

Rating Report

Banco de Sabadell S.A.

DBRS Morningstar

30 September 2021

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Ratings

Debt	Rating	Rating Action	Trend
Long-Term Issuer Rating	A (low)	Confirmed May '21	Negative
Short-Term Issuer Rating	R-1 (low)	Confirmed May '21	Stable
Intrinsic Assessment	A (low)	Maintained May '21	--

Rating Drivers

Factors with Positive Rating Implications

- An upgrade of the Bank's ratings is unlikely in the short to medium term given the Negative trend. However, the trend on the Long-Term Issuer Rating could revert to Stable if the Bank can demonstrate that the impact of the pandemic is limited, particularly in terms of asset quality and profitability.

Factors with Negative Rating Implications

- A downgrade to the Long-Term Issuer Rating would likely be driven by a significant weakening in profitability, asset quality, or capital as a result of the stressed economic environment or if there is evidence of a material deterioration of Sabadell's franchise in Spain or the UK.

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)

- NPA reduction continued Year-on-Year supported by institutional sales. High exposure to SMEs, which are expected to be more affected in this environment.

Funding and Liquidity (Good)

- Sound funding position, supported by a large customer deposit base in Spain and UK. 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, S.A.	2021H1	2020Y	2019Y	2018Y	2017Y
EUR Millions					
Total Assets	250,120	235,763	223,754	222,322	221,348
Equity Attributable to Parent	12,597	12,420	12,905	12,053	13,161
Income Before Provisions and Taxes (IBPT)	846	1,377	1,805	1,939	2,485
Net Attributable Income	220	2	768	328	801
IBPT over Avg RWAs (%)	2.11	1.74	2.19	2.43	2.98
Cost / Income ratio (%)	64.84	70.77	63.47	61.84	55.35
Return on Avg Equity (ROAE) (%)	3.52	0.02	6.08	2.65	6.15
Gross NPLs over Gross Loans (%)	3.49	3.49	3.93	4.42	5.34
CET1 Ratio (Fully-Loaded) (%)	12.00	12.02	11.71	11.10	12.79

Source: DBRS Morningstar Analysis; Copyright © 2021, 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 a meaningful but narrower presence in the UK through TSB. The Group is the 4th largest banking Group in Spain.

Rating Rationale

The ratings reflects our view that the wide and evolving scale of economic and market disruption resulting from the coronavirus (COVID-19) pandemic will continue to have a negative effect on the operating environment for Sabadell in both Spain and the United Kingdom (UK). DBRS Morningstar considers that state guaranteed loans and loan moratoria have been limiting past-due situations, and preventing the deterioration of Sabadell's loan book. As a result, some of the progress made by the Bank in recent years is likely to be reversed once the supporting factors are removed, and we expect the Bank's revenues, asset quality and capital ratios to remain under pressure.

DBRS Morningstar's view is that Sabadell's credit fundamentals are more sensitive to economic shocks than some 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, this environment has prompted significant strategy and managerial changes at Sabadell. In particular, during the first months of 2021 the Bank has changed its top management, including a new CEO and CFO, and made changes in their Retail Banking, Business and Corporate divisions. The Bank presented their new Strategic Plan at the end of May 2021. Despite the challenges, DBRS Morningstar sees Sabadell as well positioned to face this crisis given some improvement in the economic outlook.

Franchise Strength

Grid Grade: Strong/Good

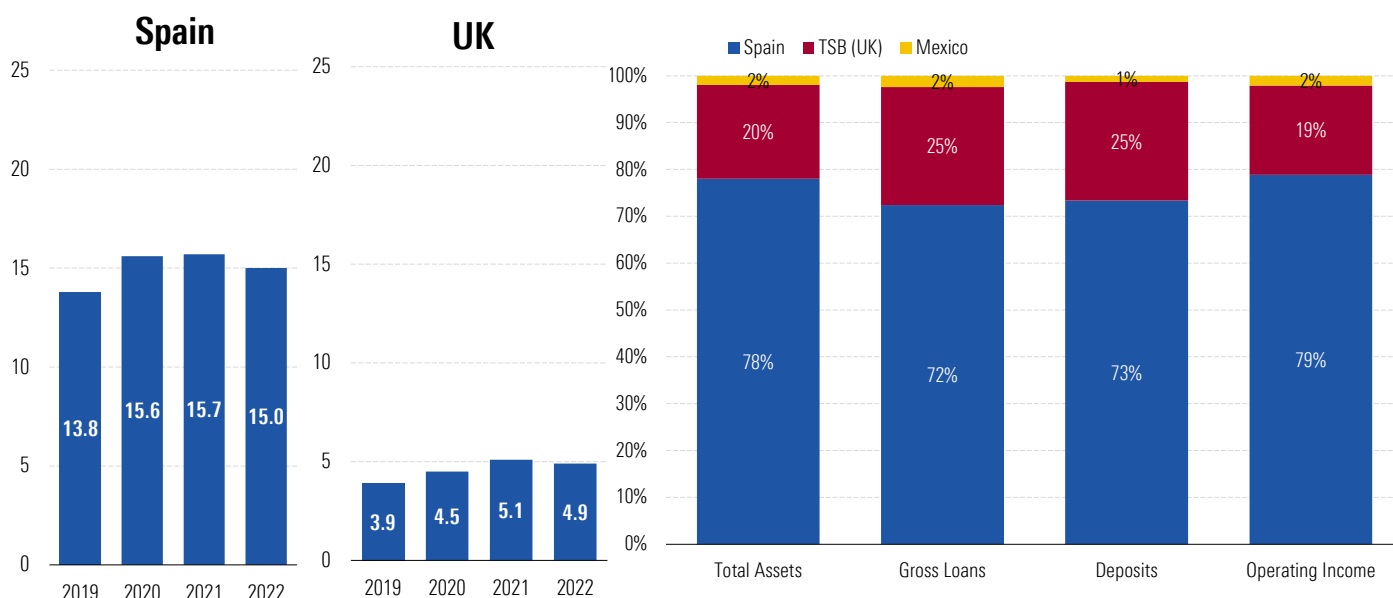
Banco de Sabadell S.A. is largely focused on individuals, small and medium sized businesses (SMEs) and corporates. The Group has a major presence in Spain and in the UK through TSB. With total assets of EUR 250 billion at end-June 2021, the Group is the 4th largest banking Group in Spain. Since its inception, Sabadell's focus has been to facilitate international trade and to support SMEs.

