

DBRS Morningstar Confirms Sabadell's LT Issuer Rating at A (low), LT Trends Revised to Stable from Negative

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Banco de Sabadell, S.A. (Sabadell or the Bank), including the Long-Term Issuer Rating of A (low) and the Short-Term Issuer Rating of R-1 (low). The trend on the long-term ratings has been revised to Stable from Negative, and the trend on the Bank's short-term ratings remains Stable. DBRS Morningstar has also maintained the Intrinsic Assessment (IA) of the Bank at A (low) and the Support Assessment at SA3. See a full list of ratings at the end of this press release.

KEY RATING CONSIDERATIONS

The change of the trend to Stable from Negative reflects DBRS Morningstar's view that the impact of COVID-19 on the Bank has been less than anticipated in both Spain and the United Kingdom (UK), Sabadell's key operating markets. Asset quality deterioration has been contained, although asset quality risks do remain, following the full removal of Government support measures. In addition, new risks have materialised following the Russian invasion of Ukraine. DBRS Morningstar does not expect the current conflict to have any immediate impact for Sabadell given the Bank does not have material exposures to Russia and Ukraine. Nevertheless, the indirect macroeconomic implications are likely to negatively affect the operating environment of Sabadell. The rating action also considers the progress the Bank is making in successfully executing its May 2021 strategic plan, and some of its financial goals have been achieved earlier than expected. As a result, the Bank's profitability levels have recovered quickly and are now back to pre-COVID levels.

The confirmation of Sabadell's ratings reflect the resiliency of the Group's franchises in Spain and UK, which despite some recent challenges, continue to provide the Group with a sound funding and liquidity position. The rating action also considers the Group's satisfactory capitalisation with capital ratios increasing in recent quarters.

RATING DRIVERS

An upgrade of the Bank's ratings is unlikely in the short- to medium-term. However, an upgrade would occur if the Bank further strengthens its profitability and capital ratios while maintaining its solid asset quality profile.

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

RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Good/Moderate

Sabadell's ratings are underpinned by its strong commercial banking franchise in Spain where it has a focus on SMEs, corporates

and affluent individuals. The Group also operates in the UK through TSB, which, at end-March 2022, represented around 21% of the Group's total assets. During the first months of 2021 the Bank changed its top management including the appointment of a new CEO and a new CFO and presented a new strategic plan.

Earnings Combined Building Block (BB) Assessment: Moderate/Week

Sabadell's profitability was significantly affected in 2020 due to COVID-19, as the Bank had to record significant Loan Loss Provisions (LLPs) and one-off restructuring charges. However, in 2021 and 1Q 2022, the Bank's earnings have recovered back to pre-COVID levels, recording in the first quarter of 2022 a RoE of around 6.5%. This meant the Bank achieved its profitability goal set in its strategic plan earlier than initially expected. Sabadell's Q1 2022 core income grew YoY, with both NII and fees increasing. The annual growth in NII was largely attributable to solid performance in TSB, as a result of strong mortgage lending volume growth. Loan loss provisions have continued to trend lower, and were down 38% YoY. The Cost of Risk (as reported by the Bank) in Q1 2022 stood at 41bps compared to 49 bps in 2021. DBRS Morningstar expects that in coming quarters the Bank will benefit from higher NII due to the impact of higher interest rates.

Risk Combined Building Block (BB) Assessment: Good/Moderate

Despite the COVID-19 outbreak, Sabadell's asset quality profile has remained sound. The NPA ratio improved to 4.3% at end-March 2022 from 4.9% at end-March 2020. The improvement in the NPA ratio was largely driven by a modest impact from COVID-19 and an institutional sale of around EUR 1.1 billion of NPAs during 2020. However, DBRS Morningstar expects a moderate asset quality deterioration when government support measures end in the coming months. Nevertheless, as of end-March 2022, all of Sabadell's loans under moratoria had expired and the performance of the loans under moratoria has been better than expected (with around 16% of them already amortised). Under the state guarantee schemes Sabadell has originated EUR 8.5 billion of new lending, representing around 6% of the Bank's total gross loans. However, given the guarantees provided by the Kingdom of Spain (which covers up to 80% of the credit losses), DBRS Morningstar does not expect any deterioration of this portfolio to have a major impact on Sabadell's asset quality profile. Sabadell also has a relatively high exposure to SMEs (21% on a consolidated basis at end-2021), which could also be negatively impacted by the effects of the deteriorating macroeconomic environment.

Funding and Liquidity Combined Building Block (BB) Assessment: Good

DBRS Morningstar views Sabadell's liquidity and funding position as solid. Sabadell's customer deposits grew by 4% YoY in Q1 2022, and the Liquidity Coverage Ratio (LCR) stood at 235% at end-Q1 2022 with a Loan-to Deposit ratio of 98.7% (as calculated by DBRS Morningstar) at the same period.

