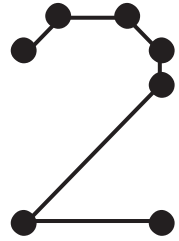


# Banco Sabadell's response to the COVID-19 health crisis



- 45 Steps taken by Banco Sabadell
- 49 Steps taken by TSB
- 50 Financial metrics and steps taken in  
connection with the Group's business

# The sudden arrival of the COVID-19 crisis triggered a paradigm shift in the way we work and the way the Group relates to its customers on a day-to-day basis.

The Group responded effectively, maintaining operational continuity at all times without impairing customer service and while safeguarding the health of customers and employees alike.

## Steps taken by Banco Sabadell

### Contingency Measures and Business Continuity

At the height of the health crisis, 70% of all branches remained open to the public, and the Bank continued to meet customers' needs while enhancing its digital channels. At year-end, practically all branches were open to the public.

Employees at the corporate centres switched to teleworking and the vast majority continued in this situation at year-end. The Group's systems performed superbly, as the IT systems handled the large number of employees who were working remotely, evidencing the capacity and resilience of the Group's IT platform.

While utilisation of customer-facing digital channels doubled, the systems continued to operate nominally, in line with expectations. New all-digital processes were implemented (such as digital signatures for ICO loans) in order to avoid the need for customers to visit their branch.

It should be noted that the Bank's actions to mitigate the impact of the COVID-19 crisis were taken under the Internal Crisis Management Framework (MIGC). This framework was set in motion to ensure effective, coordinated management of the operational response in order to mitigate all the impacts of the pandemic and of situations of financial risk and/or business interruption.

The Internal Crisis Management Committee met on Wednesday, 26 February (two-and-a-half weeks before the state of alarm was declared nationwide) to coordinate actions being taken as a result of triggering Phase 1 of the Bank's Pandemic Plan. This plan, consisting of 20 specific protocols, seeks to mitigate the potential impact of this or any other virus that might impact the organisation's normal processes and significantly affect people and the service.

Thereafter, daily and weekly meetings were held with a selection of members of the various departments

— Branch network, Operations, Technology, Cybersecurity, HR, Sabadell Spain and Business Continuity — in order to report to Senior Management on a timely basis.

Steps to manage the crisis were tracked horizontally and comprehensively, including reporting to supervisors about the situation of Banco Sabadell in Spain and other geographies (the United Kingdom and Mexico).

In view of the identified risks, and in line with the MIGC, the Bank took a number of measures in several areas to address the effects of the pandemic.

From the outset, the Bank ensured that all critical processes were fully covered by taking steps in a number of areas under an exhaustive control and oversight framework:

### Infection control measures in the workplace

This included actions in the sphere of workplace health and safety and labour relations. These actions were taken in line with protocols developed by HR, including notably:

- Changes to Group policy on travel, including a ban on work trips to/from risk areas, and the recommendation to avoid personal trips to risk areas.
- Postponing major employee and training events that involved bringing together staff from different regions.
- Workplace access restrictions for specific groups (e.g. employees who tested positive were restricted until they received a medical discharge).
- Stepping up cleaning and ventilation in the highest risk areas.
- Measures to enable telework while safeguarding critical functions and ensuring business continuity. Team locations were tracked constantly and coverage of critical processes was monitored at all times.

### Cybersecurity measures

These include steps to strengthen existing IT infrastructure and mitigate the risk of fraud in this situation.

Cybersecurity is handled by IT Risk & Security, and the main actions taken are summarised below:

- Reinforcement of existing security measures to protect remote access and telework, ensuring security and performance in a situation of many more external connections. Widespread use of telework requires additional controls and safeguards.

- Expansion of cybersecurity (CyberSOC) teams to analyse and respond to alerts about external attacks (e.g. remote access, incoming e-mail).

## IT infrastructure resilience

Banco Sabadell's IT infrastructure is designed to provide redundancy with two separate datacentres and a high level of availability to overcome local failures. There are redundant communication lines between locations.

IT incident management procedures are linked to business continuity processes, including crisis management and relationship model arrangements. These procedures are simulated and tested at least once per year.

