

Decarbonisation targets

2023

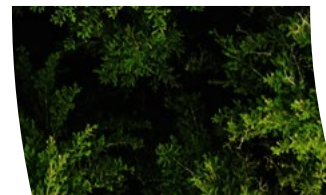
Banco Sabadell's commitment to sectoral decarbonisation

The transition to a sustainable economy is a global calling that encompasses environmental, social and governance challenges and it requires a transformation of the economic model that it will affect all economic players. Its main goals include social development and the delivery of climate commitments such as the Paris Agreement, the European Green Pact and the 2030 Agenda.

Under this same precept, Banco Sabadell is steering its activity by channelling resources, supporting companies and individuals with specialist engagement, and activating different action levers according to the transition needs of each sector. Specifically, the Bank is undergoing an internal transformation to embed sustainability into all its agendas, extending it to the entire value chain, making progress to

achieve emissions neutrality, incorporating new capabilities, managing customers' risk and minimising their ESG risk impacts.

Against this backdrop, Banco Sabadell is continuing to move ahead with its Decarbonisation Strategy, while at the same time moving closer to achieving global climate targets, as a signatory of the Collective Commitment to Climate Action (CCCA) and a member of the Net-Zero Banking Alliance (NZBA), in order to attain emissions neutrality in its investment and lending portfolios by 2050.



Launch of the Decarbonisation Strategy

The Bank's commitment to decarbonisation is embedded into the entire process of its activity. For this reason, it has identified **3 main pillars**, based on which it activates cross-cutting and sector-specific levers.



1

Strategic action framework

Banco Sabadell believes it is important to ensure that its portfolio is aligned with its decarbonisation targets and, to that end, it has introduced elements linked to decarbonisation in its risk appetite framework, in its policies, sectoral planning processes, and it has set decarbonisation pathways to achieve those targets.

1 Strategic action framework

Environmental Risk Policy

Establishes the general guidelines for climate risk management and control and also related to environmental degradation, specifying the principles, critical parameters that are applicable and covering significant aspects for the management and control of the associated risks, both physical and transition.

Environmental and Social Risk Framework

Applies to new significant lending operations granted to large corporations.

This framework consolidates the set of applicable criteria that aim to limit the financing to customers or projects that are thought to be contrary to the transition to a sustainable economy or to lack alignment with international regulations or best practices in the sector.

General criteria have been established, with a cross-cutting impact on all sectors, as well as other sector-specific criteria that only apply to particular industries, such as Agriculture, Defence, Mining, Energy and Infrastructures.

The framework compliance assessment is integrated in a specific tool linked to the risk file and it is carried out by a specific group of ESG analysts, with the support of a reputable third-party ESG analysis platform.

RAS metrics

The Bank has defined certain RAS (Risk Appetite Statement) indicators and metrics related to ESG and designed, on one hand, to monitor the status and evolution of physical and transition risks in its credit portfolio and, on the other hand, to establish and limit its risk appetite and/or position in certain environmental aspects.

1 Strategic action framework

Sectoral Guidance Strategy

A mechanism that integrates all of the Group's existing perspectives regarding sectoral risk and which establishes the Group's sectoral asset allocation strategy.

Within this sectoral strategic perspective, the Group's decision-making process factors in not only the effect/impact on different sectors of external events (such as Covid-19 when it first broke out, Russia's invasion of Ukraine, the inflationary environment, shortage of raw materials), but also all inputs or aspects that could affect the future of the various sub-sectors, such as the composition and characteristics of the Institution's lending portfolio, all against a backdrop in which ESG factors and risks play a prominent role, as do other aspects such as the Economic Recovery Fund (ERF), trends in each sector and in the market, etc.

Decarbonisation pathways

These set out the decarbonisation targets established for 2030 in the more carbon-intensive sectors financed by the Bank, based on the targets established in the Paris Agreement, and aligned with the UNEP FI's NZBA.

2

Support in the transition

In its business operations and in its support for customer transition, the Bank is reinforcing actions to raise awareness and offer advice, across all sectors of the business fabric, providing solutions to finance the investments needed for that transition.

To that end, it has made all of its capabilities available to them through specialised teams and a Sustainable Financing Framework.

To complement this, the Bank supports large corporations by providing financing for their decarbonisation plans and it offers specialist advisory services and financing, with brokered solutions, to SMEs and individuals.

2 Support in the transition

More specifically, this customer support is underpinned by:

Sustainable Finance Solutions

Eligibility Guide

To foster green financing, an Eligibility Guide is available, which outlines the activities deemed to be sustainable, in alignment with the EU Taxonomy Regulation.

Sustainable Financing Framework

Comprises Green and Social Loans (GSLs), where the investment being financed is deemed eligible according to the EU Taxonomy, as well as Sustainability-Linked Loans (SLLs).

This has been further expanded with a new framework that includes finance for 'taxonomy non-eligible projects' (corresponding to environmental activities not yet covered by the taxonomy). Additionally, the bank accompanies its clients for the issuance of sustainability bonds and green private placements for specific purposes.

Investment in sustainable technology

The bank through its specialised subsidiaries, such as Sinia Renovables, with over 25 years' of expertise and its specialized structured finance teams, is contributing, through investments and stakes, to the promotion of projects involving renewable energy technology (e.g. solar, wind, hydrogen and biomethane), in order to drive forward their development and implementation.

Agreements with third parties

The Bank is expanding its collaborations, offering turnkey solutions in, for example, photovoltaic self-consumption and building retrofitting, for both companies and individuals.

2 Support in the transition

Specialist engagement

Specialised teams

The Bank has a team of experts located throughout the regions served by the branch network, who are trained and certified in sustainability.

They have a sector-wide vision of sustainability that allows them to identify the most suitable solutions based on what customers need to face the challenges of transition.

Expertise hubs

To complement this, the Institution has cross-cutting units specialising in sustainability that support customers in the areas of Structured Finance, Corporate & Investment Banking, in addition to helping them to find and apply for subsidies for the Next Generation funds.

Specialist engagement

A personalised support service is offered on an individual basis to corporate customers, through regular visits to identify the progress made in implementing ESG criteria, to delve into future challenges and to identify the most appropriate solutions through sustainable finance according to each customer's needs.