Capitalisation Combined Building Block (BB) Assessment: Good/Moderate

DBRS Morningstar considers Sabadell's capital position as satisfactory. The Bank maintains sound cushions over regulatory minimum requirements. At end-March 2022 the fully loaded common equity tier 1 (CET1) ratio was 12.45%, up 49bps YoY, and the fully loaded Total Capital ratio was 16.99%, up 44bps YoY. The improvement in the capital ratios was driven by lower RWAs and retained earnings. Sabadell is required by the European authorities to meet for 2022 a minimum CET1 ratio of 8.46% according to the Supervisory Review and Evaluation Process (SREP). The phased-in CET1 ratio was 12.59% leaving the Bank with a capital cushion over 413 bps above regulatory requirements at end-March 2022, up by more than 47bps YoY.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/396987>

ESG CONSIDERATIONS

DBRS Morningstar views that the Data Privacy & Security ESG subfactor was relevant to the credit rating. This is included in the Social category. In 2021 we considered this subfactor as significant for the 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. As a result, these risks are incorporated in the Bank's Franchise grid grades.

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/396929>

Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (19 July 2021) <https://www.dbrsmorningstar.com/research/381742/global-methodology-for-rating-banks-and-banking-organisations> Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (17 May 2022) <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>

The sources of information used for this rating include Morningstar Inc. and Company Documents, Sabadell - Annual Reports (2015-2021), Sabadell - Quarterly Reports (2015-2021), Sabadell - Presentations (2015-2021), European Banking Authority (EBA) Transparency Exercise 2021, and Bank of Spain Statistical Bulletin. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar's outlooks and ratings are under regular surveillance.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/396986>

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

Lead Analyst: Pablo Manzano, CFA, Vice President - Global FIG

Rating Committee Chair: Ross Abercromby, Managing Director, Global FIG

Initial Rating Date: November 19, 2012

Last Rating Date: May 20, 2021

DBRS Ratings GmbH, Sucursal en España

Paseo de la Castellana 81

Plantas 26 & 27

28046 Madrid, Spain

Tel. +34 (91) 903 6500

DBRS Ratings GmbH

Neue Mainzer Straße 75

60311 Frankfurt am Main Deutschland

Tel. +49 (69) 8088 3500

Geschäftsführer: Detlef Scholz

Amtsgericht Frankfurt am Main, HRB 110259

For more information on this credit or on this industry, visit www.dbrsmorningstar.com.

Ratings

Banco de Sabadell, S.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
18-May-22	Long-Term Issuer Rating	Trend Change	A (low)	Stb	EU U
18-May-22	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	EU U
18-May-22	Long-Term Deposits	Trend Change	A (low)	Stb	EU U
18-May-22	Long-Term Senior Debt	Trend Change	A (low)	Stb	EU U
18-May-22	Senior Non-Preferred Debt	Trend Change	BBB (high)	Stb	EU U
18-May-22	Short-Term Debt	Confirmed	R-1 (low)	Stb	EU U
18-May-22	Short-Term Deposits	Confirmed	R-1 (low)	Stb	EU U
18-May-22	Long Term Critical Obligations Rating	Trend Change	A (high)	Stb	EU U
18-May-22	Short Term Critical Obligations Rating	Trend Change	R-1 (middle)	Stb	EU U

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
18-May-22	Subordinated Debt	Trend Change	BBB	Stb	EU U
18-May-22	Bono Estructurado Tesoreria Julio II - ES0213860077	Trend Change	A (low)	Stb	EU U
18-May-22	Commercial Paper Programme (EUR 7 billion and expandable to EUR 9 billion)	Confirmed	R-1 (low)	Stb	EU U
18-May-22	Senior Long-Term Notes - EUR 15 billion EMTN Programme	Trend Change	A (low)	Stb	EU U
18-May-22	Subordinated Tier 2 Notes - EUR 15 billion EMTN Programme	Trend Change	BBB	Stb	EU U
18-May-22	TSD 1 Abril 2007 Simples (B. Guipuzcoano) - ES0213580048	Disc. - Repaid	Discontinued	--	EU

ALL DBRS RATINGS ARE SUBJECT TO DISCLAIMERS AND CERTAIN LIMITATIONS. PLEASE READ THESE [DISCLAIMERS AND LIMITATIONS](#). ADDITIONAL INFORMATION REGARDING DBRS RATINGS, INCLUDING DEFINITIONS, POLICIES AND METHODOLOGIES, ARE AVAILABLE ON WWW.DBRSMorningStar.com.