## New digital workplace

In recent months, a new digital workplace has been defined based on the use of corporate laptops with state-of-the-art security measures in place: modern management, advanced end-to-end protection, data leakage prevention, secure web browsing and secure communications with Banco Sabadell systems, etc.

By the end of November 2020, corporate laptops had been delivered to all head office employees, and delivery to branch employees is planned for the following weeks.

## Measures adopted in connection with critical suppliers

These measures take account of the supplier's criticality so as to focus (every two weeks or more often) on the elements that might jeopardise continuity of the service. Measures included developing a scorecard to assess supplier criticality and assess: (i) the degree to which services would be affected, (ii) fulfilment of SLAs, and (iii) capacity to respond.

## Measures in connection with essential staff

In this case, the Business Continuity Department, which is in charge of critical processes, keeps track of the employees who are designated as essential for such processes, identifying both critical staff and potential back-up staff.

In particular, critical teams were decentralised in order to mitigate the risk that a critical team member might become infected, resulting in all their close contacts being quarantined.

## Media

Communication actions were undertaken both internally and externally:

- Employees received e-mails, calls and an FAQ with

details of the action plan and answers to the most common queries.

- External communications, particularly with customers. In particular, Direct Branch significantly increased the number of account managers and extended its working hours in order to cater for growth in the demand for information.

## Changing commercial approach

To respond to this unprecedented crisis, the Group implemented exceptional measures such as channelling government aid to companies and providing loan repayment holidays for private individuals, to help them cope with this period of economic instability.

Given the situation created by COVID-19 and the state of alarm declared in Spain, Banco Sabadell created specific governance mechanisms to address the new situation and react quickly and in an exemplary fashion. The overarching aim was to support both employees and customers by providing solutions that are coherent with the Banco Sabadell brand and its way of doing business; this led to the BE THERE, SUPPORT, ACT plan.

- BE THERE: proactively e-mailing customers and employees as well as reactive measures to ensure that the Bank is there when customers need it and that they find what they are looking for. Assisted remote channels were reinforced, as was the website and the mobile app, and *ad hoc* protocols were established for the branch network.
- SUPPORT: empathise with customers to ascertain how they are by calling them, and provide them with finance and savings/investment products to meet their needs.
- ACT: implement teleworking capabilities, provide commercial organisation instructions to the branches, and emphasise end-to-end products and new digital capabilities.

For more information on the measures adopted to support customers, see the "Customers" section of this directors' report.

## Measures adopted from a business standpoint

Banco Sabadell achieved a number of milestones, enabling it to retain its position as a leading bank:

- Branch action plan to close and reopen branches on a rotating basis, as employees switch between telework and commuting to the branch.
- Implementation of the Direct Branch Contingency Plan, taking steps to withstand the higher workload through dynamic management of the capabilities to

- ensure compliance with established service levels.
- Adaptation of channels for communication with employees, with a single daily communiqué (Novedades Flash COVID-19) that is circulated to more than 16,900 recipients and has open rates exceeding 82%.
- Over 2 million pro-active communications focused on alleviating customers' concerns and on BEING THERE.
- Deployment of solutions to meet the needs of all customer segments, in both finance and savings/investment. These solutions were accompanied by Support Plans, expanded back-office teams and new digital capabilities (e.g. digital signature).
- Proactive steps to incentivise customers to go digital and avoid branch visits.
- Providing financial support to customers, e.g. advancing payment of pensions and unemployment benefits, refunding fees, postponing products that were due to expire imminently, and expanding the limits on contactless payments.
- Development of new capabilities for selling products on a remote basis.

## Measures adopted vis-à-vis employees

From the outset, protecting our employees' health, both physical and emotional, was one of the Bank's top priorities in addressing the COVID-19 crisis.

To this end, a comprehensive plan of action and support was implemented, geared both to adapting working conditions and to constant, transparent, two-way communication, which is very important as a factor for cohesiveness and protection.

All these measures were taken under the supervision and direction firstly of the internal crisis management committee and, ultimately, of the De-escalation/Smart-work Committee.

