as necessary. Based on these requirements, the implementer (IT area) executes the implementation tasks and the model owner subsequently runs functional tests to ensure the developed model is consistent with the implemented model (user acceptance testing, or UAT). The control functions review the implementation in accordance with the established

framework. A model cannot be implemented without the prior approval of the competent bodies.

- Monitoring: the main aim is to ensure that models continue to work as expected and that they are appropriate to the uses for which they were developed. Monitoring also takes place on a regular basis and the recommendations issued by Validation are tracked, in the event they should be modified in any way.

Activities of a cross-cutting nature throughout the model's life cycle include annual model planning and the model risk assessment.

It should be noted that the management and control of model risk is based on the use of tools with adequate features to ensure good performance. These include the inventory of models, the record of findings and recommendations, and the inventory of adjustments and margins of conservatism. In addition, there is a document repository for the documentation generated throughout the life cycle of the model.

### Governance and organisation

The governance structure for model risk management and control has as key pillars the direct involvement of Senior Management and the Board of Directors within the corporate model and a clear-cut definition of roles and responsibilities, including the approval of the management framework and ensuring its adequate implementation.

The Board of Directors is supported by the following committees, whose duties are described in Chapter 15. Corporate Governance, for the management and control of model risk:

- Board Risk Committee
- Board Audit and Control Committee

As indicated in sub-section 5.2.3. "Organisation of the risk function",, Banco Sabadell Group establishes its control framework based on the model of Three Lines of Defence. With regard to the model risk function, the scheme is as follows:

First line of defence: comprises the users, developers and owners of the models, formed of the Risk, Finance and Risk Regulation & Control Units.

Second line of defence: formed by the Validation units, which also include Group Model Risk Management. The Validation Unit is responsible for carrying out an independent review of the models to ensure that they work well, that the quality of the data used for the model's estimations is adequate, that the methodologies and results are suitable for the various uses to which they are applied, and for checking that the models are put to the uses for which they have been designed. On the other hand, the Group Model Risk Management Unit is in charge of designing and rolling out the model risk management and control framework and of monitoring Banco Sabadell Group's model risk profile.

Third line of defence: made up of Banco Sabadell's Internal Audit division, which carries out an independent assurance activity, ensuring the effectiveness of the Institution's model risk management and control environment. Details of its duties and responsibilities are described in sub-section 5.2.3 "Organisation of the risk function".

The governing body, Board committees and internal committees involved in the processes for managing and controlling model risk, as well as the key specific duties in relation to this risk, are detailed below:

- Board of Directors: to know and have a general understanding of the models that are within the scope of the Banco Sabadell Group Model Risk Management and Control Policy and their associated model risk, and to approve the more material models as required by pertinent regulations or pursuant to the defined internal criteria.
- Board Risk Committee: to ensure the correct operation and appropriate use of the models and to monitor the Institution's model risk profile.
- Board Audit and Control Committee: to report to the Board of Directors on any relevant issue regarding the Institution's models and the management and control of their associated risks, as well as to oversee the effectiveness of the company's internal control, internal audit and risk management systems associated with the Institution's models.
- Technical Risks Committee: to supervise the correct operation and appropriate use of the models.
- Models Committee: to approve less material models and monitor both the quality of the models and the risks associated with their application and use.

### Measurement systems

In relation to measurement, model risk is assessed in accordance with the risk that the models entail for Banco Sabadell Group, based on a series of risk drivers used to measure their materiality and quality. Both dimensions make up the model risk tiering and this assessment serves to put the models in order according to their perceived level of risk, allowing this order to be integrated in other model risk management and control processes.

The Group Model Risk Management function is responsible for defining criteria and calculating the tiers based on the information about the model.

Furthermore, to ensure model risk is efficiently managed and adequately controlled, every quarter the model risk dashboard is submitted to the Models Committee, which contains information about, among other aspects, the evolution of Banco Sabadell Group's model risk profile, the model risk RAS metrics and the follow-up on recommendations issued by the internal control functions (Validation and Internal Audit).

### Mitigation measures

In order to reduce model risk, Banco Sabadell Group carries out a series of mitigating actions, among which the following stand out:

- Margins of conservatism in the model itself arising from weaknesses or sources of uncertainty detected during the model construction or monitoring process.
- Post-model adjustments to the results generated by the model based on the various sources of uncertainty in the model.
- Approval of timing restrictions on models that limit their use for certain applications, under certain scenarios or during a certain period of time.

# 11

# Structural Risks

11

The information contained in this chapter conforms to the reporting requirements in relation to interest rate risk, with detailed information on non-trading book positions, in compliance with the requirements of Article 448 of the CRR and Article 16bis of Commission Implementing Regulation (EU) 2021/637.

Information on the management and governance of interest rate risk and foreign exchange risk is disclosed below, as well as interest rate risk measurement metrics, both in terms of economic value and net interest income.

## 11.1 Structural interest rate risk

Structural interest rate risk is inherent in banking activities and is defined as the current or future risk to both the income statement (revenues and expenses) and the economic value of equity (present value of assets, liabilities and off-balance sheet positions) arising from adverse interest rate fluctuations affecting interest rate-sensitive instruments in non-trading activities (also known as Interest Rate Risk in the Banking Book, or IRRBB).

The Group identifies five interest rate sub-risks:

- Repricing risk: this risk arises from differences when repricing interest rate-sensitive instruments and covers changes in the term structure of interest rates occurring consistently throughout the interest rate curve (parallel shifts).
- Curve risk arises from differences when repricing interest rate-sensitive instruments and covers changes in the term structure of interest rates occurring in different ways depending on the term (non-parallel shifts).
- Basis risk includes the risk originating from the impact that relative changes in interest rates have on instruments with similar terms but which are repriced using different interest rate benchmarks.
- Automatic optionality risk includes the risk arising from automatic options (e.g., lending floors and caps), both implicit and explicit, in which the Balance Sheet Management Unit (UGB, for the Spanish acronym) or the customer can alter the volume and schedule of their cash flows and in which the holder is almost certain to exercise the option when it is in their financial interest to do so.
- Behavioural optionality risk arises from the flexibility that is under the terms of certain financial contracts, that allow interest rate fluctuations to trigger a change in customer behaviour.

### Main metrics for the financial year

Banco Sabadell is positively exposed to interest rate hikes in the net interest income (NII), to the extent that higher interest rates are passed through on the asset side and contained on the liability side. Assuming that interest rate fluctuations are gradually passed on to the cost of customer funds, Banco Sabadell estimates that net interest income sensitivity to hikes of +100 bps would be +7.9% in the first year and +16.2% in the second year.

### 11.1.1 Structural interest rate risk management and governance

### Management strategy and process

Interest rate risk is managed with a Group-wide approach based on the Risk Appetite Statement (RAS), approved by the Board of Directors. These management arrangements entail proposing commercial and hedging options to achieve business objectives in line with the market situation and adhering to the risk limits established for the Group. A decentralised model is followed based on the UGBs: UGB Banco Sabadell, UGB TSB and UGB BS Mexico. Each UGB has the autonomy and capacity to perform risk management and control functions, in coordination with the Group's corporate functions.

Banco Sabadell Group’s management of this risk pursues two fundamental objectives:

- Stabilise and defend the net interest margin, preventing interest rate fluctuations from causing excessive changes to the budgeted net interest margin.
- Minimise the volatility of the economic value of equity, with this outlook being supplementary to that of the net interest margin.

Banco Sabadell Group’s current interest rate risk management strategy is based on the following principles, in line with the business model and the defined strategic objectives:

- Appropriate tools and robust processes and systems in order to properly identify, measure, manage, control and report on IRRBB. This makes it possible to obtain information about all of the identified sources of IRRBB, assess their effect on net interest income and the economic value of equity and measure the vulnerability in light of potential losses arising from IRRBB under different stress scenarios.
- At the corporate level, a series of control and oversight limits are established for IRRBB exposure levels, which are

aligned with internal risk tolerance policies. However, each UGB has sufficient autonomy and structure to properly manage and control IRRBB. Specifically, each UGB has sufficient autonomy to choose which management objective it will adhere to, although all UGBs must follow the principles and critical parameters set by Banco Sabadell Group, adapting them to the specific characteristics of each geography.

- The existence of a funds transfer pricing system.
- Processes that ensure that the set of systems, processes, metrics, limits, reporting and governance system included within the IRRBB strategy comply with regulatory requirements at all times.

In addition, different scenarios are considered in the annual planning exercises associated with the Group's income statement, balance sheet and capital. Specifically, the central scenario, based on the Group's Strategic Plan, is compared against alternative scenarios that consider stressed relevant macroeconomic conditions. These tests determine the sensitivity and volatility of the Group's key financial figures (net interest income, earnings and capital) to adverse scenarios.

Structural interest rate risk is embedded in the economic capital adequacy process in order to ensure that it is duly taken into account in the Group's overall capital allocation.

## Governance and organisation

The governance structure for interest rate risk management and control has as key pillars the direct involvement of Senior Management and the Board of Directors within the corporate model and a clear-cut definition of roles and responsibilities, including the approval of the management framework and ensuring its adequate implementation.

The Board of Directors is supported by the following committees, whose duties are described in Chapter 15 "Corporate Governance", for risk management and control:

- Board Risk Committee
- Board Audit and Control Committe

As indicated in sub-section 5.2.3 "Organisation of the risk function", Banco Sabadell Group establishes its control framework based on the model of Three Lines of Defence. With regard to the interest rate risk function, the scheme is as follows:

**First line of defence:** carried out by the various Balance Sheet Management Units (UGBs), which report to the various local Asset and Liability Committees. Their main role is to manage interest rate risk, guaranteeing its recurrent assessment through management and regulatory metrics, taking into account the modelling of the different balance sheet items and the level of risk taken. In addition, the corporate function monitors these management arrangements and establishes the framework to identify and assess the materiality of the sub-risks, as well as the criteria and principles relating to measurement and modelling methodologies.

**Second line of defence:** in addition to the Compliance Division, whose duties are described in sub-section 5.2.3, the second line of defence is comprised of the Internal Control unit and the Validation unit. Internal Control is responsible for ensuring the integration of interest rate risk in management procedures, in the strategy and in the risk appetite framework. In addition, it is responsible for calculating, monitoring and controlling the RAS metrics. Meanwhile, Validation is responsible for ensuring a unified validation framework across the Group, in line with which the Validation functions of the UGBs carry out the review, prior to their approval and use, of the models and methodologies in the inventory.

**Third line of defence:** made up of the Internal Audit unit, which acts independently to oversee the monitoring, management and control of interest rate risk. Details of its duties and responsibilities are described in sub-section 5.2.3 "Organisation of the risk function".

## Measurement systems

The metrics developed for the control and monitoring of the Group's structural interest rate risk are aligned with best market practices, based on the results obtained from the exercise of identifying and assessing the materiality of the aforementioned sub-risks and consistently implemented in all UGBs and within each of the local asset and liability committees. The diversification effect between currencies and UGBs is taken into account in the presentation of the figures at the global level, and within each of the local asset and liability committees.

The measurement, control and monitoring of interest rate risk is underpinned by the following metrics, which are calculated every month:

- Interest rate gap: static metric showing the breakdown of maturities and repricing of sensitive balance sheet items. This metric compares the values of assets that are due to be repriced or that mature in a given period and the liabilities that mature or reprice in that same period.
- Analysis of durations: a static metric that is based on the assignment of all cash flows of pools of interest rate-sensitive items to different time bands. The duration of each pool is calculated based on the change in its net present value caused by a parallel shift of 1 percentage point of the interest rate curve. This is used to obtain the duration of both the asset and the liability.
- Net interest margin sensitivity: dynamic metric that measures the impact of interest rate fluctuations. It is obtained by comparing the net interest margin over 1, 2 or 3 years in the baseline scenario, which would be the one obtained from implicit market interest rates, and the one obtained in a scenario of instant disruption, always considering the result obtained in the most unfavourable scenario. This metric complements the economic value of equity metric.
- Economic value of equity sensitivity: static metric that measures the impact of interest rate fluctuations. It is obtained by comparing the economic value of the balance sheet in the baseline scenario and the one obtained in a scenario of instant disruption, always considering the result obtained in the most unfavourable scenario. This is done by calculating the present value of interest rate-sensitive items as an update in the risk-free yield curve, on the reference date, of future payments of principal and interest without taking into account commercial margins, in line with the way in which IRRBB is managed, and according to the regulatory framework. This metric complements the net interest income sensitivity metric.
- A metric that combines the two previous ones: the effect of changes in the value of those instruments directly recognised on the income statement or equity is added to net interest income sensitivity.

In general, the metrics are calculated and monitored on a monthly basis, using data as at the end of the previous month.

In addition, the RAS articulates in writing the level of risk that the Group is willing to accept, or wishes to avoid, in order to achieve its business objectives and establishes the mechanisms associated with the governance, definition, communication, management, measurement, monitoring and control of the interest rate risk appetite.

The main limits established for IRRBB are:

- Limit on the sensitivity of net interest income over a one-year period.
- Limit on the sensitivity of the economic value of equity.

In the event any of these limits are breached, those responsible for managing IRRBB should explain and report to pre-determined governing bodies on the reasons for the breach and provide a remediation plan to rectify the situation. The progress made in implementing this plan is subsequently monitored, and its execution is supervised and controlled by the second line of defence. The established framework of internal limits is more demanding than the regulatory limits currently in force, which ensures an adequate fulfilment of the regulatory requirements.

In the quantitative interest rate risk estimations made, a series of interest rate scenarios are designed. These scenarios include, for each significant currency, parallel movements and non-parallel movements in the interest rate curve. Based on these, sensitivity is calculated as the difference resulting from:

- Baseline scenario: market interest rate movements based on implicit interest rates.
- Stressed scenario: a shift in interest rates in relation to the baseline scenario, with the extent of this shift varying depending on the scenario to be calculated. A minimum post-disruption interest rate is applied, starting at -100bps for immediate maturities and increasing by 5bps to 0% in 20 years or more.

The stressed scenarios are:

- Parallel scenarios: consider different extents of increases or decreases in interest rates (+/-10bps, +/-100bps, +/-200bps).
- Non-parallel scenarios: considering a steepening curve (decrease of short-term rates and increase of long-term rates), a flattening curve (increase of short-term rates and decrease of long-term rates), as well as an increase in short-term rates and a decrease in short-term rates.

In addition, measurements are also made that include assumptions regarding the balance sheet's evolution based on the scenarios used for the forecasts of the Group's Financial Plan, which consider different interest rates, volumes and margins.

Furthermore, in accordance with the Group's corporate principles, all UGBs regularly carry out stress tests, which allow them to forecast high-impact situations with a low probability of occurrence that could place a UGBs in a position of extreme exposure to interest rate risk, and they also consider mitigating actions for such situations. The stress test is completed with reverse stress tests, whose aim is to identify those scenarios capable of causing a specific impact within an established range of values.

On the other hand, the calculation of the metrics takes into account the assumptions regarding the performance of items with no contractual maturity and those whose expected maturity is different from the maturity established in the contracts, in order to obtain a view that is more realistic and therefore more effective for management purposes. The most significant of these include:

- Prepayment of the loan portfolio and early cancellation of term deposits (implicit options): in order to reflect customers' reactions to interest rate fluctuations, prepayment/cancellation assumptions are defined, broken down by type of product and type of customer. To that end, the Institution makes use of historical data, from which it obtains the historical cancellation ratios. As a result of the foregoing, the Institution is in line with the market's best practices. The evolution of market interest rates may encourage customers to pay off their loans or term deposits early, altering the future behaviour of balances from the contractual schedule. Prepayments mainly concern fixed-rate mortgages when their contractual interest rates are high compared to market rates.
- Modelling of sight accounts and other liabilities with no contractual maturity: a model has been defined on the basis of historical monthly data in order to reproduce customers' behaviour, establishing stability parameters, the percentage of interest rate movements carried over to the interest paid on the deposit and the delay with which this occurs, depending on the type of product and the type of customer, enabling the Institution to meet current regulatory requirements. The average maturity resulting from the modelling of sight accounts is affected by the interest rate scenario used, showing that an increase in interest rates could produce a shift in balances from sight accounts to term deposits.
- Modelling of non-performing loans: a model has been defined that enables the expected cash flows associated with non-performing exposures (net of provisions, i.e., those expected to be recovered) to be included within pools of interest rate-sensitive items. To this end, both existing balances and expected recovery periods have been incorporated.

The approval and update of IRRBB models is part of the corporate governance of models, whereby these models are reviewed and validated by the Validation unit, which is separate from the unit that created them. This process is included in the corresponding model risk policy and establishes both the duties of the different areas involved in the models and the internal validation framework to be followed.

Regarding the measurement systems and tools used, all sensitive transactions are captured and recorded taking into account their interest rate characteristics, the sources of information being the Entity's official ones. These transactions are aggregated following predefined criteria, thus allowing for greater agility in the calculations without losing data quality or reliability. The entire data process complies with the best practices regarding information on governance and data quality. In addition, a periodic reconciliation process of the information loaded into the measurement tool with accounting information is carried out. The calculation tool, in addition to including sensitive operations, is parameterized to include the result of the behavioral models described above, the volumes and prices of the new business defined according to the Business Plan and the interest rate curves on which the above scenarios are built.

## Mitigation measures

Based on the balance sheet position and the market situation and outlooks, mitigation techniques are proposed and agreed upon to adapt this position to the one desired by the Group. Interest rate instruments additional to the natural hedges of balance sheet items are used to act as mitigation techniques, such as fixed-income bond portfolios or hedging derivatives that enable metrics to be placed at levels appropriate to the Institution's risk appetite. In addition, proposals can be put forward to redefine the interest rate characteristics of commercial products or the creation of new products.

Derivatives are arranged in financial markets to hedge this type of risk, mainly interest rate swaps (IRS), which qualify as hedges for accounting purposes. Two separate types of macro-hedges are used:

- Interest rate macro-hedging of cash flows, the purpose of which is to reduce the volatility of the net interest margin due to interest rate fluctuations over a one-year time horizon.
- Interest rate macro-hedging of fair value, the purpose of which is to maintain the economic value of the hedged items, consisting of assets and liabilities at a fixed interest rate.

For each type of macro-hedge, there is a framework document that includes the hedging strategy, defining it in terms of management and accounting and establishing its governance.

The process for setting balance sheet hedging strategies is divided into four stages:

- Identification of the interest rate risk and proposal of its hedging strategy; information on both these aspects is sent to the governing bodies responsible for their approval. These proposals identify the item to be hedged and the proposed hedging instrument, including a simulation that enables the future effectiveness of that financial instrument to be estimated.
- Execution of decisions and their registration in corporate systems.
- Monitoring effectiveness: hedge effectiveness is tested regularly using prospective and retrospective tests to comply with hedge accounting regulations. These tests are carried out at the beginning and during the life of the hedges with a monthly frequency.
- Accounting and control.

Hedge accounting serves to ensure that the losses or gains on the hedging instrument are recognised in the income statement for the same period in which the hedged item affects profit/loss, which results in a symmetrical recognition of profit/loss in the income statement. Hedge accounting is only permitted if the hedging relationship is expected to be highly effective in the future and if it is actually effective at present (within an established quantitative range). In the event the effectiveness of the hedging instrument and the hedged item is such that one cannot be used to perfectly offset the other, that hedge ineffectiveness is immediately recognised in the income statement. This way, any profit or loss resulting from measuring the financial derivatives at fair value is immediately recognised in the income statement, while gains or losses due to fair value changes in the hedged amount, attributable to the hedged risk, are directly recognised in the income statement using as balancing entries "Adjustments to financial assets for macro-hedges" or "Adjustments to financial liabilities for macro-hedges" when the hedged amount corresponds to financial assets or financial liabilities, respectively.

### Risk culture

The applicable information relating to the interest rate risk culture is cover in sub-section 5.2.1 "Corporate risk culture".

## 11.1.2 Changes in net interest income and in the economic value of equity in the face of interest rate fluctuations, in accordance with the established management method

The following table sets out the measurements of this risk for the current year, both in terms of economic value and in terms of net interest income, taking into account existing transactions as at 31 December 2022 (excluding trading book positions). Net interest income and economic value sensitivity are measures that complement each other and that provide an overview of structural interest rate risk. The key assumptions used for the IRRBB calculations covered in the table below are the same as those set out for the SOT (Supervisory Outlier Tests) regulatory metrics. Specifically, assumptions of a high pass-through of interest rate fluctuations to the cost of customer funds are applied in both metrics, thus representing a more conservative scenario.

Table 70. Interest rate risks of non-trading book activities (EU IRRBB1).

| Supervisory shock scenarios | Changes of the economic value of equity | | Changes of the net interest income | |
|---|---|---|---|---|
| | Current Period | Last period | Current Period | Last period |
| Parallel up | (6.2)% | (15.90)% | 1.90 % | (4.80)% |
| Parallel down | (12.0)% | (7.40)% | (8.40)% | (14.20)% |
| Steepener | 5.20 % | 21.80 % | | |
| Flattener | (8.40)% | (10.40)% | | |
| Short rates up | (13.90)% | (18.40)% | | |
| Short rates down | 2.40 % | 16.00 % | | |

*Data as at 31/12/2022 in "Current Period", and as at 30/06/2022 in "Last Period".*

The evolution in the first half of the year in the sensitivity metrics of Economic Value and Net Interest Income reflect an improvement for the parallel rise scenarios. This positive variation is mainly due to the increase in the balance of demand accounts which, while maintaining the sight-to-maturity mix, reflect a more contained pass-through in the current environment of rising interest rates. This positive impact is partly mitigated by the partial cancellation of the TLTRO which, together with the change in its conditions, leaves a less sensitive interbank net.

The scenarios in the table are defined as follows:

- Parallel up: Instant and parallel increase of 200bps for the euro and dollar, and of 250bps for the pound sterling in the calculation of economic value and 200 bps increase for all currencies in the calculation of net interest income.

- Parallel down: Instant and parallel decrease of 200bps for the euro and dollar, and of 250bps for the pound sterling in the calculation of economic value and 200 bps downgrade for all currencies in the calculation of net interest income.
- Steepener: Instant steepening of the curve (decrease of short-term rates and increase of long-term rates).
- Flattener: Instant flattening of the curve (increase of short-term rates and decrease of long-term rates).
- Short rates up: Instant decrease in rates on the short end of the curve.
- Short rates down: Instant decrease of short term rates.

In all the scenarios, a minimum post-disturbance interest rate has been applied, starting with -100bps for immediate maturities and increasing by 5bps to reach 0% in 20 years or more, all of which is in line with regulations and best market practices.

In addition to the impact on net interest income over one year, Banco Sabadell Group calculates the impact on net interest income over two and three years.

The economic value of equity (EVE) metrics have been calculated based on the following assumptions:

- Final EVE changes have been calculated by adding the sensitivities of each currency and multiplying positive values by 50%.
- Changes in EVE are shown as a percentage of the Group's Tier 1 capital.
- A balance sheet runoff assumption has been applied, which assumes that assets, liabilities and off-balance sheet positions mature and are not renewed.
- Equity has been excluded from the calculation.
- Commercial margins have been excluded from interest flows.
- Principal and interest flows have been discounted using risk-free curves in the various relevant currencies.

The net interest income (NII) metrics have been calculated based on the following assumptions:

- A 12-month time horizon has been considered, in which the balance and balance sheet structure remain stable; in other words, it is assumed that maturing assets and liabilities are renewed for the same term and product.
- Final NII charges have been calculated by adding the sensitivities of each currency and multiplying positive values by 50%.
- Changes in NII are shown as a percentage of the net interest income over the past 12 months.
- Commercial margins have been included in interest flows.

Banco Sabadell Group's material currencies are the euro, the US dollar, the pound sterling and the Mexican peso, corresponding to those used in the three main regions (business in Spain and its foreign branches, UK (TSB) and Mexico).

With regard to sight accounts, a model has been defined on the basis of historical monthly data in order to reproduce customer behaviour depending on the type of product and the type of customer. It segregates between retail and wholesale customers and between non-interest-bearing products, interest-bearing products managed by the Institution and interest-bearing products whose interest is index-linked. The model establishes stability parameters based on the length of time during which these balances have been held and the extent of their reaction to the changes in interest rate scenarios. The resulting average repricing date is 3.5 years in the baseline scenario (3.8 years in relation to retail customer balances and 2.1 years in relation to non-financial wholesale customer balances); in relation to stable balances (core balances), the resulting average repricing date is 5 years in the baseline scenario. The maximum maturity resulting from the modelling of the most material sight accounts can reach 10 years. The application of the model reflects the fact that in the face of interest rate hikes, sight account balances will migrate to higher interest-bearing deposit accounts, and in the face of lower interest rates, they will become more stable. This is the most material model from the interest rate risk standpoint, as it affects a high percentage of customer funds by establishing a maturity, as there is no contractual maturity.

In 2022, the Bank's loan book has developed into one with a greater proportion of fixed-rate transactions (mainly mortgages and other business loans), while in terms of liabilities, sight account balances have increased. In addition, other changes in the balance sheet in 2022 include: the increase in the fixed-income portfolio on the asset side; the early amortisation of 10,000 million euros of TLTRO III, leaving a total of 22,000 million euros and whose remuneration conditions have been modified in November 2022, tanslating all of this into a smaller interest rate-sensitive balance sheet.

Taking into account the changes in structure detailed above, as well as the episodes of volatility and significant changes in the benchmark interest rates of all the currencies relevant to the Group, where in particular for the euro, interest rates have gone from negative to positive, IRRBB metrics have been affected during the year, although the measures implemented have enabled Banco Sabadell Group IRRBB metrics to be within the risk appetite and below the levels considered as material according to current regulations.

## 11.2 Structural foreign exchange risk

This risk arises as a result of changes in exchange rates between different currencies, which could give rise to losses recognised on the income statement on permanent investments in foreign branches and subsidiaries.

### Main metrics for the financial year

The net position of foreign currency assets and liabilities includes the structural position of the Institution, valued as at 31 December 2022, which amounted to 3,021 million euros, including 1,877 million euros corresponding to permanent equity holdings in pounds sterling, 808 million euros corresponding to permanent equity holdings in US dollars and 28 million euros to permanent equity holdings in Mexican pesos. Net assets and liabilities valued at a historic exchange rate are hedged with forwards and options denominated in foreign currencies in line with the Group's risk management policy.

As at 31 December 2022, the sensitivity of the equity exposure, calculated on the basis of quarterly volatility to a 1.3% exchange rate depreciation against the euro of the main currencies to which the Bank is exposed would amount to 39 million euros, of which 62% correspond to the pound sterling, 27% to the US dollar and 10% to the Mexican peso.

### 11.2.1 Structural foreign exchange risk management and governance

#### Management strategies and processes

Foreign exchange risk management strategies and objectives are defined at the Group level, in accordance with the RAF, and enable the achievement of the targets set out in the annual financial planning and compliance with the risk appetite set forth in the Group's RAS.

Foreign exchange risk in Banco Sabadell Group is managed and controlled following a decentralised model based on Balance Sheet Management Units (UGBs). Each UGB has a primary institution with the autonomy and capacity for exercising the UGBs foreign exchange risk management and control duties.

In relation to permanent investments, foreign exchange risk management strategies and objectives are established to safeguard the amount invested. To this end, exchange rate forecasts are monitored, taking into account their potential impacts on the capital position (including the CET1 capital ratio) and the net interest margin arising from the cost of the hedging positions. Only Banco Sabadell can make permanent investments in a currency other than its functional currency. Banco Sabadell has its own methodology for managing foreign exchange risk in permanent investments, which is aligned with best market practices. This process considers any waivers granted by the competent authority that allow permanent investments held as a natural hedge of capital ratios in the event of potential adverse exchange rate fluctuations to be excluded from the calculation of the net open FX position and, consequently, from the calculation of capital requirements for market risk.

In terms of risk identification, the Bank has foreign exchange risk identification procedures in place to determine its material risks and the potential risks that could be incurred by its subsidiaries in Spain, according to the nature and complexity of their business activities and the products and markets in which they operate. Additionally, the Bank estimates potential sources of foreign exchange risk to which it could be exposed in different scenarios or in the event of considering a new business approach.

Banco Sabadell Group is subject to capital requirements for structural foreign exchange risk in relation to the global position in foreign currency that does not comply with waiver requirements. They are calculated using the standardised approach and are described for RWA purposes within market risk.

#### Governance and organisation

The core pillars of the corporate function's governance structure for the management and control of Banco Sabadell Group's foreign exchange risk are the direct involvement of governing bodies, management bodies and Senior Management within the corporate model and a clear-cut assignment of roles and responsibilities.

The involvement of the governing bodies in managing foreign exchange risk is achieved through the responsibilities of the corporate function's Board of Directors, as the highest governing body, and also through the direct involvement of the following Board committees:

- Delegated Committee
- Board Risk Committee

As indicated in sub-section 5.2.3 the "Organisation of the risk function", Banco Sabadell Group establishes its control framework based on the model of Three Lines of Defence. With regard to the foreign exchange risk function, the scheme is as follows:

Banco Sabadell Group defines roles and responsibilities on the basis of the model of three lines of defence:

**First line of defence:** made up of Banco Sabadell's Treasury and Capital Markets unit and Finance unit. The former is in charge of executing and recognising the transactions. Meanwhile, Finance is responsible for:

- Monitoring the management of foreign exchange risk and guaranteeing: i) the identification of the sources of risk which could have a material impact; ii) an ongoing risk assessment; iii) the availability of the information required to assess risks; and iv) monitoring of, and ensuring compliance with, the limits established for its activities.
- Aggregating, calculating and generating internal reports on the level of risk taken using the metrics defined by the Institution.
- Monitoring the waiver granted by the competent authority.
- Carrying out the efficacy tests on foreign exchange risk hedges.

**Second line of defence:** in addition to the Compliance unit, whose duties are described in sub-section 5.2.3, the second line of defence is comprised of the Internal Control unit, which is independent from the first line of defence. It is responsible for:

- Defining the measurement methodologies.
- Proposing metrics and limits for approval.
- Quantifying the risk and overseeing limit compliance.
- Reporting to the Board Risk Committee.

**Third line of defence:** comprised of the Internal Audit unit, which acts as an independent unit to oversee the monitoring, management and control of foreign exchange risk. Details of its duties and responsibilities are described in sub-section 5.2.3 "Organisation of the risk function".

### Measurement systems

The Board of Directors is in charge of defining the appetite to foreign exchange risk within Banco Sabadell Group.

To measure and manage this risk, the Group makes use of the following RAS metrics:

- FX exposure, which consists of a calculation of potential loss on the open position under stress scenarios (Stressed VaR).

This is calculated on a weekly basis.

Furthermore, the measurement, control and monitoring of foreign exchange risk is underpinned by the following metrics:

- FX impact on the CET1 ratio, which consists of calculating the impact on the CET1 ratio in basis points against the most relevant currency fluctuations.
- Calculation of the open FX position.

The risk is measured on a weekly basis, although the value of these investments can be updated more frequently depending on exchange rate fluctuations. The Group has tools and platforms to measure risk using these metrics, as well as financial information and closing market data platforms.

### Mitigation measures

The mitigation of foreign exchange risk forms part of its own risk management process and is reflected in the limits assigned for this risk. Positions are managed through hedging transactions in financial markets, which may include derivative instruments.

Hedge effectiveness is measured by measuring the risk of open positions after hedges are applied in terms of the impact on equity.

Likewise, the immunization of the CET1 ratio is monitored against movements in the exchange rate due to open positions.

### Risk culture

The applicable information relating to the foreign exchange risk culture is covered in sub-section 5.2.1 “Corporate risk culture”.

# 12

# Liquidity Risk

# 12

The information set out in this chapter is in line with the reporting requirements related to liquidity risk, with detailed information on the liquidity coverage requirement applicable to credit institutions pursuant to Delegated Regulation (EU) 2015/61, supplementing Delegated Regulation (EU) 2022/786, which entered into force on 08 July 2022, and which supplement the CRR, as well as detailed information on the net stable funding ratio requirement specified in Commission Delegated Regulation (EU) 2021/451 of 17 December 2020, supplementing Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019.

In addition, the chapter contains information concerning the requirements of Article 451bis of the CRR and Article 7 of Implementing Regulation (EU) 2021/637.

Information is disclosed below on the Institution's management and governance of liquidity risk, as well as its funding strategy. Additionally, information is given in relation to the evolution of liquidity and on regulatory ratios: the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR).

Liquidity risk arises due to the possibility of losses being incurred as a result of the Institution being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or as a result of the Institution being unable to access the markets to obtain finance at a reasonable cost. Liquidity risk is therefore inherent to the entity's funding structure and market conditions.

Figure 43. Liquidity Coverage Ratio (LCR[7]).

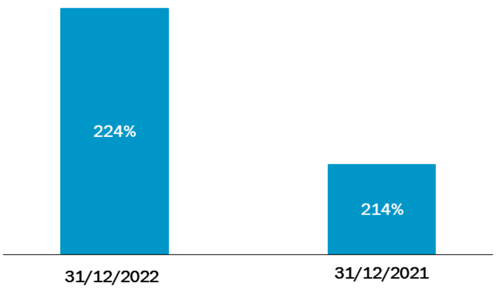



Figure 44. Loan to Deposit (LtD) ratio.

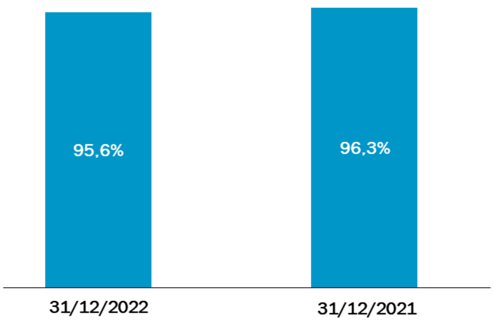
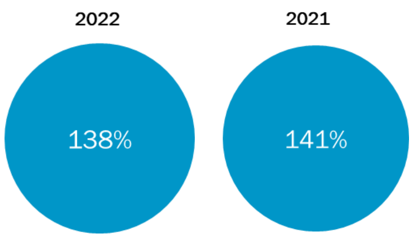



Figure 45. Net Stable Funding Ratio (NSFR).




[7] Weighted average of the last 12 months.

## 12.1 Liquidity risk management and governance

### Management strategies and processes

Banco Sabadell Group is exposed to daily demands on its available cash resources to meet contractual obligations related to financial instruments with which it trades, such as maturing deposits, drawdowns of credit facilities, settlements of derivatives, etc. Experience shows that only a minimum amount is ever actually required and this can be predicted with a high degree of confidence.

Banco Sabadell Group's current liquidity risk management strategy, in line with the business model and objectives, is fixed in accordance with the Risk Appetite Framework (RAF).

Banco Sabadell Group's management of this risk pursues the following fundamental objectives:

- Maintain a stock of liquid assets and a funding structure that, in line with its strategic objectives and based on its Risk Appetite Statement (RAS), allows it to honour its payment commitments as usual and at a reasonable cost, both under business-as-usual conditions and in a stress situation caused by both systemic and idiosyncratic factors.
- Compliance with the liquidity requirements established by international financial regulations (LCR and NSFR, defined below).
- Ensure adequate levels of liquidity and funding for its business activity at an appropriate cost and term while minimising liquidity risk. The Group's funding strategy focuses on maintaining a balanced funding structure, based mainly on customer deposits and supplemented with access to wholesale markets that allows a comfortable liquidity position to be maintained at all times.

For the purposes of liquidity management and control, Banco Sabadell Group has a decentralised liquidity management system for the more significant units, but with a centralised risk oversight and management system. This system tends to limit the transfer of liquidity between the different subsidiaries involved in its management, beyond the potential restrictions imposed by the local regulators of each one; specifically, a structure based on Liquidity Management Units (UGLs) is in place). Each UGLs is responsible for managing its own liquidity and for setting its own metrics to control liquidity risk, working together with the Group's corporate area.

Banco Sabadell Group systematically identifies liquidity risks, taking into account the business model, the current and potential environment and the liquidity and funding position at all times. This risk identification process is carried out at the level of each UGL, considering the proportionality principle, specific characteristics of the business and the risk of each jurisdiction, as well as compliance with local regulatory requirements.

At present, the UGLs are Banco Sabadell (includes Banco Sabadell, S.A., which in turn includes activity in foreign branches, as well as the business in Mexico of Banco de Sabadell S.A., I.B.M. (IBM) and Sabcapital S.A. de C.V., SOFOM, E.R. (SOFOM) which will generally have financial autonomy and manage their risk individually) and TSB.

Liquidity is managed through the following elements:

- The identification of material liquidity risks for the Institution, carried out at least once per year under the framework of the Internal Liquidity Adequacy Assessment Process (ILAAP), which consists of an internal process to assess the adequacy of liquidity. The ILAAP is integrated into the rest of the Group's strategic and risk management processes, allowing Senior Management and the Board of Directors to assess whether the levels of liquidity are consistent with the defined Risk Appetite Framework. The ILAAP is approved by the Board of Directors on an annual basis. In order to assess the materiality of each type of liquidity risk that has been identified, each UGLidentifies a series of quantitative and qualitative indicators. Based on the analysis of the evolution of this set of indicators and changes in the macroeconomic and banking environment, the liquidity sub-risks that are considered material for each UGL (applying the proportionality principle) are identified and the existing mitigation factors are also analysed.
- Establishment of the strategic principles that the Group should follow to manage each of those risks.
- Definition of metrics to assess liquidity risk that cover all material risks.
- Establishment of target risk appetite levels, Early Warning Indicator and limit/and, when appropriate, recovery thresholds in the Risk Appetite Framework and the set of risk management limits that complement the RAF.
- Establishment of monitoring and control procedures for these risks, which include systematic internal and external reporting mechanisms.
- A stress testing framework and a Liquidity Contingency Plan, which guarantee the management of liquidity risk in moderate and severe crisis situations. Additionally, considering the risks to which the Institution is exposed, monthly and quarterly stress tests are conducted under different types of scenarios, determining Banco Sabadell Group's ability to withstand potential liquidity shocks. The defined scenarios consider systemic factors, idiosyncratic factors, or a combination of the two, and also consider different time horizons.

### Governance and organisation

The core pillars of Banco de Sabadell, S.A.'s governance structure for the management and control of the Group's liquidity risk are the direct involvement of the Board of Directors, Board Committees and the various committees at other levels, with a clear assignment of roles and responsibilities.

The involvement of governing bodies in managing and controlling liquidity risk is achieved through the duties of the Board of Directors of Banco de Sabadell S.A., as the highest governing body of the Group, and also through the direct involvement of the Board Risk Committee and the Board Audit and Control Committee.

These governing bodies receive regular information from all units associated with liquidity risk management and control through various Committees.

Likewise, as indicated in sub-section 5.2.3 “Organisation of the risk function”, the Group establishes its control framework based on the model of Three Lines of Defence, which in relation to the liquidity risk function is basically centralised in Banco Sabadell and largely follows the structure described below:

**First line of defence:** business units are assigned the initial responsibility for the management and decision-making process with regard to liquidity risk, as well as the measurement and monitoring of the risks under their responsibility. Each business unit is responsible for establishing controls and metrics to monitor risk, and for complying with the policies approved by Senior Management, as well as the procedures arising from them. Within this first line of defence are:

- The Financial unit which, through the Financial Management and Corporate Operations unitis responsible for defining the Institution’s Funding Plan, planning and executing issuances in the capital markets, measuring and managing liquidity and interest rate risks, monitoring liquid assets and collateral, managing treasury portfolio managing transfer prices, carrying out liquidity stress tests, defining the Liquidity Contingency Plan and preparing, maintaining and updating the ILAAP.
- The Treasury and Capital Markets Unit, also exercises its duties related to the management and control of short-term liquidity risk, thus taking on a significant role in the first line of defence against liquidity risk, as it is responsible for managing the Institution’s short-term liquidity.

**Second line of defence:** in addition to the Compliance Unit, whose duties are described in sub-section 5.2.3, the second line of defence is comprised of:

- The Internal Control unit, is independent of the first line of defence and is responsible for risk assessment, monitoring and control. This line of defence provides a second level of control and oversight through the independent analysis of the management of the business units and the performance of its own additional reporting activities. It provides recommendations on potential areas of improvement and ensures compliance with the risk appetite set out in the RAS. On the other hand, the Financial Risk Control division, which is part of the Internal Control division, is responsible for controlling and supervising the management activities carried out by the first line of defence. It is responsible for proposing and developing the Risk Appetite Framework (RAF) and, specifically, for supervising and measuring liquidity risk, with an end-to-end, cross-cutting view of the risk.
- The Validation unit, is responsible for checking that the models used to manage the various risks, and specifically liquidity risk, work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.

**Third line of defence:** The Internal Audit unit, which has the roles and responsibilities described previously in sub-section 5.2.3 “Organisation of the risk function”.

### Measurement systems

The Board of Directors of Banco Sabadell is responsible for defining the liquidity risk appetite (liquidity RAS) of the Group on a consolidated basis and for setting metrics that UGLs should include in their local RAS, irrespective of whether they also include other additional indicators.

For the management and control of this risk, Banco Sabadell Group makes use of the following first-tier metrics contained in the RAS, which are calculated on a monthly basis and reviewed at least once a year, common to all UGL’s, and which must also be complied with at consolidated level:

- Liquidity Coverage Ratio (LCR): this is a regulatory ratio which aims to ensure that the Institution maintains an adequate volume of available high-quality liquid assets to meet its liquidity needs in a systemic and/or idiosyncratic crisis scenario lasting 30 days.
- Net Stable Funding Ratio (NSFR): this is a regulatory ratio which measures the amount of available stable funding in comparison to the amount of stable funding required by the Institution’s assets depending on their maturity structure.
- Loan-to-Deposit ratio: this ratio seeks to determine the sustainability and stability of the funding structure. For its calculation, net lending adjusted by brokered loans is used as the numerator, and customer funding, mainly deposits (including issuances placed through the branch network) is used as the denominator.

Aside from the metrics included in the Group’s Risk Appetite Framework and its geographical deployment, each UGL defines a set of first-, second- and third-tier metrics which are continuously monitored by each of the local bodies responsible for monitoring, managing and controlling liquidity risk, as well as by the Group’s corporate function, and which also contribute to the assessment and monitoring of funding and liquidity risk. The Boards of Directors of subsidiaries are responsible for approving local RAS in which corporate guidelines and their respective local requirements must be taken into consideration.

Additionally, Banco Sabadell Group has designed and implemented a system of early warning indicators at the UGL level, which include market and liquidity indicators adapted to the funding structure and business model of each UGL. The deployment of these warnings at UGL level complements the first-, second- and third-tier RAS metrics and allows tensions in the local liquidity position and funding structure to be detected early, thereby facilitating the implementation of corrective measures and actions and reducing the risk of contagion between the different management units.

### Mitigation measures

The Institution has mitigation measures for liquidity risk in place, among them the definition and monitoring of RAS metrics, and Early Warning Indicators (EWIs), previously mentioned.

Additionally, Banco Sabadell Group has the following strategies for hedging and reducing risk:

- Maintenance of a sufficiently large liquidity buffer with a high credit quality, which makes monetisation easier in a stressed environment. This pool of assets mainly includes Central Bank reserves, assets eligible as collateral in exchange for access to the ECB's financing operations and assets not eligible by the ECB but classified as extremely high liquidity under LCR criteria.

- Maintenance of a portfolio of loans which could be used as collateral to issue covered bonds, generating additional liquidity if necessary.
- Maintenance of a funding structure based on customer deposits and completed by capital market funding programmes, which it accesses on a recurrent basis, achieving an adequate diversification of its funding sources by type of counterparty, product and term.
- Review, at least once a year, of the methodology used to identify and assess the materiality of liquidity sub-risks and applied in successive quarterly reviews, as well as the management strategies of the relevant liquidity sub-risks.
- Preparation of the funding plan, both in a baseline or business-as-usual scenario and in alternative stress scenarios, and forecast of metrics used to manage and control liquidity risk, ensuring that these are kept within the established risk appetite.
- Performance of liquidity stress tests, as least once a quarter, under different types of scenarios and with different time horizons, in order to verify the resilience of the liquidity position and the Institution's ability to restore its metrics if necessary, using the measures envisaged in the Liquidity Contingency Plan. In addition, every month, each UGL calculates a stress metric under a specific stress scenario (this metric is the Survival Horizon metric in the case of the Banco Sabadell Spain UGL and the 3-month ILAAP stress coverage metric in the most adverse scenario in the case of TSB), estimating its ability to overcome certain adverse scenarios.
- Availability of a Liquidity Contingency Plan to provide a flexible and specific response to the various stress scenarios, depending on their nature. This plan considers a governance system for crisis scenarios, identifying roles and responsibilities. It includes available measures to generate liquidity in both a business-as-usual situation and in a stress situation and it sets out a specific communication plan.
- Use of a decentralised model to manage and control liquidity.
- Continuous monitoring and control, together with the use of strategies and metrics defined in the Risk Appetite Framework, which allow an adequate volume of available liquid assets to be maintained that is in line with the Bank's risk tolerance.

### Risk culture

The applicable information relating to liquidity risk culture is covered in sub-section 5.2.1 "Corporate risk culture".

## 12.2 Concise Liquidity Risk Statement

Banco Sabadell Group, as well as other Group subsidiaries required to do so by local regulations, carries out a self-assessment, at least once a year, of its liquidity adequacy under the framework of the Internal Liquidity Adequacy Assessment Process (ILAAP). The SREP Guidelines issued by the EBA describe the ILAAP as the set of processes for the identification, measurement, management and monitoring of liquidity and funding implemented by the Institution. The ILAAP must therefore include qualitative and quantitative information, in addition to a description of the systems, processes and methodologies used to measure and manage the Institution's liquidity risk.

As part of this assessment process, the Board of Directors issues a statement regarding liquidity adequacy and the funding profile together with the defined risk appetite framework. The following statement was included in the latest ILAAP approved by the Board of Directors for 2021:

- Banco Sabadell Group has a comfortable liquidity position that enables it to fulfil its payment obligations at a reasonable cost in business-as-usual conditions and in a stress situation caused by both systemic and idiosyncratic factors.
- Banco Sabadell Group has a stable and balanced funding structure, in line with the risk appetite and the defined funding risk management strategy, in which funding through deposits acquired through the branch network is predominant and supplemented by wholesale funding, which the Group seeks to diversify in terms of instruments, investors and maturities.
- Banco Sabadell Group has a robust governance framework in place for the management and control of liquidity risk.

This statement is mainly based on the following aspects:

- Banco Sabadell Group's stock of high-quality liquid assets allows it to comfortably meet regulatory requirements related to the Liquidity Coverage Ratio (LCR), on both a consolidated basis and on a standalone basis, taking into account the regulatory requirements and restrictions applicable in each jurisdiction. Furthermore, each Banco Sabadell Group UGL identifies its economic liquidity requirements to survive a certain period of stress, which is longer than that considered on a regulatory basis for the LCR and which considers the occurrence of material liquidity risks.
- The Banco Sabadell Group entities, applying the proportionality principle, also monitor their liquidity buffer using internal conservative criteria. This buffer is formed of highly liquid, unencumbered assets and is intended to deal with contingencies in the very near term. The Institution has defined the Counterbalancing Capacity metric to measure the liquidity buffer using internal criteria. This buffer is formed of available liquid assets. In the case of the Banco

Sabadell UGL[8], this metric comprises the First Line of Liquidity and the Second Line of Liquidity, which includes the capacity to issue covered bonds, considering the average valuation applied by the central bank to covered bonds for own use in order to obtain funding, as these are assets that can be quickly monetised within 1 week or less, in addition to assets available in up to 7 days corresponding to the business in Mexico. In the TSB UGL, this metric is the sum of the first line of liquidity plus loans prepositioned with the Bank of England in order to obtain funding

- Each Banco Sabadell Group UGL, applying the proportionality principle, has procedures in place to identify, manage, monitor and control its liquid asset base. Likewise, each LMU has procedures in place to manage and control intraday liquidity risk, which include, among other things, processes to identify the main sources of intraday liquidity risk, the systematic monitoring of payments received and payments made and the existence of indicators that enable each UGL to ensure that it has the necessary liquid assets to cover this risk.
- Banco Sabadell Group has a stable funding structure that is adequate in terms of the composition of its assets and off-balance sheet exposures. The structural funding position is controlled by maintaining a minimum level of customer deposits relative to the volume of loans granted, limiting less stable deposits, setting limits on funding needs and controlling the level of Asset Encumbrance, as well as by maintaining stable funding levels in order to comfortably meet the minimum level required by the Net Stable Funding Ratio (NSFR).
- Each Banco Sabadell UGL, applying proportionality criteria, has robust market access, with sufficient short- and long-term funding sources.
- Banco Sabadell Group has a governance system in place for the management and control of liquidity and funding risk, based on a clear distinction between the three lines of defence, providing independence when evaluating positions and when controlling and assessing risks, among other matters.
- Each UGL, under proportionality criteria, is responsible for defining processes for the identification, measurement, management, control and monitoring of its own material liquidity risks, taking into account its business model, the current and potential situation in terms of the financial environment and its liquidity and funding position at all times
- One of the aims of Banco Sabadell Group is to maintain a stock of liquid assets and a funding structure that, in line with its corresponding strategic objectives and based on its Risk Appetite Statement, approved by the Board of Directors, allows the Group to honour its payment commitments as usual and at a reasonable cost, both under business-as-usual conditions and in a stress situation caused by both systemic and idiosyncratic factors.
- Each UGL is responsible for defining its own liquidity and funding risk appetite and tolerance, taking into account corporate guidelines, applicable legislation and the characteristics of its local business model. To achieve this, UGLs are responsible for establishing their own strategies to manage and control the identified liquidity and funding risks. The set of first-tier metrics included in the risk appetite statement, defined at both the consolidated Group level and at the LMU level, together with the supplementary metrics implemented by each UGL, cover all of the identified liquidity risks. The calibration of thresholds for these indicators on a consolidated basis reflects a medium-low risk appetite in terms of liquidity risks.
- Each Balance Sheet Management Unit (UGB for their acronym in spanish) of Banco Sabadell Group, applying the proportionality principle, has a funds transfer pricing (FTP) system through which to determine the return on deposits and the funding cost of loans.
- Each UGL, under proportionality criteria, has designed and regularly conducts liquidity stress tests, which allows them to assess their liquidity and funding position, control their defined risk profile and guarantee their ability to honour payment commitments over various time horizons and under severe crisis scenarios, including both systemic and idiosyncratic crisis scenarios, and a combination of the two.

  Within the Banco Sabadell UGL, Banco Sabadell Spain considers: (i) the calculation of a survival horizon, which measures the period of time during which the Institution can keep its LCR above a specified minimum threshold (for the purpose of its quantification, several types of retail and wholesale outflows are included, and risks are incorporated that are additional to those considered in the LCR metric), in addition to considerations at the management level and a particular dynamic component, and (ii) a liquidity stress framework that complements the aforesaid calculation and allows vulnerabilities in the liquidity and funding position to be detected by forecasting regulatory and management metrics in stress situations that assume the materialisation of a series of risks in idiosyncratic, systemic and combined scenarios, occurring over different time horizons, with different levels of severity and impact channels, including outflows of retail and wholesale customer deposits, restrictions on the ability to access wholesale funding markets, rating downgrades, and the drawdown of committed but unused lines of credit and liquidity, among other things.

  The TSB UGL, for its part, has implemented a stress testing process that considers different scenarios (systemic, idiosyncratic and combined), which it uses to quantify its liquid asset needs by forecasting regulatory and management metrics. The “ILAAP 3-month stress coverage” metric measures the coverage provided by the first line of liquidity for outflows generated during the stress test in the most severe scenario, which considers both on- and off-balance sheet positions, over a 3-month time horizon, as well as management actions.

[8] Includes the amount associated with Banco Sabadell’s businesses in Mexico.

- Each UGL, applying the proportionality principle, uses its funding plans as a liquidity risk management tool. UGLs can thus forecast their funding requirements over different time horizons based on the estimated funding gap during the period in question, the maturities of the issues and the funds needed to meet own funds requirements or MREL, ensuring compliance with the RAS metrics and in line with the Institution's strategic objectives. Based on the plans included in the 2021 ILAAP, expectations are that LGUs will continue to have a good liquidity position and that the predominant source of funding will continue to be funds acquired through the branch network, supplemented by wholesale funding.
- Each LGU, applying the proportionality principle, is responsible for maintaining liquidity contingency plans, which consider monitoring indicators for the early identification of a stress situation or liquidity crisis, the definition of potential recovery options to be adopted in such a situation, as well as a governance system for the management and activation of a crisis situation, which includes processes for reporting and coordinating with the parent company of the Group.

## 12.3 Institution's funding strategy

The objective of the Group's funding strategy is to maintain a stable and balanced funding structure. The main source of the Banco Sabadell Group's funding is its customer deposit base, which is supplemented with funding via the interbank market and the capital markets, in which the Group always seeks to maintain adequate diversification in terms of product, term and investor.

With regard to retail funding, Banco Sabadell Group has a wide customer deposit base (mainly sight accounts and term deposits acquired through the branch network) which is the main pillar of funding. The Group aims to maintain and increase the level of operability and the degree of engagement with its customers, with the objective, among others, of maintaining a stable deposit base.

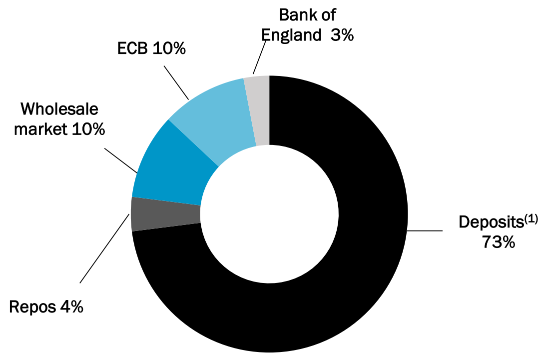
As a complementary source of funding to the deposit base, the Group has various short-term and long-term funding schemes through which it accesses capital markets using different instruments.

The purpose in terms of market funding is to diversify its sources of funding, in terms of both term and product, thereby optimising the cost of the funding.

This funding structure model is common to all of the various UGLs, applying the proportionality principle and considering the issuing capacity of each UGL.

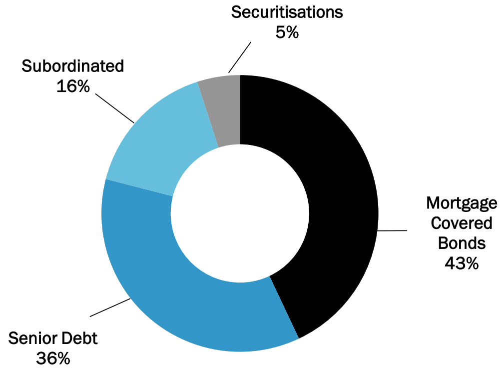
The main sources of funding as at the end of 2022 are shown below, according to the type of instrument and counterparty:

**Figure 46. Breakdown of the Institution's sources of funding by type.**




(1)Deposits contain in other liabilities placed by the commercial network, simple Banco Sabadell bonds, promissory notes and others.

**Figure 47. Breakdown of institutional issuances (wholesale market).**




### 12.3.1 Retail funding strategy

As can be seen in Figure 46, customer funds account for the majority of the Institution's funding. Over the year, on-balance sheet customer funds have increased by 2,120 million euros since 2022 year-end. In a fast-rising interest rate environment, customers still keep most of their liquidity in sight accounts, to the detriment of term deposits.

Table 71. On-balance sheet customer funds.

| | 2022 | 3 months | 6 months | 12 months | > 12 months | Not stated |
|---|---|---|---|---|---|---|
| On-balance sheet customer funds[1] | 164,140 | 3.9% | 1.1% | 1.9% | 3.2% | 89.9% |
| Term deposits | 15,690 | 39.5% | 8.2% | 19.3% | 33.0% | — |
| Sight accounts | 147,540 | — | — | — | — | 100.0% |
| Retail issues | 910 | 33.9% | 58.4% | 5.6% | 2.1% | — |
| Total | 164,140 | 6,499 | 1,812 | 3,087 | 5,202 | 147,540 |

| | 2021 | 3 months | 6 months | 12 months | > 12 months | Not stated |
|---|---|---|---|---|---|---|
| On-balance sheet customer funds[1] | 162,020 | 3.5% | 1.4% | 1.5% | 2.7% | 90.9% |
| Term deposits | 13,623 | 36.7% | 13.8% | 17.1% | 32.4% | — |
| Sight accounts | 147,268 | — | — | — | — | 100.0% |
| Retail issues | 1,129 | 62.9% | 33.9% | 3.2% | — | — |
| Total | 162,020 | 5,707 | 2,265 | 2,371 | 4,409 | 147,268 |

*Amounts in millions of euros.*

*[1] Includes customer deposits (ex-repos) and other liabilities placed by the branch network: non-convertible Banco Sabadell bonds, promissory notes and others.*

In 2022, the volume of customer loans increased (+0.3%) as did customer deposits (+1.3%). The fact that lending growth has been lower than customer deposits growth has led to a slight decrease in the Loan to Deposits (LtD) ratio of Banco Sabadell Group, although it remains stable and balanced at levels close to 100% (95.6% at the end of 2022, compared to 96.3% in 2021).

Table 72. Evolution of LtD ratio.

| | 31/12/2022 | 31/12/2021 |
|---|---|---|
| Loan-to-deposits ratio (LTD) | 95,60% | 96,33% |

### 12.3.2 Wholesale market funding strategy

Banco Sabadell Group's wholesale funding strategy aims to have a diversified structure of funding sources, both in terms of maturities and instruments, which enables it to optimise its cost of funding, focusing on those products in which, given the Institution's rating, the cost/term ratio is more appropriate, and, at the same time allows keeping an adequate level of MREL (Minimum Requirement for own funds and Eligible Liabilities) and to keep the Subordination level above the applicable regulatory requirement.

At the end of 2022, the outstanding balance of funding in capital markets stood at 20,819 million euros, compared with 20,348 million euros at the end of 2021.

The Institution has a comfortable maturity profile in terms of maturity periods with no heavy concentrations so that refinancing risks are minimised.

Table 73. Capital market funding structure by product and maturity.

| | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | >2028 | Outstanding balance[1] |
|---|---|---|---|---|---|---|---|---|
| Bonds and mortgage covered bonds[2] | 1,388 | 2,696 | 836 | 390 | 1,100 | 1,549 | 1,450 | 9,409 |
| Senior debt[3] | 975 | 735 | 1,480 | — | 500 | 750 | — | 4,440 |
| Senior non preferred debt[3] | — | 975 | 500 | 1,317 | 18 | 500 | 195 | 3,505 |
| Subordinated and preferred[3] | — | — | — | 500 | — | 500 | 2,465 | 3,465 |
| Other medium and long-term financial instruments[3] | — | — | — | — | — | — | — | — |
| **Total** | **2,363** | **4,406** | **2,816** | **2,207** | **1,618** | **3,299** | **4,110** | **20,819** |

*Amounts in million euro.*

*Data in nominal amounts.*

*[1] The table excludes securitisations fully held on balance (1,251 million euros).*

*[2] Collateralized issues.*

*[3] Non-collateralized issues.*

During 2022, the Institution has made use of the different issue windows to access the capital markets at different times of the year, in a market environment characterised by the war in Ukraine and monetary policy tightening, with wider credit spreads across the board for all instruments. In the year there have been maturities and early redemptions in the capital markets amounting to 3,097 million euros. Banco Sabadell also crried out five issuances under the ongoing Fixed Income Programme for a total of 1,638 million euros, specifically the following: an issuance of green non-preferred straight bonds on 30 March 2022 for a total of 120 million euros with a 15-year maturity; an issuance of mortgage covered bonds on 30 May 2022 for 1,000 million euros with a 7-year maturity; an issuance of non-preferred straight bonds on 3 June 2022 for 8.9 million euros with a 5-year maturity; an issuance of non-preferred straight bonds on 1 August 2022 for 9.2 million euros with a 5-year maturity; and an issuance of mortgage covered bonds on 21 December 2022 for 500 million euros with an 8-year maturity. Furthermore, under the EMTN Programme, Banco Sabadell carried out four issuances for a total amount of 2,075 million euros, specifically the following: an issuance of green senior non-preferred debt on 24 March 2022 for 750 million euros with a 4-year maturity and an early call option in favour of Banco Sabadell in the third year; an issuance of senior non-preferred debt on 8 September 2022 for 500 million euros with a 4-year maturity and an early call option in favour of Banco Sabadell in the third year; an issuance of green senior preferred debt on 10 November 2022 for 750 million euros with a 6-year maturity and an early call option in favour of Banco Sabadell in the fifth year; and an issuance of green senior non-preferred debt on 23 November 2022 for 75 million euros with a 10-year maturity and an early call option in favour of Banco Sabadell in the ninth year.

### 12.3.3 Secured funding

Secured funding should be mentioned as an additional source of funding. Two groups can be identified in terms of the nature of the pledged assets and the characteristics of the underlying financial transactions.

The first group of assets includes mainly government bonds primarily submitted/received as collateral for transactions involving short-term repos and reverse repos, which are used to manage the Institution's short-term liquidity position. As at 31 December 2022, the net amount of repo financing in effective terms for the Group amounted to 5,026 million euros, having increased by 4,505 million euros during the year in comparison to 2021 (521 million euros as at 31 December 2021)

The second group of assets is far more diverse, comprised of covered bonds and asset-backed securities, both own and third-party, corporate bonds and eligible loans, which are mostly submitted as collateral under the various ECB funding measures and other Central Banks which, unlike the first group of assets, contribute to the Institution's medium- and long-term funding. Among these financing measures, the TLRTRO III stands out, at the end of 2022, Banco Sabadell had 22,000 million euros corresponding to the TLTRO III, 17,000 million euros maturing in June 2023 and 5,000 million euros maturing in March 2024, having prepaid 10. 10 billion of this facility during the year, as well as £5.5 billion drawn down with the Bank of England under the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) and Indexed Long Term Repo (ILTR). Section 13.1 includes further information on types of sources of encumbrance.