Prior to the COVID-19 outbreak, Sabadell disposed of a significant amount of Non-Performing Assets (NPA) as well as improving capital levels, boosting profitability and had been in the process of restructuring its UK subsidiary, TSB. The COVID-19 pandemic has led to significant deterioration in Sabadell's operating environment. Global macroeconomic conditions shifted dramatically amidst the rapid spread of the COVID-19, despite associated responses from governments. DBRS Morningstar's Baseline Macroeconomic Scenarios (latest set published 8th September 2021) still anticipate that the UK and Spain's average unemployment rates in 2022 to be higher than in 2019 (Exhibit 1).

In the context of the COVID-19 outbreak and the expectation of a subdued interest rate environment over a long horizon, corporate mergers are one of the few tools that European banks have to improve their structurally low profitability, through cost rationalisation and revenues synergies. Alongside some other Spanish banks, Banco Sabadell announced in November 2020 that it was in talks with Banco Bilbao Vizcaya Argentaria, S.A regarding a potential merger between both banks. However, that same month, they announced that the talks concluded without a merger deal as an agreement on the exchange ratio of both entities was not reached. Nevertheless, this challenging environment has prompted significant strategy and managerial changes at Sabadell. In particular, during the first months of 2021 the bank changed 54% of the management, including appointing a new CEO and CFO and making changes in their Retail Banking, Business and Corporate divisions.

In this context, the Bank presented their new Strategic Plan 2021-2023 at the end of May 2021 which included managerial changes, new objectives to focus on sectors and segments with a higher level of profitability, and digitalisation plans alongside with further restructuring. While a restructuring plan was already completed by the end Q1 2021 (around 1800 employees), as of September 2021 (according to the new Strategic plan) the Bank is in negotiation with unions to complete a new round of layoffs. Lastly, the new Strategic Plan also considers that its UK subsidiary (TSB) will focus mostly on mortgage lending growth.

Exhibit 1 Baseline Macroeconomic Scenarios - Unemployment Rate (%) **Exhibit 2** Sabadell's Key Financial Figures Breakdown - 2020



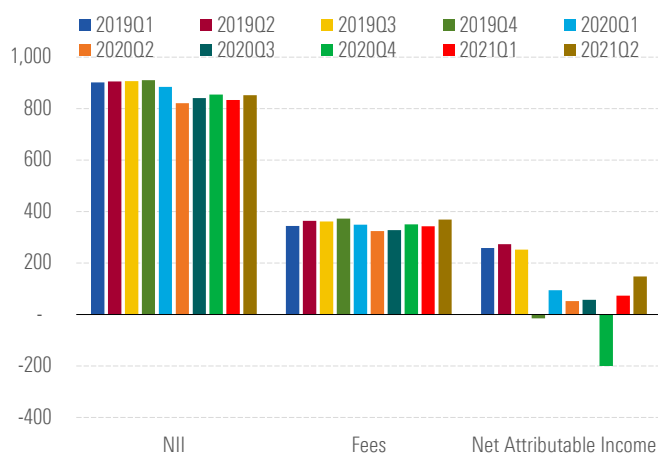
Source: DBRS Morningstar, Company Documents.

TSB was already under a restructuring plan announced by Sabadell at the end of 2019. TSB represented 20% of the Group's total assets as of end-June 2021, at EUR 50 billion, and has provided Sabadell with an important source of revenue diversification. 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 costs 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 anticipates that it will be manageable.

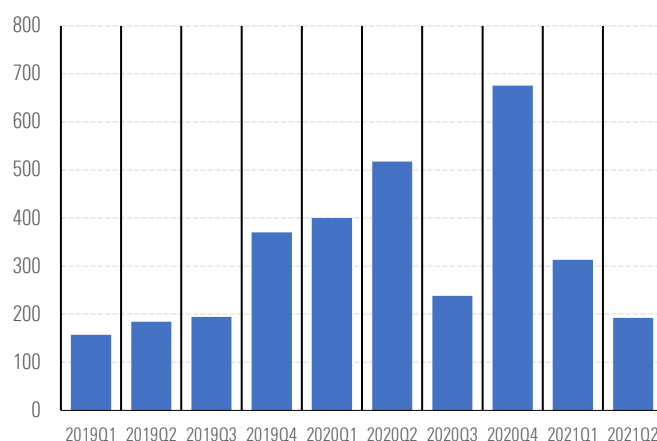
Earnings Power

Grid Grade: Good

DBRS Morningstar considers the market disruption resulting from COVID-19 as posing significant challenges and expects it to lead to pressure on Sabadell's revenues. In 2020, the Bank recorded a net attributable profit of EUR 2 million down from EUR 768 million in 2019. Sabadell's 2020 results were affected by lower NII and Net Fees, higher Loan Loss Provisions (up from EUR 0.7 billion to EUR 1.7 billion; of which EUR 650 million were Covid related) and one-off restructuring charges (EUR 332 million). The Bank did not book losses thanks to two positive non-recurrent items, including capital gains made from the sale of Sabadell Asset Management and ALCO portfolio sales.

