

Banco Sabadell

SDG Bond Framework

July 2020



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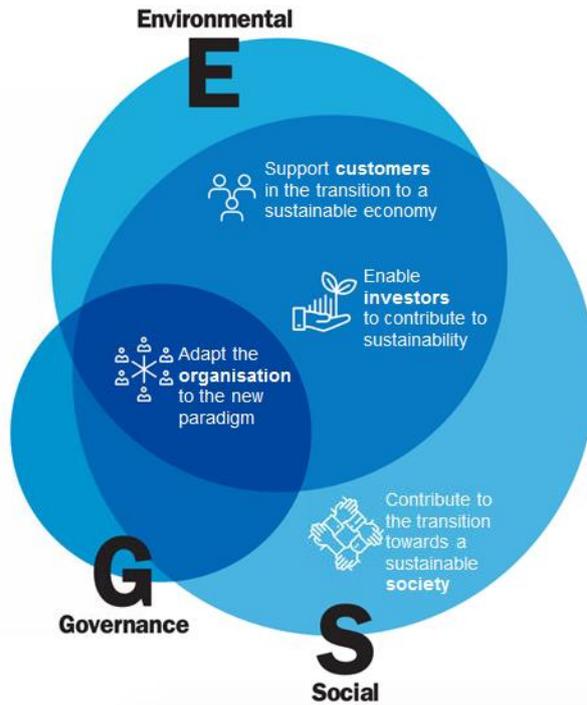
1. Introduction

Banco Sabadell is the fourth largest private banking group in Spain, founded in 1881 and listed on the IBEX35. The institution is composed of different banks, brands, subsidiaries and investees that engage in all areas of financial business under a single common denominator: professionalism and quality. It currently operates in over 20 countries throughout the world and it has commercial banks in Spain, the United Kingdom and Mexico, in addition to a foundation, the Banco Sabadell Foundation, incorporated in 1994, which aims to drive excellence and foster knowledge and culture in society as a whole in the social, educational, scientific and cultural arenas.

Banco Sabadell Group, hereinafter 'the Group', has decided to build on its ongoing commitment to society, which dates back to its foundation, in order to benefit environmental sustainability and social development. For this reason, the Group's business model envisages the promotion of a series of initiatives to improve social conditions and environmental protection, as well as the incorporation of a sustainable outlook into its financial and corporate development. The launch of the first Ethical and Solidarity Based Pensions Plan in Spain, the procurement of 100% renewable energy and the social management of housing, along with a pioneering employability programme, are just some examples of the commitments undertaken by the Group with its various stakeholders – including vulnerable groups at risk of social exclusion – and the general public.

This commitment was reinforced in 2019 when the Group became one of the founding signatories of the **United Nations Principles for Responsible Banking**, thus joining an international group of banks that have taken on the responsibility to actively support the efforts of our society to build a sustainable future. The institution is also committed to strategically aligning its business activity with the **Sustainable Development Goals** (SDG) defined by the United Nations and with the provisions of the **Paris Agreement**. In the context of the **UN Climate Change Conference (COP25)**, the Group also signed the *Collective Commitment to Climate Action* of the Spanish Banking Association (AEB), the Spanish Confederation of Savings Banks (CECA) and the Official Credit Institute (ICO), in line with the *UN Environment Programme Finance Initiative*.

In the same vein, the new Sustainable Finance Plan, which came into effect in 2020, incorporates sustainability in a cross-functional way into its business model, risk assessment and management, and its relationships with all stakeholders, so that the Group's contribution to sustainable development may be a tangible one.



In June 2019, the Board of Directors decided to position the UN Sustainable Development Goals (SDG) at the core of its strategy for the coming years, meaning that they are material and a priority for the Bank in the performance of its activity.

The Group recognises the key role played by financial institutions in helping to raise capital to transition towards a resource-efficient, low-carbon economy. With this in mind, it has selected ten SDGs that will be used for identifying eligible projects or loans.

