

**Rated entity:**

Mortgage Covered Bond Program issued by Banco de Sabadell S.A.

**Rating:**

AAA

**Rating outlook / watch:**

Outlook stable

**Rating summary:**

This monitoring report covers our update of the mortgage covered bond program issued under Spanish law by Banco de Sabadell S.A. ("Banco de Sabadell"). Our rating of Banco de Sabadell is reflected by our issuer rating opinion of Banco de Sabadell S.A. (Group). CRA has upgraded the long-term rating of Banco de Sabadell to BBB from BBB- in a Rating Update dated 15 December 2022. The outlook was set stable. Banco de Sabadell's credit rating upgrade was primarily due to improved profitability in 2021 and in the first half of 2022, recovering from the Corona crisis. However, the bank was not able to achieve the pre-crisis earnings level from 2019 yet. In addition, the rating of Banco de Sabadell benefits from a stronger regulatory capitalization. Overall, all sub-scores of the quantitative analysis have improved compared to the previous year. While earnings ratios, in particular ROE and RORWA, and capital ratios strongly improved, asset write-down and RWA-ratio noticeably decreased. The issuer's NPL-ratio (stage 3 loans over net loans to customer) rose slightly from 3.6% to 3.65%, which is mainly due to methodology changes, as well as the repurchase of non-performing portfolios. Furthermore, the potential problem loan ratio (stage 2 loans over net loans to customers) increased moderately from 7.56% to 7.82% while the ratio of reserves over NPL stayed stable at 57.95%.

During our covered bonds monitoring, we did not come to any new findings with regard to the legal and regulatory framework, the liquidity and refinancing risk and the credit and portfolio risk. Therefore, we maintain a rating uplift of 4 notches for the legal and regulatory framework and a rating uplift of 1 notch for the liquidity and refinancing risk. Furthermore, the credit metrics from the last follow-up rating of 21 November 2022 are valid. The cover pool and cash flow analysis resulted in AAA, which ensured a secondary rating uplift of 3 notches.

Taking into consideration the updated issuer rating, our analysis of the regulatory framework, liquidity and refinancing risks, as well as our cover pool assessment and results of the cash flow analysis with credit metrics as of 21 November 2022, CRA upgrades the covered bond program to AAA from AA+. The outlook of the covered bond program was set as stable. The AAA rating represents the highest level of credit quality and the lowest investment risk.

Risk Factor	Result
Issuer rating	BBB (rating as of 15.12.2022)
+ Legal and regulatory framework	+4 notches
+ Liquidity and refinancing risk	+1 Notch
= Rating after 1 <sup>st</sup> uplift	AA-
Cover pool & cash flow analysis	AAA (credit metrics as of 21.11.2022)
+ 2 <sup>nd</sup> rating uplift	+3 notches
= Rating covered bond program	<b>AAA</b>

**Primary key rating driver:**

- + Covered Bonds are subject to strict Spanish legal framework
- + Covered bonds holders have full recourse to the issuer
- + Covered bonds are backed by appropriate cover asset class
- + Improved profitability of the issuer in 2021 and in the first half of 2022, but still below pre-Covid levels
- The issuer' NPL – and Stage 2 ratio has worsened with Stage 2 above pre-Covid level

**Rating sensitivities:**

Best-case scenario: In this scenario, the base case assumptions remained stable, resulting in a cover pool rating of AAA.

Worst-case scenario: In this scenario, we stressed (ceteris paribus) the default rate and recovery rate of the portfolio assets by an amount of 50% respectively, resulting in a cover pool rating of AAA. This would not affect the 2nd rating uplift, resulting in a rating of AAA for the covered bond program.

**ESG-criteria:**

CRA generally takes ESG-relevant factors (environmental, social and governance) into account when assessing Covered Bond ratings. Overall, ESG factors have a significant impact on the current rating of this Covered Bond program. CRA identifies governance factors, in particular, to have a highly significant impact on Covered Bond ratings. Since Covered Bonds are subject to strict legal requirements, regulatory risk plays an important role in assessing the credit rating.

The Spanish legal framework defines clear rules to mitigate risks including insolvency remoteness, investor's special claim vis-à-vis other creditors, among other provisions. Furthermore, it foresees clear asset eligibility criteria for the covered assets, liquidity buffers and LTV limits for mortgage assets. One important improvement addressed by the RDL was the implementation of a special cover pool monitor independent from the issuer. Additionally, risk management and internal controls as well as macroeconomic factors such as hedging strategies, interest rates and yield curve are considered to have a highly significant impact on the assessment of the credit rating. Other individual factors with a potential key rating influence were not identified, and therefore did not affect the final rating.

On the subject of ESG (environment, social and governance), Creditreform Rating AG has published the basic document ("The Impact of ESG Factors on Credit Ratings"), which is available on the homepage under the following link:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html>

**Rating Date / disclosure to rated entity / maximum validity:**

January 6, 2023 / January 6, 2023 / January 1, 2050

Between the disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

**Initial rating date / rating:**

January 28, 2019 / AA- - Outlook stable

**Lead-analyst – position / Person approving (PAC):**

Philip Michaelis (Lead) – Senior Analyst

Christian Konieczny (PAC) – Senior Analyst

**Name & address of legal entity:**

Creditreform Rating AG, Europadamm 2-6, 41460 Neuss, Germany

**Status of solicitation:**

The rating is an unsolicited rating. The degree of participation was as follows:

With Rated Entity or Related Third Party Participation: No

With Access to Internal Documents: No

With Access to Management: No

**Rating methodology / Version / Date of application / Link:**

[Rating Criteria and Definitions, Version 1.3, January 2018](#)

[Technical Documentation Portfolio Loss Distributions, Version 1.4, July 2018](#)

[Rating Methodology Covered Bonds, Version 1.1, April 2022](#)

Information on the meaning of a rating category, definition of default and sensitivity analysis of relevant key rating assumptions can be found at "Creditreform Rating AG, Rating Criteria and Definitions".

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html>

**Endorsement:**

Creditreform Rating did not endorse the rating according Article 4 (3), CRA-Regulation.

**Regulatory requirements:**

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

**Conflict of Interests**

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or approving credit ratings and rating outlooks. In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report of the issuer.

**Rules on the Presentation of Credit Ratings and Rating Outlooks**

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our policy "Rating Committee", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity. To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants
2. Transaction documents
3. Issuing documents
4. Other rating relevant documentation

There are no other attributes and limitations of the credit rating or rating outlook other than displayed on the CRA website. Furthermore, CRA considers the quality and extent of information available on the rated entity as satisfactory. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.