Disclosure and awareness-raising

The Bank continues to make progress with its ongoing advice programme, through disclosures via its own channels, such as the Companies Hub's events and seminars.

3

Risk management

In terms of risk management, the Bank has introduced decarbonisation levers in its risk management guidelines, in the credit approval process and in portfolio monitoring, which can be seen in the analysis of customers' performance in their transition commitments and plans.

The Bank also estimates how their operations might potentially impact the achievement of the decarbonisation targets for 2030 and it monitors decarbonisation pathways on an ongoing basis.

3 Risk management

ESG Guidelines

To support greenhouse gas (GHG) emissions-intensive companies in their transition to sustainable activity, whilst at the same time mitigating the potential impact of climate risks on the balance sheet, guidelines have been defined to manage ESG risks.

These Guidelines limit the origination of lending transactions for companies with GHG emissions-intensive activity and with poor ESG performance and/or attitude (i.e. those with a gap between their current approach to the transition and their plans to take it forward).

This ESG analysis evaluates counterparties' ESG performance and their general approach to ESG, as well as their fulfilment of the environmental and social risk framework and decarbonisation pathways (simulating, where applicable, among other things the impact of new/rolled over loans on the Institution's pathway and inviting an ESG analyst to conduct an assessment).

This way, the Group will be able to continue funding the transition of emissions-intensive companies where they have made sufficient progress in their ESG management and performance and plan to transition to a sustainable economy.

Customer performance analysis

The Institution has created a Climate-related and Environmental Risk Indicator (CERI) which it uses to conduct an in-depth ESG analysis to identify the most significant ESG risks faced by the Institution's main counterparties, both when granting new loans and when rolling over existing ones.

During this assessment, an ESG analyst captures and evaluates counterparties' environmental performance in particular, considering the intrinsic risk of their activity, and the way in which customers approach and manage these risks, as well as additional aspects such as external ESG ratings, ESG plans or strategies, their position compared to peers in their sector and, more specifically and where applicable, information relating to decarbonisation pathways (emissions, production intensities, counterparties' decarbonisation targets, robustness of their plans and transition efforts).

3 Risk management

Decarbonisation pathways impact analysis

To ensure compliance with decarbonisation targets, whenever a significant transaction meets the conditions that require it to be subject to a sectoral pathway, an ad hoc analysis is carried out to measure its impact on the relevant pathway.

This means that specialists review either the absolute emissions in the case of a firm in the Oil & Gas industry, or the physical emissions intensity of companies in all other sectors with a pathway, in addition to their emissions reduction commitments to guarantee that they meet the stipulated emissions limits and do not jeopardise achievement of the 2030 targets.

Monitoring

Quarterly monitoring of internal reports sent to the Sustainability Committee on the progress and level of achievement of decarbonisation targets, including rationale and explanations of any changes in those targets.

Similarly, details of these monitoring activities are included in the Credit Risk Dashboard submitted on a monthly basis to the Technical Risk Committee (an extract of which is sent to the Board Risk Committee), in addition to any other aspects relevant to ESG risks, such as the monitoring of the sustainable portfolio, the carbon footprint of financed emissions, the measurement of physical and transition risks in the portfolio, or the monitoring of ESG RAS indicators or metrics linked to specific portfolios.

Decarbonisation targets

Targets published in December 2022



Reinforces the commitment with 3 new targets and 1 additional target published by the subsidiary TSB



Decarbonisation targets

In December 2022, the Bank published the first decarbonisation targets for four carbon-intensive sectors:

- Power
- Oil & Gas
- Cement
- Coal

In 2023, the Bank continued to enhance its strategy to fight climate change, setting decarbonisation targets for the following three new sectors:

- Iron & Steel
- Automotive
- Aviation

The scope of activities covered by the aforesaid targets focus on the stage of each sector's production chain where transition is most likely to reduce the overall volume of greenhouse gas emissions.

With this goal in mind, the commitments have been determined taking into account the Net Zero Emissions by 2050 (NZE2050) 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°C above pre-industrial levels.

These targets contribute to the goal of fighting climate change and are an embodiment of the Bank's ambition to reach net zero by 2050, in line with the commitments established by the NZBA.

Decarbonisation targets

Targets published

Sector	Value chain	Emissions scope	Scenario	Metric	Base year	Base year metric	2030 target	% reduction
Power	Electricity generation	1 and 2	IEA Net Zero 2050	Physical intensity Kg CO ₂ e/MWh	2020	61	85-45	-
Oil & Gas	Upstream & Downstream (incl. refining)	1, 2 and 3	IEA Net Zero 2050	Absolute intensity Kt CO ₂ e	2020	6,300	4,851	-23% vs 2020
Cement	Production	1 and 2	IEA Net Zero 2050	Physical intensity Kg CO ₂ e/tonne cement	2020	660	510	-23% vs 2020
Coal	Mining activity	Not applicable	IEA Net Zero 2050	Exposure Million euros	2020	3	~0	-100% vs 2020
NEW Iron & Steel	Production	1 and 2	IEA Net Zero 2050	Physical intensity Kg CO ₂ e/tonne steel	2022	1,593	1,172	-26% vs 2022
NEW Automotive	Manufacture/OEMs ⁽¹⁾	3	IEA Net Zero 2050	Physical intensity g CO ₂ e/vkm ⁽²⁾	2022	211	124	-41% vs 2022
NEW Aviation	Airlines	1 and 2	IEA Net Zero 2050 ⁽³⁾	Physical intensity g CO ₂ e/rpk ⁽⁴⁾	2022	94	65	-31% vs 2022

Notes about methodology applied:

Base year and 2030 targets data are based on the large corporations segment.

To determine sectors' commitments based on the reduction of physical intensity, the average emissions intensity has been calculated based on emissions and output attributed according to the amount of financing granted. Commitments to reduce absolute emissions are measured in terms of the amount of finance used. Commitments to reduce exposure are measured in terms of the amount of finance granted.

The commitments have been determined based on the methodology of the Science-Based Targets initiative (SBTi) and the pathway indicated in the references scenario for all industries except Power.