B S

1 NO POVERTY 	3 GOOD HEALTH AND WELL-BEING 	4 QUALITY EDUCATION 	6 CLEAN WATER AND SANITATION 	7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH 	10 REDUCED INEQUALITIES 	11 SUSTAINABLE CITIES AND COMMUNITIES 	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 	13 CLIMATE ACTION

2. SDG Bond Framework

This Framework serves as the reference document for the Green Bond, Social Bond and Sustainability Bond issues of Banco Sabadell.

Banco Sabadell SDG Bond Framework is in line with the voluntary guidelines of ICMA Green Bond Principles (GBP), Social Bond Principles (SBP), Sustainability Bond Guidelines (SBG).

The Framework allows Banco Sabadell to issue Bonds under different formats, including public or private placements, senior non-preferred bonds, senior preferred, unsecured and secured bonds (such as covered bonds, ABS and RMBS).

This Framework intends to achieve an alignment with the proposed EU Green Bond Standard¹.

In particular, this Framework applies the criteria proposed in the EU Taxonomy² for all of the Eligible Green Project categories defined in section 2.1 (Use of Proceeds). Banco Sabadell undertakes to update its eligibility criteria accordingly as changes are made to the EU taxonomy. The criteria included in the current draft version of the EU Taxonomy are listed in Appendix 1.

2.1. Use of proceeds

The Group considers three types of bond for which an equivalent amount of the net proceeds will fund eligible projects linked to sustainable development goals: green bonds, social bonds and sustainability bonds.

The first of these, green bonds, finance Eligible Green Project categories, focus on projects with environmental benefits, such as reduction of GHG emissions, pollution prevention and climate change adaptation.

Social bonds finance Eligible Social Project categories on the other hand, to focus on social benefits by providing access to essential services, facilitating social inclusion and promoting the generation and maintenance of employment.

Lastly, sustainability bonds are those that finance a combination of green and social projects.

All of the proceeds obtained by issuing these types of bonds will be used to finance or re-finance, in part or in full, new, existing or future loans or projects that meet the eligibility criteria established in this Framework.

New loans qualifying under this Framework will be disbursed after issuing the corresponding bonds, while existing loans to be selected from the Bank's current portfolio will be initiated up to 2 calendar years prior to the year of execution of any Bond issued under this SDG Bond Framework.

¹ https://ec.europa.eu/info/files/190618-sustainable-finance-teg-report-green-bond-standard_en

² The eligibility criteria of green activities are aligned with the EU Taxonomy. The eligibility criteria of the EU Taxonomy will be applied in the process for the evaluation and selection of projects eligible for finance under this framework as and when such criteria are updated. The version in effect as at the date of publication of this framework can be consulted here:

https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf




Eligible green project categories

- Renewable Energy

- Pollution prevention and control

- Sustainable water management

- Clean transportation

- Energy efficiency



- Green Buildings





Eligible social project categories

- Access to essential services





- Affordable housing



- Employment generation


2.1.1. Eligible green project categories

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AFFORDABLE AND
CLEAN ENERGY

Renewable energy

Purpose: Develop alternative energy sources

Definition: Finance for the acquisition, development and/or improvements to increase the power generation of power plants and/or distribution of renewable energy, such as:

- Generation of photovoltaic energy through solar panels and concentrated solar power (CSP) technology.
- Generation of both onshore and offshore wind energy.
- Generation of hydroelectric energy through the creation of new hydro power plants or investments in the refurbishment or refinancing of existing hydro power plants (hydro power facilities with capacity above 25MW are excluded).
- Generation of geothermal energy.
- Generation of bioenergy through agriculture and forestry waste³.
- Transmission and distribution of energy.

Contribution to EU Environmental Objectives:

1. Climate Change Mitigation

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RESPONSIBLE
CONSUMPTION
AND PRODUCTION

Pollution prevention and control

Purpose: Waste treatment

Definition: Finance for construction and/or improvements of infrastructures for waste treatment, such as:

- Waste management, including material recovery from waste (recycling) and anaerobic digestion of bio-waste (in the absence of oxygen).

