

Rating Report

Banco de Sabadell S.A.

DBRS Morningstar

30 June 2020

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Ratings

Debt	Rating	Rating Action	Trend
Long-Term Issuer Rating	A (low)	Confirmed Jun '20	Negative
Short-Term Issuer Rating	R-1 (low)	Confirmed Jun '20	Stable
Intrinsic Assessment	A (low)	Maintained Jun '20	--

Rating Drivers

Factors with Positive Rating Implications

- Any upgrade of the Bank's ratings is unlikely in the short-term given the negative trend. However, the trend on the Long-Term ratings could revert to stable if the Bank is able to limit the likely deterioration in asset quality and TSB's restructuring plan is successfully completed.

Factors with Negative Rating Implications

- The ratings could be downgraded due to a material deterioration of Sabadell's franchise in Spain or the United Kingdom. A downgrade could also occur if much of the progress in asset quality made by the Bank so far were to be reversed. A significant weakening in profitability, or in the Bank's capital position as a result of the stressed economic environment could also lead to a downgrade.

Rating Considerations

Franchise Strength (Strong/Good)

- Strong commercial banking franchise in Spain with significant trade finance activities focused on SMEs, corporates and affluent individuals. Major subsidiary in the United Kingdom (UK) through TSB Banking Group (TSB).

Earnings Power (Good)

- Profitability was improving pre-crisis due to steady growth of core revenues. COVID-19 crisis will pressure already modest profitability metrics.

Risk Profile (Good/Moderate)

- Sizeable reduction in NPAs continued Year-on-Year. High exposure to SMEs, which are expected to be severely affected in this environment.

Funding and Liquidity (Good)

- Sound funding position, supported by a large customer deposit base in Spain and UK and NPA sales. Regular access to the wholesale markets for funding and good levels of liquid assets.

Capitalisation (Good)

- Satisfactory capital position, supported by recent corporate transactions and capital relief measures from European authorities. However, capital sensitivity likely to be larger than other peers to economic shocks.

Financial Information

Banco de Sabadell, SA	2019Y	2018Y	2017Y	2016Y	2015Y
EUR Millions					
Total Assets	223,754	222,322	221,348	212,508	208,628
Equity Attributable to Parent	12,905	12,053	13,161	13,033	12,731
Income Before Provisions and Taxes (IBPT)	1,804	1,939	2,485	2,343	2,850
Net Attributable Income	768	328	801	710	708
IBPT over Avg RWAs (%)	2.19	2.43	2.98	2.71	3.45
Cost / Income ratio (%)	63.49	61.84	55.35	55.89	47.04
Return on Avg Equity (ROAE) (%)	6.08	2.65	6.15	5.51	5.92
Gross NPLs over Gross Loans (%)	3.93	4.42	5.34	6.42	8.13
CET1 Ratio (Fully-Loaded) (%)	11.71	11.10	12.79	11.95	11.41

Source: DBRS Morningstar Analysis; Copyright © 2020, S&P Global Market Intelligence.

Issuer Description

Banco de Sabadell S.A. (Sabadell or the Group) is a Spanish banking group largely focused on individuals, small and medium sized businesses (SMEs) and corporates. The Group has a major presence in Spain and to a lesser extent in the UK through TSB. The Group is the 4th largest banking Group in Spain

Rating Rationale

The A (low) rating with a Negative Trend reflects our view that the wide and evolving scale of economic and market disruption resulting from the coronavirus (COVID-19) pandemic will have a negative effect on the operating environment for Sabadell in both Spain and the United Kingdom (UK). As a result, some of the progress made by the Bank in recent years is likely to be reversed, and we expect the Bank's revenues, asset quality and capital ratios to be negatively affected. The impact will likely emerge in the coming quarters, whilst the implications for the medium to long-term will depend on the evolution of the outbreak. Downward rating pressure would intensify should the crisis be prolonged.

DBRS Morningstar's view is that Sabadell's credit fundamentals are more sensitive to economic shocks than other A (low) peers. This is reflected in Sabadell's procyclical exposures to export-oriented business and to small and medium-sized businesses (SMEs). Additionally, its subsidiary in the UK, TSB Bank plc (TSB), is in the middle of an ambitious restructuring plan, and this is now likely take longer as it will face additional issues given the challenging environment. Despite the challenges, DBRS Morningstar sees Sabadell well positioned to face this crisis given its strong commercial banking franchise in Spain, its solid liquidity and funding and the Bank's satisfactory capital ratios.

Franchise Strength

Grid Grade: Strong/Good

Banco de Sabadell S.A. is largely focused on individuals, small and medium sized businesses (SMEs) and corporates. The Group has a major presence in Spain and in the UK through TSB. With total assets of EUR 223 billion at end-March 2020, the Group is the 4th largest banking Group in Spain. Since its inception, Sabadell's focus has been to facilitate international trade and to support SMEs.

In recent years Sabadell has disposed of a significant amount of Non-Performing Assets (NPA) as well as improving capital levels, boosting profitability and restructuring the TSB subsidiary in the UK, prior to the COVID-19 outbreak. The COVID-19 pandemic has led to significant deterioration in Sabadell's operating environment. Global macroeconomic conditions have shifted dramatically amidst the rapid spread of the COVID-19, despite associated responses from governments. DBRS Morningstar's macroeconomic scenarios (latest set published 1st June) anticipate a very significant recession in the main operating countries in which Sabadell is present (Exhibit 1). The full impact of the COVID-19 crisis will likely emerge in the coming quarters, nevertheless the Bank reported data during its Q1 2020 results that provides some information on the initial impact during the initial phase of the crisis:

i) State Guaranteed Loans for SMEs in Spain

The Spanish government approved a scheme of up to EUR 100 billion, which represents around 25% of the sector exposure to SMEs and Corporates. For SMEs, this instrument will cover up to 80% of the credit losses at the banks. The scheme had been rolled out in tranches of EUR 20 billion. and has minimised Sabadell's credit risk related to this crisis. Sabadell's exposures to SMEs is mainly focused in Spain, amounting to around EUR 26.1 billion, or 25% of its Spanish portfolio.

i) Loan Moratorium in Spain and UK

In Spain, loan moratoria comprise both public and private initiatives. A public moratorium was approved by the government obliging banks to grant a three-month moratorium (including interest and principal) to individuals who are classified as vulnerable. Eligible borrowers, who need to meet very restrictive conditions, will have payments deferred. As of end-April, Sabadell has granted fewer payment holidays than other peers in Spain, amounting to only EUR 145 million, representing less than 0.5% of total net loans to individuals reported as of end-2019. In addition, Sabadell is also implementing an industry-wide mortgage payment holiday (where the client pays interest on the loan but a principal payment holiday is granted) for more borrowers and for a longer period of time. The total amount of loans under principal payment holidays as of end-April 2020 is EUR 275 million, representing around 0.7% of the total lending to individuals in Spain. In the UK, its subsidiary TSB has granted mortgages moratoria of up to 3 months (interest plus principal) to more than 30,000 clients, and to 21,000 clients for unsecured credit, as of April 26th 2020.