## 12.4 Evolution of Liquidity in 2022

Banco Sabadell Group's liquidity management seeks to maintain a funding structure and volume of liquid assets that will enable it to meet its payment commitments normally, under both business-as-usual and stress conditions. It is worth recalling that Banco Sabadell follows a decentralised liquidity management model, which tends to limit the transfer of liquidity between the various subsidiaries involved in liquidity management, going beyond the potential restrictions imposed on each subsidiary by local regulators. Thus, each UGL determines its liquidity position by considering only those assets in its possession which meet the criteria of eligibility, availability and liquidity set forth both internally and in regulations in order to comply with minimum regulatory requirements.

Following the proportionality principle, each UGL monitors its own liquidity buffer using an internal and conservative criterion called the Counterbalancing Capacity. In the case of the Banco Sabadell UGL (includes Banco Sabadell, S.A., which in turn includes activity in foreign branches, as well as the business in Mexico of Banco de Sabadell S.A.), this liquidity buffer comprises the First and Second Lines of Liquidity. As at the end of 2022, the First Line of Liquidity of the Banco Sabadell UGL amounted to 45,124 million euros (45,061 million euros as at 31 December 2021), and comprised eligible assets available to be pledged as collateral to access the ECB's facility, liquid assets classified as of extremely high liquidity under LCR criteria but not eligible to access to the ECB's facility, and the Bank's net interbank position. In addition, as at 31 December 2022, the Second Line of Liquidity amounted to 12,885 million euros (11,535 million euros as at 31 December 2021), including the capacity to issue mortgage covered bonds, considering the average valuation applied by the central bank to covered bonds for own use in order to obtain funding, as well as the assets available in up to 7 days corresponding to the business in Mexico. As a result, as at year-end 2022, the Counterbalancing Capacity of the Banco Sabadell UGL amounted to 58,010 million euros (56,596 million euros as at 31 December 2021).

In the TSB UGL, this metric is the sum of the First Line of Liquidity plus loans prepositioned with the Bank of England in order to obtain funding. As at 31 December 2022, TSB's First Line of Liquidity was formed of high-quality liquid assets amounting to 3,498 million euros (3,555 million euros as at 31 December 2021) and a surplus of reserves in the Bank of England amounting to 5,421 million euros (5,267 million euros as at 31 December 2021). Considering that the amount of loans prepositioned with the Bank of England amounted to 3,366 million euros, TSB's Counterbalancing Capacity amounted to 12,285 million euros as at the end of 2022 (14,608 million euros as of 31 December 2021).

At the Group level, as at the end of 2022, the balance of the First Line of Liquidity amounted to 54,044 million euros (53,883 million euros as of 31 December 2021), broken down here below:

**Table 74. Balance of available liquid assets.**

| Item | 31/12/2022 | 31/12/2021 |
|---|---|---|
| Cash[(1)] + net interbank position | 35,012 | 43,189 |
| Available in BdE insurance | 7,788 | 1,527 |
| Assets pledged under facility | 6,010 | 4,429 |
| Other marketable assets not deemed eligible by the ECB[(2)] | 5,234 | 4,738 |
| Memorandum: | | |
| Balance drawn down from BdE facility[(3)] | 22,000 | 32,000 |
| Balance drawn from Bank of England Term Funding Scheme[(4)] | 6,201 | 6,545 |
| **Total Activos Líquidos Disponibles** | **54,044** | **53,883** |

*(1) Surplus of Central Bank reserves*

*(2) At market value and having applied the Liquidity Coverage Ratio (LCR) haircut. Includes fixed income considered as a high quality and liquid asset in accordance with LCR (HQLA) and other marketable assets from different Group companies.*

*(3) Correspond to the TLTRO-III facility.*

*(4) At year-end 2022, includes 5,000 million pounds sterling for support to small and medium-sized enterprises (TFSME) and 500 million pounds sterling from Indexed Long Term Repo (ILTR). At year-end 2021, includes £5.5 billion from the TFSME.*

## 12.5 Compliance with regulatory ratios

Banco Sabadell Group has included, as part of its liquidity management, the monitoring of the short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), disclosing to the regulator the information required on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of the liquidity risk oversight process in the set of UGLs.

As regards the LCR, since 1 January 2018, the regulatory minimum requirement has been 100%, a level which is comfortably surpassed by all of the Institution's UGLs, of TSB and Banco Sabadell have a very comfortable LCRs of 196% and 270%, respectively, as at December 2022. At the Group level, the Institution's LCR ratio has been permanently and stably well above 100% throughout the year, closing 2022 at 234%, after adjusting the ratio for inflows from third countries in which there are restrictions on the transfer of liquidity, thus limiting the mismatch between currencies.

On the other hand, with regard to the Net Stable Funding Ratio (NSFR), the minimum regulatory level required since 28 June 2021 has also been 100%, which is amply surpassed by all UGLs and has remained so throughout 2022, with TSB and Banco Sabadell posting ratios, as at the end of December, of 151% and 132%, respectively. Similarly, the NSFR of Banco Sabadell Group ended 2022 at 138%.

### 12.5.1 Liquidity Coverage Ratio

In accordance with EBA Guidelines 2017/01, which set forth the disclosure framework of the LCR, the evolution of the key components of this metric is shown below, including the average of the figures recorded in the last twelve months on each reference date.

The "total unweighted value" category includes the amounts in gross terms, while in the case of "total weighted value", the balances are adjusted by the risk weights established in Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to calculate the LCR, as well as Commission Delegated Regulation (EU) 2018/1620 of 13 July 2018, which amends the former and entered into force on 30 April 2020.

Over the time horizon observed, the average LCR has increased by 10 percentage points to reach an annual average of 224%, which is mainly due to the increase in liquid assets associated with a positive funding gap in the period partially offset by the loss from asset valuation.

Sabadell

## Table 75. Liquidity Coverage Ratio (EU LIQ1).

| | Total unweighted value (average) | | | | Total weighted value (average) | | | |
|---|---|---|---|---|---|---|---|---|
| **Quarter ending on** | **31 December 2022** | **30 September 2022** | **30 June 2022** | **31 March 2022** | **31 December 2022** | **30 September 2022** | **30 June 2022** | **31 March 2022** |
| Number of data points used in the calculation of averages | 12 | 12 | 12 | 12 | 12 | 12 | 12 | 12 |
| **HIGH-QUALITY LIQUID ASSETS** | | | | | | | | |
| Total high-quality liquid assets (HQLA) | | | | | **51,150** | **51,543** | **51,409** | **50,845** |
| **CASH - OUTFLOWS** | | | | | | | | |
| **Retail deposits and deposits from small business customers, of which:** | **122,893** | **122,234** | **121,318** | **120,117** | **7,965** | **7,917** | **7,840** | **7,745** |
| Stable deposits | 91,227 | 91,379 | 91,006 | 90,295 | 4,561 | 4,569 | 4,550 | 4,515 |
| Less stable deposits | 29,405 | 28,916 | 28,421 | 27,902 | 3,403 | 3,348 | 3,290 | 3,230 |
| **Unsecured wholesale funding** | **32,236** | **32,218** | **32,134** | **32,074** | **13,546** | **13,554** | **13,522** | **13,581** |
| Operational deposits (all counterparties) and deposits in networks of cooperative banks | 3,433 | 3,464 | 3,511 | 3,477 | 812 | 819 | 830 | 821 |
| Non-operational deposits (all counterparties) | 28,554 | 28,554 | 28,419 | 28,458 | 12,485 | 12,535 | 12,489 | 12,621 |
| Unsecured debt | 249 | 200 | 203 | 139 | 249 | 200 | 203 | 139 |
| **Secured wholesale funding** | | | | | **96** | **90** | **93** | **91** |
| **Additional requirements** | **25,786** | **25,775** | **25,746** | **25,957** | **3,176** | **3,036** | **2,836** | **2,757** |
| Outflows related to derivative exposures and other collateral requirements | 942 | 731 | 590 | 526 | 942 | 731 | 590 | 526 |
| Outflows related to loss of funding on debt products | 113 | 214 | 188 | 178 | 113 | 214 | 188 | 178 |
| Credit and liquidity facilities | 24,730 | 24,829 | 24,967 | 25,253 | 2,120 | 2,090 | 2,057 | 2,054 |
| **Other contractual funding obligations** | **422** | **419** | **409** | **399** | **34** | **33** | **32** | **43** |
| **Other contingent funding obligations** | **31,008** | **31,157** | **31,032** | **31,210** | **2,498** | **2,581** | **2,593** | **2,668** |
| **TOTAL CASH OUTFLOWS** | | | | | **27,315** | **27,210** | **26,917** | **26,886** |
| **CASH - INFLOWS** | | | | | | | | |
| Secured lending (e.g. reverse repos) | 10,411 | 9,148 | 7,735 | 6,615 | 86 | 68 | 69 | 86 |
| Inflows from fully performing exposures | 7,104 | 6,577 | 6,226 | 5,976 | 4,207 | 3,869 | 3,666 | 3,546 |
| Other cash inflows | 239 | 199 | 237 | 199 | 223 | 183 | 221 | 183 |
| (Difference between total weighted inflows and total weighted outflows arising from transactions in third countries where there are transfer restrictions or which are denominated in non-convertible currencies) | | | | | – | – | – | – |
| (Excess inflows from a related specialised credit institution) | | | | | – | – | – | – |
| **TOTAL CASH INFLOWS** | **17,754** | **15,924** | **14,199** | **12,790** | **4,516** | **4,120** | **3,956** | **3,815** |
| Fully exempt inflows | – | – | – | – | – | – | – | – |
| Inflows subject to 90% cap | – | – | – | – | – | – | – | – |
| Inflows subject to 75% cap | 17,754 | 15,924 | 14,199 | 12,790 | 4,516 | 4,120 | 3,956 | 3,815 |
| **TOTAL ADJUSTED VALUE** | | | | | | | | |
| **LIQUIDITY BUFFER** | | | | | **51,150** | **51,543** | **51,409** | **50,845** |
| **TOTAL NET CASH OUTFLOWS** | | | | | **22,799** | **23,090** | **22,960** | **23,070** |
| **LIQUIDITY COVERAGE RATIO** | | | | | **224%** | **223%** | **224%** | **220%** |

*Amounts in million euro*

### High Quality Liquid Assets (HQLA)

In average terms, during the last twelve months, high quality liquid assets have increased by 1,839 million euros, improving Banco Sabadell Group's position in the face of possible stress events, as well as its capacity to react immediately to sudden changes in liquidity.

In accordance with the regulatory definition of the liquidity coverage requirement, almost all of Banco Sabadell Group's liquid assets are composed of Tier 1 securities, which are assets whose liquidity and credit quality is extremely high.

### Cash outflows

Banco Sabadell Group's funding structure, which is mainly composed of customer deposits, is reflected in cash outflows, the structure of which has remained stable during the analysed periods. Average outflows during 2022 amounted to 27,315 million euros, which represents an increase of 406 million euros in comparison to the average of the previous twelve months to December 2021.

Due to the business model of Banco Sabadell Group, retail deposits make up a large amount of Banco Sabadell Group's funds. Although they represent more than half of the balances considered in the LCR as potential outflows, their high stability means that their withdrawal is not particularly likely. In average terms, retail deposits make up 29.2% of the total cash outflows which would occur in a stress period of 30 days, such as that contemplated in the LCR. Amongst these, the most stable deposits with a higher contribution to the ratio are the ones that stand out.

In unsecured wholesale funding, non-operational deposits of non-financial enterprises and public entities are predominant. The increased capacity for this type of customer to manage their funds makes them the main source of outflows in the LCR, representing, on average, 15.2% of outflows, although total balances considered in LCR as potential outflows reach 49.6% on average. In contrast, secured funding contributes 0.4% of outflows, increasing over the year.

With regard to the "additional requirements" category included in the LCR, those related to the undrawn balance of credit and liquidity lines stand out, which on average represent 11.6% of potential outflows, and after their weighting, they represent 7.8% of outflows. Furthermore, in this category, one of the inherent risks of derivative transactions is the possibility that Banco Sabadell Group may have to provide additional guarantees, which could have a negative impact on its liquidity profile and funding capacity. Most derivative transactions are subject to collateral agreements, protecting them against any changes in their market value. In addition, the LCR considers the liquidity risk arising from the impact of an adverse market scenario in which changes in derivative valuations could result in additional guarantees being given and potentially drain the liquidity position. Within the LCR, the most significant net change in 30 days over the time horizon of the preceding 24 months is calculated and then included as a liquidity requirement. Regarding the deposits susceptible to withdrawal considered in the LCR, outflows related to derivative transactions represent around 0.4%, and represent 3.4% of total outflows. Based on prudential criteria, Banco Sabadell Group contemplates the cash outflow that could materialise in the event of a severe stress scenario, and in this context, the Group would have sufficient liquidity to meet these additional collateral requirements.

Cash outflows may occur due to commitments associated with other contingent products, predominantly revocable and commercial credit facilities, current account overdraft limits, guarantees and asset transactions granted but not yet disbursed. These represent 14.6% of the potential combined cash outflows and 9.1% of total outflows weighted by their probability of drawdown, having increased relative to 2021 year-end.

### Cash inflows

Based on the average of the last twelve months, the total amount of cash inflows that would take place in a stress period of 30 days stands at 4,516 million euros, which implies an increase of 614 million euros compared to the annual average for December 2021.

The annual average of balances considered in the LCR as potential inflows is largely determined by expected inflows from lending, which during the year have reduced their weight as a proportion of total inflows, declining from 46.6% to 40.0%, while cash flows from secured lending transactions have gone from representing 51.9% to 58.6% of total inflows. The remaining 1.4% corresponds to inflows with reduced materiality, which include the maturities of securities held in the portfolio. After applying the corresponding risk weights, on average, 93.1% of LCR inflows are explained by inflows from lending which would take place in a stressed environment.

### Currency mismatch in the liquidity coverage ratio

The management and control of liquidity risk for the Banco Sabadell UGL uses the euro as a benchmark currency, due to the low materiality of financial flows in other currencies maintained by this UGL, with consistency between the currency in which liquid assets are denominated and the breakdown of net liquidity outflows by currency.

The exposure in foreign currencies is mostly limited to Mexican pesos, U.S. dollars and pounds sterling, as a result of the activity in Mexico and the activity arising in connection with the branches in Miami and London.

## 12.5.2 Net Stable Funding Ratio (NSFR)

Commission Delegated Regulation (EU) 2021/451 of 17 December 2020 specifies the reporting obligations with regard to the Net Stable Funding Ratio, which came into force on 28 June 2021.

The NSFR is expressed as the ratio of an institution's available stable funding relative to its required stable funding, and the regulatory minimum requirement is 100%.

The "Unweighted value by residual maturity" category includes amounts, in gross terms, broken down by residual maturity, while the "No maturity" column considers products with no defined maturity. On the other hand, the "weighted value" category shows the aforesaid balances adjusted by the risk weights established in Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019.

Banco Sabadell Group has remained at stable levels consistently over the minimum requirement of 100%, given its funding structure, which has a preponderance of customer deposits and where most of the market funding is in the medium/long term.

For this reason, due mainly to the increase in customer funds and fewer encumbered assets associated with Central Bank borrowing, which have been offset by increased lending, the repayments made on TLTRO III and the proximity of its maturity, Banco Sabadell Group's NSFR at the end of December 2022 was 138%, having fallen by 3 percentage points relative to the level at the end of December 2021.

Similarly, as at December 2022, no interdependent assets and liabilities have been identified.

## Table 76. Net stable funding ratio (EU LIQ2).

| Available stable funding (ASF) Items | No maturity | Unweighted value by residual maturity < 6 months | 6 months to < 1yr | ≥ 1yr | Weighted value |
|---|---|---|---|---|---|
| Capital items and instruments | 14,307,446 | 400,000 | 500,000 | 1,149,636 | 15,707,082 |
| Own funds | 14,307,446 | 400,000 | 500,000 | 1,149,636 | 15,707,082 |
| Other capital instruments | | – | – | – | – |
| Retail deposits | | 120,232,960 | 1,521,041 | 1,570,865 | 115,688,976 |
| Stable deposits | | 89,567,555 | 1,222,628 | 656,024 | 86,906,698 |
| Less stable deposits | | 30,665,405 | 298,412 | 914,842 | 28,782,278 |
| Wholesale funding: | | 67,622,030 | 3,133,050 | 30,111,712 | 49,660,267 |
| Operational deposits | | 3,704,744 | – | – | 1,852,372 |
| Other wholesale funding | | 63,917,285 | 3,133,050 | 30,111,712 | 47,807,895 |
| Interdependent liabilities | | – | – | – | – |
| Other liabilities: | 515,317 | 7,501,939 | 232,702 | 1,208,149 | 1,324,500 |
| NSFR derivative liabilities | 515,317 | | | | |
| All other liabilities and capital instruments not included in the above categories | | 7,501,939 | 232,702 | 1,208,149 | 1,324,500 |
| **Total available stable funding (ASF)** | | | | | **182,380,825** |

*Data as at 31/12/2022, in thousand euro.*

| Required stable funding (RSF) Items | No maturity | Unweighted value by residual maturity < 6 months | 6 months to < 1yr | ≥ 1yr | Weighted value |
|---|---|---|---|---|---|
| Total high-quality liquid assets (HQLA)[1] | | | | | 1,353,857 |
| Assets encumbered for a residual maturity of one year or more in a cover pool | | 173,944 | 212,638 | 8,672,956 | 7,700,607 |
| Deposits held at other financial institutions for operational purposes | | – | – | – | – |
| Performing loans and securities | | 23,738,948 | 9,031,435 | 115,678,506 | 100,153,275 |
| Performing securities financing transactions with financial customers collateralised by Level 1 HQLA subject to 0% haircut | | 1,042,299 | – | – | 129,171 |
| Performing securities financing transactions with financial customer collateralised by other assets and loans and advances to financial institutions | | 2,405,062 | 438,557 | 704,141 | 1,123,005 |
| Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, and PSEs, of which: | | 12,703,719 | 6,572,675 | 46,103,905 | 48,239,602 |
| With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | 4,927,009 | 1,945,783 | 14,952,854 | 15,097,846 |
| Performing residential mortgages, of which: | | 1,824,645 | 1,843,090 | 68,417,684 | 49,530,104 |
| With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk | | 1,795,758 | 1,806,495 | 65,752,042 | 47,222,012 |
| Other loans and securities that are not in default and do not qualify as HQLA, including exchange-traded equities and trade finance on-balance sheet products | | 5,763,222 | 177,113 | 452,775 | 1,131,393 |
| Interdependent assets | | – | – | – | – |
| Other assets:[2] | – | 8,038,101 | 219,204 | 18,175,144 | 20,943,416 |
| Physical traded commodities | | | | – | – |
| Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs | | 662,316 | – | 516,042 | 1,001,603 |
| NSFR derivative assets | | 381,426 | – | – | 381,426 |
| NSFR derivative liabilities before deduction of variation margin posted | | 754,414 | – | – | 37,721 |
| All other assets not included in the above categories | | 6,239,945 | 219,204 | 17,659,102 | 19,522,666 |
| Off-balance sheet items | | 46,240,091 | – | – | 2,145,521 |
| **Net Stable Funding Ratio (%)** | | | | | **132,296,677** |

*Data as at 31/12/2022, in thousand euro.*

*[1] The unweighted value of high-quality liquid assets is not included in this table in accordance with the instructions provided.*

*[2] Other assets are disclosed considering their residual maturity.*

| NSFR | No maturity | Unweighted value by residual maturity < 6 months | 6 months to < 1yr | ≥ 1yr | Weighted value |
|---|---|---|---|---|---|
| NSFR ratio (%) | | | | | 137.86% |

*Data as at 31/12/2022, in thousand euro.*

### Available stable funding

Available stable funding refers to all of the Institution's liabilities as well as its equity. In the case of Banco Sabadell, the main sources of available stable funding are customer deposits, shareholders' equity, market funding in the medium and long term, as well as funding provided by central banks.

The weighted value of retail customer deposits, which are the most stable, represents 63.4% of the total value of available stable funding, increasing by 1,158 million euros compared to December 2021, due to the increase in customer funds recorded during the half-year, amounting to 115,689 million euros as at the end of December 2022.

At the same time, shareholders' equity, which includes debt and equity instruments, represents 8.6% of the total, with a weighted value of 15,707 million euros at the end of December.

Lastly, another significant item worth mentioning is wholesale funding, which primarily includes market funding, customer deposits and central bank funding, amounting to a weighted value of 49,660 million euros and representing 27.2% of total available stable funding as at the end of December 2022, decreasing by 26,133 million euros compared to the end of December 2021 due mainly to the early repayment of TLTRO III and the proximity of its maturity, partially offset by the increase in customer funds.

To summarise, available stable funding in Banco Sabadell Group as at the end of December 2022 amounted to a weighted value of 182,381 million euros, increasing by 25,425 million euros in the year.

### Required stable funding

Required stable funding includes all of the Institution's assets, as well as some off-balance sheet items, such as committed lines of credit and liquidity and off-balance sheet business lending items.

In the case of Banco Sabadell, the main sources of required stable funding are lending transactions granted, whether unencumbered or encumbered and associated with covered bonds, securitisations, or pledged as collateral in the Bank of Spain facility, fixed-income assets subject to encumbrance largely due to funding provided by central banks, as well as other long-term assets.

The required stable funding corresponding to lending transactions granted and which are classed as performing accounts for 75.7% of the total, these transactions being the predominant product with a weighted value as at the end of December 2022 of 100,153 million euros, increasing by 354 million euros in the year due to the increase in funding granted to customers offset by fewer encumbered assets associated with the early repayment of TLTRO and the proximity of its maturity.

In turn, weighted high quality liquid assets (HQLAs) decreased by 7,486 million euros in the year and had a balance of 1,354 million euros at the end of December 2022, being almost entirely composed of Tier 1 securities, and encumbered assets associated with a cover pool decreased by 8,869 million euros to reach a weighted value of 7,701 million euros, both declines also being driven by the lower charges associated with the early repayment of TLTRO and the proximity of its maturity.

The ratio also comprises the remaining on-balance sheet items of the Institution, including non-performing loans and derivative transactions, among others.

To summarise, required stable funding in Banco Sabadell Group as at the end of December 2022 amounted to a weighted value of 132,297 million euros, decreasing by 15,336 million euros compared to the end of December 2021.

# 13

# Encumbrance Assets

# 13

The information contained in this chapter is in line with the reporting requirements in relation to encumbered assets, with detailed information on unencumbered assets, in compliance with the requirements of Article 443 of the CRR and Article 18 of Implementing Regulation (EU) 2021/637.

Details are provided below on pledged or encumbered assets, differing in the sense of the aforesaid enforceable regulation and the impact of business models on these assets.

## 13.1 General considerations

This section details pledged or encumbered assets, differing in the sense of the aforesaid enforceable regulation and the impact of business models on these assets.

### Differences between the regulatory consolidation scope used for the purpose of the disclosures on Asset Encumbrance and the scope retained for the application of the liquidity requirements on a consolidated basis

The disclosure of Asset Encumbrance data in the Pillar III Disclosures Report is made under the scope of consolidation for regulatory or prudential purposes (prudential scope of consolidation). The difference between this scope and the scope used for the disclosure of public information is explained in section 4.2 Differences in the basis of consolidation for accounting and prudential purposes, of this document.

On the other hand, within the scope defined for the application of liquidity requirements, Banco Sabadell Group prepares and discloses liquidity data, just as it does for the disclosure of Asset Encumbrance data, under the scope of consolidation for regulatory or prudential purposes (the prudential scope of consolidation).

### Differences in the processing of transactions

There are differences in the processing of transactions that despite being pledged, are not encumbered. These correspond to assets that have been pledged, as they have been used as collateral for lending transactions. These assets are considered to be unencumbered (for the total or partial value of the asset) as these lending transactions have not been 100% drawn.

There are no cases in the opposite direction – encumbered assets that do not lead to pledging or their transfer.

### Value of the exposure used for disclosure purposes

The value of the exposure used for disclosure purposes corresponds to 2022 annual medians. The median values are quarterly moving averages during the previous twelve months and are determined by interpolation.

### Narrative information on the impact of the Institution's business model on its level of encumbrance and the importance of encumbrances in the Group's funding model

Regarding the relationship between the asset encumbrance ratio and the Group's business model, it must be taken into account that Banco Sabadell Group seeks to maintain stable financing, with customer deposits being the main funding source, supplemented by funding acquired via the interbank market and capital markets.

With regard to retail funding, Banco Sabadell Group has a wide customer deposit base (mainly sight accounts and term deposits acquired through the branch network) which is the main pillar of funding. In fact, 73% of the funding structure corresponds to customer liabilities.

As a complementary source of funding to the deposit base, the Group has various short-term and long-term funding schemes through which it accesses capital markets using different instruments. The purpose in terms of market funding is to diversify its sources of funding, in terms of both term and product, thereby optimising the cost of the funding.

Therefore, this business model favours a collateral management strategy that seeks to maintain a prudent level of encumbered assets, thus mitigating uncertainty about a possible subordination of unsecured creditors, helping to access (secured or unsecured) funding sources, and that also contributes to the availability of a sufficient collateral reserve, relevant above all in possible stress situations.

### Main sources and types of encumbrance

As regards the types of sources of encumbrance, Banco Sabadell Group mainly has the following sources:

- Covered bonds

  The issue of covered bonds is one of the main sources of secured funding with a high degree of protection for holders. The products through which this type of funding materialises are covered bonds for Banco Sabadell and covered bonds in the case of TSB.

- Asset-backed securities

  Refers to debt securities placed with third parties or held by the reporting entity that originated in a securitisation transaction. In the case of securitisations that are held on the asset side of the balance sheet, the provisions applicable to covered bonds will apply.

- Assets sold under repurchase agreements

  Secured funding transactions through assets sold under repurchase agreements are part of the sources of primarily short-term funding.

- Lending transactions with central banks

  Central banks have various instruments that allow them to execute their monetary policies, which financial institutions can use to obtain liquidity. To access this funding channel, the Group maintains access to credit facilities with central banks by pledging assets as collateral. In March 2020, following the outbreak of COVID-19 in Europe, the ECB announced new measures to stimulate the economy to mitigate the effects of the pandemic, including improved conditions for access to the latest programme of long-term refinancing operations announced in June 2019, TLTRO III (Targeted Longer-Term Refinancing Operations). As at the end of 2022, Banco Sabadell had 22,000 million euros corresponding to TLTRO III, of which 17,000 million are due to mature in June 2023 and 5,000 million are due to mature in March 2024, having prepaid 10,000 million euros of that facility during the year.

  On the other hand, the Bank of England also launched a package of measures to drive lending in the COVID-19 environment. These include the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME), whose aim is to incentivise lending to SMEs in the United Kingdom. As a member of the Sterling Monetary Framework (SMF), as at the end of 2022, after having made a partial repayment of 500 million pounds in December, TSB had outstanding amounts borrowed from the Bank of England, namely 5 billion pounds borrowed under the Term Funding Scheme with additional incentives for Small and Medium-sized Enterprises (TFSME) and 500 million pounds borrowed under the Indexed Long Term Repo (ILTR), giving rise to a total amount borrowed from the Bank of England as at 31 December 2022 of 5,500 million pounds.

- Deposits to guarantee repo and derivative transactions

  The use of collateral is one of the most effective techniques to mitigate credit and counterparty credit risk that arises from derivative or repo transactions. The assets currently used as collateral are cash and fixed income securities.

## Encumbrances on off-balance sheet assets

There are no encumbrances on off-balance sheet items.

## Structure of encumbrances among the Group's entities

There are no significant encumbrances among Banco Sabadell Group's entities. The Group's encumbrance structure derives from Banco de Sabadell, S.A. and TSB Bank plc, and in both cases is based on the portfolio of debt securities and mostly mortgage loans. The encumbrance sources related to encumbered assets correspond in both entities to those detailed above (covered bonds, asset-backed securities, assets sold under repurchase agreements, financing operations with central banks and deposits to guarantee repo and derivative transactions).

## Information regarding over-collateralisation

The encumbrance sources subject to over-collateralisation are mortgage covered bonds and covered bond instruments.

Mortgage covered bonds, these are mortgage securities that are issued by Banco Sabadell with first-ranking mortgage loans arranged in the Bank's favour as collateral. Mortgage covered bonds must be over-collateralised at 105% of their nominal value and, the amount of the loans that back them cannot exceed the limit of 60%-80% of the value of the collateral, depending on the collateral type.

Only Banco de Sabadell, S.A. issues mortgage covered bonds in the Group. These covered bonds allow Banco Sabadell to meet its funding needs, and its investors have the double guarantee of both the Bank and the mortgage loans in the cover pool.

On the other hand, TSB is an issuer of covered bonds, which also have this double guarantee provided both by TSB and by the pool of mortgage loans granted by TSB.

TSB's covered bonds programme allows it to meet its funding needs. Covered bond investors have the double guarantee of both TSB and the pool of mortgage loans. This provides an additional guarantee that the underlying payment obligations will be fulfilled either by TSB or by using the cash flows from the pool of selected mortgages.

### Table 77. Mortgage covered bonds.

| | Amount |
|---|---|
| **Retained** | 8,115 |
| Retained used[1] | 6,063 |
| Retained not used | 2,052 |
| **Placed on the market** | 7,999 |
| Covered bonds issued total | 16,114 |
| Eligible Portfolio for the issuance of Mortgage Bonds | 24,187 |

*Data as at 31/12/2022, in million euro.*

*[1] Includes repo operations and amount drawn down in a Bank of Spain policy.*

### Table 78. Covered Bonds TSB.

| | Amount |
|---|---|
| **Retained** | – |
| Retained used | – |
| Retained not used | – |
| **Placed on the market** | 1,438 |
| Covered bonds issued total | 1,438 |
| Collateral to consider | 2,013 |

*Data as at 31/12/2022, in million euro.*

## Information on encumbrance sources for significant currencies other than the reference currency (euro)

In the Group there are encumbered assets, collateral and encumbrance sources in significant currencies other than the reference currency, specifically in pounds sterling, since they represent more than 5% of total liabilities. These encumbered assets correspond to those from TSB Bank plc described above (covered bonds, assets sold under repurchase agreements, deposits to secure derivatives transactions and funding operations with central banks).

### Assets not available for encumbrance

8.76% of the unencumbered assets are considered not to be available for encumbrance in the normal course of Banco Sabadell Group's activity, mainly those corresponding to intangible assets, tax assets, tangible assets and derivatives.

### Amount of underlying assets and cover pool assets of retained asset-backed securities and retained covered bonds

The amount of underlying assets, both encumbered and unencumbered, and assets in the cover pool of retained asset-backed securities and retained covered bonds, as well as the amounts of the corresponding retained asset-backed securities and retained covered bonds, are shown in the following table:

**Table 79. Carrying amount of covered bonds and securitisations issued and retained.**

| | Book value of underlying assets | | Book value of liabilities issued retained | |
|---|---|---|---|---|
| | Unencumbered | Encumbered | Unencumbered | Encumbered |
| Securitisation bonds of issued assets retained | 2,457,301 | 13,402,582 | 1,824,359 | 11,358,798 |

*Data as at 31/12/2022, in thousand euro.*

## 13.2 Encumbered and unencumbered assets

The following table shows the book value and the fair value of Banco Sabadell Group's assets, both encumbered and unencumbered.

Encumbered assets included in "Other Assets" correspond to loans and advances which mainly back the issue of mortgage covered bonds and asset-backed securities. During 2022, the encumbered assets have been reduced mainly due to less borrowing from central banks' credit facilities, partially offset by an increase in the position financed through repos.

## Table 80. Encumbered and unencumbered assets (EU AE1).

| Assets | Carrying amount of encumbered assets | | Fair value of encumbered assets | | Carrying amount of unencumbered assets | | Fair value of unencumbered assets | |
|---|---|---|---|---|---|---|---|---|
| | | of which notionally eligible EHQLA and HQLA[1] | | of which notionally eligible EHQLA and HQLA[1] | | of which EHQLA and HQLA[1] | | of which EHQLA and HQLA[1] |
| **Assets of the disclosing institution** | **67,304,711** | **16,707,170** | | | **189,206,576** | **49,770,578** | | |
| Equity instruments | – | – | – | – | 203,104 | 4,402 | 70,338 | 4,402 |
| Debt securities | 16,641,825 | 16,608,926 | 14,724,585 | 14,691,768 | 9,249,018 | 7,151,764 | 7,928,568 | 6,398,003 |
| of which: covered bonds | 32,818 | – | 32,818 | – | 263,986 | 263,986 | 246,655 | 245,065 |
| of which: securitisations | 105,508 | 100,702 | 103,261 | 97,793 | 68,666 | 7,226 | 67,949 | 7,137 |
| of which: issued by general governments | 16,563,652 | 16,545,701 | 14,646,365 | 14,628,414 | 8,148,005 | 6,498,019 | 6,095,664 | 5,754,278 |
| of which: issued by financial corporations | 185,603 | 3,331 | 181,598 | 3,390 | 992,653 | 667,060 | 1,766,108 | 640,972 |
| of which: issued by non-financial corporations | 55,482 | 54,107 | 55,482 | 54,107 | 147,978 | 14,291 | 115,455 | 14,291 |
| Other assets | 50,662,887 | 211,233 | | | 179,627,002 | 39,823,711 | | |
| Of which: Loans | – | – | | | 43,953,506 | 39,180,152 | | |
| Of which: Loans and advances other than sight loans | 50,662,887 | 211,233 | | | 116,313,867 | – | | |
| Of which: Mortgage loans | 34,439,182 | – | | | 57,786,183 | – | | |
| Others | – | – | | | 18,817,361 | 643,559 | | |

*Data calculated as the median of quarterly amounts, in thousand euro.*

*[1] Assets of extremely high liquidity and credit quality (EHQLA) and assets of high liquidity and credit quality (HQLA).*

## 13.3 Encumbered and unencumbered collateral received

Collateral received as at 31 December 2022 are mainly associated with reverse repos. Their encumbered and unencumbered values are shown in the table below.

Collateral received and recorded under “Other collateral” corresponds to collateral received in cash.

**Table 81. Encumbered and unencumbered collateral received (EU AE2).**

| | Fair value of encumbered collateral received or own debt securities issued | | Fair value of collateral received or own debt securities issued available for encumbrance | |
|---|---|---|---|---|
| | | of which notionally eligible EHQLA and HQLA(1) | | of which EHQLA and HQLA(1) |
| **Collateral received by the disclosing institution** | **430,399** | **70,940** | **5,270,133** | **4,127,514.5** |
| Loans on demand | – | – | – | – |
| Equity instruments | – | – | – | – |
| Debt securities | 430,399 | 70,940 | 4,009,279 | 2,524,035 |
| of which: covered bonds | – | – | 135,779 | – |
| of which: securitisations | – | – | 864,575 | 749,645 |
| of which: issued by general governments | 60,106 | 11,875 | – | – |
| of which: issued by financial corporations | 335,520 | 59,804 | 3,573,942 | 2,345,603 |
| of which: issued by non-financial corporations | – | – | – | – |
| Loans and advances other than loans on demand | – | – | 82,745 | – |
| Other collateral received | – | – | 1,178,109 | 1,178,108.5 |
| **Own debt securities issued other than own covered bonds or securitisations** | **–** | **–** | **30,890** | – |
| **Own covered bonds and securitisations issued and not yet pledged** | | | **–** | – |
| **Total collateral received and own debt securities issued** | **67,664,756** | **16,744,056** | | |

*Data calculated as the median of quarterly amounts, in thousand euro.*

*(1) Assets of extremely high liquidity and credit quality (EHQLA) and assets of high liquidity and credit quality (HQLA).*

## 13.4 Liabilities associated with encumbered assets and collateral

The financial liabilities linked to encumbered assets and received collateral mainly correspond to collateralised deposits other than repurchase agreements, which basically relates to funding received from central banks. There are also other items included in this total such as derivatives, repurchase agreements or debt securities issued.

Financial liabilities linked to encumbered assets and received collateral are shown in the following table:

Table 82. Sources of encumbrance (EU AE3)

| | Matching liabilities, contingent liabilities or securities lent | Assets, collateral received and own debt securities issued other than covered bonds and securitisations encumbered |
|---|---|---|
| Carrying amount of selected financial liabilities | 55,705,449 | 67,340,967 |

*Data as at 31/12/2022, in thousand euro.*

*To supplement the information set out in this section, please refer to Schedule III of the* Consolidated Annual Financial Statements of Banco Sabadell Group*, in the Group Legal Information 2022 document, available on the Banco Sabadell Group website, in the Shareholder and Investor Information section, under Economic and Financial Information, sub-section Annual reports. Schedule III of that document sets out details of the Institution's mortgage portfolio, the amounts issued and the level of coverage provided by those issues.*

# 14

# ESG Risk

# 14

The information in this chapter complies with the reporting requirements in relation to environmental, social and governance risks (ESG risks), in compliance with the requirements of Article 449bis of the CRR and Article 18bis of the Implementing Regulation (EU) 2021/637.

The following discloses information relating to the Group's governance model, business strategy and ESG risk management. Additionally, information is presented regarding the quantitative assessment of the impact of transition risk, physical risk and climate change mitigation actions not covered by the EU Taxonomy.

## 14.1 Introduction and regulatory framework

### 14.1.1 Introduction

The United Nations' Sustainable Development Goals (SDGs) were adopted by global leaders in September 2015 to eradicate poverty, protect the planet and foster prosperity. Each of the seventeen goals involves specific targets to be achieved by 2030. The Paris Agreement, reached in December 2015, was a turning point for the integration of sustainable finance into the financial system. Its Article 2c "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development" was a key factor in making institutions begin to consider the risks and opportunities of climate change as drivers of traditional risks and opportunities[9].

Furthermore, the European Commission (EC) Sustainable Finance Action Plan, of March 2018, confirmed the aim of integrating these goals in the financial system through three key objectives: i) redirect capital flows towards sustainable investment in order to achieve sustainable and inclusive growth; ii) manage financial risks arising from climate change, natural disasters, environmental degradation and social problems; iii) promote transparency and a long-term outlook for financial and economic activity.

### 14.1.2 Regulatory and supervisory framework

As discussed in Chapter 3, in the EU, regulation and supervision have taken on a leading role in sustainable finance as a consequence of the aforementioned Action Plan and its renewed strategy of June 2021.Additionally, the European Green Deal, adopted in December 2019, established a target for the reduction of net greenhouse gas (GHG) emissions by at least 55% by 2030 compared to 1990, and the commitment to be climate-neutral by 2050.

The European Central Bank (ECB), the national central banks and the European supervisory authorities (EBA, ESMA and EIOPA) have also published roadmaps, supervisory expectations and strategic plans.

So, the objective of the regulators and of the supervisors is to gradually incorporate environmental, social and governance (ESG) factors, risks and opportunities in all regulations and financial oversight. That is: in transparency (pillar 3), risk management (pillar 2) and capital (pillar 1).

### 14.1.3 Commitment to sustainability

Banco Sabadell Group aligns its strategy with the Sustainable Development Goals (SDGs) and the Paris Agreement, together with regulatory and supervisory requirements, steering the organisation and helping customers and society to transition towards a sustainable economy. From this perspective, "Sabadell's Commitment to Sustainability" was established in 2022, an action framework that aims to integrate ESG considerations sequentially across all of the Group's activities.

As part of this Commitment, on 22 December 2022 the first decarbonisation targets for four carbon-intensive sectors (electricity, oil & gas, cement and coal) were published, in line with the Group's adhesion to the Net Zero Banking Alliance[10], which sets out the commitment to decarbonise the portfolio by 2050 at the latest.

In 2020, the Group put in place its Sustainable Finance Plan, which incorporates sustainability in the business model, in risk management and in the Group's relationship with its stakeholders, as well as strengthening its governance with milestones such as the creation of a Sustainability Committee in 2020 and the creation of the Strategy and Sustainability Committee in 2021, a new Board committee set up to define, promote and monitor all matters related to sustainability. Approved by the Board of Directors, the Sustainable Finance Plan is regularly reviewed and updated to adapt it to changes in the financial environment, changing regulations and the expectations of different stakeholders.

[9] It established a goal to hold the increase in the global average temperature to well below 2°C above pre-industrial levels, and to pursue efforts to limit this temperature increase to 1.5°C above pre-industrial levels, recognising that this would considerably reduce the risks and effects of climate change.

[10] For more details, see sub-section 14.3.1.

## 14.2 Governance model

Banco Sabadell Group has a governance model in place with ESG risk management and control appropriate to its business model and in line with the strategy defined by the Group.

Therefore, the governance system and the organisation of ESG risks are in constant flux, changing to the new needs that emerge in the sustainable finance environment. The new competencies required in relation to ESG are promoted by the Sustainability unit and are rolled out to the Business, Research, Finance, Risk Management, Risk Control, and Internal Audit units, among others.

One of the objectives of the governance model is to fully integrate ESG risk management in the Group in a coordinated, phased and cross-functional way, as shown below:

### 14.2.1 Cross-cutting integration of sustainability at executive level

The Group includes ESG considerations in its governance bodies on a cross-cutting basis and integrates those ESG risk management and monitoring competencies in its model of three lines of defence.

#### ESG-related functions and responsibilities of the governing bodies and management committee

When establishing how Banco Sabadell Group's governing body is involved in the supervision and management of ESG risks and opportunities, the Institution is guided by the processes and governance currently established for other risks, in line with supervisory guidelines, regulations and trends.

Additionally, in terms of environmental factors, in relation to their integration in the organisational structure, and when establishing the participation of the governing body and the internal committees, the effects that this risk could have in the short- medium- and long-term are considered, through follow-up of the Sustainable Finance Plan and through the monitoring and approval of commitments undertaken.

It should be noted that, both the governance system and the organisation of the different decision-making levels are both being continuously improved and adapted to the needs that are emerging from the new paradigm shift towards a less carbon-intensive production model.

#### Board of Director

With the exception of matters falling within the sole remit of the Shareholders' Meeting, the Board of Directors of Banco Sabadell is the highest decision-making body in the Bank and its consolidated Group as, under the law and the Articles of Association, it is entrusted with administering and representing the Bank. The Board of Directors acts mainly as an instrument of supervision and oversight. To ensure better and more diligent performance of its general supervisory duties, the Board is directly responsible for approving the Institution's general strategies, including its sustainability strategy. It also approves its policies, and is therefore responsible for establishing principles, commitments and targets in the area of sustainability.

To that end, by defining the Institution's overall strategy, business objectives and risk management framework, the Board of Directors takes account of environmental aspects, including climate, environmental, social and governance risks, and monitors them effectively.

Specifically, in February 2022, the Board of Directors updated the Sustainability Policy, aiming to provide a framework for all of the Institution's activities and organisation within ESG parameters, which incorporate environmental, social and governance factors in decision-making and, at the same time, based on those parameters, to respond to the needs and concerns of all of its stakeholders. The Sustainability Policy establishes out the basic principles on which the Banco Sabadell Group relies to address the challenges posed by sustainability, and it defines the pertinent management parameters, as well as the organisation and governance structure necessary for its optimal implementation.

Lastly, it is worth noting that in February 2022, the Board of Directors received specific training on the effect of climate factors on credit risk, which includes the impact arising from climate risks, policies and regulations, and measurement metrics such as the carbon footprint and decarbonisation pathways.

#### Board Risk Committee

The Board Risk Committee is responsible for ensuring the appropriate acceptance, control and management of all risks in line with the Group's Risk Appetite Statement and reports to the Board of Directors on the performance of the duties assigned to it. Further details on this Committee are set out in Chapter 15.

#### Board Strategy and Sustainability Committee

The Board Strategy and Sustainability Committee established in 2021, is formed of five Directors: three Independent Directors, one Other External Director, and its Chair (who has Other External Director status) who is the Chairman of the Board of Directors. This Board Committee met 13 times in 2022.

In matters of strategy, the Chief Executive Officer may speak and vote at meetings, to which end the Committee is deemed to have six members

As set out in Chapter 15, the Committee has the competence, among others, to supervise the model for the identification, control and management of risks and opportunities related to sustainability.

#### Management Committee

The Management Committee regularly monitors the Sustainable Finance Plan, Sabadell's Commitment to Sustainability and updates to the regulatory and supervisory frameworks and it is also in charge of overseeing the aforesaid plan and resolving any incidents.

#### Technical Risk Committee

Supports the Board Risk Committee in the discharge of its duties.

Each month it presents the Credit Risk Dashboard which includes, among other things, the evolution of the Institution's exposure to activities classified as carbon-related, emissions-intensive, green and social, the carbon footprint of the loan book, as well as monitoring indicators of new lending items.

#### Technical Risk Committee

The Sustainability Committee is the body in charge of establishing the Bank's Sustainable Finance Plan and monitoring its execution, as well as defining and publishing the general principles of action in relation to sustainability. It also promotes the development of projects and initiatives, the management of sustainability-related alerts that may arise within the context of ongoing initiatives, or new developments in the regulatory, supervisory or standard-setting.

It is made up of 15 members to ensure cross-functional representation of different areas of the institution, among them: Sustainability, Risk, Finance, Business, Technology & Operations, Communication, Research, and Organisation & Resources. It meets on a monthly basis. It covers all the functional areas, which enables cross-cutting coordination of the implementation of the Sustainable Finance Plan and, therefore, the execution of the Institution's ESG strategy. The Committee is also responsible for monitoring the achievement of the goals established in "Sabadell's Commitment to Sustainability".

#### Integration of ESG competencies into the model of three lines of defence

The organisational structure has been adapted to include the new competencies required in ESG matters, while maintaining the system of three lines of defence. The Sustainability division is the area responsible for coordinating, on a cross-functional basis, the design, monitoring and follow-up of different sustainability-related initiatives at Banco Sabadell Group, including the implementation of ESG criteria, across all of the Bank's business units, associates and international subsidiaries. The Sustainability and Efficiency Manager is also a Deputy General Manager, a member of the Institution's Management Committee, and reports directly to the Chief Executive Officer.

In 2022, the organisation has focused on embedding the ESG risk strategy in its day-to-day operations, in its control arrangements and in the development of models and scenarios that consider these risks. As progress was made on performing sustainability-related tasks and on incorporating ESG risks into risk processes, it became apparent that new specialist resources were necessary. For this reason, the organisational structure based on a system of three lines of defence has been gradually modified to include the new skills and competencies required in relation to ESG:

The sustainability aspects have been integrated holistically and on a cross-cutting basis, as follows:

**Management function (1LoD)**, in addition to the functions of the Sustainability unit mentioned above:

- The Business units promote sustainable financing, the gradual identification of sustainable operations/customers, as well as the design and development of new social and environmental products and services to maximise value creation for the society.
- The Risk teams incorporate environmental risks in credit risk assessments, in line with the existing sustainability plans.
- The Regulation, Public Policy and Supervisor Relations unit is responsible for monitoring supervisory expectations related to ESG.
- The Research unit monitors and analyses the ESG environment and defines narratives to support internal scenarios for different uses. Financial Management is responsible for incorporating ESG criteria in financial processes, such as bond issues.
- Credit Risk Forecasting Models & ICAAP (which carry out the Climate Stress Test and its integration into the ICAAP).
- The Sustainability Rating and Outreach unit is responsible for preparing the Non-Financial Disclosures Report and manages the relationship with ESG rating agencies.
- Technology leads initiatives in the area of data and systems related to ESG.

**Control function (2LoD),** has been reinforced, specifically the following teams:

- Compliance, which ensures that all regulatory obligations affecting the Group in this matter are fulfilled.
- Internal Control supervises the suitability of sustainability measures as they are incorporated into risk management and in accordance with the policies developed by the Group, ensuring the integration of environmental, social and governance (ESG) factors into management, strategy and the risk management framework, whilst ensuring that their management is consistent with the risk appetite in accordance with the Group's Global Risk Framework Policy and in line with Risk Control's annual Activities Plan.

**Independent supervisory function (3LoD)**

- A unit within Internal Audit with specific functions related to the coordination and execution of tasks in Sustainability-related areas.

## 14.2.2 Internal reporting on ESG matters

### ESG reporting to the various governing bodies

Considering the supervisory expectations of the ECB, since the first quarter of 2022 and regularly thereafter, the Group presents ESG matters to the governing bodies (Board Strategy and Sustainability Committee and the Board of Directors) in a cross-functional format through the Corporate Sustainability Report. In addition, it presents a specific ESG risk report to the relevant governing bodies and has established risk appetite statement (RAS) metrics specific to environmental risk. Lastly, the Customer Care Service (SAC, for its Spanish acronym), Sogeviso and the Anti-Money Laundering and Counter-Terrorism Financing unit report on social factors related to their sphere of competence.

### Internal reporting on environmental matters

#### Corporate Sustainability Report (Environmental Risk)

In the environmental area, the Corporate Sustainability Report includes a range of content such as new features in the ESG macro environment, the evolution of green exposure and CO2-intensive exposure, the integration of ESG risks into management, the business actions being carried out to expand the range of sustainable products, the evolution of the ESG rating and the progress achieved on environmental commitments, among other things.

#### ESG reporting (environmental risk)

The Group reports, on a quarterly basis, on its climate change exposure (physical and transition risks) and on the environmental degradation in the loan portfolio. As mentioned previously, this information is reported on a quarterly basis to the Sustainability Committee, and a summary is reported, on a monthly basis, to the Technical Risks Committee in the Credit Risk Dashboard.

#### RAS metrics reporting

The evolution of various RAS metrics and indicators related to ESG risk is reported each month in the Credit Risk Dashboard (which is presented to Technical Risks Committee and its summary to the Board Risk Committee). These metrics are used to monitor physical and transition risk in the Bank's different geographies and portfolios.

### Internal reporting on social risk

#### Corporate Sustainability Report and ESG reporting (social risk)

Information covering the scope of potentially vulnerable customers is reported in the Corporate Sustainability Report, as well as the planned measures to mitigate social risk. The report also provides an analysis of the improvement initiatives proposed by the ESG rating agencies in relation to social matters, which may involve specific monitoring by the Institution.

In this respect, the Group is conducting specific monitoring of potentially vulnerable customers which encompasses different spheres of vulnerability: financial, digital and regional.

Additionally, as mentioned previously, ESG reporting includes metrics on financing granted for Viviendas de Protección Oficial (subsidised housing) and ICO-guaranteed financing granted to companies affected by COVID-19 and funding of micro-enterprises.

#### Sogeviso reporting

Sogeviso, is a subsidiary of the Group that manages some of the complexities of social housing with the aim of responsibly addressing situations of social exclusion and the loss of a home affecting its more vulnerable mortgage borrowers. This is carried out under the framework of the Bank's sustainability policies. It reports on a quarterly basis to its Board of Directors and, on a monthly basis, submits to the Group a report on the status of its portfolio to Management Control and to Real Estate Management.

#### SAC reporting

The Customer Care Service (SAC, for its Spanish acronym) deals with and aims to resolve customer complaints and claims, under the principles of transparency, independence, efficiency, coordination, speed and security. Its head, who is appointed by the Board of Directors to which he or she must report at least once every six months, reports directly to Compliance and is independent of business and operational lines.

### Anti-Money Laundering and Counter-Terrorism Financing reporting

The Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) unit has various internal reporting lines. For example, it reports on a quarterly basis to the Internal Control Body (ICB) of the AML/CTF on the outcome of the implementation of the AML/CTF control framework, as well as the annual Risk Assessment report and any relevant developments related to AML/CTF.

The ICB, which is chaired by the Chief Risk Officer (CRO), is the management body responsible for the application of AML/CTF policies and procedures and it submits the AML/CTF Activity Report, on a half-yearly basis, to the Management Committee, Board Risk Committee and Board of Directors.

## 14.2.3 Remuneration

The Group's remuneration scheme takes into consideration objectives related to the management of ESG risks, and includes an analysis of the impact of those risks on the remuneration policy, as described here below:

### Remuneration schemes

Since 2020, the Banco Sabadell Group remuneration scheme for all employees who receive variable remuneration includes components that contribute to promoting ESG-related activities; this is aimed at making business strategy sustainable and socially responsible. The corporate objectives established in short-term variable remuneration are 20% linked to non-financial parameters. Specifically, a sustainability target has been set with a 10% weighting through the Synthetic Sustainability Indicator (SSI) established in 2020, which includes both environmental and social components. In 2022, the indicator comprised the following metrics: improvement in the ESG rating given by rating agencies (40% weight), the assessment of the ECB Thematic Review (30% weight), a sustainable financing target (15% weight), and the improvement of female representation in management (15% weight).

The Group's remuneration policy encourages, among other things, a long-term approach to ESG-related management and actions, to foster a sustainable and socially responsible business strategy.

### Environmental targets in remuneration policy

The components of the SSI indicator in the environmental area are the following:

- Rating agencies through the evolution of rating in the main ESG indices, where environmental factors are assessed.
- The level of implementation of the Sustainable Finance Plan, based on assessment of the Thematic Review carried out by the ECB.
- Evolution of the volume of sustainable financing (according to the EU Taxonomy).

### Social targets in the remuneration policy

The metrics that comprise the 2022 SSI indicator and that are linked to social risk parameters include the following:

- Rating agencies: ESG rating given by rating agencies, which assess, among other components, practices implemented in the social area.
- Diversity: the commitment to inrcrease the presence of women in various management positions in the Institution.

## 14.3 Business strategy

Banco Sabadell Group has aligned its business strategy with ESG factors, with the aim of properly managing its risks whilst, at the same time, taking advantage of opportunities offered by the new economic paradigm, with a strong focus on sustainability.

Group's strategy is aligned with the Sustainable Development Goals and with the Paris Agreement, steering activities and supporting customers and society in the transition towards a sustainable economy.

To that end, the Group has established "Sabadell's Commitment to Sustainability" which integrates sustainability-related factors and risks into Group strategy, mainly through the establishment of goals, commitments and levers for action, based on four strategic pillars. Each strategic pillar is shaped by objectives that serve as progress indicators and are activated by two levers: transformation, to align the organisation with ESG criteria, and actions to promote sustainability finance, to generate new business opportunities. The four strategic pillars are the following:

### 1. Progress as a Sustainable Institution

The Group is moving forward with the new challenge of sustainability, integrating social, environmental and good governance aspects into management. Adherence to responsible policies and practices is encouraged among employees to promote the preservation of the environment and the development of a fairer, more respectful society. The main objectives are:

- Be neutral in greenhouse gas (GHG) emissions as Institution and continue reducing own consumption.
- Continue to move forward with diversity, gender equality and talent promotion.
- Incorporate ESG criteria in its governance and participate in relevant partnerships.

### 2. Support customers in the transition to a sustainable economy

The Group supports customers in the transition towards a sustainable economy, providing them with information, advice and the products and services that they need. In this context, the Group aligns the customer's situation with the regulatory environment, identifying both physical and transition risks as well as their opportunities for transformation. The main objectives in this regard are:

- Establish decarbonisation pathway for the credit portfolio mitigating climate risk.
- Support customers in the transition, by educating, providing funding and analysing their awareness of ESG challenges and their ability to commit to them.
- Establish sectoral standards that restrict controversial activities and introduce internal ESG rules that ensure that the customer's situation is aligned with the regulatory environment.

### 3. Offer investment opportunities that contribute to sustainability

The Group makes it easier for investors to contribute to society by promoting sustainable finances and making them an essential part of the strategy and the customer offer. ESG investment solutions have been expanded and bonds linked to the Sustainable Development Goals have been issued, facilitating the placement of sustainability bonds in capital markets. Responsible investment is also promoted by backing renewable energies, promoting entrepreneurship and boosting ethical funds and sustainable investment assets of the leading asset manager in the sector.

### 4. Work together for a sustainable and cohesive society

The Group contributes to the transition towards a more sustainable and cohesive society through ethical and responsible management. Through the Banco Sabadell Foundation, the Institution promotes outreach, training and research activities in the fields of education, sciences and culture, and supports young talent to achieve a more prosperous and promising future. Through Sogeviso, the Institution promotes return-to-work schemes and manages social rentals for customers in vulnerable situations.

In addition, the Bank encourages corporate volunteering, with schemes that impact more than 1,000 people each year.

Complementing this, the Banco Sabadell continues to develop its Sustainable Finance Plan, as an operational tool to confront new developments and needs generated by changes in the regulatory and supervisory environment, which have an impact on business strategy and the business model, governance, risk management and disclosure.

### 14.3.1 Alignment of ESG commitments with strategy

#### Environmental commitments

##### Alignment of the portfolio with decarbonisation targets

Banco Sabadell Group considers that the alignment of the portfolio with decarbonisation targets is a valuable input for risk management, *ex ante*, since a portfolio aligned with a given transition pathway and with decarbonisation targets would tend to be less susceptible to negative impacts than one that is not aligned and has no targets (if the selected reference scenarios reflect the real trajectory).

In 2021, Banco Sabadell Group joined the Net Zero Banking Alliance (NZBA) initiative to strengthen the strategy to combat climate change, undertaking to make all its lending portfolio and investment activities neutral in net greenhouse gas (GHG) emissions by 2050 at the latest, aligned with the temperature goals of the Paris Agreement.

In turn, these commitments involve setting targets for 2030 and, thereafter, set interim targets once every five years for the most GHG-intensive sectors, based on customers' carbon footprints and sectoral decarbonisation pathways based on widely accepted science-based decarbonisation scenarios

The Group presented its sectoral decarbonisation strategy at the end of 2022. At this initial stage, in accordance with the interim commitments undertaken in the NZBA, the Group has set interim targets for 2030 for four of the most carbon-intensive sectors of the economy: coal mining, electricity, oil & gas, and cement. These targets are aligned with the International Energy Agency (IEA) scenario of net zero GHG emissions by 2050. The Group will also continue to analyse the extension of these commitments to other portfolios and/or sectors where there is a robust methodology for setting targets and a sufficient coverage of data published by counterparties.

With regard to the impacts produced directly by the on the environment through its processes and facilities, the strategy is based on reducing GHG emissions and offsetting its own emissions.

### Social commitments

The goals and thresholds established by the Group are aligned with the commitments undertaken through its adhesion to the Principles for Responsible Banking and are reflected in Banco Sabadell's Commitment to Sustainability.

#### Banco Sabadell's "Commitment to Sustainability"

The Group contributes to the transition towards a more sustainable and cohesive society through ethical and responsible management. To that end, the Group has made the following social commitments:

- Promote education and financial inclusion.
- Support customers in vulnerable situations.
- Encourage corporate volunteering and charitable actions.
- Foster culture and talent by promoting education and research activities through the Banco Sabadell Foundation.
- Ensure the privacy and security of personal data and of transactions.

#### Adhesion to the Principles for Responsible Banking

To mitigate and reduce activities that may be socially detrimental to its customers, Banco Sabadell Group is a founding signatory of the Principles for Responsible Banking, part of the United Nations Environment Programme (UNEP) Finance Initiative. These Principles are designed to strategically align the business with developmental and sustainability goals. Through the application of these Principles, the Group:

- Aligns its business strategy to be consistent with and contribute to individuals' needs and society's goals
- Increase its positive impacts while reducing the negative impacts on, and managing the risks to, people and the environment resulting from its activities, products and services
- Works responsibly with customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.

It has also undertaken commitments with its adhesion to the Equator Principles and the AEB (Spanish Banking Association) Strategic Protocol, which are described in more detail as social risk management processes in section 14.5.1.

#### Code of Conduct

The Group's Code of Conduct, revised and approved by the Board of Directors in 2021, contains, as one of its key principles, the contribution to improving sustainability through the alignment of its principles and actions with the United Nation's Sustainable Development Goals (SDGs) and the Principles for Responsible Banking. These and other principles concerning ethics and transparency should inspire the Group's actions and operations.

## 14.3.2 Planning and deployment of strategy

### Environment

As described in Chapter 8, for the purposes of planning and deployment of the defined strategy, the Group has a framework for sectoral analysis through internal discussion, the Sector Guidance Strategy (SGS), led by the Research and the Risk Management units, with contributions from sectoral experts in the Business, Risk, Credit Risk Control and Sustainability units. With this, the Group establishes a sectoral strategy based on analysis of the external and internal context of each sector. This analysis is cross-checked by the main units involved, so that ESG risks are included in the sectoral discussion, together with other macroeconomic parameters. Accordingly, the Group defines its strategic positioning at sub-sector level, setting its sectoral asset allocation strategy which is, in turn, incorporated in the financial planning process.

On a quarterly basis the Group monitors exposures classified internally as "green" (aligned with the EU Taxonomy Regulation), sustainability-linked loans, and exposures in sectors classified internally as carbon-intensive and/or carbon-related. In addition, the same report includes monitoring of the afore-mentioned indicators for transition risks (including calculation of the carbon footprint of the financed portfolio), physical risks (of business and of collateral) and environmental degradation risks in the loan book.

### Social

The Group has set a series of restrictions of a social nature which are mostly encompassed by the general exclusions, which cover aspects such as respect for human rights or key labour rights conventions.

For Banco Sabadell Group, restricting financing is a second-best option because, whenever possible, it prefers to engage with customers to help them with transition.

