Outlook Revised To Stable On Top Spanish Banks And Subsidiaries Following Similar Action On Spain; Ratings Affirmed

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PRIMARY CREDIT ANALYSTS

Elena Iparraguirre
Madrid
+ 34 91 389 6963
elena.iparraguirre
@spglobal.com

Luigi Motti
Madrid
+ 34 91 788 7234
luigi.motti
@spglobal.com

Lucia Gonzalez
Madrid
+ 34 91 788 7219
lucia.gonzalez
@spglobal.com

SECONDARY CONTACT

Michal Selbka
Frankfurt
+ 49 693 399 9300
michal.selbka
@spglobal.com

- On March 18, 2022, we revised our outlook on the sovereign rating on Spain to stable from negative on solid economic growth prospects and further progress expected on fiscal and external fronts, despite broader geopolitical uncertainty.
- At the same time, we revised our economic risk trend for Spain's banking system to stable from negative.
- The Spanish banking system has demonstrated resilience to the COVID-19 pandemic, and although the conflict in Ukraine renders the economic outlook more uncertain, we think downside risks for Spanish banks are limited.
- We therefore revised our outlooks on Banco Santander S.A. (Santander), Santander Consumer Finance S.A. (SCF), Santander Consumer Bank AG (SCB), Banco Bilbao Vizcaya Argentaria S.A. (BBVA), and BBVA Global Markets B.V. to stable from negative and affirmed all ratings.

Rating Actions

MADRID (S&P Global Ratings) March 22, 2022--S&P Global Ratings today took the following rating actions:

- Revised the outlook to stable from negative on Santander and its subsidiaries SCF and SCB. We affirmed the long- and short-term ratings at 'A+/A-1' on Santander and 'A/A-1' on SCF and SCB.
- Revised the outlook to stable from negative on BBVA and BBVA Global Markets, and affirmed the long- and short-term ratings on both at 'A/A-1'.

Rationale

The Spain outlook revision led to a similar action on Spain's top banks and, by extension, on some of their core and highly strategic subsidiaries. The outlook revisions on Santander and BBVA reflect receding risk to the ratings from a hypothetical sovereign downgrade. Our ratings on Santander and BBVA therefore reflect their own stand-alone creditworthiness and the additional support provided to senior creditors by their buffers of subordinated bailinable instruments.

Spanish banks have been resilient to the pandemic. Asset quality, in particular, performed better than we had expected at the start of the pandemic. Nonperforming assets declined rather than increased in 2021 and 2020, while credit provisions converged close to pre-pandemic levels (53 basis points [bps]) in 2021, after having doubled in 2020. The strong fiscal and monetary support provided by authorities helped to contain the damage of the pandemic on companies and households, and ultimately on their bank lenders too. In particular, Spanish banks made ample use of the government guarantee scheme (at end-2021, about 24% of the Spanish banking system's stock of loans to companies benefited from the government guarantee). Therefore, although pandemic-related asset quality problems may yet emerge, it is unlikely we will see a spike in banks' provisioning. We have therefore revised our trend for economic risks under our Banking Industry Country Risk assessment (BICRA) analysis to stable from negative.

The military conflict in Ukraine will hinder, but not derail, the Spanish economy's growth momentum. We now estimate that GDP growth will expand by 6.1% this year, fully recovering the output gap lost during the pandemic, with the outlook remaining favorable thereafter too. Spain is set to receive Next Generation and EU budgetary grants equivalent to 11.5% of GDP between 2022 and 2027, which will support a substantial investment boost in the country. Tourism should also continue to recover from the pandemic shock, while excess savings accumulated by households will help them to cushion the impact of lower purchasing power due to inflation. We note that the persistence of high energy prices and inflation, a potentially more aggressive monetary response, and weaker confidence add downside risks. However, for as long as economic growth remains solid, which is our base case, we do not see meaningful additional risks ahead for banks' credit quality.

The already risky operating conditions in Turkey are vulnerable to persistent high energy prices and geopolitical risks, but we currently see room for BBVA to cushion the impact. BBVA's operations in Turkey, which account for about 10% of its lending exposures and 15% of profits, require close monitoring. The Turkish government's monetary easing to support economic growth in 2021 has resulted in a meaningful inflation spike, which we project at about 50% this year, and a severe depreciation of the Turkish lira (down 40% in Q4 2021), raising doubts about the country's medium-term resilience. Furthermore, the recent, significant increase in energy prices and potentially lower tourism receipts will heighten risks, at a time when the government's policy response remains highly uncertain.

BBVA has already seen a meaningful loss in value (in euro terms) on its stake in Garanti and will face a lower profit contribution in the years ahead. Furthermore, this comes at a time when BBVA is about to receive the regulatory authorizations needed to proceed with its plan to buy out Garanti's minorities, a deal it announced in mid-November 2021. Although the maximum investment committed to the transaction is limited and has further reduced (to €1.6 billion) as the lira depreciated, an increase of the bank's exposure to Turkey at this point adds medium-term risks, in our view. A prolonged period of weak returns from Turkey, for example, could add strategic uncertainty. That said, it is still unclear what share of minorities will accept the offer. Additionally, we think BBVA holds a strong capital cushion following the sale of its U.S. subsidiary, and we also see potential for better performance of both its Spanish and Mexican operations cushioning lower profit contribution from Turkey, with these two factors balancing risks at the current rating level.

Banco Santander S.A.