(1) OEM, Original Equipment Manufacturer. Scope 3 emissions are those linked to the use of sold vehicles (category 11 - Use of sold products).

(2) vkm: vehicle kilometre.

(3) A correction factor has been added to the scenario to remove the distortion caused by Covid-19 in the forecasts data for the 2019-2030 period, due to the lower aircraft occupancy rate during the pandemic.

(4) rpk: revenue passenger kilometre.

Decarbonisation targets

In this respect, in August 2023 the UK subsidiary, TSB, published specific targets for its residential mortgages portfolio.

Its commitments have been determined taking into account the Below 2 Degrees Scenario (ETP B2DS) published by the IEA, which establishes decarbonisation pathways for different sectors that are consistent with limiting future global temperature increases to 1.75°C by 2100.

TSB has identified that it has an opportunity to achieve a reduction from its current emission level of 20.14 kg CO₂/m² to between 16.11-14.97 kg CO₂/m².

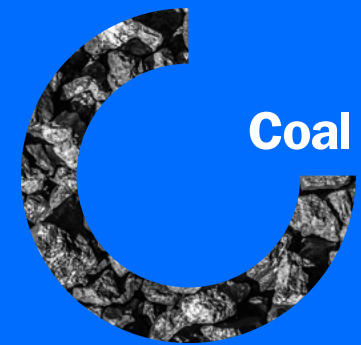
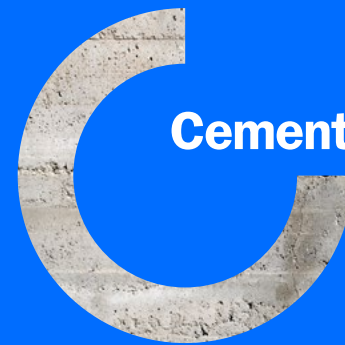
This significantly advances TSB's position toward the 42% target reduction set under NBZA. However, to reach the required emissions level of 11.75 kg CO₂/m², significant engagement from UK Government and other entities will be needed to create the environment for consumers to improve the energy efficiency of their properties.

Targets published by TSB

Sector	Value chain	Emissions scope	Scenario	Metric	Base year	Base year metric	2030 target	% reduction vs. base year
NEW Residential mortgages (TSB)	Homeowners	1 and 2	IEA ETP B2DS ⁽¹⁾	Physical intensity Kg CO ₂ e/m ²	2022	20.14	11.75	-42% vs 2022

(1) International Energy Agency's Below 2 Degrees Scenario.

Monitoring of decarbonisation targets



Monitoring of decarbonisation targets

Monitoring of targets published in December 2022

Sector	Value chain	Emissions scope	Metric	Base year 2020 metric	2021	2022	Evolution 2020 - 2022	2030 target	% reduction 2020 a 2030
Power	Electricity generation	1 and 2	Physical intensity Kg CO ₂ e/MWh	61	77	68	In range	85-45	-
Oil & Gas	Upstream & Downstream (incl. refining)	1, 2 and 3	Absolute emissions Kt CO ₂ e	6,300	5,466	4,923	-21.9%	4,851	-23%
Cement	Production	1 and 2	Physical intensity Kg CO ₂ e/tonne cement	660	651	645	-3.6%	510	-23%
Coal	Mining activity	Not applicable	Exposure Million euros	2.9	2.2	3.3	Close to target	~0	-100%

Notes about methodology applied:

Pathway evolution calculated based on customer exposure as at year-end and on counterparties' most recent data available in the first quarter of 2023.

Power

Context

The decarbonisation of the power sector is the foundation for a carbon-neutral energy system, as it plays a key role both as a direct source of emissions and due to its part in driving forward the necessary electrification of the economy so as to decarbonise end-use industries.

For the reference scenario (IEA NZE2050) to become a reality, it is estimated that, on a global scale, low-emissions technologies will need to account for over 70% of total electric power generation by 2030 under the Net Zero Emissions 2050 scenario, compared to just 39% in 2022.

In the near term, the annual use of renewable energy will need to increase at an average rate of around 13% during 2023-2030, double the average of the past 5 years.

If this is achieved, by 2050 almost 90% of the world's total electricity production will come from renewable sources, with photovoltaic and wind energy together representing almost 50%.

Therefore, one of the key measures to achieve a low in carbon emissions electrical system is to promote and drastically increase the production capacity of renewable energies, as a fundamental and basic aspect of decarbonisation, without forgetting that the transition process requires an orderly approach, in which it is key to ensure energy security as a vital aspect of the production process, both from the point of view of its feasibility, reliability and assurance and in terms of the maintenance of energy prices at affordable levels and the associated social transition.

Value chain

Value chain			
Generation	Transformation	Transmission	Distribution
Emissions scope		Metric (physical intensity)	
1 and 2		Kg CO ₂ e/MWh	
Base year 2020	2021	2022	2030 target
61	77	68	85 - 45
Evolution 2020 - 2022		In range	



Power

Commitment-setting methodology

The electricity generation industry was one of the priority sectors for Banco Sabadell when the Group established its first climate targets for sectors' decarbonisation. As at the end of 2022, it represented around 6.1% of the risk originated in its business portfolio. In fact, although the targets were published in 2022, the power generation sector, specifically renewable energy, has been a key part of the Bank's energy portfolio for decades now, as a result of its specialisation in renewable energy, which began in the 1990s, by investing in and financing projects based especially on wind and solar technologies.

As a result, the Bank's baseline in its publication was 61 kg CO₂e/MWh, a value far below that of the reference scenario (IEA NZE2050) and those of its peers for both the base year and the 2030 target.

In fact, it was already at the level that the industry is expected to attain between 2036 and 2037, mainly due to the Bank's aforementioned specialisation in renewable energy.

In the same way, as indicated in the initial release, Banco Sabadell's aim is to keep its physical intensity at a range of between 45 and 85 kg CO₂e/MWh in 2030, with the upper part of the established range being far below the industry's emissions intensity considered in the IEA NZE2050 pathway and in the commitments undertaken by the sector.