Furthermore, the Group has defined different criteria for the detection of potentially vulnerable individual customers, as described below:

#### Vulnerable customer Observatory

The Observatory, created by Banco Sabadell, uses algorithms to calculate the degree of potential vulnerability of each customer and determine customised actions to help them. To that end, three areas for action have been identified:

- The first area is that of financial vulnerability, which covers customers who have lower incomes and experience greater economic difficulties.
- The second area, which concerns digital vulnerability, covers customers who experience difficulties using

online/digital banking services or who have difficulty using ATMs.

- The third area refers to customers with regional vulnerability, i.e. customers located far away from the Bank's infrastructures.

**Sogeviso**

Another key pillar in the Group's social strategy is Sogeviso. Since 2015, Sogeviso has been managing some of the complexities of social housing with the aim of responsibly addressing situations of social exclusion and the loss of a home affecting its more vulnerable mortgage borrowers. It is a pioneering model in Spain of socially responsible and economically sustainable management, with tangible and proven results, anticipating the transformation of unproductive assets, whilst constantly monitoring the associated reputational risk as well as the socio-economic improvement of the families concerned.

## 14.3.3 Development of sustainable finance

The Group promotes sustainable financing and investment to drive forward the transition towards a more sustainable model and a low-carbon economy, offering customers and investors the best possible solutions. In 2021, the Bank made a commitment to mobilise 65 billion euros in the period between 2021 and 2025. To date, it has mobilised more than €25bn, including €14.8bn in 2022.

To deliver on this commitment, and in order to encourage social and financial inclusion and contribute to environmental conservation and climate change mitigation, the Group has the following initiatives in place:

### Sustainable financing solutions in the different businesses:

Sustainable financing is prioritised as a way of supporting customers. To this end, tailored proposals are formulated according to customers' needs, their sustainability strategies and industry- specific factors:

- Green and Social Loans (GSLs), in which the use of the funds is the main criterion for determining the green, social or sustainable nature. In general, this type of funding is preferable as it generates a direct positive impact on the environment and society. In addition, this type of funding is closely related to the Banco Sabadell Eligibility Guide, whose main reference is the EU Taxonomy.
- Sustainability-linked Loans (SLLs), relating to the type of financing that incentivises the achievement of sustainability targets, linking the transaction price to the evolution of one or more KPIs. This category does not require the funds to be used for any specific purpose. It is considered essential for the selected indicators to be relevant and central for customers, as this enables their sustainability strategy to gain more traction.

In addition, the Group contribute to the issuance of customers' green bond and sustainable bonds in capital markets.

In terms of retail customers, the Bank helps them to transition towards a sustainable economy by offering better financial terms and conditions for products that promote the use of renewable energies, energy efficiency and sustainable mobility.

### Investment in renewable energies and the sustainability business through the subsidiary Sinia Renovables

As at year-end 2022, Sinia Renovables, Banco Sabadell's division for investment in renewable energies and sustainability, has investments in operation, construction, and development projects with an overall installed capacity of 1,139 MW, of which the portion attributable to Sinia through its direct shareholding is 342.0 MW, equivalent to the generation of 754.0 GWh of sustainable electricity each year. This power generation, assuming all projects are in operation, would be enough to satisfy the average annual consumption of approximately 230,469 households.

### Issuance of sustainability bonds

In 2020, the Group published the Framework for the issuance of bonds linked to Sustainable Development Goals (SDGs), covering three types of bonds: green, social and sustainability.

- Green bonds are intended to finance eligible green project categories, focusing on projects with environmental benefits, such as reduction of greenhouse gas emissions, pollution prevention and climate change adaptation.
- The social bonds are intended to finance eligible green project categories, focusing on projects with environmental benefits, such as reduction of greenhouse gas emissions, pollution prevention and climate change adaptation.
- The sustainability bonds are aimed at providing finance for a combination of green and social projects as described above.

The funds obtained by issuing these types of bonds are used to fully or partially finance or refinance new, existing or future loans or projects that meet the eligibility criteria established in the Framework, based on the European Union Taxonomy for Sustainable Activities and the ICMA (International Capital Market Association) Green Bond Principles.

In the last three years, the Group has issued 2,815 million euros of bonds in green format, of which 2,695 million remain outstanding.

### Sustainable savings and responsible investment solutions

With regard to mutual funds, the Group maintains its strategic alliance with Amundi, Europe's leading asset manager, which has been committed to sustainable investment since its creation. Amundi has been a signatory of the United Nations Principles for Responsible Investment since 2006. As at December 2022, 88.2%[11] of Banco Sabadell customer assets in Sabam/Amundi mutual funds are related to environmental or social activities or goals (classified under Articles 8 or 9 of the

[11] Assets invested in Amundi Group mutual funds, not including those invested in guaranteed mutual funds. Including those assets, the percentage would be 68%.

SFDR Regulation, on the disclosure of information related to sustainability in the financial services sector).

## 14.4 Environmental risk management

For the Group, environmental risk is understood to mean the risk of loss arising from the present and potential future impacts of environmental risk factors on counterparties or invested assets, as well as on those aspects that affect financial institutions as legal entities. It is considered that environmental factors can generate negative impacts through different risk drivers that may be categorised as physical risks and transition risks.

Physical risks are risks produced by the physical effects of climate change (resulting from climate and geological events) and by environmental degradation (consequence of changes in the balance of ecosystems). They can also produce a negative financial impact (now or in the future) on individuals, sovereign states and entities and, as a result, on counterparties or the assets invested by financial institutions. They may be categorised as acute risks or chronic risks.

Transition risks are those produced by uncertainty related to the timing and speed of the process to adjust towards an environmentally sustainable economy. This process can be affected by four drivers: political or legal risks, technological risks, market and economic risks, and reputational risks.

### 14.4.1 Identification and management of environmental risks

#### Identification of environmental risks

The Group identifies environmental risks (climate and other environmental degradation factors) according to whether they are transitional or physical in nature.

The assessment of climate risks and of environmental degradation risks (other non-climate related factors) is broken down between transition drivers and physical drivers.

Thus, every year the Group reviews the qualitative materiality analysis of the impact of environmental risks (physical and transition risks), identifying all possible factors that can transmit these risks, evaluating them according to a scale of impact intensity and taking different time horizons into account (based on the criteria established by the supervisory body). The exercise take placefor all risks included in the Global Risk Framework considered to be directly impacted by environmental risk. Specifically, credit risk, market risk, operational risk and liquidity risk are assessed. It is thought that, in the case of reputational risk, the effect is indirect, as it originates through the impact and management of the aforementioned risks.

Once this analysis has been completed, the risk managers concerned carry out a quantification of the impact of climate risk and identify the necessary mitigation measures.

#### Integration of environmental risks in the Risk Management Framework

In 2021, the Climate Risk Policy was approved to establish the general guidelines for the management and control of climate risk, specifying the principles and applicable critical parameters and addressing the significant components for the management and control of associated risks (physical or transition risks). In 2022, the content and scope of the policy was revised and expanded to include not only risks associated with climate change, but also those related to environmental degradation. In that regard, that policy has been renamed the Environmental Risk Policy.

Therefore, the Group considers that the environmental factors, whether related to climate change or to environmental degradation, can generate negative impacts through two types of drivers: physical risks and transition risks.

**Physical risk drivers:**

- Acute risks, due to greater severity of climate events or extreme weather phenomena (e.g. heatwaves, forest fires, etc.) or to a serious impact on the environment (e.g. loss of biodiversity and pollution, etc.).
- Chronic risks, due to changes in rain patterns and extreme variability in climate patterns: (i) incremental changes in rainfall and climate patterns (e.g. temperature change, etc.), (ii) increase of average temperatures, (iii) increased sea level, or (iv) gradual loss of ecosystem services (e.g. water and food production, etc.).

**Transition risk drivers:**

- Regulatory and legal risk arising from the impact of changes to rules and regulations aimed at: (i) combating climate change and fostering the ability to adapt in the face of the negative consequences of global warming (e.g. Changes emissions tax, etc.) or (ii) limiting actions that contribute to environmental degradation or promoting a more sustainable use of environmental resources (e.g. regulatory changes to reduce water stress and encourage the use of water for essential sectors, etc.).
- Technological risks related to the development of technologies with less negative impact on the environment that can make existing technologies obsolete or uncompetitive.
- Market and economic risks that include the impact on the operational and financial viability of assets in the event of changes in conditions and preferences in the market and in the economy.
- Reputational risks, which arise when a company's image is linked to the use and promotion of environmentally damaging assets (e.g. emissions-intensive power consumption, etc.), which could lead it to have difficulties attracting or retaining customers, employees, business partners.

The Bank has also developed a transfer channel matrix which identifies how environmental risks impact on traditional risks:

Figure 48. Transfer channel matrix.

| | Credit | Market | Liquidity | Operational |
|---|---|---|---|---|
| **Physical risk** | | | | |
| Acute events<br>Chronic events | • Customer's payment capacity.<br>• Collateral value erosion<br>• Depreciation of stranded assets<br>• Lower debt recovery capacity for the Bank.<br>• Country risk according to geographical area. | • Fall in market value of investments or deeper discounts. | • Increase in customers' liquidity needs.<br>• Sudden cash outflows.<br>• Impact on value of collateral associated with mortgage loans. | • Business disruption and IT systems outage affecting:<br>- Infrastructures (production centres, branches)<br>- Employees Suppliers (outsourcing) |
| **Transition risk** | | | | |
| Legal – regulatory<br>Technology<br>Market Trends<br>Reputational and environmental demands | • Profitability of businesses and customer solvency.<br>• Funding needs and difficulty accessing funds.<br>• Loss of market share and competitiveness.<br>• Refinancings or write-offs.<br>• Financial institutions distinguish between customers and diversify strategies.<br>• Reputational risk: Bank's brand image and reputation damaged by funding carbon-intensive sectors.<br>• Country risk according to main economic sectors and degree of impact on environmental risk. | • Greater market volatility.<br>• Impact on results and market expectations. | • Non-eligibility of certain assets for access to ECB facility or larger haircuts applied.<br>• Reduced capacity to issue own securities.<br>• Refinancing or default risk on the part of customers affected by this risk.<br>• Market access risk due to downgrade of ESG rating. | • Conduct risk; loss of BSab market share due to greenwashing and sanctions (improper sales and lack of transparency about products arranged by the Bank).<br>• Carbon footprint: Costs to adapt BSab premises to reduce emissions. |

## Actions and tools linked to the process to identify, measure and manage environmental risk

The impact of environmental risk on credit risk is managed globally and through different tools that complement each other with the aim of mitigating those risks. Throughout 2022, work has continued to further develop those processes and tools, monitor climate-related risks and other environmental risks, and assess their potential impacts.

### Environmental and social risk framework

Banco Sabadell Group has a public framework of environmental and social risks that is applicable to new loan transactions granted to groups or companies with turnover in excess of 200 million euros and to projects for which over 5 million euros have been borrowed. This framework consolidates the set of applicable criteria that aim to limit the financing of customers or projects that the Institution considers to be contrary to the [12]:

- Coal mining (new and expansion)
- Asbestos mining, processing and trade
- New coal-fired power plants
- New nuclear power plants (with the exception of operations that comply with the EU Taxonomy criteria)
- Arctic oil & gas exploration and production
- Oil sands exploration and production.

transition to a sustainable economy or that are not aligned with international regulations or best sectoral practices.

The Framework is being developed in stages, in order to adapt the applicable criteria to the trends of the various sectors, the regulatory and economic environment, and the Group's performance. Currently, the Bank has a first set of standards approved and implemented in 2020-2021 and it has approved a second set that will be implemented between 2022 and 2023.

The Group's first set of sectoral standards particularly affected the Energy and Mining industries and were implemented in the Institution's system in 2021. The scope of these included funding for new projects.

The second set of standards approved in December 2021 introduced more than 40 additional standards, which can be categorised as general criteria and specific criteria, which can apply to either customers or projects.

- The applicable general criteria, with a cross-cutting impact on all sectors, that have been incorporated in the second set of standards, follow international standards such as the UN Global Compact or the International Labour Organisation (ILO) principles, among others.
- The applicable special criteria (with standards at the customer level and project level), on one hand, incorporate additional standards for sectors already considered in the

[12] The Group, in addition to the activities impacting the environmental transition, abstains from establishing trade relations related to activities involving "controversial weapons" and/or with "countries subject to arms embargoes" to avoid the potential use of these weapons for the commission of crimes or serious human rights violations. This is described in Section 14.5.2.

first set (e.g Mining and Energy) and, on the other hand, they introduce standards for new sectors, such as Defence, Infrastructure and Agriculture.

The effective implementation of the standards is based on the inclusion of their analysis in the routine processes for customer onboarding, acceptance of transactions and approval of new products. The standards applicable to projects have already been implemented, while those applicable to customers will be implemented in 2023.

To ensure they are implemented correctly, the Bank has a specialised tool used for screening any disputes associated with counterparties, backed by services provided by a reputable third-party supplier[13].

### Eligibility Guide

In 2020, the Group developed its own Eligibility Guide in accordance with the EU Taxonomy of green activities. This led to the first implementation phase of the internal eligibility guide to identify eligible activities according to the Taxonomy, as well as those considered to be taxonomy-compliant or in alignment with the Taxonomy. As a result of this , the Group's systems currently include a process for tagging priority green products, which allows the entire management cycle of those products to be traced and ensures their alignment with the taxonomy's requirements. Given that this is a key strategic aspect for the Bank, work has been underway since 2020 to keep the Eligibility Guide up to date through two additional phases described below.

The second phase consisted of updating the Eligibility Guide according to the latest Delegated Act in relation to the taxonomy, of July 2021. In June 2021, a new feature was introduced in the corporate systems to allow transactions to be tagged as sustainable, so that they can be not only identified, but also duly justified in accordance with the Bank's Eligibility Guide and, therefore, aligned with EU Taxonomy criteria. It is worth noting that this implementation went hand in hand with a specific training course that focused on promoting the identification and documentation of transactions that meet the criteria of Banco Sabadell's Eligibility Guide.

Lastly, in March 2022, the guide was updated to include energy activities related to natural gas and nuclear energy, set out in the Complementary Climate Delegated Act of the European Commission.

### ESG performance of the loan book

Since September 2021, all of the Group's transactions that are submitted to or revised by the Delegated Credit Committee have an advanced ESG assessment to identify the most significant ESG risks of the counterparty. This assessment takes into account the type of exposure that the Bank has to customers and, in particular, the customers' ESG performance, considering not only the intrinsic risk of their activity, but also their attitude towards and management of these risks, as well as external ESG ratings, ESG plans or strategies and their comparative position relative to peers in their respective sectors. The Delegated Credit Committee is therefore able to incorporate non-financial factors into its decisions.

During 2022, efforts have been made to build on this advanced assessment in order to automate factors and incorporate new ones. An indicator is being designed for large enterprises, which will make it easier to screen borrowers in terms of climate-related and environmental risks, with improved uses in both business and risks, thus enabling improved integration in policies and tools.

On the other hand, management guidelines for smaller businesses are different from those for larger firms; therefore, since 2021 an ESG indicator has been in place that has been adapted to companies according to their size. This is an integrated questionnaire used when interacting with customers in order to support them in their transition towards more sustainable models and let the Bank increase the exposure to green financial assets. Using the results of the questionnaire as a basis, an indicator has been developed that can identify the degree of customers' sensitivity to sustainability, as the indicator allows companies to be classified according to ESG criteria.

### ESG risk management guidelines

In order to limit the Bank's exposure to transition risk and, at the same time, support emissions-intensive companies in their transition to sustainable activity, the ESG Risk Management Guidelines have been defined. These Guidelines limit the origination of funding transactions for corporates and projects with carbon-related activities (greenhouse gas emissions-intensive) and with low ESG performance and/or a poor attitude to ESG (i.e., the comparison between their current stance to the transition and their plans to face it). This way, the Group will be able to continue financing the transition of emissions-intensive companies if they have made sufficient progress in their management and have medium or advanced ESG performance.

With regard to the evaluation of companies' management and performance, at present the Bank classifies companies based on the advanced ESG assessment that is escalated to the Delegated Credit Committee, according to the criteria described in the previous heading.

### Quantitative measurement of the impact of physical risk and transition risk

The Group has developed a methodology to measure the impact of physical risk and transition risk in its lending portfolio's credit risk under the following scenarios:

- Orderly transition: the Orderly Transition scenario (immediate 2 degrees of the Network for Greening the Financial System, or NGFS) assumes that early and decisive action is taken to be carbon-neutral by 2070; as a result, the average temperature of the planet in 2100 is no more than 2°C higher than in the pre-industrial era. Nevertheless, the Bank is working on aligning the lending portfolio to a 1.5°C scenario through the ongoing decarbonisation strategy.
- Disorderly transition: the Disorderly Transition scenario assumes that action to combat climate change is delayed by 10 years. This means that sharper action needs to be taken between 2030 and 2050 in order to achieve carbon neutrality before 2070.

13 An external tool has been acquired for research, ratings and analysis of data concerning environmental, social and governance factors of institutional investors and firms.

- Hot House World: in this scenario, no action policies in addition to the ones currently in place are established to fight climate change. Emissions continue to rise at the current pace and the target warming of <= 2ºC before 2100 is not met. The impact stemming from transition risk is non-existent.

Climate-related (physical and transition) risks are measured under these three scenarios. As the scenarios stem from the estimates carried out by the NGFS, the scenarios take into account technological developments, the political framework and changes in the physical environment itself (mainly, through the frequency and magnitude of extreme climate events) over time, in addition to other factors.

### Physical risk

The Group has developed a methodology internally which distinguishes between acute and chronic events. This is aligned with the three scenarios above and adapted to a 30-year time horizon. This makes it possible to assess physical risk drivers that could have a more significant impact on the portfolio, based on the location and activities of customers. Using this data, the Group identified a total of 16 events (8 acute and 8 chronic) that could affect the loan portfolio. A preliminary impact assessment of 11 of them was done on the Spanish portfolio: floods, fires, rising sea levels, droughts, hot spots, landslides, maximum temperatures, minimum temperatures, rainfall and thaws, fog and dust, storms, winds and gales. The final impact adds the impact of each of the 11 events described above.

The impacts of physical risk are classified as 'No risk', 'Low', 'Moderate', 'High' or 'Very High'. This impact analysis measures the risk inherent in the portfolio and not the residual risk, as the controls currently in place to mitigate it are not considered, nor is the existence of cover, such as home insurance and/or the existence of the Insurance Compensation Consortium (Consorcio de Compensación de Seguros), among other things.

On the other hand, in 2022, the Group has continued to work on measuring physical risk and events associated therewith in the different geographies in which it operates. To that end, this year it has continued to work on the assessment through work groups with the teams in the various regions in which the Bank operates, and a system has been put in place to automatically update that estimate on a regular basis.

### Transition risk

The Group developed internally some heatmaps at the subsector level, aligned with the three scenarios and the recommendations from the UNEP-FI and adapted to the 30-year time horizon. These heatmaps that are developed on a qualitative basis enable the inclusion of the transition risk drivers of the customer base. Accordingly, all the activities of the loan portfolio have been classified depending on their sensitivity to transition risk taking into account the impacts forecasted for each scenario and in terms of income, expenses and low-carbon capex. These impacts have been integrated into the Institution's structural model, which allows a quantitative estimate of the expected loss impairment in the portfolio to be approximated.

Impacts are classified as 'positive' for activities in which the transition may indeed have a positive effect on one or more parameters, as 'No risk', 'Low', 'Moderately low', 'Moderate', 'Moderately high' or as 'High' which includes, for instance, the activities most affected by transition risk such as coking plants. This impact analysis measures the inherent risk of the portfolio and not the residual risk, as the controls currently in place to mitigate it are not considered.

The heatmaps were updated in 2022 in order to obtain the impact of transition risk with a greater level of granularity. Thus, the Bank currently has the capacity to identify the transition risk of each separate activity within a single sector. This is important for sectors involving a variety of activities that differ considerably where emissions are concerned. One example of this is cattle rearing and rice growing, which both form part of the agriculture and livestock farming sector, as they are associated with higher levels of emissions intensity than the other activities within that same sector.

### Environmental degradation risk

In 2022, the first assessment of the exposure to environmental risk of the business risk portfolio was carried out, based on the UNEP-FI methodology. To that end, each NACE code was assigned an environmental impact (rated as low, medium, or high), obtained based on the consolidation of the physical and transition environmental risk associated with each activity for the following five non-climate related environmental factors:

- Management of water resources
- Impact on biodiversity
- Pollution and use of land
- Air quality
- Management of resources and waste

The total environmental degradation risk score consolidates the risk associated with each of these factors, without distinguishing between physical and transition risks.

Lastly, to ensure that the measurement of the evolution of these risks is supervised, since September 2022 the portfolio's exposure to climate-related and environmental risk has been monitored on a quarterly basis. The reports are sent to the Bank's Sustainability Committee and to the Technical Risk Committee (TRC).

### Integration of environmental risk into the ICAAP[14]

The Group has its own stress testing framework for climate-related risk that establishes the basic features of these tests, including its integration in the ICAAP.

As part of the climate-related risk stress testing framework, forecasts are made of climate-related risk in order to measure the sensitivity of the Group's credit risk to climate change transition and/or physical risks and to possible transition pathways towards a decarbonised economy.

The characteristics of the scenarios used internally by the Bank are the same as those presented by the European Central Bank (ECB) in its 2022 climate stress test, with the exception of the 1-year physical risk flood scenario. This has been replaced with a 1-year physical risk scenario based on severe forest fires, in an attempt to include a more damaging systemic scenario for

[14] Risk integration into the ICAAP refers to the ICAAP that will be prepared in March 2023, carried out with 2022 data.

the Spanish economy and for the Group than the flooding scenario envisaged by the ECB.

In terms of physical risk and after analysing the materiality of extreme drought events (impacting the productivity of portfolio companies) and of extreme flood events (impacting the value of mortgaged properties), it is determined that physical risk could pose a limited impact, the events analysed being remote and very extreme in nature.

Transition risks, which are measured on a long-term basis, are not considered relevant for the Group's current solvency position.

The climate-related risk sensitivity analysis allows quantifying the risk in scenarios with greater probability of occurrence in the time horizons over which the Group determines its internal capital requirements, thus impacting the capital requirements measured as part of the ICAAP.

Environmental risk has a limited impact on internal capital requirements mainly due to the time horizon over which it materialises.

#### Integration of environmental risk into the ILAAP

As part of the various stress tests of the ILAAP, a climate stress scenario, in which the impact on liquidity of a disorderly transition scenario over the first 12 months is assessed, among other aspects. The conclusions drawn from this indicate that the impact on the Institution's liquidity position would not be material.

#### Monitoring and control:

Environmental risk identification and monitoring continues to be one of the priorities of the Credit Risk Control unit, as the second line of defence. In recent years, the Bank has focused on incorporating and monitoring KRIs in reports, and on linking and updating aspects relating to environmental risk in current risk frameworks through RAS metrics for physical and transition risks.

Currently, there are RAS metrics within the Group that monitor physical and transition risks country by country. There are also Executive BSab metrics and indicators for the most material segments (RE development, commercial RE, retail mortgages, etc.), indicating the amount of new mortgages with energy certificates at the highest levels, as well as TSB metrics that measure the physical risk (risk of floods) and transition risk (energy certificates) of the mortgage portfolio.

Lastly, the Bank also monitors, through indicators, new loans and loan products and the green, brown and carbon-related stock. At first, the indicators established have the aim of monitoring and understanding these risks. Subsequently, after testing them over time, if their behaviour is deemed adequate, they will become metrics in order to set thresholds and early warning indicators that will support ESG risk management.

### 14.4.2 Measurement of the portfolio's carbon footprint and target-setting

Emissions of the financed portfolio represent the most relevant Scope 3 emissions category of financial institutions and, as such, of Banco Sabadell Group. Therefore, since 2021, Banco Sabadell Group has calculated the carbon footprint of its financed portfolio using the Partnership for Carbon Accounting Financials (PCAF) methodology. PCAF is a global partnership of financial institutions that work together to develop and implement a consistent global approach to measure and report emissions associated with their loans and investments.

As part of this partnership, 16 institutions established the design of the Global GHG Accounting and Reporting Standard for the Financial Industry, which aims to harmonise the accounting of greenhouse gas emissions. Banco Sabadell became a member of the PCAF in June 2022. The measurement of financed emissions using this standard is a key step for financial institutions to assess the transition risks associated with climate change, set objectives aligned with the Paris Agreement and develop effective strategies to decarbonise the economy.

#### Measurement of the loan book's carbon footprint

As regards the PCAF methodology, Banco Sabadell Group has applied the standardised approach described, which enables measuring the following categories of assets:

- Listed equity and corporate bonds
- Business loans and unlisted equity
- Project Finance
- Commercial real estate
- Mortgages
- Consumer loans for vehicle purchase.

Additionally, the Bank has estimated the emissions of sovereign wealth funds.

Based on this methodology, the Group has calculated its carbon footprint (Scope 1 and 2) for approximately 95% of its financed portfolio. The portfolios not calculated are those for which no calculation or estimation standards or methodologies exist, such as public sector lending, consumer loans for purposes other than vehicle purchase, and private banking lending, among others. It is worth noting that in 2022 the Group has continued to improve its calculation model to obtain more reliable and complete results. The main improvements include the increase in the coverage of the data, the improvement in its quality[15] due to the incorporation of actual emissions in terms of business risk, as the Bank has been capturing this data from the counterparties that publish this information, and the improvement in emission factors if actual emissions are not available.

To ensure that the carbon footprint of the financed portfolio is monitored and supervised, since September 2022 the emissions arising from the loan portfolio have been monitored

[15] The PCAF methodology provides scores for rating the quality of the data used (Data Quality, DQ), which go from 1 (highest data quality) to 5 (lowest data quality).

on a quarterly basis and reported to the Sustainability Committee and to the Technical Risk Committee (TRC).

### 14.4.3 Mitigation measures

Environmental risk management for credit risk is a measure to mitigate this type of risk. To this end, the Bank has various associated initiatives, both regulatory and internal strategies, that limit exposure to borrowers with high environmental risk, such as procedures to identify and report the Bank's exposure according to the ESG characteristics of the lending portfolio.

To establish these initiatives, their mitigating effect on the decrease in the profitability of counterparties, the decrease in the performance of their assets, the increase in their compliance costs or the increase in their legal costs have been taken into account, among other aspects.

#### Environmental and social risks management framework

It acts as a mitigation measure by restricting the financing of customers or projects that the Institution considers to be contrary to the transition to a sustainable economy or that lack alignment with international regulations or best sectoral practices.

#### ESG risk management guidelines

This framework limits the acceptance of corporate or project finance transactions of counterparties with carbon-related activities (GHG-emissions intensive), and with low performance and/or attitude to the transition. This way, the Bank seeks to maintain support to those emissions-intensive companies, that have made sufficient progress in their ESG management and performance and have a positive attitude in this respect, demonstrating their commitment.

#### Decarbonisation pathways

The Group has set decarbonisation targets for 2030 for the most GHG-intensive sectors, acting at the stage of the production chain whose reduction could have the greatest impact on the overall reduction of emissions. The supervising of the decarbonisation pathways allows the Bank to monitor the transition of the portfolio towards one aligned with a low-emissions economy, as well as to mitigate environmental risk by supporting customers in their transition processes.

#### Eligibility Guide

It is regarded as a mitigating instrument in itself by establishing and transferring to the corporate systems the capability to flag transactions as sustainable, so that t can be not only identified, but also duly justified in accordance with the Bank's Eligibility Guide and, therefore, aligned with EU Taxonomy criteria.

#### ESG risks quantification and reporting

It is considered as a mitigating aspect since ESG reporting is linked to RAS indicators and/or metrics associated with the same; therefore, the Group defines and limits its risk appetite and/or positioning in certain environmental aspects.

Lastly, it is worth pointing out that the Bank, in parallel to all of the initiatives intended to integrate environmental risks into management arrangements, has a series of initiatives underway to improve the quality of the information on which it bases its decisions (databases, customer data gathering projects, among others).

### 14.4.4 Data availability and data quality

Given the limited level of reporting and disclosure by companies on ESG information as well as the lack of historical data and standardisation between the information reported and the monitoring metrics for these risks, access to the best ESG data is essential in order to identify, manage, classify and monitor risks associated with climate change.

Thus, one of the main challenges in terms of data availability and data quality is, on the transition risk side, the volume of carbon emissions of the counterparties, data which, depending on the type and size of counterparty, is not usually available and, even in cases where it is, the metrics used by each counterparty may not be homogeneous, thus making data comparisons difficult. Similarly, for physical risk, the complexity lies in obtaining the location of all the counterparties' production centres, as well as in assessing the impact of events on production capacity, especially for large risk groups with multiple production centres in their chain.

For this reason, since 2020, Banco Sabadell Group has been taking various actions to increase the quantity and quality of ESG data about customers. There are two particular areas on which it has taken action in 2022 that are worth mentioning:

#### Initiatives to improve the quality of information

- Real estate collateral: with the support of a third-party supplier, since 2021 batch uploading processes of the energy ratings of residential real estate and commercial real estate (CRE) of the portfolio have been carried out. From the second quarter of 2020, the Group has been capturing this information when approving new mortgages. On the other hand, due to the calculation of the carbon footprint of the Bank's mortgage and CRE portfolio, the Bank has been working to gather information about actual useful surface areas of the assets it has financed.
- Business risk: in 2021, a task force was held to gather environmental data from customers (ESG KYC - Know Your Customer; hereinafter, KYC), as the first pilot project for the CO2 emissions-intensive portfolio, which included, among other things, the capture of actual emissions data (Scope 1, 2 and 3) as well as additional data such as energy consumption, % of renewables consumption, emissions prevented (where applicable), external ESG ratings, environmental targets and sectoral emissions intensity KRIs (Key Risk Indicators). Furthermore, in 2022 work has continued to improve information. On one hand, the calculation of the carbon footprint of the financed portfolio involved gathering actual data of borrowers' emissions, as well as the information needed to calculate the attribution factor.

On the other hand, the Group created an indicator for large enterprises through which it has begun to gather information from customers through a team specialised in ESG risks. In order to begin gathering information, in the fourth quarter of 2022 a supplier was hired to do a batch upload of the main borrowers' ESG information.

Lastly, due to the definition of the Bank's decarbonisation strategy, work has been carried out to complement the gathering of actual data with the gathering of information on emissions associated with production and the transition plans of the main borrowers. First, attempts were made to obtain this information from public sources and, where this was not possible, customers were contacted to request that information.

In addition to this work to gather external information from customers, the Bank also works internally to centralise ESG information through a sustainability datamart in order to provide a single point of access to all those who require it. The information gathered includes data relating to GHG emissions, physical risks, subsidised housing, mortgages, etc. To ensure the internal control of the information managed, a person is assigned to be directly responsible for the information, and users of the information are also defined. Based on the assigned responsibilities, a series of tasks are established to ensure the quality and uniformity of the information.

## 14.5 Social risk management

Social risk considers the impact of the Group on the social environment of which it is part, taking into account various social factors such as those related to rights, well-being, people's and communities' interests. It also includes the risk of incurring losses as a result of any negative financial impact on the Institution arising from current or future impacts of social factors on the Institution's counterparties or on the assets invested, as well as on those aspects affecting financial institutions as legal entities. Therefore, the Group considers and manages customers' social factors and, in particular, those of vulnerable groups.

### 14.5.1 Social action principles and standards

Banco Sabadell Group has a strong social commitment. This commitment is reflected on the principles signed and adhered to by the Group, including the Equator Principles, the Principles for Responsible Banking and the AEB's (Spanish Banking Association) Strategic Protocol, which are the most relevant for the Group, as detailed below:

#### Equator Principles

Since 2011, the Group has adopted the Equator Principles, an international voluntary policy, standard and guide framework, coordinated by the International Finance Corporation, which aims to identify, assess, and manage environmental and social risks relating to project finance of 10 million US dollars or more and corporate loans related to projects of more than 50 million US dollars. Through the Equator Principles standards, a social and environmental assessment of the potential impact of the project is carried out by an independent expert in the form of a technical due diligence.

During 2022, a total of 21 new structured finance projects incorporating the Equator Principles were signed, 81% of which are renewable energy projects. Based on certain parameters that are assessed in the technical due diligence, these projects are classified in three categories (A, B or C, C being the best category).

#### Strategic Protocol to Strengthen the Banking Industry's Social and Sustainable Commitment

At a time marked by the crisis resulting from the pandemic (July 2021), the Spanish national banking associations signed the "Strategic Protocol to Strengthen the Banking Industry's Social and Sustainable Commitment", which was born with the aim of not only maintaining, but also strengthening the industry's support to families and businesses.

The protocol includes a series of measures to guarantee access to banking services for the entire Spanish population, with special focus on rural areas and vulnerable groups. In a country with extensive coverage, some of these measures were already in place for this group of customers. The set of measures includes:

- Specific physical and digital accessibility programmes for the elderly and people with disabilities, as well as training for professionals to ensure tailored customer service.
- Promoting financial inclusion in rural areas, by means of an agreement between the AEB, CECA (Spanish Confederation of Savings Banks) and UNACC, updated in October 2022, which includes a customer service commitment in municipalities that do not have access to financial services.
- The possibility to anticipate pension payments.
- Fostering financial and digital educacion and strengthening fraud prevention for vulnerable customers, through workshops, seminars or similar tools.

#### Other relevant social standards

In addition to the principles and protocols described above, the Group is a signatory and is adhered to the following social standards for action:

- Signatory of the United Nations Global Compact on human rights, labour, the environment and anti-corruption.
- Enrolment in the MeCuida Plan.
- Membership of the Spanish Observatory of Sustainable Financing (OFISO).
- Renewed membership of the agreement signed between the Spanish Banking Association (AEB), the Spanish Securities Market Commission (CNMV) and the Bank of Spain for the pursuit of courses of action within the framework of the National Plan for Financial Education.
- Adherence to the Code of Good Tax Practices.
- Membership of Autocontrol (independent advertising self-regulatory organisation in Spain).
- Gold Seal of Excellence from the European Foundation for Quality Management (EFQM).
- Awarded the "Equality in the Workplace" ("Igualdad en la Empresa") Seal of Distinction by the Ministry of the Presidency, Relations with the Courts and Equality.

### 14.5.2 Integration of social risk in the Global Risk Framework

As regards counterparties' (customers) social risk, the Group integrates in the Global Risk Framework, through reputational risk, the impact on its stakeholders (counterparties, shareholders, investors, regulators and society in general) arising from the Bank's relationship with its customers via lending activities.

The Group has established different lines of action for 2023: i) the updating of the Reputational Risk Policy to ensure that the reputational risk stemming from customers' social risk is duly reflected, as this can affect the Bank's reputational risk; and ii) the review of relevant policies and procedures to guarantee the full integration of counterparties' (customers) social risk in management arrangements.

## Actions and tools linked to the process for identifying, measuring and managing social risk

A series of actions linked to the process for identifying, measuring and managing social risk for both individuals and corporates have been implemented. Although it is true that many of these actions apply to both types of customers, the Due Diligence Policy as regards the granting of loans is geared towards retail customers, while the KYC questionnaire, the Group Defence Sector Policy, the Eligibility Guide, the ESG indicator and the ESG performance indicator are actions mostly aimed at corporates.

### Environmental and social risks management framework

As mentioned above in environmental risk, this framework consolidates the set of applicable criteria (sectoral standards) that aim to limit the financing of customers or projects that the Institution considers to be contrary to the transition to a sustainable economy or to lack alignment with international regulations or best sectoral practices.

The framework also integrates rules and standards at the level of social risk, some sector-specific (e.g., in the energy and agricultural sectors, special consideration is given to the negative impact they may have on society and local communities), and others of general application, such as the International Labour Organisation (ILO) Conventions and the UN Guiding Principles on Business and Human Rights. In this regard, the Framework has the same thresholds and scopes of application and the same mechanisms for effective implementation as described above, including the dispute screening tool of a recognised external supplier.

### ESG performance of the loan book

As mentioned above, during 2022, efforts have been made to develop the advanced ESG assessment in order to automate factors and incorporate new ones. An indicator is being designed for large enterprises, which will make it easier to screen borrowers in terms of climate-related and environmental risks, with improved uses in both business and risks, thus enabling improved integration in policies and tools.

Although this initiative is underway for its integration into management arrangements, the Bank is ready to collect additional aspects, such as social aspects. These aspects would be collected from two perspectives: 1) the company is penalised in its score if it is identified as being exposed to risks included in the aforementioned framework, based on the screening of a specialised external supplier; 2) a social risk module would be included to capture KRIs linked to these risks (diversity, pay gap, safety, labour equality, human rights, etc.).

### Sustainability KYC

The Group has developed tools to capture ESG information from counterparties. Specifically, it has a simplified questionnaire for smaller size companies and a more advanced questionnaire for larger size companies (with NFDR reporting requirements). As regards small and mid-size enterprises, the questionnaire includes questions relating to sustainability adapted to this type of companies, capturing, among other aspects, the company's management of social issues, such as diversity, pay gap, safety and human rights.

### Social Eligibility Guide

Banco Sabadell Group developed in 2020 its own Eligibility Guide in accordance with the EU Taxonomy of green activities and based on the Social Bond Principles in relation to social matters pending release of the EU's social taxonomy. In 2021, the Eligibility Guide was updated for the second time in line with the first draft of the social taxonomy.

The Group has continued to make progress to allow transactions to be tagged as sustainable in accordance with the Bank's Eligibility Guide. The sustainability datamart includes the complete inventory of sustainable operations and transactions, considering both green and social operations as sustainable. This is mainly carried out based on two sources:

- The tagging application through which the manager identifies sustainable operations and transactions.
- Based on an automatic engine that identifies three cases for operations and transactions: financing granted for Viviendas de Protección Oficial (or VPO) (subsidised housing) and ICO-guaranteed financing granted to companies affected COVID-19 and to micro-enterprises (activities internally classified as social).

This enables safeguarding the traceability throughout the workflow of social activities, ensuring they are correctly tagged.

### Retail Banking Credit Risk Acceptance Procedure.

For new retail customer requests, the Bank has a Credit Risk Acceptance Procedure in place and automated analysis tools in order to assess new customers' capability to deal with their payment obligations.

### Human Rights Policy

The Banco Sabadell Group Human Rights Policy includes a due diligence procedure with a view to identify, mitigate and remediate any human rights abuses that may occur.

### Group Defence Sector Policy

In 2022, the Group approved the Defence Sector Policy, which replaced the old Policy on Restrictions on Financing and Investment in the Arms Industry, approved in 2018. This policy aims to establish restrictions to actions related to the arms industry and expressly prohibits any activity linked to controversial weapons. Banco Sabadell Group neither invests nor offer financial services to companies linked to the development, manufacture, distribution, stockpiling, transfer or sale of controversial weapons, as set forth in the various conventions of the United Nations currently in force and in the Arms Trade Treaty of the United Nations approved in 2013. In order to integrate these measures into its operations, the Group, through each unit engaged in this area, implements the appropriate modifications to its processes and procedures, and establishes the tools for managing and controlling restrictions, as well as for monitoring, and the necessary alerts to ensure their adequate application, which materialise in internal risk control rules.

## 14.5.3 Mitigation measures

Banco Sabadell Group implements various social risk mitigation measures and establishes a set of limits to control exposure to social risk, as well as monitoring and scalability measures in case of reaching or breaching thresholds.

### Managing vulnerable customers

Banco Sabadell created the Observatory mentioned above to identify potential vulnerable customers to whom special assistance is provided to improve their situation.

Specific benefits aimed at customers aged 65 or over, such as the issue and renewal of a commission-free passbook and free transfers throughout Spain and the EEA carried out at a branch. Furthermore, if the customer is a pensioner and has income of less than 10,000 euros per year, they may access certain additional subsidies and benefits.

On the other hand, it is important to point out the Bank's adherence to the new "Code of Good Practice on urgent measures for mortgagors at risk of vulnerability (CGP2022)", as well as to the revised 2012 Code of Good Practice. Both codes are comprised of a series of measures so that customers, who are at risk of vulnerability and who meet certain criteria, can request, according to their choice, the amendment of the current terms and conditions of their loans or mortgages. To that end, the Bank has notified affected customers and updated the information on its website, in the section "Customer information", and placed customer notification notices at its branches and helplines.

With regard to financial vulnerability, in 2022, the Bank acted using a special approach to some of the commercial initiatives carried out, such as the launch of the new Sabadell Sight Account, subsidised for low-income elderly, the dissemination to the branch network of the main features of the Basic Payment Account and proactivity in opening this account to Ukrainian refugees.

As regards digital vulnerability, the Group has various action protocols in place such as preferred free helpline for elderly or disabled customers, personalised assistance at the branches where opening hours have been extended and the number of digital workshops for the elderly has been increased.

Finally, with regard to customers that have difficulty accessing cash, the Bank has finalized its ATM and mobile branches strategy through an agreement with Correos (the Spanish postal service) to offer the CorreosCash service to its customers, which will provide virtually all its customers with easy access to cash.

#### Fraud Prevention

Banco Sabadell Group has fraud prevention protocols and measures in place to ensure the security of banking operations for its customers, whether these are carried out through bank branches, ATMs or digital applications:

- The account opening processes, whether requested through the branch network or using the mobile app for digital banking, as well as the withdrawal of cash at branches, have the necessary security measures and verification protocols in place to protect customers from potential identity theft if their ID documentation is stolen.
- Banco Sabadell's ATM network has the necessary security measures to prevent debit and credit card cloning.
- Banco Sabadell provides its customers with banking applications that have the necessary security measures (usernames and passwords, passcodes, two-factor authentication for transaction signature), systems for the detection, tracking and blocking of potentially fraudulent transactions in real time, and a specialised team that monitors suspicious transactions, alerting customers when it is thought that they may be the subject of a fraud attempt.

In addition, given that a lot of customer fraud is carried out by tricking customers into voluntarily issuing payments to fraudsters or through the installation of programmes that allow the fraudster to take control of the customer's IT systems, the Bank provides a series of recommendations for its customers to allow them to carry out digital operations securely. These recommendations cover protective measures that can be applied to safeguard customers' systems and devices, such as the installation of antivirus programmes, or how to protect oneself from the most common cyberattacks, as well as recommendations on the importance of not disclosing usernames, passwords and passcodes to third parties in situations where they may be the target of a social engineering or phishing scam.

As fraud attempts become more sophisticated, both in terms of deception and the technique used, they can exceptionally achieve their objective. In this case, the Group has the capacity, on the one hand, to request the recovery of these funds from the target bank, and on the other hand, to analyze what happened in order to further improve the detection systems.

### Human Rights Due Diligence Procedure

Banco Sabadell Group Human Rights Due Diligence Procedure sets the core principles based on which it sets out the human rights due diligence process and, to that end, it has used as reference the guidelines of the UN Guiding Principles on Business and Human Rights. Accordingly, three key points are established:

- Impact identification: establish mechanisms to identify and prioritise actual and potential impacts of the Group on human rights.
- Design mechanisms to prevent and mitigate adverse impacts on human rights.
- Availability of channels and dialogue processes with stakeholders that guarantee that, in the case of abuses, adequate mechanisms are in place to ensure the effective remediation of the situation and adequate compensation of the victims of any adverse impact that the Group is directly responsible for.

Furthermore, the Group has set up, externally and internally and in all the countries in which it operates, several communication channels that allow for the confidential submission of queries, complaints, suggestions, irregularities, claims and/or reports regarding the practical application of human rights, whether by staff, customers, investors and shareholders, as well as collaborators, suppliers and third parties with whom it has dealings.

#### Sogeviso's activities

Sogeviso has developed specific protocols for all its activities and defines which are vulnerable situations and how to assess them, in order to provide each family with the most appropriate assistance for those cases in which they could lose their home due to non-payment. The assessment of the tenants situation is linked to income from employment, fixed/temporary benefits and undeclared income. All the tenants /families in the following situations are consideraded as vulnerable:

- Family units that belong to special groups (over 65s, disabled, gender violence).
- Family would not be able to find a property in the market as the average rental market price exceeds 30% of the family's borrowing capacityIn addition, during the life of the letting agreement.

Sogeviso monitors rent payment by tenants, activating in the event of the first non-payment, regardless of the amount, the collection management protocol, searching for socially responsible solutions in case tenants are willing to cooperate. Furthermore, the ongoing support provided by the social manager enables anticipating socio-economic risk situations, such as the loss of income as a result of recent unemployment.

Sogeviso assesses each family/tenant on a case-by-case basis, providing tailored solutions according to their needs. It discriminates in a positive way and excludes those individuals who are not vulnerable and those who are vulnerable but are not willing to collaborate, involving as much as possible governments and organised civil society, as they are essential levers for adequate management in order to obtain the credibility necessary for reputational risk management and improve perceived brand image.

#### Support Programme

Specialised social managers carry out the social support programme and establish an in-person and digital communication channel between Sogeviso and customers. They are in charge of creating trust among the customers in the programme to support them to improve their situation. The involvement of this cross-disciplinary team allows the design of a Specific Work Plan (SWP) that sets a specific improvement target for each customer/ family unit, which is reviewed regularly based on the results achieved, the level of commitment and evolution.

The support programme for vulnerable customers pursues the following objectives:

- Act in the face of especially vulnerable situations, involving public administration and addressing the comprehensive work of the family unit.
- Improve the socio-economic situation of customers so that they can access a social rental arrangement, reduce default rates and decrease the rates of families on the poverty line.
- Reduce incidents due to misuse of properties or with respect to community living, guaranteeing the appropriate use of resources.
- Manage the Bank's reputational risk associated with social housing for people at risk of social exclusion.

#### Digital Autonomy Programme

The Digital Autonomy Programme is a programme aimed at reducing the digital divide of vulnerable families under the fundamental principle that digital autonomy is an essential part of labour reinsertion and social inclusion.

There is the possibility of looking for collaborators who can either provide access to the network for customers who are part of the programme or supply computer equipment. This network collaboration, feasible in our own experience, would be a positive element in the perceived brand image.

#### JobS Programme

The JoBS consists of a job placement service that aims to increase customers' economic capacity of by joining the job market or by improving their current working conditions.

It seeks to provide unemployed or precariously employed persons with the skills and tools to enable them to access the labour market

The JoBS programme is currently aimed at Banco Sabadell customers who have a social rental agreement and members of their family unit. In addition, they must meet the following requirements:

- Be of legal age and under 65 years of age.
- Be unemployed or in precarious employment.
- Household income of no more than €1,400.

#### Anti-Money Laundering and Counter-Terrorist Financing (AML/CTF)

The Group has controls to assign AML/CTF risk during the registration and maintenance processes for customers and correspondents, applying different (standard or enhanced) due diligence measures to detect individuals included in lists of terrorists, international sanctions and persons required by AML/CTF authorities. It also has tracking systems for the generation of alerts in the event of suspicious activity and measures to prohibit certain AML/CTF risk transactions.

Through the detection controls established by the AML/CTF unit or the detection process carried out at the branches, if a suspicious activity in terms of AML/CTF is detected, this unit will conduct a special assessment that will be submitted for the consideration of the ICB's Delegated Committee and will be reported to SEPBLAC, where appropriate. In addition, in case of suspected fraud, the AML/CTF units coordinates with the Fraud and Crime Prevention unit to take appropriate action.

Additionally, and in accordance with the Group's Anti-Money Laundering and Counter-Terrorism Financing Policies, as well as its specific internal rules, it sets out risk parameters, including unacceptable activities that customers or potential customers might engage in.

## 14.6 Governance risk

The EBA defines governance risk as the risk of incurring losses as a result of any negative financial impact on the institution arising from current or future impacts of governance factors on the institution's counterparties or invested assets, as well as on those aspects affecting financial institutions as legal entities. Governance factors include governance practices, executive leadership, directors' remuneration, auditors, internal controls, tax evasion, independence of the Board of Directors, shareholders' rights, corruption and bribery, as well as the way in which companies or institutions include social and environmental factors in their policies and procedures.

The Group intends to identify and assess the counterparties' and assets' exposure to governance risk through the use of a set of specific indicators in terms of governance risk, on ethical, strategic and risk management, inclusion and transparency considerations, in line with the EBA's expectations.

*For more information on internal governance of the Entity's sustaibanility-related risks, see the* ***EINF****.*

### 14.6.1 Integration of governance risk in the Global Risk Framework

Currently, the Group includes governance risk in the Global Risk Framework through reputational risk (as regards the impact arising from corporate governance itself or arising from its counterparties) and compliance risk (as regards breaches of internal and external regulations).

The Group has set forth a set of policies and an internal governance framework that includes a Code of Conduct, of which this risk is part.

The Group has planned various lines of action for 2023: i) the updating of the Reputational Risk Policy to ensure that the reputational risk of customers stemming from their governance risk is duly reflected, as this can affect the Bank's reputational risk; and ii) the review of relevant policies and procedures to guarantee the full integration of counterparties' (customers) governance risk into management arrangements.

### 14.6.2 Analysis of customers' governance

#### Risk Admission Process

During the risk admission process, the governance characteristics of the company (type of shareholdiçng structure and professionalism of the management team) are reported in the file, as well as other additional aspects that the relationship manager may considerate appropriate. This information is taken into account on a qualitative basis in the lending process.

Information regarding ESG areas, including governance factors, is being collected from customers mainly through their NFRD for those customers legally required to publish this report, as it is a document that must be proposed by the Board of Directors and approved by the company's shareholders.

The Group continues to work on governance risk management. In this process, it will take into account the new aspects and updates set forth by the regulator and/or supervisor and that enhance the management of this risk.

#### ESG performance of the loan book

As mentioned above, during 2022, efforts have been made to develop the advanced ESG assessment in order to automate factors and incorporate new ones. An indicator is being designed for large enterprises, which will make it easier to screen borrowers in terms of climate-related and environmental risks, with improved uses in both business and risks, thus enabling improved integration in policies and tools.

Although this initiative is underway for its integration into management arrangements, the Bank is ready to collect additional aspects, such as governance matters. These aspects are collected from three different perspectives: 1) the assessment of transition risk is aligned with the four dimensions of the TCFD (governance, strategy, risks and metrics and targets), where the degree of involvement of Senior Management in environmental management is also collected; 2) a specific module to capture the most relevant governance KRIs (such as diversity in the Board, governance scheme, Senior Management remuneration, policies on conflicts of interest, number of cases of discrimination, etc.) has been built into; 3) the aforementioned framework includes applicable criteria associated with governance aspects.

The Group continues to work on governance risk management. In this process, it will consider the new aspects and updates set forth by the regulator and/or supervisor and that enhance the management of this risk.

#### Revisions related to AML/CTF

When dealing with financial institutions, the Bank reviews that these entities have prior authorisation to operate from their supervisory bodies if they were sanctioned in terms of AML/CTF, and that their AML/CTF policies and procedures are seemingly adequate to comply with AML/CTF obligations.

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## 14.7 Environmental risk impact assessment

Environmental risks, including climate change risk, are those that it is expected will require more attention in the near future through physical risk and transition risk. The impact of acute or chronic physical events or the need to transition towards a decarbonised and sustainable economy will involve a profound economic change that will affect the financial sector. As explained before (see section 14.1), this phenomenon has grabbed the attention of regulators and supervisors, and this year (2022) they have set an agenda with many milestones of tests and new requirements that will come into effect.

The quantitative templates of EBA/ITS/2022/01 require the disclosure in quantitative terms of relevant information in order to assess the state of institutions in the face of physical risk and transition risk, as well as the mitigating actions that they are carrying out. All the tables prepared are subject to the aforementioned EBA standards and to Implementing Regulation 2022/2453 that adopts them.

### 14.7.1 Exposures subject to transition risk

Transition risk may involve losses from the economy's decarbonisation process and the negative financial impact experienced by institutions as a result of current or future effects of the transition to an environmentally sustainable economy on the Group's counterparties or invested assets. The following tables provide an overview of the Bank's exposure to the sectors most affected by the transition, that is, those that are more carbon intensive. These tables include, among other aspects, indicators of climate change transition risk; details of exposure to the most polluting companies and a first calculation of financed Scope 1 and 2 GHG emissions for all sectors and Scope 3 emissions for oil and gas; the state of the real estate portfolio and of transactions secured with real estate in light of transition risk; and finally, the targets and metrics that the Bank has set to decarbonise its portfolio in line with the Net Zero 2050 scenario of the International Energy Agency (IEA).

## Credit quality of exposures and financed emissions

The purpose of the following template is to show information on banking book exposures to non-financial corporations that are engaged in sectors that contribute to climate change, including information on the exposures' credit quality, residual maturity and associated financed emissions.

The scope includes banking book exposures to non-financial corporations, encompassing loans and advances, fixed-income securities and equity instruments, other than those held for sale or trading.

The template shows the breakdown of the portfolio, including the following information:

- Breakdown of the portfolio by sectors that contribute the most to climate change (up to 2nd digit of NACE).
- The credit quality and residual maturity of the exposures.
- Information on greenhouse gas emissions financed as a result of these exposures.
- Exposure to companies excluded from the benchmark indices aligned with the Paris Agreement, as set out in the criteria of the European Commission Delegated Regulation (EU) 2020/1818:
  - Companies deriving 1% or more of their revenues from the exploration, mining, extraction, distribution or refining of anthracite, hard coal and lignite;
  - Companies deriving 10% or more of their revenues from the exploration, mining, extraction, distribution or refining of liquid fuels;
  - Companies deriving 50% or more of their revenues from the exploration, mining, extraction, production or distribution of gas fuels;
  - Companies deriving 50% or more of their revenues from electricity generation with a greenhouse gas intensity above 100g CO2 e/kWh.
- The proportion of exposures that have a Climate Change Mitigation (CCM) label, according to the European Taxonomy.

The Group has identified an exposure to the sectors listed in the table of 58,654 million euros, broken down between 77% in the sectors that contribute most to climate change (corresponding to letters A-I and L according to NACE) and 23% to the other sectors.

### Methodology for estimating the financed emissions of the loan book

Financed emissions are estimated based on the public methodology developed by the Platform Carbon Accounting Financials (PCAF). In general, the methodology consists of estimating total Scope 1+2 emissions of the contract's counterparty and assigning financial institutions a portion of these emissions proportionate to the risk drawn down using an attribution factor:

$$\textbf{Financed emissions} = \sum_i \textbf{Attribution factor} * \textbf{Customer's emissions}_i$$

(Where i= customers)

The attribution factor is the percentage of total emissions that Banco Sabadell Group must recognise. In business financing, for instance, the attribution factor is the value of risk drawn down as a percentage of the customer's equity and its debt level (EVIC).

The PCAF methodology segments applicable assets into six blocks (or asset classes) based on the estimation methodology used. In addition, Banco Sabadell Group has designed its own methodology for the calculation of emissions linked to sovereign bonds, prior to PCAF's publication of the standard to calculate sovereign bonds emissions in November 2022. The following are the six blocks for which the PCAF methodology has been applied:

- Listed equity and corporate bonds.
- Business loans and unlisted equity.
- Project finance.
- Commercial real estate.
- Mortgages.
- Motor vehicle loans.

PCAF also establishes five quality levels of emissions estimation (Data Quality Score, or DQ Score), indicating the accuracy and reliability of the estimate based on the source and type of data used. Each segment of the portfolio has its type of data and standards to be classified into one DQ or another, always using scores from 1 to 5, 1 being the most accurate estimation and 5 the least.

To calculate financed emissions, Banco Sabadell Group calculates each contract and counterparty using the highest DQ possible, employing to that end internally available information (such as, balance sheets or the counterparties' exposure, project finance's technology, Energy Performance Certificates [EPC] captured for new loans and loan products, dwellings' square metres, etc.), as well as external information, including:

- For business risk, the counterparties' actual emissions data is used when this information is calculated and published.
- For project finance, the emission factors per installed power output and/or technology for each project are used.
- For mortgages, data from Energy Performance Certificates is used; therefore, the Institution, in coordination with AEB and CECA, has acquired from an external supplier actual information from the EPCs of its back books, but also estimated data if there is no EPC.
- For motor vehicle loans, the description of the type of vehicle is used.

It is also worth highlighting that, in the interests of prudence, Banco Sabadell Group uses factors to estimate downstream

Scope 3 emissions to supplement the upstream factors provided by PCAF, especially for those sectors in which the downstream factor could be more relevant (e.g., oil and gas). This could lead to Scope 3 emissions intensities significantly higher in the Group when compared to data from peers who do not use this approach.

The estimation of financed emissions for all asset classes is carried out in the same engine, which is based on a reputable RDA-compliant database, which feeds the Group's accounting information. The engine segments the portfolio according to the type of asset, includes data from various sources and applies the appropriate methodology to each contract according to the data available to calculate the estimates.

Banco Sabadell Group discloses the financed Scope 1 and 2 emissions of all sectors and Scope 3 emissions of the oil and gas sector. These emissions have been calculated using this engine, which feeds into emissions reported directly by the borrower or the investee, emissions based on the physical activity broken down by power output and technology of energy project finance, and emissions based on the borrower's economic activity, its turnover and activity sector.

As shown in the data on the template, the oil and gas sector is one of the most emissions-intensive sectors of the portfolio (included mainly in heading B Mining and quarrying), followed by the manufacture of construction materials (where the production of cement is included) and metallurgy (both included within Manufacturing in heading C). Other noteworthy emissions-intensive sectors are agriculture, livestock farming and fishing (heading A) and other intensive sectors in the use of fossil fuels (such as air transport). On the other hand, the low average intensity of the electric power generation sector (heading D) is worthy of note, due to the Bank's efforts to transform the sector and support renewable energies.

Geographically speaking, in line with the Bank's presence, the Spain's and Mexico's business loan portfolios have greater impact on the footprint of the financed portfolio.

#### CCM Label

The European Union took a further step as promoter of the energy transformation and the decarbonisation of the economy. In line with the objectives of the fight against climate change, it established the Taxonomy Regulation (Regulation [EU] 2020/852), which was the first step towards obliging firms to disclose the proportion of their activities that are considered green or social, according to this regulation.

This regulation, which establishes requirements for the classification and reporting of sustainable activities, is a key aspect for the integration of ESG aspects into the Group's ordinary activity, as well as being a strategic aspect for the Group.

This is why, back in 2020, Banco Sabadell Group developed its own Eligibility Guide in accordance with the EU Taxonomy of green activities and based on the Social Bond Principles in relation to social matters, pending release of the EU's social taxonomy. This led to the first implementation phase of the internal eligibility guide to identify eligible activities based on the Taxonomy, as well as those considered to be taxonomy-compliant or taxonomy-aligned. On the back of this, the Group has already incorporated into its systems a marking for those priority green products that allows tracing the entire product management cycle and ensure their alignment with the taxonomy's requirements.

As described earlier, given that this is a key strategic aspect for the Bank, work has been underway since 2020 to keep the Eligibility Guide in line with regulatory updates and to implement Therefore, the amounts reported in the template correspond to the financing generated in accordance with the Internal Eligibility Guide, thus ensuring the alignment of this financing with the requirements set out in the taxonomy.

The evolution of the Institution's exposure classified as green and social is monitored on a monthly basis by the Technical Risk Committee. In order to identify and take advantage of the opportunities of the transition towards a sustainable economy and to increase exposure to green financial assets, the Bank continues to implement financing solutions in the various businesses through Green and Social Loans (GSLs) and Sustainability-Linked Loans (SLLs).

During 2022, more than 1.1 billion euros were mobilised to fund companies engaged in green operations or projects, mainly through loans, leasing and rentals. This finance is intended for projects that are aligned with the Bank's Eligibility Guide, primarily linked to energy, mobility and water and waste activities.