DBRS Morningstar believes that as a result of COVID-19 some of the progress made by the Bank in recent years is likely to be reversed, and we expect the Banks’ revenues, asset quality and cost of risk to be negatively affected with the impact emerging in coming quarters.

In addition, DBRS Morningstar considers that due to the COVID-19 outbreak, the ambitious restructuring plan announced by TSB is now likely to take longer and to face other issues given the challenging environment. TSB represents 21% of the Group’s total assets as of end-2019 at EUR 46 billion and has provided Sabadell with an important source of revenue diversification (Exhibit 2). However, in April 2018, after completing the migration of the TSB IT systems to Sabadell, a number of customers faced significant disruption to service, particularly in accessing internet banking. As a result, Sabadell incurred EUR 460 million of extraordinary items to compensate clients and pay IT providers, legal services, staff, etc. An investigation is currently being conducted by the UK’s Financial Conduct Authority (FCA), and DBRS Morningstar expects this could result in a fine for TSB, but considers that it will be manageable. The IT issue triggered significant changes in TSB’s management team, with Debbie Crosbie being appointed as the new CEO replacing Paul Pester.

Exhibit 1 DBRS Morningstar Unemployment Rate (%) Scenarios

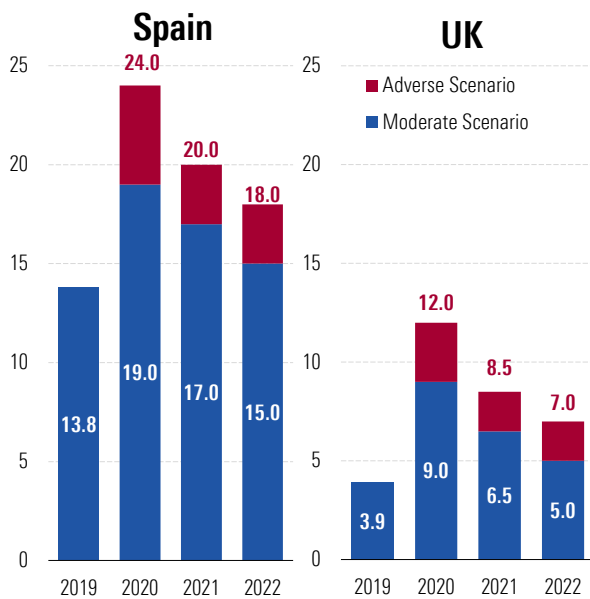
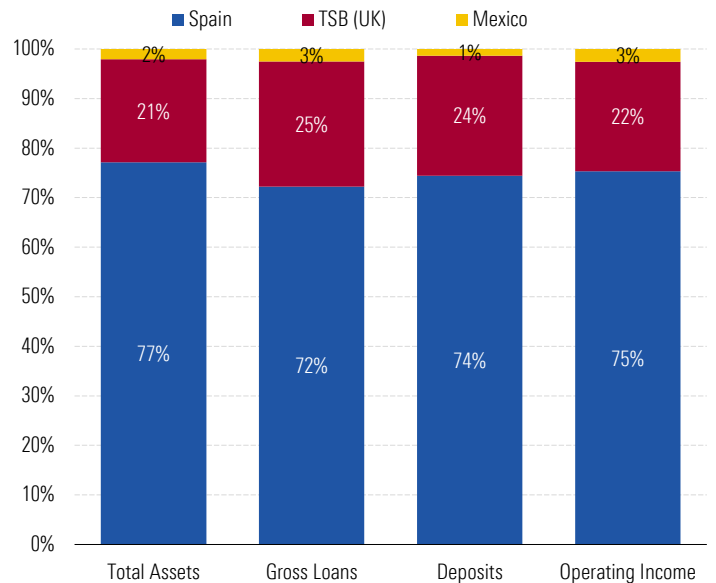


Exhibit 2 Sabadell’s Key Financial Figures Breakdown



Source: DBRS Morningstar, Company Documents. Over the next several months, DBRS Morningstar expects to update these scenarios.

Earnings Power

Grid Grade: Good

DBRS Morningstar views the wide and growing scale of economic and market disruption resulting from COVID-19 as posing significant challenges and expects pressure on Sabadell’s revenues. Despite recent improving trends in core revenues, with the Bank posting EUR 768 million in 2019 up 134% YoY and a Return on Average Equity (ROAE, as calculated by DBRS Morningstar) of 6.1%, the COVID-19 outbreak will pressure revenues, at a time when profitability is already modest. Sabadell registered a net profit of EUR 94 million in Q1 2020, a 63.9% decline YoY (at constant exchange rate). This included the provisions related to COVID-19. When excluding COVID-19 provisioning, net profits would have still registered a 5.1% decline YoY. Results were also impacted by a modest decline in core revenues, and higher non-COVID-19-related loan losses.

Sabadell’s core revenues in Q1 2020 were down 0.8% YoY as higher fees did not compensate for lower NII, affected mainly by lower yields. Net fees increased 1.9% YoY. Nevertheless, DBRS Morningstar considers that these revenues will be pressured by the current environment due to lower activity levels. Trading income was EUR 151 million, up 124% YoY, driven by capital gains on its ALCO portfolio, after selling part of the sovereign bond portfolio. Amid this challenging situation Sabadell is trying to reduce costs. Recurrent expenses and amortisation were down 7.3% QoQ on Sabadell excluding TSB, as marketing and third party expenses were cut. TSB’s recurrent expenses and amortisation were also down 1.2% QoQ. Sabadell expects total costs to decrease in 2020. As a result, Income Before Provisions and Taxes (IBPT) actually increased 8.4% YoY in Q1 2020.