This range fulfils the internal goal of ensuring that all customers are supported in their transition process, aligning it with both the REPowerEU plan and the European Union's ambitious renewable energy targets.

It is worth noting that the decarbonisation targets for 2030 do not assume a linear reduction in the intervening years, meaning that fluctuations in value may occur during these years but should not be interpreted as a failure to meet the target.

Similarly, following the recommendations set out in the UNEP FI's Guidelines for Climate Target Setting, the selected emissions reduction metric is the portfolio's physical emission intensity (kg CO₂e/MWh) and its attribution is made considering the risk granted, with a conservative calculation, thus avoiding any possible volatility stemming from drawdowns of committed credit lines.

The scope considered is Banco Sabadell's Group-level credit portfolio, as recommended by the SBTi, those businesses whose main activity is generating electricity, as well as other integrated companies in the sector, including the counterparties' scope 1 and 2 emissions.



Power

Decarbonisation pathway and levers

As shown in the previous table, in terms of the pathway in 2021-2022, the sector has committed to keeping its emission intensity below 85 kg CO₂e /MWh, thanks to the contribution of project finance for renewable energies.

The pathway's evolution during 2021 and 2022 shows the expected trend, with fluctuations caused by loans and support given to corporate customers with plans and ambitions to transition in the sector, as well as natural movements caused by amortisations and maturities in the project finance portfolio.

In this way, the Bank is continuing with its structured finance strategy, focusing on promoting renewable energy project finance and, with regard to the intensity of its business portfolio, the annual trend is following a downward path, as expected in accordance with the decarbonisation strategies of the priority customers.

Banco Sabadell Group's electricity generation portfolio is currently in full alignment with the established target, using for comparison purposes the assumptions regarding the energy mix required by the decarbonisation pathway of the IEA's NZE2050 scenario. However, this does not mean that the Bank is any less willing to continue forging ahead with its efforts to contribute to that scenario and support customers in the sector.

For this sector, in addition to the cross-cutting levers mentioned previously, additional sector-specific levers have been defined to complement the origination and business levels:

In terms of origination, it is worth noting that the Group's Environmental and Social Risk Framework establishes specific restrictions in this sector:

- At a customer level, no credit risk is to be taken if more than 40% of a company's turnover depends on generating energy from thermal coal⁽¹⁾.

- At a project level, no credit risk is to be taken if there is sufficient evidence that the project relates to:

- New coal-fired power plants or expansion of existing plants.
- New nuclear power plants, except those operations that meet the criteria of the EU Taxonomy
- Large dams not built in accordance with the World Commission on Dams (WCD) Framework.
- New hydroelectric power plants that do not have adequate systems to manage environmental and social risks related to dam safety, environmental impact, labour regulations and population resettlement.

(1) On an exceptional basis, the Institution may grant them finance where 1) they are located in countries that have high energy dependence (more than 65% of their energy is imported) on coal or that have no other viable alternative energy sources, 2) they use more efficient technology in terms of CO₂ emissions, and 3) they have a diversification strategy.



Power

In terms of the business outlook and supporting customers in the transition towards a sustainable economy, the Bank has defined:

- The following specific goals for 2025, as part of the Group's Commitment to Sustainability:
 - Continue to be a leading organisation in Spain when it comes to financing new renewable power plants (greenfield projects); the Institution's contribution is currently well above its natural market share and it is a key player in greenfield projects on the Iberian peninsula.
 - Promote investment in capital for renewable energy projects through Sinia Renovables, the Bank's renewable energy and sustainability equity investment division, which has experience in all types of technology and in a variety of geographies and offers comprehensive solutions from the moment a project kicks off until it is up and running.

To ensure attainment of the decarbonisation targets, whenever a significant transaction meets the conditions that require it to be subject to a pathway, an ad hoc analysis is carried out to measure its impact on that pathway.

This means that specialists analyse the physical intensity of customers' emissions, as well as their reduction commitments, to ensure they observe the established limits and do not jeopardise achievement of the 2030 target.

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 & Gas

Context

The Oil & Gas sector is responsible for around 15% of the annual emissions related to energy on a global scale and a further 40% due to the use of its products.

It is a key sector in the transition to a zero-emissions scenario, as the energy transition cannot depend on the electricity generation industry alone, its short-term strategy being the promotion of synthetic or zero-emissions fuels, as well as the transition to a wider range of energy sources (“from Oil&Gas to Energy”).

In the context of the transition, in the IEA’s Net Zero Emissions (NZE2050) scenario, the global average emissions intensity of oil and gas supply is reduced by more than 50% between 2022 and 2030.

This is taking into account oil’s role as a key component in plastics and other chemical products, which will continue to drive global consumption.

Among the vital measures that must be taken to bring down global emissions in the sector include tackling methane emissions, eliminating all non-emergency flaring, electrifying upstream facilities with low-emissions power and promoting the development and/or production of synthetic or zero-emissions fuels.

On the other hand, the increased use of carbon capture, use and storage (CCUS) and the increased use of low-emissions hydrogen also contribute to the decarbonisation of sectors that currently use oil and gas.

Value chain



Emissions scope	Metric (absolute intensity)
1, 2 and 3	Kt CO₂e

Base year 2020	2021	2022	2030 target	% reduction 2020 - 2030
6,300	5,466	4,923	4,851	-23%

Evolution 2020 - 2022 **-21.9%**



Oil & Gas

Commitment-setting methodology

The Oil & Gas industry was one of the priority sectors for the Bank when the Group established its first climate targets for sectoral decarbonisation. Historically, the Bank's exposure to carbon-intensive sectors has generally been small. Specifically, as at 2022 year-end, oil and gas activities subject to pathways represented less than 1.4% of the total amount drawn down in the business portfolio⁽¹⁾.

The Bank's baseline in its publication was 6.3 million tonnes of CO₂e. This figure includes scope 1, 2 and 3 emissions, the majority being scope 3 emissions. It is worth noting that, in line with best practice, to estimate this figure the Bank considers the emissions of the upstream value chain but also, above all, those of the downstream value chain, using to that end the average emission intensity of the sector's customers.

The established commitment is to reduce absolute emissions by 23% between 2020 and 2030.