## Table 83. Banking book - Climate Change Transition risk: Credit quality exposures by sector, emissions and residual maturity.

| | | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o | p |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross Carrying amount (Mln EUR)[1] | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (Mln EUR) | | | GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent) | | | | | | | |
| | Sector/subsector[2] | | Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation | Of which environmentally sustainable (CCM) | Of which stage 2 exposures | Of which non-performing exposures | | Of which Stage 2 exposures | Of which non-performing exposures | | Of which Scope 3 financed emissions | GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting | <= 5 years | > 5 year <= 10 years | > 10 year <= 20 years | > 20 years | Average weighted maturity (in years) |
| 1 | Exposures towards sectors that highly contribute to climate change | 44.973 | 2.425 | 4.422 | 5.010 | 2.396 | -1.222 | -158 | -881 | 10.062.196 | 2.413.315 | 13 % | 27.402 | 9.257 | 6.830 | 1.485 | 5,17 |
| 2 | A - Agriculture, forestry and fishing | 1.076 | 0 | 4 | 94 | 74 | -43 | -5 | -33 | 858.511 | — | 2 % | 686 | 288 | 93 | 9 | 4,32 |
| 3 | B - Mining and quarrying | 370 | 145 | 1 | 43 | 9 | -7 | -1 | -5 | 1.279.490 | 767.005 | 12 % | 300 | 64 | 3 | 3 | 3,72 |
| 4 | B.05 - Mining of coal and lignite | 2 | 2 | — | 0 | 0 | -0 | — | -0 | 3.788 | — | 4 % | 2 | — | — | 0 | 1,31 |
| 5 | B.06 - Extraction of crude petroleum and natural gas | 158 | 109 | — | 33 | 0 | -1 | -0 | -0 | 1.095.112 | 745.746 | 34 % | 116 | 42 | — | 0 | 4,31 |
| 6 | B.07 - Mining of metal ores | 86 | — | 0 | 0 | 2 | -1 | -0 | -1 | 13.152 | — | 2 % | 85 | 0 | — | 1 | 2,68 |
| 7 | B.08 - Other mining and quarrying | 87 | — | 0 | 8 | 7 | -5 | -0 | -4 | 28.213 | — | 0 % | 71 | 12 | 3 | 1 | 3,86 |
| 8 | B.09 - Mining support service activities | 36 | 34 | 0 | 2 | 0 | -1 | -0 | -0 | 139.225 | 21.259 | — | 25 | 11 | 0 | 0 | 3,42 |
| 9 | C - Manufacturing | 9.962 | 14 | 62 | 915 | 508 | -257 | -30 | -187 | 4.037.660 | 911.707 | 15 % | 7.593 | 1.693 | 592 | 84 | 3,24 |
| 10 | C.10 - Manufacture of food products | 1.949 | — | 4 | 185 | 60 | -33 | -5 | -22 | 205.523 | — | 6 % | 1.468 | 423 | 43 | 15 | 2,97 |
| 11 | C.11 - Manufacture of beverages | 438 | — | 0 | 30 | 15 | -10 | -1 | -8 | 31.474 | — | 22 % | 336 | 76 | 24 | 2 | 3,39 |
| 12 | C.12 - Manufacture of tobacco | 1 | 1 | — | 0 | 0 | -0 | -0 | -0 | 339 | — | — | 1 | 0 | — | 0 | 2,00 |
| 13 | C.13 - Manufacture of textiles | 228 | — | 1 | 22 | 11 | -8 | -1 | -6 | 21.417 | — | — | 181 | 37 | 7 | 3 | 2,70 |
| 14 | C.14 - Manufacture of wearing apparel | 158 | — | 0 | 14 | 10 | -5 | -1 | -4 | 21.519 | — | 46 % | 131 | 23 | 2 | 2 | 1,78 |
| 15 | C.15 - Manufacture of leather and related products | 68 | — | 1 | 11 | 8 | -4 | -0 | -3 | 7.047 | — | — | 47 | 16 | 4 | 2 | 3,00 |
| 16 | C.16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials | 218 | — | 1 | 20 | 16 | -7 | -1 | -6 | 84.556 | — | 15 % | 135 | 74 | 7 | 3 | 3,69 |
| 17 | C.17 - Manufacture of pulp, paper and paperboard | 447 | — | 1 | 41 | 9 | -6 | -1 | -3 | 199.992 | — | 16 % | 381 | 57 | 6 | 3 | 2,67 |
| 18 | C.18 - Printing and service activities related to printing | 141 | — | 0 | 23 | 11 | -5 | -1 | -4 | 12.591 | — | — | 104 | 29 | 7 | 2 | 3,23 |
| 19 | C.19 - Manufacture of coke oven products | 14 | 4 | 0 | — | 0 | -0 | — | -0 | 1.004.570 | 911.707 | 26 % | 9 | — | 5 | 0 | 3,89 |
| 20 | C.20 - Production of chemicals | 678 | 6 | 2 | 9 | 16 | -8 | -0 | -6 | 323.079 | — | 11 % | 553 | 116 | 5 | 4 | 2,86 |
| 21 | C.21 - Manufacture of pharmaceutical preparations | 468 | — | 0 | 135 | 13 | -10 | -1 | -7 | 64.942 | — | 25 % | 356 | 105 | 6 | 1 | 3,84 |
| 22 | C.22 - Manufacture of rubber products | 469 | — | 5 | 22 | 23 | -15 | -1 | -12 | 45.963 | — | 0 % | 368 | 77 | 16 | 9 | 2,91 |
| 23 | C.23 - Manufacture of other non-metallic mineral products | 451 | — | 6 | 29 | 42 | -18 | -1 | -15 | 711.257 | — | 16 % | 343 | 93 | 9 | 7 | 3,18 |

| | | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o | p |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross Carrying amount (Mln EUR)[1] | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (Mln EUR) | | | GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent) | | | | | | | |
| | Sector/subsector[2] | | Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation | Of which environmentally sustainable (CCM) | Of which stage 2 exposures | Of which non-performing exposures | | Of which Stage 2 exposures | Of which non-performing exposures | | Of which Scope 3 financed emissions | GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting | <= 5 years | > 5 year <= 10 years | > 10 year <= 20 years | > 20 years | Average weighted maturity (in years) |
| 24 | C.24 - Manufacture of basic metals | 753 | — | 0 | 32 | 64 | -29 | -2 | -24 | 724.167 | — | 55 % | 687 | 57 | 6 | 3 | 2,78 |
| 25 | C.25 - Manufacture of fabricated metal products, except machinery and equipment | 872 | 3 | 8 | 86 | 75 | -43 | -6 | -33 | 124.643 | — | 9 % | 667 | 151 | 43 | 11 | 2,87 |
| 26 | C.26 - Manufacture of computer, electronic and optical products | 267 | — | 0 | 13 | 2 | -2 | -1 | -1 | 15.549 | — | 15 % | 251 | 13 | 0 | 3 | 1,06 |
| 27 | C.27 - Manufacture of electrical equipment | 370 | — | 3 | 34 | 11 | -8 | -1 | -5 | 38.267 | — | 0 % | 278 | 82 | 7 | 2 | 2,60 |
| 28 | C.28 - Manufacture of machinery and equipment n.e.c. | 526 | — | 7 | 33 | 24 | -14 | -2 | -9 | 62.815 | — | 9 % | 389 | 116 | 16 | 4 | 3,33 |
| 29 | C.29 - Manufacture of motor vehicles, trailers and semi-trailers | 414 | — | 1 | 26 | 12 | -7 | -1 | -4 | 41.847 | — | 50 % | 375 | 34 | 4 | 2 | 2,39 |
| 30 | C.30 - Manufacture of other transport equipment | 571 | — | 17 | 101 | 50 | -8 | -1 | -4 | 200.796 | — | 8 % | 172 | 45 | 353 | 1 | 8,57 |
| 31 | C.31 - Manufacture of furniture | 134 | — | 1 | 10 | 13 | -7 | -0 | -6 | 34.052 | — | 2 % | 88 | 30 | 12 | 3 | 3,69 |
| 32 | C.32 - Other manufacturing | 221 | — | 2 | 27 | 13 | -5 | -1 | -3 | 40.113 | — | 1 % | 198 | 18 | 5 | 1 | 2,29 |
| 33 | C.33 - Repair and installation of machinery and equipment | 106 | — | 0 | 12 | 9 | -4 | -1 | -3 | 21.141 | — | 0 % | 74 | 23 | 6 | 2 | 3,89 |
| 34 | **D - Electricity, gas, steam and air conditioning supply** | 4.786 | 1.843 | 2.350 | 118 | 104 | -86 | -7 | -55 | 1.571.348 | 734.602 | 33 % | 1.894 | 547 | 2.102 | 242 | 9,05 |
| 35 | D35.1 - Electric power generation, transmission and distribution | 4.574 | 1.637 | 2.350 | 118 | 103 | -86 | -7 | -55 | 719.453 | — | 28 % | 1.688 | 543 | 2.101 | 242 | 9,36 |
| 36 | D35.11 - Production of electricity | 2.457 | 1.331 | 1.733 | 87 | 80 | -69 | -6 | -53 | 270.344 | — | 41 % | 571 | 262 | 1.542 | 82 | 11,55 |
| 37 | D35.2 - Manufacture of gas; distribution of gaseous fuels through mains | 206 | 206 | 0 | 1 | 0 | -0 | -0 | -0 | 839.637 | 734.602 | 60 % | 204 | 1 | 0 | 0 | 2,41 |
| 38 | D35.3 - Steam and air conditioning supply | 5 | — | 0 | 0 | 0 | -0 | -0 | -0 | 12.259 | — | — | 2 | 3 | 0 | 0 | 6,17 |
| 39 | **E - Water supply; sewerage, waste management and remediation activities** | 352 | — | 90 | 9 | 6 | -3 | -0 | -2 | 277.653 | — | 31 % | 260 | 63 | 25 | 4 | 3,47 |
| 40 | **F - Construction** | 4.316 | — | 764 | 454 | 321 | -182 | -20 | -141 | 313.677 | — | 10 % | 2.620 | 616 | 596 | 484 | 6,52 |
| 41 | F.41 - Construction of buildings | 2.143 | — | 602 | 278 | 162 | -97 | -10 | -72 | 162.123 | — | 5 % | 985 | 293 | 426 | 439 | 9,52 |
| 42 | F.42 - Civil engineering | 940 | — | 142 | 49 | 58 | -27 | -2 | -22 | 49.485 | — | 35 % | 737 | 108 | 81 | 14 | 3,75 |
| 43 | F.43 - Specialised construction activities | 1.233 | — | 20 | 128 | 101 | -58 | -8 | -47 | 102.069 | — | 5 % | 898 | 215 | 89 | 31 | 3,45 |
| 44 | **G - Wholesale and retail trade; repair of motor vehicles and motorcycles** | 8.944 | 315 | 36 | 727 | 491 | -257 | -30 | -191 | 718.229 | — | 16 % | 7.279 | 1.211 | 342 | 112 | 2,48 |

| | | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o | p |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross Carrying amount (Mln EUR)[(1)] | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions (Mln EUR) | | | GHG financed emissions (scope 1, scope 2 and scope 3 emissions of the counterparty) (in tons of CO2 equivalent) | | | | | | | |
| | Sector/subsector[(2)] | | Of which exposures towards companies excluded from EU Paris-aligned Benchmarks in accordance with points (d) to (g) of Article 12.1 and in accordance with Article 12.2 of Climate Benchmark Standards Regulation | Of which environmentally sustainable (CCM) | Of which stage 2 exposures | Of which non-performing exposures | | Of which Stage 2 exposures | Of which non-performing exposures | | Of which Scope 3 financed emissions | GHG emissions (column i): gross carrying amount percentage of the portfolio derived from company-specific reporting | <= 5 years | > 5 year <= 10 years | > 10 year <= 20 years | > 20 years | Average weighted maturity (in years) |
| 45 | **H - Transportation and storage** | 3.795 | 108 | 700 | 258 | 147 | -80 | -14 | -55 | 650.127 | — | 35 % | 2.507 | 880 | 379 | 28 | 4,44 |
| 46 | H.49 - Land transport and transport via pipelines | 1.780 | 107 | 698 | 119 | 71 | -44 | -6 | -32 | 101.053 | — | 29 % | 1.256 | 324 | 184 | 17 | 4,43 |
| 47 | H.50 - Water transport | 265 | — | 0 | 3 | 22 | -10 | -0 | -9 | 214.045 | — | 49 % | 118 | 143 | 4 | 0 | 4,40 |
| 48 | H.51 - Air transport | 199 | — | — | 75 | 24 | -8 | -3 | -4 | 216.835 | — | 46 % | 98 | 101 | — | 0 | 4,29 |
| 49 | H.52 - Warehousing and support activities for transportation | 1.507 | 0 | 1 | 58 | 28 | -17 | -4 | -10 | 116.558 | — | 40 % | 1.006 | 300 | 191 | 10 | 4,50 |
| 50 | H.53 - Postal and courier activities | 43 | — | 0 | 3 | 1 | -1 | -0 | -0 | 1.635 | — | 1 % | 29 | 13 | 0 | 1 | 2,94 |
| 51 | **I - Accommodation and food service activities** | 4.592 | — | 81 | 1.412 | 427 | -144 | -35 | -98 | 199.336 | — | 4 % | 1.761 | 2.006 | 754 | 72 | 6,40 |
| 52 | **L - Real estate activities** | 6.780 | — | 334 | 979 | 310 | -162 | -15 | -113 | 156.165 | — | 2 % | 2.501 | 1.887 | 1.945 | 447 | 7,90 |
| 53 | **Exposures towards sectors other than those that highly contribute to climate change*** | **13.681** | **—** | **287** | **1.410** | **948** | **-462** | **-76** | **-369** | **1.870.133** | **—** | **22 %** | **10.133** | **2.490** | **728** | **330** | **3,86** |
| 54 | **K - Financial and insurance activities** | 4.612 | — | 115 | 467 | 502 | -83 | -16 | -54 | 828.477 | — | 45 % | 3.824 | 616 | 88 | 84 | 3,37 |
| 55 | **Exposures to other sectors (NACE codes J, M - U)** | 9.069 | — | 171 | 943 | 446 | -379 | -60 | -315 | 1.041.656 | — | 11 % | 6.309 | 1.874 | 640 | 246 | 4,09 |
| 56 | **TOTAL** | **58.654** | **2.425** | **4.709** | **6.421** | **3.345** | **-1.684** | **-234** | **-1.250** | **11.932.328** | **2.413.315** | **15 %** | **37.534** | **11.747** | **7.558** | **1.815** | **4,87** |

*Data as of 31/12/2022, in millions of euros.*

*(1) Gross carrying amount to FINREP criterion,which considers the disposed risk.*

*(2) The classification of the sectors of activity is based on the statutory NACE code at the accredited level (statutory economic activity). It is to be considered that under the statutory perspective, large companies are constituted as financial corporations regardless of the underlying economic activity.*

## Energy efficiency of collateral

The following template measures the energy efficiency of loans collateralised by residential or commercial immovable property, as well as collateral obtained by taking possession (foreclosed), in terms of energy performance certificates (EPCs) and energy consumption expressed in kWh/m2.

Directive 2010/31/EU introduced the Energy Performance Certificates (EPCs). These certificates indicate various energy performance levels of buildings or houses. Since the entry into force of this Directive, all properties sold or rented out should include their corresponding energy certificate.

The information on the energy performance of the immovable properties that the Group has in its mortgage portfolio is relevant to the management of transition risk. Therefore, the Group is working on gathering as much information as possible on the energy performance certificates of commercial and residential properties included in its mortgage portfolio as collateral or foreclosures.

In order to identify or, where appropriate, estimate the energy rating of properties located in Spain, three mechanisms have been established to obtain the data (the first being the highest quality one):

- First mechanism: obtaining the data directly by searching for the specific property in the public databases of Energy Performance Certificates (EPCs) of the Autonomous Communities.
- Second mechanism: applicable for residential properties, if the first mechanism did not produce any results, it consists of obtaining data for similar properties that do have the EPC.
- Third mechanism: also applicable in the case of residential properties, if the previous mechanisms did not yield any result. It consists of obtaining an estimation using the supplier's own model. The estimation model has been built from the information from the more than four million EPCs in the registers of the Autonomous Communities. It consists of a scoring model that qualifies the cadastral characteristics of the properties (type, age/building standard, quality of the building, surface area and relative height), as well as the climate zone where they are located. It is a model that is neither statistical nor regressive, but an expert simulation of the approved programmes for the calculation of EPCs, grouping and assimilating each of its chapters to the limited information available on the properties.

The supplier's model was controlled by an external auditor with the main objective of validating that the model enables compliance with the requirements. The report concluded, in general terms and according to the tests carried out, that the information used and the procedure developed for obtaining and estimating the EPCs is adequate.

It is worth mentioning that, depending on the type of property, the issuance of EPC labels may not be mandatory, as is the case for garages, storage rooms, plots or warehouses, for which no estimated energy consumption information has been provided.

Outside the EU, in the UK estimated EPC labels are completed from average zip code estimates where available. Where these are not available, the results of a regression model are used.

In Mexico, a model for estimating EPC labels and energy consumption (Kwh/m2) provided by an external supplier has been used.

The analysis carried out by the Group indicates a balanced exposure within the EU (~55%) compared to outside the EU (~45%): EU compared to outside the EU.

- In the case of the EU, information on the energy performance certificate (EPC) has been obtained for ~84% of the portfolio, with a higher concentration of the E certificate.
- Outside the EU, information on the energy performance certificate (EPC) has been obtained for ~88% of the portfolio, with a greater prevalence of the D certificate.

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## Table 84. Banking book - Climate Change Transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral.

| | | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o | p |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Counterparty sector | Total gross carrying amount (Mln EUR)[1] | | | | | | | | | | | | | | | |
| | | | Level of energy efficiency (EP score in kWh/m² of collateral) | | | | | | Level of energy efficiency (EPC label of collateral) | | | | | | | Without EPC label of collateral | |
| | | | 0; <= 100 | > 100; <= 200 | > 200; <= 300 | > 300; <= 400 | > 400; <= 500 | > 500 | A | B | C | D | E | F | G | | Of which level of energy efficiency (EP score in kWh/m² of collateral) estimated |
| 1 | **Total EU area** | **50.834** | **9.899** | **18.920** | **10.435** | **2.460** | **687** | **368** | **1.718** | **2.312** | **1.879** | **4.819** | **23.188** | **4.007** | **4.846** | **8.066** | **–** |
| 2 | Of which Loans collateralised by commercial immovable property | 6.957 | 1.671 | 577 | 261 | 80 | 69 | 49 | 319 | 524 | 582 | 511 | 454 | 169 | 148 | 4.250 | – |
| 3 | Of which Loans collateralised by residential immovable property | 42.392 | 8.067 | 17.805 | 9.853 | 2.313 | 587 | 311 | 1.397 | 1.700 | 1.270 | 4.191 | 22.110 | 3.721 | 4.547 | 3.457 | – |
| 4 | Of which Collateral obtained by taking possession: residential and commercial immovable properties | 1.485 | 161 | 538 | 320 | 67 | 32 | 8 | 2 | 88 | 27 | 117 | 624 | 117 | 152 | 359 | – |
| 5 | Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated | 6.849 | 1.489 | 2.201 | 2.007 | 719 | 281 | 151 | | | | | | | | – | – |
| 6 | **Total non-EU area** | **41.990** | **12.863** | **22.201** | **1.019** | **823** | **195** | **27** | **80** | **4.078** | **8.705** | **16.573** | **5.561** | **996** | **1.136** | **4.862** | **–** |
| 7 | Of which Loans collateralised by commercial immovable property | 1.693 | 33 | 95 | 134 | 581 | 135 | 3 | 20 | 4 | 9 | 11 | 17 | 4 | 917 | 711 | – |
| 8 | Of which Loans collateralised by residential immovable property | 40.297 | 12.830 | 22.106 | 884 | 242 | 60 | 24 | 60 | 4.075 | 8.696 | 16.561 | 5.544 | 991 | 219 | 4.151 | – |
| 9 | Of which Collateral obtained by taking possession: residential and commercial immovable properties | 0 | – | – | – | – | – | – | – | – | – | – | – | – | – | 0 | – |
| 10 | Of which Level of energy efficiency (EP score in kWh/m² of collateral) estimated | 6.218 | 1.393 | 4.811 | 10 | 3 | 1 | 0 | | | | | | | | – | – |

*Data as of 30/12/2022, in millions of euros*

*[1] Gross carrying amount according to FINREP criterion, which considers the disposed risk.*

## Alignment metrics

In December 2022, the Bank published its sectoral decarbonization targets for the 2030 agenda in the sustainability agenda and ESG action framework. In this regard, targets and supporting measures have been established for the reduction of its carbon footprint, prioritizing the setting of intermediate targets for the most CO2 intensive sectors such as Electricity, Oil & Gas, Cement and Coal.

The scope of the activities covered by the targets is focused on the production chain phase of each sector, whose transition could have more impact on the global reduction of greenhouse gas emissions, specifically:

- For the power industry, businesses whose main activity is the generation of electricity.
- For the oil and gas industry, businesses associated with upstream and downstream hydrocarbons (including refining activity).
- For the cement industry, companies with manufacturing activities.
- For the coal industry, companies with activities related to coal mining.

These targets contribute towards the fight against climate change and demonstrate their ambition towards a net zero economy by 2050. Therefore, when setting the commitments, the Bank has taken into account the Net Zero Emissions by 2050 Scenario published by the International Energy Agency (IEA), which establishes decarbonisation pathways for different sectors that are consistent with limiting the global temperature rise to 1.5 degrees centigrade above levels in the pre-industrial era.

| Sector | Scope of Emissions | Reference scenario | Metrics | Base year 2020 | Objective 2030 | % of total reduction 2020-2030 |
|---|---|---|---|---|---|---|
| Electricity | 1 and 2 | IEA Net Zero 2050 | Kg CO2e / MWh | 61 | 85-45 | – |
| Oil and Gas | 1, 2 and 3 | IEA Net Zero 2050 | Mt CO2e | 6.3 | 4.9 | (23,00%) |
| Cement | 1 and 2 | IEA Net Zero 2050 | Kg CO2e / ton. Cement | 660 | 510 | (23,00%) |
| Coal | n/a | IEA Net Zero 2050 | Mn. euros (€) | 3 | – | (100,00%) |

Base year and 2030 targets data are based on the large enterprises segment.

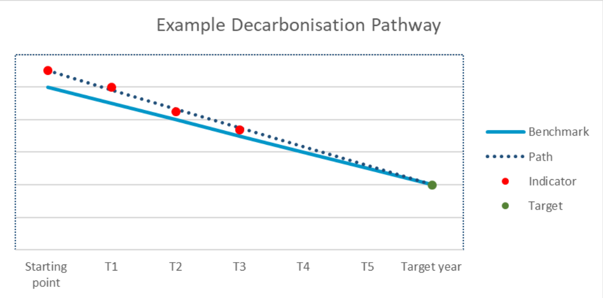
To determine industry commitments based on the reduction of emissions intensity (power and cement), average emissions intensity has been calculated based on emissions and output attributed according to the amount of financing granted. Thus, the starting points are, to a large extent, a reflection of the output intensity (emissions per production unit) of the counterparties of that sector in the Institution's loan book, provided that the counterparty publishes the data necessary for the calculation; otherwise, the counterparty is not part of the calculated starting point. For the calculated and published pathways, however, in order to strengthen the source figures and make them more reliable, a high level of coverage with counterparty data is required.

The commitments have been determined based on the methodology of the Science-Based Targets initiative (SBTi) and the pathway indicated in the reference scenario for the oil & gas, cement and coal industries.

The Science-Based Targets initiative is a framework developed to support and guide the setting of decarbonisation targets based on four approaches depending on the portfolio sector and the type of financial product. The Group has relied on two of them for target-setting.

- The sectoral decarbonisation approach (SDA) is a scientifically-informed method for companies to set GHG emissions reduction targets. This approach enables deriving carbon intensity targets and metrics based on global mitigation pathways from some of the most carbon-intensive activities. As a principle, all the companies in the sector must converge to a specific intensity in the year selected. The sectors covered are: real estate, mortgages, construction, power generation, cement, pulp and paper, transport, iron and steel.
- The absolute contraction approach (ACA) is a one-size-fits-all method that ensures that companies setting targets deliver absolute emissions reductions in line with global decarbonisation pathways.

In both approaches, setting a starting point in the base year is necessary, in which the intensity of emissions is defined in the case of the SDA and, for the ACA, total emissions. The aim is to reach a reduction for the year set in both approaches, whether in terms of intensity or emissions. The explanatory figure below, which shows the expected evolution of the pathway to meet the target and the actual evolution, is included for illustrative purposes.




### Power industry

The Bank's current starting point is 61 kg CO2e/MWh, which is much lower than the reference scenario (IEA NZE 2050) for the base year and for the 2030 target itself and is in line with the level expected to be attained by the sector between 2036-2037. Therefore, the Bank aims to keep its CO2 emissions intensity level at a range of between 85-45 kg CO2e/MWh, in order to ensure it supports all its customers during their transition processes. This strategy is aligned with the REPowerEU plan and the ambitious energy targets of the European Union in relation to the buildout of renewable electricity generation. The Bank will continue to take action with the same diligence it always has, undertaking to remain a standard-bearer for financing and investing in energy and technology that can serve as alternatives to fossil fuels.

### Oil and gas industry

The Bank has set itself the target of reducing total emissions associated with positions in this industry by 23%, in line with the reference scenario.

### Cement industry

The Bank has set itself the target of reducing the emissions intensity per tonne of cement produced by 23%, in line with the reference scenario.

### Coal industry

In line with the expectations of the Net-Zero Banking Alliance (NZBA), the Bank will have no exposure to coal mining activities in 2030. It should be noted that the Group's current exposure is already very low, as it is further restricted by the Environmental and Social Risks Framework of Banco Sabadell Group.

The following table shows the alignment efforts (portfolio decarbonization pathways) with the Paris Agreement targets for a number of sectors. In this sense, the alignment metrics are expressed, in accordance with those proposed by the International Energy Agency (IEA), and depending on the sector, and the distance of the current state of these metrics with the projection for 2030 of the IEA's own scenario of zero net emissions by 2050 ("NZE2050").

The information presented in the following template follows the instructions integrated in the ITS 2022/01 so that the exposure data and perimeter reported therein differ from those used by the Group in its internal calculation criteria and publication of decarbonization targets. The template reports the exposures in the banking book, classifying customers according to the statutory NACE code and covering the entire perimeter of companies. For the setting of decarbonization targets, following the best market practices, the perimeter has been limited to large companies whose main activity is in the phase of the production chain of each sector whose transition can generate the greatest impact on the global reduction of greenhouse gas emissions.

*The **decarbonisation objectives** are available on the Banco Sabadell Group's website, in the Sustainability section.*

**Table 85. Banking book - Climate Change Transition risk: Alignment metrics.**

| | a | b | c | d | e | f | g |
|---|---|---|---|---|---|---|---|
| | Sector[(1)] | NACE Sectors (a minima) | Portfolio gross carrying amount (Mn EUR)[(2)] | Alignment metric | Year of reference | Distance to IEA NZE2050 in %[(3)] | Target (year of reference +3 years) |
| 1 | Power | 3511<br>3512<br>3513<br>3514 | 4.262 | 61 kgCO2e / MWh | 2020 | 45-85 | N.A. |
| 2 | Fossil fuel combustion | 0610<br>0620<br>1920<br>3521<br>3522<br>0910<br>3523 | 548 | 6.300 kt CO2 | 2020 | 23% | N.A. |
| 3 | Automotive | - | - | - | - | - | - |
| 4 | Aviation | - | - | - | - | - | - |
| 5 | Maritime transport | - | - | - | - | - | - |
| 6 | Cement, clinker and lime production | 2351 | 22 | 660 kg CO2e / tn cemento | 2020 | - | - |
| 7 | Iron and steel, coke, and metal ore production | 0510<br>0520 | 3 | 1 kt CO2 | 2020 | - | - |
| 8 | Chemicals | - | - | - - | | 23% | N.A. |
| 9 | potential additions relavant to the business model of the institution | - | - | - - | | (phase out) | N.A. |

*Data as at 31/12/2022, in million euro.*

*(1) The classification of the sectors of activity is based on the statutory NACE code at the accredited level (statutory economic activity). It is to be considered that under the statutory perspective, large companies are constituted as financial corporations regardless of the underlying economic activity.*

*(2) Gross carrying amount according to FINREP criterion, which considers the undrawn risk.*

*(3) PiT distance to 2030 NZE2050 scenario*

### Exposure to the top 20 most polluting firms

The aim of the following template is to show Banco Sabadell Group's exposure to the top 20 most polluting firms in the world.

The most polluting firms in the world carry greater transition risk, as there is evidence and public information indicating that the most polluting firms in the world are responsible for a large portion of global GHG emissions every year. Any political action taken to reduce the emissions of companies could have a greater impact on the main GHG emitters and lead to the deterioration of their solvency.

The scope includes banking book exposures to any type of counterparty, encompassing loans and advances, fixed-income securities and equity instruments, other than those held for sale or trading.

The database used to identify the most polluting firms in the world is the Carbon Majors Database, as it is one of the references included in ITS 2022/01.

Banco Sabadell Group has identified that it is exposed to 3 of the 20 most polluting companies, amounting to 78 million euros, which accounts for 0.04% of its total banking book.

**Table 86. Banking book - Climate Change Transition risk: Exposures to top 20 20 carbon-intensive firms.**

| | a | b | c | d | e |
|---|---|---|---|---|---|
| | Gross carrying amount[1] | Gross carrying amount towards the counterparties compared to total gross carrying amount (aggregate) | Of which environmentally sustainable (CCM) | Weighted average maturity (in years) | Number of top 20 polluting firms included |
| 1 | 78 | 0,03% | 2 | 2,32 | 3 |

*Data as of 31/12/2022, in millions of euros.*

*[1] Gross carrying amount according to FINREP criterion, which considers the disposed risk.*

### 14.7.2 Exposures subject to physical risk

Physical risk may involve losses arising from damages as a result of climate events due to current or future physical effects of the Group's invested assets or counterparties, whether acute (hurricanes, floods, etc.) or chronic (rising temperatures, loss of biodiversity, etc.) in nature. Both the nature and the type of risk may vary based on the geographical area in which the assets are located; therefore, the following table shows the identification of exposures whose location is subject to these risks, as well as their breakdown between acute and chronic climate events (or both).

In 2021, the Group conducted a preliminary estimation of the impacts arising from these climate events on its loan portfolio taking into account:

- The probability of occurrence of physical risks: using risk maps to assign a probability of occurrence;
- The severity of those risks should they occur (understood as the impact that would arise if physical risk were to materialise, estimated at a sectoral level for the business risk portfolio and at the collateral level for the mortgage portfolio).

This way, the Group has developed a methodology internally which distinguishes between acute and chronic events in line with the three scenarios (orderly transition, disorderly transition and hot house world) and adapted to a time horizon of 30 years. This makes it possible to assess those that could have a more significant impact on its portfolio, based on the location and activities of customers. Using this data, the Group identified a total of 16 events (8 acute and 8 chronic) that could affect the loan portfolio –a preliminary impact assessment of 11 of them was done on the Spanish portfolio: floods, fires, rising sea levels, droughts, hot spots, landslides, maximum temperatures, minimum temperatures, rainfall and thaws, fog and dust, storms, winds and gales.

For each of these events, the probability of occurrence is estimated at the post code level, based on historical information collected from public sources (AEMET, MITECO, etc.).

A severity is also determined based on expert criteria, which represents the impact if the event were to occur. For business physical risk, the severity represents the loss as a percentage of income that a company may incur if the event were to occur, as a result of stopping all activities. Therefore, based on the company's type of activity, one event or another may affect the borrower differently. The severity in this case is defined by event and NACE. For collateral physical risk, the severity is the percentage of loss in the value of the collateral if the event were to occur. Here the severity does not depend on the borrower's activity; therefore, all mortgage contracts with mortgage collateral have been treated in the same way, regardless of the type of immovable property.

Based on the sum of these probabilities of occurrence of each event by their severities, the expected impacts are calculated, which are the starting point for the creation of physical risk indicators:

$$\textbf{Expected impact} = \sum(\textbf{event probability} * \textbf{event severity})$$

Thus, for each business loan with a post code in Spain and for each mortgage contract with an associated real estate guarantee, the physical risk can be classified into Non-existent, Low, Medium, High or Very High.

To comply with Pillar III Disclosures requirements, climate events are classified into chronic or acute:

| Acute | Chronic |
|---|---|
| Floods | Coastal flooding |
| Fires | Thermal lamps |
| Droughts | Fog and dust |
| Avalanches | |
| High Termeperatures | |
| Low Temperatures | |
| Rainfall and snowmelt | |
| Storms, winds and gales | |

The template requires determining which exposures are sensitive to the impact of physical risks, but the European Banking Authority's instructions do not indicate under which metric or threshold this criterion should be applied. Therefore, using the abovementioned scale, exposure subject to physical risk is considered to be all those contracts that have a "Very High" classification, based on the sum of the expected impact of all climate events.

Similarly, the impact of chronic events is added, and if it exceeds the "Very High" threshold, the contract is considered to be subject to physical risk due to chronic events, and the same goes for acute events. In the event that the sum of the expected impact of all the events is greater than the threshold, but the chronic and acute events separately do not exceed it, those that represent a greater impact are flagged.

The physical risk for the Bank's other regions has also been assessed, through working groups with the teams of the various foreign branches. First, based on the activities of the companies, those with the greatest severity if any of the events were to occur were selected, and then the probability of occurrence of the events was assessed thanks to expert knowledge of the location and climate reality of each country. In Mexico and the United States, information on hurricanes and tornadoes was also added. In this way, those contracts comparable to the "Very High" classification of the approach applied in Spain were selected.

Based on this assessment, the most severe physical risks in the portfolio are forest fires, floods resulting from severe storms, as well as coastal floods and rising sea levels in Spain, while hurricanes are added to the list in the case of Mexico and Miami (United States). This impact analysis measures the risk inherent in the portfolio and not the residual risk, as the controls currently in place to mitigate it are not considered, nor is the existence of cover, such as home insurance and/or the existence of the Insurance Compensation Consortium (Consorcio de Compensación de Seguros), among other things.

With regard to TSB, taking into account that the loan portfolio is comprised mainly of mortgage assets, the main physical risks (in the medium and long term) are floods, subsidence and coastal erosion.

Table 87. Banking book - Climate Change physical risk: Exposures subject to physical risk - BS Spain and OFEX.

| | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount[1] | | | | | | | | | | | | | |
| | | | Of which exposures sensitive to impact from climate change physical events | | | | | | | | | | | | |
| | | | Breakdown by maturity bucket | | | | | | | | | | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | |
| | Spain | | <= 5 years | > 5 year <= 10 years | > 10 year <= 20 years | > 20 years | Average weighted maturity | Of which exposures sensitive to impact from chronic climate change events | Of which exposures sensitive to impact from acute climate change events | Of which exposures sensitive to impact both from chronic and acute climate change events | Of which Stage 2 exposures | Of which non-performing exposures | | Of which Stage 2 exposures | Of which non-performing exposures |
| 1 | A - Agriculture, forestry and fishing | 838 | 86 | 42 | 9 | 1 | 4,39 | 8 | 135 | 6 | 24 | 7 | -4 | -1 | -2 |
| 2 | B - Mining and quarrying | 317 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 3 | C - Manufacturing | 9.267 | 84 | 20 | 1 | 0 | 3,64 | 80 | 105 | 80 | 1 | 0 | -0 | -0 | -0 |
| 4 | D - Electricity, gas, steam and air conditioning supply | 4.398 | — | 11 | — | — | 6,92 | 11 | 11 | 11 | — | — | -0 | — | — |
| 5 | E - Water supply; sewerage, waste management and remediation activities | 351 | 0 | — | — | — | 0,82 | — | 0 | — | — | — | -0 | — | — |
| 6 | F - Construction | 3.997 | 11 | 0 | 9 | 9 | 13,78 | — | 29 | — | 4 | 9 | -2 | -0 | -1 |
| 7 | G - Wholesale and retail trade; repair of motor vehicles and motorcycles | 8.439 | 12 | 5 | 4 | 0 | 4,58 | 1 | 21 | 0 | 6 | 1 | -1 | -0 | -0 |
| 8 | H - Transportation and storage | 3.538 | 14 | — | — | — | 4,10 | 14 | 14 | 14 | — | — | -0 | — | — |
| 9 | L - Real estate activities | 6.105 | 63 | 45 | 34 | 1 | 6,43 | 5 | 144 | 5 | 81 | 1 | -2 | -2 | -0 |
| 10 | Loans collateralised by residential immovable property | 3.476 | 8 | 14 | 29 | 10 | 12,89 | 3 | 59 | 1 | 15 | 4 | -1 | -0 | -0 |
| 11 | Loans collateralised by commercial immovable property | 5.620 | 103 | 278 | 151 | 7 | 8,14 | 21 | 525 | 7 | 229 | 69 | -9 | -4 | -4 |
| 12 | Repossessed collaterals | 1.484 | 0 | — | — | — | 3,73 | — | 0 | — | — | — | -0 | — | — |
| 13 | Other relevant sectors (breakdown below where relevant) | 16.804 | 451 | 365 | 140 | 11 | 6,07 | 156 | 940 | 129 | 299 | 90 | -21 | -8 | -11 |

*Data as of 31/12/2022, in millions of euros.*

*[1] Gross carrying amount according to FINREP criterion, which considers the disposed risk.*

Table 88. Banking book - Climate Change physical risk: Exposures subject to physical risk - TSB.

| | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | United Kingdom | Gross carrying amount (In million euro)[1] | | | | | | | | | | | | | |
| | | | Of which exposures sensitive to impact from climate change physical events | | | | | | | | | | | | |
| | | | Breakdown by maturity bucket | | | | | Of which exposures sensitive to impact from chronic climate change events | Of which exposures sensitive to impact from acute climate change events | Of which exposures sensitive to impact both from chronic and acute climate change events | Of which Stage 2 exposures | Of which non-performing exposures | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | |
| | | | <= 5 years | > 5 year <= 10 years | > 10 year <= 20 years | > 20 years | Average weighted maturity | | | | | | | Of which Stage 2 exposures | Of which non-performing exposures |
| 1 | A - Agriculture, forestry and fishing | 4 | 0 | — | — | — | 1,90 | — | 0 | — | 0 | — | -0 | -0 | — |
| 2 | B - Mining and quarrying | 0 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 3 | C - Manufacturing | 11 | 0 | 0 | — | — | 5,60 | — | 1 | — | 0 | 0 | -0 | -0 | -0 |
| 4 | D - Electricity, gas, steam and air conditioning supply | 0 | 0 | — | — | — | — | — | 0 | — | — | 0 | -0 | — | -0 |
| 5 | E - Water supply; sewerage, waste management and remediation activities | 1 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 6 | F - Construction | 55 | 1 | 0 | — | — | 5,00 | — | 2 | — | 0 | 0 | -0 | -0 | -0 |
| 7 | G - Wholesale and retail trade; repair of motor vehicles and motorcycles | 62 | 2 | 1 | 0 | — | 6,60 | — | 3 | — | 1 | 0 | -0 | -0 | -0 |
| 8 | H - Transportation and storage | 14 | 0 | 0 | — | 0 | 8,30 | — | 1 | — | 0 | 0 | -0 | -0 | -0 |
| 9 | L - Real estate activities | 107 | 1 | 3 | — | 2 | 11,40 | — | 6 | — | 3 | — | -0 | -0 | — |
| 10 | Loans collateralised by residential immovable property | 20 | 1 | — | — | — | 4,90 | — | 1 | — | 1 | — | -0 | -0 | — |
| 11 | Loans collateralised by commercial immovable property | 71 | 0 | 2 | 0 | 2 | 12,70 | — | 5 | — | 2 | — | -0 | -0 | — |
| 12 | Repossessed collaterals | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 13 | Other relevant sectors (breakdown below where relevant) | 153 | 4 | 3 | 0 | — | 6,57 | — | 7 | — | 2 | 0 | -0 | -0 | -0 |

*Data as of 31/12/2022, in millions of euros.*

*[1] Gross carrying amount according to FINREP criterion, which considers the disposed risk.*

## Table 89. Cartera bancaria. Indicadores del riesgo físico potencial ligado al cambio climático: exposiciones sujetas al riesgo físico – MX.

| | a | b | c | d | e | f | g | h | i | j | k | l | m | n | o |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Gross carrying amount[1] | | | | | | | | | | | | | |
| | | | Of which exposures sensitive to impact from climate change physical events | | | | | | | | | | | | |
| | Mexico | | Breakdown by maturity bucket | | | | | Of which exposures sensitive to impact from chronic climate change events | Of which exposures sensitive to impact from acute climate change events | Of which exposures sensitive to impact both from chronic and acute climate change events | Of which Stage 2 exposures | Of which non-performing exposures | Accumulated impairment, accumulated negative changes in fair value due to credit risk and provisions | | |
| | | | <= 5 years | > 5 year <= 10 years | > 10 year <= 20 years | > 20 years | Average weighted maturity | | | | | | | Of which Stage 2 exposures | Of which non-performing exposures |
| 1 | A - Agriculture, forestry and fishing | 234 | 20 | — | — | — | 2,83 | 20 | 20 | 20 | — | — | -0 | — | — |
| 2 | B - Mining and quarrying | 53 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 3 | C - Manufacturing | 684 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 4 | D - Electricity, gas, steam and air conditioning supply | 387 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 5 | E - Water supply; sewerage, waste management and remediation activities | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 6 | F - Construction | 264 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 7 | G - Wholesale and retail trade; repair of motor vehicles and motorcycles | 443 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 8 | H - Transportation and storage | 243 | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 9 | L - Real estate activities | 567 | — | 7 | — | — | 7,71 | 7 | 7 | 7 | — | 7 | -0 | — | -0 |
| 10 | Loans collateralised by residential immovable property | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 11 | Loans collateralised by commercial immovable property | 148 | 94 | 54 | — | — | 5,10 | 148 | 148 | 148 | 47 | 7 | -1 | -0 | -0 |
| 12 | Repossessed collaterals | — | — | — | — | — | — | — | — | — | — | — | — | — | — |
| 13 | Other relevant sectors (breakdown below where relevant) | 1.316 | 122 | 47 | — | — | 4,99 | 169 | 169 | 169 | 47 | — | -1 | -0 | — |

*Data as of 31/12/2022, in millions of euros.*

*[1] Gross carrying amount according to FINREP criterion, which considers the disposed risk.*

### 14.7.3 Other mitigating actions

The Bank's strategic position consists of increasing the exposure to, and investment of, transactions and operations that contribute to sustainability objectives and, in particular, to mitigating and adapting climate change.

The purpose of the following template is to report all those exposures to customers intended to facilitate climate change adaptation and mitigation objectives, but which are not taxonomy-aligned in the sense of Regulation (EU) 2020/852.

The transactions and operations included in this template relate to Sustainability-Linked Loans (SLLs), which encourage the achievement of sustainability objectives, linking the price of the transaction or operation to the evolution of certain indicator(s) or KPI(s). This category does not require the funds to be used for any specific purpose. It is considered essential for the selected indicators to be relevant and central for customers, as this enables their sustainability strategy to gain more traction.

The risk that is mitigated with SLLs is climate risk. The objectives that the SLLs pursue are mitigation (reduction of CO2 emissions per production unit), water (decrease in consumption measured in m3), circular economy (waste reduction), among others. In 2022, the KPIs defined with customers are mainly based on the reduction of CO2 emissions.

**Table 90. Other climate change mitigation actions that are not covered in the EU Taxonomy**

| | a | b | c | d | e | f |
|---|---|---|---|---|---|---|
| | Type of financial instrument | Type of counterparty | Gross carrying amount (million EUR)[1] | Type of risk mitigated (Climate change transition risk) | Type of risk mitigated (Climate change physical risk) | Qualitative information on the nature of the mitigating actions |
| 1 | Bonds (e.g. green, sustainable, sustainability-linked under standards other than the EU standards) | Financial corporations | — | — | — | — |
| 2 | | Non-financial corporations | 151 | Yes | No | Bonds linked to sustainability |
| 3 | | Of which Loans collateralised by commercial immovable property | — | — | — | — |
| 4 | | Other counterparties | — | — | — | — |
| 5 | Loans (e.g. green, sustainable, sustainability-linked under standards other than the EU standards) | Financial corporations | 34 | Yes | No | Loans linked to sustainability with sustainable KPIs |
| 6 | | Non-financial corporations | 1.948 | Yes | No | Loans linked to sustainability with sustainable KPIs |
| 7 | | Of which Loans collateralised by commercial immovable property | 66 | Yes | No | Loans linked to sustainability with sustainable KPIs |
| 8 | | Households | 12 | Yes | No | Loans linked to sustainability with sustainable KPIs |
| 9 | | Of which Loans collateralised by residential immovable property | 12 | Yes | No | Loans linked to sustainability with sustainable KPIs |
| 10 | | Of which building renovation loans | — | — | — | — |
| 11 | | Other counterparties | — | — | — | — |

*Data as at 31/12/2022, in million euro.*

*[1] Gross carrying amount according to FINREP criterion, which considers the undrawn risk.*

# 15

# Corporate Governance

# 15

The information contained in this chapter is in line with the reporting requirements in relation to corporate governance, with detailed information on the Group's governance system, in compliance with the requirements of Article 435 (2) of the CRR, and with Article 2 of Commission Implementing Regulation (EU) 2021/637 and Bank of Spain Circular 2/2016.

A brief summary is set out below around the activity of the Board of Directors over the year and the roles of the various Board Committees.

## 15.1 Corporate Governance disclosures

### Corporate Governance structure

Banco Sabadell has a solid corporate governance structure which ensures effective and prudent management of the Bank, in which it prioritises ethical, sound and transparent governance, taking into account the interests of shareholders, customers, employees and society in the geographies in which it operates. The internal governance framework, which sets out, among other aspects, the shareholder 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 approving credit transactions granted to Directors and their related parties and the Group's policies, is published on the Group's corporate website.

### General Meeting of Shareholders 2022

The General Meeting of Shareholders is the Bank's main governance body. This is where the shareholders adopt resolutions put before them, in accordance with the law, the Articles of Association and the Institution's own regulations, and where they vote on any business decisions that the Board of Directors considers particularly momentous for the Bank's future or of far-reaching social interest.

The General Meeting of Shareholders has approved its own Regulation which set out the basic principles and rules of action, safeguarding the rights of shareholders and transparency of information.

In the General Meeting of Shareholders, a shareholder can cast one vote for every thousand shares that he/she possesses or represents. The purpose of the Policy for 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 following its review in June 2020, is to promote market transparency, generate confidence and uphold, at all times, the legitimate interests of the institutional investors, shareholders and proxy advisors, as well as any other stakeholder of Banco Sabadell.

To improve and encourage shareholder participation, the following key aspects were implemented:

- The methods through which shareholders could participate in the General Meeting of Shareholders held on 24 March 2022 were expanded, enabling them to not only attend in person but to also do so remotely, following the event through the live broadcast, voting on proposals from the agenda and taking part during the round of questions.
- New electronic channels were set up through the Banco Sabadell websites (corporate website and BSOnline) and its mobile app (BSMovil), so that shareholders could delegate or cast their votes before the General Meeting of Shareholders was held.

The General Meeting of Shareholders held on 24 March 2022, on second call, approved all items on the agenda, among them the annual financial statements and corporate management for the financial year 2021 and, with regard to appointments, they ratified both the appointment of Mr.Lluís Deulofeu Fuguet as Independent Director and the re-election as members of the Board of Directors of Mr.Pedro Fontana García, Mr.George Donald Johnston III and Mr.José Manuel Martínez Martínez in the capacity of Independent Directors and of Mr.David Martínez Guzmán in the capacity of Proprietary Director.

Furthermore, in 2022 the Bank, reinforcing its commitment to transparency, submitted for the approval of the General Meeting of Shareholders a Complementary Information document to the Banco Sabadell Director Remuneration Policy for the financial years 2021-2023 in order to develop and expand on the available information concerning certain aspects of that policy which were introduced by Law 5/2021, of 12 April, which came into force and became generally applicable after the policy was approved.

For the second consecutive year, Banco Sabadell's General Meeting of Shareholders was certified 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.

Similarly, an external consultant verified the procedures established for preparing and holding the General Meeting of Shareholders 2022, issuing a favourable opinion regarding the fulfilment of procedures and highlighting the progression observed over the past two years in the Banco Sabadell General Meeting of Shareholders, in line with the measures to facilitate shareholder participation through electronic means described earlier.

*For more information on the Articles of Association and the Regulations of the Board of Directors, please see **the Articles of Association of Banco Sabadell and the Regulation of the Board of Directors**, available on the Banco Sabadell Group corporate website, in the Corporate Governance and Remuneration Policy section, under Articles of Association of Banco Sabadell and Regulation of the Board of Directors.*

*For more information on the **Regulations of the General Meeting** of Shareholders, please see the Regulations of the Shareholders' Meeting available on the Banco Sabadell Group corporate website, under Shareholders and Investors, in the Shareholders' General Meeting section, sub-section General Meeting Regulations.*

## Board of Directors

With the exception of matters reserved for the competency of the Shareholders' Meeting, the Board of Directors is the highest decision-making body of the company and its consolidated group, and it is responsible under the law and the Articles of Association for the management and representation of the Bank. The Board of Directors is essentially set up as a supervision and control instrument, delegating the management of ordinary business to the Chief Executive Officer.

The Board of Directors is governed by defined and transparent governance regulations, specifically the Articles of Association and the Regulations of the Board of Directors and adheres to the best practices in relation to corporate governance.

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

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

### Table 91. Composition of the Board.

| | Position |
|---|---|
| Josep Oliu Creus | Chairman |
| Pedro Fontana García | Deputy Chairman |
| César González-Bueno Mayer | Managing Director |
| Anthony Frank Elliott Ball | Coordinating 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-voting Secretary |
| Gonzalo Barettino Coloma | Non-Director Deputy Secretary |

*Data as at 31/12/2022.*

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 keeps an adequate balance between the different director categories that comprise it.

The Board of Directors has a diverse and efficient composition. 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 composition brings together an adequate diversity of skills and career paths, backgrounds and gender, with extensive experience in the fields of banking, finance, anti-money laundering and countering the financing of terrorism, digital transformation and IT, insurance, risks and auditing, in the regulatory and legal fields, academia, human resources and consultancy, responsible business and sustainability, and in the business and international fields. The Board Skills Matrix is published on the corporate website in the "Banco Sabadell Internal Governance Framework" section".

The inclusion of Independent Director Laura González Molero increases the percentage of female representation and brings different and complementary skills to those already existing in the Board of Directors.

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. In addition, the Lead Independent Director coordinates the Succession Plan for the Chairman and Chief Executive Officer approved in 2016 and updated in 2022 and leads meetings with investors and proxy advisors.

*The professional profiles of the members of the Board of Directors can be found in section 3.2 of the* ***Annual Report on Corporate Governance.***

*More information on the professional profiles of the members of the Board of Directors is available on the Banco Sabadell Group corporate website, under Corporate Governance and Remuneration Policy, in the Board of Directors section.*

*Information on the skills of members of the Board of Directors can be found in the Skills and Diversity Matrix of members of the Board of Directors published in the* ***Banco Sabadell Internal Governance Framework****, available on the Group's corporate website under Corporate Governance and Remuneration Policy, in the Internal Governance Framework section.*

*The directorships held by members of the Board of Directors, both in other Banco Sabadell Group companies and in other listed or unlisted companies, can be found in sections 3.2 and 3.3 of the* ***Annual Report on Corporate Governance and section C.1.11 of its Statistical Annex.***

*The* ***Annual Report on Corporate Governance*** *is available on the Banco Sabadell Group corporate website, under Corporate Governance and Remuneration Policy, in the Corporate Governance Annual Report section.*

Banco Sabadell has general policies concerning diversity, age, gender, disability and professional training and experience.

The Director Selection Policy of Banco Sabadell, approved on 25 february 2016 (last amended on 29 September 2022), establishes the principles and criteria that should be taken into account in selection processes and, therefore, also in the initial fit and proper assessment and ongoing assessments of the members of the Board of Directors, as well as in the re-election of members of the management body in order to ensure their smooth succession, the continuity of the Board of Directors and the suitability of all its members.

*The Banco Sabadell diversity policy and the procedure for selecting Directors can be found in sections 3.4 and 3.5 of the* ***Annual Report on Corporate Governance.***

*For more information on the* ***Director Selection Policy****, please see the Director Candidate Selection Policy document, available on the Banco Sabadell Group website, under Corporate Governance and Remuneration Policy, in the Board of Directors section.*

*The* ***Procedures established for the selection, suitability and succession of directors and the arrangements implemented to comply with rules on incompatibility document*** *is available on the Banco Sabadell Group corporate website, under Corporate Governance and Remuneration Policy, in the Board of Directors section.*

The Appointments and Corporate Governance Committee is assigned the function, under Article 66 of the Articles of Association, of overseeing the qualitative composition of the Board of Directors, establishing a target for representation of the sex that is less represented on the Board of Directors and drawing up guidelines on how to achieve that target.

The process for selecting candidates to sit on the Board of Directors and for re-electing Directors it's governed by the diversity principle, fostering the diversity of the Board of Directors in order to promote a diverse pool of members, and ensuring that a broad set of qualities and competences is engaged when recruiting members, to achieve a variety of views and experiences and to facilitate independent opinions and sound decision-making within the Board of Directors.

The Board of Directors mustensure that the procedures for selecting its members apply the diversity principle and favour diversity in relation to areas such as age, gender, disability, geographical provenance and educational and professional background, as well as any other aspects deemed suitable to ensure the suitability and diversity of its pool of members. Furthermore, it should ensure that such procedures are free from implicit bias that may entail any degree of discrimination and, in particular, that they facilitate the selection of female directors in the number required to achieve a composition that is balanced between women and men.

Likewise, the Appointments and Corporate Governance Committee will ensure that the process abides by the principles of equality and equity and that it is free from any form of discrimination, including discrimination on the basis of age, disability or gender, without making any distinction by reason of race, sex, religion or any other distinguishing feature, honouring dignity and ensuring equal treatment and opportunities.

The following general principles will be followed when selecting candidates for the role of director and re-electing existing directors:

- The Appointments and Corporate Governance Committee will identify the needs of the Bank, ensuring that the appointment or re-election favours both diversity on the Board and a Board composition that is suitably balanced between independent directors, proprietary directors and executive directors.
- Candidates for the role of Director must meet the requirements of repute, suitability and good governance necessary for the performance of their role; in particular, they should have recognised solvency, experience, qualification and training. Furthermore, they should have the necessary availability and a high level of commitment to their role within the Institution.
- When selecting candidates for the role of Director, it will be necessary to consider the objectives, parameters (professional competence, diversity, good repute and suitability) and procedures for selection, assessment and appointment established in the Director Selection Policy and the recommendations and criteria of the Good Governance Code of Listed Companies issued by the CNMV.
- The procedure will ensure that directors' mandates are renewed in an orderly and well-planned manner, safeguarding the continuity of the business and enhancing the corporate governance system.
- The procedure will ensure a compliant qualitative composition of the Board of Directors in which external and non-executive directors should account for no less than the majority of the total number of Board members. It will be necessary to ensure that there is a significant proportion of independent directors among the external or non-executive directors.

The Appointments and Corporate Governance Committee, fulfilling its duties, has applied the policy and measures to increase diversity in terms of gender, age, training, knowledge and experience that contribute to the collective suitability of the Board, proposing to the General Meeting of Shareholders the ratification and appointment of one Independent Director (Mr. Lluís Deulofeu Fuguet), the reappointment of three Independent Directors (Mr. Pedro Fontana García, Mr. George Donald Johnston III and Mr. José Manuel Martínez Martínez) and of one Proprietary Director (Mr. David Martínez Guzmán) and also to the Board of Directors concerning the appointment by co-optation of one female Independent Director (Ms. Laura González Molero) in 2022 who meet these criteria.

The Appointments and Corporate Governance Committee, in compliance with Recommendation 14 of the Good Governance Code of Listed Companies and in accordance with the duties assigned in section 4.17 of its Regulations and the Banco Sabadell Director Selection Policy, verified on 24 January 2023 that the appointment and re-election resolutions adopted in 2022 by the General Meeting of Shareholders and by the Board of Directors are in compliance with the Policy. During this verification, it confirmed that the appointments and re-elections are in line with the necessary parameters and requirements of both the Policy and prevailing legislation for the role of Board members in a credit institution. The Board Committee also concluded that appointments and re-elections in question favour a suitably balanced Board composition, as they increase its diversity both in relation to the category of directors and in relation to the knowledge, skills and experience that they bring to the role. Therefore, the mandate of the Board of Directors and of the Appointments and Corporate Governance Committee itself of contributing to increasing skills diversity on the Board is being fulfilled. Specifically, the diversity of banking knowledge and experience and, in particular, of risk management and control, planning, strategy, governance and sustainability of the Board has been increased and strengthened, as has the diversity of specific experience in the banking industry and the ability to apply such knowledge and experience to the banking business, at the same time expanding international experience.

To select candidates, the Appointments and Corporate Governance Committee has used the Skills and Diversity Matrix for members of the Board of Directors of Banco Sabadell, which defines directors' skills and knowledge. Furthermore, the Committee has also liaised with external advisers who have provided it with profiles for candidates that meet the skills criteria prioritised by the Board Appointments and Corporate Governance Committee.

As at year-end 2022, there were five female directors: four female Independent Directors out of a total of ten Independent Directors and one female Other External Director.

The Board of Directors and the Appointments and Corporate Governance Committee are committed to fostering diversity on the Board, ensuring that it has a sufficient number of female directors and promoting compliance with the objective to increase representation of the under-represented sex. In Banco Sabadell, in 2022 women accounted for 33% of the total membership of the Board of Directors, honouring the Bank's commitment expressed in the Sabadell Commitment to Sustainability for 2022. They also account for 40% of Independent Directors, in line with the directive of the European Parliament and of the Council on improving the gender balance among directors of listed companies and related measures. The Bank's commitments in this area are included in Sabadell Compromiso Sostenible.

In terms of the presence of women on Board Committees, the Board Audit and Control Committee and the Board Remuneration Committee are chaired by female Independent Directors and sit on all Board Committees. In the Board Strategy and Sustainability Committee, women account for 16.67% (on the

Strategy side) and 20% (on the Sustainability side), while in the Delegated Credit Committee, they represent 40%. Regarding the composition of the other Board Committees (Audit and Control Committee, Appointments and Corporate Governance Committee, Remuneration Committee and Board Risk Committee), a parity between both genders has been achieved.

On the other hand, Banco Sabadell also has a set of policies, internal rules and codes of conduct that ensure ethical and responsible behaviour throughout the organisation. These same rules, which are applicable to the entire organisation, ensure an increase in its diversity.

In February 2022, the third Plan for Effective Equality between Women and Men in Banco Sabadell, Sabadell Consumer Finance S.A. and Business Services for Operational Support S.A. was signed, which sets out the targets for promoting diversity within the organisation for the 2022-2025 period.

As at the end of 2022, the percentage of women in Senior Management is 18,2% (compared to 10% in 2021). The percentage of women in management positions in Banco Sabadell is 30.3%, having increased by 1.2 percentage points compared to 2021 (29.1%).

*The diversity policies, and their objectives, measures and results can be found in section 3.4 of the **Annual Report on Corporate Governance.** Las políticas de diversidad, así como sus objetivos, medidas y resultados pueden consultarse en el apartado 3.4, del Informe Anual de Gobierno Corporativo. Diversity commitments may be found at Sabadell Compromiso Sostenible.*

*For more information on **Sustainability**, please refer to the Banco Sabadell Group corporate website, under Sustainability, in the Policies, codes and rules section.*

The Succession Plan for the Chairman and Chief Executive Officer approved by the Board of Directors on 21 July 2016 following the favourable report of the Appointments Committee and updated by the Board of Directors at its meeting of 26 January 2022, is available for consultation on the Group's corporate website. Banco Sabadell also has a Plan for the renewal of the Board of Directors of Banco Sabadell for the years 2021-2024 (reviewed on 29 September 2022).

*For more information on the **Succession Plan for the Chairperson and Chief Executive Officer**, please see the Succession plan for the Chairperson and Chief Executive Officer document, available on the Banco Sabadell Group corporate website, under Corporate Governance and Remuneration Policy, in the Board of Directors.*

**Figure 49. Composition of the Board of Directors.**

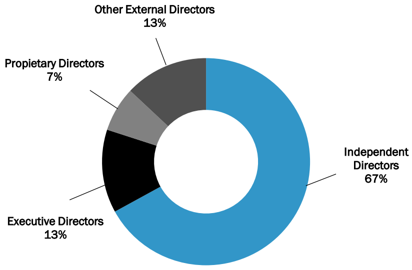
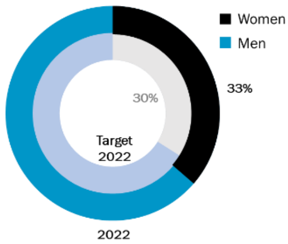



**Figure 50. Internalisation of the Board.**


**Figure 51. Gender diversity level and target.**



## Board of Director's Committees

Pursuant to the Articles of Association, the Board of Directors has the following Board Committees:

- The Strategy and Sustainability Committee.
- The Delegated Credit Committee.
- The Board Audit and Control Committee.
- The Appointments and Corporate Governance Committee.
- The 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 set forth rules for their composition, operation and responsibilities, and also develop and complement the rules of operation and basic functions set forth in the Articles of Association and in the Regulation of the Board of Directors.

The Board Committees have sufficient resources to fulfil their duties and may make use of external professional advisors or receive information about any aspect of the Institution, having unrestricted access to Senior Management and Group managers, and to any kind of information or documentation that the Bank may have concerning matters within their spheres of competence.

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

The composition of these Committees, and the number of meetings held by them, as at 31 December 2022, is shown in the following table:

### Table 92. Composition of the Board Committees.

| Position | Strategy and sustainability | Delegated | Audit and Control | Appointments | Remunerations | Risks |
|---|---|---|---|---|---|---|
| Chairman | Josep Oliu Creus | Pedro Fontana García | Mireya Giné Torrens | José Manuel Martínez Martínez | Aurora Catá Sala | George Donald Johnston III |
| Vocal | Lluís Deulofeu Fuguet | Lluís Deulofeu Fuguet | Pedro Fontana García | Anthony Frank Elliott Ball | Anthony Frank Elliott Ball | Aurora Catá Sala |
| Vocal | Pedro Fontana García | María José García Beato | Laura González Molero | Aurora Catá Sala | Laura González Molero | Alicia Reyes Revuelta |
| Vocal | María José García Beato | César González-Bueno Mayer | Manuel Valls Morató | Mireya Giné Torrens | George Donald Johnston III | Manuel Valls Morató |
| Vocal | César González-Bueno Mayer (*) | Alicia Reyes Revuelta | | | | |
| Vocal | José Manuel Martínez Martínez | | | | | |
| Non-vocal Secretary | Miquel Roca i Junyent | Gonzalo Barettino Coloma | Miquel Roca i Junyent | Miquel Roca i Junyent | Gonzalo Barettino Coloma | Gonzalo Barettino Coloma |
| **Number of meetings in 2022** | 13 | 41 | 11 | 11 | 9 | 15 |

*Data as at 31/12/2022.*
*(*) Member on strategy issues only.*

*The Regulation of the Board of Directors, and the Regulations of the various Board Committees (Strategy and Sustainability, Delegated Credit, Audit and Control, Appointments and Corporate Governance, Remuneration and Board Risk Committees), can be found on the Banco Sabadell Group corporate website, under Corporate Governance and Remuneration Policy, in the section on **Regulation of Board Committees.***

*The number of meetings of the Board of Directors, and the number of meetings of each Board Committee, can be found in section 3.8 of the **Annual Report on Corporate Governance.***

*More information on the functions and activities carried out by each of the various Board Committees can be found in section 4 of the **Annual Report on Corporate Governance.***

*The information flow to the Board of Directors on different risks can be found in **section 5.2 Risk management and control** of this document.*

*More information concerning the information flow to the Board of Directors on risks can be found in section 6 of the **Annual Report on Corporate Governance.***

## Strategy and Sustainability Committee

The Strategy and Sustainability Committee, was constituted on 2021 and it's formed by five Directors, three Independent Directors, one "Other External" Directors and, his Chairman (with the status of "Other External") who is the Chairman of the Board of Directors. Where strategy is concerned, the CEO will take part in meetings with entitlement to speak and vote, and for this purpose the Committee shall be understood to be formed by six members.