Contribution to EU Environmental Objectives:

1. Climate Change Mitigation
5. Pollution prevention and control

³ Feedstock does not include palm oil.

6 CLEAN WATER AND SANITATION



Sustainable water management

Purpose: Water collection, treatment and supply

Definition: Finance for construction and/or improvements of wastewater treatment systems, as well as activities intended to step up improvements in water collection, treatment and supply systems, such as:

- Construction or extension of centralised wastewater systems including collection (sewer network) and treatment, aiming to substitute more GHG emissions-intensive systems.
- Projects with low average energy consumption of the system or that can decrease significantly the average energy consumption.

Contribution to EU Environmental Objectives:

1. Climate Change Mitigation.
3. Sustainable use and protection of water and marine resources.
5. Pollution prevention and control.

11 SUSTAINABLE CITIES AND COMMUNITIES



Clean transportation

Purpose: Improve efficiency of overall transport/mobility system

Definition: Finance for the development of private, public and commercial transportation using more environmentally friendly vehicles, such as:

- Land transport (private, public and commercial) with zero emissions vehicles or with low emission rate.
- Rail transport of freight and passengers (interurban) with electric trains.
- Infrastructure and equipment for low emission transport, such as electric rails, charging points for electric vehicles and active mobility (walking, cycling, e-bikes and e-scooters).

Contribution to EU Environmental Objective:

1. Climate Change Mitigation

Purpose: Lower the emissions intensity of the energy services that society needs

Manufacture of low carbon technologies

Definition: Finance for the manufacture of low carbon technologies that result in substantial greenhouse gas (GHG) emission reductions in other sectors of the economy (including private households), such as:

- Manufacture of products, key components and machinery that are essential for renewable energy technologies eligible under this framework.
- Manufacture of key components of zero direct emissions land transport or, for passenger cars only, of low emission rate transport eligible under this framework.
- Manufacture of key components for energy efficient equipment for buildings.

Individual renewal measures

Definition: Finance for improvements directly associated with renewable energy installations and/or energy efficiency improvement installations, such as:

- Renewal of efficient lighting through the installation of LED systems.
- Finance for the installation of eligible renewable energy generation equipment: solar photovoltaic technology, solar panels to heat sanitary water, electric turbines and solar transpired collectors.

Information and communication

Definition: Finance for improvements in the field of natural sciences, engineering activities and related technical consultancy, provision of specialised telecommunications applications for weather monitoring and forecast, such as:

- Data-driven solutions for greenhouse gas (GHG) emission reductions.
- Engineering activities and related technical consultancy dedicated to adaptation to climate change.

Contribution to EU Environmental Objectives:

1. Climate Change Mitigation
2. Climate Change Adaptation



Purpose: Promote a more sustainable stock of buildings

Definition: Finance for the purchase, construction and/or improvement of buildings, housing and premises among the top performing 15% of the stock⁴, based on their energy efficiency certification or any other independent certification. This would include activities such as:

- Construction of buildings.
- Acquisition of housing, premises and buildings.
- Leases of real estate intended for business purposes.
- Renovation of buildings achieving energy savings improvement.

Contribution to EU Environmental Objectives:

1. Climate Change Mitigation

⁴ The top 15% can be estimated using EPC levels or other metrics. As of today, Banco Sabadell have identified the top 15% as being equivalent to: in Spain: EPC levels A, B and C for commercial and residential; and in UK: EPC levels A and B for commercial and EPC level A for residential buildings.