This absolute emissions target is aligned with the IEA's NZE2050 pathway and with the commitments undertaken by peers in the sector.

This range is also set with the aim of ensuring that all customers are supported in their transition process.

It is worth noting that the decarbonisation targets for 2030 do not assume a linear reduction in the intervening years, meaning that fluctuations in value may occur during these years but should not be interpreted as a failure to meet the target.

In addition, as recommended by the UNEP FI's Guidelines for Climate Target Setting, the selected emissions reduction metric is that of absolute emissions and its attribution is made considering the risk drawn down.

The scope considered is Banco Sabadell's Group-level credit portfolio, as recommended by the SBTi, those businesses whose main activity is linked to upstream and downstream hydrocarbons (including refining activity) as well as integrated companies, including the counterparties' scope 1, 2 and 3 emissions.



(1) As this target concerns the reduction of absolute emissions, it is measured in terms of the amount drawn down.

Oil & Gas

Decarbonisation pathway and levers

In terms of the pathway during 2021-2022, as shown in the table above, emissions have been reduced by around 1.4 million tonnes, representing a reduction of close to 22% and practically reaching the Bank's reduction target of 23% by 2030.

This decline in emissions is due both to a reduction of emissions intensity by companies in this portfolio and to the reduction of exposures to companies with the highest emissions.

It is thought that exposure to companies that are aligned with the Bank's strategy could increase, as in the short term the sector is expected to require finance for the transition.

However, the reduction of average emissions intensity is viewed as a considerable step forward in the portfolio's decarbonisation and it is hoped that this rate of reduction will continue over time, as the groups to which the Bank has the most exposure have very ambitious emissions reduction commitments for 2030.

As outlined above, the Group's oil and gas portfolio is currently fully aligned with the net zero emissions 2050 target, based on the IEA's NZE2050 scenario. However, this does not mean that the Bank is any less willing to continue forging ahead with its efforts to contribute to that scenario and support customers in the sector.

For this sector, in addition to the cross-cutting levers mentioned previously, additional sector-specific levers have been defined to complement the origination process.

From the point of view of origination, it is worth noting that the Group's Environmental and Social Risk Framework establishes specific restrictions in this sector, for instance, at the project level, it states that no risk should be taken where there is sufficient evidence that the project relates to:

- Hydraulic fracturing extraction (fracking).
- Arctic oil & gas exploration and production.
- Oil sands exploration and production.
- Pipelines, where there is strong evidence that they will be used to transport oil derived, to a significant degree, from oil sands.
- Energy transportation projects, where there are no procedures in place, based on current best practice, to mitigate leakage or spillage risks.
- Single-hull oil tankers.
- Oil and gas extraction in areas of active armed conflict.



Oil & Gas

To ensure attainment of the decarbonisation targets, whenever a significant transaction meets the conditions that require it to be subject to a pathway, an ad hoc analysis is carried out to measure its impact on the pathway.

This entails a review by specialised teams of both customers' emissions and their commitments to reduce emissions, thus ensuring that they observe the established limits and do not jeopardise achievement of the 2030 target.

As regards the business outlook and support for customers in the transition, the Bank will continue to support the investment plans of customers linked to, for example, the development of synthetic fuels and the transformation of the production model.

Lastly, the Bank will remain committed to financing the transition of companies in the sector that take action to adapt to a low-carbon economy and whose ESG performance is in line with the Bank's expectations for this industry.



Cement

Context

This sector is responsible for approximately 7% of global emissions, with two-thirds of emissions generated from raw materials or fossil fuels (mainly coal and, to a lesser extent, petroleum coke) used in the production process.

It is one of the hardest sectors to decarbonise, as it is a key component of practically all infrastructure projects and there is currently a lot of dependence on emissions-intensive raw materials needed in the production process.

The reference scenario to achieve a carbon-neutral economy by 2050 requires the sector's emissions to be reduced by 4% every year until 2030, even though demand for cement is expected to increase in 2030.

The decarbonisation levers identified in the sector include energy efficiency enhancements (modernisation of kilns, residual heat recovery), the use of alternative fuels to generate heat (bioenergy, renewable and non-renewable waste, including scrap tyres, used oils, plastics and solid urban waste), the efficiency of materials to reduce the clinker-to-cement ratio and overall demand, and the development of innovative technologies with near-zero emissions, particularly CCUS (estimated to generate 55% of reductions by 2050).

The measures associated with the efficiency of materials and new technologies are the ones that contribute the most to the direct reduction of emissions in the NZE2050 scenario from 2030 onwards. It is worth noting that alignment with this scenario will require the development and implementation of technologies that are not currently available.

Value chain



Emissions scope			Metric (physical intensity)	
1 and 2			Kg CO ₂ e/ tonne cement	
Base year 2020	2021	2022	2030 target	% reduction 2020 - 2030
660	651	645	510	-23%
Evolution 2020 - 2022				-3.6%

Cement

Commitment-setting methodology

The cement industry was one of the four priority sectors selected by the Bank when the Group set its first decarbonisation targets. It is worth noting that, historically, the Bank's exposure to carbon-intensive sectors has generally been small.

As at 2022 year-end, the activities subject to the cement industry's pathways represented less than 0.2% of the total risk originated in the business portfolio.

The Bank's baseline in its publication was 660 kg CO₂e/tonne of cement produced. As indicated in its initial publication on decarbonisation targets, the Bank aims for its absolute emissions to be 23% lower in 2030 than in 2020, which is in line with the commitments undertaken by other peers in the sector.

It is worth noting that the decarbonisation targets for 2030 do not assume a linear reduction in the intervening years, meaning that fluctuations in value may occur during these years but should not be interpreted as a failure to meet the target.

Similarly, it should be mentioned that, following the recommendations set out in the UNEP FI's Guidelines for Climate Target Setting, the selected emissions reduction metric is the portfolio's physical intensity (kg CO₂e/tonne of cement produced), measured considering the risk granted, with a conservative calculation, thus avoiding any possible volatility stemming from drawdowns of committed credit lines.

The scope considered is Banco Sabadell's Group-level credit portfolio, as recommended by the SBTi for companies engaging in the production of cement, including the counterparties' scope 1 and 2 emissions.

