

Risks



139 Strategic risk management and control processes
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Risks

During 2025, Banco Sabadell Group has continued to strengthen its global risk framework by making improvements to bring it in line with best practice in the financial sector.

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

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

5.1 Strategic risk management and control processes



5.2 Main milestones achieved in 2025 in relation to risk management and control

The most salient aspects concerning the management of the first-tier risks identified in Banco Sabadell Group's risk taxonomy and concerning the actions taken in this regard in 2025 are set out below:

Strategic risk

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

Key milestones in 2025:

(1) Strategy and reputation

- On 23 July 2025, the Board of Directors of Banco Sabadell approved the new 2025-2027 Strategic Plan. The Plan outlines the strategic direction of the Group and provides an outlook on its key financial figures. This Plan is structured around four pillars: (i) focus on Spain as the main market, taking advantage of its favourable macroeconomic outlooks, (ii) profitable growth with above-market acceleration in volumes (lending and fees and commissions) while preserving asset quality, (iii) ability to implement mature transformation initiatives to improve efficiency and cost of risk, and (iv) attractive shareholder remuneration underpinned by high levels of recurrent organic capital generation and a policy for returning excess capital above the 13% fully-loaded CET1 ratio, supplemented by the extraordinary dividend linked to the sale of TSB. Overall, the plan centres on business growth and improved profitability, enhancing the value of the strategic initiatives implemented in recent years.
- Although 2025 saw the unfolding of several macroeconomic and geopolitical events that were initially feared to negatively impact the Bank's profit levels, these effects did not materialise. Despite heightened global uncertainty and a deteriorating geopolitical context, the economic environment has evolved more favourably than expected, supported by robust growth in Spain and the ongoing monetary normalisation in the Eurozone. Similarly, the hostile takeover bid, which ended in October, did not adversely affect commercial activity or the Institution's operations in a sustained or significant manner.
- Against this backdrop, the positive performance of the business – both in terms of lending and funds – together with growth in fees and commissions, cost discipline and a sustained improvement in the risk profile, have enabled the Group to exceed its initial forecasts. All in all, these factors have contributed positively and are allowing the Group to achieve its profitability targets.
- The Group is exposed to reputational risk inherent in the sector in which it operates, characterised by significant visibility among customers and the general public, as explained in Note 4.4.1.3 to the annual financial statements.

(2) Capital position

- The phase-in CET1 ratio stood at 13.16% as at 2025 year-end, particularly driven by organic capital generation. Regulatory requirements in relation to capital are generally being met.
- The phase-in Total Capital ratio has improved, ending 2025 at 18.23%.
- As at the end of 2025, the phase-in leverage ratio stood at 5.40%, representing an increase of 21 basis points compared to 2024.

Credit risk

Definition: risk of incurring losses as a result of borrowers failing to fulfil their payment obligations, or of losses in value materialising due simply to the deterioration of borrowers' credit quality.

Key milestones in 2025:

(1) Non-performing assets

- During 2025, non-performing assets were reduced by 877 million euros. The NPL ratio for the year stood at 2.37%.

(2) Concentration

- From a sectoral point of view, the loan portfolio is diversified and has limited exposure to the sectors most sensitive to the current economic environment.
- Similarly, in terms of individual concentration, the risk metrics relating to concentrations of large exposures show a largely stable trend and remain within the appetite level. The sectoral credit scores have also remained stable and within the appetite level.
- Geographically speaking, the portfolio is positioned in the most dynamic regions, both in Spain and worldwide. International exposures account for 36% of the loan book.

(3) Lending performance

- Gross performing loans ended the year 2025 with a balance of 160,708 million euros, increasing by 2.4% year-on-year.
- In Spain, gross performing loans increased by 4.9% year-on-year, growing across all segments, but particularly in the mortgage book.

(4) TSB lending performance

- In TSB, at a constant exchange rate, gross performing loans remained stable.

Financial risk

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

Key milestones in 2025:

(1) Sound liquidity position

- Sound liquidity position where the Liquidity Coverage Ratio (LCR) stood at 186% for the Group (205% for the TSB LMU and 209% for Banco Sabadell Spain) and the Net Stable Funding Ratio (NSFR) stood at 139% for the Group (151% for the TSB LMU and 133% for Banco Sabadell Spain) as at 2025 year-end.
- The Loan-to-Deposit (LtD) ratio as at the end of 2025 was 93.5%, with a balanced retail funding structure.
- Moreover, Banco Sabadell has fulfilled the capital markets issuance plan that it had set itself for 2025, with strong investor appetite, allowing it to optimise the associated funding costs.

(2) Structural interest rate risk

- In 2025, the Bank's loan book has continued to see a growing proportion of fixed-rate transactions (mainly mortgages and business loans), while in terms of liabilities, there has been an increase in demand deposit balances, with larger balances held in interest-bearing accounts and with the cost falling in line with the interest rate cuts made throughout the year (mainly in the 12-month Euribor). In addition, other balance sheet variations in 2025 include the increase in the fixed-income portfolio on the asset side, which acts as a management lever and natural hedge for the balance sheet, and the implementation of management actions to defend and optimise net interest income.

Operational risk

Definition: risk of incurring losses due to inadequate or failed internal processes, people and systems or due to external events. This definition includes but is not limited to compliance risk, model risk and Information and Communication Technology (ICT) risk, and excludes strategic risk and reputational risk.

Operational risk remains a significant risk for the Group, although its impact measured in terms of operational losses can be absorbed during the normal course of the business.

Key milestones in 2025:

(1) Conduct risk

- The current situation of high awareness and increased regulatory pressure, aimed especially at providing greater protection for consumers and vulnerable customers, requires conduct risks to be the main focus of attention. The current materiality and the expectation that this situation will likely continue requires the focus to remain fixed on these risks, tracking their evolution and adequately monitoring the planned mitigation measures.

- The focus remains on complaints related to floor clauses, mortgage application and arrangement fees, interest associated with revolving credit cards, and appropriate assistance for vulnerable customers.

(2) Compliance risk

In accordance with Banco Sabadell's Compliance Policy and observing the EBA's Guidelines on Internal Governance, a Compliance Programme is drawn up, applying the principle of proportionality according to the size, complexity of activities and materiality of the risks taken, containing a detailed schedule of activities, including, among other aspects, the review of policies and procedures, risk assessment, the definition and execution of control plans and staff training in relation to compliance. This programme covers all services provided and activities carried out by Compliance and defines its priorities based on the risk assessment, in coordination with the Risk Control function. Monitoring exercises are conducted and regular reports on them are made to the Group's governing bodies in order to identify any deviations and resolve them quickly and effectively.

In 2025, efforts continued to be made to promote a culture of ethics and compliance among employees, interacting on an ongoing basis with the main supervisory authorities in connection with the Bank's compliance activity.

Main priorities for 2026:

- Align the organisation and its AML/CFT control model with the EU's AML/CFT reform package, as part of the establishment of the new European AML Authority (AMLA).
- Strengthen control metrics, monitor commercial activity and enhance reporting to governing bodies to prevent conduct risk in customer interactions.
- Promote a corporate plan to reinforce a Compliance Plus Culture.