Exhibit 3 Sabadell's Quarterly Operating Income Breakdown

Source: DBRS Morningstar, Company Documents

Exhibit 4 Sabadell's Loan Loss Provisions (EUR million).

Source: DBRS Morningstar, Company Documents

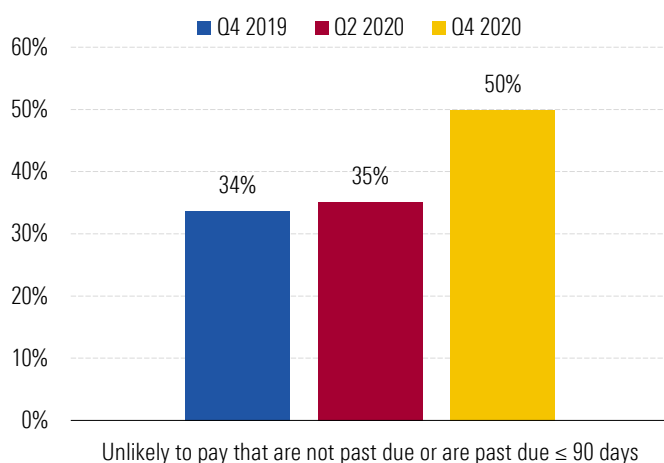
Sabadell's core revenues in H1 2021 still reflect the pressure from low interest rates, with NII down YoY. Net Fees increased YoY, largely due to good performance of service fees. This was not sufficient to reverse the negative trend in operating income (down 4% YoY), particularly due to lower capital gains from the sale of the ALCO portfolio. However, unlike 2020, loan loss provisions have been trending lower, and were down 40% YoY. The Cost of Risk (as reported by the Bank) in H1 2021 stood at 53bps compared to 86bps in 2020 and 32bps in 2019. Notably, TSB's contribution to the Group's net income was positive at EUR 39 million in 1H 2021 compared to a EUR 71 million loss in H1 2020. TSB achieved its first quarterly profit in Q1 2021 since Q1 2019, with Q2 2021 also recording a profit. As a result, the Bank overall reported a net attributable profit in H1 2021 of EUR 220 million, up around 52% YoY.

Amid this challenging situation, Sabadell is trying to reduce costs and record efficiency gains. In Q1 2021, the Bank completed the execution of the restructuring plan, including the reduction of around 1,800 employees (around 11% of its workforce in Spain) announced during Q4 2020 in Spain. The restructuring costs related to this plan amounted to EUR 314 million, booked in 2020, and based on the assumption of EUR 141 million of gross cost savings per year. The Bank is currently preparing another round of layoffs for 2021. In addition, in the first half of 2021, the Bank is showing strong commercial trends. New lending in Spain was up 29% compared to pre-covid levels (vs. H1 2019), and in March 2021, the Bank achieved an all-time monthly record with EUR 557 million of mortgages in a single month. This trend was also seen at TSB, achieving a new mortgage lending record during Q1 2021.

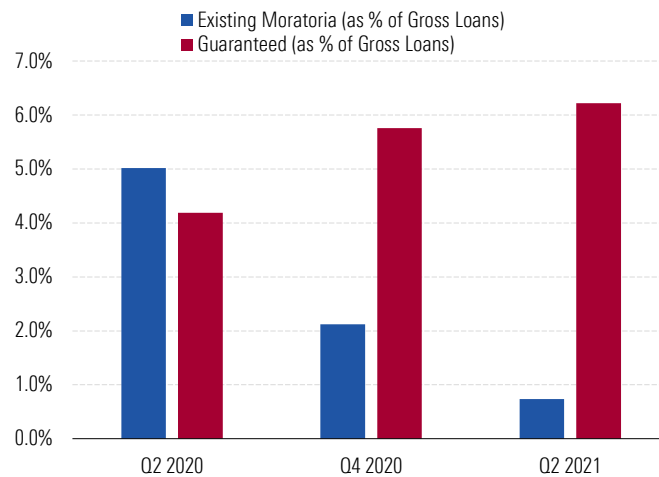
Risk Profile

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 some other A (low) peers.

Exhibit 5 Sabadell Unlikely to Pay Evolution (vs. Total NPLs)

Source: DBRS Morningstar, Company Documents

Exhibit 6 Moratoria & State Guaranteed Loan Evolution

Source: DBRS Morningstar, Company Documents

The Bank's relatively high exposure to SMEs (21% of its consolidated lending book at end-June 2021) mean the Bank is more vulnerable to deterioration given that SMEs are likely to be severely affected in this environment. As of end-June 2021, loans to non-financial companies represented around 40% of the total lending book.