Cement

Decarbonisation pathway and levers

In terms of the pathway in 2021-2022, as seen in the table above, the average emissions intensity of the cement portfolio has been reduced by around 2%.

This decline in emissions is due both to a reduction of emissions intensity by companies in this portfolio and to the reduction of exposures to companies with the highest emissions.

It is thought that exposure to companies in this sector that are aligned with the Bank's strategy could increase, as this sector will need short- and medium-term finance for the transition.

However, the reduction of the average emissions intensity is thought to be a considerable step towards the portfolio's decarbonisation.

In this respect, it ought to be taken into account that the reduction targets established by companies in this portfolio might increase in the future, once further advances are made in the emissions reduction technologies that the sector needs and which are not currently available.

To ensure attainment of the decarbonisation targets, whenever a significant transaction meets the conditions that require it to be subject to a pathway, an ad hoc analysis is carried out to measure its impact on the pathway.

This means that specialists analyse the physical intensity of customers' emissions, as well as their reduction commitments, to ensure they observe the established limits and do not jeopardise achievement of the 2030 target.

As outlined above, the Group's cement portfolio is currently fully aligned with the net zero emissions 2050 target, based on the IEA's NZE2050 scenario. However, this does not mean that the Bank is any less willing to continue forging ahead with its efforts to contribute to that scenario and support customers in the sector.

Specifically, the cross-cutting levers mentioned above are used to determine risk origination in this sector.

Lastly, the Bank will remain committed to financing the transition of companies in the sector that take action to adapt to a low-carbon economy and whose ESG performance is in line with the Bank's expectations for this industry.

Coal

Context

This electricity and heat production industry is responsible for around 40% of the world's energy-related emissions.

In the NZE2050 scenario, emissions of all fossil fuels are substantially reduced between now and 2030, with coal at the top of the list, given its high emissions intensity and the existing competition between low-emissions alternatives in the power sector.

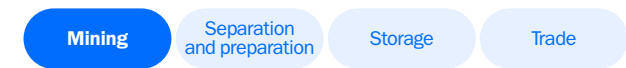
Around 40% of the total reduction of emissions from coal stems from substituting electricity production with coal by renewable sources.

In the IEA's NZE2050 scenario, coal production is reduced by around 90% by 2050 and a large part of the remaining coal produced is used alongside carbon capture and storage technologies.

Specifically, the energy sector is fully decarbonised in advanced economies by 2035 and across the globe by 2045.

In this scenario, an important condition for reducing carbon emissions is the non-approval of new coal-fired power plants.

Value chain



Emissions scope

Not applicable

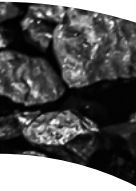
Metric (exposure)

Million euros

Base year 2020	2021	2022	2030 target	% reduction 2020 - 2030
2.9	2.2	3.3	~0	-100%

Evolution 2020 - 2022

Close to target



Coal

Commitment-setting methodology

The coal industry was another of the four priority sectors selected by the Bank when setting its first sectorial decarbonisation targets.

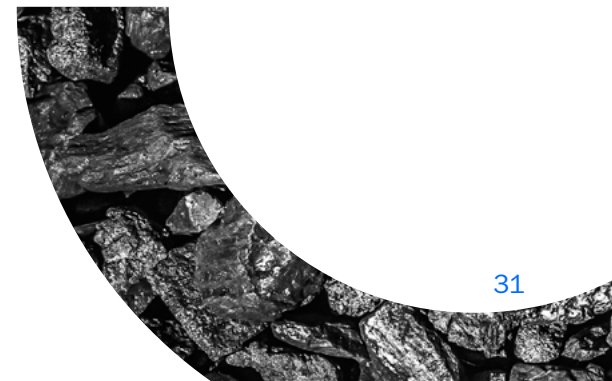
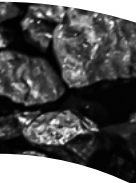
Historically, the Bank has had limited exposure to carbon-intensive industries in general, and to the thermal coal mining industry in particular, with less than 3 million euros of granted risk on its credit portfolio⁽¹⁾.

As indicated in its initial publication on decarbonisation targets, the Bank's target, in line with the expectations of the NZBA and the reference scenarios, is to have zero exposure to thermal coal mining activities by 2030.

It is worth noting that the decarbonisation targets for 2030 do not assume a linear reduction in the intervening years, meaning that fluctuations in value may occur during these years but should not be interpreted as a failure to meet the target.

Similarly, following the recommendations set out in the UNEP FI's Guidelines for Climate Target Setting, exposure is measured per million euros of risk granted, with a conservative calculation, thus avoiding any possible volatility stemming from drawdowns of committed credit lines. Its scope of application is Banco Sabadell's Group-level credit portfolio, as recommended by the SBTi for thermal coal-mining companies.

(1) As this is a phase-out target, it is measured in terms of risk origination.



Coal

Decarbonisation pathway and levers

In terms of the pathway for 2021-2022, as shown in the table above, the Bank's exposure to this sector is residual and the expectation is that it will be phased out as outstanding positions mature and also due to the restrictions on new lending mentioned in the previous paragraph.

The Bank remains firmly committed to reducing its exposure to companies in that industry and expects to reach its 2030 target.

For this sector, in addition to the cross-cutting levers previously mentioned, additional sector-specific levers have been defined to be considered in the origination process.

In terms of origination, it is worth noting that the Group's Environmental and Social Risk Framework establishes specific restrictions in this sector:

- At a customer level, no credit risk should be taken if more than 40% of a company's turnover depends on generating energy from thermal coal⁽¹⁾.

- At a project level, no risk should be taken where there is sufficient evidence that the project relates to:

- Coal mining (new mines and expansion of existing mines).
- New coal-fired power plants or expansion of existing plants.

(1) On an exceptional basis, the Institution may grant them finance where 1) they are located in countries that have high energy dependence (more than 65% of their energy is imported) on coal or that have no other viable alternative energy sources, 2) they use more efficient technology in terms of CO₂ emissions, and 3) they have a diversification strategy.