In Q1 2020 the Bank reported higher loan loss provisions related to credit risk, up 177% YoY, mainly affected by COVID-19 related provisions. Sabadell posted EUR 369 million of credit provisions of which EUR 213 million were COVID-19 provisions. These provisions incorporated the future deterioration in economic conditions due to the COVID-19 crisis in their IFRS9 models. Sabadell applied the Bank of Spain macro-economic scenarios published back in April, giving more weight to the long-term outlook. As a result, the annualised cost of risk (as calculated by DBRS Morningstar and including all loan loss provisions) in Q1 2020 stood at 109 bps.

Exhibit 3 Sabadell’s Revenue Breakdown

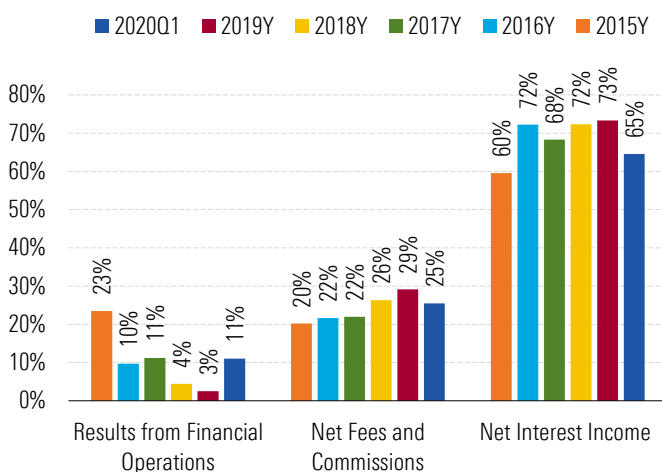
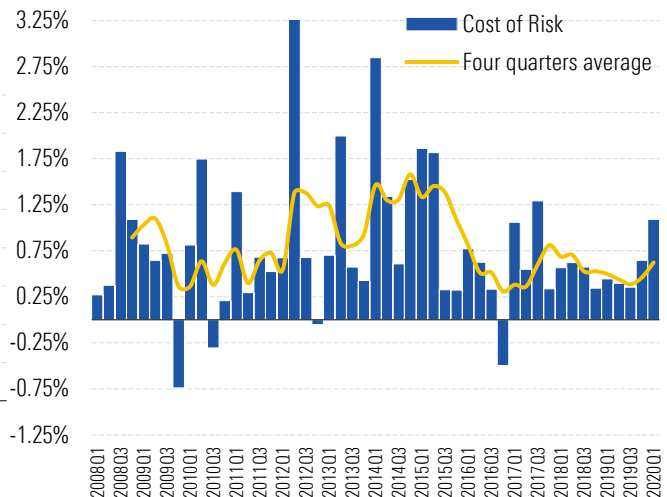


Exhibit 4 Cost of Risk (%)



The Bank expects to register a Cost of Risk of between 90-95 bps in 2020. DBRS Morningstar expects further loan loss provisions to be booked in coming quarters, given the macro-economic scenario has deteriorated since April.

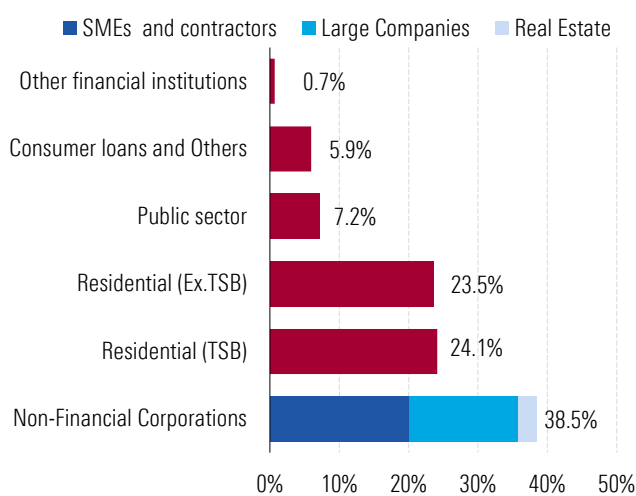
In addition, during Q1 2020 the Bank announced two important corporate transactions which will generate capital gains upon closure. First, the sale of Sabadell Asset Management to Amundi Asset Management for EUR 430 million. The agreement is subject to obtaining the relevant authorisations, which is expected to take place in the third quarter of 2020. The transaction will generate an immediate net capital gain of around 293 million Euros. Second, in March 2020, the Bank announced a deal between Sabadell and BNP Paribas Securities Services (BNP) to sell the institutional depositary business of Sabadell for EUR 115 million. The closing of the transaction is expected to take place in the second quarter of 2021 and will generate an immediate net capital gain of 58 million Euros upon closing.

Risk Profile

Grid Grade: Good/Moderate

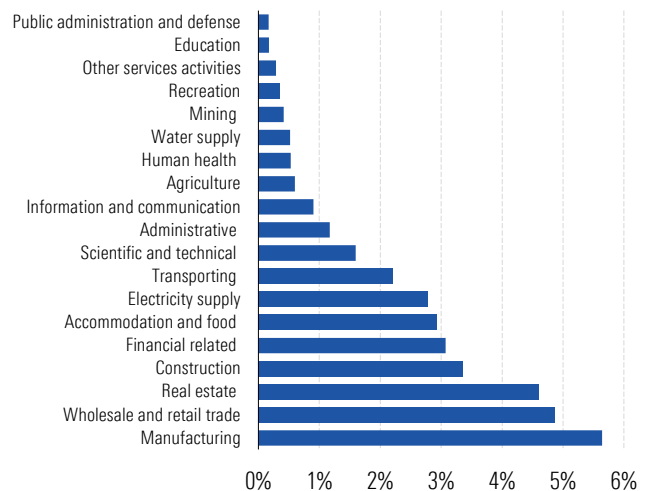
Sabadell's main risk is credit risk largely arising from its lending exposures, guarantees and third-party commitments. DBRS Morningstar's view is that Sabadell's credit fundamentals are more sensitive to economic shocks than many other A (low) peers. The Bank's relatively high exposure to SMEs (26% of its Spanish lending book at end-March 2020 and 20% on a consolidated basis) mean the Bank is more vulnerable to deterioration given that SMEs are likely to be severely affected in this environment. As of end-2019, loans to non-financial companies represented around 38.5% of the total lending book. Of those exposures, the Bank highlighted in Q1 2020 around EUR 11.4 billion in loans to the sectors most sensitive to COVID-19 (or around 8% of the performing exposures), mainly in hospitality (EUR 5.3 billion), transport (EUR 3.4 billion), autos (EUR 1.4 billion) and non-food retail (EUR 1.1 billion).