## Organisational measures

- Branch network:
  - During the State of Alarm: workers alternated between on-site work and telework every two weeks to ensure the safety of both employees and customers.
  - During the de-escalation and the second wave: flexible staff management depending on the status of the pandemic (from branch closures to opening with full staff).
- Corporate headquarters:
  - During the State of Alarm, 100% telework (except critical services).
  - During the de-escalation: implementation of a hybrid system of shifts at one third of the capacity (1 week on-site, 2 weeks teleworking).
  - During the second wave: preferentially teleworking.
- Immediate suspension of face-to-face events and

- training sessions as well as business trips, while promoting the use of digital channels.
- Adaptation of space at branches and corporate headquarters to maintain a safe distance, and a policy of clean desks.
- Adaptation of meeting rooms to enable hybrid meetings.
- Adaptation of technology infrastructure:
  - Massive scalability of remote infrastructure to cover the high levels of telework.
  - Distribution of laptop computers and mobile phones to all employees and migration to Office365 to promote efficient digital collaboration.
- Strengthening contingency plans to ensure business continuity in all areas and business units.

## Health and safety measures

- Establishment of a COVID-19 protocol for tracking cases and close contacts in the workforce, following the guidelines established by the health authorities.
- Distribution of the necessary PPE to the entire workforce: masks, hand sanitiser, disposables, and plastic screens in branches.
- Doubling the number of flu vaccine doses for employees at some corporate headquarters.
- Intensified cleaning in all facilities.
- Emotional support on an anonymous basis via a free, unlimited hotline staffed by specialised professionals, available to any employee on demand.
- Limits on the number of people who can be in a branch simultaneously.
- Limits on the number of people who can be in a meeting room simultaneously in the corporate headquarters.
- Installation of signage and posters with safety tips in the branch network and in corporate headquarters.
- Appointment of a person in each location with responsibility for exhaustive enforcement of these measures.

## Work/life balance and flexibility

- Accelerated process for employee applications for vacation or unpaid leave.
- Facilities for shorter working hours.
- Promotion of the Spanish government's "McCuida" plan for caregivers.
- The summer timetable was implemented early, in March, eliminating the split Thursday timetable for the remainder of the month.
- Branch network: implementation of flexitime.
- Corporate headquarters: flexitime (requirement that all staff be working from 09.30 to 14.00), and disconnection from 18.00 to 08.00.

## Support measures

- The SmartWork project concentrated all the measures that were adopted.
- Intensive, clear communication from the outset of the pandemic:
  - Daily e-mail to all employees.
  - Special messages for overseas branches and representative offices.
  - "Eres Manager" newsletter.
  - SmartSite portal: carries the latest news, instructions and protocols in connection with COVID-19.
    - SmartWork for branches and corporate headquarters.
    - SmartWork manifesto.
    - Smartwork news.
    - Specific content on health and safety, work-life balance and flexibility, and technology to help employees organise their work efficiently.
  - IN news.
  - Townhall meetings with the CEO, and communiqués from senior management.
  - Guides and infographics to communicate all the measures that were adopted.
- Informative, educational and inspirational support sessions for the entire workforce with a focus on teamwork and efficiency and on providing context and horizontal skills for working in the face of the crisis.
- Employee satisfaction and well-being surveys in the form of regular questionnaires.
- A subsidy of 150 euros to each employee to purchase a computer, chair or screen. Over 8,000 subsidies were paid out.

regular conference calls to discuss issues of interest (e.g. pandemic trends, business continuity planning, liquidity, treasury, payment systems, lending trends) and to track reporting dates.

## Reporting and relations with the supervisor

In the wake of the COVID-19 pandemic, since 9 March 2020 the supervisor has focused more intensely on continuously monitoring containment measures, actions and solutions put in place, and the potential impact of the crisis on Banco Sabadell.

- The Bank complied with requests from the ECB, the Bank of Spain and the Spanish Banking Association (AEB) for regular reports on liquidity, business continuity, market performance, government moratorium on debt, new loan production, support programmes, operational framework, sectoral moratorium (AEB), etc. The information was submitted on a daily (or, in some cases, weekly) basis. The reporting requirements were standardised and the information was presented at Group level on a monthly basis.