New decarbonisation targets

Iron & Steel

Context

This sector accounts for around 7% of annual emissions on a global scale, having increased in the past decade, mainly due to increased demand for steel, which is expected to continue on the rise.

Although the emissions intensity of crude steel production has decreased slightly in recent years, the industry needs to pick up the pace of its efforts so as to be on track to fulfil the net zero emissions 2050 scenario.

Based on the NZE2050 scenario, emissions intensity needs to be reduced by approximately one-quarter by 2030.

The reduction of emissions can be achieved mainly through energy efficiency enhancements in production processes and improved collection of scrap metal to foster scrap-based production.

However, the technical potential to improve energy efficiency is limited and the supply of scrap metal is finite.

The most substantial reductions of emissions intensity will require the adoption and development of new technologies, such as electricity-based production, the use of hydrogen and carbon capture and storage.

Value chain		
Mining	Production	Final product
Emissions scope		Metric (physical intensity)
1 and 2		Kg CO₂e/tonne steel
Base year 2022	2030 target	% reduction 2022 - 2030
1,593	1,172	-26%

Iron & Steel

Commitment-setting methodology

Historically, the Bank's exposure to carbon-intensive sectors has generally been small. Specifically, activities in the Iron & Steel industry affected by pathways represented less than 0.7% of the total risk originated in the business portfolio as at the end of 2022.

In this context, the Bank has set itself the target of reducing the emissions intensity per tonne of iron and/or steel produced by 26%, in line with the reference scenario.

It is worth noting that the decarbonisation targets for 2030 do not assume a linear reduction in the intervening years, meaning that fluctuations in value may occur during these years but should not be interpreted as a failure to meet the target.

Similarly, following the recommendations set out in the UNEP FI's Guidelines for Climate Target Setting, the selected emissions reduction metric is the portfolio's physical intensity (kg CO₂e/tonne of iron or steel), measured considering the amount of risk granted, with a conservative calculation, thus avoiding any possible volatility stemming from drawdowns of committed credit lines.

The scope considered is Banco Sabadell's Group-level credit portfolio, as recommended by the SBTi for iron and/or steel manufacturing companies, including the counterparties' scope 1 and 2 emissions.

To fulfil the established reduction commitments, the aforementioned cross-cutting levers are the ones that determine the rules for the origination of this type of risk.

Lastly, the Bank will remain committed to financing the transition of companies in the sector that take action to adapt to a low-carbon economy and whose ESG performance is in line with the Bank's expectations for this industry.

Automotive

Context

Private cars were responsible for around 10% of the world's emissions linked to energy consumption in 2022.

To ensure that the sector achieves the net zero emissions scenario for 2050 (NZE2050), light-duty vehicles' emissions will need to be reduced by around 6% per year until 2030.

To that end, electrification, the use of synthetic fuels in vehicles with combustion engines and technologies that optimise the fuel and/or energy used by distance travelled (which include hybrid technology) will be key to ensuring long-term carbon neutrality.

Even so, the increased use of heavy-duty and less efficient vehicles (such as SUVs) continues to slow the progress of vehicle efficiency enhancements.

Therefore, policies such as tax credits for electric vehicles, feebate systems and specific incentives or fleet requirements for the purchase of electric vehicles with high usage rates (such as taxis or postal fleets, or urban delivery vehicles) could drive these efforts forward.

To be in line with the net zero emissions by 2050 scenario, all cars and vans sold will need to be zero-emissions by 2035 in the European Union.

Value chain



Emissions scope

3⁽¹⁾

Metric
(physical intensity)

g CO₂e/vkm⁽²⁾

Base year 2022	2030 target	% reduction 2022 - 2030
211	124	-41%

(1) Scope 3 emissions are those linked to the use of sold vehicles (category 11 - Use of sold products).

(2) vkm: vehicle kilometre.

Automotive

Commitment-setting methodology

Historically, the Bank's exposure to carbon-intensive sectors has generally been small. Specifically, activities in the automotive industry affected by pathways represented less than 0.2% of the total risk originated in the business portfolio as at the end of 2022.

In this context, the Bank has set itself the target of reducing the emissions intensity per tonne of steel/vkm (vehicle kilometre) produced by 41%, in line with the reference scenario.

It is worth noting that the decarbonisation targets for 2030 do not assume a linear reduction in the intervening years, meaning that fluctuations in value may occur during these years but should not be interpreted as a failure to meet the target.

Similarly, following the recommendations set out in the UNEP FI's Guidelines for Climate Target Setting, the selected emissions reduction metric is the portfolio's physical intensity ($\text{kg CO}_2\text{e/vkm}$), measured considering the amount of risk granted, with a conservative calculation, thus avoiding any possible volatility stemming from drawdowns of committed credit lines.

The scope considered is Banco Sabadell's Group-level credit portfolio, as recommended by the SBTi for companies engaging in the manufacture of cars, including the counterparties' scope 3 emissions associated with the use of vehicles sold by companies.

To fulfil the established reduction commitments, the aforementioned cross-cutting levers are the ones that determine the rules for the origination of this type of risk.

Lastly, the Bank will remain committed to financing the transition of companies in the sector that take action to adapt to a low-carbon economy and whose ESG performance is in line with the Bank's expectations for this industry.

Aviation

Context

Aviation represents a relatively small proportion of global emissions, having increased in recent decades more than other similar industries (e.g., rail, road, maritime transportation).

Following reduced flight numbers during Covid-19 lockdowns, demand is expected to pick up in the coming years, which poses a challenge when it comes decarbonising the sector.

Technological innovation will be key for the entire sector, through the use of low-emissions fuels, which will require an increase in planned production to date through support policies and a significant increase in investment in production capabilities, improvements in aircrafts and motors, which could lead to an improvement of up to 20% in terms of the efficiency compared to the models that they replace, in addition to operational efficiency optimisation.

Value chain



Emissions scope		Metric (physical intensity)
1 and 2		g CO₂e/rpk⁽¹⁾
Base year 2022	2030 target	% reduction 2022 - 2030
94	65	-31%

(1) rpk: revenue passenger kilometre.