2.1.2. Eligible social project categories

3 GOOD HEALTH AND WELL-BEING



Access to essential services

Healthcare services

Purpose: Achieve universal health coverage, including protection against financial risks, access to essential services of quality medical care and access to safe, essential, effective and quality medication and vaccines for all

Definition: Provide finance to construct the infrastructure and equip and operate the healthcare system, contribute to the research, development and manufacture of healthcare equipment, including the medical response to handle a health emergency. This includes activities such as:

- Construction, equipment and operation of hospitals, clinics and health centres to provide public, free or subsidised health services.
- Provision and distribution of public health equipment and services.
- Research and development for tests, vaccines and/or other medication to alleviate the symptoms of new illnesses (for example, those caused by the appearance of new viruses).
- Proceeds used for the manufacture or modification of machinery to produce, or increase the production of, personal protective equipment (gloves, masks, medical hygiene supplies, etc.).

Target population: general public



Access to essential services

Education

Purpose: Guarantee quality, inclusive and equitable education and promote opportunities for lifelong learning for all

Definition: Finance for the development of projects related to public education, such as:

- Centres that offer literacy and arithmetic programmes.
- Construction of public campuses, schools and universities.
- Training for education professionals.

Target population: general public

Financial inclusion

Purpose: Ensure that financial services are accessible to all and promote employment generation

Definition: Finance for projects that enable financial inclusion and employment generation, such as:

- Access to banking and financial services in underserved populations.

Target population: vulnerable populations



Access to essential services

Well-being services

Purpose: Develop a quality, reliable, sustainable and resilient infrastructure, including regional and cross-border infrastructures, to support economic development and human well-being, focusing on affordable and equitable access for all

Definition: Finance for the development, construction, maintenance and management of infrastructures intended for public services, such as:

- Elderly care homes.
- Public nurseries.
- Construction of schools and care homes for people with disabilities.
- Construction of soup kitchens.

Target population: general public, especially elderly, people with disabilities and vulnerable people relying on these public services



Affordable housing

Purpose: Guarantee access for all to adequate, safe and affordable housing and basic services and improve urban slums by 2030

Definition: Finance for the development of affordable housing projects, in order to combat housing exclusion, such as:

- Construction, development and/or acquisition of social housing.
- Access to adequate and affordable housing for excluded and/or marginalised populations and groups.

Target population: young people, students and groups who cannot access housing (to rent or buy)



Employment generation

Purpose: Promote policies geared towards economic development that support productive activities, decent employment creation, entrepreneurship, creativity and innovation, and that encourage the incorporation and growth of micro, small and medium-sized enterprises, including through access to financial services

Definition: Finance for micro and small enterprises to promote the development of their economic activities so as to consequently promote the generation and maintenance of employment, and for SMEs affected by any natural/health disaster:

- Micro and small sized enterprises as defined by the European Commission.
- SMEs, as defined by the European Commission, affected by any natural and/or health disaster (such as floods, droughts and pandemics).

Target population: unemployed people and populations affected by a natural and/or health disaster

2.1.3. Exclusions

Proceeds from the issuance of green, social and/or sustainability bonds will in no case be used to finance projects or loans whose purpose is related to:

- Nuclear energy
- Fossil fuels
- Mining
- Defence and arms of any type
- Gambling or betting
- Tobacco or alcohol

2.2. Project evaluation and selection

The Group has defined a project evaluation and selection process for the issuance of Green, Social or Sustainability Bonds, in which the following take part:

- **Business Units** identify sustainable operations according to eligibility criteria defined in this Framework and detailed in the Group’s eligibility guide.
- The **Risk Management Division** checks that operations identified as being sustainable meet the defined criteria in order to qualify as sustainable operations. This Division will also report on the full sustainability portfolio to the **Sustainability Committee** for it to be monitored and controlled.
- Subsequently, when it deems it appropriate to do so, the **Investments and Financing Management Division** will propose an eligible portfolio of Eligible Green and Social Projects to be included in the bonds issuance, escalating this proposal to the **Sustainability Committee** for validation.
- The **Sustainability Committee** is responsible for establishing the Bank’s Sustainability Programme and monitoring its execution, as well as defining and disclosing the general action principles related to sustainability and promoting the development of projects and initiatives. It is worth highlighting that the **Sustainability Committee** will report regularly to the Management Committee on the progress of the Sustainability Programme.
- The **Sustainability Committee** is chaired by the Group CEO and its members include representatives of Business Units, the Secretary General, and members of the Risk and Regulation Division and the Operations and People Division.
- The duties of the **Sustainability Committee** include:
 - Monitoring the full eligible sustainability portfolio for the issuance of new Green, Social and Sustainability bonds.
 - Evaluating and validating proposals to include other portfolios in the issuance of Green, Social and Sustainability bonds.
 - Evaluating and validating the monitoring and reporting process carried out for outstanding issuances of Green, Social and Sustainability bonds.