Exhibit 5 Customer Loan Book Breakdown end-2019



Source: DBRS Morningstar, Company Documents

Exhibit 6 Non-Financial Corporations Breakdown (as percentage of total loans)



Source: DBRS Morningstar, Company Documents

Credit Risk

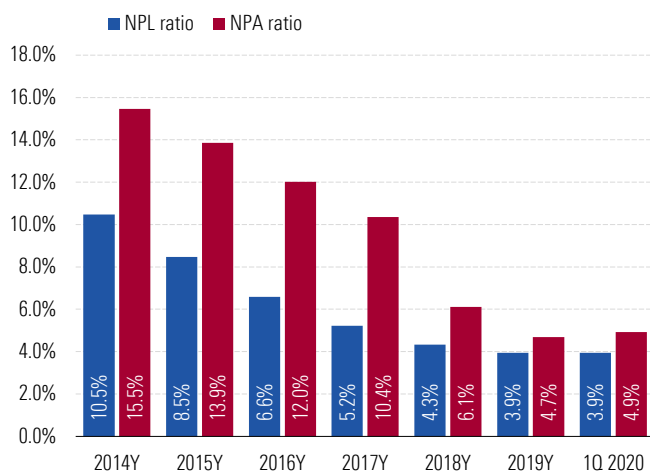
Sabadell’s risk profile has materially improved in recent years. At end-March 2020, Sabadell’s non-performing loans (NPL) ratio (as calculated by DBRS excluding contingent exposures) was 3.9% down from 4.3% in Q1 2019 (Exhibit 7).

The Bank’s NPL ratio is below the Spanish system average of 4.8% at end-March 2020. In terms of NPL vintages, as of end-2019, 36% of the NPLs were unlikely to pay exposures, and 16.5% were NPLs over 7 years vintage. This is a higher percentage than other peers. Sabadell’s NPL ratio for retail mortgages in Spain is higher than most domestic peers at around 5.2% at Q1 2020, partly explained by the weaker quality of the residential mortgage book of Banco CAM (which was acquired in 2012).

Sabadell’s Q1 2020 results incorporate the update of their IFRS9 models with new macroeconomic scenarios. As a result, provisions on all Stages (Exhibit 8) increased and Cost of Risk (as calculated by DBRS Morningstar) stood at 109 bps up from 46 bps on the previous four quarters. Nevertheless, it is still too early to see any impact on the Bank’s balance sheet asset quality. Sabadell’s Stage 3 loans were down 0.5% QoQ in Q1 2020.

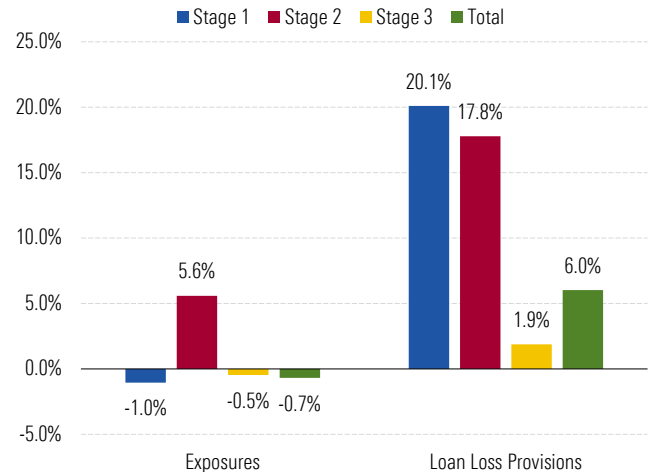
European authorities have also given banks flexibility regarding the classification of debtors as NPLs for loans with public guarantees. In addition, the European authorities have clarified that banks should avoid excessively procyclical assumptions in their IFRS9 models. All these measures could partially offset some of the impact of COVID-19 crisis on the reported asset quality of banks and spread it over several quarters. Nevertheless DBRS Morningstar expects that, given the unprecedented economic shock and despite the relief measures, banks will register substantial asset quality deterioration in coming quarters.

Exhibit 7 NPA and NPL Ratio



Source: DBRS Morningstar, Company Reports..

Exhibit 8 Loan Loss Provisions Movements



Source: DBRS Morningstar, Company Reports..

Foreclosed Assets Exposure

Sabadell has recently reduced NPAs, assisted by organic reductions but also continued sale of foreclosed assets (FAs). The most significant institutional sale took place in July 2018 between Sabadell and Cerberus Capital Management, L.P. The Group also announced in August 2019 that it had reached an agreement to transfer Solvia Desarrollos Inmobiliarios (SDIn) together with other FAs totaling a gross book value of around EUR 1.9 billion. The closing of this transaction is expected to take place in the coming quarters. As of end-March-2020, post-transaction, Sabadell had EUR 1.3 billion of FAs at end-March 2020, with an NPA ratio of around 4.9%, which is in line with other domestic peers.

Sovereign Debt Exposure and Interest Rate Risk

At end-2019, Sabadell's sovereign debt portfolio totalled EUR 23.9 billion, 54% of which related to Spain, 24% to Italy, with the balance being mainly UK bonds. Sabadell's exposure to sovereign debt at end-2019 represented 2.4x the Group's CET1, in line with most similarly rated domestic peers. In addition, the Group had EUR 12 billion of public sector loans at end-2019 (EBA definition). The Bank reduced this exposure during Q1 2020 to realise capital gains. In particular, the group has reduced 50% of its Italian bonds in 1Q 2020 and the current holdings are now EUR 2.9 billion. In addition, most of the portfolio is held in the amortised cost book reducing capital sensitivity to credit spread changes. Interest rate risk is modest with market risk mostly arising from the Group's fixed-income portfolio, including a large sovereign debt portfolio. The Group is also exposed to foreign exchange risk (GBP) through TSB, but has sound hedging policies in place.

ESG Risks

DBRS Morningstar views that the Data Privacy & Security ESG subfactor was significant to the credit rating. This is included in the Social category. In April 2018, Sabadell completed the migration of the Lloyds IT systems to TSB but some customers faced significant disruption to service over an extended period, particularly in accessing internet banking. DBRS Morningstar recognises that even though these issues have been fully settled, an investigation is still being conducted by the Financial Conduct Authority (FCA). DBRS Morningstar expects any potential fine to be manageable but reputational risks are still present.