With regard to strategy, the 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 report to 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, studying and putting forward recommendations and improvements to the strategic plans and their updates which may be brought before the Board at any time, and issuing and submitting to the Board, annually, a report containing the proposals, assessments, studies and work carried out during the year.

With regard to sustainability, the Committee has the following responsibilities: review the Institution's sustainability and environmental policies, report to the Board of Directors on potential modifications and updates on strategy with regard to sustainability, review the definition and modification of the policies on diversity and inclusion, human rights, equal opportunities and work-life balance and periodically evaluate the level of compliance therewith, review the Bank's strategy for social action and its sponsorship and patronage plans, review and report on the Institution's Non-Financial Disclosures Report, prior to its review and related reporting by the Audit and Control Committee and before its subsequent submission to the Board of Directors, and receive information related to reports, documents or communications from external supervisory bodies with regard to the responsibilities of this Committee.

### Delegated Credit Committee

The main duties of the Delegated Credit Committee, made up of 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 Regulation of the Board of Directors.

### Audit and Control Committee

The Audit and Control Committee, made up of four Independent Directors, whose Chair is an expert in Auditing, meets at least once a quarter. Its main objective is to monitor the effectiveness of the Bank's internal control, internal auditing and risk management systems, oversee the procedures to prepare and present regulated financial information, report on the Bank's half-yearly and annual financial statements and on its relationships with external auditors, and to ensure that all appropriate measures are taken with regard to any improper conduct or approach. It also ensures that the measures, policies and strategies defined by the Board of Directors are duly implemented.

### Appointments and Corporate Governance Committee

The main responsibilities of the Appointments and Corporate Governance Committee, made up of four Independent Directors, are to ensure that the composition of the Board of Directors complies with qualitative criteria, assessing the suitability, skills and experience required of Board members; to submit proposals for the appointment of Independent Directors and report on proposals for the appointment of other directors; to report on proposals for the appointment and dismissal of senior managers and Identified Staff; to report on the basic contractual conditions of executive directors and senior managers; and to examine and organise the succession of the Chairman of the Board of Directors and of the Bank's CEO and, where appropriate, make proposals to the Board to ensure that this succession takes place in an orderly and planned manner. The Committee should also set a target for representation of the under-represented sex 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 the company's corporate policies and internal regulations, unless they fall within the remit of other Committees, supervising compliance with the company's corporate governance rules, except for those that fall within the remit of other Committees, reporting to the Board of Directors on the Annual Report on Corporate Governance for its approval and annual publication; supervising, within its sphere of competence, the company'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 company's activities.

### Remuneration Committee

Made up of four Independent Directors, the main responsibilities of the 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 Board Risk Committee, made up of four Independent Directors, will meet as many times as necessary and, at least, once every two months. Its main responsibilities are to supervise and ensure that all risks of the Bank and its consolidated Group are appropriately assumed, controlled and managed, and to report to the Board on the performance of its duties, in accordance with the law, the Articles of Association, the Regulation of the Board of Directors and that of the Board Committee itself.

### Chairmanship 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 Unit and the Regulation and Risk Control Unit have access and report directly to the Board of Directors and to the Board Audit and Control Committee and the Board Risk Committee, respectively.

The Bank publishes the Annual Report on Corporate Governance, the Annual Report on Directors' Remuneration and the Non-Financial Disclosures Report, which form part of the Directors' Report that can be found on the website of the National Securities Market Commission (CNMV) and on the Banco Sabadell Group corporate website.

# 16

# Remuneration

# 16

The information contained in this chapter is in line with the reporting requirements in relation to remuneration, with detailed information on the Remuneration Policy, in compliance with the requirements of Article 450 of the CRR and Article 17 of Commission Implementing Regulation (EU) 2021/637.

General aspects of the Group's remuneration policy and the Identified Staff's remuneration features (remuneration mix, *ex ante* and *ex post* adjustments, and application of variable remuneration in 2022) are examined below.

## 16.1 General aspects of the Group's remuneration policy

The remuneration policy of Banco Sabadell Group (the "Remuneration Policy") is based on the understanding of remuneration as an element that generates value for the company in the long term, supporting the promotion of sound and effective risk management. The Remuneration Policy is based on the following principles:

- Strengthen medium- to long-term business and social sustainability, in addition to ensuring alignment with the Group's values. This entails:
  - Aligning remuneration with shareholder interests and with the creation of long-term value.
  - Implementing rigorous risk management, considering measures to prevent conflicts of interest.
  - Ensuring an alignment with the Group's long-term business strategy, objectives, values and interests.
- Ensure the existence of a competitive and fair remuneration system (external competitiveness and internal fairness) that:
  - Is able to attract and retain the best talent.
  - Rewards professional experience and responsibility, irrespective of the employee's gender. In this respect, the Remuneration Policy is based on providing equal remuneration to male and female employees for the same work or for work of equal value.
  - Is aligned with market standards and is flexible, so that it can be adapted to changes in the environment and sector requirements.
- Reward performance in order to align remuneration with individual results and the level of risk taken:
  - Finding an adequate balance between the various remuneration components.
  - Taking into consideration risks and current and future results, without encouraging employees to take risks that go beyond the Group's risk appetite.
  - Based on a simple, transparent and clear-cut scheme. The Remuneration Policy should be easy to understand and easy to communicate to the entire workforce.

The Remuneration Policy also allows employee remuneration to be aligned with the Institution's earnings, the cost and volume of capital necessary to back the risks taken, the cost and level of liquidity risk accepted during the course of managing its activities, consistency with the probability and timing of the inclusion of future income in current earnings, the risks taken by employees and the qualitative criteria set out in performance appraisals.

The remuneration policy is aligned with European Directives and Regulations as well as current regulations, particularly Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions, Guidelines EBA/GL/2021/04, of 2 July 2021, on sound remuneration policies under Directive 2013/36/EU and the disclosure of information by virtue of Article 450 of Regulation (EU) No 575/2013, the EBA Guidelines on internal governance (GL 2021/05), of 2 July 2021, and Royal Decree 84/2015, of 13 February, implementing Law 10/ 2014, of 26 June, on the organisation, supervision and solvency of credit institutions, as well as Bank of Spain Circular 2/2016, of 2 February, for credit institutions, on supervision and solvency, which completes the transposition into Spanish law of Directive 2013/36/EU and Regulation (EU) No 575/2013 and Commission Delegated Regulation (EU) 2021/923, of 25 March 2021, supplementing Directive 2013/36/EU of the European Parliament and of the Council, with regard to regulatory technical standards setting out the criteria to define managerial responsibility, control functions, material business units and a significant impact on a material business unit's risk profile, and setting out criteria for identifying staff members or categories of staff whose professional activities have an impact on the institution's risk profile that is comparably as material as that of the staff members or categories of staff referred to in Article 92 (3) of the aforesaid Directive, and the Senior Managers and Certification Regime (SMR) in the United Kingdom.

Banco Sabadell Group complies with the principles of transparency and public information relating to remuneration. As has been the case since 2013, at the Annual General Meeting held on 24 March 2022, the annual report on the remuneration of directors of listed public corporations was submitted for approval. In addition, Banco Sabadell includes the information on corporate governance and remuneration policies required by Circular 2/2016.

*For more information on Banco Sabadell's corporate governance and remuneration policies required by Circular 2/2016, please see the **Corporate Governance and Remuneration Policy** section of the Banco Sabadell Group corporate website. The Annual Report on Remuneration of Directors of Listed Companies, can be found in that section, in the Annual Report on Directors' Remuneration sub-section.*

The Banco Sabadell Remuneration Policy is formed of the following policies (from most generic to most specific):

- **The Banco Sabadell Group Remuneration Policy:** establishes the remuneration criteria common to all staff of all subsidiaries that form part of the consolidated Banco Sabadell Group, without distinction by line of business or geographical area to which they belong. This policy is not applicable to Directors of the Group in respect of their non-executive duties.
- **The Remuneration Policy of the Group's Identified Staff:** establishes the specific remuneration criteria common to Identified Staff members of Banco Sabadell Group in all entities that from part of the Group.
- **The Banco de Sabadell, S.A. Senior Management Remuneration Policy:** establishes the remuneration criteria common to members of Senior Management.

The criteria set out in the Banco Sabadell Group Remuneration Policy are applicable to the remuneration of the Group's Senior Management as are the specifications contained in the Group Remuneration Policy for Identified Staff, of which they form part, and the Senior Management Remuneration Policy provides details of the criteria applicable to members of Senior Management.

- **The Directors' Remuneration Policy**, which was approved by the Annual General Meeting on 26 March 2021 for the years 2021, 2022 and 2023.

  Taking into account the outcome of the advisory vote during the Annual General Meeting held on 24 March 2022 regarding the Annual Report on Directors' Remuneration for 2021, in which 61.3% of votes were in favour, and the recommendations from proxy advisors, the Board of Directors will submit to the next Annual General Meeting, which will be held on XX March 2023, a new remuneration policy for directors for 2023, 2024 and 2025.

Both policies comply with the provisions of Article 217 et seq. and Article 529 sexdecies et seq. of the Spanish Capital Companies Act (the revised text of which was approved by Royal Legislative Decree 17/2010, of 2 July).

The Banco Sabadell remuneration policies have been approved by Banco Sabadell's Board of Directors, following the favourable report of the Board Remuneration Committee at the following meetings:

- Banco Sabadell Group Remuneration Policy: 24 November 2022.
- Remuneration Policy for the Group's Identified Staff: 27 July 2022.
- Remuneration Policy for Banco de Sabadell, S.A. Senior Management: 27 July 2022.

The amendments made entered into effect on 1 January 2023. The main amendments introduced in the remuneration policies have been the following (all minor changes):

- Include a section on incentive schemes within the variable remuneration components in Banco Sabadell Group Remuneration Policy.
- Adjust the wording in relation to Banco Sabadell Group's management of ESG risks.
- Review the duties and responsibilities of some units directly involved in Banco Sabadell Group Remuneration Policy and make sure they are aligned with Guidelines EBA/GL/2021/04.
- Technical improvements relating to changes to regulatory references or to the wording.

In addition, Banco Sabadell Group has specific remuneration policies in place for Group companies, which include the following:

- Remuneration Policy of Banco de Sabadell, S.A.
- Remuneration Policy of TSB Bank plc.
- Remuneration Policy of Banco Sabadell S.A., Institución de Banca Múltiple (Mexico).
- Remuneration Policy of Sabadell Consumer Finance, S.A.U.
- Remuneration Policy of Urquijo Gestión, S.A., S.G.I.I.C., S.U.

The aforesaid policies are aligned with the Group's remuneration policies, although they include certain provisions to adapt the Remuneration Policy to the specific regulatory requirements and/or market practices of a certain sector or region, particularly in cases where a subsidiary entity has to determine its own Identified Staff. It should be noted that in 2020 changes were made to TSB's Remuneration Policy, which increased its alignment with that of the Group. In the case of Sabadell Mexico, its Remuneration Policy is fully aligned with that of the Group. Nevertheless, if an employee of one of these entities is a member of the Group's Identified Staff, the Group's Identified Staff Remuneration Policy shall be applicable when the requirements of the subsidiary's remuneration policy are more lenient.

## 16.2 Information concerning the decision-making process for determining the Group's remuneration policy

The decision-making process to determine the Group's remuneration policy did not undergo any changes in 2022, nor are there any changes anticipated for 2023.

The Banco Sabadell Remuneration Policy, encompassing the policies listed above, is approved by the Board of Directors of Banco de Sabadell, S.A., without prejudice to any proposals that may require approval by the Annual General Meeting.

*For more information on the composition of the Board of Directors and profile of its members, please see section C.1.3 of the* ***Annual Report on Corporate Governance*** *on the Banco Sabadell Group corporate website. In addition, sections C.1.2 and C.1.16 of this report detail the dates of the first and last appointment of the Board of Directors' members, as well as the maximum term in office (four years), without prejudice to subsequent re-appointments.*

The governance of the aforesaid Policy is the remit of the Board of Directors itself and of the Delegated Committees, under the terms set out in the Bank's Articles of Association, the Regulations of the Board of Directors and the Regulations of each of the Committees, as applicable.

In this regard, the Board Remuneration Committee, formed of independent directors, has a number of responsibilities, as described in Article 14 bis of the Regulations of the Board of Directors and in Article 62 of the Bank's Articles of Association, including:

- Proposing to the Board of Directors the remuneration policy for Directors and General Managers and others performing Senior Management duties who report directly to the Board of Directors, the Executive Committees or the CEOs, as well as the individual remuneration and other contractual terms and conditions for Executive Directors, ensuring compliance therewith.
- Regularly reviewing the remuneration policy and general remuneration principles, in addition to remuneration schemes for all employees, considering whether they conform to those principles.
- Verifying the information on remuneration contained in the various corporate documents, including the Annual Report on Directors' Remuneration.
- Ensuring that remuneration is transparent.
- Advising on remuneration schemes based on shares and/or options.
- Ensuring that any conflicts of interest are not detrimental to the independence of external advisors.

The Board Remuneration Committee, as defined in Article 58 of the Articles of Association, met on 10 occasions in 2022 and, as at 31 December 2022, was formed by:

- Ms. Aurora Catá Sala, Independent Director, Chair of the Committee.
- Mr. Anthony Frank Elliott Ball, Lead Independent Director, Voting Member of the Committee.
- Ms. Laura González Molero, Independent Director, Voting Member of the Committee.
- Mr. George Donald Johnston, Independent Director, Voting Member of the Committee.
- Mr. Gonzalo Barettino Coloma, Non-Director Secretary.

All of the directors who form part of the Board Remuneration Committee have a proven capacity and experience to discharge their duties as members of this committee, on account of their experience and their knowledge in matters concerning remuneration.

Furthermore, as some members of the Board Remuneration Committee also form part of other delegated committees of the Board of Directors, such as the Board Risk Committee, they are privy to the latest information regarding risks, the capital base and liquidity of Banco Sabadell Group, which is particularly relevant in the establishment of remuneration schemes, their control and the determination of the specific amounts of variable remuneration, amongst other aspects.

*For more information on the activities of the Board Remuneration Committee carried out during 2022, please see the* ***Report on the performance and activities of the Board Remuneration Committee*** *available on the Banco Sabadell Group corporate website.*

The Board Risk Committee, in accordance with that set forth in Article 15 of the Regulations of the Board of Directors, reports to the Board Remuneration Committee as to whether the employee remuneration schemes are consistent with the Group's risk, capital and liquidity levels.

In addition, the Board Audit and Control Committee, in accordance with that set forth in Article 13 of the Regulations of the Board of Directors, is responsible for supervising the preparation and submission of regulated financial information, including information related to remuneration, reviewing compliance with regulatory requirements and the correct application of accounting criteria.

On the other hand, the units of the Bank that play a role in the application and supervision of the 2022 Remuneration Policy are the following:

- **People:**
  - Escalates the proposed Remuneration Policy to the Board Remuneration Committee, as well as any amendments required, following, where applicable, any instructions received from this Committee and implementing the controls necessary to ensure its correct enforcement.
  - Applies the policy to all management components: total payroll, annual target bonus pool, individual assignment of wages, target setting, assessment of target achievement and remuneration payments, with the reports received from other units.
  - Reports to the Board Remuneration Committee, having obtained the information provided by Internal Control and Finance, on the impact of stress scenarios on total payroll and the annual target bonus pool.
  - Defines the procedure for identifying, and it will also identify, members of the Identified Staff.

- Submits a proposal to the Board Remuneration Committee, having obtained the opinions of Internal Control, Finance and Compliance, on the application of malus and clawback arrangements.
- Submits, every year, a report to the Board Remuneration Committee, for the latter's approval, on the alignment with the guidelines and rules of application of the individual targets of the Group's Identified Staff members.

- Finance:
  - Participates in, and advises on, the establishment of the annual target bonus pool, applying the necessary controls and following a transparent and well-documented process.
  - Participates in the process to set and evaluate the targets to which variable remuneration is linked.
  - Together with Internal Control, analyses the impact of stress scenarios on total payroll and the annual target bonus pool and reports its findings to People.
  - Reports to People on the possible existence of circumstances requiring the application of malus and clawback arrangements.
  - Participates in the procedure to identify the Group's Identified Staff in accordance with its duties and on an ongoing basis.
- Chief Risk Officer (CRO):
  - Submits a proposal to the Board Remuneration Committee to adjust the variable remuneration to be applied at the end of the financial year.
- Internal Control:
  - Reports to the Board Risk Committee on the extent to which the Remuneration Policy is consistent and aligned with the Group's risk management framework and strategy.
  - Escalates a report to the Board Risk Committee on the extent to which the Group's annual and multi-year targets, bonuses for special projects (where applicable) and targets set for the Group's Executive Directors, Senior Management and Identified Staff are appropriate to, and consistent with, the risk appetite set by the Board of Directors. This report is prepared at least once a year when the objectives are fixed and whenever they undergo substantial changes.
  - – Participates in the procedure to identify the Group's Identified Staff in accordance with its duties, and reports on an ongoing basis to People. Reports to the Board Risk Committee every year, and whenever substantial changes are made, on the adequacy of the composition of the Group's Identified Staff.
  - Prepares a report addressed to People with recommended improvements, if required, to ensure the suitability and consistency of the targets of the Group's Identified Staff for the following year, based on the conclusions drawn from the report submitted to the Board Risk Committee on the targets for the current year.
  - Together with Finance, analyses the impact of stress scenarios on total payroll and the annual target bonus pool and reports its findings to People.
  - Reports to People on the possible existence of circumstances requiring the application of malus and clawback arrangements, in accordance with its area of responsibility.
- Compliance:
  - Ensures that no sales incentives contrary to the Remuneration Policy are established in the product design and approval process, guaranteeing that there is documentary evidence of the analysis carried out.
  - Validates the alignment of the defined targets with applicable regulations.
  - Verifies that remuneration policies and practices do not undermine the interests of shareholders, investors and customers.
  - Assesses that remuneration criteria are in line with codes of conduct, current regulations and other internal policies, as well as with the Group's risk culture.
  - Reports to People on the possible existence of circumstances requiring the application of malus and clawback arrangements.
  - Participates in the procedure to identify the Group's Identified Staff in accordance with its duties and on an ongoing basis.
- Internal Audit:
  - Carries out, on at least an annual basis, an independent assessment of the definition, application and effects of the Institution's Remuneration Policy on its risk profile, and the way in which these effects are managed, reporting its findings to People.
  - Carries out on an annual basis a central review of compliance with regulations, Group policies, procedures and internal rules, escalating, where applicable, the conclusions drawn from this review to the corresponding Committees.

In addition to the advice it receives from the aforesaid units, the Board Remuneration Committee also receives advice from the specialist firm Mercer Consulting, S.L., which has carried out a Prudential Evaluation of Remuneration at Banco Sabadell Group, in order to ensure that the Group's determination of the Group's Identified Staff, and the remuneration practices and policies specific to that cohort, are in line with the regulatory requirements and the interpretative criteria of the EBA and the Bank of Spain. This report was escalated to the Board Risk Committee on 23 January 2023 and to the Board Remuneration Committee on 24 January 2023.

Every year, Banco Sabadell carries out a comparative analysis of the remuneration of the Board of Directors, Executive Directors, Senior Management and members of the Identified Staff relative to the market. The last analysis was carried out in November 2022, using the 2022 Spencer Stuart Board Index, the report "Remuneration of directors of listed companies" issued by the consultancy firm KPMG, as well as the advice of the consultancy firm Willis Towers Watson, in order to determine the remuneration for 2023.

In order to establish the remuneration of Executive Directors for 2023, a comparison group of 15 European banks was used as a benchmark, plus another comparison group comprised of 15 Spanish companies, most of them listed in the IBEX-35.

In January this year, the conclusions drawn from these comparisons were escalated to the Board Remuneration Committee, which was informed of the remuneration situation of Executive Directors, Senior Management and, in February, the rest of the Identified Staff.

## 16.3 Information on the process followed to determine the Group's Identified Staff

The Group's Identified Staff is formed of management staff whose professional activities have a material impact on the risk profile of Banco Sabadell Group, in accordance with the qualitative and quantitative criteria set forth in current legislation and the internal criteria established by Banco Sabadell Group.

The Board Appointments Committee has reviewed and updated the membership of the Identified Staff. It adheres to recommendations from regulatory bodies when defining the professional categories that should form part of that cohort: members of governing bodies, senior managers responsible for business management, staff with control functions and other risk-takers of the Bank.

Generally, management staff who form part of Banco Sabadell Group's Identified Staff in 2022 are those who meet any of the following criteria, in accordance with the provisions of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions and with the provisions of Commission Delegated Regulation (EU) 2021/923:

Qualitive criteria:

- Directors of the Group and members of Senior Management.
- Staff with managerial responsibility with regard to control functions or material business units of the Institution, including:
  - Management staff who manage a business unit or who perform a control function and report directly to the Board of Directors, to a Director or to a member of Senior Management.
  - The staff responsible for legal and tax affairs, accounting, finance, budgeting, economic analysis, prevention of money laundering and terrorist financing, human resources, the development and application of the remuneration policy, IT security, technology and those managing agreements concerning the outsourcing of critical or important functions.
  - Management staff who manage a subordinate business unit or who perform a subordinate control function and report to a manager identified in the above section.

Control functions will be understood to mean the CRO functions (including Internal Control and Compliance) and those of Internal Audit.

- The global risk managers in a material business unit, as well as their direct reports with managerial responsibility.
- Members of committees managing first-tier risks, management staff with significant powers to approve risk proposals and management staff responsible for making significant risk proposals.
- Traders who can assume significant positions in terms of market risk.
- Members of the Technical Product Committee.

Quantitative criterio:

- Management staff who perform their professional duties in a material business unit and whose work, due to its nature, has a significant impact on the risk profile of the business unit concerned and who, in the previous year or for the previous year, have received:
  - Remuneration of 500 thousand euros or more; and
  - Remuneration equal to or greater than the average remuneration granted to members of the Board of Directors and to members of Senior Management.
- Management staff who have received total remuneration for 750,000 euros or more in the previous year o for the previous year.
- The management staff of each credit institution in the Group subject to Directive 2013/36/EU or similar regulations, who are among the 0.30% of staff to have been individually granted the highest total remuneration.

In accordance with Article 6.2 of Commission Delegated Regulation (EU) 2021/923, the quantitative criteria of Article 6.1 of said Delegated Regulation will not apply when the institution determines that the professional activities of the management staff do not have a significant impact on the Institution's risk profile because the management staff or the staff category to which they belong meets any of the following conditions:

a) The management staff or the staff category only carries out professional activities or has powers in a business unit other than a material business unit.

b) The professional activities of the management staff or the staff category do not have a significant impact on the risk profile of a material business unit.

Internal Criteria:

- Management staff who, while not included in the Identified Staff when applying the criteria described above, are considered to have a significant impact on the Group's risks.

As at 31 December 2022, the Group's Identified Staff consists of 143 individuals (26 non-executive directors of Banco de Sabadell, S.A. and its various subsidiaries and 117 executive directors, members of Senior Management and management staff with assigned variable remuneration), representing 0.74% of the Group's total workforce, which amounted to 19,228 employees as at 31 December 2022.

This represents a decrease of 18 individuals relative to the Identified Staff as at 31 December 2021. This decrease is mainly due to the application of new identification criteria by virtue of Commission Delegated Regulation (EU) 2021/923, which has led to exclusions due to the application of quantitative criteria in the various regions. Throughout the year, there have been exclusions from the Identified Staff as a result of these persons leaving the Group. The composition of the Group's Identified Staff meets the abovementioned criteria and has been created from a Group perspective, incorporating management staff located in the various regions in which Banco Sabadell Group operates.

In accordance with current regulations, the Group reviews and updates its Identified Staff on an annual basis, every time there are significant organisational changes, additions or exclusions, or when a review is considered necessary in order to maintain this cohort constantly updated and adapted to applicable regulations.

## 16.4 Characteristics of the remuneration of Banco Sabadell Group's Identified Staff

This section provides details concerning the main features of the remuneration scheme for the Group's Identified Staff. Specifically, the following aspects are described:

- Basic remuneration components.
- Determination of remuneration mix.
- Adjustments to target achievement.
- Adjustments for *ex ante* risk.
- Adjustments for *ex post* risk.

The description of the aforesaid elements is compliant with the information required pursuant to c), d), e) and f) of Article 450 of Regulation (EU) No 575/2013. It also demonstrates how the Remuneration Policy supports the promotion of sound and effective risk management.

### 16.4.1 Basic remuneration components in Banco Sabadell Group

The remuneration of Banco Sabadell employees, including members of the Identified Staff (with the exception of non-Executive Directors), consisted of the following components in 2022:

#### Fixed remuneration

This remuneration is high enough to enable employees with variable remuneration not to depend on the award of variable remuneration, to avoid encouraging excessive risk-taking. It comprises the following items:

- Fixed salary, formed of the sum of guaranteed remuneration items which are linked to the duties and responsibilities of the position held, and which recognises the contribution of employees within that position, as long as the position is held.
- Social benefits, which are intended to supplement monetary remuneration and non-monetary remuneration with other items which increase the loyalty and commitment of employees. In general, Executive Directors, Senior Management and the rest of the Identified Staff access the social benefits under the same terms as the rest of the workforce. The benefits may vary depending on the region, sector and/or collective agreement which is applicable to the employee.
- Employee pension scheme / pension benefits, of a different nature and amount depending on the group to which they belong, in order to cover retirement and other contingencies appropriate to the nature of the duties and responsibilities performed (see section "Social security"). The Board of Directors, at the proposal of the Board Remuneration Committee, acts as the competent body to assign specific pension plans to members of the Identified Staff.

#### Short-term variable remuneration

Applicable to Executive Directors, Senior Management and all members of the Identified Staff, as well as to other employees (defined annually by the Board of Directors, at the proposal of the Board Remuneration Committee), the purpose of which is to reflect performance in the financial year measured through targets aligned with the risk taken. The main objectives of short-term variable remuneration are to:

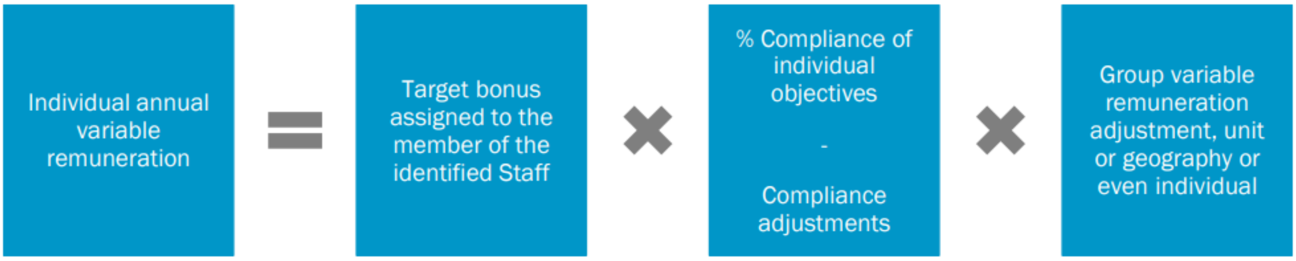
- Encourage the achievement of short-, medium- and long-term strategic objectives, without providing incentives for excessive risk-taking beyond the level tolerated by the Group and taking into account customers' interests.
- Motivate employees to perform their roles better.
- Distinguish high-performing employees.
- Align variable remuneration with current and future risks that are tolerated by the Group and/or its constituting entities, such as credit risk, market risk, liquidity risk, interest rate risk, reputational risk, operational risk, etc.
- Promote a long-term approach to managing climate-related and environmental risks in line with the Group's risk appetite and strategy.

Each Executive Director, member of Senior Management and the rest of the Identified Staff, as well as other Group employees, will be assigned a target amount (i.e., the reference amount of variable remuneration based on 100% achievement of the targets) of short-term variable remuneration which could vary depending on the region/sector in which they are carrying out their role. This target amount may be expressed as a percentage of the fixed remuneration or as an amount.

The target amount is fixed and communicated to each member of the Identified Staff, as well as the constituent targets and their relative weighting.

The following figure shows how the amount of individual annual variable remuneration is calculated based on the target amount set for each member of the Identified Staff and the other employees with short-term variable remuneration in general, the achievement of the set targets and the application of a possible variable remuneration adjustment.

**Figure 52. Calculation of the annual variable remuneration earned.**




In this way, variable remuneration is linked to results, such that its total amount is determined on the basis of the achievement of objectives that combine the Group's results, those of the Institution, the business unit or division in which they perform their duties, and/or individual targets of the employee.

The Banco Sabadell Group's Annual Target Bonus Pool is determined at the start of the year using a bottom-up approach. According to this approach, the determination process begins by assigning each employee a target amount (amount to be paid in the event of 100% attainment of targets) for each of the elements of variable remuneration of which they are beneficiaries and an Annual Target Bonus Pool is set based on two scenarios:

- Central scenario: considering 100% achievement of the targets.
- Maximum scenario: considering the maximum payment derived from maximum achievement of the targets on which variable remuneration is based.

In addition, a stress test is performed on the pool, which generates a definitive Annual Target Bonus Pool. In the case of relevant events affecting the pool during the year, *ex post* adjustments can be made to the Pool, as established by Banco Sabadell Group's Remuneration Policy.

TSB's variable remuneration pool is called the "bonus pool" and is included in the Group's Annual Target Bonus Pool. It is calculated as the sum of the target amount of variable remuneration of all TSB employees. This bonus pool will be adjusted for the achievement of TSB's own Unit/Regional targets (TSB's PCOs) and any *ex ante* adjustments set out in TSB's Remuneration Policy. Once adjusted, the pool is allocated to each employee individually.

For 2022, the CEO had 80% of his short-term variable remuneration targets linked to Group targets and the remaining 20% to an individual qualitative assessment set by the Board Remuneration Committee, at the proposal of the Chairman.

The Director and CRO had 20% of their annual variable remuneration linked to Group targets. The remaining 80% was linked to individual targets, which in turn are comprised of functional targets and an individual qualitative assessment. These functional targets are aligned with the control functions they carry out, which are independent from the business and corporate areas, and are focused on the control and monitoring of operations and the risks stemming from these operations, guaranteeing compliance with applicable laws, rules and regulations, and advising management functions on matters related to their area of expertise.

The targets take into account both financial (including solvency and liquidity indicators) and non-financial criteria, aligned with the strategic planning, budget and risks taken or indicators in terms of the environment, society, diversity and gender equality.

By way of example, the weightings of the targets corresponding to Executive Directors, Senior Management and members of other units are shown below:

**Table 93. Target weightings.**

| | Group Objectives | Functional Objectives |
|---|---|---|
| Managing Director | 80% | 20% |
| Chief Risk Officer | 20% | 80% |
| Senior Mgmt. | 30% | 70% |
| Members of the General Management | 20% | 80% |

*Data as at 31/12/2022.*

In addition to Group and corporate unit or divisional objectives, the other members of the Identified Staff, as well as employees with target variable remuneration, have their own functional targets. The weighting of the Group objectives will be lower when the employee's level of responsibility for Group results is lower.

Thus, the weighting of common corporate objectives and of targets specific to their area of responsibility will vary depending on the employee's management level and duties. As such, the variable remuneration for a position with a higher level of responsibility will be more closely linked to the attainment of common corporate objectives, which are specified below.

For the Group's Identified Staff members with control duties, 20% of their variable remuneration is dependent upon the Group's common indicators, as detailed here below, and 80% is dependent upon indicators within their scope of responsibility.

In accordance with the foregoing, the variable remuneration of members of the Group's Identified Staff who carry out control functions is more heavily reliant on indicators relating to their duties, thereby encouraging them to be independent of the business units under their control. Thus, non-financial indicators have a greater weight than financial indicators in the units which carry out control functions, to strengthen the independence of staff who exercise control functions from the areas under their control.

Other members of the Group's Identified Staff may have a greater weighting of financial indicators in their functional target schemes.

The variable remuneration of Executive Directors and members of Senior Management is approved by the Board of Directors, at the proposal of the Board Remuneration Committee. The variable remuneration of the other members of the Identified Staff, as well as the overall target bonus pool for the rest of the staff, is approved by the Board Remuneration Committee.

Specifically, the following Group objectives were set for the financial year 2022, which apply to all employees with variable remuneration:

### Table 94. Group annual objectives 2022.

| Objective | Weighting |
|---|---|
| Return on Tangible equity (ROTE) | 20% |
| Net banking revenues | 20% |
| Interest margin plus commissions | 10% |
| Group expenses | 10% |
| Asset quality | 20% |
| Quality of services | 10% |
| Sustainability | 10% |

*Data as at 31/12/2022.*

- The British subsidiary TSB also has remuneration elements that link variable remuneration to the achievement of targets. It has a short-term variable remuneration scheme (Variable Pay Award), which is implemented as follows: all the subsidiary employees have been assigned a variable remuneration target amount linked to the achievement of annual targets known as Primary Corporate Objectives (PCOs). The PCOs are a combination of business, financial, risk management, customer and employee indicators, focusing on operational excellence, sustainable profitability and superb customer service. Variable remuneration is awarded to certain employees if certain financial and risk management thresholds are met, and will be subject to *ex ante* adjustment mechanisms.
- Once the *ex ante* adjustments have been applied to the bonus pool, each employee is individually assigned variable remuneration through a performance management process. In the case of members of the Group's Identified Staff and other management staff in the organisation, their performance is measured on the basis of an individual dashboard comprising Banco Sabadell Group metrics and a selection of Primary Corporate Objectives, both financial and non-financial in nature, as well as the individual performance of the employee.
- Finally, the annual variable remuneration of members of the Group's Identified Staff is paid in cash and shares, a percentage in the current year and another percentage deferred over time. The accrual of deferred variable remuneration is subject to the absence of the circumstances set out in the malus and clawback arrangements of the Group's Identified Staff Remuneration Policy.

### Long-term remuneration

This remuneration is assigned to Executive Directors, members of Senior Management, other employees of the Identified Staff and other employees. In the case of Group employees who do not form part of the British subsidiary TSB, based on the decision of the Board of Directors at the proposal of the Board Remuneration Committee, this may consist of a long-term variable remuneration scheme, establishing a target amount and multi-year objectives, which are combined with the performance of the member of Senior Management or the rest of the Identified Staff. Alternatively, it may consist of proposing for approval at the Annual General Meeting a scheme based on the increase in share price, which also includes multi-year objectives in the performance of the member of Senior Management and the rest of the Identified Staff, the specific assignment of which is decided by the Board of Directors, following a report from the Board Remuneration Committee, which is subject to deferral and payment in capital instruments, in accordance with applicable regulations and the provisions of the competent bodies, thereby aligning it with the long-term results and with the interests and risks of shareholders.

Without prejudice to the foregoing, the Annual General Meeting may exercise its powers to define other incentive schemes.

The main features of each of the long-term variable remuneration schemes in force as at 31 December 2022 for Group Ex-TSB employees are as follows:

- The Long-Term Remuneration 2020-2022 is based on the attainment of annual and multi-annual targets and fixing a reference amount (an amount to be received in the event of 100% attainment of the targets) equivalent to a percentage of fixed salary. The annual targets and, as applicable, the adjustments based on the aforementioned capital and liquidity levels, determine the amount allocated, to the same extent as the annual variable remuneration. Based on that amount, subject to malus and clawback arrangements, the multi-annual targets determine the final amount to be received, while the amount allocated may be reduced, but never increased, following the measurement of annual targets.

The multi-year performance period covered the years 2020, 2021 and 2022, and the following targets were established in that regard: relative total shareholder return (25%), the liquidity coverage ratio (25%), CET1 solvency ratio (25%) and the Group's return on risk-adjusted capital – RoRAC (25%), in accordance with Guidelines EBA/GL/2021/04. Section 16.5."Application of variable remuneration in 2022" gives details of the result obtained from these targets and their application in long-term remuneration for this period.

- The Long-Term Remuneration 2021-2023 is based on the attainment of annual and multi-annual targets and fixing a reference amount (an amount to be received in the event of 100% attainment of the targets) equivalent to a percentage of fixed salary. The annual targets and, as applicable, the adjustments based on the aforementioned capital and liquidity levels, determine the amount allocated, to the same extent as the annual variable remuneration. Based on that amount, subject to malus and clawback arrangements, the multi-annual targets determine the final amount to be received, while the amount allocated may be reduced, but never increased, following the measurement of annual targets.

The multi-year performance period will cover the years 2021, 2022 and 2023, and the following targets are established in that regard: relative total shareholder return (25%), the liquidity coverage ratio (25%), CET1 solvency ratio (25%) and the Group's return on risk-adjusted capital – RoRAC (25%), in accordance with Guidelines EBA/GL/2021/04.

- The Long-Term Remuneration 2022-2024 is based on the attainment of annual and multi-annual targets and fixing a reference amount (an amount to be received in the event of 100% attainment of the targets) equivalent to a percentage of fixed salary. The annual targets and, as applicable, the adjustments based on the aforementioned capital and liquidity levels, determine the amount allocated, to the same extent as the annual variable remuneration. Based on that amount, subject to malus and clawback arrangements, the multi-annual targets determine the final amount to be received, while the amount allocated may be reduced, but never increased, following the measurement of annual targets.

The multi-year performance period will cover the years 2022, 2023 and 2024, and the following targets are established in that regard: relative total shareholder return (25%), the liquidity coverage ratio (25%), CET1 solvency ratio (25%) and the return on tangible equity – ROTE (25%), in accordance with Guidelines EBA/GL/2021/04.

The long-term variable remuneration schemes in force are subject to deferral and payment in capital instruments, in accordance with applicable regulations and the provisions of competent bodies (see sub-section 16.4.5 "Adjustments for *ex post* risks").

The British subsidiary TSB also has remuneration elements linking variable remuneration to the achievement of long-term targets for members of the Group's Identified Staff through the Long-Term Incentive Plan. It is a new long-term variable remuneration scheme approved in December 2021 to be implemented in 2022 with the same multi-year targets as the long-term remuneration of members of the Group's Identified Staff. This incentive is paid in its entirety in shares and is subject to deferral, as well as to the malus and clawback arrangements of the Group Identified Staff Remuneration Policy.

## Employee pension scheme

### Pension benefits

Among the components that form the remuneration of all Banco Sabadell employees, including Executive Directors and members of Senior Management, are pension benefits and specific social security plans, which will be of a different nature and amount depending on the group to which the employee belongs, in order to cover retirement and other contingencies appropriate to the nature of the duties performed by certain employees. The Board of Directors, at the proposal of the Board Remuneration Committee, acts as the competent body to assign specific pension plans, as applicable, to members of Senior Management and the Identified Staff.

Contributions to these plans are classified in their entirety as fixed remuneration, with the exception of those contributions that give rise to discretionary pension benefits, which are discussed in the following section.

### Discretionary pension benefits

Since the entry into force of Bank of Spain Circular 2/2016, of 2 February, to credit institutions, on supervision and solvency, which completes the adaptation of Spanish law to Directive 2013/36/EU and Regulation (EU) No 575/2013, 15% of the contributions to long-term savings schemes for Executive Directors and Senior Management are considered discretionary pension benefits and, as such, are linked to the percentage of attainment of the beneficiary's short-term targets, and may not, in any case, exceed 100% of the amount (the remaining 85% being considered a fixed component of the remuneration). In defined benefit schemes, the guaranteed benefit amount in the original pension scheme could be reduced, in line with the provisions of the aforesaid regulations, by the portion that must be considered as a discretionary pension benefit.

Contributions that give rise to discretionary pension benefits are classified as variable remuneration and are subject to the same considerations as other variable remuneration, for all the purposes envisaged in Circular 2/2016.

If an Identified Staff member who has received pension contributions, the amount of which is defined as variable remuneration, leaves the Institution as a consequence of their retirement or for any other reason, the discretionary pension benefits corresponding to the percentage of the contributions defined based on variable remuneration are subject to a retention period of five years. This period is calculated from the date on which this person no longer continues to provide such services for the Institution, due to any reason. During the retention period, the Institution applies the same requirements for reduction or cancellation clauses and for recovery of remuneration already paid as those established for variable remuneration.

## Bonuses for special projects

Group employees, including members of the Group's Identified Staff, with the exception of Directors and members of Senior Management, may participate in bonuses for special projects, which reward additional effort in certain projects of significant relevance to the Group.

These bonuses may be annual or multi-annual, and always have specific, predefined targets. They shall not, in any case, form part of the variable remuneration items that may be vested in the future.

The Board Remuneration Committee shall be responsible for the initial approval of the bonus and its individual allocation, and also for the approval of its settlement.

This remuneration is subject to the *ex ante and ex post* adjustments established for variable remuneration.

## Guaranteed variable remuneration

To attract the best talent and establish an appropriate balance between fixed and variable remuneration, in the event of hiring a new member of the Identified Staff, the guaranteed variable remuneration provided for in Article 34(1)(d) and (e) of Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions. Guaranteed variable remuneration is exceptional and can only occur when new staff is hired and when the Institution has a sound and strong capital base. It shall be limited to the first year of employment.

### Severance payments

Severance payments are subject to the assessment of breaches of applicable regulations by staff. Severance payments will therefore not reward any failure or misconduct by the Identified Staff member, nor will they be awarded in the event of any evident breaches by that member that constitute grounds for the immediate termination of their contract or for their dismissal.

The Group (or each of the Group entities) may establish clauses in contracts for severance pay in the event of early contract termination and for payments during a post-contractual non-competition period ('garden leave'), up to an amount equivalent to two years' remuneration. These will be valid until the employee reaches the earliest normal retirement age established in regulations in force at the time. These clauses must be expressly included in the contracts and approved by the Board Remuneration Committee. In the case of Executive Directors, such contracts must be approved by the Board of Directors.

Amounts arising from post-contractual non-competition clauses, which will be specifically detailed in the contracts, will be paid on a quarterly basis, up to the maximum amount of fixed remuneration that would have been paid for the non-competition period, if that member of staff were still employed. This amount is paid through equal payments during the period in which the non-compete obligation exists after the termination of the contract and only if the member of the Identified Staff complies with the commitment to abstain from competition and if the first ordinary retirement age established by current regulations has not been reached.

### Non-Executive Directors' Remuneration

Remuneration items and employee benefits applicable to Bank employees, or to Senior Management members or to other employees included in the Group's Identified Staff are not applicable to Non-Executive Directors. Nor are they included in the long-term incentive schemes.

Remuneration received by Directors for discharging their duties as members of the Board of Directors comprises:

- Remuneration for their membership of the Board of Directors.
- Attendance allowances, up to a maximum of 11 allowances corresponding to ordinary sessions. They may appoint a proxy without losing their right to receive their allowance, for a duly justified cause, but no more than twice a year. No allowances shall be received for extraordinary meetings of the Board of Directors.

Additionally, Non-Executive Directors receive specific amounts for holding Chairmanship positions, for their membership of various Delegated Committees within the institution and, as the case may be, for their membership of any Advisory Board of Banco Sabadell.

Directors who perform executive duties receive the remuneration items established for Senior Management.

## 16.4.2 Determination of the remuneration mix

Employees of Banco Sabadell Group, including Executive Directors, Senior Management and the rest of the Group's Identified Staff, receive fixed and variable remuneration based on their specific roles and duties. An appropriate and necessary balance has been established between fixed and variable components of remuneration, in accordance with the criteria set out in Article 94(1)(g) of Directive 2013/36/EU.

In accordance with the principle of proportionality, the adequate balance between the fixed and variable components of remuneration varies between professional categories, depending on market conditions and the specific context in which Banco Sabadell operates. In view of the foregoing, the Remuneration Policy seeks a reasonable and prudent balance between fixed and variable remuneration, as well as between short- and long-term payments. In this way, Banco Sabadell Group aims to make its remuneration policies and practices compatible with the Bank's individual risk profile, risk propensity and the strategy, in such a way that the regulatory objectives are effectively achieved.

In this respect, the remuneration of staff engaged in control functions is predominantly fixed to avoid compromising their objectivity or independence.

The variable remuneration of Executive Directors, members of Senior Management and the rest of the Group's Identified Staff is limited to 100% of the fixed remuneration of one year, except where an Annual General Meeting agrees to increase the limit to 200%. At the Annual General Meetings held on 24 March 2022, at which 86,976 shareholders were present, owners of a total of 3,175,232,127 shares representing 56.43% of the voting capital, the Board Remuneration Committee received shareholder approval to authorise, in exceptional cases, variable remuneration of up to a maximum of two years' fixed remuneration. The result of said shareholder vote was as follows:

**Table 95. Result of the vote on the exceptional authorisation of variable remuneration up to a maximum of two years' fixed remuneration.**

| | Percentage (%) of total share capital |
|---|---|
| Votes against | 0.47% |
| Votes in favor | 99.23% |
| Abstentions | 0.30% |

*Data as at 31/12/2022.*

By raising the maximum percentage of variable remuneration to 200% of fixed remuneration, the Institution is permitted to maintain a remuneration structure with a combination of fixed and variable components and a mix of short- and long-term components, which can prove competitive in the markets in which Banco Sabadell Group competes.

With the aim of achieving maximum alignment of its remuneration structure with shareholder return, Banco Sabadell includes the evolution of the Bank's share price among its indicators, established in some of the long-term remuneration schemes in force and, in this case, it makes sense to obtain approval to increase the variable remuneration percentage to 200% to maintain the incentive mechanism that underpins the allocation of this remuneration element. The decision to approve a maximum level of variable remuneration of up to 200% of fixed remuneration for the staff indicated above would not affect the Group's ability to maintain its solid capital base nor would it affect the Institution's obligations in terms of solvency regulations.

In all cases, it should be borne in mind that the approval of the Annual General Meeting represents authorisation to increase the variable remuneration of certain staff beyond 100% and up to a maximum 200% of the fixed component of their total remuneration, but only when the requirements established for fixing variable remuneration produce, in practice, a result in excess of 100% of fixed remuneration, and without implying, in any case, that the variable remuneration should necessarily reach the aforesaid maximum limit. Just as in 2022, this authorisation was requested from the Annual General Meeting in previous years.

In general, the Group (including its subsidiaries) does not apply any theoretical discount to the calculation of deferred variable remuneration in relation to the calculation of the ratio of variable vs. fixed remuneration components.

In relation to severance payments, these shall be considered as variable remuneration unless they are exempt from inclusion in accordance with the exemptions envisaged in Guidelines EBA/GL/2021/04.

### 16.4.3 Adjustments to target achievement

In order to comply with the requirements of Article 450(1) of Regulation (EU) No 575/2013, adjustments to the achievement of targets are described in this section. Without prejudice to the *ex ante* adjustments described in the following section, the granting of annual variable remuneration will be determined according to the level of attainment of the established targets, applying a correction factor (RCF) to the Group objectives according to the Level of capital (CET1) and the Level of liquidity (LCR) of the Institution with respect to the limits set in the RAS (Risk Appetite Statement). The targets, metrics, scale of achievement and RCF payment curves will be approved each year by the Board of Directors, at the proposal of the Board Risk Committee, once the Group's annual targets and objectives have been determined. The Board Risk Committee's proposal will be based on a report from the CRO, which will describe the capital and liquidity targets for the year, as set out in the RAS, and the thresholds required to generate the right to receive variable remuneration.

Failure to comply with one of those indicators will entail a reduction of variable remuneration. Failure to comply with the RAS tolerance threshold in liquidity or solvency will be considered as zero attainment of the Group objectives.

The payment of variable remuneration in the case of Executive Directors, Senior Management and the rest of the Identified Staff is subject to deferral and payment in capital instruments, in accordance with applicable regulations and the provisions of competent bodies (see sub-section 16.4.5 "Adjustments for *ex post* risk").

### 16.4.4 Adjustments for *ex ante* risk

In order to comply with the requirements of Article 450(1) of Regulation (EU) No 575/2013, *ex ante* risk adjustments are described in this section.

The total amount of any element of variable remuneration is subject to a possible downward adjustment at the discretion of the Board Remuneration Committee, and may even be reduced to zero in accordance with the following considerations:

- An adjustment of variable remuneration based on changes in the risk profile or performance. The adjustment can be applied at Group, unit, country, or even at individual level, to include all different types of risk. This adjustment of variable remuneration may reduce the initial award bonus pool to zero and will ensure that the variable remuneration awarded is fully aligned with the risks taken. This adjustment will be linked to risk and control factors such as regulatory breaches, ruptures of risk limits (e.g., RAS, solvency, liquidity) or ruptures of expected loss thresholds in relation to operational risk and/or internal control indicators (e.g., results of internal audits) or similar items.
- The possibility of lowering it to zero if the Bank's capital should fall below the Maximum Distributable Amount (MDA) determined by the regulations in force at any time.

Bearing in mind the foregoing, the final amount of annual variable remuneration earned (subject to *ex post* adjustments), shall be determined by the Board Remuneration Committee, based on the assigned individual target bonus figure, the evaluation of the attainment of individual performance targets assigned to the Identified Staff member, and the application of the variable remuneration adjustment.

The adjustments described apply in equal measure to TSB staff.

### 16.4.5 Adjustments for *ex post* risk

The variable remuneration of Executive Directors, Senior Management and other employees included in the Group's Identified Staff is subject to deferral or payment in capital instruments, in line with the applicable regulations and with provisions of the relevant competent bodies, thereby aligning the receipt of such remuneration with the Bank's long-term results and linking it to share price performance, resulting in an alignment with the interests and risks of shareholders.

#### Policy on deferral, retention and payment in shares

At least 50% of the short-term variable remuneration, of long-term remuneration and of special project bonuses, shall be paid in the form of capital instruments, shares of Banco de Sabadell, S.A. and/or instruments linked to shares, which shall be subject to the deferral and retention periods specified in the applicable regulations.

The Institution applies a deferral calendar to variable remuneration such that an adequate amount of the variable remuneration may be adjusted depending on risk results over time, through risk adjustments. This calendar has been established taking into account the following elements:

- The responsibilities assumed by Executive Directors, Senior Management and other employees in the Group's Identified Staff.
- The economic cycle and the nature of the Group's activities.
- The Group's risk profile and that of its business units.
- The amount of variable remuneration granted to each Identified Staff member.

- The specific regulatory requirements of local regulations in the region in which the Identified Staff member is employed.

In this regard, considering that Banco Sabadell is a significant institution pursuant to Directive 2013/36/EU, Executive Directors and Senior Management of Banco Sabadell have a minimum deferral period of 5 years and the percentage paid in deferred variable remuneration instruments is higher (55%). In addition, for Executive Directors and Identified Staff members who receive high amounts of variable remuneration, the minimum deferral percentage is 60%.

Banco Sabadell has determined that all of the variable remuneration to be paid using capital instruments shall be paid in full with shares of the Bank.

In order to comply with the provisions of Article 450.1.c) of (EU) Regulation No 575/2013, the following table sets out details of the deferral and payment in shares of short-term variable remuneration for 2022:

Table 96. Deferral of payment and payment in shares of variable remuneration.

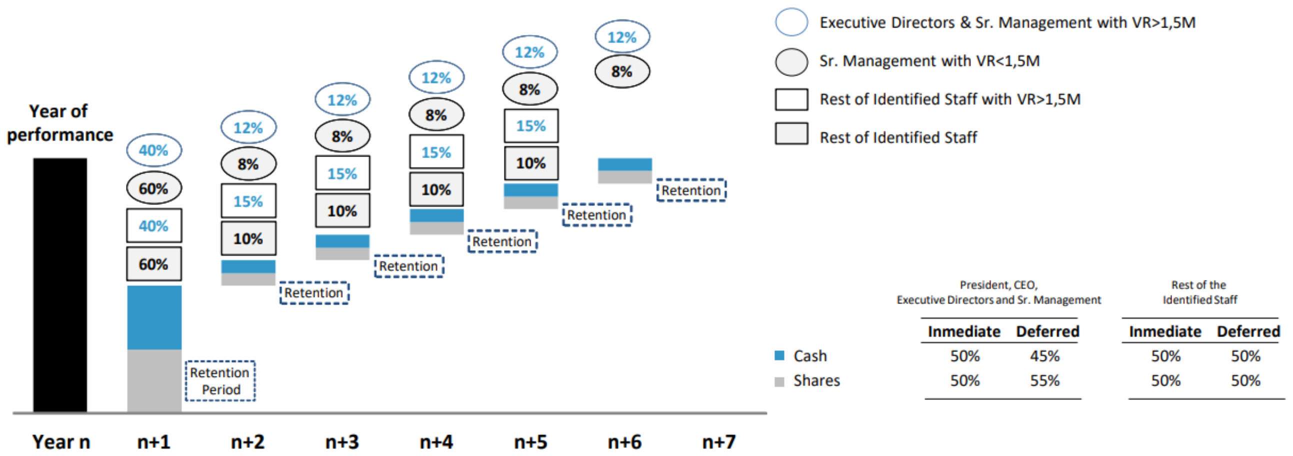
| | % Immediate payment | % Deferral | Number of deferral years | % Variable remuneration in financial instruments | | | |
|---|---|---|---|---|---|---|---|
| | | | | Non-deferred variable remuneration | | Deferred variable remuneration | |
| | | | | Cash | Financial instruments | Cash | Financial instruments |
| Executive directors | 40% | 60% | 5 years | 50% | 50% | 45% | 55% |
| Rest of Senior Management | 60% | 40% | 5 years | 50% | 50% | 45% | 55% |
| Other members of Group Identifies Staff with remuneration above 1.5 million euros | 40% | 60% | 4 years | 50% | 50% | 50% | 50% |
| Rest of Group Identified Staff | 60% | 40% | 4 years | 50% | 50% | 50% | 50% |

*Data as at 31/12/2022.*

The deferred amounts are paid on a pro-rata basis during the deferral period. So, if the deferral period is 5 years, in each deferral year 1/5th of the deferred variable remuneration is paid.

The portion paid in shares will be subject to a retention period described below. The system of deferral and payment in shares is illustrated in the following graphic:

Figure 53. Deferral of payment of variable remuneration.



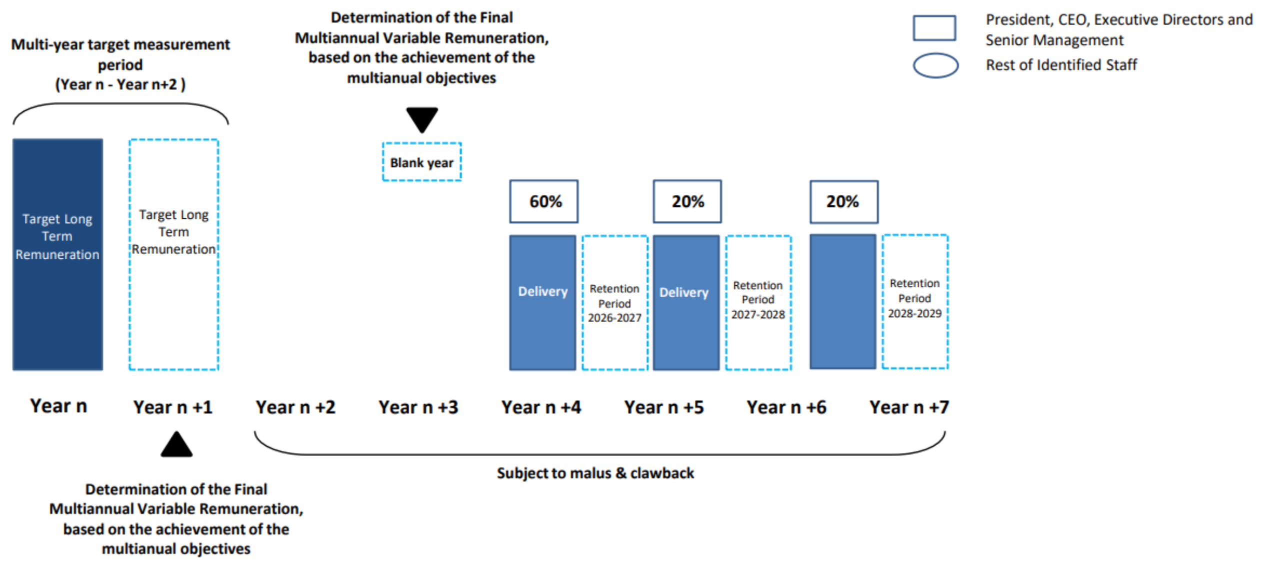

Concerning the Long-Term Remuneration for 2022-2024, the preliminary amount allocated, having determined the annual targets but pending the multi-year targets, is subject to the following deferral calendar and payment in shares:

Table 97. Deferral of payment and payment in shares of long-term variable remuneration.

| | % Immediate payment | % Deferral | Number of deferral years | % Variable remuneration in financial instruments | | | |
|---|---|---|---|---|---|---|---|
| | | | | Non-deferred variable remuneration | | Deferred variable remuneration | |
| | | | | Cash | Financial instruments | Cash | Financial instruments |
| Executive Directors and rest of Senior Management | 0% | 100% | 5 years | N/A | N/A | 45% | 55% |
| Rest of Group Identified Staff | 0% | 100% | 4 years | N/A | N/A | 45% | 55% |

*Data as at 31/12/2022.*

Figure 54. Deferral of payment of long-term variable remuneration.

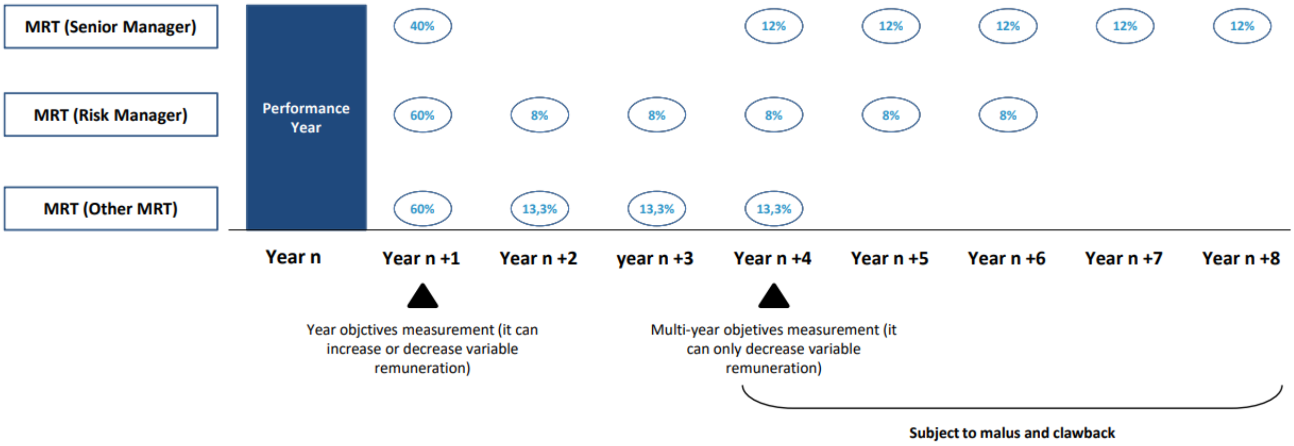



Mandatory retention periods are established for shares given as annual variable remuneration. Specifically, all instruments awarded to Executive Directors, members of Senior Management and to other Identified Staff members shall be locked up for a period of one year from the date they are given; this retention shall be applicable to the net number of instruments received, after deducting the requisite number of instruments with a market value equivalent to the tax payment corresponding to the remuneration. The retention period shall be calculated from the date the shares are delivered to the Identified Staff members.

In general, the instruments are measured at market value or at their fair value on the date on which they were granted. The Group will not pay interest or dividends on the deferred cash or instruments that have been granted as variable remuneration.

The payment scheme for members of the Identified Staff of the British subsidiary TSB differs with respect to the scheme described above, with a longer deferral in line with local regulatory requirements. Depending on the employee’s level of responsibility in the organisation, the proportion of deferred variable remuneration varies, reaching 60% at the highest management levels. This remuneration will be paid in equal parts over the years of deferral that apply to each employee, half in cash and half in shares, provided that the circumstances set out in the malus and clawback arrangements do not apply.

Figure 55. Short-term variable remuneration in TSB.




All shares related to variable remuneration are delivered net of taxes and are also subject to a retention period of one year.

In order to comply with the provisions of Article 450.1.c) of Regulation (EU) No 575/2013, Senior Management and the rest of the employees of the Identified Staff have no obligation to hold shares beyond the one-year share retention period indicated in the previous paragraph. However, for Executive Directors, the transferability of the shares received as short-term variable remuneration, and the long-term incentive shall be restricted until at least three years have passed since the granting of the shares, if the Executive Director does not own shares which are equivalent to two times their fixed annual remuneration.