The Bank also responded to queries on specific aspects arising from the current situation, such as trends in lending, ICO loans, impacts on capital and liquidity, financial projections, etc.

- The Single Supervisory Mechanism (SSM) arranged

## Steps taken by TSB

### Incident management response to the COVID-19 pandemic

**COVID-19 was first confirmed in the UK on 31 January 2020 and TSB's strategy has been to mirror government advice and response to the evolving crisis.**

During the last week of February, cases in the UK started to increase and the Silver response team was stood up to make sure TSB's operational response remained appropriate. At the beginning of March, TSB outlined the support it would offer to customers affected by the virus, including repayment holidays and access to savings.

The following measures were taken by TSB via the Incident Management Framework to support TSB's business, customers and employees during the pandemic:

- Workplace infection control measures, at a workplace and team management level, following UK Government Public Health England (PHE) advice and guidance in this area: distancing rules, hygiene rules, plastic screens, telework, etc.
- Measures to enable work from home, keeping critical functions and ensuring operational continuity, with new services and features developed to provide additional functionality for customers and employees.
- Cybersecurity measures in order to strengthen current IT infrastructure and address higher fraud risk arising from this situation.
- Measures to ensure IT systems' capacity to withstand customers' higher digitalisation, with increases in capacity implemented as required.
- Enhanced review and monitoring for all critical suppliers.
- Measures regarding critical or essential employees, separating and/or moving the critical employees to provide enhanced social distancing measures.
- Communication measures, both externally and internally.
- Reinforcement of call centres to deliver customer assistance.
- Provision of new services to customers via remote channels. At year-end, nearly all TSB branches were fully operational.

### Business information and commercial adaptation

#### **Measures to ensure proper channelling of credit, retain customers and acquire new customers**

TSB implemented measures to allow for the initiatives outlined by the UK government to be met, allowing TSB customers to defer loan repayments or interest payments, and for business customers to apply for government-backed loans. These new/updated products were monitored via reports to the internal crisis management committee, which were relayed to the Group and the regulator.

#### **Measures implemented to adapt to the new competitive environment**

TSB implemented new products in response to the new competitive environment, with a particular focus on business banking. These new business banking products (BBL and CBIL) were introduced with digital forms and web chat to allow customers to transact with the bank digitally.

In addition, TSB introduced enhancements to its current product suite that allow customers to perform more actions digitally, with online forms and web chats available, bringing TSB into line with its peers.

Customer digitalisation was increased in order to provide more services in the event of further COVID-19 outbreaks.

TSB closely monitored customer use of all channels and observed that, while more customers are registered with digital banking and using the new digital tools, the overall level of digitalisation remains broadly in line with



TSB's experience prior to the pandemic. TSB found that the use of digital channels had changed, as more widespread usage throughout the day had flattened the peaks.

TSB continues to encourage its customers to register for digital banking and to make more use of the digital channels to engage with the bank.

## Risk, liquidity and capital management and control

### Measures provided for proper management and oversight of the risk situation (particularly credit risk)

- Risk management examples: early management of growth in non-performing loans, other actions in the face of the possible shift of customer's profile, etc.
- Examples of risk control measures: more frequent oversight, analysis of current and potential risks, etc.

Reports by internal crisis management committees contained detailed disclosures of arrears collection and recovery.

The impact of collection and recovery processes was also assessed.

As for mortgages, in March, TSB adopted a policy of rejecting applications with LTV > 60%, but has gradually relaxed this position.

In terms of the government-guaranteed BBLs (out of which 450 million pounds were paid in July), TSB implemented processes to assess credit quality for the purposes of identifying the scale of resource that may be required to attend to customers.

### Measures to enhance the financial position in terms of both liquidity and capital adequacy

TSB has a strong capital and liquidity position and its current and forecast capital and liquidity metrics remain above risk appetite and regulatory requirements at all times. TSB recently presented a COVID-19 outlook revision of its business plan to the Board. In addition, TSB recently completed a full review of its capital and liquidity recovery options, which demonstrates the material levels of capital and liquidity recovery capacity available for use in the event of the bank being impacted more than forecast.