Credit Risk

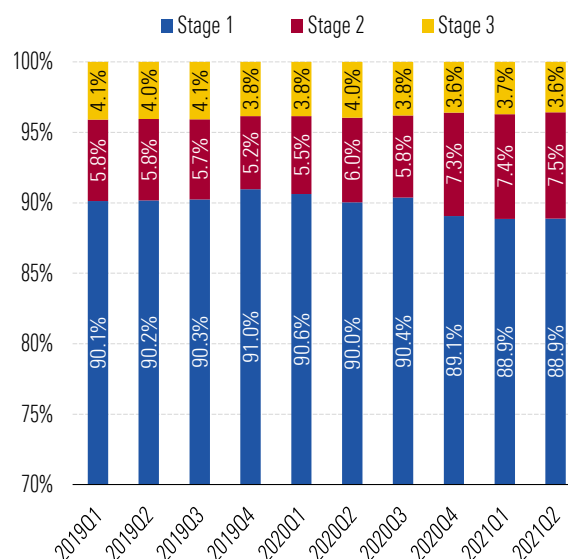
Sabadell's risk profile has materially improved in recent years. At end-June 2021, Sabadell's NPLs (as calculated by DBRS Morningstar using Stage 3 exposures excluding contingent exposures) stood at EUR 5.5 billion translating into a NPL ratio of 3.5%, stable from end-2020 (Exhibit 7). The Bank's NPL ratio is below the Spanish system average of 4.3% at end-June 2021. However, DBRS Morningstar takes into account a broader definition for NPLs (as per EBA) and when including contingent exposures they represent a higher amount at EUR 6.7 billion at end-2020.

Sabadell has recently reduced NPAs, assisted by organic reductions alongside continued sales of foreclosed assets (FAs). DBRS Morningstar considers the evolution of Stage 2 loans (exposures whose credit risk has significantly increased) as a key indicator to assess whether banks are quickly identifying credit risk. Sabadell increased the portion of Stage 2 loans significantly in the last quarter of 2020 (Exhibit 8) and at end-June 2021 these exposures represented around 7.5% of its portfolio compared to 5.2% at end-2019. Despite this increase, Sabadell, in line with most Spanish banks, has experienced a limited increase in Stage 2 loans YoY compared to other countries.

In terms of NPL vintages, as of end-2020, 50% of the NPLs were unlikely to pay exposures, up from 34% at end-2019. Also notable, old NPL vintages have reduced materially. NPLs with over 5 years vintage represented around 11% of total NPLs at end-2020 compared to 25% at end-2019, down around EUR 890 million. This improvement was driven by an institutional sale of NPAs of around EUR 1.1 billion, which led to extraordinary loan loss provisions of EUR 380 million in 2020.

Exhibit 7 NPA and NPL Ratio

Source: DBRS Morningstar, Company Reports..

Exhibit 8 Credit Exposures by Stage Category

Source: DBRS Morningstar, Company Reports..

State Guaranteed Loans and Loan Moratorium

Due to the COVID-19 outbreak and lockdowns, during 2020 the Spanish government approved a scheme of guarantees of up to EUR 100 billion for SMEs and Corporates loans. For SMEs, this instrument covers up to 80% of the credit losses at the participating Spanish banks. Sabadell's loans including state guarantees amounted to EUR 9.8 billion representing 6.2% of the Bank's total gross loans at end-June 2021. Out of this amount, the majority of these guarantees relate to Spanish government guarantees.

Sabadell has granted loan moratoria in Spain and in UK and this tool has been used mainly for individuals. As of end-June 2021, the Bank had granted payment holiday applications amounting to EUR 9.4 billion, or 6% of its total gross loans, the majority granted in the UK. At end-June 2021, EUR 1.2 billion of payment holidays breaks were still active, with the vast majority (80%) expiring before end-2021.

Sovereign Debt Exposure and Interest Rate Risk

At end-June 2021, Sabadell's sovereign debt portfolio totalled EUR 24.8 billion, 65% of which related to Spain, 12% UK, 11% Italy, with the balance being mainly Portuguese and US bonds. Sabadell's exposure to sovereign debt at end-June 2021 represented 2.5x the Group's CET1, in line with most similarly rated domestic peers. The Group had EUR 10.6 billion of public sector loans at end-June 2021 (EBA definition). 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.

Funding and Liquidity

Grid Grade: Good

DBRS Morningstar considers Sabadell's liquidity and funding to be well placed to face this challenging environment. In particular the bank has been improving its funding and liquidity position with recent debt issuances. The Bank has a sound funding profile with solid Liquidity Coverage Ratio (LCR, Exhibit 9) and Net Loan to Deposit ratios. Access to wholesale markets for funding is frequent.

Sabadell's main source of funding is retail deposits, largely underpinned by its domestic franchise. At end-June 2021, customer deposits accounted for around 69% of total funding (Exhibit 10). Sabadell's customer deposits grew by 7% YoY in Q2 2021, up around EUR 10 billion. Funds from Central Banks totalled EUR 34.8 billion at end-June 2021, up 13% YoY. Of those, EUR 32 billion are ECB funding. The Group's debt securities accounted for 10% of funding as of June-2021. Wholesale funding is well diversified by instrument and maturity. Long-term debt instruments mostly include covered bonds instruments (around 50% of total wholesale debt), senior preferred debt (28%) and subordinated debt (16%).

The Group had EUR 52 billion of High Quality Liquid Assets (HQLA) at end-June 2021, up around 6% YoY. Sabadell's refinancing risk is manageable with wholesale funding maturities totalling EUR 20 billion at end-June 2021, of which EUR 1.5 billion matures in the remaining part of 2021. Recent issuances since early 2021 include EUR 500 million of Tier 2, EUR 500 million of AT1 instruments, EUR 500 million of Senior Non Preferred Debt, as well as new funding through Covered Bonds.

In 2020, Sabadell announced an MREL requirement of 23.80% of Risk Weighted Assets (RWAs) with a subordination requirement of 17.20% of RWAs to be met from 1 January 2022. Sabadell is currently meeting its MREL requirement as the Bank reported at end-June 2021 a pro-forma MREL ratio of 25.01% as a percentage of RWAs and a pro-forma Subordination ratio of around 19.27% as a percentage of RWAs.