Banco Sabadell Group does not permit any type of hedging using *ad hoc* financial products or any other mechanisms which ensure the full or partial payment of remuneration, or which compensate losses associated with financial instruments received as part of the deferred or retained variable remuneration.

In accordance with the proportionality principle set forth in Article 94.3(b) of the CRD and in the application of point 1 (l), (m) and (o) of the aforesaid Article, the requirements set out in this section related to deferral and payment in instruments of the portion of variable remuneration may not be applicable to an Identified Staff member whose variable remuneration does not exceed 50,000 euros in any year and does not represent more than one third of that Identified Staff member's total annual remuneration.

As at 31 December 2022, total shares accrued for variable remuneration, both short- and long-term, of Executive Directors, Senior Management and other members of the Identified Staff that are pending delivery represent 1,9% of the total share capital.

## Malus and clawback arrangements

The entire annual variable remuneration will be subject to malus and clawback arrangements (reduction and recovery of variable remuneration) throughout the entire deferral and lock-up period, under the terms indicated here below.

Variable short-term remuneration and long-term remuneration pending payment (up to 100% of the amount) shall be subject to malus and clawback arrangements in the event of poor financial performance by the Bank as a whole or by a specific division or unit, or due to exposures generated by the Identified Staff member to which they are applicable. To this end, the corresponding performance appraisal will be compared against the retrospective performance of the variables which contributed to the attainment of the targets. The following factors shall be taken into account:

- Significant risk management errors by the Institution or by a unit.
- Increase in the capital requirements of the Institution, or of a business unit, not anticipated at the time the exposures were generated.
- Regulatory sanctions or convictions for events which could be attributable to the unit or the staff responsible for the same. Similarly, any breach of the Institution's internal codes of conduct.
- Misconduct, whether on an individual or collective basis. The negative effects arising in connection with the sale of unsuitable products and the responsibilities of the persons or bodies that made these decisions will be taken into particular consideration.

These malus arrangements may be applied during the variable remuneration deferral period. The clawback arrangements may be applied from the moment the remuneration is paid until the end of the final retention period applicable to the remuneration.

## 16.5 Application of fixed and variable remuneration in 2022

In order to comply with the provisions of Article 450 (1) (e) of Regulation (EU) No 575/2013, the indicators of corporate objectives for 2022 applicable to all of the Group's employees who receive variable remuneration, and the level of attainment agreed to by the Board of Directors as at 25 January 2023, at the proposal of the Board Remuneration Committee, are shown below:

**Table 98. Banco Sabadell employees' attainment of variable remuneration objectives.**

| Objective | Weighting | Attainment % |
|---|---|---|
| Return on Tangible equity (ROTE) | 20% | 137.3% |
| Net Banking revenues | 20% | 138.6% |
| Interest margin plus commissions | 10% | 150.0% |
| Group Expenses | 10% | 111.5% |
| Asset quality | 20% | 60.0% |
| Quality of services | 10% | 150.0% |
| Sustainability | 10% | 119.8% |

*Data as at 31/12/2022.*

Thus, the attainment of Group objectives stood at 120.31%, reflecting the Group's overall performance during the year

For members of the Group's Identified Staff who are employees of the British subsidiary TSB, the Variable Pay Award is determined based on an individual dashboard comprising Banco Sabadell Group metrics, a selection of financial and non-financial Primary Corporate Objectives (PCOs) and the individual performance of the employee. In this regard, the attainment of TSB's Primary Corporate Objectives (PCOs) was 117.6%.

In order to comply with the provisions of Article 450 (1) (c) of Regulation (EU) No 575/2013, variable remuneration is subject to *ex ante* adjustments. The total amount of variable remuneration is subject to a possible adjustment at the discretion of the Board Remuneration Committee, and may even be reduced to zero.

In this respect, at its meeting of 24 January 2023, the Banco Sabadell Board Remuneration Committee analysed the applicability of the Risk Correction Factor (RCF). In accordance with the capital and liquidity targets, metrics, attainment scales and RCF payment curves approved by the Board of Directors on 25 January 2022, the Board Remuneration Committee determined that the thresholds required in the RAS have been met to generate the right to receive all variable remuneration corresponding to the attainment of objectives and targets established in that regard.

Based on the information provided by Internal Control, the Board Remuneration Committee did not consider making any additional individual or collective *ex ante* adjustment to the extent that:

- The Group and/or subsidiary credit institutions have reached the Maximum Distributable Amount (MDA) level determined by the regulations in force.
- In accordance with the reports received by Compliance, Internal Audit, Finance and the Internal Control unit itself, the 2022 short-term remuneration is aligned with the risk and control levels, such as regulatory and statutory non-compliance, breach of risk limits (e.g., RAS, solvency, liquidity) or rupture of expected loss thresholds in terms of operational risk and/or internal control indicators (e.g., internal audit results) or similar elements.

Having calculated the attainment of targets at Group, unit, country and individual level, and with no need to apply *ex ante* adjustments, the variable remuneration to be granted individually to each member of the Identified Staff has been determined based on the individual target bonus figure assigned in the assessment of attainment of individual performance targets, while the variable remuneration corresponding to the Executive Directors and members of Senior Management was approved by the Board Remuneration Committee at its meeting of 24 January 2023 and by the Board of Directors, at the proposal of the Board Remuneration Committee, at its meeting of 25 January 2023.

Likewise, the preliminary multi-year variable remuneration for 2022-2024 is determined, which is also subject to the attainment of multi-year targets and objectives before it can be finalised (without prejudice to any *ex post* adjustments that may be applicable).

In the case of TSB, the individual remuneration of members of the Group's Identified Staff, following adjustment of the pool, is determined on the basis of attainment of the Group, unit and individual objectives and targets.

Short-term variable remuneration to be granted is subject to the *ex post* adjustments described in the previous section:

- 50% of the variable remuneration in shares (55% for deferred variable remuneration of Executive Directors and Senior Management). These shares include a minimum retention period of one year.
- Deferral of 40% of the variable remuneration (60% for Executive Directors).
- 4-year deferral period (5 years for Executive Directors and Senior Management). TSB staff may have a longer deferral period.

In relation to the deferred variable remuneration granted in previous years, the Board of Directors, at the proposal of the Board Remuneration Committee and subject to a previous favourable report by the Human Resources unit, carried out an analysis of the possible application of the following arrangements:

- Malus arrangements, which allow the Institution to reduce the value of all or part of the deferred variable remuneration based on *ex post* risk adjustments, before such remuneration is vested.
- Clawback arrangement, according to which members of the Identified Staff are required to return to the Institution a specific amount of variable remuneration paid in the past or vested conditional upon certain conditions.

These arrangements are applicable to deferred or retained variable remuneration which were awarded in connection with a year in which the employee or officer was a member of the Identified Staff. They may be applied either during a deferral period (malus) or at any time between paying the remuneration up to the end of its last retention period (clawback).

The report produced by the Human Resources division included an assessment resulting from a combined and comparative analysis of studies carried out by the Compliance, Financial and Internal Control divisions and concludes that in 2022 none of the cases under the malus and clawback clauses in force in 2020 have arisen and it was therefore not necessary to apply these clauses.

In the case of TSB, following the IT migration in 2018, its Remuneration Committee decided to delay the payment of a portion of the Sabadell Integration Awards (SIAs) that had already been accrued, as well as of other incentives granted before the migration, until the outcome of the regulatory investigation on TSB's IT upgrading programme was published. Following the end of the regulatory investigation, TSB's Remuneration Committee decided to cancel all incentives related to the IT migration (SIAs) and other incentives granted during this period for all management staff involved in the IT upgrading programme.

The Institution has benefitted from the exception provided for in Article 94.3(b) of the CRD by application of point 1 (l), (m) and (o) of the aforesaid Article, on the elements that comprise the variable remuneration. Specifically, it avails itself of the exception for those persons whose annual variable remuneration does not exceed 50,000 euros and does not represent more than one third of the total annual remuneration.

This report takes into account the amounts corresponding to 2022 for all persons who were members of the Group's Identified Staff in that year.

In 2022 there has been a significant decrease in the amount of remuneration of the Group Identified Staff compared to 2021 derived from the reduction in 2022 (i) in the number of members of the Identified Staff and (ii) in the amount for early termination of contracts.

**Table 99. Breakdown of total remuneration by total number of employees.**

| | Fixed reuneration | Variable remuneration | Total remuneration |
|---|---|---|---|
| Amount | 898,609 | 142,584 | 1,041,193 |
| Number of employees | 18,895 | 16,639 | 18,895 |

*Amounts as at 31/12/2022, in thousand euro.*

Table 100. Remuneration granted for the year (EU REM1).

| | | MB Supervisory function | MB Management function | Other senior management | Other identified staff[1] |
|---|---|---|---|---|---|
| Fixed remuneration | Number of identified staff | 14 | 2 | 9 | 134 |
| | Total fixed remuneration | 3,750 | 2,884 | 4,668 | 33,402 |
| | Of which: cash-based | 3,750 | 2,814 | 4,481 | 32,732 |
| | Of which: shares or equivalent ownership interests | — | — | — | — |
| | Of which: share-linked instruments or equivalent non-cash instruments | — | — | — | — |
| | Of which: other instruments | — | 70 | 187 | 670 |
| | Of which: Other forms | — | 70 | 187 | 670 |
| Variable remuneration | Number of identified staff Total variable remuneration | 1 | 2 | 9 | 114 |
| | Total variable remuneration | 55 | 883 | 2,509 | 25,904 |
| | Of which: cash-based | 25 | 407 | 1,321 | 15,894 |
| | Of which: deferred | 25 | 247 | 429 | 6,481 |
| | Of which: shares or equivalent ownership interestS | 30 | 476 | 1,187 | 10,011 |
| | Of which: deferred | 30 | 317 | 594 | 5,263 |
| | Of which: share-linked instruments or equivalent non-cash instrumenTS | — | — | — | — |
| | Of which: deferred | — | — | — | — |
| | Of which: other instruments | — | — | — | — |
| | Of which: deferred | — | — | — | — |
| | Of which: Other forms | — | — | — | — |
| | Of which: deferred | — | — | — | — |
| Total remuneration | | 3,805 | 3,767 | 7,177 | 59,306 |

*Amounts at 31/12/2022, in thousand euro.*

*Remuneration data of all the members of the Identified Group of the Group who have had such consideration during the year 2022.*

*400,510 euros of variable compensation is included, corresponding to 13 employees, to whom neither deferral nor payment in shares has been applied due to the application of the principle of proportionality.*

*[1] Included under this category are the amounts received by the Directors of the Group's subsidiaries.*

Table 101. Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (EU REM2).

| | MB Supervisory function | MB Management function | Other senior management | Other identified staff[2] |
|---|---|---|---|---|
| **Guaranteed variable remuneration awards** | | | | |
| Guaranteed variable remuneration awards - Number of identified staff | – | – | 1 | – |
| Guaranteed variable remuneration awards -Total amount | – | – | 600 | – |
| Of which guaranteed variable remuneration awards paid during the financial year, that are not taken into account in the bonus cap | – | – | – | – |
| **Severance payments awarded in previous periods, that have been paid out during the financial year** | | | | |
| Severance payments awarded in previous periods, that have been paid out during the financial year - Number of identified staff | – | – | – | 13 |
| Severance payments awarded in previous periods, that have been paid out during the financial year - Total amount | – | – | – | 1.543 |
| **Severance payments awarded during the financial year** | | | | |
| Severance payments awarded during the financial year - Number of identified staff | – | – | – | 6 |
| Severance payments awarded during the financial year - Total amount | – | – | – | 9.669 |
| Of which paid during the financial year | – | – | – | 6.188 |
| Of which deferred | – | – | – | 3.481 |
| Of which severance payments paid during the financial year, that are not taken into account in the bonus cap | – | – | – | – |
| Of which highest payment that has been awarded to a single person[1] | – | – | – | 5.621 |

*Amounts as at 31/12/2022, in thousand euro.*

*[1] The highest compensation awarded to a single person in 2022 amounts to €5,620,992*

*[2] Included under this category are the amounts received by the Directors of the Group's subsidiaries.*

## Table 102. Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) (EU REM5).

| | Management body remuneration | | | Business areas | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | MB Supervisory function | MB Management function | Total MB | Investment banking | Retail banking | Asset Management | Corporate Functions | Independent internal control functions | All other[(1)] | Total |
| **Total number of identified staff** | | | | | | | | | | **159** |
| Of which: members of the MB | 14 | 2 | 17 | | | | | | | |
| Of which: other senior management | | | | 1 | 2 | 1 | 5 | – | – | |
| Of which: other identified staff | | | | 14 | 29 | 2 | 54 | 20 | 15 | |
| **Total remuneration of identified staff** | 3.805 | 3.767 | 7.572 | 7.202 | 16.771 | 1.259 | 33.366 | 6.337 | 1.548 | |
| Of which: variable remuneration | 55 | 883 | 938 | 3.067 | 7.005 | 463 | 15.478 | 2.331 | 69 | |
| Of which: fixed remuneration | 3.750 | 2.884 | 6.633 | 4.135 | 9.765 | 797 | 17.888 | 4.006 | 1.479 | |

*Amounts as at 31/12/2022, in thousand euro.*

(1) *Included under this category are the amounts received by the Directors of the Group's subsidiaries.*

## Table 103. Deferred remuneration (EU REM3).

| Deferred and retained remuneration | Total amount of deferred remuneration awarded for previous performance periods | Of which due to vest in the financial year | Of which vesting in subsequent financial years | Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in the financial year | Amount of performance adjustment made in the financial year to deferred remuneration that was due to vest in future performance years | Total amount of adjustment during the financial year due to ex post implicit adjustments (i.e. Changes of value of deferred remuneration due to the changes of prices of instruments) | Total amount of deferred remuneration awarded before the financial year actually paid out in the financial year | Total of amount of deferred remuneration awarded for previous performance period that has vested but is subject to retention periods |
|---|---|---|---|---|---|---|---|---|
| **MB Supervisory function** | 1,223 | 603 | 620 | – | – | – | 603 | 332 |
| Cash-based | 550 | 271 | 279 | – | – | – | 271 | 0 |
| Shares or equivalent ownership interests[1] | 673 | 332 | 341 | – | – | – | 332 | 332 |
| Share-linked instruments or equivalent non-cash instruments | – | – | – | – | – | – | – | 0 |
| Other instruments | – | – | – | – | – | – | – | 0 |
| Other forms | – | – | – | – | – | – | – | 0 |
| **MB Management function** | 478 | 120 | 358 | – | – | – | 120 | 66 |
| Cash-based | 215 | 54 | 161 | – | – | – | 54 | 0 |
| Shares or equivalent ownership interests[1] | 263 | 66 | 197 | – | – | – | 66 | 66 |
| Share-linked instruments or equivalent non-cash instruments | – | – | – | – | – | – | – | 0 |
| Other instruments | – | – | – | – | – | – | – | 0 |
| Other forms | – | – | – | – | – | – | – | 0 |
| **Other senior management** | 1,333 | 451 | 882 | – | – | – | 451 | 309 |
| Cash-based | 671 | 210 | 461 | – | – | – | 210 | 0 |
| Shares or equivalent ownership interests[1] | 662 | 241 | 421 | – | – | – | 241 | 309 |
| Share-linked instruments or equivalent non-cash instruments | – | – | – | – | – | – | – | 0 |
| Other instruments | – | – | – | – | – | – | – | 0 |
| Other forms | – | – | – | – | – | – | – | 0 |
| **Other identified staff** | 19,030 | 6,949 | 12,081 | – | – | – | 6,949 | 4744 |
| Cash-based | 9,400 | 3,562 | 5,839 | – | – | – | 3,562 | 0 |
| Shares or equivalent ownership interests[1] | 9,630 | 3,388 | 6,242 | – | – | – | 3,388 | 4744 |
| Share-linked instruments or equivalent non-cash instruments | – | – | – | – | – | – | – | 0 |
| Other instruments | – | – | – | – | – | – | – | 0 |
| Other forms | – | – | – | – | – | – | – | 0 |
| **Total Amount** | 22,064 | 8,123 | 13,941 | – | – | – | 8,123 | 5,451 |

*Amounts as at 31/12/2022, in thousand euro.*

*[1] Value at market price on the date of granting. The shares that will actually be delivered correspond to the value net of taxes.*

Table 104. Remuneration of 1 million EUR or more per year (EU REM4).

| EUR | Identified staff that are high earners as set out in Article 450(i) CRR |
|---|---|
| 1,000,000 to below 1,500,000 | 6 |
| 1,500,000 to below 2,000,000 | 2 |
| 2,000,000 to below 2,500,000 | 1 |
| 2,500,000 to below 3,000,000 | 1 |
| 3,000,000 to below 3,500,000 | – |
| 3,500,000 to below 4,000,000 | – |
| 4,000,000 to below 4,500,000 | – |
| 4,500,000 to below 5,000,000 | – |
| 5,000,000 to below 6,000,000 | – |
| 6,000,000 to below 7,000,000 | 1 |
| 7,000,000 to below 8,000,000 | – |

*Data as at 31/12/2022.*

# A

## Annexes

# Annex I. Compliance with disclosure requirements

The legal acts and best practices observed and taken into account in the preparation of this document are presented below:

## Legal acts and observed best practices

- Enhancing the Risk Disclosure of Banks – Report of the Enhanced Data Task Force, of 29 October 2012.
- Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013, on prudential requirements for credit institutions and investment firms, and amending Regulation (EU) no. 648/2012.
- *Guidelines on materiality, proprietary information and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and Article 433 of Regulation (EU) no. 575/2013 (EBA/GL/2014/14), of 23 December 2014.*
- *Revised guidelines on the specification of the indicators of global systemically important banks and their disclosure (EBA/GL/2016/01), of 29 February 2016..*
- *Guidelines on sound remuneration policies under Articles 74(3) and 75(2) of Directive 2013/36/EU and disclosures under Article 450 of Regulation (EU) no. 575/2013 (EBA/GL/2015/22), of 27 June 2016.*
- *Guidelines on disclosure requirements under Part Eight of Regulation (EU) no. 575/2013, of 14 December 2016.*
- *Regulation (EU) 2017/2395, of the European Parliament and of the Council, of 12 December 2017, amending Regulation (EU) no. 575/2013 as regards transitional arrangements for mitigating the impact of the introduction of IFRS9 on own funds and for the large exposures treatment of certain public sector exposures denominated in the domestic currency of any Member State.*
- *European Banking Authority Guidelines on reporting and disclosure of exposures subject to measures implemented in response to the COVID-19 crisis (EBA/GL/2020/07) of 2 June 2020.*
- *Law 10/2014 of 26 June 2014 on the organisation, supervision and solvency or credit institutions*
- *Royal Decree 84/2015 of 13 February 2015, implementing Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions.*
- *Bank of Spain Circular 2/2016 of 2 February 2016, completing, in matters related to credit institutions, the transposition of Directive 2013/36/EU and Regulation (EU) no. 575/2013 into Spanish law.*
- *Basel Committee on Banking Supervision - DIS: Disclosure requirements.*
- *Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards as regards public disclosure by entities of the information referred to in Part Eight, Titles II and III of Regulation (EU) No 575/2013 of the European Parliament and of the Council.*
- *Commission Implementing Regulation (EU) 2022/631 of 13 April 2022 amending the implementing technical standards set out in Implementing Regulation (EU) 2021/637 as regards disclosure of information on interest rate risk exposures in relation to positions not held in the trading book.*
- *Commission Implementing Regulation (EU) 2022/2453 of 30 November 2022 amending the implementing technical standards set out in Implementing Regulation (EU) 2021/637 as regards the disclosure of information on environmental, social and governance risks.*

### Disclosure requirements under Part Eight of the CRR

The following table sets out a detailed list of the disclosure requirements set forth in Part Eight of the CRR, indicating which item or table included in this report, or which of the Group's public documents, complies with each requirement:

Table 105. Compliance with disclosure requirements.

| CRR Article | Item | Compliance |
|---|---|---|
| **431 - Disclosure requirements and policies** | | |
| 431 (1) | Institutions shall publicly disclose the information referred to in Titles II and III in accordance with the provisions laid down in this Title, subject to the exceptions referred to in Article 432. | 1.3 Compliance with disclosure requirements<br>Annex I Compliance with disclosure requirements |
| 431 (2) | Institutions that have been granted permission by the competent authorities under Part Three for the instruments and methodologies referred to in Title III of this Part shall publicly disclose the information laid down therein. | 1.3 Compliance with disclosure requirements<br>Annex I Compliance with disclosure requirements |
| 431 (3) | The management body or senior management shall adopt formal policies to comply with the disclosure requirements laid down in this Part and put in place and maintain internal processes, systems and controls to verify that the institutions' disclosures are appropriate and in compliance with the requirements laid down in this Part. At least one member of the management body or senior management shall attest in writing that the relevant institution has made the disclosures required under this Part in accordance with the formal policies and internal processes, systems and controls. The written attestation and the key elements of the institution's formal policies to comply with the disclosure requirements shall be included in institutions' disclosures. | 1.2.2 Document governance, approval and publication |
| | Information to be disclosed in accordance with this Part shall be subject to the same level of internal verification as that applicable to the management report included in the institution's financial report | 1.2.2 Document governance, approval and publication |
| | Institutions shall also have policies in place to verify that their disclosures convey their risk profile comprehensively to market participants. Where institutions find that the disclosures required under this Part do not convey the risk profile comprehensively to market participants, they shall publicly disclose information in addition to the information required to be disclosed under this Part. Nonetheless, institutions shall only be required to disclose information that is material and not proprietary or confidential as referred to in Article 432. | 1.2.2 Document governance, approval and publication |
| 431 (4) | All quantitative disclosures shall be accompanied by a qualitative narrative and any other supplementary information that may be necessary in order for the users of that information to understand the quantitative disclosures, noting in particular any significant change in any given disclosure compared to the information contained in the previous disclosures. | IRP 2022 |
| 431 (5) | Institutions shall, if requested, explain their rating decisions to SMEs and other corporate applicants for loans, providing an explanation in writing when asked. The administrative costs of that explanation shall be proportionate to the size of the loan. | Not applicable (not requested) |

| CRR Article | Ítem | Compliance |
|---|---|---|
| **432 - Non-material, proprietary or confidential information** | | |
| 432 (1) | With the exception of the disclosures laid down in point (c) of Article 435(2) and in Articles 437 and 450, institutions may omit one or more of the disclosures listed in Titles II and III where the information provided by those disclosures is not regarded as material. | 1.3 Compliance with disclosure requirements<br>Annex II. Waiver of content<br>Table 108 Content exempt from disclosure |
| | Information in disclosures shall be regarded as material where its omission or misstatement could change or influence the assessment or decision of a user of that information relying on it for the purpose of making economic decisions. | 1.3 Compliance with disclosure requirements<br>Annex II. Waiver of content<br>Table 108 Content exempt from disclosure |
| | EBA shall issue guidelines, in accordance with Article 16 of Regulation (EU) No 1093/2010, on how institutions have to apply materiality in relation to the disclosure requirements of Titles II and III. | 1.3 Compliance with disclosure requirements<br>Annex II. Waiver of content<br>Table 108 Content exempt from disclosure |
| 432 (2) | Institutions may also omit one or more items of information referred to in Titles II and III where those items include information that is regarded as proprietary or confidential in accordance with this paragraph, except for the disclosures laid down in Articles 437 and 450. | 1.3 Compliance with disclosure requirements<br>Waiver application |
| | Information shall be regarded as proprietary to institutions where disclosing it publicly would undermine their competitive position. Proprietary information may include information on products or systems that would render the investments of institutions therein less valuable, if shared with competitors. | 1.3 Compliance with disclosure requirements<br>Waiver application |
| | Information shall be regarded as confidential where the institutions are obliged by customers or other counterparty relationships to keep that information confidential. | 1.3 Compliance with disclosure requirements<br>Waiver application |
| | EBA shall issue guidelines, in accordance with Article 16 of Regulation (EU) No 1093/2010, on how institutions have to apply proprietary and confidentiality in relation to the disclosure requirements of Titles II and III. | 1.3 Compliance with disclosure requirements<br>Waiver application |
| 432 (3) | In the exceptional cases referred to in paragraph 2, the institution concerned shall state in its disclosures the fact that specific items of information are not being disclosed and the reason for not disclosing those items, and publish more general information about the subject matter of the disclosure requirement, except where that subject matter is, in itself, proprietary or confidential. | 1.3 Compliance with disclosure requirements<br>Waiver application |
| **433 - Frequency and scope of disclosures** | | |
| 433 | Institutions shall publish the disclosures required under Titles II and III in the manner set out in Articles 433a, 433b and 433c. | 1.2.3 Disclosure frequency |
| | Annual disclosures shall be published on the same date as the date on which institutions publish their financial statements or as soon as possible thereafter. | 1.2.3 Disclosure frequency |
| | Semi-annual and quarterly disclosures shall be published on the same date as the date on which the institutions publish their financial reports for the corresponding period where applicable or as soon as possible thereafter. | 1.2.3 Disclosure frequency |
| | Any delay between the date of publication of the disclosures required under this Part and the relevant financial statements shall be reasonable and, in any event, shall not exceed the timeframe set by competent authorities pursuant to Article 106 of Directive 2013/36/EU | 1.2.3 Disclosure frequency |

| CRR Article | Item | Compliance |
|---|---|---|
| **433 bis - Disclosures by large institutions** | | |
| 433 bis (1) | Large institutions shall disclose the information outlined below with the following frequency: | --- |
| 433 bis (1) (a) | all the information required under this Part on an annual basis; | Annex I. Compliance with disclosure requirements<br>Annex II. Waiver of content |
| 433 bis (1) (b) | on a semi-annual basis the information referred to | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (i) | Article 437, letter a), | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (ii) | Article 438, lettter e), | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (iii) | Article 439, letter e) a l) | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (iv) | Article 440, | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (v) | Article 442, letter c), e), f) y g), | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (vi) | Article 444, letra e) | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (vii) | Article 445, | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (viii) | Article 448, section 1, letters a) y b) | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (ix) | Article 449, letters j) a l), | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (x) | Article 451, section 1, letters a) y b), | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (xi) | Article 451 bis, section 3, | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (xii) | Article 452, letter g), | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (xiii) | Article 453, letter f) a j), | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (b) (xiv) | Article 455, letter d), e) y g); | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (c ) | on a quarterly basis the information referred to | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (c ) (i) | Article 438, letters d) y h), | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (c ) (ii) | The key indicators mentioned in Article 447, | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (1) (c ) (iii) | Article 451 bis, section 2. | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements |
| 433 bis (2) | By way of derogation from paragraph 1, large institutions other than G-SIIs that are non-listed institutions shall disclose the information outlined below with the following frequency: | Not applicable |
| 433 bis (2) (a) | all the information required under this Part on an annual basis; | Not applicable |
| 433 bis (2) (b) | the key metrics referred to in Article 447 on a semi-annual basis. | Not applicable |
| 433 bis (3) | Large institutions that are subject to Article 92a or 92b shall disclose the information required under Article 437a on a semi-annual basis, except for the key metrics referred to in point (h) of Article 447, which are to be disclosed on a quarterly basis. | Not applicable |

| CRR Article | Item | Compliance |
|---|---|---|
| **433 ter - Disclosures by small and non-complex institutions** | | |
| 433 ter (1) | Small and non-complex institutions shall disclose the information outlined below with the following frequency: | Not applicable |
| 433 ter (1) (a) | on an annual basis the information referred to in: | Not applicable |
| 433 ter (1) (a) (i) | Article 435, section 1, letters a), e) y f), | Not applicable |
| 433 ter (1) (a) (ii) | Article 438, letter d) | Not applicable |
| 433 ter (1) (a) (iii) | Article 450, section 1, letters a) a d), h), i) y j); | Not applicable |
| 433 ter (1) (b) | The key indicators mentioned in Article 447, on a semi-annual basis. | Not applicable |
| 433 ter (2) | By way of derogation from paragraph 1 of this Article, small and non-complex institutions that are nonlisted institutions shall disclose the key metrics referred to in Article 447 on an annual basis. | Not applicable |
| **433 quater - Disclosures by other institutions** | | |
| 433 quater (1) | Institutions that are not subject to Article 433a or 433b shall disclose the information outlined below with the following frequency: | Not applicable |
| 433 quater (1) (a) | all the information required under this Part on an annual basis; | Not applicable |
| 433 quater (1) (b) | the key metrics referred to in Article 447 on a semi-annual basis. | Not applicable |
| 433 quater (2) | By way of derogation from paragraph 1 of this Article, other institutions that are non-listed institutions shall disclose nformation on an annual basis | Not applicable |
| 433 quater (2) (a) | Article 435, section 1, letters a), e) y f); | Not applicable |
| 433 quater (2) (b) | Article 435, section 2, letters a), b) y c); | Not applicable |
| 433 quater (2) (c ) | Article 437, letter a); | Not applicable |
| 433 quater (2) (d) | Article 438, letter c) y d); | Not applicable |
| 433 quater (2) (e ) | The key indicators mentioned in Article 447; | Not applicable |
| 433 quater (2) (f) | Article 450, section 1, lettters a) a d) y h) a k). | Not applicable |
| **434 - Means of disclosures** | | |
| 434 (1) | Institutions shall disclose all the information required under Titles II and III in electronic format and in a single medium or location. The single medium or location shall be a standalone document that provides a readily accessible source of prudential information for users of that information or a distinctive section included in or appended to the institutions' financial statements or financial reports containing the required disclosures and being easily identifiable to those users | 1.2.1 Scope<br>Corporate website, in section "Sahreholders and investors" of section "Economic and financial information" |
| 434 (2) | Institutions shall make available on their website or, in the absence of a website, in any other appropriate location an archive of the information required to be disclosed in accordance with this Part. That archive shall be kept accessible for a period of time that shall be no less than the storage period set by national law for information included in the institutions' financial reports. | Corporate website |

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| **434 bis - Uniform disclosure formats** | | |
| 434 bis | EBA shall develop draft implementing technical standards specifying uniform disclosure formats, and associated instructions in accordance with which the disclosures required under Titles II and III shall be made | Not applicable |
| | Those uniform disclosure formats shall convey sufficiently comprehensive and comparable information for users of that information to assess the risk profiles of institutions and their degree of compliance with the requirements laid down in Parts One to Seven. To facilitate the comparability of information, the implementing technical standards shall seek to maintain consistency of disclosure formats with international standards on disclosures. | Not applicable |
| | Uniform disclosure formats shall be tabular where appropriate | Not applicable |
| | EBA shall submit those draft implementing technical standards to the Commission by 28 June 2020 | Not applicable |
| | Power is conferred on the Commission to adopt those implementing technical standards in accordance with Article 15 of Regulation (EU) No 1093/2010. | Not applicable |
| **435 - Disclosure of risk management objectives and policies** | | |
| 435 (1) | Institutions shall disclose their risk management objectives and policies for each separate category of risk, including the risks referred to in this Title. Those disclosures shall include: | 5.2 Risk management and control<br>8.1 Credit risk management and governance<br>9.1 Market risk management and governance<br>10.1 Management and governance of operational risk<br>12.1 Liquidity risk management and governance |
| 435 (1) (a) | the strategies and processes to manage those categories of risks; | 5.2 Risk management and control<br>8.1 Credit risk management and governance<br>9.1 Market risk management and governance<br>10.1 Management and governance of operational risk<br>12.1 Liquidity risk management and governance |
| 435 (1) (b) | the structure and organisation of the relevant risk management function including information on the basis of its authority, its powers and accountability in accordance with the institution's incorporation and governing documents; | 5.2 Risk management and control<br>8.1 Credit risk management and governance<br>9.1 Market risk management and governance<br>10.1 Management and governance of operational risk<br>12.1 Liquidity risk management and governance |
| 435 (1) (c) | the scope and nature of risk reporting and measurement systems; | 8.1 Credit risk management and governance<br>9.1 Market risk management and governance<br>10.1 Management and governance of operational risk<br>12.1 Liquidity risk management and governance |
| 435 (1) (d) | the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants; | 8.1 Credit risk management and governance<br>9.1 Market risk management and governance<br>10.1 Management and governance of operational risk<br>12.1 Liquidity risk management and governance |
| 435 (1) (e) | a declaration approved by the management body on the adequacy of the risk management arrangements of the relevant institution providing assurance that the risk management systems put in place are adequate with regard to the institution's profile and strategy; | 2.1 Statement of the Board of Directors |
| 435 (1) (f) | a concise risk statement approved by the management body succinctly describing the relevant institution's overall risk profile associated with the business strategy; that statement shall include: | 2.1 Statement of the Board of Directors |
| 435 (1) (f) (i) | key ratios and figures providing external stakeholders a comprehensive view of the institution's management of risk, including how the risk profile of the institution interacts with the risk tolerance set by the management body; | 2.1 Statement of the Board of Directors |
| 435 (1) (f) (ii) | information on intragroup transactions and transactions with related parties that may have a material impact of the risk profile of the consolidated group. | 2.1 Statement of the Board of Directors |
| 435 (2) | Institutions shall disclose the following information regarding governance arrangements: | --- |
| 435 (2) (a) | the number of directorships held by members of the management body; | 15.1 Corporate Governance Information |

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| 435 (2) (b) | the recruitment policy for the selection of members of the management body and their actual knowledge, skills and expertise; | 15.1 Corporate Governance Information |
| 435 (2) (c) | the policy on diversity with regard to selection of members of the management body, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved; | 15.1 Corporate Governance Information |
| 435 (2) (d) | whether or not the institution has set up a separate risk committee and the number of times the risk committee has met; | 15.1 Corporate Governance Information |
| 435 (2) (e) | the description of the information flow on risk to the management body. | 5.2 Risk management and control |
| **436 - Disclosure of the scope of application** | | |
| 436 | Institutions shall disclose the following information regarding the scope of application of this Regulation as follows: | --- |
| 436 (a) | the name of the institution to which this Regulation applies; | 4.1 Corporate name |
| 436 (b) | a reconciliation between the consolidated financial statements prepared in accordance with the applicable accounting framework and the consolidated financial statements prepared in accordance with the requirements on regulatory consolidation pursuant to Sections 2 and 3 of Title II of Part One; that reconciliation shall outline the differences between the accounting and regulatory scopes of consolidation and the legal entities included within the regulatory scope of consolidation where it differs from the accounting scope of consolidation; the outline of the legal entities included within the regulatory scope of consolidation shall describe the method of regulatory consolidation where it is different from the accounting consolidation method, whether those entities are fully or proportionally consolidated and whether the holdings in those legal entities are deducted from own funds; | 4.2.2 Differences in consolidation scopes, entity by entity<br>Table 5 Outline of the differences between the scopes of consolidation (entity by entity) (EU LI3) |
| 436 (c) | a breakdown of assets and liabilities of the consolidated financial statements prepared in accordance with the requirements on regulatory consolidation pursuant to Sections 2 and 3 of Title II of Part One, broken down by type of risks as referred to under this Part; | 4.2.1 Differences between prudential exposures and carrying values<br>Table 2 Differences between the accounting and prudential scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (EULI1) |
| 436 (d) | a reconciliation identifying the main sources of differences between the carrying value amounts in the financial statements under the regulatory scope of consolidation as defined in Sections 2 and 3 of Title II of Part One, and the exposure amount used for regulatory purposes; that reconciliation shall be supplemented by qualitative information on those main sources of differences; | 4.2.1 Differences between prudential exposures and carrying values<br>Table 2 Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories (EU LI1). |
| 436 (e) | for exposures from the trading book and the non-trading book that are adjusted in accordance with Article 34 and Article 105, a breakdown of the amounts of the constituent elements of an institution's prudent valuation adjustment, by type of risks, and the total of constituent elements separately for the trading book and non-trading book positions; | Not applicable |
| 436 (f) | any current or expected material practical or legal impediment to the prompt transfer of own funds or to the repayment of liabilities between the parent undertaking and its subsidiaries; | 4.3 Other qualitative information on the scope of application |
| 436 (g) | the aggregate amount by which the actual own funds are less than required in all subsidiaries that are not included in the consolidation, and the name or names of those subsidiaries; | 4.3 Other qualitative information on the scope of application |
| 436 (h) | where applicable, the circumstances under which use is made of the derogation referred to in Article 7 or the individual consolidation method laid down in Article 9. | 4.3 Other qualitative information on the scope of application |

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| **437 - Disclosure of own funds** | | |
| 437 | Institutions shall disclose the following information regarding their own funds: | --- |
| 437 (a) | a full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items and the filters and deductions applied to own funds of the institution pursuant to Articles 32 to 36, 56, 66 and 79 with the balance sheet in the audited financial statements of the institution; | Annex IV. Information on own funds<br>Table 110 Composition of regulatory own funds (EU CC1)<br>6.2.2 Reconciliation between balance sheet items used to calculate own funds and regulatory own funds<br>Table 4 Reconciliation between balance sheet items to calculate own funds and regulatory own funds (EU CC2) |
| 437 (b) | a description of the main features of the Common Equity Tier 1 and Additional Tier 1 instruments and Tier 2 instruments issued by the institution; | 6.2 Regulatory own funds<br>Table 9 List of own funds instruments<br>Annex V Main characteristics of capital instruments<br>Table 111 Main features of regulatory own funds instruments and eligible liabilities instruments (EU CCA) (Capital Instruments). |
| 437 (c) | the full terms and conditions of all Common Equity Tier 1, Additional Tier 1 and Tier 2 instruments; | Annex V. Main characteristics of capital instruments<br>Table 111 Main features of regulatory own funds instruments and eligible liabilities instruments (EU CCA) |
| 437 (d) | a separate disclosure of the nature and amounts of the following: | Annex IV. Information on own funds<br>Table 110 Composition of regulatory own funds (EU CC1)<br>6.2.2 Reconciliation between balance sheet items used to calculate own funds and regulatory own funds<br>Table 4 Reconciliation between balance sheet items to calculate own funds and regulatory own funds (EU CC2) |
| 437 (d) (i) | each prudential filter applied pursuant to Articles 32 to 35; | Annex IV. Information on own funds<br>Table 110 Composition of regulatory own funds (EU CC1)<br>6.2.2 Reconciliation between balance sheet items used to calculate own funds and regulatory own funds<br>Table 4 Reconciliation between balance sheet items to calculate own funds and regulatory own funds (EU CC2) |
| 437 (d) (ii) | items deducted pursuant to Articles 36, 56 and 66; | Annex IV. Information on own funds<br>Table 110 Composition of regulatory own funds (EU CC1)<br>6.2.2 Reconciliation between balance sheet items used to calculate own funds and regulatory own funds<br>Table 4 Reconciliation between balance sheet items to calculate own funds and regulatory own funds (EU CC2) |
| 437 (d) (iii) | items not deducted pursuant to Articles 47, 48, 56, 66 and 79; | Annex IV. Information on own funds<br>Table 110 Composition of regulatory own funds (EU CC1)<br>6.2.2 Reconciliation between balance sheet items used to calculate own funds and regulatory own funds<br>Table 4 Reconciliation between balance sheet items to calculate own funds and regulatory own funds (EU CC2) |
| 437 (e) | a description of all restrictions applied to the calculation of own funds in accordance with this Regulation and the instruments, prudential filters and deductions to which those restrictions apply; | Annex IV Information on shareholders' equity<br>Table 110 Composition of regulatory own funds (EU CC1) |
| 437 (f) | a comprehensive explanation of the basis on which capital ratios are calculated where those capital ratios are calculated by using elements of own funds determined on a basis other than the basis laid down in this Regulation. | Not applicable |

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| **437 bis - Disclosure of own funds and eligible liabilities** | | |
| 437 bis | Institutions that are subject to Article 92a or 92b shall disclose the following information regarding their own funds and eligible liabilities: | --- |
| 437 bis (a) | the composition of their own funds and eligible liabilities, their maturity and their main features; | 6.6 Minimum Requirement for Own Funds and Eligible Liabilities – MREL<br>Annex V Main characteristics of capital instruments<br>table 111 Main features of regulatory own funds instruments and eligible liabilities instruments (EU CCA) |
| 437 bis (b) | the ranking of eligible liabilities in the creditor hierarchy; | 6.6 Minimum Requirement for Own Funds and Eligible Liabilities – MREL<br>Annex V Main characteristics of capital instruments<br>table 111 Main features of regulatory own funds instruments and eligible liabilities instruments (EU CCA) |
| 437 bis (c) | the total amount of each issuance of eligible liabilities instruments referred to in Article 72b and the amount of those issuances that is included in eligible liabilities items within the limits specified in Article 72b(3) and (4); | 6.6 Minimum Requirement for Own Funds and Eligible Liabilities – MREL<br>Annex V Main characteristics of capital instruments<br>table 111 Main features of regulatory own funds instruments and eligible liabilities instruments (EU CCA) |
| 437 bis (d) | the total amount of excluded liabilities referred to in Article 72a(2) | 6.6 Minimum Requirement for Own Funds and Eligible Liabilities – MREL |
| **438 - Disclosure of own funds requirements and risk-weighted exposure amounts** | | |
| 438 | Institutions shall disclose the following information regarding their compliance with Article 92 of this Regulation and with the requirements laid down in Article 73 and in point (a) of Article 104(1) of Directive 2013/36/EU | --- |
| 438 (a) | a summary of their approach to assessing the adequacy of their internal capital to support current and future activities; | 6.4.4 Economic Capital |
| 438 (b) | the amount of the additional own funds requirements based on the supervisory review process as referred to in point (a) of Article 104(1) of Directive 2013/36/EU and its composition in terms of Common Equity Tier 1, additional Tier 1 and Tier 2 instruments; | Annex III. Information on key parameters<br>Table 109 Key metrics template (EU KM1)<br><br>6.3.1 Total amount of minimum own funds requirements |
| 438 (c) | upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process; | 6.4.3 ICAAP process at Banco Sabadell Group |
| 438 (d) | the total risk-weighted exposure amount and the corresponding total own funds requirement determined in accordance with Article 92, to be broken down by the different risk categories set out in Part Three and, where applicable, an explanation of the effect on the calculation of own funds and risk-weighted exposure amounts that results from applying capital floors and not deducting items from own funds; | 6.3.1 Total amount of minimum own funds requirements<br>Table 15 Overview of total risk exposure amounts (EU OV1). |
| 438 (e) | the on- and off-balance-sheet exposures, the risk-weighted exposure amounts and associated expected losses for each category of specialised lending referred to in Table 1 of Article 153(5) and the on- and off-balancesheet exposures and risk-weighted exposure amounts for the categories of equity exposures set out in Article 155(2); | 8.5.1 Own funds requirements for exposures encompassed within the Specialised Lending category<br>Table 52. Specialised lending and equity exposures under the simple riskweighted approach - Specialised lending: Project finance (Slotting approach) (EU CR10.1)<br>8.6.1 Own funds requirements for exposures encompassed within the Equities category<br>Table 53. Specialised lending and equity exposures under the simple riskweighted approach - Equity exposures under the simple risk-weighted approach (EU CR10.5) |
| 438 (f) | the exposure value and the risk-weighted exposure amount of own funds instruments held in any insurance undertaking, reinsurance undertaking or insurance holding company that the institutions do not deduct from their own funds in accordance with Article 49 when calculating their capital requirements on an individual, sub-consolidated and consolidated basis; | Not applicable |
| 438 (g) | the supplementary own funds requirement and the capital adequacy ratio of the financial conglomerate calculated in accordance with Article 6 of D | Not applicable |
| 438 (h) | the variations in the risk-weighted exposure amounts of the current disclosure period compared to the immediately preceding disclosure period that result from the use of internal models, including an outline of the key drivers explaining those variations. | 6.3.1 Total amount of minimum own funds requirements<br>Table 13 RWEA flow statements of credit risk exposures under the IRB approach (EU CR8) |

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| **439 - Disclosure of exposures to counterparty credit risk** | | |
| 439 | Institutions shall disclose the following information regarding their exposure to counterparty credit risk as referred to in Chapter 6 of Title II of Part Three: | --- |
| 439 (a) | a description of the methodology used to assign internal capital and credit limits for counterparty credit exposures, including the methods to assign those limits to exposures to central counterparties; | 8.8.3 Methodology used to assign internal capital and to establish limits for counterparty credit risk exposures |
| 439 (b) | a description of policies related to guarantees and other credit risk mitigants, such as the policies for securing collateral and establishing credit reserves; | 8.8.4 Policies for ensuring the effectiveness of collateral and for allocating impairment allowances for counterparty credit risk |
| 439 (c) | a description of policies with respect to General Wrong-Way risk and Specific Wrong-Way risk as defined in Article 291; | 8.8.5 Policies with respect to wrong-way risk exposures |
| 439 (d) | the amount of collateral the institution would have to provide if its credit rating was downgraded; | 8.8.6 Impact of collateral in the event of a downgrade of the Institution's credit rating |
| 439 (e) | the amount of segregated and unsegregated collateral received and posted per type of collateral, further broken down between collateral used for derivatives and securities financing transactions; | 8.8.9 Quantitative information on Counterparty Credit Risk<br>Table 60 Composition of collateral for CCR exposures (EU CCR5) |
| 439 (f) | for derivative transactions, the exposure values before and after the effect of the credit risk mitigation as determined under the methods set out in Sections 3 to 6 of Chapter 6 of Title II of Part Three, whichever method is applicable, and the associated risk exposure amounts broken down by applicable method; | 8.8.9 Quantitative information on Counterparty Credit Risk<br>Table 61. Analysis of CCR exposure by approach (EU CCR1) |
| 439 (g) | for securities financing transactions, the exposure values before and after the effect of the credit risk mitigation as determined under the methods set out in Chapters 4 and 6 of Title II of Part Three, whichever method is used, and the associated risk exposure amounts broken down by applicable method; | 8.8.9 Quantitative information on Counterparty Credit Risk<br>Table 61. Analysis of CCR exposure by approach (EU CCR1) |
| 439 (h) | the exposure values after credit risk mitigation effects and the associated risk exposures for credit valuation adjustment capital charge, separately for each method as set out in Title VI of Part Three; | 8.8.10 Own funds requirements for Credit Valuation Adjustment (CVA) and Default Fund contribution<br>Table 63. Transactions subject to own funds requirements for CVA risk (EU CCR2) |
| 439 (i) | the exposure value to central counterparties and the associated risk exposures within the scope of Section 9 of Chapter 6 of Title II of Part Three, separately for qualifying and non-qualifying central counterparties, and broken down by types of exposures; | 8.8.9 Quantitative information on Counterparty Credit Risk<br>Table 62. Exposures to CCPs (EU CCR8) |
| 439 (j) | the notional amounts and fair value of credit derivative transactions; credit derivative transactions shall be broken down by product type; within each product type, credit derivative transactions shall be broken down further by credit protection bought and credit protection sold; | Not applicable |
| 439 (k) | the estimate of alpha where the institution has received the permission of the competent authorities to use its own estimate of alpha in accordance with Article 284(9); | 8.8.9 Quantitative information on Counterparty Credit Risk<br>Table 61 Analysis of CCR exposure by approach (EU CCR1) |
| 439 (l) | separately, the disclosures included in point (e) of Article 444 and point (g) of Article 452; | 8.8.9 Quantitative information on Counterparty Credit Risk<br>Table 58 Standardised approach – CCR exposures by regulatory exposure class and risk weights (EU CCR3)<br>Table 59 IRB approach – CCR exposures by exposure class and PD scale (EU CCR4) |
| 439 (m) | for institutions using the methods set out in Sections 4 to 5 of Chapter 6 of Title II Part Three, the size of their on- and off-balance-sheet derivative business as calculated in accordance with Article 273a(1) or (2), as applicable. | 8.8.9 Quantitative information on Counterparty Credit Risk<br>Table 61 Analysis of CCR exposure by approach (EU CCR1) |
| | for institutions using the methods set out in Sections 4 to 5 of Chapter 6 of Title II Part Three, the size of their on- and off-balance-sheet derivative business as calculated in accordance with Article 273a(1) or (2), as applicable. | Not applicable |

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| **440 - Disclosure of countercyclical capital buffers** | | |
| 440 | Institutions shall disclose the following information in relation to their compliance with the requirement for a countercyclical capital buffer as referred to in Chapter 4 of Title VII of Directive 2013/36/EU: | --- |
| 440 (a) | the geographical distribution of the exposure amounts and risk-weighted exposure amounts of its credit exposures used as a basis for the calculation of their countercyclical capital buffer; | 6.5 Capital buffers<br>Table 17 Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (EU CCyB1). |
| 440 (b) | the amount of their institution-specific countercyclical capital buffer. | 6.5 Capital buffers<br>Table 18 Amount of institution-specific countercyclical capital buffer (EU CCyB2). |
| **441 - Disclosure of indicators of global systemic importance** | | |
| 441 | G-SIIs shall disclose, on an annual basis, the values of the indicators used for determining their score in accordance with the identification methodology referred to in Article 131 of Directive 2013/36/EU. | Not applicable |
| **442 - Disclosure of exposures to credit risk and dilution risk** | | |
| 442 | Institutions shall disclose the following information regarding their exposures to credit risk and dilution risk: | --- |
| 442 (a) | the scope and definitions that they use for accounting purposes of ‘past due’ and ‘impaired’ and the differences, if any, between the definitions of ‘past due’ and ‘default’ for accounting and regulatory purposes; | 8.2.2 Impairment of financial assets<br>Accounting classification of transactions on the basis of credit risk attributable to insolvency |
| 442 (b) | a description of the approaches and methods adopted for determining specific and general credit risk adjustments; | 8.2.2 Impairment of financial assets<br>Coverage determination |
| 442 (c) | information on the amount and quality of performing, non-performing and forborne exposures for loans, debt securities and off-balance-sheet exposures, including their related accumulated impairment, provisions and negative fair value changes due to credit risk and amounts of collateral and financial guarantees received; | 8.2.3 General credit risk information<br>Table 28. Performing and non-performing exposures and related provisions (EU CR1)<br>Table 29. Credit quality of forborne exposures (EU CQ1)<br>Table 25. Quality of non-performing exposures by geography (EU CQ4)<br>Table 26. Credit quality of loans and advances to non-financial corporations by industry (EU CQ5)<br>Table 31. Collateral obtained by taking possession and execution processes (EU CQ7) |
| 442 (d) | an ageing analysis of accounting past due exposures; | 8.2.3 General credit risk information<br>Table 30 Credit quality of performing and non-performing exposures by past due days (EU CQ3) |
| 442 (e) | the gross carrying amounts of both defaulted and non-defaulted exposures, the accumulated specific and general credit risk adjustments, the accumulated write-offs taken against those exposures and the net carrying amounts and their distribution by geographical area and industry type and for loans, debt securities and offbalance-sheet exposures; | 8.2.3 General credit risk information<br>Table 25 Quality of non-performing exposures by geography (EU CQ4)<br>Table 26 Credit quality of loans and advances to non-financial corporations by industry (EU CQ5) |
| 442 (f) | any changes in the gross amount of defaulted on- and off-balance-sheet exposures, including, as a minimum, information on the opening and closing balances of those exposures, the gross amount of any of those exposures reverted to non-defaulted status or subject to a write-off; | 8.2.3 General credit risk information<br>Table 28 Performing and non-performing exposures and related provisions (EU CR1) |
| 442 (g) | the breakdown of loans and debt securities by residual maturity. | 8.2.3 Información general sobre riesgo de crédito<br>Table 28. Vencimiento de las exposiciones (EU CR1-A) |
| **443 - Disclosure of encumbered and unEncumbrance Assets** | | |
| 443 | Institutions shall disclose information concerning their encumbered and unEncumbrance Assets. For those purposes, institutions shall use the carrying amount per exposure class broken down by asset quality and the total amount of the carrying amount that is encumbered and unencumbered. Disclosure of information on encumbered and unEncumbrance Assets shall not reveal emergency liquidity assistance provided by central banks. | 13 Encumbrance Assets |

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| **444 - Disclosure of the use of the Standardised Approach** | | |
| 444 | Institutions calculating their risk-weighted exposure amounts in accordance with Chapter 2 of Title II of Part Three shall disclose the following information for each of the exposure classes set out in Article 112: | --- |
| 444 (a) | the names of the nominated ECAIs and ECAs and the reasons for any changes in those nominations over the disclosure period; | 8.3.1 Nominated external credit assessment institutions and export credit agencies and reasons for any changes made in relation to these ECAIs and ECAs |
| 444 (b) | the exposure classes for which each ECAI or ECA is used; | 8.3.2 Exposure classes for which assessments of each ECAI or ECA are used |
| 444 (c) | a description of the process used to transfer the issuer and issue credit ratings onto items not included in the trading book; | 8.3.3 Process used to transfer credit assessments of public issuances of securities onto comparable assets not included in the trading book |
| 444 (d) | the association of the external rating of each nominated ECAI or ECA with the risk weights that correspond to the credit quality steps as set out in Chapter 2 of Title II of Part Three, taking into account that it is not necessary to disclose that information where the institutions comply with the standard association published by EBA; | 8.3.1 Nominated external credit assessment institutions and export credit agencies and reasons for any changes made in relation to these ECAIs and ECAs |
| 444 (e ) | the exposure values and the exposure values after credit risk mitigation associated with each credit quality step as set out in Chapter 2 of Title II of Part Three, by exposure class, as well as the exposure values deducted from own funds. | 8.3.4 Exposure to credit risk and credit risk mitigation effects<br>Table 35 Standardised approach – Credit risk exposure and CRM effects (EU CR4)<br>8.3.5 Value of exposure after the application (where applicable) of credit risk mitigation techniques for each credit quality step<br>Table 36 standardised approach (EU CR5) |
| **445 - Disclosure of exposure to market risk** | | |
| 445 | Institutions calculating their own funds requirements in accordance with points (b) and (c) of Article 92(3) shall disclose those requirements separately for each risk referred to in those points. In addition, own funds requirements for the specific interest rate risk of securitisation positions shall be disclosed separately. | 9.2 Own funds requirements for Market Risk<br>Table 68 Market risk under the standardised approach (EU MR1) |
| **446 - Disclosure of operational risk management** | | |
| 446 | Institutions shall disclose the following information about their operational risk management: | --- |
| 446 (a) | the approaches for the assessment of own funds requirements for operation risk that the institution qualifies for; | 10.3 Calculation of own funds requirements to cover Operational Risk |
| 446 (b) | where the institution makes use of it, a description of the methodology set out in Article 312(2), which shall include a discussion of the relevant internal and external factors being considered in the institution's advanced measurement approach; | 10.1 Operational Risk Management and Governance Measurement Systems<br>10.2 Internal model for the measurement of Operational Risk |
| 446 (c ) | in the case of partial use, the scope and coverage of the different methodologies used | 10.1 Operational Risk Management and Governance Measurement Systems<br>10.2 Internal model for the measurement of Operational Risk |
| **447 - Disclosure of key metrics** | | |
| 447 | Institutions shall disclose the following key metrics in a tabular format | --- |
| 447 (a) | the composition of their own funds and their own funds requirements as calculated in accordance with Article 92; | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |
| 447 (b) | the total risk exposure amount as calculated in accordance with Article 92(3); | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |
| 447 (c) | where applicable, the amount and composition of additional own funds which the institutions are required to hold in accordance with point (a) of Article 104(1) of Directive 2013/36/EU; | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |
| 447 (d) | their combined buffer requirement which the institutions are required to hold in accordance with Chapter 4 of Title VII of Directive 2013/36/EU; | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |
| 447 (e ) | their leverage ratio and the total exposure measure as calculated in accordance with Article 429; | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |

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| 447 (f) | the following information in relation to their liquidity coverage ratio as calculated in accordance with the delegated act referred to in Article 460(1): | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |
| 447 (f) (i) | the average or averages, as applicable, of their liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period; | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |
| 447 (f) (ii) | the average or averages, as applicable, of total liquid assets, after applying the relevant haircuts, included in the liquidity buffer pursuant to the delegated act referred to in Article 460(1), based on end-of-themonth observations over the preceding 12 months for each quarter of the relevant disclosure period; | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |
| 447 (f) (iii) | the averages of their liquidity outflows, inflows and net liquidity outflows as calculated pursuant to the delegated act referred to in Article 460(1), based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period; | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |
| 447 (g) | the following information in relation to their net stable funding requirement as calculated in accordance with Title IV of Part Six: | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |
| 447 (g) (i) | the net stable funding ratio at the end of each quarter of the relevant disclosure period; | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |
| 447 (g) (ii) | the available stable funding at the end of each quarter of the relevant disclosure period; | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |
| 447 (g) (iii) | the required stable funding at the end of each quarter of the relevant disclosure period; | Annex III Information on key parameters<br>Table 109. Key metrics template (EU KM1) |
| 447 (h) | their own funds and eligible liabilities ratios and their components, numerator and denominator, as calculated in accordance with Articles 92a and 92b and broken down at the level of each resolution group, where applicable. | Not applicable |
| **448 - Disclosure of exposures to interest rate risk on positions not held in the trading book** | | |
| 448 (1) | As from 28 June 2021, institutions shall disclose the following quantitative and qualitative information on the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of their non-trading book activities referred to in Article 84 and Article 98(5) of Directive 2013/36/EU: | --- |
| 448 (1) (a) | the changes in the economic value of equity calculated under the six supervisory shock scenarios referred to in Article 98(5) of Directive 2013/36/EU for the current and previous disclosure periods; | 11.1.2 Changes in net interest income and in the economic value of equity in response to interest rate fluctuations, in accordance with the established management approach<br>Table 70 Interest rate risk of non-trading book activities (EU IRRBB1) |
| 448 (1) (b) | the changes in the net interest income calculated under the two supervisory shock scenarios referred to in Article 98(5) of Directive 2013/36/EU for the current and previous disclosure periods; | 11.1.2 Changes in net interest income and in the economic value of equity in response to interest rate fluctuations, in accordance with the established management approach<br>Table 70 Interest rate risk of non-trading book activities (EU IRRBB1) |
| 448 (1) (c) | a description of key modelling and parametric assumptions, other than those referred to in points (b) and (c) of Article 98(5a) of Directive 2013/36/EU used to calculate changes in the economic value of equity and in the net interest income required under points (a) and (b) of this paragraph; | 11.1.2 Changes in net interest income and in the economic value of equity in response to interest rate fluctuations, in accordance with the established management approach<br><br>Section 11.1.1 Structural interest rate risk management and governance |
| 448 (1) (d) | an explanation of the significance of the risk measures disclosed under points (a) and (b) of this paragraph and of any significant variations of those risk measures since the previous disclosure reference date; | Section 11.1.1 Structural interest rate risk management and governance |
| 448 (1) (e) | the description of how institutions define, measure, mitigate and control the interest rate risk of their nontrading book activities for the purposes of the competent authorities' review in accordance with Article 84 of Directive 2013/36/EU, including: | --- |

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| 448 (1) (e) (i) | a description of the specific risk measures that the institutions use to evaluate changes in their economic value of equity and in their net interest income; | Section 11.1.1 Structural interest rate risk management and governance |
| 448 (1) (e ) (ii) | a description of the key modelling and parametric assumptions used in the institutions' internal measurement systems that would differ from the common modelling and parametric assumptions referred to in Article 98(5a) of Directive 2013/36/EU for the purpose of calculating changes to the economic value of equity and to the net interest income, including the rationale for those differences; | 11.1.2 Changes in net interest income and in the economic value of equity in response to interest rate fluctuations, in accordance with the established management approach<br><br>Section 11.1.1 Structural interest rate risk management and governance |
| 448 (1) (e) (iii) | a description of the interest rate shock scenarios that institutions use to estimate the interest rate risk; | 11.1.2 Changes in net interest income and in the economic value of equity in response to interest rate fluctuations, in accordance with the established management approach<br><br>Section 11.1.1 Structural interest rate risk management and governance |
| 448 (1) (e) (iv) | the recognition of the effect of hedges against those interest rate risks, including internal hedges that meet the requirements laid down in Article 106(3); | Section 11.1.1 Structural interest rate risk management and governance |
| 448 (1) (e) (v) | an outline of how often the evaluation of the interest rate risk occurs; | Section 11.1.1 Structural interest rate risk management and governance |
| 448 (1) (f) | the description of the overall risk management and mitigation strategies for those risks; | Section 11.1.1 Structural interest rate risk management and governance |
| 448 (1) (g) | average and longest repricing maturity assigned to non-maturity deposits. | 11.1.2 Changes in net interest income and in the economic value of equity in response to interest rate fluctuations, in accordance with the established management approach |
| 448 (2) | By way of derogation from paragraph 1 of this Article, the requirements set out in points (c) and (e)(i) to (e) (iv) of paragraph 1 of this Article shall not apply to institutions that use the standardised methodology or the simplified standardised methodology referred to in Article 84(1) of Directive 2013/36/EU | Not applicable |
| **449 - Disclosure of exposures to securitisation positions** | | |
| 449 | Institutions calculating risk-weighted exposure amounts in accordance with Chapter 5 of Title II of Part Three or own funds requirements in accordance with Article 337 or 338 shall disclose the following information separately for their trading book and non-trading book activities: | --- |
| 449 (a) | a description of their securitisation and re-securitisation activities, including their risk management and investment objectives in connection with those activities, their role in securitisation and re-securitisation transactions, whether they use the simple, transparent and standardised securitisation (STS) as defined in point (10) of Article 242, and the extent to which they use securitisation transactions to transfer the credit risk of the securitised exposures to third parties with, where applicable, a separate description of their synthetic securitisation risk transfer policy; | 8.9.2 Objectives in relation to securitisation activity<br>8.9.4 Type of risks in terms of seniority of underlying securitisation positions<br>8.9.5 Roles and involvement of the Institution in securitisation processes<br>8.9.10 Monitoring of the main risks associated with securitisation<br>8.9.11 Group securitisation activity during 2022 |
| 449 (b) | the type of risks they are exposed to in their securitisation and re-securitisation activities by level of seniority of the relevant securitisation positions providing a distinction between STS and non-STS positions and: (i) the risk retained in own-originated transactions; (ii) the risk incurred in relation to transactions originated by third parties; | 8.9.3 Nature of other risks inherent in securitisation activity<br>8.9.4 Type of risks in terms of seniority of underlying securitisation positions |
| 449 (c ) | their approaches for calculating the risk-weighted exposure amounts that they apply to their securitisation activities, including the types of securitisation positions to which each approach applies and with a distinction between STS and non-STS positions; | 8.9.8 Approaches to calculating risk-weighted exposure in securitisation activities<br>Table 65. Securitisation exposures in the non-trading book (EU SEC1)<br>Table 67. Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor (EU SEC3) |
| 449 (d) | a list of SSPEs falling into any of the following categories, with a description of their types of exposures to those SSPEs, including derivative contracts: | 8.9.4 Type of risks in terms of seniority of underlying securitisation positions<br>8.9.5 Functions and involvement in securitization processes |
| 449 (d) (i) | SSPEs which acquire exposures originated by the institutions; | 8.9.4 Type of risks in terms of seniority of underlying securitisation positions<br>8.9.5 Functions and involvement in securitization processes |
| 449 (d) (ii) | SSPEs sponsored by the institutions; | Not applicable |