TSB had prepositioned 6.8 billion pounds with the Bank of England at the end of May for use in a liquidity stress, with the option to preposition more as required.

TSB also took advantage of regulatory relief measures to support its capital and liquidity position. These measures include:

- Elimination of the countercyclical buffer.
- Planned use of TFSME facility so as to avoid reliance on wholesale markets.
- Excluding BBL exposures from the leverage exposure calculation.
- The UK's Prudential Regulation Authority (PRA) reminded banks to look through the COVID-19 period as it is expected to be a temporary stress and, therefore, to manage provisions accordingly under IFRS 9. This is expected to keep provisions lower than they would otherwise be if a purely modelled approach were taken at the height of the crisis.

## Reporting and relations with the supervisor

### Steady increase in reporting requirements and frequency

TSB stood up its internal crisis management committees, with enhanced monitoring tools to support weekly and monthly reporting to the regulator. However, at the height of the pandemic the reports were being submitted to the regulator daily for review. The reporting requirements included:

- Operational status of IT service, operations, business banking, branches, 3rd parties and products.
- Cyber security and fraud incident reporting.
- Channel availability and performance.
- Collections and recoveries.
- TSB liquidity adequacy.
- Impact and performance of government initiatives (BBLs, etc).

## Financial metrics and steps taken in connection with the Group's business

With regard to the group's financial metrics, although 2020 was shaped by the COVID-19 pandemic, Banco Sabadell was able to generate net profit while strengthening its capital position and balance sheet. Therefore, the group has comfortable capital and liquidity positions and a healthy balance sheet with which to address adversities arising from the current context.

The phase-in CET1 is 12.6%. This ratio increased year-on-year, evidencing the group's commitment to maintaining a comfortable capital position. The Group also has an ample surplus over regulatory capital requirements, with 313 basis points of surplus total capital, i.e. an increase of 57 basis points year-on-year.

The Group has a strong liquidity position, with 47,808 million euros in liquid assets, i.e. over 21% of its balance

sheet, and a Liquidity Coverage Ratio (LCR) of 198%. Its balance sheet shows a healthy equilibrium between loans and deposits (loan-to-deposits ratio: 98%).

The Group also has a sound balance sheet. As a result of selling portfolios of non-performing assets in recent years and the ongoing organic elimination of non-performing assets, the Group's risk profile has improved significantly, so that net non-performing assets now account for 1.4% of total assets, with an NPL ratio of 3.6%.

The Group also has a diversified loan book: 46% of outstanding loans are mortgages to individuals in Spain and the UK, 40% are loans to large companies and SMEs, 6% are loans to the public sector, 3% are consumer loans and the remaining 5% are other loan categories. Within large corporations and SMEs, there are a number of segments that are more sensitive to the health crisis, such as tourism, hotels and leisure, transport, the automobile industry, retailing of non-essential goods, and petroleum. The Group's total exposure to these segments is limited, amounting to 11,920 million euros, i.e. 8% of outstanding loans.

In the wake of the unprecedented shock to the economy as a result of the COVID-19 pandemic, governments adopted a series of measures to support the economy. Those measures include fiscal policies to provide liquidity support to economic agents, families and companies.

The main measures adopted in Spain are as follows:

(i) a moratorium on payments, which may be: legal (implemented in Royal Decree-Laws 8/2020, 11/2020, 25/2020 and 26/2020) or sectoral (implemented in Royal Decree-Law 19/2020), and (ii) Royal Decree-Law 8/2020 which approved a government-backed guarantee line amounting to up to 100,000 million euros for companies and self-employed workers. On 3 July 2020, the Spanish government announced a new package of measures including the creation of a new line of ICO guarantees amounting to 40,000 million euros. This new line is aimed at encouraging capital expenditure and promoting it in areas that generate the greatest added value, focusing on two main areas: environmental sustainability and digitalisation. In addition, Royal Decree Law 34/2020 extends the term of the two ICO guarantee lines until 30 June 2021 and offers customers the possibility of extending both the maturity (up to at most 8 years, from 5 years) and the grace period (up to at most 24 months, from 12 months).