Exhibit 9 LCR

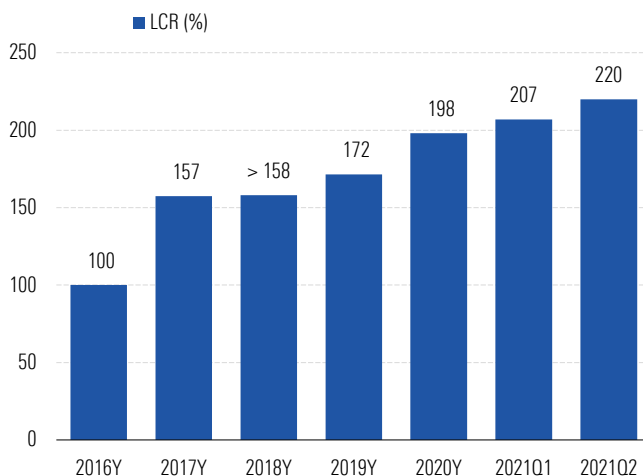
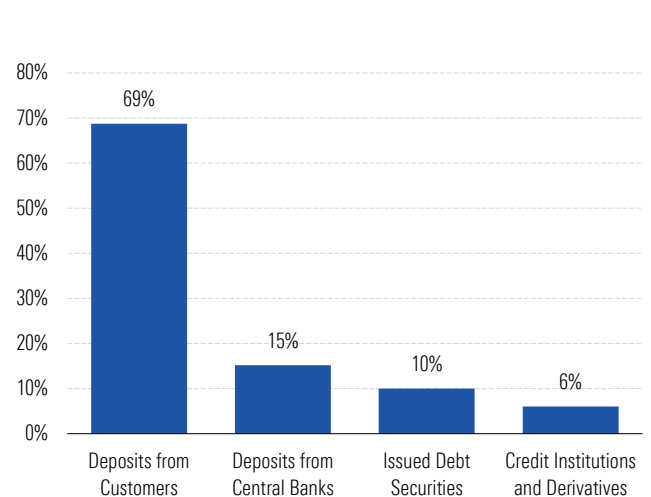


Exhibit 10 Funding mix as of June-2021



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 12.0% at end-June 2021 up 8bps YoY and the Total Capital (fully loaded) was 16.60% at end-June 2021 up 89bps YoY. The improvement in capital ratios was driven by lower deductions, and higher levels of AT1 and Tier 2 following early 2021 issuances.

Sabadell is required by the European authorities to meet, for 2021, a minimum Overall Capital Requirement (OCR) for the CET1 ratio of 8.52% according to the Supervisory Review and Evaluation Process (SREP), which includes the minimum Pillar 1 requirement (4.50%), the Pillar 2 requirement (1.27%) and the capital buffers (2.75%). The minimum OCR for total capital according to the SREP, which includes the Pillar 1 and Pillar 2 Requirements to be filled with AT1 and Tier 2 buckets, was set at 13.00%. As a result, the Group has a sound cushion over the minimum capital requirements. The phased-in CET1 (phased-in) ratio was 12.31% and the total capital ratio was 16.87% at end-June 2021 (Exhibit 10). The Bank is accruing a cash dividend pay-out of 30% on its capital ratios for 2021. Lastly, the Bank reported a satisfactory Leverage ratio of 5.4% at end-June 2021.

Exhibit 10 Requirements and reported ratios (phased-in) (%)–June-2021

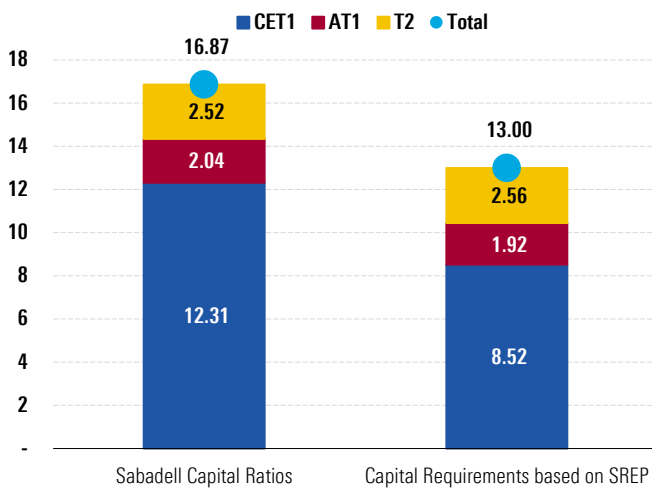
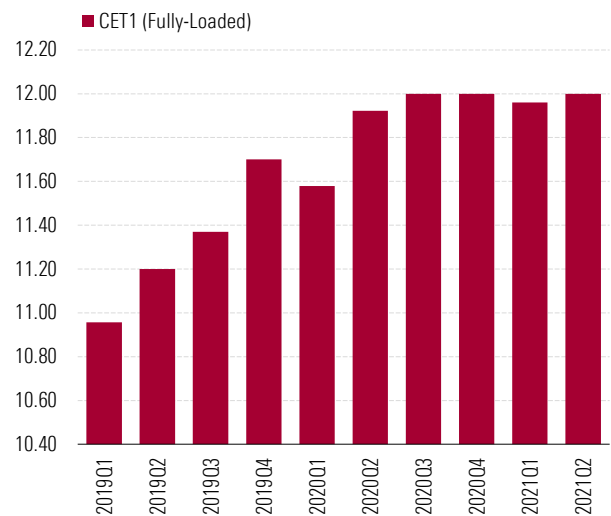


Exhibit 11 Sabadell’s CET1 ratios (%)



Source: DBRS Morningstar , Company Reports..