Contacts

Pablo Manzano, CFA

Vice President - Global FIG

+34 91903 6502

pablo.manzano@dbrsmorningstar.com

Ross Abercromby

Managing Director - Global FIG

+44 20 7855 6657

ross.abercromby@dbrsmorningstar.com

The DBRS Morningstar group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings GmbH (Frankfurt, Germany)(EU CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings Limited (England and Wales)(UK CRA, NRSRO affiliate, DRO affiliate). For more information on regulatory registrations, recognitions and approvals of the DBRS Morningstar group of companies, please see: <https://www.dbrsmorningstar.com/research/highlights.pdf>.

The DBRS Morningstar group of companies are wholly-owned subsidiaries of Morningstar, Inc. © 2022 DBRS Morningstar. All Rights Reserved.

The information upon which DBRS Morningstar credit ratings and other types of credit opinions and reports are based is obtained by DBRS Morningstar from sources DBRS Morningstar believes to be reliable. DBRS Morningstar does not audit the information it receives in connection with the analytical process, and it does not and cannot independently verify that information in every instance. The extent of any factual investigation or independent verification depends on facts and circumstances. DBRS Morningstar credit ratings, other types of credit opinions, reports and any other information provided by DBRS Morningstar are provided "as is" and without representation or warranty of any kind and DBRS Morningstar assumes no obligation to update any such ratings, opinions, reports or other information. DBRS Morningstar hereby disclaims any representation or warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, fitness for any particular purpose or non-infringement of any of such information. In no event shall DBRS Morningstar or its directors, officers, employees, independent contractors, agents, affiliates and representatives (collectively, DBRS Morningstar Representatives) be liable (1) for any inaccuracy, delay, loss of data, interruption in service, error or omission or for any damages resulting therefrom, or (2) for any direct, indirect, incidental, special, compensatory or consequential damages arising from any use of credit ratings, other types of credit opinions and reports or arising from any error (negligent or otherwise) or other circumstance or contingency within or outside the control of DBRS Morningstar or any DBRS Morningstar Representative, in connection with or related to obtaining, collecting, compiling, analyzing, interpreting, communicating, publishing or delivering any such information. IN ANY EVENT, TO THE EXTENT PERMITTED BY LAW, THE AGGREGATE LIABILITY OF DBRS MORNINGSTAR AND THE DBRS MORNINGSTAR REPRESENTATIVES FOR ANY REASON WHATSOEVER SHALL NOT EXCEED THE GREATER OF (A) THE TOTAL AMOUNT PAID BY THE USER FOR SERVICES PROVIDED BY DBRS MORNINGSTAR DURING THE TWELVE (12) MONTHS IMMEDIATELY PRECEDING THE EVENT GIVING RISE TO LIABILITY, AND (B) U.S. \$100. DBRS Morningstar does not act as a fiduciary or an investment advisor. DBRS Morningstar does not provide investment, financial or other advice.

Credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar (a) are, and must be construed solely as, statements of opinion and not statements of fact as to credit worthiness, investment, financial or other advice or recommendations to purchase, sell or hold any securities; (b) do not take into account your personal objectives, financial situations or needs; (c) should be weighed, if at all, solely as one factor in any investment or credit decision; (d) are not intended for use by retail investors; and (e) address only credit risk and do not address other investment risks, such as liquidity risk or market volatility risk. Accordingly, credit ratings, other types of credit opinions and other analysis and research issued by DBRS Morningstar are not a substitute for due care and the study and evaluation of each investment decision, security or credit that one may consider making, purchasing, holding, selling, or providing, as applicable.

A report with respect to a DBRS Morningstar credit rating or other credit opinion is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities.

DBRS Morningstar may receive compensation for its credit ratings and other credit opinions from, among others, issuers, insurers, guarantors and/or underwriters of debt securities.

This publication may not be reproduced, retransmitted or distributed in any form without the prior written consent of DBRS Morningstar. ALL DBRS MORNINGSTAR CREDIT RATINGS AND OTHER TYPES OF CREDIT OPINIONS ARE SUBJECT TO DEFINITIONS, LIMITATIONS, POLICIES AND METHODOLOGIES THAT ARE AVAILABLE ON <https://www.dbrsmorningstar.com>. Users may, through hypertext or other computer links, gain access to or from websites operated by persons other than DBRS Morningstar. Such hyperlinks or other computer links are provided for convenience only. DBRS Morningstar does not endorse the content, the operator or operations of third party websites. DBRS Morningstar is not responsible for the content or operation of such third party websites and DBRS Morningstar shall have no liability to you or any other person or entity for the use of third party websites.