The legal moratorium consists of a 3-month grace period (principal and interest) on mortgages and consumer loans for customers who meet certain vulnerability criteria. However, the legal moratorium offers a grace period on principal repayments of up to 12 months for mortgage loans financing real estate used for tourist activities, and a grace period on principal repayments of up to six months for loans, leases and hire purchase of vehicles used for public transport of passengers or goods. The sectoral moratorium consists of grace periods of up to 12 months for mortgages and 6 months for consumer loans to people affected by COVID-19. In this case the grace period is only for principal repayments, and the customer must continue to pay interest. This moratorium is also applicable to

persons who have benefited from a legal moratorium and who, upon expiration of that moratorium, meet the conditions established for the sectoral moratorium.

Grace periods granted by Banco Sabadell during the year under the legal and sectoral moratoria covered loans amounting to 3,244 million euros. As at 31 December 2020, the total amount under moratorium was 2,578 million euros: 197 million euros under legal moratorium and 2,381 million euros under sectoral moratorium. Of the total loans under moratorium, 86% are mortgages.

Of the loans whose grace period has already expired, only about 68 million euros are non-performing.

The ICO COVID-19 guarantee facility, which amounts to 140,000 million euros, was allocated to banks broadly on the basis of their market share (although the 40,000 million euros line switched to demand-based allocation on 1 November 2020). Under this approach, the ICO grants a government guarantee for between 60% and 80% of the loans, depending on whether the customer is self-employed, an SME or a large company (exceptionally, by a decision of the Cabinet on 22 December 2020, the government guarantee can reach 90% in the case of SMEs and self-employed workers in the tourist, hospitality and related sectors), for at most eight years (extended from five years by Royal Decree Law 34/2020, if the customer requests). During the year, Banco Sabadell granted more than 11,000 million euros in such loans, with the guarantee averaging more than 75%.

Regarding the measures adopted in connection with the Group's business, the crisis had an undeniable effect on the Group's financial statements, particularly in the first half of the year. Banking revenues (including net interest income and fees) were reduced because of the lockdown. Net interest income was affected by lower overdraft fees and by changes in the credit mix. Fees and commissions also declined because of a reduction in transactionality. The group was also forced to make additional provisions to reflect the new macroeconomic scenario.

With the onset of the pandemic and the ensuing economic crisis, the Group expanded its strategic priorities to include specific management measures for COVID-19, which include ensuring operational and service continuity, protecting customers and employees, providing a rapid response to customers' needs, contributing to society through various social measures, and continuing to invest in and promote digitalisation while ensuring the resilience of our IT systems. The Group also established additional strategic priorities such as cost containment in both Spain and the UK, a focus on risk management, as well as the consolidation of the commercial recovery after the hiatus in activity. The Group had fulfilled those priorities by year-end.

In relation to the priority of containing costs, the new context following the pandemic highlighted the need to adapt the bank's structure. Accordingly, in order to enhance the Group's profitability, Banco Sabadell implemented an efficiency plan in Spain and accelerated the restructuring plan in the UK.



The plan in Spain has two main axes: (i) further digitalisation of customer service, and (ii) simplification of the corporate structure. The first axis focuses primarily on increasing self-service in transactional activities, automating activities in operation centres, and enabling self-service for certain call centre activities. The second axis focuses on: centralisation of competencies, simplification of regional commercial support structures, and organisational restructuring to reduce verticality.

In the UK, the TSB restructuring plan was accelerated and is expected to be completed one year ahead of schedule.

The strategic plan in the UK was also accelerated with a focus on improving the cost-to-income ratio. In October 2020, TSB announced that branch closures and cost savings would be achieved one year ahead of schedule.

With regard to non-performing assets, recovery capabilities were enhanced and a horizontal risk programme was implemented which, through analytics, provides early warning of potential COVID-19 impacts on customers, enabling the bank to pro-actively offer them the most appropriate financial solutions and, at the same time, take advantage of growth opportunities.