Funding and Liquidity

Grid Grade: Good

DBRS Morningstar considers Sabadell's liquidity and funding as well placed to face this challenging environment. In particular the bank has been improving its funding and liquidity position with recent debt issuances and sales of NPAs. The Bank has a sound funding profile with a solid Liquidity Coverage Ratio (LCR, Exhibit 9) and Net Loan to Deposit Ratio. Access to wholesale markets for funding is frequent although recent credit spread widening makes potential new issuances significantly more expensive than pre-COVID-19.

Sabadell's main source of funding is retail deposits largely underpinned by its domestic franchise. At end-March 2020, customer deposits accounted for around 72% of total funding (Exhibit 10). Sabadell's customer deposits grew by 2.9% YoY in Q1 2020, although it registered a decrease of 1.6% QoQ affected by lower deposit remuneration.

Funds from Central Banks totalled EUR 20.4 billion at end-March 2020, down 28% YoY. Of those, EUR 15 billion are ECB funding. The Bank has reported it can borrow up to EUR 27 billion at the ECB's new TLTRO-III facility, and TSB could withdraw at least GBP 3 billion from the UK's TFSME facility. The Group's funding through debt securities accounted for 11% as of March-2020. Wholesale funding is well diversified by instrument and maturity. Long-term debt instruments mostly include covered bonds instruments (around 55% of total wholesale debt), senior debt (22%) and subordinated debt (14%).

The Group had EUR 41 billion of High Quality Liquid Assets (HQLA) at end-March 2020, up 5% YoY. Sabadell's refinancing risk is manageable with wholesale funding maturities totalling EUR 20.7 billion at end-March 2020, of which EUR 2.3 billion matures in the remaining part of 2020. Recent issuances since early 2019 include EUR 4.8 billion of MREL eligible assets with Senior Preferred (EUR 3.3 billion) and Senior Non-Preferred (EUR 1.5 billion) securities.

Exhibit 9 LCR

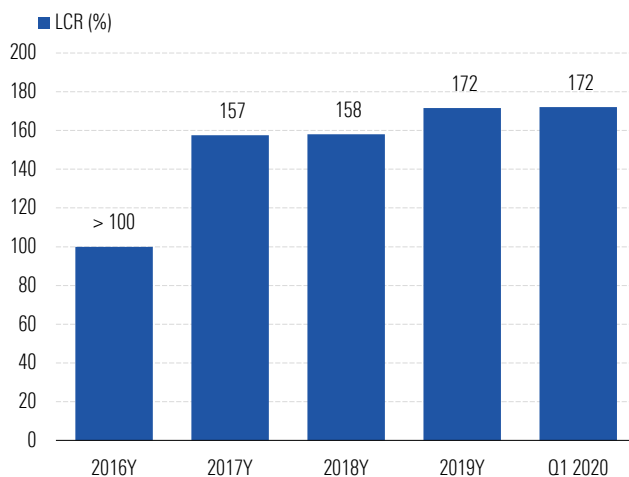
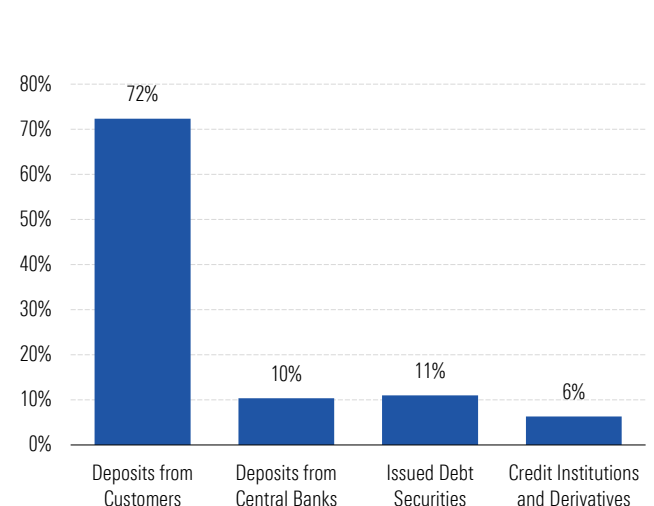


Exhibit 10 Funding mix as of March-2020



In 2019, Sabadell announced an MREL requirement of 8.31% of Total Liabilities and Own Funds (TLOF) of which 5.99% should be met with subordinated instruments. The requirement was based on the balance sheet exposures at end-2017 and we note that Sabadell is currently meeting its MREL requirement as the Bank reported at end-March 2020 a pro-forma MREL ratio of 9.3% as a percentage of TLOF (or 23.9% as a percentage of RWAs) and a pro-forma Subordination ratio of around 7% as a percentage of TLOF. According to relevant authorities, 2020 MREL decisions, which are expected to be set in early 2021, will incorporate the COVID-19 measures adopted by authorities to provide capital relief.

Capitalisation

Grid Grade: Good

DBRS Morningstar views Sabadell's capital position as satisfactory, supported by its strengthening ability to reinforce capital levels through retained earnings and issuance of capital instruments. The CET1 (fully loaded) ratio was 11.6% at end-March 2020 and the Total Capital (fully loaded) was 15.3% at end-March 2020. Moreover, Sabadell's capital position will benefit from the closure of corporate transactions which will add additional 47bps of CET1 capital. In particular, the sale of Solvia will add 5 bps, the Sabadell AM disposal 35 bps and the depositary business disposal another 7bps. In addition, European authorities have approved significant capital relief measures which will improve Sabadell's capital cushions over its requirements. Among those we highlight:

1) Banks will also be allowed to meet Pillar 2 Requirements (P2R) with all capital buckets (CET1, AT1 and Tier 2) instead of only CET1 instruments. The P2R mix will follow the same composition as the Pillar 1 Requirement (P1R). This means that P2R will need to be filled with at least 56.25% of CET1, and at least 75% with Tier 1 capital. In the case of Sabadell, given that its P2R for 2020 was set at 2.25%, the bank can now fill that requirement as follows: 127 bps with CET1 (or 56.25% of the P2R), 42 bps with AT1 instruments (or 18.75% of the total P2R requirement) and 56 bps with Tier 2 instruments (or 25% of the total P2R). This brings forward a measure that was initially scheduled to come into effect in January 2021, as part of the latest revision of the Capital Requirements Directive (CRD V).