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| 449 (d) (iii) | SSPEs and other legal entities for which the institutions provide securitisation-related services, such as advisory, asset servicing or management services; | Not applicable |
| 449 (d) (iv) | SSPEs included in the institutions' regulatory scope of consolidation; | 8.9.4 Type of risks in terms of seniority of underlying securitisation positions<br>8.9.5 Functions and involvement in securitization processes |
| 449 (e ) | a list of any legal entities in relation to which the institutions have disclosed that they have provided support in accordance with Chapter 5 of Title II of Part Three; | 8.9.5 Functions and involvement in securitization processes<br>8.9.7 Accounting policies for securitisation activities |
| 449 (f) | a list of legal entities affiliated with the institutions and that invest in securitisations originated by the institutions or in securitisation positions issued by SSPEs sponsored by the institutions; | 8.9.6 Affiliated entities investing in securitisations originated or issued by sponsored SSPEs |
| 449 (g) | a summary of their accounting policies for securitisation activity, including where relevant a distinction between securitisation and re-securitisation positions; | 8.9.7 Accounting policies for securitisation activities |
| 449 (h) | the names of the ECAIs used for securitisations and the types of exposure for which each agency is used | 8.9.9 ECAis used in securitizations |
| 449 (i) | where applicable, a description of the Internal Assessment Approach as set out in Chapter 5 of Title II of Part Three, including the structure of the internal assessment process and the relation between internal assessment and external ratings of the relevant ECAI disclosed in accordance with point (h), the control mechanisms for the internal assessment process including discussion of independence, accountability, and internal assessment process review, the exposure types to which the internal assessment process is applied and the stress factors used for determining credit enhancement levels; | 8.9.2 Objectives in relation to securitisation activity<br>8.9.8 Approaches to calculating risk-weighted exposure in securitisation activities |
| 449 (j) | separately for the trading book and the non-trading book, the carrying amount of securitisation exposures, including information on whether institutions have transferred significant credit risk in accordance with Articles 244 and 245, for which institutions act as originator, sponsor or investor, separately for traditional and synthetic securitisations, and for STS and non-STS transactions and broken down by type of securitisation exposures; | 8.9.11 Banco Sabadell Group securitisation activity during 2022<br>Table 65. Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor (EU SEC3) |
| 449 (k) | for the non-trading book activities, the following information: | 8.9.12 Securitisation structure with risk transfer<br>Table 67. Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor (EU SEC3) |
| 449 (k) (i) | the aggregate amount of securitisation positions where institutions act as originator or sponsor and the associated risk-weighted assets and capital requirements by regulatory approaches, including exposures deducted from own funds or risk weighted at 1 250 %, broken down between traditional and synthetic securitisations and between securitisation and re-securitisation exposures, separately for STS and non-STS positions, and further broken down into a meaningful number of risk-weight or capital requirement bands and by approach used to calculate the capital requirements; | 8.9.12 Securitisation structure with risk transfer<br>Table 67. Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor (EU SEC3) |
| 449 (k) (ii) | the aggregate amount of securitisation positions where institutions act as investor and the associated riskweighted assets and capital requirements by regulatory approaches, including exposures deducted from own funds or risk weighted at 1 250 %, broken down between traditional and synthetic securitisations, securitisation and re-securitisation positions, and STS and non-STS positions, and further broken down into a meaningful number of risk weight or capital requirement bands and by approach used to calculate the capital requirements; | Not applicable |
| 449 (l) | for exposures securitised by the institution, the amount of exposures in default and the amount of the specific credit risk adjustments made by the institution during the current period, both broken down by exposure type. | 8.9.11 Banco Sabadell Group securitisation activity during 2022<br>Table 66. Exposures securitised by the institution - Exposures in default and specific credit risk adjustments (EU SEC5) |

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| **449 bis - Disclosure of environmental, social and governance risks (ESG risks)** | | |
| 449 bis | From 28 June 2022, large institutions which have issued securities that are admitted to trading on a regulated market of any Member State, as defined in point (21) of Article 4(1) of Directive 2014/65/EU, shall disclose information on ESG risks, including physical risks and transition risks, as defined in the report referred to in Article 98(8) of Directive 2013/36/EU. | 14. ESG Risks |
| 449 bis | The information referred to in the first paragraph shall be disclosed on an annual basis for the first year and biannually thereafter. | 14. ESG Risks |
| **450 - Disclosure of remuneration policy** | | |
| 450 (1) | Institutions shall disclose the following information regarding their remuneration policy and practices for those categories of staff whose professional activities have a material impact on the risk profile of the institutions: | --- |
| 450 (1) (a) | information concerning the decision-making process used for determining the remuneration policy, as well as the number of meetings held by the main body overseeing remuneration during the financial year, including, where applicable, information about the composition and the mandate of a remuneration committee, the external consultant whose services have been used for the determination of the remuneration policy and the role of the relevant stakeholders; | 15.1 General aspects of the Group's remuneration policy<br>15.2 Information concerning the decision-making process for determining the Group's remuneration policy |
| 450 (1) (b) | information about the link between pay of the staff and their performance; | 15.4 Characteristics of the collective remuneration. |
| 450 (1) (c) | the most important design characteristics of the remuneration system, including information on the criteria used for performance measurement and risk adjustment, deferral policy and vesting criteria; | 15.1 General aspects of the Group's remuneration policy<br>15.4.1 Basic remuneration components in Banco Sabadell Group<br>Short-Term Variable Compensation<br>15.4.3 Adjustments to target achievement<br>15.4.4 Adjustments for ex ante risk<br>15.4.5 Adjustments for ex ante risk<br>Policy on deferral, retention and payment in shares<br>15.5 Application of fixed and variable remuneration in 2022 |
| 450 (1) (d) | the ratios between fixed and variable remuneration set in accordance with point (g) of Article 94(1) of Directive 2013/36/EU; | 15.5 Application of fixed and variable remuneration in 2022 |
| 450 (1) (e) | information on the performance criteria on which the entitlement to shares, options or variable components of remuneration is based; | 15.4 Characteristics of the remuneration of Banco Sabadell Group's Identified Staff<br>15.4.4 Adjustments for ex ante risk<br>15.5 Application of fixed and variable remuneration in 2022 |
| 450 (1) (f) | the main parameters and rationale for any variable component scheme and any other non-cash benefits; | 15.4.1 Basic remuneration components in Banco Sabadell Group |
| 450 (1) (g) | aggregate quantitative information on remuneration, broken down by business area; | 15.5 Application of fixed and variable remuneration in 2022<br>Table 102. Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) (EU REM5). |
| 450 (1) (h) | aggregate quantitative information on remuneration, broken down by senior management and members of staff whose professional activities have a material impact on the risk profile of the institutions, indicating the following: | --- |
| 450 (1) (h) (i) | the amounts of remuneration awarded for the financial year, split into fixed remuneration including a description of the fixed components, and variable remuneration, and the number of beneficiaries; | 15.5 Application of fixed and variable remuneration in 2022<br>Table 100. Remuneration granted for the year (EU REM1) |
| 450 (1) (h) (ii) | the amounts and forms of awarded variable remuneration, split into cash, shares, share-linked instruments and other types separately for the part paid upfront and the deferred part; | 15.5 Application of fixed and variable remuneration in 2022<br>Table 100. Remuneration granted for the year (EU REM1) |
| 450 (1) (h) (iii) | the amounts of deferred remuneration awarded for previous performance periods, split into the amount due to vest in the financial year and the amount due to vest in subsequent years; | 15.5 Application of fixed and variable remuneration in 2022<br>Table 103. Deferred remuneration (EU REM3) |
| 450 (1) (h) (iv) | the amount of deferred remuneration due to vest in the financial year that is paid out during the financial year, and that is reduced through performance adjustments; | 15.5 Application of fixed and variable remuneration in 2022<br>Table 103. Deferred remuneration (EU REM3) |

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| 450 (1) (h) (v) | the guaranteed variable remuneration awards during the financial year, and the number of beneficiaries of those awards; | 15.5 Application of fixed and variable remuneration in 2022<br>Table 101. Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (EU REM2) |
| 450 (1) (h) (vi) | the severance payments awarded in previous periods, that have been paid out during the financial year; | 15.5 Application of fixed and variable remuneration in 2022<br>Table 101. Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (EU REM2) |
| 450 (1) (h) (vii) | the amounts of severance payments awarded during the financial year, split into paid upfront and deferred, the number of beneficiaries of those payments and highest payment that has been awarded to a single person; | 15.5 Application of fixed and variable remuneration in 2022<br>Table 101. Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (EU REM2) |
| 450 (1) (i) | the number of individuals that have been remunerated EUR 1 million or more per financial year, with the remuneration between EUR 1 million and EUR 5 million broken down into pay bands of EUR 500 000 and with the remuneration of EUR 5 million and above broken down into pay bands of EUR 1 million; | 15.5 Application of fixed and variable remuneration in 2022<br>Table 104. Remuneration of 1 million EUR or more per year (EU REM4) |
| 450 (1) (j) | upon demand from the relevant Member State or competent authority, the total remuneration for each member of the management body or senior management; | 15.1 General aspects of the Group's remuneration policy<br>Annual Report on Directors' Remuneration |
| 450 (1) (k) | information on whether the institution benefits from a derogation laid down in Article 94(3) of Directive 2013/36/EU. For the purposes of point (k) of the first subparagraph of this paragraph, institutions that benefit from such a derogation shall indicate whether they benefit from that derogation on the basis of point (a) or (b) of Article 94(3) of Directive 2013/36/EU. They shall also indicate for which of the remuneration principles they apply the derogation(s), the number of staff members that benefit from the derogation(s) and their total remuneration, split into fixed and variable remuneration. | 15.5 Application of fixed and variable remuneration in 2022 |
| 450 (2) | For large institutions, the quantitative information on the remuneration of institutions' collective management body referred to in this Article shall also be made available to the public, differentiating between executive and non-executive members. Institutions shall comply with the requirements set out in this Article in a manner that is appropriate to their size, internal organisation and the nature, scope and complexity of their activities and without prejudice to Regulation (EU) 2016/679 of the European Parliament and of the Council (*). | 15.1 General aspects of the Group's remuneration policy<br>Annual Report on Directors' Remuneration |
| **451 - Disclosure of the leverage ratio** | | |
| 451 (1) | Institutions that are subject to Part Seven shall disclose the following information regarding their leverage ratio as calculated in accordance with Article 429 and their management of the risk of excessive leverage: | --- |
| 451 (1) (a) | the leverage ratio and how the institutions apply Article 499(2); | 7.1 Leverage ratio definition and composition<br>Table 22. Leverage ratio common disclosure (EU LR2) |
| 451 (1) (b) | a breakdown of the total exposure measure referred to in Article 429(4), as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements; | 7.1 Leverage ratio definition and composition<br>Table 21. Summary reconciliation of accounting assets and leverage ratio exposures (EU LR1)<br>Table 22. LRCom: Leverage ratio common disclosure (EU LR2).<br>Table 23. LRSpl: Split-up of on balance sheet exposures (excluding |
| 451 (1) (c) | where applicable, the amount of exposures calculated in accordance with Articles 429(8) and 429a(1) and the adjusted leverage ratio calculated in accordance with Article 429a(7); | 7.1 Leverage ratio definition and composition<br>Table 22. LRCom: Leverage ratio common disclosure (EU LR2). |
| 451 (1) (d) | a description of the processes used to manage the risk of excessive leverage; | 7.3 Leverage ratio management |
| 451 (1) (e) | a description of the factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers. | 7.2 Leverage ratio evolution |

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| 451 (2) | Public development credit institutions as defined in Article 429a(2) shall disclose the leverage ratio without the adjustment to the total exposure measure determined in accordance with point (d) of the first subparagraph of Article 429a(1). | Not applicable |
| 451 (3) | In addition to points (a) and (b) of paragraph 1 of this Article, large institutions shall disclose the leverage ratio and the breakdown of the total exposure measure referred to in Article 429(4) based on averages calculated in accordance with the implementing act referred to in Article 430(7). | 7.1 Leverage ratio definition and composition<br>Table 22. LRCom: Leverage ratio common disclosure (EU LR2). |
| **451 bis - Disclosure of liquidity requirements** | | |
| 451 bis (1) | Institutions that are subject to Part Six shall disclose information on their liquidity coverage ratio, net stable funding ratio and liquidity risk management in accordance with this Article | 12 Liquidity Risk |
| 451 bis (2) | Institutions shall disclose the following information in relation to their liquidity coverage ratio as calculated in accordance with the delegated act referred to in Article 460(1): | 12.5 Compliance with regulatory ratios<br>Table 75. Quantitative information on Liquidity Coverage Ratio (EU LIQ1). |
| 451 bis (2) (a) | the average or averages, as applicable, of their liquidity coverage ratio based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period; | 12.5 Compliance with regulatory ratios<br>Table 75. Quantitative information on Liquidity Coverage Ratio (EU LIQ1). |
| 451 bis (2) (b) | the average or averages, as applicable, of total liquid assets, after applying the relevant haircuts, included in the liquidity buffer pursuant to the delegated act referred to in Article 460(1), based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period, and a description of the composition of that liquidity buffer; | 12.5 Compliance with regulatory ratios<br>Table 75. Quantitative information on Liquidity Coverage Ratio (EU LIQ1). |
| 451 bis (2) (c) | the averages of their liquidity outflows, inflows and net liquidity outflows as calculated in accordance with the delegated act referred to in Article 460(1), based on end-of-the-month observations over the preceding 12 months for each quarter of the relevant disclosure period and the description of their composition. | 12.5 Compliance with regulatory ratios<br>Table 75. Quantitative information on Liquidity Coverage Ratio (EU LIQ1). |
| 451 bis (3) | Institutions shall disclose the following information in relation to their net stable funding ratio as calculated in accordance with Title IV of Part Six: | 12.5.2 Net Stable Funding Ratio (NSFR)<br>Table 76. Net stable funding ratio (EU LIQ2). |
| 451 bis (3) (a) | quarter-end figures of their net stable funding ratio calculated in accordance with Chapter 2 of Title IV of Part Six for each quarter of the relevant disclosure period; | 12.5.2 Net Stable Funding Ratio (NSFR)<br>Table 76. Net stable funding ratio (EU LIQ2). |
| 451 bis (3) (b) | an overview of the amount of available stable funding calculated in accordance with Chapter 3 of Title IV of Part Six; | 12.5.2 Net Stable Funding Ratio (NSFR)<br>Table 76. Net stable funding ratio (EU LIQ2). |
| 451 bis (3) (c) | an overview of the amount of required stable funding calculated in accordance with Chapter 4 of Title IV of Part Six. | 12.5.2 Net Stable Funding Ratio (NSFR)<br>Table 76. Net stable funding ratio (EU LIQ2). |
| 451 bis (4) | Institutions shall disclose the arrangements, systems, processes and strategies put in place to identify, measure, manage and monitor their liquidity risk in accordance with Article 86 of Directive 2013/36/EU. | 12 Liquidity Risk |
| **452 - Divulgación de información sobre la aplicación del método IRB al riesgo de crédito** | | |
| 452 | Institutions calculating the risk-weighted exposure amounts under the IRB Approach to credit risk shall disclose the following information: | --- |
| 452 (a) | the competent authority's permission of the approach or approved transition; | 8.4.1 Internal models of Banco Sabadell Group<br>Table 37. Breakdown of portfolios for which authorisation has been obtained from the supervisor to use or progressively apply the internal ratings-based (IRB) approach.<br>Table 38. Model structure for calculating IRB parameters in different portfolios.<br>Table 40. Roll-out model structure for calculating IRB parameters in different portfolios.<br>Table 39. Summary by approach. |

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| 452 (b) | for each exposure class referred to in Article 147, the percentage of the total exposure value of each exposure class subject to the Standardised Approach laid down in Chapter 2 of Title II of Part Three or to the IRB Approach laid down in Chapter 3 of Title II of Part Three, as well as the part of each exposure class subject to a roll-out plan; where institutions have received permission to use own LGDs and conversion factors for the calculation of risk-weighted exposure amounts, they shall disclose separately the percentage of the total exposure value of each exposure class subject to that permission; | 8.4.2 Internal rating systems<br>Scope of use of capital requirement calculation methods<br>Table 45. Scope of the use of IRB and SA approaches (EU CR6.A). |
| 452 (c ) | the control mechanisms for rating systems at the different stages of model development, controls and changes, which shall include information on: | 8.4.2 Internal rating systems<br>Governance of internal credit risk models |
| 452 (c ) (i) | the relationship between the risk management function and the internal audit function; | 8.4.2 Internal rating systems<br>Internal Audit |
| 452 (c ) (ii) | the rating system review; | 8.4.2 Internal rating systems<br>Credit risk control unit |
| 452 (c ) (iii) | the procedure to ensure the independence of the function in charge of reviewing the models from the functions responsible for the development of the models; | 8.4.2 Internal rating systems<br>Credit risk control unit<br>Validation Function<br>Internal Audit |
| 452 (c ) (iv) | the procedure to ensure the accountability of the functions in charge of developing and reviewing the models; | 8.4.2 Internal rating systems<br>Credit risk control unit<br>Validation Function<br>Internal Audit |
| 452 (d) | the role of the functions involved in the development, approval and subsequent changes of the credit risk models; | 8.4.2 Internal rating systems<br>Credit Risk Control Unit<br>Governance of internal credit risk models<br>Validation Function |
| 452 (e ) | the scope and main content of the reporting related to credit risk models; | 8.4.2 Internal rating systems<br>Credit Risk Control Unit |
| 452 (f) | a description of the internal ratings process by exposure class, including the number of key models used with respect to each portfolio and a brief discussion of the main differences between the models within the same portfolio, covering: | 8.4.1 Internal models of Banco Sabadell Group<br>Calculation of credit risk-weighted exposure amounts for credit risk under IRB approach<br>Table 37. Breakdown of portfolios for which authorisation has been obtained from the supervisor to use or progressively apply the internal ratings-based (IRB) approach.<br>Table 38. Model structure for calculating IRB parameters in different portfolios.<br>Table 40. Roll-out model structure for calculating IRB parameters in different portfolios.as |
| 452 (f) (i) | ) the definitions, methods and data for estimation and validation of PD, which shall include information on how PDs are estimated for low default portfolios, whether there are regulatory floors and the drivers for differences observed between PD and actual default rates at least for the last three periods; | 8.4.3 Backtesting of risk parameters<br>8.4.3.1 Comparison of Probability of Default estimates against observed default rates<br>8.4.2 Internal rating systems<br>Internal Probability of Default (PD) estimates |
| 452 (f) (ii) | where applicable, the definitions, methods and data for estimation and validation of LGD, such as methods to calculate downturn LGD, how LGDs are estimated for low default portfolio and the time lapse between the default event and the closure of the exposure; | 8.4.3 Backtesting of risk parameters<br>8.4.3.2 Comparison between downturn LGD and realised LGD<br>8.4.2 Internal rating systems<br>Internal Loss Given Default (LGD) estimates |

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| 452 (f) (iii) | where applicable, the definitions, methods and data for estimation and validation of conversion factors, including assumptions employed in the derivation of those variables; | 8.4.3.3 Comparison between estimated and observed CCFs to calculate available credit in credit facilities<br>8.4.2 Internal rating systems<br>Internal Credit Conversion Factor (CCF) estimates |
| 452 (g) | as applicable, the following information in relation to each exposure class referred to in Article 147: | 8.4.2 Internal rating systems<br>Table 44. IRB approach – Credit risk exposures by exposure class and PD range (EU CR6). |
| 452 (g) (i) | their gross on-balance-sheet exposure; | 8.4.2 Internal rating systems<br>Table 44. IRB approach – Credit risk exposures by exposure class and PD range (EU CR6). |
| 452 (g) (ii) | their off-balance-sheet exposure values prior to the relevant conversion factor; | 8.4.2 Internal rating systems<br>Table 44. IRB approach – Credit risk exposures by exposure class and PD range (EU CR6). |
| 452 (g) (iii) | their exposure after applying the relevant conversion factor and credit risk mitigation; | 8.4.2 Internal rating systems<br>Table 44. IRB approach – Credit risk exposures by exposure class and PD range (EU CR6). |
| 452 (g) (iv) | any model, parameter or input relevant for the understanding of the risk weighting and the resulting risk exposure amounts disclosed across a sufficient number of obligor grades (including default) to allow for a meaningful differentiation of credit risk; | 8.4.2 Internal rating systems<br>Table 44. IRB approach – Credit risk exposures by exposure class and PD range (EU CR6). |
| 452 (g) (v) | separately for those exposure classes in relation to which institutions have received permission to use own LGDs and conversion factors for the calculation of risk-weighted exposure amounts, and for exposures for which the institutions do not use such estimates, the values referred to in points (i) to (iv) subject to that permission; | 8.4.2 Internal rating systems<br>Table 44. IRB approach – Credit risk exposures by exposure class and PD range (EU CR6). |
| 452 (h) | institutions' estimates of PDs against the actual default rate for each exposure class over a longer period, with separate disclosure of the PD range, the external rating equivalent, the weighted average and arithmetic average PD, the number of obligors at the end of the previous year and of the year under review, the number of defaulted obligors, including the new defaulted obligors, and the annual average historical default rate | 8.4.3.1 Comparison of Probability of Default estimates against observed default rates<br>Table 46. IRB approach – Back-testing of PD per exposure class - fixed PD scale (EU CR9). |
| | For the purposes of point (b) of this Article, institutions shall use the exposure value as defined in Article 166. | --- |
| **453 - Disclosure of information on the use of credit risk mitigation techniques** | | |
| 453 | The institutions applying credit risk mitigation techniques shall disclose the following information: | --- |
| 453 (a) | the policies and processes for, and an indication of the extent to which the entity makes use of, on- and offbalance sheet netting; | 8.7.2 Policies and processes for on- and off-balance sheet netting, and indication of the extent of use |
| 453 (b) | the policies and processes for collateral valuation and management; | 8.7.3 Policies and processes for collateral valuation and management |
| 453 (c) | a description of the main types of collateral taken by the institution; | 8.7.4 Main types of collateral taken |
| 453 (d) | the main types of guarantor and credit derivative counterparty and their creditworthiness; | 8.7.4 Main types of collateral taken<br>Main types of guarantor and credit derivative counterparty and their creditworthiness |
| 453 (e) | information about market or credit risk concentrations within the credit mitigation taken; | 8.7.4 Main types of collateral taken<br>Credit risk or market risk concentration within the credit risk mitigation technique |
| 453 (f) | for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, but not providing own estimates of LGDs or conversion factors in respect of the exposure class, separately for each exposure class, the total exposure value (after, where applicable, onor off-balance sheet netting) that is covered — after the application of volatility adjustments — by eligible financial collateral, and other eligible collateral; | 8.7.4 Main types of collateral taken<br>Table 55. CRM techniques overview: Disclosure of the use of credit risk mitigation techniques (EU CR3). |

| CRR Article | Item | Compliance |
|---|---|---|
| 453 (g) | for institutions calculating risk-weighted exposure amounts under the Standardised Approach or the IRB Approach, separately for each exposure class, the total exposure (after, where applicable, on- or off-balance sheet netting) that is covered by guarantees or credit derivatives. For the equity exposure class, this requirement applies to each of the approaches provided in Article 155. | 8.3.4 Exposure to credit risk and credit risk mitigation effects<br>Table 35. Standardised approach – Credit risk exposure and CRM effects (EU CR4).<br>7.6.4 Main types of security interests accepted<br>Table 56. IRB approach – Disclosure of the extent of the use of CRM techniques (EU CR7-A). |
| 453 (h) | for institutions calculating risk-weighted exposure amounts under the Standardised Approach, the on- and off-balance-sheet exposure value by exposure class before and after the application of conversion factors and any associated credit risk mitigation; | 8.3.4 Exposure to credit risk and credit risk mitigation effects<br>Table 35. Standardised approach – Credit risk exposure and CRM effects (EU CR4). |
| 453 (i) | for institutions calculating risk-weighted exposure amounts under the Standardised Approach, the riskweighted exposure amount and the ratio between that risk-weighted exposure amount and the exposure value after applying the corresponding conversion factor and the credit risk mitigation associated with the exposure; the disclosure set out in this point shall be made separately for each exposure class; | 8.3.4 Exposure to credit risk and credit risk mitigation effects<br>Table 35. Standardised approach – Credit risk exposure and CRM effects (EU CR4). |
| 453 (j) | for institutions calculating risk-weighted exposure amounts under the IRB Approach, the risk-weighted exposure amount before and after recognition of the credit risk mitigation impact of credit derivatives; where institutions have received permission to use own LGDs and conversion factors for the calculation of riskweighted exposure amounts, they shall make the disclosure set out in this point separately for the exposure classes subject to that permission. | Not applicable |
| **454 - Disclosure of information on the application of advanced calculation methods to operational risk.** | | |
| 454 | The institutions using the Advanced Measurement Approaches set out in Articles 321 to 324 for the calculation of their own funds requirements for operational risk shall disclose a description of their use of insurance and other risk-transfer mechanisms for the purpose of mitigating that risk. | Not applicable |
| **455 - Application of internal models to market risk** | | |
| 455 | Institutions calculating their capital requirements in accordance with Article 363 shall disclose the following information: | Not applicable |
| 455 (a) | for each sub-portfolio covered: | Not applicable |
| 455 (a) (i) | the characteristics of the models used; | Not applicable |
| 455 (a) (ii) | where applicable, for the internal models for incremental default and migration risk and for correlation trading, the methodologies used and the risks measured through the use of an internal model including a description of the approach used by the institution to determine liquidity horizons, the methodologies used to achieve a capital assessment that is consistent with the required soundness standard and the approaches used in the validation of the model; | Not applicable |
| 455 (a) (iii) | a description of stress testing applied to the sub-portfolio; | Not applicable |
| 455 (a) (iv) | a description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes; | Not applicable |
| 455 (b) | the scope of permission by the competent authority; | Not applicable |
| 455 (c) | a description of the extent and methodologies for compliance with the requirements set out in Articles 104 and 105; | Not applicable |
| 455 (d) | the highest, the lowest and the mean of the following: | Not applicable |
| 455 (d) (i) | the daily value-at-risk measures over the reporting period and at the end of the reporting period; | Not applicable |
| 455 (d) (ii) | the stressed value-at-risk measures over the reporting period and at the end of the reporting period; | Not applicable |
| 455 (d) (iii) | the risk numbers for incremental default and migration risk and for the specific risk of the correlation trading portfolio over the reporting period and at the end of the reporting period; | Not applicable |

| CRR Article | Item | Compliance |
|---|---|---|
| 455 (e) | the elements of the own funds requirement as specified in Article 364; | Not applicable |
| 455 (f) | the weighted average liquidity horizon for each sub-portfolio covered by the internal models for incremental default and migration risk and for correlation trading; | Not applicable |
| 455 (g) | a comparison of the daily end-of-day value-at-risk measures to the one-day changes of the portfolio's value by the end of the subsequent business day together with an analysis of any important overshooting during the reporting period. | Not applicable |
| **473a - Introduction of IFRS9** | | |
| 473a - Introduction of IFRS9 | Transitional provisions to mitigate the impact of IFRS9 for own funds and large exposures corresponding to certain public sector exposures denominated in the national currency of any Member State. For publication purposes, entities shall publish the modified amounts as if these provisions, if used, had not been applied. | 6.2.5 IFRS9<br>Table 10. Comparison between institutions' own funds, capital ratios and leverage ratios with and without applying the transitional arrangements of IFRS9 or analogous ECL provisions (IFRS9-FL). |

## Compliance with ESG Disclosure Requirements

The following table provides an overview of the disclosure requirements defined in Implementing Regulation 2022/2453 on ESG disclosure requirements, in accordance with Article 449.bis of the CRR:

### Table 106. Compliance with ESG disclosure requirements.

| Regulation Reference | Requirement | Compliance |
|---|---|---|
| | **Qualitative Requirements** | |
| Table 1 - Qualitative information on Environmental risk | a) Institution's business strategy to integrate environmental factors and risks, taking into account the impact of environmental factors and risks on institution's business environment, business model, strategy and financial planning | 14.3.1 Alignment of ESG commitments with strategy<br>14.3.2 Planning and deployment of strategy<br>14.4.1. Identification and management of environmental risks |
| | (b) Objectives, targets and limits to assess and address environmental risk in short-, medium-, and long-term, and performance assessment against these objectives, targets and limits, including forward-looking information about the design of business strategy and processes | 14.3.1 Alignment of ESG commitments with strategy<br>14.4.1. Identification and management of environmental risks |
| | (c) Current investment activities and (future) investment targets towards environmental objectives and EU Taxonomy-aligned activities | 14.3.3 Development of sustainable finance |
| | (d) Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce environmental risks | 14.3.3 Development of sustainable finance |
| | (e) Responsibilities of the management body for setting the risk framework, supervising and managing the implementation of the objectives, strategy and policies in the context of environmental risk management covering relevant transmission channels | 14.2.1 Cross-cutting integration of sustainability at executive level |
| | (f) Management body's integration of short-, medium- and long-term effects of environmental factors and risks, organisational structure both within business lines and internal control functions | 14.2.1 Cross-cutting integration of sustainability at executive level |
| | (g) Integration of measures to manage environmental factors and risks in internal governance arrangements, including the role of committees, the allocation of tasks and responsibilities, and the feedback loop from risk management to the management body covering relevant transmission channels | 14.2.1 Cross-cutting integration of sustainability at executive level<br>14.2.2 Internal reporting on ESG matters |
| | (h) Lines of reporting and frequency of reporting relating to environmental risk | 14.2.1 Cross-cutting integration of sustainability at executive level<br>14.2.2 Internal reporting on ESG matters |
| | (i) Alignment of the remuneration policy with institution's environmental risk-related objectives | 14.2.3 Remuneration |
| | (j) Integration of short-, medium- and long-term effects of environmental factors and risks in the risk framework | 14.4.1. Identification and management of environmental risks |
| | (k) Definitions, methodologies and international standards on which the environmental risk management framework is based | 14.4.1. Identification and management of environmental risks |
| | (l) Processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to environmental risks, covering relevant transmission channels | 14.4.1. Identification and management of environmental risks |
| | (m) Activities, commitments and exposures contributing to mitigate environmental risks | 14.2.2 Internal reporting on ESG matters<br>14.4.3 Mitigation measures |
| | (n) Implementation of tools for identification, measurement and management of environmental risks | 14.2.1 Integración transversal de la sostenibilidad<br>14.4.1. Identification and management of environmental risks |
| | (o) Results and outcome of the risk tools implemented and the estimated impact of environmental risk on capital and liquidity risk profile | 14.4.1. Identification and management of environmental risks |
| | (p) Data availability, quality and accuracy, and efforts to improve these aspects | 14.4.4 Data availability and data quality |
| | (q) Description of limits to environmental risks (as drivers of prudential risks) that are set, and triggering escalation and exclusion in the case of breaching these limits | 14.4.1. Identification and management of environmental risks<br>14.4.4 Data availability and data quality |
| | (r) Description of the link (transmission channels) between environmental risks with credit risk, liquidity and funding risk, market risk, operational risk and reputational risk in the risk management framework | 14.4.1. Identification and management of environmental risks |

| Regulation Reference | Requirement | Compliance |
|---|---|---|
| | **Qualitative Requirements** | |
| Table 2 - Qualitative information on Social risk | (a) Adjustment of the institution's business strategy to integrate social factors and risks taking into account the impact of social risk on the institution's business environment, business model, strategy and financial planning | 14.3 Business strategy |
| | (b) Objectives, targets and limits to assess and address social risk in short-term, medium-term and long-term, and performance assessment against these objectives, targets and limits, including forward-looking information in the design of business strategy and processes | 14.3.1 Alignment of ESG commitments with strategy<br>14.3.2 Planning and deployment of strategy |
| | (c) Policies and procedures relating to direct and indirect engagement with new or existing counterparties on their strategies to mitigate and reduce socially harmful activities | 14.5.3. Mitigation measures |
| | (d) Responsibilities of the management body for setting the risk framework, supervising and managing the implementation of the objectives, strategy and policies in the context of social risk management covering counterparties' approaches to:<br>(i) Activities towards the community and society<br>(ii) Employee relationships and labour standards<br>(iii) Customer protection and product responsibility<br>(iv) Human rights | 14.2.1 Cross-cutting integration of sustainability at executive level<br>14.5.1. Social action principles and standards<br>14.5.2. Integration of social risk in the Global Risk Framework<br>14.5.3Mitigation measures |
| | (e) Integration of measures to manage social factors and risks in internal governance arrangements, including the role of committees, the allocation of tasks and responsibilities, and the feedback loop from risk management to the management body | 14.5.3 Mitigation measures |
| | (f) Lines of reporting and frequency of reporting relating to social risk | 14.2.2. Reporting inform de los informes |
| | (g) Alignment of the remuneration policy in line with institution's social risk-related objectives | 14.2.3 Remuneration |
| | (h) Definitions, methodologies and international standards on which the social risk management framework is based | 14.5.1 Social action principles and standards |
| | (i) Processes to identify, measure and monitor activities and exposures (and collateral where applicable) sensitive to social risk, covering relevant transmission channels | 14.5.1 Social action principles and standards<br>14.5.2 Integration of social risk in the Global Risk Framework |
| | (j) Activities, commitments and assets contributing to mitigate social risk | 14.5.3 Mitigation measures |
| | (k) Implementation of tools for identification and management of social risk | 14.5.2 Integration of social risk in the Global Risk Framework |
| | (l) Description of setting limits to social risk and cases to trigger escalation and exclusion in the case of breaching these limits | 14.5.3 Mitigation measures |
| | (m) Description of the link (transmission channels) between social risks with credit risk, liquidity and funding risk, market risk, operational risk and reputational risk in the risk management framework | 14.5.2 Integration of social risk in the Global Risk Framework |
| Table 3 - Qualitative information on Governance risk | (a) Institution's integration in their governance arrangements of the governance performance of the counterparty, including committees of the highest governance body, committees responsible for decision-making on economic, environmental, and social topics | 14.2.1 Cross-cutting integration of sustainability at executive level<br>14.6.1 Integration of governance risk in the Global Risk Framework |
| | (b) Institution's accounting of the counterparty's highest governance body's role in non-financial reporting | 14.6. Governance risk |
| | (c) Institution's integration in governance arrangements of the governance performance of their counterparties including:<br>(i) Ethical considerations<br>(ii) Strategy and risk management<br>(iii) Inclusiveness<br>(iv) Transparency<br>(v) Management of conflict of interest<br>(vi) Internal communication on critical concerns | 14.6. Governance risk |
| | (d) Institution's integration in risk management arrangements the governance performance of their counterparties considering:<br>(i) Ethical considerations<br>(ii) Strategy and risk management<br>(iii) Inclusiveness<br>(iv) Transparency<br>(v) Management of conflict of interest<br>(vi) Internal communication on critical concerns | 14.6. Governance risk |

| Regulation Reference | Requirement | Compliance |
| --- | --- | --- |
| | Qualitative Requirements | |
| Template 1: Banking book- Indicators of potential climate Change transition risk: Credit quality of exposures by sector, emissions and residual maturity | | 14.7.1 Exposures subject to transition risk |
| Template 2: Banking book - Indicators of potential climate change transition risk: Loans collateralised by immovable property - Energy efficiency of the collateral | | 14.7.1 Exposures subject to transition risk |
| Template 3: Banking book - Indicators of potential climate change transition risk: Alignment metrics | | 14.7.1 Exposures subject to transition risk |
| Template 4: Banking book - Indicators of potential climate change transition risk: Exposures to top 20 carbon-intensive firms | | 14.7.1 Exposures subject to transition risk |
| Template 5: Banking book - Indicators of potential climate change physical risk: Exposures subject to physical risk | | 14.7.2 Exposures subject to physical risk |
| Template 10 - Other climate change mitigating actions that are not covered in Regulation (EU) 2020/852 | | 14.7.3 Other mitigation actions |

## Disclosure requirements contained in other legal acts and best practices.

The following table presents a relationship between the disclosure requirements contained in the above legal acts and best practices, in relation to the tables that comply with them within the document.

### Table 107. Requirements for Pillar III Disclosures in 2022.

| Code | COMMISSION IMPLEMENTING REGULATION (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295 | Pillar III Disclosures section |
|---|---|---|
| EU OV1 | Overview of total risk exposure amounts | Table 15 Overview of total risk exposure amounts (EU OV1) |
| EU KM1 | Key metrics template | Table 109 Key metrics template (EU KM1) |
| EU INS1 | Insurance participations | Not applicable, as there are no own funds instruments available in insurance undertakings |
| EU INS2 | Financial conglomerates - Information on own funds and capital adequacy ratio | Not applicable, as there are no additional own funds requirements of financial conglomerate |
| EU OVC | ICAAP information | 6.1.3 Minimum capital requirements<br>6.1.4 Internal Capital Adequacy Assessment Process<br>Annex I Compliance with disclosure requirements |
| EU OVA | Institution risk management approach | 2 Statement of the Board of Directors<br>5 Global risk management<br>8 - 14 Risk chapters |
| EU OVB | Disclosure on governance arrangements | 14.1 Introduction and regulatory framework<br>Annual Corporate Governance Report 2022<br>Corporate website<br>5 Global Risk management |
| EU LI1 | Differences between the accounting scope and the scope of prudential consolidation and mapping of financial statement categories with regulatory risk categories | Table 2 Differences between the accounting and prudential scopes of consolidation and the mapping of financial statement categories with regulatory risk categories (EULI1) |
| EU LI2 | Main sources of differences between regulatory exposure amounts and carrying values in financial statements | Table 3 Main sources of differences between regulatory exposure amounts and carrying values in financial statements (EULI2). |
| EU LI3 | Outline of the differences in the scopes of consolidation (entity by entity) | Table 5 Outline of the differences between the scopes of consolidation (entity by entity) (EU LI3) |
| EU LIA | Explanations of differences between accounting and regulatory exposure amounts | 4.2.1 Differences between prudential exposures and carrying values |
| EU LIB | Other qualitative information on the scope of application | 4.3 Other qualitative information on the scope of application |
| EU PV1 | Prudent valuation adjustments (PVA) | Not applicable, since the Principal Method is not used for the calculation of AVA adjustments. |
| EU CC1 | Composition of regulatory own funds | Table 110 Composition of regulatory own funds (EU CC1) |
| EU CC2 | reconciliation of regulatory own funds to balance sheet in the audited financial statements | Table 4 Reconciliation between balance sheet items to calculate own funds and regulatory own funds (EU CC2) |
| EU CCA | Main features of regulatory own funds instruments and eligible liabilities instruments | Annex V Main characteristics of equity instruments<br>Table 111 Main features of regulatory own funds instruments and eligible liabilities instruments (EU CCA) |
| EU CCyB1 | Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer | Table 17 Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer (EU CCyB1). |
| EU CCyB2 | Amount of institution-specific countercyclical capital buffer | Table 18 Amount of institution-specific countercyclical capital buffer (EU CCyB2). |

| Code | COMMISSION IMPLEMENTING REGULATION (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295 | Pillar III Disclosures section |
|---|---|---|
| EU LR1 – LRSum | LRSum: Summary reconciliation of accounting assets and leverage ratio exposures | Table 21. LRSum: Summary reconciliation of accounting assets and leverage ratio exposures (EU LR1). |
| EU LR2 – LRCom | LRCom: Leverage ratio common disclosure | Table 22. LRCom: Leverage ratio common disclosure (EU LR2). |
| EU LR3 – LRSpl | LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures) | Table 23. LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures) (EU LR3). |
| EU LRA | Disclosure of LR qualitative information | 7.2 Leverage ratio evolution<br>7.3 Leverage ratio management |
| EU LIQA | Liquidity risk management | 2 Statement of the Board of Directors and Risk Profile<br>12 Liquidity risk |
| EU LIQ1 | Quantitative information of LCR | Table 75. Quantitative information on Liquidity Coverage Ratio (EU LIQ1). |
| EU LIQB | Table EU LIQB on qualitative information on LCR, which complements template EU LIQ1. | 12 Liquidity risk |
| EU LIQ2 | Net Stable Funding Ratio | Table 76. Net stable funding ratio (EU LIQ2). |
| EU CRA | General qualitative information about credit risk | 8.1 Credit risk management and governance |
| EU CRB | Additional disclosure related to the credit quality of assets | 8.2.2 Impairment of financial assets |
| EU CR1 | Performing and non-performing exposures and related provisions | Table 28. Performing and non-performing exposures and related provisions (EU CR1). |
| EU CR1-A | Maturity of exposures | Table 27. Maturity of exposures (EU CR1-A). |
| EU CR2 | Changes in the stock of non-performing loans and advances | Not applicable, since the NPL threshold does not exceed 5%. |
| EU CR2a | Changes in the stock of non-performing loans and advances and related net accumulated recoveries | Not applicable, since the NPL threshold does not exceed 5%. |
| EU CQ1 | Credit quality of forborne exposures | Table 29. Credit quality of forborne exposures (EU CQ1). |
| EU CQ2 | Quality of forbearance | Not applicable, since the NPL threshold does not exceed 5%. |
| EU CQ3 | Credit quality of performing and non-performing exposures by past due days | Table 30. Credit quality of performing and non-performing exposures by past due days (EU CQ3). |
| EU CQ4 | Quality of non-performing exposures by geography | Table 25. Quality of non-performing exposures by geography (EU CQ4). |
| EU CQ5 | Credit quality of loans and advances to non-financial corporations by industry | Table 26. Credit quality of loans and advances to non-financial corporations by sector of activity (EU CQ5). |
| EU CQ6 | Collateral valuation - loans and advances | Not applicable, since the NPL threshold does not exceed 5%. |
| EU CQ7 | Collateral obtained by taking possession and execution processes | Table 31. Collateral obtained by taking possession and execution processes (EU CQ7). |
| EU CQ8 | Collateral obtained by taking possession and execution processes – vintage breakdown | Not applicable, since the NPL threshold does not exceed 5%. |
| EU CRC | Qualitative disclosure requirements related to CRM techniques | 8.7 Credit risk mitigation techniques<br>8.7.3 Policies and processes for collateral valuation and management<br>8.7.4 Main types of collateral taken |
| CR3 | CRM techniques overview: Disclosure of the use of credit risk mitigation techniques | Table 55. CRM techniques overview: Disclosure of the use of credit risk mitigation techniques (EU CR3) |
| EU CRD | Qualitative disclosure requirements related to standardised approach | 8.3.1 Nominated external credit assessment institutions and export credit agencies and reasons for any changes made in relation to these ECAIs and ECAs<br>8.3.2 Exposure classes for which assessments of each ECAI or ECA are used<br>8.3.3 Process used to transfer credit assessments of public issuances of securities onto comparable assets not included in the trading book |

| Code | COMMISSION IMPLEMENTING REGULATION (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295 | Pillar III Disclosures section |
|---|---|---|
| EU CR4 | standardised approach – Credit risk exposure and CRM effects | Table 35. Standardised approach – Credit risk exposure and CRM effects (EU CR4). |
| EU CR5 | standardised approach | Table 36. Standardised approach (EU CR5). |
| EU CRE | Qualitative disclosure requirements related to IRB approach | 8.1 Credit risk management and governance<br>10.4.3 Model risk<br>8.3.2 Exposure classes for which assessments of each ECAI or ECA are used<br>8.4.1 Internal models of Banco Sabadell Group<br>8.4.2 Internal rating systems<br>8.4.3 Backtesting of risk parameters |
| EU CR6 | IRB approach – Credit risk exposures by exposure class and PD range | Table 44. IRB approach – Credit risk exposures by exposure class and PD range (EU CR6) |
| EU CR6-A | IRB Approach – Scope of the use of IRB and SA approaches | Table 45. Scope of the use of IRB and SA approaches (EU CR6.A) |
| EU CR7 | IRB approach – Effect on the RWEAs of credit derivatives used as CRM techniques | Not applicable, since credit derivatives are not used as a mitigation technique. |
| EU CR7-A | IRB approach – Disclosure of the extent of the use of CRM techniques | Table 56. IRB approach – Disclosure of the extent of the use of CRM techniques (EU CR7-A). |
| EU CR8 | RWEA flow statements of credit risk exposures under the IRB approach | Table 13. Statement of cash flows of risk-weighted credit risk exposure amounts calculated using the IRB approach (CR8). |
| CR9 | IRB approach – Back-testing of PD per exposure class | Table 46. IRB approach – Back-testing of PD per exposure class - fixed PD scale (EU CR9). |
| CR9.1 | IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR) | Not applicable, since no external PD estimates are used. |
| EU CR10 | Specialised lending and equity exposures under the simple riskweighted approach | Table 52. Project finance exposures (EU CR10.1).<br>Table 53. Specialised lending and equity exposures under the simple riskweighted approach - Specialised lending: Project finance (Slotting approach) (CR10.5). |
| EU CCRA | Qualitative disclosure related to CCR | 8.8.1 Counterparty credit risk management and governance<br>8.8.3 Methodology used to assign internal capital and to establish limits for counterparty credit risk exposures<br>8.8.4 Policies for ensuring the effectiveness of collateral and for allocating impairment allowances for counterparty credit risk<br>8.8.5 Policies with respect to wrong-way risk exposures<br>8.8.6 Impact of collateral in the event of a downgrade of the Institution's credit rating |
| EU CCR1 | Analysis of CCR exposure by approach | Table 61. Analysis of CCR exposure by approach (EU CCR1). |
| EU CCR2 | Transactions subject to own funds requirements for CVA risk | Table 63. Transactions subject to own funds requirements for CVA risk (EU CCR2) |
| EU CCR3 | Standardised approach – CCR exposures by regulatory exposure class and risk weights | Table 58. Standardised approach – CCR exposures by regulatory exposure class and risk weights (EU CCR3). |
| EU CCR4 | IRB approach – CCR exposures by exposure class and PD scale | Table 59. IRB approach – CCR exposures by exposure class and PD scale (EU CCR4). |
| EU CCR5 | Composition of collateral for CCR exposures | Table 60. Composition of collateral for CCR exposures (CCR5). |
| EU CCR6 | Credit derivatives exposures | Not applicable, since credit derivatives are not available. |
| EU CCR7 | RWEA flow statements of CCR exposures under the IMM | Not applicable, since internal models are not used in the calculation of exposures weighted by counterparty risk. |
| EU CCR8 | Exposures to CCPs | Table 62. Exposures to CCPs (EU CCR8). |

| Code | COMMISSION IMPLEMENTING REGULATION (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295 | Pillar III Disclosures section |
|---|---|---|
| EU SECA | Qualitative disclosure requirements related to securitisation exposures | 8.9.2 Objectives in relation to securitisation activity<br>8.9.3 Nature of other risks inherent in securitisation activity<br>8.9.4 Type of risks in terms of seniority of underlying securitisation positions<br>8.9.5 Funciones e implicación en los procesos de titulización<br>8.9.6 Affiliated entities investing in securitisations originated or issued by sponsored SSPEs<br>8.9.7 Accounting policies for securitisation activities<br>8.9.8 Approaches to calculating risk-weighted exposure in securitisation activities<br>8.9.10 ECAIs used in securitizations<br>8.9.11 Monitoring of the main risks associated with securitizations<br>8.9.12 Group securitization activity during 2022<br>8.9.13 Securitization structure with transfer |
| EU SEC1 | Securitisation exposures in the non-trading book | Table 65. Securitisation exposures in the non-trading book (EU SEC1). |
| EU SEC2 | Securitisation exposures in the trading book | Not applicable, since there are no securitization exposures in the trading portfolio. |
| EU SEC3 | Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor | Table 67. Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as originator or as sponsor (EU SEC3). |
| EU SEC4 | Securitisation exposures in the non-trading book and associated regulatory capital requirements - institution acting as investor | Not applicable, since the Entity does not act as an investor in its securitization activity. |
| EU SEC5 | Exposures securitised by the institution - Exposures in default and specific credit risk adjustments | Table 66. Exposures securitised by the Institution - Exposures in default and specific credit risk adjustments (EU SEC5). |
| EU MRA | Qualitative disclosure requirements related to market risk | 9.1 Market risk management and governance<br>9.2 Own funds requirements for Market Risk |
| EU MR1 | Market risk under the standardised approach | Table 68. Market risk under the standardised approach (EU MR1). |
| EU MRB | Qualitative disclosure requirements for institutions using the internal Market Risk Models | Not applicable, since internal models for market risk are not used. |
| EU MR2-A | Market risk under the internal Model Approach (IMA) | Not applicable, since internal models for market risk are not used. |
| EU MR2-B | RWEA flow statements of market risk exposures under the IMA | Not applicable, since internal models for market risk are not used. |
| EU MR3 | IMA values for trading portfolios | Not applicable, since internal models for market risk are not used. |
| EU MR4 | Comparison of VaR estimates with gains/losses | Not applicable, since internal models for market risk are not used. |
| EU ORA | Qualitative information on operational risk | 10.1 Operational risk management and governance<br>10.3 Calculation of own funds requirements to cover Operational Risk |
| EU OR1 | Operational risk own funds requirements and risk-weighted exposure amounts | Table 69. Operational risk own funds requirements and risk-weighted exposure amounts (EU OR1). |
| EU IRRBBA | Qualitative information on interest rate risks of non-trading book activities | 11.1.1 Structural risk management and governance interest rate risk<br>11.1.2 Variation in net interest income and economic value due to interest rate changes economic value in the event of interest rate fluctuations, in accordance with the management in accordance with the management method established |
| EU IRRBB1 | Interest rate risks of non-trading book activities | Table 70. Interest rate risks of non-trading book activities (EU IRRBB1). |

| Code | COMMISSION IMPLEMENTING REGULATION (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013 of the European Parliament and of the Council and repealing Commission Implementing Regulation (EU) No 1423/2013, Commission Delegated Regulation (EU) 2015/1555, Commission Implementing Regulation (EU) 2016/200 and Commission Delegated Regulation (EU) 2017/2295 | Pillar III Disclosures section |
|---|---|---|
| EU REMA | Remuneration policy | 16.1 General aspects of the Group's remuneration policy<br>16.2 Information concerning the decision-making process for determining the Group's remuneration policy<br>16.3 Information on the process followed to determine the Group's Identified Staff<br>16.4.1 Basic remuneration components in Banco Sabadell Group 16.4.2 Componentes básicos de la retribución en Grupo Banco Sabadell<br>16.4.3 Adjustments to target achievement<br>16.4.4 Adjustments for ex ante risk<br>16.4.5 Adjustments for ex post risk<br>16.5 Application of fixed and variable remuneration in 2022 |
| EU REM1 | Remuneration awarded for the financial year | Table 100 Remuneration awarded for the financial year (EU REM1) |
| EU REM2 | Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff | Table 101. Special payments to staff whose professional activities have a material impact on institutions' risk profile (identified staff) (EU REM2). |
| EU REM3 | Deferred remuneration | Table 103. Deferred remuneration (EU REM3). |
| EU REM4 | Remuneration of 1 million EUR or more per year | Table 104. Remuneration of 1 million EUR or more per year (EU REM4). |
| EU REM5 | Information of staff whose professional activities have a material impact on institutions' risk profile (identified staff) | Table 102. Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile (identified staff) (EU REM5). |
| EU AE1 | Encumbered and unencumbered assets | Table 80. Encumbered and unencumbered assets (EU AE1). |
| EU AE2 | Collateral received and own debt securities issued | Table 81. Encumbered and unencumbered collateral received (EU AE2). |
| EU AE3 | Sources of encumbrance | Table 82. Sources of encumbrance (EU AE3) |
| EU AE4 | Accompanying narrative information | 13 Encumbrance Assets |

| Code | COMMISSION IMPLEMENTING REGULATION (EU) 2021/1018 of 22 June 2021 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/637 as regards the disclosure of indicators of global systemic importance, and repealing Implementing Regulation (EU) No 1030/2014 | Pillar III Disclosures section |
|---|---|---|
| Article 6 bis | Disclosure of indicators of global systemic importance | The information regarding the quantitative indicators of the Group can be consulted on the corporate website |

| Code | Draft implementing technical standards amending Implementing Regulation (EU) No 637/2021 on disclosure of information on exposures to interest rate risk onpositions not held in the trading book in accordance with Article 448 of Regulation (EU) No 575/2013 (EBA/ITS/2021/07) | Pillar III Disclosures section |
|---|---|---|
| EU IRRBBA | Qualitative information on interest rate risks of non-trading book activities | 11.1.1 Structural risk management and governance interest rate risk<br>11.1.2 Variation in net interest income and economic value due to interest rate changes economic value in the event of interest rate fluctuations, in accordance with the management in accordance with the management method established |
| EU IRRBB1 | Interest rate risks of non-trading book activities | Table 70. Interest rate risks of non-trading book activities (EU IRRBB1). |

| Code | Guidelines amending Guidelines EBA/GL/2018/01 on uniform disclosures under Article 473a of Regulation (EU) No 575/2013 (CRR) on the transitional period for mitigating the impact of the introduction of IFRS 9 on own funds to ensure compliance with the CRR 'quick fix' in response to the COVID-19 pandemic | Pillar III Disclosures section |
|---|---|---|
| Annex I | Template IFRS9-FL | Table 10 Comparison between institutions' own funds, capital ratios and leverage ratios with and without applying the transitional arrangements of IFRS9 or analogous ECL provisions (IFRS9-FL). |
| Annex I | Complementary specifications | 6.2.4 Impact of transitional arrangements on capital: IFRS 9 |

| Code | Guidelines on reporting and disclosure of exposures subject to measures a pplied in response to the COVID-19 crisis (EBA/GL/2020/07) | Pillar III Disclosures section |
|---|---|---|
| Annex III | Template 1: Information on loans and advances subject to legislative and non-legislative moratoria | Table 32 Information on loans and advances subject to legislative and non-legislative moratoria (EU COVID-19 1). |
| Annex III | Template 2: Breakdown of loans and advances subject to legislative and non-legislative moratoria by residual maturity of moratoria | Table 33 Breakdown of loans and advances subject to legislative and non-legislative moratoria by the residual maturity of the moratoria (EU COVID-19 2). |
| Annex III | Template 3: Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to COVID-19 crisis | Table 34 Information on new loans and advances subject to State guarantee schemes introduced in response to the COVID-19 crisis (EU COVID-19 3). |

| Code | Guidelines on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013 (EBA/GL/2014/14) | Pillar III Disclosures section |
|---|---|---|
| Title II | Processes and internal arrangements | 1.2.2 Document governance, approval and publication |
| Title III | Considerations for assessing materiality of disclosures | 1.3 Compliance with disclosure requirements<br>Annex II. Waiver of content |
| Title IV | Considerations for assessing the proprietary or confidential nature of disclosu | Not applicable, since no confidentiality exemptions are considered. |
| Title V | Considerations regarding the need to assess the disclosure of information more frequently than annually | 1.2.3 Disclosure frequency |
| Title VI | Disclosures to be provided by institutions when applying disclosure waivers | 1.3 Compliance with disclosure requirements<br>Annex I. Compliance with disclosure requirements<br>Annex II. Waiver of content |
| Title VII | Disclosures to be provided more frequently than annually | 1.2.3 Disclosure frequency |

| Code | Law 10/2014 of 26 June 2014 on the organisation, supervision and solvency or credit institutions | Pillar III Disclosures section |
|---|---|---|
| Article 85 | Prudential information of credit institutions | 1.1 Introduction<br>1.2 Overview |

| Code | Royal Decree 84/2015 of 13 February 2015, implementing Law 10/2014 of 26 June on the organisation, supervision and solvency of credit institutions | Pillar III Disclosures section |
|---|---|---|
| Article 93 | Prudential information of credit institutions | 1.1 Introduction<br>1.2 Overview<br>1.3 Compliance with disclosure requirements |

| Code | Bank of Spain Circular 2/2016 of 2 February 2016, completing, in matters related to credit institutions, the transposition of Directive 2013/36/EU and Regulation (EU) No 575/2013 into Spanish law | Pillar III Disclosures section |
|---|---|---|
| Article 59 | Prudential information of credit institutions | 1.2.2 Document governance, approval and publication |
| Article 60 | Information regarding corporate governance and remuneration policy on institutions corporate website | The information can be found on the corporate website |

# Annex II. Waiver of content

## Waived content

The following table shows the list of the sections of the different articles of the CRR that are not applicable at 31/12/2021 for the Group and their reasons. The sections whose compliance depends on the regulator's discretion and have not been requested have been excluded, as well as those whose non-applicability is already mentioned in the text of the corresponding chapter.