Banco de Sabadell, S.A.

ESG Checklist

ESG Factor	ESG Credit Consideration Applicable to the Credit Analysis: Y/N	Extent of the Effect on the ESG Factor on the Credit Analysis: Relevant (R) or Significant (S)*		
Environmental		Overall:	N	N
Emissions, Effluents, and Waste	Do we consider the costs or risks result, or could result in changes to an issuer's financial, operational, and/or reputational standing?	N	N	N
Carbon and GHG Costs	Does the issuer face increased regulatory pressure relating to the carbon impact of its or its clients' operations resulting in additional costs?	N	N	N
Climate and Weather Risks	Will climate change and adverse weather events potentially disrupt issuer or client operations, causing a negative financial impact?	N	N	N
Social		Overall:	Y	S
Social Impact of Products and Services	Do we consider that the social impact of the issuer's products and services could pose a financial or regulatory risk to the issuer?	N	N	N
Human Capital and Human Rights	Is the issuer exposed to staffing risks, such as the scarcity of skilled labour, uncompetitive wages, or frequent labour relations conflicts that could result in a material financial or	N	N	N
	Do violations of rights create a potential liability that could negatively affect the issuer's financial wellbeing or reputation?	N	N	N
Human Capital and Human Rights:		N	N	N
Product Governance	Does failure in delivering quality products and services cause damage to customers and expose the issuer to financial and legal liability?	Y	R	R
Data Privacy and Security	Has misuse or negligence in maintaining private client or stakeholder data resulted, or could result, in financial penalties or client attrition to the issuer?	Y	S	S
Community Relations	Does engagement, or lack of engagement, with local communities pose a financial or reputational risk to the issuer?	N	N	N
Access to Basic Services	Does a failure to provide or protect with respect to essential products or services have the potential to result in any significant negative financial impact on the issuer?	N	N	N
Governance		Overall:	Y	R
Bribery, Corruption, and Political Risks	Do alleged or actual illicit payments pose a financial or reputational risk to the issuer?	N	N	N
	Are there any political risks that could impact the issuer's financial position or its reputation?	N	N	N
Bribery, Corruption, and Political Risks:		N	N	N
Business Ethics	Do general professional ethics pose a financial or reputational risk to the issuer?	Y	R	R
Corporate / Transaction Governance	Does the issuer's corporate structure limit appropriate board and audit independence?	N	N	N
	Have there been significant governance failures that could negatively affect the issuer's financial wellbeing or reputation?	Y	R	R
Corporate / Transaction Governance:		Y	R	R
Consolidated ESG Criteria Output:		Y	S	S

* A **Relevant Effect** means that the impact of the applicable ESG risk factor has not changed the rating or rating trend on the issuer.

A **Significant Effect** means that the impact of the applicable ESG risk factor has changed the rating or trend on the issuer.

ESG Considerations

Environmental

The Environmental factor does not affect the ratings or trend assigned to Sabadell. From a sustainability perspective, the bank has a model in which it aims to minimize the company's carbon footprint, by reducing CO2 generation as well as measures to offset CO2 emissions, as in 2020 it achieved a 9.9% reduction of CO2 emissions relative to 2019.

In November 2020, Banco Sabadell joined the Task Force on Climate-related Financial Disclosures (TCFD) and it is implementing a work plan to align with these disclosure standards and supervisory expectations. Key risk metrics including Carbon Related Assets are planned for 2021. The Bank approved its Sustainable Development Goals (SDG) Framework in July 2020 to issue and direct proceeds to green activities. As of end-August 2021, the bank has issued around EUR 1120 million of green bonds for an eligible sustainable assets portfolio of around EUR 9.5 billion, including EUR 3.1 billion of renewable energy portfolio (as of end December-2020).

Social

DBRS Morningstar considers that the Data Privacy & Security ESG subfactor is significant to the bank's credit rating. 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. In addition, the Product Governance subfactor under the Social ESG factor is relevant to Sabadell's ratings. This results from several litigation cases related to different products, including the Spanish IRPH index mortgage case and the mortgage interest rate floor clauses. The Bank approved its SDG Framework in July 2020 to issue and direct proceeds to social activities. Sabadell has not yet issued social bonds under the aforementioned SDG framework.

Governance

Some of the sub-factors within the Governance factor are relevant to the ratings of Sabadell, but do not impact the assigned rating or trend. The sub-factors of Business Ethics and Corporate/Transaction Governance are a point of concern as a result of the aforementioned IRPH as well as the other litigation cases. Despite this, DBRS Morningstar do not anticipate a financial or reputational impact on the issuer such that the assigned ratings or trends will be affected.

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EUR Millions	2021H1	2020Y	2019Y	2018Y	2017Y
	30/06/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Balance Sheet					
Cash and Deposits with Central Banks	46,910	35,185	15,169	23,494	26,363
Lending to/Deposits with Credit Institutions	3,533	7,214	14,388	8,297	5,379
Financial Securities	26,611	25,196	27,792	26,845	25,099
Financial Derivatives Instruments	2,432	3,373	2,558	2,079	1,863
Net Lending to Customers	154,860	149,183	147,816	142,987	143,598
- Gross Lending to Customers	158,038	152,265	150,749	146,420	147,325
- Loan Loss Reserves	3,177	3,081	2,933	3,433	3,727
Investment in Associates or Subsidiaries	588	780	734	575	576
Total Intangible Assets	2,568	2,596	2,565	2,461	2,246
Fixed Assets	2,909	3,200	3,462	2,498	3,827
Insurance Assets	NA	NA	NA	NA	NA
Other Assets (including DTAs)	9,710	9,036	9,268	13,086	12,399
Assets	250,120	235,763	223,754	222,322	221,348
Deposits from Banks	47,493	41,965	31,536	40,799	42,018
- Deposits from Central Banks	34,819	31,881	20,065	28,799	27,848
- Deposits from Credit Institutions	12,674	10,083	11,471	12,000	14,171
Deposits from Customers	157,788	151,257	146,411	136,546	130,558
Issued Debt Securities	NA	18,585	20,663	19,612	21,306
Issued Subordinated Debt	3,446	2,873	3,010	2,986	2,482
Financial Derivatives Instruments	2,420	3,592	2,806	2,360	2,361
Insurance Liabilities	-	-	-	-	-
Other Liabilities	26,301	4,999	6,353	7,902	9,402
Equity Attributable to Parent	12,597	12,420	12,905	12,053	13,161
Minority Interests	76	72	69	64	61
Liabilities & Equity	250,120	235,763	223,754	222,322	221,348