2.3. Management of proceeds

The Investments and Financing Management Division is responsible for managing the net proceeds from Green, Social and/or Sustainability Bonds by proposing their allocation to eligible projects to the Sustainability Committee as well as for monitoring and reporting on outstanding issuances of Sustainability Bonds.

All projects that meet the eligibility criteria will be monitored and a register will be kept comprising details of the project, loan amount outstanding, date of disbursement, maturity date and indicators of expected environmental and/or social benefits.

The Group undertakes to do everything in its power to allocate the proceeds to eligible projects within a **maximum of 2 years**. Any unallocated proceeds will be invested in cash, cash equivalents and/or green, social and sustainability bonds from other European issuers that are in line with the bank's investment guidelines.

Proceeds will be allocated according to the eligibility criteria set out in this Framework. In the event of any asset sales or loans that no longer meet the defined eligibility criteria, the Group will do everything possible to use the allocated funds to finance other eligible loans or projects.

2.4. Reporting

The Group will provide investors with transparent reports at least annually until the full allocation of the proceeds and thereafter if there is a material change in the composition of the financed eligible portfolio:

- On the allocation of proceeds towards Eligible Categories, ('Allocation Reporting').
- On the social and environmental impact, ('Impact Reporting').

The Allocation Reporting will include information such as:

- Total funds obtained from green, social and/or sustainability bond proceeds.
- Details of the proportion of allocated proceeds and the balance of unallocated proceeds.
- Percentage of proceeds used to fund new projects and percentage of proceeds used for refinancing.
- Breakdown of proceeds allocated to eligible categories, as well as the mapping between these and UN SDGs.

The Impact Reporting aims to provide information on social and environmental indicators indicated in the table 1 and on the contribution of Eligible Green Project categories to EU Environment Objectives.

Table 1: Example of potential KPIs

Renewable energy
Installed capacity (MW)
Energy generated (MWh/year)
Km of transmission lines network
Tonnes of CO ₂ e avoided per year
Pollution prevention and control
Tonnes of waste managed or recycled or recovered per year
Tonnes of CO ₂ e avoided per year
Sustainable water management
Volume of wastewater treated or avoided (m ³ /year)
Volume of collected water (m ³ /year)
Number of people with access to improved or new facilities
Tonnes of CO ₂ e avoided per year
Energy efficiency
Energy saved (MWh/year)
Tonnes of CO ₂ e avoided per year
Clean transportation
Number of low-emission vehicles financed
Km of public transport lines created / maintained
Tonnes of CO ₂ e avoided per year
Green buildings
Energy saved (MWh/year)
Tonnes of CO ₂ e avoided per year
Access to essential services
Number of health/ education facilities built/upgraded
Number of beneficiaries (entrepreneurs, elderly citizens, students, etc. as applicable)
Affordable housing
Number of residents benefited
Employment generation
Number of jobs generated and retained

Thereafter, these reports will be published whenever any material change occurs and until the bonds mature. These reports will be available on the Group's corporate website.

3. External review

3.1. Second Party Opinion

The Group has hired Sustainalytics to provide an independent Second Party Opinion on this Framework.

This Second Party Opinion has confirmed the alignment of this Framework with the ICMA Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines. The Second Party Opinion will also be published on the corporate website.