2) The CounterCyclical Buffer (CCyB) of the BoE was decreased to 0%, lowering the combined capital buffer for Sabadell by 14 bps.

As a result, the capital cushion of Sabadell has increased at end-March 2020 compared to end-2019 (Exhibit 12 and 13). As of end-March 2020 the capital cushion over their regulatory requirements stood at 273 bps (or 322 bps after including the impact of the business disposals) compared to 257 bps at end-2019 (Exhibit 11).

Nevertheless, regulatory ratios have decreased marginally QoQ affected by higher risk weighted assets and mark to market adjustments on its fixed income portfolio. The CET1 (phased-in) ratio was 12.2% at end-March 2020 down from 12.4% at end-2019 (Exhibit 12). Risk Weighted Asset inflation is unlikely to happen in the next quarters as this was driven mainly by higher take-up of corporate credit lines in the first weeks of lockdown in Spain. In addition, state guaranteed loans are likely to bring RWAs down.

Other applicable capital boosting measures that recently approved by European legislators (see exceptional legislative changes to the CRR2 approved by the Council of the EU) are:

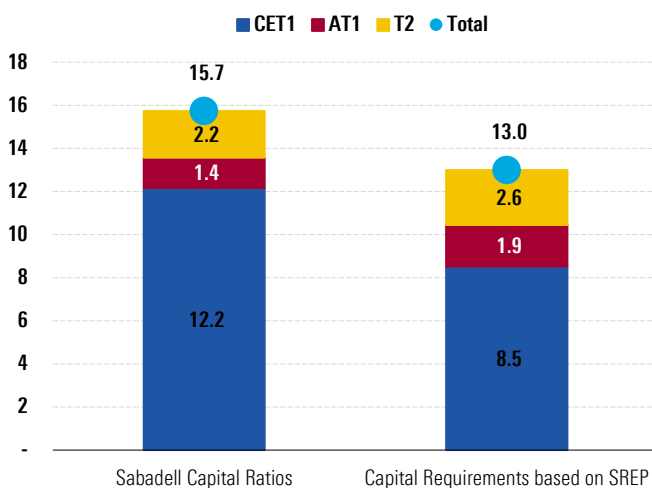
1) Transitional arrangements for mitigating the impact of IFRS9 provisions on regulatory capital: As the application of IFRS 9 during the COVID-19 crisis may lead to a sudden significant increase in provisions, legislators are proposing to allow banks to reset the 5 year transition period. This will apply only for new provisions related to expected credit losses (ECL) recognised since the pandemic outbreak. According to Sabadell, the new framework will add around 10 bps to its CET1 ratio as of end-March 2020.

2) Exemption of certain software assets from capital deductions: The proposal brings forward the date of application of this exemption, which was included in the CRR2. According to Sabadell the bank has EUR 1.3 billion of IT software intangibles, although it is still unclear the impact, given that the EBA is still working on the RTS.

3) SME and infrastructure supporting factor: The proposal brings forward the date of application of this rule. The CRR2 introduced a capital reduction factor in respect to loans banks grant to SMEs as well as to companies that operate or finance essential public services. According to Sabadell the application of this rule would translate into a reduction of around EUR 2 billion of RWAs, which considering current CET1 levels could add around 31 bps of CET1.

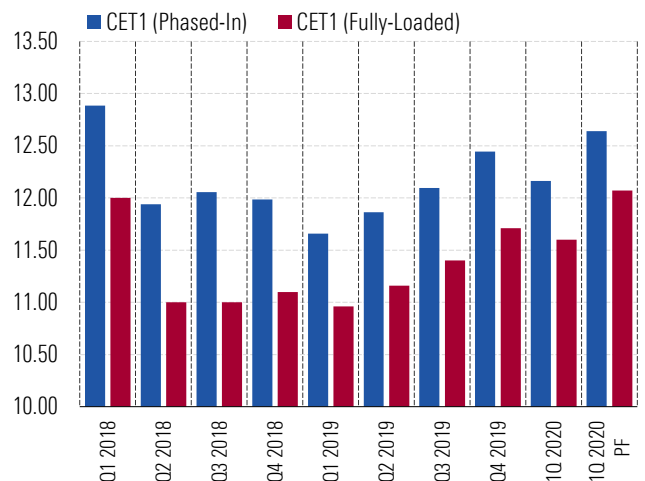
Other measures contained in the package includes postponing the date of application of the leverage ratio buffer and excluding certain exposures from the calculation of the ratio. Sabadell's current leverage ratios are satisfactory, with a reported leverage ratio (fully-loaded) of 4.72%.

Exhibit 10 Requirements and reported ratios (phased-in) (%) -Mach-2020



Source: DBRS Morningstar, Company Reports.

Exhibit 11 Sabadell's CET1 ratios (%)



Source: DBRS Morningstar, Company Reports..

	Banco de Sabadell, SA	Banco de Sabadell, SA	Banco de Sabadell, SA	Banco de Sabadell, SA	Banco de Sabadell, SA
EUR Millions	2019Y	2018Y	2017Y	2016Y	2015Y
	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015
Balance Sheet					
Cash and Deposits with Central Banks	15,169	23,494	26,363	11,688	7,343
Lending to/Deposits with Credit Institutions	14,388	8,297	5,379	4,292	5,002
Financial Securities	27,792	26,845	25,099	25,920	26,074
Financial Derivatives Instruments	2,558	2,079	1,863	2,371	2,217
Net Lending to Customers	147,816	142,987	143,598	145,174	146,816
- Gross Lending to Customers	150,749	146,420	147,325	150,095	153,425
- Loan Loss Reserves	2,933	3,433	3,727	4,921	6,610
Investment in Associates or Subsidiaries	734	575	576	381	341
Total Intangible Assets	2,565	2,461	2,246	2,135	2,081
Fixed Assets	3,462	2,498	3,827	4,476	4,189
Insurance Assets	NA	NA	NA	NA	15
Other Assets (including DTAs)	9,268	13,086	12,399	16,072	14,551
Assets	223,754	222,322	221,348	212,508	208,628
Deposits from Banks	31,536	40,799	42,018	28,495	26,291
Deposits from Central Banks	20,065	28,799	27,848	11,828	11,566
Deposits from Credit Institutions	11,471	12,000	14,171	16,667	14,725
Deposits from Customers	146,411	136,546	130,558	132,342	130,941
Issued Debt Securities	19,559	19,612	21,306	25,052	26,423
Issued Subordinated Debt	3,010	2,986	2,482	1,481	1,442
Financial Derivatives Instruments	2,806	2,360	2,361	3,086	2,183
Insurance Liabilities	0	0	0	0	2,218
Other Liabilities	7,457	7,902	9,402	8,968	6,363
Equity Attributable to Parent	12,905	12,053	13,161	13,033	12,731
Minority Interests	69	64	61	50	37
Liabilities & Equity	223,754	222,322	221,348	212,508	208,628