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EUR Millions	2021H1	2020Y	2019Y	2018Y	2017Y
	30/06/2021	31/12/2020	31/12/2019	31/12/2018	31/12/2017
Income Statement					
Interest Income	2,049	4,324	4,985	4,862	4,840
Interest Expenses	364	925	1,362	1,187	1,037
Net Interest Income	1,685	3,399	3,622	3,675	3,802
Net Fees and Commissions	709	1,350	1,439	1,335	1,223
Results from Financial Operations	28	201	126	225	623
Equity Method Results	55	36	56	57	309
Net Income from Insurance Operations	-	-	-	-	(19)
Other Operating Income	(70)	(275)	(304)	(211)	(373)
Total Operating Income	2,408	4,711	4,940	5,082	5,565
Staff Costs	754	1,885	1,590	1,530	1,547
Other Operating Costs	546	926	1,077	1,260	1,131
Depreciation/Amortisation	261	523	469	353	402
Total Operating Expenses	1,561	3,334	3,135	3,143	3,080
Income Before Provisions and Taxes (IBP)	846	1,377	1,805	1,939	2,485
Loan Loss Provisions	505	1,745	671	757	1,157
Securities & Other Financial Assets Impairments	(1)	(0)	(4)	(1)	54
Other Impairments	39	269	249	473	1,013
Other Non-Operating Income (Net)	(6)	516	62	(292)	587
Income Before Taxes (IBT)	298	(121)	951	419	848
Tax on Profit	70	(124)	174	84	43
Discontinued Operations	-	-	-	-	-
Other After-tax Items	-	-	-	-	-
Minority Interest	7	1	9	7	4
Net Attributable Income	220	2	768	328	801

	Banco de Sabadell, S.A.	Banco de Sabadell, S.A.	Banco de Sabadell, S.A.	Banco de Sabadell, S.A.	Banco de Sabadell, S.A.
	2021H1	2020Y	2019Y	2018Y	2017Y
Earnings Power					
Earnings					
Net Interest Margin (%)	1.48	1.58	1.77	1.84	1.98
Yield on Average Earning Assets (%)	1.80	2.01	2.43	2.44	2.51
Cost of Interest Bearing Liabilities (%)	0.32	0.43	0.65	0.58	0.52
IBPT over Avg Assets (%)	0.70	0.61	0.81	0.89	1.16
IBPT over Avg RWAs (%)	2.11	1.74	2.19	2.43	2.98
Expenses					
Cost / Income ratio (%)	64.84	70.77	63.47	61.84	55.35
Operating Expenses by Employee	148,011	142,117	128,208	120,035	119,163
LLP / IBPT (%)	59.61	126.72	37.17	39.04	46.56
Profitability Returns					
Return on Avg Equity (ROAE) (%)	3.52	0.02	6.08	2.65	6.15
Return on Avg Assets (ROAA) (%)	0.19	0.00	0.35	0.15	0.38
Return on Avg RWAs (%)	0.57	0.00	0.94	0.42	0.97
Dividend Payout Ratio (%)	0.00	5,572.83	21.96	118.16	34.80
Internal Capital Generation (%)	3.89	-0.93	5.46	-0.49	4.01
Risk Profile					
Gross NPLs over Gross Loans (%)	3.49	3.49	3.93	4.42	5.34
Net NPLs over Net Loans (%)	1.51	1.50	2.02	2.13	2.88
NPL Coverage Ratio (%)	57.60	57.92	49.53	53.05	47.37
Net NPLs over IBPT (%)	138.15	162.54	165.64	156.68	166.62
Net NPLs over CET1 (%)	23.46	22.64	29.58	31.56	39.76
Texas Ratio (%)	34.80	34.16	37.23	41.62	46.42
Cost of Risk (%)	0.68	1.18	0.47	0.53	0.80
Level 2 Assets/ Total Assets (%)	0.97	1.34	1.17	1.14	1.04
Level 3 Assets/ Total Assets (%)	0.09	0.07	0.10	0.06	0.08
Funding and Liquidity					
Bank Deposits over Funding (%)	NA	19.45	15.95	21.28	23.12
- Interbank over Funding (%)	NA	4.68	6.10	7.14	9.35
- Central Bank over Funding (%)	NA	14.77	9.85	14.14	13.77
Customer Deposits over Funding (%)	NA	70.08	71.87	67.06	64.55
Wholesale Funding over Funding (%)	NA	10.47	12.19	11.66	12.33
- Debt Securities over Funding (%)	NA	8.61	10.14	9.63	10.53
- Subordinated Debt over Funding (%)	NA	1.86	2.04	2.03	1.80
Liquid Assets over Assets (%)	30.81	28.67	25.63	26.37	25.68
Non-Deposit Funding Ratio (%)	33.55	32.25	30.54	35.04	37.27
Net Loan to Deposit Ratio (%)	98.14	98.63	100.96	104.72	109.99
LCR (Phased-in) (%)	220.00	197.95	171.52	158.08	157.49
NSFR (%)	136.00	127.00	NA	NA	NA
Capitalisation					
CET1 Ratio (Phased-In) (%)	12.31	12.55	12.45	11.99	13.44
CET1 Ratio (Fully-Loaded) (%)	12.00	12.02	11.71	11.10	12.79
Tier 1 Capital Ratio (Phased-In) (%)	14.35	14.02	13.87	13.42	14.34
Total Capital Ratio (Phased-In) (%)	16.87	16.13	15.71	14.73	16.07
Tang. Equity / Tang. Assets (%)	4.08	4.24	4.71	4.39	5.01
Leverage Ratio (DBRS) (%)	4.07	4.31	4.63	4.43	4.81
Growth					
Net Attributable Income YoY (%)	NA	-99.7	134.0	-59.1	12.8
Net Fees and Commissions YoY (%)	4.8	-6.1	7.7	9.1	6.5
Total Operating Expenses YoY (%)	-5.7	6.3	-0.2	2.0	3.7
IBPT YoY (%)	22.7	-23.7	-6.9	-22.0	6.0
Assets YoY (%)	6.1	5.4	0.6	0.4	4.2
Gross Lending to Customers YoY (%)	3.8	1.0	3.0	-0.6	-1.8
Net Lending to Customers YoY (%)	7.6	0.9	3.4	-0.4	-1.1
Loan Loss Provisions YoY (%)	-41.5	160.2	-11.4	-34.6	162.1
Deposits from Customers YoY (%)	9.2	2.7	6.0	2.8	0.7

