



## Fitch Downgrades Banco Sabadell to 'A-'; Outlook Negative Ratings

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Fitch Ratings-London/Barcelona-29 June 2011: Fitch Ratings has downgraded Banco de Sabadell's (Sabadell) Long-term Issuer Default Rating (IDR) to 'A-' from 'A' and Short-term IDR to 'F2' from 'F1'. The Outlook on the Long-term IDR is Negative.

At the same time, the agency has downgraded Banco Guipuzcoano's (Guipuzcoano) Individual Rating to 'C/D' from 'C' and has simultaneously withdrawn it due to the bank's reorganisation within the group and its increasing integration into Sabadell. This makes it difficult to analyse Guipuzcoano on a standalone basis. A full list of ratings is at the end of this comment.

The downgrade of Sabadell's Long-term IDR reflects its concentration in the Spanish real estate sector and the weak economic environment in Spain. The vast majority of Sabadell's activities are undertaken in Spain and thus its performance is highly correlated with that of the Spanish economy, which has uncertain growth prospects and has suffered from the collapse of the property sector. Like many Spanish banks, this is likely to continue affecting asset quality and profitability. The Negative Outlook reflects that Sabadell's IDRs could be downgraded if earnings are unable to absorb the ongoing need to provide for its real estate exposure while maintaining sound profitability.

The downgrade of Guipuzcoano's Individual Rating reflects the bank's weak profitability due to margin pressure and a relatively high cost base and its ongoing need to make loan and other impairment provisions due to its exposure to the Spanish construction and real estate sector either loans or through participations with real estate developers. Guipuzcoano's IDRs were aligned with those of Sabadell when it was acquired in November 2010 and reflect the support that Sabadell would make available to Guipuzcoano if required.

Despite acquisitions since the early 2000s, Sabadell's pre-impairment profitability has held-up relatively well, assisted by its niche small and medium-sized enterprise (SME) franchise, a healthy level of commission income and good cost control. However, the sharp deterioration in asset quality since 2008 led to large loan impairment and other charges, the latter mainly for foreclosed assets, affecting operating profitability and net income.

Exposure to the real estate sector totalled EUR10.8bn and repossessed properties totalled EUR3.1bn at end-Q111. Managing the real estate exposure will continue to be challenging due to a high level of land financing (4% of loans and 60% of foreclosed assets at end-2010).

Funding derived from Sabadell's retail network (deposits, retail distributed CP, preference shares and mandatory convertible bonds) has risen and funded 81% of lending at end-Q111. This was mainly the result of a sharp rise in customer deposits, which Fitch expects to be sustainable given the bank's franchise. Maturities from wholesale funding are diversified in time. Liquidity is supported by liquid assets (EUR11bn readily available at end-Q111) and selective access to wholesale markets, albeit at higher rates.

Sabadell is satisfactorily capitalised, with a Fitch core capital to weighted risks ratio of 7.5% at end-Q111. However, this must be placed in the context of real estate exposure.

The rating actions are as follows:

### Banco de Sabadell:

Long-term IDR: Downgraded to 'A-' from 'A'; Outlook Negative

Short-term IDR: Downgraded to 'F2' from 'F1'

Individual Rating: Affirmed at 'B/C'

Support Rating: Affirmed at '3'

Support Rating Floor: Affirmed at 'BB+'

Senior unsecured debt: Downgraded to 'A-' from 'A'

Commercial paper and short-term debt issuance: Downgraded to 'F2' from 'F1'

Subordinated debt: Downgraded to 'BBB+' from 'A-'

Preferred stock: Downgraded to 'BBB-' from 'BBB'

### Banco Guipuzcoano:

Long-term IDR: Downgraded to 'A-' from 'A'; Outlook Negative

Short-term IDR: Downgraded to 'F2' from 'F1'

Individual Rating: downgraded to 'C/D' from 'C'; Rating withdrawn

Support Rating: affirmed at '1'

Subordinated debt: Downgraded to 'BBB+' from 'A-'  
State-guaranteed debt: Affirmed at 'AA+'

The rating action on the Long-term IDR has no impact on the rating of the covered bonds issued by Banco Guipuzcoano.

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Additional information is available at [www.fitchratings.com](http://www.fitchratings.com).

Applicable criteria 'Global Financial Institutions Rating Criteria' dated 16 August 2010, 'Rating Hybrid Securities' dated 29 December 2009, 'Equity Credit for Hybrids & Other Capital Securities - Amended' dated 29 December 2009, 'Short-term Ratings Criteria for Corporate Finance' dated 2 November 2010, are available on [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

Global Financial Institutions Rating Criteria  
Rating Hybrid Securities  
Equity Credit for Hybrids & Other Capital Securities - Amended  
Short-Term Ratings Criteria for Corporate Finance

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