	Banco de Sabadell, SA	Banco de Sabadell, SA	Banco de Sabadell, SA	Banco de Sabadell, SA	Banco de Sabadell, SA
EUR Millions	2019Y	2018Y	2017Y	2016Y	2015Y
	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015
Income Statement					
Interest Income	4,985	4,862	4,840	5,170	4,842
Interest Expenses	1,362	1,187	1,037	1,332	1,640
Net Interest Income	3,622	3,675	3,802	3,838	3,203
Net Fees and Commissions	1,439	1,335	1,223	1,149	1,088
Results from Financial Operations	126	225	623	517	1,262
Equity Method Results	56	57	309	75	49
Net Income from Insurance Operations	0	0	-19	-47	-44
Other Operating Income	-304	-211	-373	-219	-175
Total Operating Income	4,940	5,082	5,565	5,313	5,382
Staff Costs	1,590	1,530	1,547	1,595	1,417
Other Operating Costs	1,077	1,260	1,131	978	785
Depreciation/Amortisation	470	353	402	396	329
Total Operating Expenses	3,136	3,143	3,080	2,969	2,531
Income Before Provisions and Taxes (IBPT)	1,804	1,939	2,485	2,343	2,850
Loan Loss Provisions	671	757	1,157	441	1,396
Securities & Other Financial Assets Impairment	-4	-1	54	112	132
Other Impairments	249	473	1,013	845	745
Other Non-Operating Income (Net)	63	-292	587	75	168
Income Before Taxes (IBT)	951	419	848	1,019	745
Tax on Profit	174	84	43	304	33
Discontinued Operations	0	0	0	0	0
Other After-tax Items	0	0	0	0	0
Minority Interest	9	7	4	5	4
Net Attributable Income	768	328	801	710	708

	Banco de Sabadell, SA	Banco de Sabadell, SA	Banco de Sabadell, SA	Banco de Sabadell, SA	Banco de Sabadell, SA
	2019Y	2018Y	2017Y	2016Y	2015Y
Earnings Power					
Earnings					
Net Interest Margin (%)	1.77	1.84	1.98	2.08	1.89
Yield on Average Earning Assets (%)	2.43	2.44	2.51	2.81	2.85
Cost of Interest Bearing Liabilities (%)	0.65	0.58	0.52	0.70	0.94
IBPT over Avg Assets (%)	0.81	0.89	1.16	1.14	1.53
IBPT over Avg RWAs (%)	2.19	2.43	2.98	2.71	3.45
Expenses					
Cost / Income ratio (%)	63.49	61.84	55.35	55.89	47.04
Operating Expenses by Employee	128,249	120,035	119,163	114,440	97,023
LLP / IBPT (%)	37.19	39.04	46.56	18.84	48.98
Profitability Returns					
Return on Avg Equity (ROAE) (%)	6.08	2.65	6.15	5.51	5.92
Return on Avg Assets (ROAA) (%)	0.35	0.15	0.38	0.35	0.38
Return on Avg RWAs (%)	0.94	0.42	0.97	0.83	0.86
Dividend Payout Ratio (%)	21.96	118.16	34.80	52.81	29.19
Internal Capital Generation (%)	5.46	-0.49	4.01	2.65	4.56
Risk Profile					
Gross NPLs over Gross Loans (%)	3.93	4.42	5.34	6.42	8.13
Net NPLs over Net Loans (%)	2.02	2.13	2.88	3.25	3.99
NPL Coverage Ratio (%)	49.53	53.05	47.37	51.04	53.00
Net NPLs over IBPT (%)	165.73	156.68	166.62	201.42	205.61
Net NPLs over CET1 (%)	29.57	31.56	39.76	45.68	57.41
Texas Ratio (%)	37.23	41.62	46.42	53.55	64.36
Cost of Risk (%)	0.47	0.53	0.80	0.30	1.26
Level 2 Assets/ Total Assets (%)	1.17	1.14	1.04	1.88	1.38
Level 3 Assets/ Total Assets (%)	0.10	0.06	0.08	0.12	0.46
Funding and Liquidity					
Bank Deposits over Funding (%)	16.03	21.28	23.12	16.13	15.09
- Interbank over Funding (%)	6.13	7.14	9.35	9.89	8.91
- Central Bank over Funding (%)	9.90	14.14	13.77	6.24	6.18
Customer Deposits over Funding (%)	72.26	67.06	64.55	69.85	69.97
Wholesale Funding over Funding (%)	11.71	11.66	12.33	14.02	14.94
- Debt Securities over Funding (%)	9.65	9.63	10.53	13.22	14.12
- Subordinated Debt over Funding (%)	2.05	2.03	1.80	0.80	0.82
Liquid Assets over Assets (%)	25.63	26.37	25.68	19.72	18.42
Non-Deposit Funding Ratio (%)	30.54	35.04	37.27	33.64	33.15
Net Loan to Deposit Ratio (%)	100.96	104.72	109.99	109.70	112.12
LCR (Phased-in) (%)	171.52	158.08	157.49	NA	NA
NSFR (%)	NA	NA	NA	NA	NA
Capitalisation					
CET1 Ratio (Phased-In) (%)	12.45	11.99	13.44	12.00	11.50
CET1 Ratio (Fully-Loaded) (%)	11.71	11.10	12.79	11.95	11.41
Tier 1 Capital Ratio (Phased-In) (%)	13.87	13.42	14.34	12.00	11.50
Total Capital Ratio (Phased-In) (%)	15.70	14.73	16.07	13.77	12.86
Tang. Equity / Tang. Assets (%)	4.71	4.39	5.01	5.20	5.17
Leverage Ratio (DBRS) (%)	4.63	4.43	4.81	4.98	5.00
Growth					
Net Attributable Income YoY (%)	134.0	-59.1	12.8	0.3	90.6
Net Fees and Commissions YoY (%)	7.7	9.1	6.5	5.6	26.4
Total Operating Expenses YoY (%)	-0.2	2.0	3.7	17.3	37.5
IBPT YoY (%)	-7.0	-22.0	6.0	-17.8	6.5
Assets YoY (%)	0.6	0.4	4.2	1.9	27.7
Gross Lending to Customers YoY (%)	3.0	-0.6	-1.8	-2.2	29.4
Net Lending to Customers YoY (%)	3.4	-0.4	-1.1	-1.1	32.5
Loan Loss Provisions YoY (%)	-11.4	-34.6	162.1	-68.4	-20.8
Deposits from Customers YoY (%)	6.0	2.8	0.7	1.1	35.3

Rating Methodology

The applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (8 June 2020), which can be found on our website under Methodologies.