Rating Methodology

The applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (8 June 2020), and DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (February 3, 2021), 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)	Confirmed	Negative
Banco de Sabadell, S.A.	Long-Term Senior Debt	A (low)	Confirmed	Negative
Banco de Sabadell, S.A.	Long-Term Deposits	A (low)	Confirmed	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)	Confirmed	Negative
Banco de Sabadell, S.A.	Subordinated Debt	BBB	Confirmed	Negative
Banco de Sabadell, S.A.	Long Term Critical Obligations Rating	A (high)	Confirmed	Negative
Banco de Sabadell, S.A.	Short Term Critical Obligations Rating	R-1 (middle)	Confirmed	Negative
Banco de Sabadell, S.A.	Bono Estructurado Tesoreria Julio II - ES0213860077	A (low)	Confirmed	Negative
Banco de Sabadell, S.A.	Senior Long-Term Notes - EUR 10 billion EMTN Programme	A (low)	Confirmed	Negative
Banco de Sabadell, S.A.	Subordinated Tier 2 Notes - EUR 10 billion EMTN Programme	BBB	Confirmed	Negative
Banco de Sabadell, S.A.	TSD 1 Abril 2007 Simples (B. Guipuzcoano) - ES0213580048	A (low)	Confirmed	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	2020	2019	2018	2017	2016
Banco de Sabadell, S.A.	Long-Term Issuer Rating	A (low)	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)	R-1 (low)	-
Banco de Sabadell, S.A.	Long-Term Senior Debt	A (low)	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)	R-1 (low)
Banco de Sabadell, S.A.	Long-Term Deposits	A (low)	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)	R-1 (low)	-
Banco de Sabadell, S.A.	Senior Non-Preferred Debt	BBB (high)	BBB (high)	BBB (high)	-	-	-
Banco de Sabadell, S.A.	Subordinated Debt	BBB	BBB	BBB	-	-	-
Banco de Sabadell, S.A.	Long Term Critical Obligations Rating	A (high)	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 (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)	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)	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	BBB (low)	BBB (low)	BBB (low)
Banco de Sabadell, S.A.	TSD 1 Abril 2007 Simples (B. Guipuzcoano) - ES0213580048	A (low)	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)	R-1 (low)

Previous Action

- [DBRS Morningstar Confirms Banco de Sabadell's Long-Term Issuer Rating at A \(low\), Trend Remains Negative, May 20, 2021](#)
- [DBRS Morningstar Confirms Banco de Sabadell at A \(low\), Trend Remains Negative, June 2, 2020](#)
- [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](#)

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- [European Banks Report Significantly Lower Cost of Risk in H1 2021 Supported by Loan Loss Releases, September 15, 2021](#)
- [European Banks' Q1 Cost of Risk Almost Back To Pre-Pandemic Levels, But Unlikely to be Sustained, May 27, 2021](#)
- [ESG Factors for Financial Institutions, Part One: Environmental Factors, April 27, 2021](#)
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- [Spanish Banks: FY20 Earnings Significantly Down, but Credit Risk Still to Fully Materialise, February 18, 2021](#)
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- [Spanish Banks: COVID-19 Impact Temporarily Eases in Q3 2020, but Future Remains Challenging](#), November 3, 2020
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- [Spanish Banks: COVID-19 Crisis Starts to Impact H1 2020 Asset Quality; Earnings Under Pressure](#), August 4, 2020
- [Higher Cost of Risk at European Banks in Q1: Trend to Continue](#), June 8, 2020
- [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

Previous Report

- [Banco de Sabadell, S.A.: Rating Report](#), June 30, 2020
- [Banco de Sabadell S.A.: Rating Report](#), June 25, 2019
- [Banco de Sabadell S.A.: Rating Report](#), September 27, 2018

European Bank Ratios & Definitions

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

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