Aviation

Commitment-setting methodology

Historically, the Bank's exposure to carbon-intensive sectors has generally been small. Specifically, activities subject to pathways in the aviation sector represented less than 0.4% of the total risk originated in the business portfolio as at the end of 2022.

In this context, the Bank has set itself the target of reducing the emissions intensity per revenue passenger kilometre (rpk) by 31%, in line with the reference scenario.

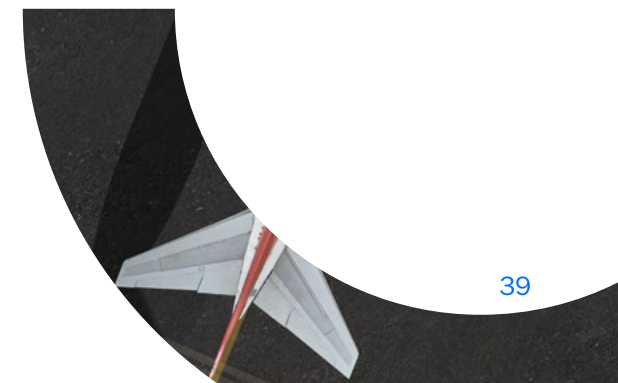
It is worth noting that the decarbonisation targets for 2030 do not assume a linear reduction in the intervening years, meaning that fluctuations in value may occur during these years but should not be interpreted as a failure to meet the target.

Similarly, following the recommendations set out in the UNEP FI's Guidelines for Climate Target Setting, the selected emissions reduction metric is the portfolio's physical intensity (kg CO₂e/rpk), measured considering the amount of risk granted, with a conservative calculation, thus avoiding any possible volatility stemming from drawdowns of committed credit lines.

The scope considered is Banco Sabadell's Group-level credit portfolio, as recommended by the SBTi for companies engaging in aviation, including the counterparties' scope 1 and 2 emissions.

To fulfil the established reduction commitments, the aforementioned cross-cutting levers are the ones that determine the rules for the origination of this type of risk.

Lastly, the Bank will remain committed to financing the transition of companies in the sector that take action to adapt to a low-carbon economy and whose ESG performance is in line with the Bank's expectations for this industry.



Residential mortgages (TSB)

Context

The latest report from the UN's Intergovernmental Panel on Climate Change⁽¹⁾ spells out in stark terms that “deep, rapid and sustained reductions” in greenhouse gas emissions are needed to limit global warming, as set out in the 2015 UN Paris Agreement⁽²⁾.

Greenhouse gas emissions from the UK's residential housing stock account for around 16% of the UK's emission annually⁽³⁾; these emissions need to be reduced to zero by 2050 at the latest to meet the UK's legally binding net-zero target.^{(4) (5)}

Measuring the emissions generated through TSB's residential mortgages lending and calculating an interim science-based target for 2030 is its starting point for contributing towards the UK target.

Achieving the science-based reduction in emissions from the UK's residential housing stock – at pace and scale – requires government-led policy actions, and wider societal shifts, particularly by homeowners.

(1) [United Nations Intergovernmental Panel on Climate Change – Climate Change 2023 Synthesis Report](#).

(2) [The Paris Agreement | United Nations](#).

(3) [2021 UK Greenhouse Gas Emissions: summary \(publishingservice.gov.uk\)](#).

(4) [Climate Change Act 2008 \(legislation.gov.uk\)](#).

(5) [The Sixth Carbon Budget: The UK's path to Net-Zero.pdf \(theccc.org.uk\)](#).

Residential mortgages (TSB)

There are three system-level changes:

- 1 Retrofitting existing housing stock to improve install low-carbon heating systems.
Approximately 50% of the UK housing stock was constructed pre-1965 and is predominantly difficult and costly to retrofit. This presents a significant challenge for customers and lenders.
- 2 New housing built to net-zero standards.
Getting the design right from the outset is considerably cheaper than retrofitting later⁽¹⁾.
- 3 Decarbonisation of the UK power grid.
As stated by the independent Climate Change Committee⁽²⁾, a decarbonised power system is the central requirement for achieving net-zero.

TSB is supportive of the approach for all three system-level changes but has a limited scope or no scope to influence.

From the work TSB has done to establish its emissions footprint, the specific area where they can make the greatest impact is in helping their customers take action to improve the energy efficiency of their homes.

This means increasing awareness with mortgage customers, providing fair and affordable finance, and supporting frictionless installation.

Value chain



Emissions scope	Metric (physical intensity)
1 and 2	Kg CO₂e/m²

Base year 2022	2030 by TSB	2030 target	% reduction 2022 - 2030
20.14	16.11-14.97	11.75	-42%

(1) UK housing: Fit for the future? – Climate Change Committee (theccc.org.uk).
 (2) The Climate Change Committee is an independent, statutory body established under the Climate Change Act. "Delivering a reliable decarbonised power system" – Climate Change Committee (theccc.org.uk).

Residential mortgages (TSB)

Commitment-setting methodology

The starting point for contributing towards decarbonisation is the measure of emissions generated through the Groups' residential mortgages lending and calculating an interim science-based target for 2030, as they represent 84% of TSB's total financed emissions.

For that measurement, the Group has followed the methodology set out by the Partnership for Carbon Accounting Financials (PCAF).

Starting from its current emissions level, TSB has set a reduction target of approximately -42% from 20.14 kg CO₂/m² in 2022 to 11.75 kg CO₂/m² in 2030.

However, based on analysis and market conditions, the achievable target expected by TSB actions is between 14.97 - 16.11 kg CO₂/m².

It should be noted that the additional reduction until the 11.75 kg CO₂/m² target will need significant engagement from UK Government-led policy actions and wider societal shift to implement the levers described.

Carbonisation milestones in Banco Sabadell's Commitment to Sustainability

Banco Sabadell's ESG strategy is part of Sabadell's Commitment to Sustainability, with four strategic pillars (Institution, Customers, Investors and Society), with decarbonisation targets being a key element to support customers during the transition and to achieve emissions neutrality in the Institution's investment and loan portfolios.

For more information, refer to the section about Sabadell's Commitment to Sustainability on the corporate website <https://www.grupbancsabadell.com/corp/en/home.html>.



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