3.2. External verification

The Group will engage an independent auditor to verify the allocation of the net proceeds obtained from issuing green, social and sustainability bonds and its conformity with this Framework.

4. Appendix

Banco Sabadell undertakes to select Eligible Green Projects that meet the criteria proposed in the EU Taxonomy.

Banco Sabadell also undertakes to update its eligibility criteria accordingly as changes are made to the EU Taxonomy.

Below is an extract of these criteria as at the date of the framework:

Eligible green project categories		Technical criteria
Renewable energy	Solar panels and concentrated solar power	- Solar and wind power are currently derogated from performing a GHG lifecycle assessment
	Onshore and offshore wind power	
	Hydropower	- Facilities operating at life cycle emissions lower than 100gCO ₂ e/kWh - Facilities with a power density above 5 W/m ² are currently derogated from performing a GHG lifecycle assessment
	Geothermal	- Facilities operating at life cycle emissions lower than 100gCO ₂ e/kWh
	Transmission and distribution	- Transmission and distribution infrastructure: - more than 67% of newly connected generation capacity in the System is below the generation threshold value of 100 gCO ₂ e/kWh measured on a PCF basis, over a rolling five-year period; or - the average System grid emissions factor is below the threshold value of 100 gCO ₂ e/kWh measured on a PCF basis, over a rolling five-year average period
Pollution prevention and control	Material recovery from waste (recycling)	- At least 50%, in terms of weight, of the processed separately collected non-hazardous waste converted into secondary raw materials
	Anaerobic digestion of bio-waste	- Bio-waste is source segregated and collected separately - In dedicated bio-waste treatment plants, bio-waste shall constitute a major share of the input feedstock (at least 70%, measured in weight, as an annual average). Co-digestion is eligible only with a minor share (up to 30% of the input feedstock) of advanced bioenergy feedstock listed in Annex IX of Directive (EU) 2018/2001
Sustainable water management	Water collection, treatment and supply	- System with an average energy consumption of 0.5 kWh per cubic meter billed/unbilled or less; or - System that enables the average energy to decrease by 20%
Clean transportation	Land transport - public transport	- Zero direct emissions land transport activities (e.g. light rail transit, metro, tram, trolleybus, bus and rail) - Other fleets with direct emissions below 50 gCO ₂ e/pkm
	Land transport - passenger cars and commercial vehicles	- Zero tailpipe emission vehicles (incl. hydrogen, fuel cell, electric) - Vehicles with tailpipe emission intensity of max 50 g CO ₂ /km
	Rail transport of freight	- Zero direct emissions trains - Trains with direct emissions per tonne-km (gCO ₂ e/tkm) are 50% lower than average reference CO ₂ emissions of HDVs as defined in the Heavy Duty CO ₂ Regulation - Rail dedicated to the transport of fossil fuels is excluded
	Rail transport of passengers	- Zero direct emissions trains - Trains with direct emissions below 50g CO ₂ e per passenger-kilometre (gCO ₂ e/pkm)
Energy efficiency	Manufacture of low carbon technologies	- Manufacture of products for energy efficient equipment for buildings and their key components includes: Building Management Systems; High efficiency windows (U-value better than 0.7 W/m ² K); High efficiency doors (U-value better than 1.2 W/m ² K)
Green buildings	Construction of new buildings	- New construction with net primary energy demand at least 20% lower than the primary energy demand resulting from the NZEB requirements

	Building renovation	<ul style="list-style-type: none"> - Energy performance of the building is compliant with energy performance standards set in the applicable building regulations for ‘major renovations’ transposing the Energy Performance of Buildings Directive; or - Renovation leads to an energy savings of at least 30% in comparison to the baseline performance of the building before the renovation
	Acquisition of buildings built before Dec 2020	- Building within the top 15% of the local existing stock in terms of operational Primary Energy Demand
	Acquisition of buildings built after Dec 2020	- Same criteria as for construction of new buildings