Table 108. Content exempt from disclosure.

| Regulation 575/2013 (EU) | | Exempt content and waivers |
|---|---|---|
| **431 - Disclosure requirements and policies** | | |
| 431 (5) | Explain rating decisions to SMEs and other corporate applicants for loans, if asked by the regulator. | Not applicable, since it has not been requested by the competent authorities. |

| Regulation 575/2013 (EU) | | Exempt content and waivers |
|---|---|---|
| **433 bis - Disclosures by large institutions** | | |
| 433 (2)(3) | Disclosure requirements for large unlisted entities | Not applicable, Banco Sabadell is a listed entity. |

| Regulation 575/2013 (EU) | | Exempt content and waivers |
|---|---|---|
| **433 ter - Disclosures by small and non-complex institutions** | | |
| 433b | Disclosure requirements for small and non-complex entities | Not applicable, Banco Sabadell is not a small or complex entity. |

| Regulation 575/2013 (EU) | | Exempt content and waivers |
|---|---|---|
| **433 quater - Disclosures by other institutions** | | |
| 433 quarter | Disclosure requirements for other entities | Not applicable, Banco Sabadell does not fall under the definition of "other entities". |
| **436 - Disclosure of the scope of application** | | |
| 436 (e) | Breakdown of the amounts of the components of the prudent valuation adjustment of an entity | Not applicable, since the Main Method for calculating AVAs is not applied. |
| **437 - Disclosure of own funds** | | |
| 437 (f) | Where institutions disclose capital ratios calculated using elements of own funds determined on a basis other than that laid down in this Regulation, a comprehensive explanation of the basis on which those capital ratios are calculated. | Not applicable, as capital ratios calculated using elements of own funds determined on a basis different than the one laid down in Regulation 575/2013 (EU) are not disclosed. |
| **438 - Disclosure of own funds requirements and risk-weighted exposure amounts** | | |
| 438 (f) | Exposure value and the risk-weighted amount of exposure of own funds instruments held in any insurance company | Not applicable, since there are no equity instruments in insurance companies. |
| 438 (g) | Additional own funds requirements and the capital adequacy ratio of the financial conglomerate | Not applicable, since there are no equity instruments in insurance companies. |
| **439 - Disclosure of exposures to counterparty credit risk** | | |
| 439 (j) | The notional value of credit derivative hedges and current exposure broken down by type of credit exposure | Not applicable since there are currently no credit derivative hedges in the Group. Operations are concentrated in the trading portfolio. |
| 439 (k) | If applicable, the estimate of α | Not applicable since the IMM method is not applied (α =(Expected positive exposure)/EAD) |

| 441 - Disclosure of indicators of global systemic importance | | |
|---|---|---|
| 441 | Disclosure of indicators of global systemic importance. | Not applicable, as Banco Sabadell is not a Global Systemically Important Institution (G-SII). |

| 446 - Disclosure of operational risk management | | |
|---|---|---|
| 446 (b) | External and internal factors considered in the use of the advanced method | Not applicable, since the Group does not have authorization to use the AMA method. |
| 446 (c) | Scope and coverage of methods in case of partial use | Not applicable, since the Group does not have authorization for partial use. |

| 447 - Disclosure of key metrics | | |
|---|---|---|
| 447 (h) | Own funds and eligible liabilities ratios and their components, their numerator and their denominator for each resolution group when applicable | Not applicable, since Banco Sabadell is not a G-SII |

| 448 - Disclosure of exposures to interest rate risk on positions not held in the trading book | | |
|---|---|---|
| 448 (2) | Non-applicability of certain requirements of paragraph 1 of article 448, in case of use of standardized or simplified standardized methodology | Not applicable, since Banco Sabadell uses internal methods. |

| 449 - Disclosure of exposures to securitisation positions | | |
|---|---|---|
| 449 | Institutions calculating risk weighted exposure amounts in accordance with Part Three, Title II, Chapter 5 or own funds requirements in accordance with Article 337 or 338 shall disclose the following information, where relevant, separately for their trading and nontrading book: | Information for the trading book not applicable, since there are no exposures in it. |
| 449 (d) (ii) | A list of specialized securitization vehicles belonging to any of the following categories, with a description of their types of exposures to such vehicles, including derivative contracts: Entity-sponsored specialized securitization vehicles, | Not applicable, since the Entity does not have the role of sponsor. |
| 449 (d) (iii) | A list of specialized securitization vehicles belonging to any of the following categories, with a description of their types of exposures to such vehicles, including derivative contracts:Specialized securitization vehicles and other legal entities to which the entities provide securitization-related services, such as advisory, asset management or management services. | Not applicable, since the Entity does not provide services related to securitization. |
| 449 (i) | where applicable, a description of the Internal Assessment Approachas set out in Part Three, Title II, Chapter 5, Section 3, including the structure of the internal assessment process and relation between internal assessment and external ratings, the use of internal assessment other than for Internal Assessment Approach capital purposes, the control mechanisms for the internal assessment process including discussion of independence, accountability, and internal assessment process review, the exposure types to which the internal assessment process is applied and the stress factors used for determining credit enhancement levels, by exposure type; | Not applicable, since the IAA is not applied. |
| 449 (j) | Separate quantitative information for the trading portfolio and the investment portfolio, and broken down by type of exposure. | Not applicable, since there are no securitization exposures in the trading book. |
| 449 (k) (ii) | The aggregate amount of securitisation positions where institutions act as investor and the associated riskweighted assets and capital requirements by regulatory approaches, including exposures deducted from own funds or risk weighted at 1 250 %, broken down between traditional and synthetic securitisations, securitisation and re-securitisation positions, and STS and non-STS positions, and further broken down into a meaningful number of risk weight or capital requirement bands and by approach used to calculate the capital requirements; | Not applicable, since the Group does not act as an investor in its securitization activity. |

| 453 - Disclosure of the use of credit risk mitigation techniques | | |
|---|---|---|
| 453 (j) | The risk-weighted exposure amount before and after recognition of the credit risk mitigation impact of credit derivatives | Not applicable, since the entity does not use credit derivatives as a mitigation technique. |
| **454 - Disclosure of the use of the Advanced Measurement Approaches to operational risk** | | |
| 454 | The institutions using the Advanced Measurement Approaches set out in Articles 321 to 324 for the calculation of their own funds requirements for operational risk shall disclose a description of the use of insurances and other risk transfer mechanisms for the purpose of mitigation of this risk. | Not applicable, as the advanced measurement approaches set out in Articles 321 and 324 for the calculation of own funds requirements are not used. |

| 455 - Use of internal market risk models | | |
|---|---|---|
| 455 | Institutions calculating their capital requirements using internal market risk models shall disclose: | The institution does not apply internal models for the calculation of own funds for Market Risk. |
| 455 (a) | For each sub-portfolio covered | |
| 455 (a) (i) | Characteristics of the models used; | |
| 455 (a) (ii) | Description of the methodologies used to monitor and measure default and migration risk; | |
| 455 (a) (iii) | Description of stress testing applied to the sub-portfolio; | |
| 455 (a) (iv) | Description of the approaches used for back-testing and validating the accuracy and consistency of the internal models and modelling processes; | |
| 455 (b) | Scope of permission by the competent authority; | |
| 455 (c) | Description of the policies and processes used to determine assignment of exposures to the trading book, for compliance with prudential requirements | |
| 455 (d) | The highest, the lowest and the mean of the following: | |
| 455 (d) (i) | Daily VaR measures over the reporting period and as per the period | |
| 455 (d) (ii) | SvaR measures over the reporting period and as per the period end; | |
| 455 (d) (iii) | Risk numbers for incremental default and migration risk and for the specific risk of the correlation trading portfolio over the reporting period and as per the period-end; | |
| 455 (e) | Elements of the own funds requirements | |
| 455 (f) | Weighted average liquidity horizon for each sub-portfolio covered by the internal models; | |
| 455 (g) | Comparison of the daily end-of-day value-at-risk measures to the oneday changes of the portfolio's value by the end of the subsequent business day together with an analysis of any important overshooting during the reporting period. | |

## Annex III. Information on key parameters

### Table 109. Key metrics template (EU KM1).

| | 31/12/2022 | 30/09/2022 | 30/06/2022 | 31/03/2022 | 31/12/2021 |
|---|---|---|---|---|---|
| **Available own funds (amounts)** | | | | | |
| Common Equity Tier 1 (CET1) capital | 10,082,751 | 9,932,951 | 10,019,467 | 9,932,468 | 10,079,533 |
| Tier 1 capital | 11,732,751 | 11,582,951 | 11,669,467 | 11,582,468 | 12,479,533 |
| Total capital | 13,587,753 | 13,492,498 | 13,642,545 | 13,579,233 | 14,500,802 |
| **Risk-weighted exposure amounts** | | | | | |
| Total risk exposure amount | 79,544,790 | 80,964,617 | 80,555,457 | 80,360,967 | 80,645,579 |
| **Capital ratios (as a percentage of risk-weighted exposure amount)** | | | | | |
| Common Equity Tier 1 ratio (%) | 12.68% | 12.27% | 12.44% | 12.36% | 12.50% |
| Tier 1 ratio (%) | 14.75% | 14.31% | 14.49% | 14.41% | 15.47% |
| Total capital ratio (%) | 17.08% | 16.66% | 16.94% | 16.90% | 17.98% |
| **Additional own funds requirements based on SREP (as a percentage of risk-weighted exposure amount)** | | | | | |
| Additional CET1 SREP requirements (%) | 2.15% | 2.15% | 2.15% | 2.15% | 2.25% |
| Additional AT1 SREP requirements (%) | 1.21% | 1.21% | 1.21% | 1.21% | 1.27% |
| Additional T2 SREP requirements (%) | 1.61% | 1.61% | 1.61% | 1.61% | 1.69% |
| Total SREP own funds requirements (%) | 10.15% | 10.15% | 10.15% | 10.15% | 10.25% |
| **Combined buffer requirement (as a percentage of risk-weighted exposure amount)** | | | | | |
| Capital conservation buffer (%) | 2.50% | 2.50% | 2.50% | 2.50% | 2.50% |
| Conservation buffer due to macro-prudential or systemic risk identified at the level of a Member State (%) | - | - | - | - | - |
| Institution specific countercyclical capital buffer (%) | 0.189% | 0.005% | 0.004% | 0.004% | 0.000% |
| Systemic risk buffer (%) | - | - | - | - | - |
| Global Systemically Important Institution buffer (%) | - | - | - | - | - |
| Other Systemically Important Institution buffer | 0.250% | 0.250% | 0.250% | 0.250% | 0.250% |
| Combined buffer requirement (%) | 2.94% | 2.76% | 2.75% | 2.75% | 2.75% |
| Overall capital requirements (%) | 13.09% | 12.91% | 12.90% | 12.90% | 13.00% |
| CET1 available after meeting the total SREP own funds requirements (%) | 6.93% | 6.51% | 6.73% | 6.65% | 6.73% |
| **Leverage ratio** | | | | | |
| Leverage ratio total exposure measure | 253,840,350 | 257,020,894 | 258,059,177 | 213,316,122 | 211,616,215 |
| Leverage ratio | 4.62% | 4.51% | 4.52% | 5.43% | 5.90% |
| **Additional own funds requirements to address risks of excessive leverage (as a percentage of leverage ratio total exposure amount)** | | | | | |
| Additional own funds requirements to address risks of excessive leverage (%) | - | - | - | - | - |
| Additional AT1 SREP requirements (%) | - | - | - | - | - |
| Total SREP leverage ratio requirements (%) | 3.00% | 3.00% | 3.00% | 3.62% | 3.59% |
| **Leverage ratio buffer and overall leverage ratio requirement (as a percentage of total exposure measure)** | | | | | |
| Additional leverage ratio requirements (%) | - | - | - | - | - |
| Required leverage buffer (%) | 3.00% | 3.00% | 3.00% | 3.62% | 3.59% |

| | 31/12/2022 | 30/09/2022 | 30/06/2022 | 31/03/2022 | 31/12/2021 |
|---|---|---|---|---|---|
| LIQUIDITY COVERAGE RATIO | | | | | |
| Total high-quality liquid assets (HQLA) (Weighted value - average) | 51,150,327 | 51,543,204 | 51,408,638 | 50,845,346 | 49,311,481 |
| Cash outflows - Total weighted value | 27,314,652 | 27,210,114 | 26,916,579 | 26,885,701 | 26,908,240 |
| Cash inflows - Total weighted value | 4,516,119 | 4,119,959 | 3,956,111 | 3,815,288 | 3,901,968 |
| Total net cash outflows (adjusted value) | 22,798,533 | 23,090,155 | 22,960,468 | 23,070,413 | 23,006,272 |
| Liquidity coverage ratio (%)[1] | 224.36% | 223.23% | 223.90% | 220.39% | 214.34% |
| Net Stable Funding Ratio | | | | | |
| Total available stable funding | 182,380,825 | 196,009,365 | 196,833,753 | 208,241,633 | 207,805,654 |
| Total required stable funding | 132,296,677 | 139,565,015 | 138,588,428 | 147,823,962 | 147,632,357 |
| NSFR ratio (%) | 137.86% | 140.44% | 142.03% | 140.87% | 140.76% |

*Amounts in thousand euro.*

*[1] The liquidity coverage ratio is calculated as the average of the last 12 months.*

# Annex IV. Information of own funds

## Table 110. Transitional own funds (EU CC1).

| | | Amounts | Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation[1] |
|---|---|---|---|
| **Common Equity Tier 1 (CET1) capital: instruments and reserves** | | | |
| 1 | Capital instruments and the related share premium accounts | 8,602,598 | (*) 32, 33 |
| | of which: Common share | 703,371 | 32 |
| 2 | Retained earnings | 5,871,696 | 36 |
| 3 | Accumulated other comprehensive income (and other reserves) | -2,011,988 | (*) 35, 37, 38, 42 |
| 3a | Funds for general banking risk | - | - |
| 4 | Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET1 | - | - |
| 5 | Minority interests (amount allowed in consolidated CET1) | - | (*) 43 |
| 5a | Independently reviewed interim profits net of any foreseeable charge or dividend | 429,321 | (*) 40 |
| **6** | **Common Equity Tier 1 (CET1) capital before regulatory adjustments** | **12,891,627** | - |
| **Common Equity Tier 1 (CET1) capital: regulatory adjustments** | | | |
| 7 | Additional value adjustments (negative amount) | -11,564 | |
| 8 | Intangible assets (net of related tax liability) (negative amount) | -2,144,909 | - |
| 10 | Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount) | -385,068 | - |
| 11 | Fair value reserves related to gains or losses on cash flow hedges of financial instruments that are not valued at fair value | 64,224 | - |
| 12 | Negative amounts resulting from the calculation of expected loss amounts | -4,098 | - |
| 13 | Any increase in equity that results from securitised assets (negative amount) | - | - |
| 14 | Gains or losses on liabilities valued at fair value resulting from changes in own credit standing | - | - |
| 15 | Defined-benefit pension fund assets (negative amount) | - | - |
| 16 | Direct, indirect and synthetic holdings by an institution of own CET1 instruments (negative amount) | -50,000 | - |
| 17 | Direct, indirect and synthetic holdings of the CET 1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | - |
| 18 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | - |
| 19 | Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | - |
| 20a | Exposure amount of the following items which qualify for a RW of 1 250 %, where the institution opts for the deduction alternative | -1,162 | - |
| 20b | of which: qualifying holdings outside the financial sector (negative amount) | - | - |
| 20c | of which: securitisation positions (negative amount) | -1,162 | - |
| 20d | of which: free deliveries (negative amount) | - | - |
| 21 | Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) (negative amount) | -152,645 | - |
| 22 | Amount exceeding the 17,65% threshold (negative amount) | - | - |
| 23 | of which: direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities | - | - |
| 25 | of which: deferred tax assets arising from temporary differences | - | - |
| 25a | Losses for the current financial year (negative amount) | - | - |
| 25b | Foreseeable tax charges relating to CET1 items except where the institution suitably adjusts the amount of CET1 items insofar as such tax charges reduce the amount up to which those items may be used to cover risks or losses (negative amount) | - | - |
| 27 | Qualifying AT1 deductions that exceed the AT1 items of the institution (negative amount) | - | - |
| 27a | Other regulatory adjustments | -123,654 | - |
| **28** | **Total regulatory adjustments to Common Equity Tier 1 (CET1)** | **-2,808,875** | - |

| | | Amounts | Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation[1] |
|---|---|---|---|
| 29 | **Common Equity Tier 1 (CET1) capital** | **10,082,751** | - |
| **Additional Tier 1 (AT1) capital: instruments** | | | |
| 30 | Capital instruments and the related share premium accounts | 1,650,000 | (*) 31 |
| 31 | of which: classified as equity under applicable accounting standards | - | - |
| 32 | of which: classified as liabilities under applicable accounting standards | - | - |
| 33 | Amount of qualifying items referred to in Article 484 (4) CRR and the related share premium accounts subject to phase out from AT1 | - | - |
| 33a | Amount of qualifying items referred to in Article 494a(1) CRR subject to phase out from AT1 | - | - |
| 33b | Amount of qualifying items referred to in Article 494b(1) CRR subject to phase out from AT1 | - | - |
| 34 | Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties | - | - |
| 35 | of which: instruments issued by subsidiaries subject to phase out | - | - |
| 36 | **Additional Tier 1 (AT1) capital before regulatory adjustments** | **1,650,000** | - |
| **Additional Tier 1 (AT1) capital: regulatory adjustments** | | | |
| 37 | Direct, indirect and synthetic holdings by an institution of own AT1 instruments (negative amount) | - | - |
| 38 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | - |
| 39 | Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | - |
| 40 | Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | - | - |
| 42 | Qualifying T2 deductions that exceed the T2 items of the institution (negative amount) | - | - |
| 42a | Other regulatory adjustments to AT1 capital | - | |
| 43 | **Total regulatory adjustments to Additional Tier 1 (AT1) capital** | **-** | |
| 44 | **Additional Tier 1 (AT1) capital** | **1,650,000** | - |
| 45 | **Tier 1 capital (T1 = CET1 + AT1)** | **11,732,751** | - |
| **Tier 2 (T2) capital: instruments** | | | |
| 46 | Capital instruments and the related share premium accounts | 1,649,636 | (*) 31 |
| 47 | Amount of qualifying items referred to in Article 484(5) CRR and the related share premium accounts subject to phase out from T2 as described in Article 486(4) CRR | - | (*) 31 |
| EU-47a | Amount of qualifying items referred to in Article 494a(2) CRR subject to phase out from T2 | - | - |
| EU-47b | Amount of qualifying items referred to in Article 494b(2) CRR subject to phase out from T2 | - | - |
| 48 | Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties | - | - |
| 49 | of which: instruments issued by subsidiaries subject to phase out | - | - |
| 50 | Credit risk adjustments | 262,364 | - |
| 51 | **Tier 2 (T2) capital before regulatory adjustments** | **1,912,000** | - |
| **Tier 2 (T2) capital: regulatory adjustments** | | | |
| 52 | Direct, indirect and synthetic holdings by an institution of own T2 instruments and subordinated loans (negative amount) | -669 | - |
| 53 | Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount) | - | - |
| 54 | Direct, indirect and synthetic holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount) | - | - |
| 55 | Direct, indirect and synthetic holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount) | - | - |
| 56a | Qualifying eligible liabilities deductions that exceed the eligible liabilities items of the institution (negative amount) | - | - |
| 56b | Other regulatory adjustments to T2 capital | -56,330 | - |
| 57 | **Total regulatory adjustments to Tier 2 (T2) capital** | **-56,999** | - |

| | | Amounts | Source based on reference numbers / letters of the balance sheet under the regulatory scope of consolidation(1) |
|---|---|---|---|
| 58 | **Tier 2 (T2) capital** | **1,855,001** | - |
| 59 | **Total capital (TC = T1 + T2)** | **13,587,753** | - |
| 60 | **Total Risk exposure amount** | **79,544,790** | |
| **Capital ratios and requirements including buffers** | | | |
| 61 | Common Equity Tier 1 (CET1) capital | 12.68% | - |
| 62 | Tier 1 capital | 14.75% | - |
| 63 | Total capital | 17.08% | - |
| 64 | Institution CET1 overall capital requirements | 8.65% | - |
| 65 | of which: capital conservation buffer requirement | 2.50% | - |
| 66 | of which: countercyclical capital buffer requirement | 0.19% | - |
| 67 | of which: systemic risk buffer requirement | - | - |
| 67a | of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer requirement | 0.25% | - |
| 67b | of which: additional own funds requirements to address the risks other than the risk of excessive leverage | 1.21% | - |
| 68 | Common Equity Tier 1 capital (as a percentage of risk exposure amount) available after meeting the minimum capital requirements | 6.93% | - |
| **National minima (if different from Basel III)** | | | |
| 72 | Direct and indirect holdings of own funds and eligible liabilities of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions) | 73,742 | - |
| 73 | Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 17.65% thresholds and net of eligible short positions) | 380,657 | - |
| 75 | Deferred tax assets arising from temporary differences (amount below 17,65% threshold, net of related tax liability where the conditions in Article 38 (3) CRR are met) | 1,160,862 | - |
| **Applicable caps on the inclusion of provisions in Tier 2** | | | |
| 76 | Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap) | - | - |
| 77 | Cap on inclusion of credit risk adjustments in T2 under standardised approach | - | - |
| 78 | Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap) | 292,993 | - |
| 79 | Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach | 262,364 | - |
| **Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2014 and 1 Jan 2022)** | | | |
| 80 | Current cap on CET1 instruments subject to phase out arrangements | - | - |
| 81 | Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities) | - | - |
| 82 | Current cap on AT1 instruments subject to phase out arrangements | - | - |
| 83 | Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities) | - | - |
| 84 | Current cap on T2 instruments subject to phase out arrangements | - | - |
| 85 | Amount excluded from T2 due to cap (excess over cap after redemptions and maturities) | - | - |

*Data as at 31/12/2022, in thousand euro.*

*(1) Cross reference to table CC2. Reconciliation of the statutory own funds with the balance sheet in the audited financial statements.*

*(*) Cross reference of table CC1 with partial coverage with respect to table reference CC2.*

# Annex V. Main characteristics of capital instruments

## Table 111. Main features of regulatory own funds instruments and eligible liabilities instruments (EU CCA).

### Capital instruments

| | | Shares | Additional Tier 1<br>Preferred Securities 2/2017 |
|---|---|---|---|
| 1 | Issuer | BANCO SABADELL SA | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | ES0113860A34 | XS1720572848 |
| 2a | Public or private placement | Public placement | Private placement |
| 3 | Governing law(s) of the instrument | Spanish law | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | N/A | Yes (AT1) |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Common Equity Tier 1 | Additional Tier 1 |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Ordinary Shares | Preferred Securities |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 703 | 400 |
| 9 | Nominal amount of instrument(2) | 703.370 (EUR) | 400.000 (EUR) |
| 9a | Issue price | N/A | 100.00% |
| 9b | Redemption price | 0.00% | 0.00% |
| 10 | Accounting classification | Net equity | Liability-amortised cost |
| 11 | Original date of issuance | N/A | 23/11/2017 |
| 12 | Perpetual or dated | Perpetual | Perpetual |
| 13 | Original maturity date | - | No stated maturity |
| 14 | Issuer call subject to prior supervisory approval | No | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | - | First will be on 23/11/2022, at the issuer's discretion subject to prior authorisation from the competent authority. The amortisation will be carried out at the nominal plus interest accrued. Amortisation will be full, with no option for partial amortisation. The issuer also has the right to early termination in the event of any change in the regulatory treatment of the instrument or a material change in its taxation |
| 16 | Subsequent call dates, if applicable | - | Coinciding with interest payment date |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Variable | Fixed |
| 18 | Coupon rate and any related index | 0.00% | 6.125% up to 23/11/2022, thereafter 5-year MID SWAP + 6.051% |
| 19 | Existence of a dividend stopper | - | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary | Fully discretionary |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary | Fully discretionary |
| 21 | Existence of step up or other incentive to redeem | - | No |
| 22 | Noncumulative or cumulative | Non-cumulative | Non-cumulative |
| 23 | Convertible or non-convertible | - | Convertible |
| 24 | If convertible, conversion trigger(s) | - | If the issuer's or group's CET1 ratio is below 5.125% |
| 25 | If convertible, fully or partially | - | Fully |
| 26 | If convertible, conversion rate | - | Conversion rate shall be the greater of: (i) the weighted average share price over the five days prior to the conversion announcement (ii) €1.095 (iii) the par value of the share at the time of the conversion. |
| 27 | If convertible, mandatory or optional conversion | - | Mandatory |
| 28 | If convertible, specify instrument type convertible into | - | CET1 |
| 29 | If convertible, specify issuer of instrument it converts into | - | Banco de Sabadell, S.A |
| 30 | Write-down features | - | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | - | - |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | N/A | Subordinated debt eligible as AT 1 as provided for in Condition 2 "Form and Status" paragraph 2 of the Offering Circular of 13 November 2017. |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | No subordination | Subordinated to Subordinated Debt |
| 36 | Non-compliant transitioned features | No | No |
| 37 | If yes, specify non-compliant features | - | - |
| 37a | Link to the full term and conditions of the instrument (signposting) | N/A | Link |

*Data as at 31/12/2022.*

*[1] Includes the deduction for holding the instrument in the Group's portfolio..*

*[2] Data in thousand euros.*

| | | Subordinated Issue June 92 | Subordinated Bonds I/2016 |
|---|---|---|---|
| 1 | Issuer | CAM | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | 330112000000 | XS1405136364 |
| 2a | Public or private placement | Private placement | Public placement |
| 3 | Governing law(s) of the instrument | Spanish law | English law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | Yes (Tier 2) | Yes (Tier 2) |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Tier 2 | Tier 2 |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Subordinated Debt | Subordinated Debt |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 15 | 495(1) |
| 9 | Nominal amount of instrument(2) | 15.025 (EUR) | 500.000 (EUR) |
| 9a | Issue price | 100.00% | 100.00% |
| 9b | Redemption price | 0.00% | 100.00% |
| 10 | Accounting classification | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 17/06/1992 | 06/05/2016 |
| 12 | Perpetual or dated | Perpetual | Dated |
| 13 | Original maturity date | No stated maturity | 06/05/2026 |
| 14 | Issuer call subject to prior supervisory approval | No | No |
| 15 | Optional call date, contingent call dates and redemption amount | - | - |
| 16 | Subsequent call dates, if applicable | - | - |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Fixed | Fixed |
| 18 | Coupon rate and any related index | 0.00% | 5.63% |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | - | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | - | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | No |
| 22 | Noncumulative or cumulative | - | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | - | - |
| 25 | If convertible, fully or partially | - | - |
| 26 | If convertible, conversion rate | - | - |
| 27 | If convertible, mandatory or optional conversion | - | - |
| 28 | If convertible, specify instrument type convertible into | - | - |
| 29 | If convertible, specify issuer of instrument it converts into | - | - |
| 30 | Write-down features | No | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | - | - |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | Subordinated Debt computable as TIER 2 in accordance with provision SECOND 4 of the Public Deed of the Issue dated 17 June 1992. | Subordinated Debt qualifying as TIER 2 under condition 4(b) "Status of the Notes" of the Base Prospectus of the EMTN programme dated 31 March 2016 |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Subordinated to Senior Non Preferred Debt | Subordinated to Senior Non Preferred Debt |
| 36 | Non-compliant transitioned features | No | No |
| 37 | If yes, specify non-compliant features | – | – |
| 37a | Link to the full term and conditions of the instrument (signposting) | **Link** | **Link** |

*Data as at 31/12/2022.*

*(1) Includes the deduction for holding the instrument in the Group's portfolio..*

*(2) Data in thousand euros.*

| | | Subordinated Bonds Issue I/2018 | Subordinated Issue 1/2020 |
|---|---|---|---|
| 1 | Issuer | BANCO SABADELL SA | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | XS1918887156 | XS2102931677 |
| 2a | Public or private placement | Public placement | Private placement |
| 3 | Governing law(s) of the instrument | Spanish law | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | Yes (Tier 2) | Yes (Tier 2) |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Tier 2 | Tier 2 |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Subordinated Debt | Subordinated Debt |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 500 | 300 |
| 9 | Nominal amount of instrument(2) | 500.000 (EUR) | 300.000 (EUR) |
| 9a | Issue price | 99.98% | 99.79% |
| 9b | Redemption price | 100.00% | 100.00% |
| 10 | Accounting classification | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 12/12/2018 | 17/01/2020 |
| 12 | Perpetual or dated | Dated | Dated |
| 13 | Original maturity date | 12/12/2028 | 17/01/2030 |
| 14 | Issuer call subject to prior supervisory approval | No | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | The execution date of the option will be on 12/12/2023, at discretion of the issuer. The write-down will be for the total nominal amount, without possibility of partial write-down. The issuer also has the right of early cancellation/termination in the face of: a) a change in the regulatory treatment of the instrument. b) a material change in its taxation. c) the event of default. | The execution date of the option will be on 17/01/2025, at discretion of the issuer. The write-down will be for the total nominal amount, without possibility of partial write-down. The issuer also has the right of early cancellation/termination in the face of: a) a change in the regulatory treatment of the instrument. b) a material change in its taxation. c) the event of default. |
| 16 | Subsequent call dates, if applicable | - | - |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Fixed | Fixed |
| 18 | Coupon rate and any related index | 5.375% up to 12/12/2023, thereafter 5-year MID SWAP + 5.10% | 2% up tol 17/01/2025, thereafter 5-year MID SWAP + 2,20% |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | No |
| 22 | Noncumulative or cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | - | - |
| 25 | If convertible, fully or partially | - | - |
| 26 | If convertible, conversion rate | - | - |
| 27 | If convertible, mandatory or optional conversion | - | - |
| 28 | If convertible, specify instrument type convertible into | - | - |
| 29 | If convertible, specify issuer of instrument it converts into | - | - |
| 30 | Write-down features | No | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | - | - |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | Subordinated Debt qualifying as TIER 2 under condition 4(b) "Status of the Notes" of the Base Prospectus of the EMTN programme dated 23 March 2018 | Subordinated Debt qualifying as TIER 2 under condition 5(b) "Status of the Notes" of the Base Prospectus of the EMTN programme dated 29 April 2019 |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Subordinated to Senior Non Preferred Debt | Subordinated to Senior Non Preferred Debt |
| 36 | Non-compliant transitioned features | No | No |
| 37 | If yes, specify non-compliant features | – | – |
| 37a | Link to the full term and conditions of the instrument (signposting) | **Link** | **Link** |

*Data as at 31/12/2022.*

*(1) Includes the deduction for holding the instrument in the Group's portfolio..*

*(2) Data in thousand euros.*

| | | Subordinated Issue 1/2021 | AT1 Preferred Securities 1/2021 |
|---|---|---|---|
| 1 | Issuer | BANCO SABADELL SA | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | XS2286011528 | XS2310945048 |
| 2a | Public or private placement | Public placement | Public placement |
| 3 | Governing law(s) of the instrument | Spanish law | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | Yes (Tier 2) | Yes (AT1) |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Tier 2 | Additional Tier 1 |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Subordinated Debt | Preferred Securities |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 500 | 500 |
| 9 | Nominal amount of instrument(2) | 500.000 (EUR) | 500.000 (EUR) |
| 9a | Issue price | 99.96% | 100.00% |
| 9b | Redemption price | 100.00% | 100.00% |
| 10 | Accounting classification | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 15/01/2021 | 15/03/2021 |
| 12 | Perpetual or dated | Dated | Perpetual |
| 13 | Original maturity date | 15/04/2031 | No stated maturity |
| 14 | Issuer call subject to prior supervisory approval | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | The execution date of the option will be any day from 15/01/2026 up to 15/04/2026, at discretion of the issuer.<br>The write-down will be for the total nominal amount, without possibility of partial write-down.<br>The issuer also has the right of early cancellation/termination in the face of:<br>a) a change in the regulatory treatment of the instrument.<br>b) a material change in its taxation.<br>c) the event of default. | The execution date of the option will be on 15/05/2026, at discretion of the issuer and with the prior consent of the competent authority .<br>The write-down will be for the total nominal amount, without possibility of partial write-down.<br>The issuer also has the right of early cancellation/termination in the face of a change in the regulatory treatment of the instrument or a material change in its taxation. |
| 16 | Subsequent call dates, if applicable | - | Coinciding with interest payment date |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Fixed | Fixed |
| 18 | Coupon rate and any related index | 2,50% up to 15/04/2026, threreafter 5-year MID SWAP + 2,95% | 5,75% up to 15/09/2026, thereafter 5-year MID-SWAP + 6,198% |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory | Fully discretionary |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory | Fully discretionary |
| 21 | Existence of step up or other incentive to redeem | No | No |
| 22 | Noncumulative or cumulative | Cumulative | Non-cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Convertible |
| 24 | If convertible, conversion trigger(s) | - | If the issuer's or group's CET1 ratio is below 5.125% |
| 25 | If convertible, fully or partially | - | Fully |
| 26 | If convertible, conversion rate | - | Conversion rate shall be the greater of: (i) the weighted average share price over the five days prior to the conversion announcement (ii) Its minimum price of €1.221 (iii) the par value of the share at the time of the conversion. |
| 27 | If convertible, mandatory or optional conversion | - | Mandatory |
| 28 | If convertible, specify instrument type convertible into | - | CET1 |
| 29 | If convertible, specify issuer of instrument it converts into | - | Banco Sabadell S.A. |
| 30 | Write-down features | No | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | - | - |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | Subordinated Debt qualifying as TIER 2 under condition 5(b) "Status of the Notes" of the Base Prospectus of the EMTN programme dated 26 May 2020 | Subordinated Debt qualifying as AT 1 as provided for in Condition 2 "Form and Status" paragraph 2 of the Offering Circular of 4 March 2021 |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Subordinated to Senior Non Preferred Debt | Subordinated to Subordinated Debt |
| 36 | Non-compliant transitioned features | No | No |
| 37 | If yes, specify non-compliant features | - | - |
| 37a | Link to the full term and conditions of the instrument (signposting) | Link | Link |

*Data as at 31/12/2022.*

*(1)Includes the deduction for holding the instrument in the Group's portfolio..*

*(2) Data in thousand euros.*

| | | AT1 Preferred Securities 2/2021 |
|---|---|---|
| 1 | Issuer | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | XS2389116307 |
| 2a | Public or private placement | Public placement |
| 3 | Governing law(s) of the instrument | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | Yes (AT1) |
| | Regulatory treatment | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No |
| 5 | Post-transitional CRR rules | Additional Tier 1 |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Preferred Securities |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 750 |
| 9 | Nominal amount of instrument(2) | 750.000 (EUR) |
| 9a | Issue price | 100.00% |
| 9b | Redemption price | 100.00% |
| 10 | Accounting classification | Liability - amortised cost |
| 11 | Original date of issuance | 19/11/2021 |
| 12 | Perpetual or dated | Perpetual |
| 13 | Original maturity date | No stated maturity |
| 14 | Issuer call subject to prior supervisory approval | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | The execution date of the option will be on 19/05/2027, at discretion of the issuer.<br>The write-down will be for the total nominal amount, without possibility of partial write-down.<br>The issuer also has the right of early cancellation/termination in the face of:<br>a) a change in the regulatory treatment of the instrument.<br>b) a material change in its taxation.<br>c) the event of default. |
| 16 | Subsequent call dates, if applicable | Coinciding with interest payment date |
| | Coupons / dividends | |
| 17 | Fixed or floating dividend/coupon | Fixed |
| 18 | Coupon rate and any related index | 5,00% hasta 19/05/2027, thereafter 5-year MID-SWAP +5,171% |
| 19 | Existence of a dividend stopper | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Fully discretionary |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Fully discretionary |
| 21 | Existence of step up or other incentive to redeem | No |
| 22 | Noncumulative or cumulative | Non-cumulative |
| 23 | Convertible or non-convertible | Convertible |
| 24 | If convertible, conversion trigger(s) | En caso de que el CET1 (ratio del Banco y/o del Grupo) se sitúe por debajo del 5.125% |
| 25 | If convertible, fully or partially | Fully |
| 26 | If convertible, conversion rate | Conversion rate shall be the greater of: (i) the weighted average share price over the five days prior to the conversion announcement (ii) Its minimum price of €1.221 (iii) the par value of the share at the time of the conversion. |
| 27 | If convertible, mandatory or optional conversion | Mandatory |
| 28 | If convertible, specify instrument type convertible into | CET1 |
| 29 | If convertible, specify issuer of instrument it converts into | Banco Sabadell S.A. |
| 30 | Write-down features | No |
| 31 | If write-down, write-down trigger(s) | - |
| 32 | If write-down, full or partial | - |
| 33 | If write-down, permanent or temporary | - |
| 34 | If temporary write-down, description of write-up mechanism | - |
| 34a | Type of subordination (only for eligible liabilities) | - |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | Subordinated Debt qualifying as AT 1 as provided for in Condition 2 "Form and Status" paragraph 2 of the Offering Circular of 9 November 2021 |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Subordinated to Subordinated Debt |
| 36 | Non-compliant transitioned features | No |
| 37 | If yes, specify non-compliant features | - |
| 37a | Link to the full term and conditions of the instrument (signposting) | **Link** |

## Eligible liabilities

| | | Issue of Structured Bonds 4/2014 | Issue of Ordinary Bonds 2/2018 |
|---|---|---|---|
| 1 | Issuer | BANCO SABADELL SA | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | ES0213860184 | ES0213860291 |
| 2a | Public or private placement | Private placement | Private placement |
| 3 | Governing law(s) of the instrument | Spanish law | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | Yes (MREL) | Yes (MREL) |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Eligible liabilities | Eligible liabilities |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Structured Bond | Senior Preferred Bond |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 10 | 6 |
| 9 | Nominal amount of instrument(2) | 10.000 (EUR) | 6.000 (EUR) |
| 9a | Issue price | 100.00% | 100.00% |
| 9b | Redemption price | 100.00% | 100.00% |
| 10 | Accounting classification | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 14/07/2014 | 16/03/2018 |
| 12 | Perpetual or dated | Dated | Dated |
| 13 | Original maturity date | 15/07/2024 | 17/03/2025 |
| 14 | Issuer call subject to prior supervisory approval | No | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | - | - |
| 16 | Subsequent call dates, if applicable | - | - |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Variable | Variable |
| 18 | Coupon rate and any related index | 0.00% | Max(0.67%; Euribor3m) |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | No |
| 22 | Noncumulative or cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | - | - |
| 25 | If convertible, fully or partially | - | - |
| 26 | If convertible, conversion rate | - | - |
| 27 | If convertible, mandatory or optional conversion | - | - |
| 28 | If convertible, specify instrument type convertible into | - | - |
| 29 | If convertible, specify issuer of instrument it converts into | - | - |
| 30 | Write-down features | No | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | Exception to Subordination | Exception to Subordination |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | Unsecured and Structured Bonds and Securities are unsecured and unsubordinated debt. They rank pari passu with all other unsecured and unsubordinated debt. They will be subordinated to all Secured and Preferrenced Bonds and other senior debt. | Unsecured and Structured Bonds and Securities are unsecured and unsubordinated debt. They rank pari passu with all other unsecured and unsubordinated debt. They will be subordinated to all Secured and Preferrenced Bonds and other senior debt. |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Simple Bonds and Debentures, Structured Bonds and Debentures will rank after senior creditors. | Simple Bonds and Debentures, Structured Bonds and Debentures will rank after senior creditors. |
| 36 | Non-compliant transitioned features | No | No |
| 37 | If yes, specify non-compliant features | - | - |
| 37a | Link to the full term and conditions of the instrument (signposting) | Link | Link |

*Data as at 31/12/2022.*

(1) *Data in thousands of euro..*

| | | Issue of Senior Debentures I/2018 | Issue of Ordinary Bonds 6/2018 |
|---|---|---|---|
| 1 | Issuer | BANCO SABADELL SA | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | XS1876076040 | ES0213860317 |
| 2a | Public or private placement | Private placement | Private placement |
| 3 | Governing law(s) of the instrument | English law | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | Yes (MREL) | Yes (MREL) |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Eligible liabilities | Eligible liabilities |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Senior Preferred Bond | Senior Preferred Bond |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 729 | 3 |
| 9 | Nominal amount of instrument(2) | 729.000 (EUR) | 2.500 (EUR) |
| 9a | Issue price | 99.71% | 100.00% |
| 9b | Redemption price | 100.00% | 100.00% |
| 10 | Accounting classification | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 07/09/2018 | 14/11/2018 |
| 12 | Perpetual or dated | Dated | Dated |
| 13 | Original maturity date | 07/03/2024 | 14/11/2025 |
| 14 | Issuer call subject to prior supervisory approval | Yes | No |
| 15 | Optional call date, contingent call dates and redemption amount | - | - |
| 16 | Subsequent call dates, if applicable | - | - |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Fixed | Variable |
| 18 | Coupon rate and any related index | 0.01625 | Max(1.50%; Euribor3m) |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | No |
| 22 | Noncumulative or cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | - | - |
| 25 | If convertible, fully or partially | - | - |
| 26 | If convertible, conversion rate | - | - |
| 27 | If convertible, mandatory or optional conversion | - | - |
| 28 | If convertible, specify instrument type convertible into | - | - |
| 29 | If convertible, specify issuer of instrument it converts into | - | - |
| 30 | Write-down features | No | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | Exception to Subordination | Exception to Subordination |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | Senior versus second ranking senior obligations, and any unsecured or subordinated obligations. Pari Passu against each other as against any unsecured or subordinated obligations other than the former. | Unsecured and Structured Bonds and Securities are unsecured and unsubordinated debt. They rank pari passu with all other unsecured and unsubordinated debt. They will be subordinated to all Secured and Preferrenced Bonds and other senior debt. |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | The Ordinary Senior Debentures will be effectively subordinated to all secured indebtedness of the Issuer, to the extent of the value of the assets securing such indebtedness, and to other obligations ranking senior under Spanish law. In particular, the Issuer's obligations under the Ordinary Senior Debentures will be effectively subordinated to all obligations of the Issuer ranking senior under the Bankruptcy Law. | Simple Bonds and Debentures, Structured Bonds and Debentures will rank after senior creditors. |
| 36 | Non-compliant transitioned features | No | No |
| 37 | If yes, specify non-compliant features | - | - |
| 37a | Link to the full term and conditions of the instrument (signposting) | Link | Link |

*Data as at 31/12/2022.*

*[1] Data in thousands of euro..*

| | | Issue of Senior Non Preferred Bonds 1/2019 | Issue of Senior Debentures 1/2019 |
|---|---|---|---|
| 1 | Issuer | BANCO SABADELL SA | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | XS1991397545 | XS2028816028 |
| 2a | Public or private placement | Public placement | Public placement |
| 3 | Governing law(s) of the instrument | Spanish law | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | Yes (MREL) | Yes (MREL) |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Eligible liabilities | Eligible liabilities |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Senior Non Preferred Bond | Senior Preferred Bond |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 951 | 980 |
| 9 | Nominal amount of instrument(2) | 951.000 (EUR) | 980.000 (EUR) |
| 9a | Issue price | 99.78% | 99.83% |
| 9b | Redemption price | 100.00% | 100.00% |
| 10 | Accounting classification | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 10/05/2019 | 22/07/2019 |
| 12 | Perpetual or dated | Dated | Dated |
| 13 | Original maturity date | 10/05/2024 | 22/07/2025 |
| 14 | Issuer call subject to prior supervisory approval | No | No |
| 15 | Optional call date, contingent call dates and redemption amount | - | - |
| 16 | Subsequent call dates, if applicable | - | - |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Fixed | Fixed |
| 18 | Coupon rate and any related index | 0.0175 | 0.00875 |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | No |
| 22 | Noncumulative or cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | - | - |
| 25 | If convertible, fully or partially | - | - |
| 26 | If convertible, conversion rate | - | - |
| 27 | If convertible, mandatory or optional conversion | - | - |
| 28 | If convertible, specify instrument type convertible into | - | - |
| 29 | If convertible, specify issuer of instrument it converts into | - | - |
| 30 | Write-down features | No | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | Statutory | Exception to Subordination |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | These are Senior Bonds which have no preferrence. They rank senior to any present and future subordinated obligations. They are pari passu with each other and with any Senior Non-Preferred Liabilities; and are subordinated to the Senior Preferred Liabilities of the Issuer. | The Senior Bonds are Senior Ordinary Bonds. They will rank senior to the Senior Non-Preferred Liabilities and to any present and future subordinated obligations (subordinated credits) of the Issuer. They will be pari passu with each other and with any Senior Preferred Liabilities. |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | The Issuer's payment obligations in respect of the principal amount of the Senior Non-Preferred Bonds will be subordinated to the Issuer's Senior Senior Priority Liabilities, upon payment in full of the Senior Priority Liabilities. | The Ordinary Senior Debentures will be effectively subordinated to all secured indebtedness of the Issuer, to the extent of the value of the assets securing such indebtedness, and to other obligations ranking senior under Spanish law. In particular, the Issuer's obligations under the Ordinary Senior Debentures will be effectively subordinated to all obligations of the Issuer ranking senior under the Bankruptcy Law. |
| 36 | Non-compliant transitioned features | - | - |
| 37 | If yes, specify non-compliant features | - | - |
| 37a | Link to the full term and conditions of the instrument (signposting) | Link | Link |

*Data as at 31/12/2022.*

(1) *Data in thousands of euro..*

| | | Issue of Senior Non Preferred Bonds 2/2019 | Issue of Senior Debentures 2/2019 |
|---|---|---|---|
| 1 | Issuer | BANCO SABADELL SA | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | XS2055190172 | XS2076079594 |
| 2a | Public or private placement | Public placement | Public placement |
| 3 | Governing law(s) of the instrument | Spanish law | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | Yes (MREL) | Yes (MREL) |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Eligible liabilities | Eligible liabilities |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Senior Non Preferred Bond | Senior Preferred Bond |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 500 | 500 |
| 9 | Nominal amount of instrument(2) | 500.000 (EUR) | 500.000 (EUR) |
| 9a | Issue price | 99.52% | 99.47% |
| 9b | Redemption price | 100.00% | 100.00% |
| 10 | Accounting classification | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 27/09/2019 | 07/11/2019 |
| 12 | Perpetual or dated | Dated | Dated |
| 13 | Original maturity date | 27/03/2025 | 07/11/2025 |
| 14 | Issuer call subject to prior supervisory approval | No | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | | On 07/11/2024, at the issuer's discretion subject to prior authorisation from the competent authority. The amortisation will be carried out at the full nominal value. Amortisation will be full, with no option for partial amortisation |
| 16 | Subsequent call dates, if applicable | - | - |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Fixed | Fixed |
| 18 | Coupon rate and any related index | 0.01125 | 0.00625 |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | No |
| 22 | Noncumulative or cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | - | - |
| 25 | If convertible, fully or partially | - | - |
| 26 | If convertible, conversion rate | - | - |
| 27 | If convertible, mandatory or optional conversion | - | - |
| 28 | If convertible, specify instrument type convertible into | - | - |
| 29 | If convertible, specify issuer of instrument it converts into | - | - |
| 30 | Write-down features | No | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | Statutory | Excepción a subordinación |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | These are Senior Bonds which have no preferrence. They rank senior to any present and future subordinated obligations. They are pari passu with each other and with any Senior Non-Preferred Liabilities; and are subordinated to the Senior Preferred Liabilities of the Issuer. | These are Senior Bonds which have no preferrence. They rank senior to any present and future subordinated obligations. They are pari passu with each other and with any Senior Non-Preferred Liabilities; and are subordinated to the Senior Preferred Liabilities of the Issuer. |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | The Issuer's payment obligations in respect of the principal amount of the Senior Non-Preferred Bonds will be subordinated to the Issuer's Senior Senior Priority Liabilities, upon payment in full of the Senior Priority Liabilities. | The Ordinary Senior Debentures will be effectively subordinated to all secured indebtedness of the Issuer, to the extent of the value of the assets securing such indebtedness, and to other obligations ranking senior under Spanish law. In particular, the Issuer's obligations under the Ordinary Senior Debentures will be effectively subordinated to all obligations of the Issuer ranking senior under the Bankruptcy Law. |
| 36 | Non-compliant transitioned features | - | - |
| 37 | If yes, specify non-compliant features | - | - |
| 37a | Link to the full term and conditions of the instrument (signposting) | Link | Link |

*Data as at 31/12/2022.*

*(1) Data in thousands of euro..*

| | | Issue of Senior Debentures 2/2020 | Issue of Senior Non Preferred Bonds 1/2021 |
|---|---|---|---|
| 1 | Issuer | BANCO SABADELL SA | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | XS2228245838 | XS2353366268 |
| 2a | Public or private placement | Public placement | Public placement |
| 3 | Governing law(s) of the instrument | Spanish law | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | Yes (MREL) | N/A |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Eligible liabilities | Eligible liabilities |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Senior Preferred Bond | Senior Non Preferred Bond |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 500 | 500 |
| 9 | Nominal amount of instrument(2) | 500.000 (EUR) | 500.000 (EUR) |
| 9a | Issue price | 99.83% | 99.56% |
| 9b | Redemption price | 100.00% | 100.00% |
| 10 | Accounting classification | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 11/09/2020 | 16/06/2021 |
| 12 | Perpetual or dated | Dated | Dated |
| 13 | Original maturity date | 11/03/2027 | 16/06/2028 |
| 14 | Issuer call subject to prior supervisory approval | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | On 11/03/2026, at the issuer's discretion subject to prior authorisation from the competent authority. The amortisation will be carried out at the full nominal value. Amortisation will be full, with no option for partial amortisation | On 16/06/2027, at the issuer's discretion subject to prior authorisation from the competent authority. The amortisation will be carried out at the full nominal value. Amortisation will be full, with no option for partial amortisation |
| 16 | Subsequent call dates, if applicable | - | - |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Fixed | Fixed |
| 18 | Coupon rate and any related index | 0.01125 | 0.00875 |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | No |
| 22 | Noncumulative or cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | - | - |
| 25 | If convertible, fully or partially | - | - |
| 26 | If convertible, conversion rate | - | - |
| 27 | If convertible, mandatory or optional conversion | - | - |
| 28 | If convertible, specify instrument type convertible into | - | - |
| 29 | If convertible, specify issuer of instrument it converts into | - | - |
| 30 | Write-down features | No | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | Exception to Subordination | Statutory |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | Senior Preferred Bonds are Ordinary Senior Bonds. They will rank senior to Senior Non-Preferred Liabilities and to any present and future subordinated obligations (subordinated claims) of the Issuer. They will be pari passu with each other and with any Senior Preferred Liabilities. | These are Senior Bonds which have no preferrence. They rank senior to any present and future subordinated obligations. They are pari passu with each other and with any Senior Non-Preferred Liabilities; and are subordinated to the Senior Preferred Liabilities of the Issuer. |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | The Ordinary Senior Debentures will be effectively subordinated to all secured indebtedness of the Issuer, to the extent of the value of the assets securing such indebtedness, and to other obligations ranking senior under Spanish law. In particular, the Issuer's obligations under the Ordinary Senior Debentures will be effectively subordinated to all obligations of the Issuer ranking senior under the Bankruptcy Law. | The Issuer's payment obligations in respect of the principal amount of the Senior Non-Preferred Bonds will be subordinated to the Issuer's Senior Senior Priority Liabilities, upon payment in full of the Senior Priority Liabilities. |
| 36 | Non-compliant transitioned features | - | - |
| 37 | If yes, specify non-compliant features | - | - |
| 37a | Link to the full term and conditions of the instrument (signposting) | Link | Ñink |

*Data as at 31/12/2022.*

(1) *Data in thousands of euro..*

| | | Issue Simple Bonds Non Preferred 1/2021 | Issue of Senior Non Preferred Bonds 1/2022 |
|---|---|---|---|
| 1 | Issuer | BANCO SABADELL SA | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | ES0213860333 | XS2455392584 |
| 2a | Public or private placement | Private placement | Public placement |
| 3 | Governing law(s) of the instrument | Spanish law | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | N/A | N/A |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Eligible liabilities | Eligible liabilities |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Senior Non Preferred Bond | Senior Non Preferred Bond |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 67 | 750 |
| 9 | Nominal amount of instrument(2) | 67.000 (EUR) | 750.000 (EUR) |
| 9a | Issue price | 100.00% | 99.74% |
| 9b | Redemption price | 100.00% | 100.00% |
| 10 | Accounting classification | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 29/11/2021 | 24/03/2022 |
| 12 | Perpetual or dated | Dated | Dated |
| 13 | Original maturity date | 30/11/2026 | 24/03/2026 |
| 14 | Issuer call subject to prior supervisory approval | No | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | - | On 24/03/2025, at the issuer's discretion subject to prior authorisation from the competent authority. The amortisation will be carried out at the full nominal value. Amortisation will be full, with no option for partial amortisation |
| 16 | Subsequent call dates, if applicable | - | - |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Floating | Fixed |
| 18 | Coupon rate and any related index | MAX(0,77%; Euribor12m) | 0.02625 |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | No |
| 22 | Noncumulative or cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | - | - |
| 25 | If convertible, fully or partially | - | - |
| 26 | If convertible, conversion rate | - | - |
| 27 | If convertible, mandatory or optional conversion | - | - |
| 28 | If convertible, specify instrument type convertible into | - | - |
| 29 | If convertible, specify issuer of instrument it converts into | - | - |
| 30 | Write-down features | No | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | Statutory | Statutory |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | These are Senior Bonds which have no preferrence. They rank senior to any present and future subordinated obligations. They are pari passu with each other and with any Senior Non-Preferred Liabilities; and are subordinated to the Senior Preferred Liabilities of the Issuer. | These are Senior Bonds which have no preferrence. They rank senior to any present and future subordinated obligations. They are pari passu with each other and with any Senior Non-Preferred Liabilities; and are subordinated to the Senior Preferred Liabilities of the Issuer. |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | The Issuer's payment obligations in respect of the principal amount of the Senior Non-Preferred Bonds will be subordinated to the Issuer's Senior Senior Priority Liabilities, upon payment in full of the Senior Priority Liabilities. | The Issuer's payment obligations in respect of the principal amount of the Senior Non-Preferred Bonds will be subordinated to the Issuer's Senior Senior Priority Liabilities, upon payment in full of the Senior Priority Liabilities. |
| 36 | Non-compliant transitioned features | - | No |
| 37 | If yes, specify non-compliant features | - | - |
| 37a | Link to the full term and conditions of the instrument (signposting) | Link | Link |

*Data as at 31/12/2022.*

(1) *Data in thousands of euro..*

| | | Issue of Ordinary Bonds Non Preferred 1/2022 | Issue of Ordinary Bonds Non Preferred 2/2022 |
|---|---|---|---|
| 1 | Issuer | BANCO SABADELL SA | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | ES0213860341 | ES03138603I4 |
| 2a | Public or private placement | Private placement | Private placement |
| 3 | Governing law(s) of the instrument | Spanish law | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | N/A | N/A |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Eligible liabilities | Eligible liabilities |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Senior Non Preferred Bond | Senior Non Preferred Bond |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 120 | 9 |
| 9 | Nominal amount of instrument(2) | 120.000 (EUR) | 8.900 (EUR) |
| 9a | Issue price | 100.00% | 100.00% |
| 9b | Redemption price | 100.00% | 100.00% |
| 10 | Accounting classification | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 30/03/2022 | 03/06/2022 |
| 12 | Perpetual or dated | Dated | Dated |
| 13 | Original maturity date | 30/03/2037 | 03/06/2027 |
| 14 | Issuer call subject to prior supervisory approval | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | - | - |
| 16 | Subsequent call dates, if applicable | - | - |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Fixed | Floating |
| 18 | Coupon rate and any related index | 0.0315 | MAX(2,75%; Euribor12m) |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | No |
| 22 | Noncumulative or cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | - | - |
| 25 | If convertible, fully or partially | - | - |
| 26 | If convertible, conversion rate | - | - |
| 27 | If convertible, mandatory or optional conversion | - | - |
| 28 | If convertible, specify instrument type convertible into | - | - |
| 29 | If convertible, specify issuer of instrument it converts into | - | - |
| 30 | Write-down features | No | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | Statutory | Statutory |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | These are Senior Bonds which have no preferrence. They rank senior to any present and future subordinated obligations. They are pari passu with each other and with any Senior Non-Preferred Liabilities; and are subordinated to the Senior Preferred Liabilities of the Issuer. | These are Senior Bonds which have no preferrence. They rank senior to any present and future subordinated obligations. They are pari passu with each other and with any Senior Non-Preferred Liabilities; and are subordinated to the Senior Preferred Liabilities of the Issuer. |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | The Issuer's payment obligations in respect of the principal amount of the Senior Non-Preferred Bonds will be subordinated to the Issuer's Senior Senior Priority Liabilities, upon payment in full of the Senior Priority Liabilities. | The Issuer's payment obligations in respect of the principal amount of the Senior Non-Preferred Bonds will be subordinated to the Issuer's Senior Senior Priority Liabilities, upon payment in full of the Senior Priority Liabilities. |
| 36 | Non-compliant transitioned features | No | No |
| 37 | If yes, specify non-compliant features | - | - |
| 37a | Link to the full term and conditions of the instrument (signposting) | **Link** | **Link** |

*Data as at 31/12/2022.*

*(1) Data in thousands of euro..*

| | | Issue of Ordinary Bonds Non Preferred 3/2022 | Issue of Senior Non Preferred Bonds 2/2022 |
|---|---|---|---|
| 1 | Issuer | BANCO SABADELL SA | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | ES0213860358 | XS2528155893 |
| 2a | Public or private placement | Private placement | Public placement |
| 3 | Governing law(s) of the instrument | Spanish law | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | Yes (MREL) | Yes (MREL) |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Eligible liabilities | Eligible liabilities |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Senior Non Preferred Bond | Senior Non Preferred Bond |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 9 | 500 |
| 9 | Nominal amount of instrument(2) | 9.200 (EUR) | 500.000 (EUR) |
| 9a | Issue price | 100.00% | 99.79% |
| 9b | Redemption price | 100.00% | 100.00% |
| 10 | Accounting classification | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 01/08/2022 | 08/09/2022 |
| 12 | Perpetual or dated | Dated | Dated |
| 13 | Original maturity date | 02/08/2027 | 08/09/2026 |
| 14 | Issuer call subject to prior supervisory approval | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | - | On 08/09/2025, at the issuer's discretion subject to prior authorisation from the competent authority. The amortisation will be carried out at the full nominal value. Amortisation will be full, with no option for partial amortisation |
| 16 | Subsequent call dates, if applicable | - | - |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Floating | Fixed |
| 18 | Coupon rate and any related index | MAX(4%; Euribor12m) | 0.05375 |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | No |
| 22 | Noncumulative or cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | - | - |
| 25 | If convertible, fully or partially | - | - |
| 26 | If convertible, conversion rate | - | - |
| 27 | If convertible, mandatory or optional conversion | - | - |
| 28 | If convertible, specify instrument type convertible into | - | - |
| 29 | If convertible, specify issuer of instrument it converts into | - | - |
| 30 | Write-down features | No | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | Statutory | Statutory |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | These are Senior Bonds which have no preferrence. They rank senior to any present and future subordinated obligations. They are pari passu with each other and with any Senior Non-Preferred Liabilities; and are subordinated to the Senior Preferred Liabilities of the Issuer. The Issuer's payment obligations in respect of the principal amount of the Senior Non-Preferred Bonds will be subordinated to the Issuer's Senior Senior Priority Liabilities, upon payment in full of the Senior Priority Liabilities. | These are Senior Bonds which have no preferrence. They rank senior to any present and future subordinated obligations. They are pari passu with each other and with any Senior Non-Preferred Liabilities; and are subordinated to the Senior Preferred Liabilities of the Issuer. The Issuer's payment obligations in respect of the principal amount of the Senior Non-Preferred Bonds will be subordinated to the Issuer's Senior Senior Priority Liabilities, upon payment in full of the Senior Priority Liabilities. |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | | |
| 36 | Non-compliant transitioned features | No | No |
| 37 | If yes, specify non-compliant features | - | - |
| 37a | Link to the full term and conditions of the instrument (signposting) | **Link** | **Link** |

*Data as at 31/12/2022.*

*(1) Data in thousands of euro..*

| | | Issue of Senior Debentures 1/2022 | Issue of Senior Non Preferred Bonds 3/2022 |
|---|---|---|---|
| 1 | Issuer | BANCO SABADELL SA | BANCO SABADELL SA |
| 2 | Unique identifier (i.e. CUSIP, ISIN or Bloomberg identifier for private placement) | XS2553801502 | XS2560673829 |
| 2a | Public or private placement | Public placement | Private placement |
| 3 | Governing law(s) of the instrument | Spanish law | Spanish law |
| 3a | Contractual recognition of write down and conversion powers of resolution authorities | Yes (MREL) | Yes (MREL) |
| | Regulatory treatment | | |
| 4 | Current treatment taking into account, where applicable, transitional CRR rules | No | No |
| 5 | Post-transitional CRR rules | Eligible liabilities | Eligible liabilities |
| 6 | Eligible at solo/(sub-)consolidated/ solo&(sub-)consolidated | Solo and consolidated | Solo and consolidated |
| 7 | Instrument type (types to be specified by each jurisdiction) | Senior Preferred Bond | Senior Non Preferred Bond |
| 8 | Amount recognised in regulatory capital or eligible liabilities (Currency in million, as of most recent reporting date) | 750 | 75 |
| 9 | Nominal amount of instrument(2) | 750.000 (EUR) | 75.000 (EUR) |
| 9a | Issue price | 99.75% | 100.00% |
| 9b | Redemption price | 100.00% | 100.00% |
| 10 | Accounting classification | Liability - amortised cost | Liability - amortised cost |
| 11 | Original date of issuance | 10/11/2022 | 23/11/2022 |
| 12 | Perpetual or dated | Dated | Dated |
| 13 | Original maturity date | 10/22/28 | 23/11/2032 |
| 14 | Issuer call subject to prior supervisory approval | Yes | Yes |
| 15 | Optional call date, contingent call dates and redemption amount | On 10/11/2027, at the issuer's discretion subject to prior authorisation from the competent authority. The amortisation will be carried out at the full nominal value. Amortisation will be full, with no option for partial amortisation | On 23/11/2031, at the issuer's discretion subject to prior authorisation from the competent authority. The amortisation will be carried out at the full nominal value. Amortisation will be full, with no option for partial amortisation |
| 16 | Subsequent call dates, if applicable | - | - |
| | Coupons / dividends | | |
| 17 | Fixed or floating dividend/coupon | Fixed | Fixed |
| 18 | Coupon rate and any related index | 0.05125 | 0.055 |
| 19 | Existence of a dividend stopper | No | No |
| 20a | Fully discretionary, partially discretionary or mandatory (in terms of timing) | Mandatory | Mandatory |
| 20b | Fully discretionary, partially discretionary or mandatory (in terms of amount) | Mandatory | Mandatory |
| 21 | Existence of step up or other incentive to redeem | No | No |
| 22 | Noncumulative or cumulative | Cumulative | Cumulative |
| 23 | Convertible or non-convertible | Non-convertible | Non-convertible |
| 24 | If convertible, conversion trigger(s) | - | - |
| 25 | If convertible, fully or partially | - | - |
| 26 | If convertible, conversion rate | - | - |
| 27 | If convertible, mandatory or optional conversion | - | - |
| 28 | If convertible, specify instrument type convertible into | - | - |
| 29 | If convertible, specify issuer of instrument it converts into | - | - |
| 30 | Write-down features | No | No |
| 31 | If write-down, write-down trigger(s) | - | - |
| 32 | If write-down, full or partial | - | - |
| 33 | If write-down, permanent or temporary | - | - |
| 34 | If temporary write-down, description of write-up mechanism | - | - |
| 34a | Type of subordination (only for eligible liabilities) | Exception to Subordination | Statutory |
| EU-34b | Ranking of the instrument in normal insolvency proceedings | The Senior Notes are Ordinary Senior Notes. They will have priority over the Senior Non-Preferred Liabilities and over any present and future subordinated obligations (subordinated claims) of the Issuer. They will be pari passu among themselves and with any Prefered Liabilities. | These are Senior Bonds which have no preferrence. They rank senior to any present and future subordinated obligations. They are pari passu with each other and with any Senior Non-Preferred Liabilities; and are subordinated to the Senior Preferred Liabilities of the Issuer. |
| 35 | Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | The Senior Notes will be subordinated to all of the Issuer's secured indebtedness, to the extend of the value of assets securing such indebtedness, and to other obligations ranking senior under Spanish law. In particular, the Issuer's obligations under the Senior Ordinary Notes will be effectively subordinated to all obligations of the Issuer ranking senior under the Bankruptcy Law. | The Issuer's payment obligations in respect of the principal amount of the Senior Non-Preferred Bonds will be subordinated to the Issuer's Senior Senior Priority Liabilities, upon payment in full of the Senior Priority Liabilities. |
| 36 | Non-compliant transitioned features | No | No |
| 37 | If yes, specify non-compliant features | - | - |
| 37a | Link to the full term and conditions of the instrument (signposting) | **Link** | **Link** |

*Data as at 31/12/2022.*

[1] *Data in thousands of euro..*

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## Contact

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## Banco Sabadell

Pillar III Disclosures 2022

Alicante, 23 March 2023