Ratings

Issuer	Debt	Rating	Rating Action	Trend
Banco de Sabadell, S.A.	Long-Term Issuer Rating	A (low)	Trend Changed	Negative
Banco de Sabadell, S.A.	Long-Term Senior Debt	A (low)	Trend Changed	Negative
Banco de Sabadell, S.A.	Long-Term Deposits	A (low)	Trend Changed	Negative
Banco de Sabadell, S.A.	Short-Term Issuer Rating	R-1 (low)	Confirmed	Stable
Banco de Sabadell, S.A.	Short-Term Debt	R-1 (low)	Confirmed	Stable
Banco de Sabadell, S.A.	Short-Term Deposits	R-1 (low)	Confirmed	Stable
Banco de Sabadell, S.A.	Senior Non-Preferred Debt	BBB (high)	Trend Changed	Negative
Banco de Sabadell, S.A.	Subordinated Debt	BBB	Trend Changed	Negative
Banco de Sabadell, S.A.	Long Term Critical Obligations Rating	A (high)	Trend Changed	Negative
Banco de Sabadell, S.A.	Short Term Critical Obligations Rating	R-1 (middle)	Trend Changed	Negative
Banco de Sabadell, S.A.	Bono Estructurado Tesoreria Julio II - ES0213860077	A (low)	Trend Changed	Negative
Banco de Sabadell, S.A.	Senior Long-Term Notes - EUR 10 billion EMTN Programme	A (low)	Trend Changed	Negative
Banco de Sabadell, S.A.	Subordinated Tier 2 Notes - EUR 10 billion EMTN Programme	BBB	Trend Changed	Negative
Banco de Sabadell, S.A.	TSD 1 Abril 2007 Simples (B. Guipuzcoano) - ES0213580048	A (low)	Trend Changed	Negative
Banco de Sabadell, S.A.	Commercial Paper Programme (EUR 7 billion and expandable to EUR 9 billion)	R-1 (low)	Confirmed	Stable

Ratings History

Issuer	Debt	Current	2019	2018	2017	2016
Banco de Sabadell, S.A.	Long-Term Issuer Rating	A (low)	A (low)	BBB (high)	BBB (high)	BBB (high)
Banco de Sabadell, S.A.	Short-Term Issuer Rating	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	-
Banco de Sabadell, S.A.	Long-Term Senior Debt	A (low)	A (low)	BBB (high)	BBB (high)	BBB (high)
Banco de Sabadell, S.A.	Short-Term Debt	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)
Banco de Sabadell, S.A.	Long-Term Deposits	A (low)	A (low)	BBB (high)	BBB (high)	-
Banco de Sabadell, S.A.	Short-Term Deposits	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	-
Banco de Sabadell, S.A.	Senior Non-Preferred Debt	BBB (high)	BBB (high)	-	-	-
Banco de Sabadell, S.A.	Subordinated Debt	BBB	BBB	-	-	-
Banco de Sabadell, S.A.	Long Term Critical Obligations Rating	A (high)	A (high)	A	A	A
Banco de Sabadell, S.A.	Short Term Critical Obligations Rating	R-1 (middle)	R-1 (middle)	R-1 (low)	R-1 (low)	R-1 (low)
Banco de Sabadell, S.A.	Bono Estructurado Tesoreria Julio II - ES0213860077	A (low)	A (low)	BBB (high)	BBB (high)	BBB (high)
Banco de Sabadell, S.A.	Senior Long-Term Notes - EUR 10 billion EMTN Programme	A (low)	A (low)	BBB (high)	BBB (high)	BBB (high)
Banco de Sabadell, S.A.	Subordinated Tier 2 Notes - EUR 10 billion EMTN Programme	BBB	BBB	BBB (low)	BBB (low)	BBB (low)
Banco de Sabadell, S.A.	TSD 1 Abril 2007 Simples (B. Guipuzcoano) - ES0213580048	A (low)	A (low)	BBB (high)	BBB (high)	BBB (high)
Banco de Sabadell, S.A.	Commercial Paper Programme (EUR 7 billion and expandable to EUR 9 billion)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)	R-1 (low)

Previous Action

- [DBRS Morningstar Confirms Banco de Sabadell at A \(low\), Trend Revised to Negative from Stable, April 15, 2020](#)
- [DBRS Upgrades Sabadell's Senior Ratings to A \(low\), Stable Trend, June 4, 2019](#)
- [DBRS Assigns BBB rating to Sabadell's Senior Non-Preferred Debt, Trend Positive, May 1, 2019](#)
- [DBRS Publishes Global Banking Methodology Grid Summaries for 99 Banking Groups Globally, September 4, 2018](#)
- [DBRS Confirms Banco de Sabadell at BBB \(high\), Trend Changed to Positive, July 16, 2018](#)

Related Research

- [DBRS Morningstar Takes Actions on 5 Spanish Banks Amidst Heightened Uncertainty Around COVID-19, April 15, 2020](#)
- [ECJ Decision on Spanish Mortgages Positive for Banks, March 3, 2020](#)
- [Spanish Banks' 2019 Profits Hit by Fierce Competition and Higher Provisions, February 17, 2020](#)
- [European Banking: Key Themes in 2020, January 14, 2020](#)
- [Profits up for Spanish Banks in 9M19, but has the credit cycle turned?, November 26, 2019](#)
- [Litigation Tail Risk for Spanish Banks: IRPH, September 9, 2019](#)

- [Large Spanish Banks' RoE in 1H19 Improves, but Limited Upside in Domestic Activities](#), August 1, 2019

Previous Report

- [Banco de Sabadell S.A](#), June 25, 2019
- [Banco de Sabadell S.A](#), September 27, 2018

European Bank Ratios & Definitions

- [European Bank Ratios & Definitions](#), June 11, 2019.

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