Our ratings on Santander continue to reflect its strong banking franchise, wide business and geographic diversification, strong profitability, and sound capitalization for the risks it faces. At the same time, we consider that the average economic risk in the countries where Santander operates are comparatively higher than that of its global peers, partly offsetting other business and financial strengths in its credit profile. We also factor into the rating on Santander its ability to maintain a buffer of bailinable debt large enough to provide some protection to senior debtholders in a resolution scenario.

Outlook: Stable

The stable outlook reflects our expectations that Santander will be able to withstand the headwind from the Russia–Ukraine conflict and preserve its credit strengths, including its large and diversified footprint, strong earnings power, and sound risk-adjusted capitalization over the next couple of years. Specifically, we expect its operating performance to improve on the back of business growth in the Americas and benefits from cost savings in the mature European market, leading to return on equity (ROE) of about 9%. We expect the bank's risk-adjusted capital (RAC) ratio to improve to 8.0%-8.5% by 2023 from 7.7% in 2020 on the back of higher retained earnings and 3% average loan growth. We also anticipate asset quality to remain under control, and cost of credit to decline below pre-pandemic levels, reaching about 100bps by 2023.

Downside scenario

The ratings could come under pressure if the bank failed to maintain a buffer of bail-inable debt sustainably exceeding 500bps of its S&P Global Ratings' risk-weighted assets (RWA). A negative rating action could also occur if its wide geographical and business diversification stopped providing tangible benefits to its risk profile, or if unexpected events (such as material acquisitions) undermined its capital position. A lowering of our sovereign rating on Spain would also likely trigger a similar rating action on Santander, since it is unlikely we would rate Santander two notches above the rating on Spain.

Upside scenario

At the current rating level, we see limited upside to the ratings on Santander. We could take a positive rating action if the bank reached and maintained a higher level of risk-adjusted capital, provided that we also saw stronger resilience in a hypothetical sovereign default scenario, allowing a gap of two notches--the maximum under our methodology--above our sovereign credit rating on Spain.

SCF

Our ratings on SCF benefit from three notches of parental support uplift. We consider it a highly strategic subsidiary of Santander. Furthermore, since it falls under its parent's resolution perimeter, the source of parent support includes Santander's buffer of subordinated bailinable instruments. Additionally, SCF's stand-alone creditworthiness continues to reflect its solid franchise and high market share in most countries of operation, wide geographic diversification across Europe, strong capitalization, and solid earnings generation capacity. These strengths are balanced by the risks stemming from SCF's concentration in car financing and inherently riskier consumer lending. In our view, for as long as economic growth remains solid in SCF's footprint, SCF should be able to at least partly cushion the spillover effects from the military conflict in Ukraine, in particular the effect on auto sector production, which is potentially vulnerable to supply-side bottlenecks--car financing represents about 75% of SCF's total lending.

Outlook: Stable

The stable outlook on SCF mirrors that on its parent, Santander, as well as that on Spain, SCF's country of domicile. So long as we continue to assess SCF as highly strategic to Santander, and it remains within Santander's resolution perimeter, our ratings on SCF will remain one notch below those on its parent, and capped at the level of the Spanish sovereign.

Downside scenario

We could lower the ratings on SCF in the next 18-24 months if we downgraded its parent, or if we thought the parent's commitment had weakened, leading us to revise downward our view of SCF's long-term strategic importance for the Santander group, or if SCF were to fall out of Santander's resolution perimeter. In addition, we could lower our ratings on SCF if we lowered the sovereign credit rating on Spain. That is because we cannot rate highly strategically important subsidiaries such as SCF above the sovereign rating on their country of domicile based on group support, unless their exposure to their country of domicile is lower than 10%, which is not the case for SCF.

Upside scenario

Although unlikely, an upgrade of SCF in the next 18-24 months could be triggered by a similar action on both its parent and on Spain, for as long as we continued to consider that the parent's commitment to SCF had not weakened and that SCF would remain part of Santander's resolution perimeter. In addition, if we revised SCF's status within the group to core, we could consider an upgrade.

SCB

The ratings on SCB benefit from three notches of parental support from its parent, SCF, given its core status. Like its parent, SCB falls under Santander's resolution perimeter, thus indirectly benefiting from the buffer of bailinable subordinated instruments that Santander has built up. SCB's stand-alone creditworthiness reflects the bank's small size and niche business model in car financing and consumer finance, which makes it more vulnerable to economic cycles. However, SCB benefits from strong profitability and adequate capitalization when compared to risks.

Outlook: Stable

The outlook on SCB is stable and mirrors that on its Spain-based parent, SCF (A/Stable/A-1). We expect SCB will remain a core subsidiary of SCF, within Santander's resolution perimeter, and would therefore be directly affected by a strengthening or weakening of its parent's credit profile.

Downside scenario

We could downgrade SCB in the next 18-24 months if we downgraded SCF. This could be triggered by a similar action on the ultimate parent, Santander; a downgrade of the Spanish sovereign; or a weakening in Santander's commitment to SCF. In addition, a weakening of SCB's importance to SCF could lead us to lower the rating on SCB, although we view this as a remote possibility over the next 24 months.

Upside scenario

Although unlikely, we could consider upgrading SCB if we were to upgrade SCF, which would in turn stem from an upgrade of Santander and the Spanish sovereign. An upgrade of SCB would also require no weakening of SCF's commitment to SCB, with SCB also remaining within Santander's resolution perimeter. An improvement in SCB's stand-alone creditworthiness alone would not result in an upgrade.

Banco Bilbao Vizcaya Argentaria.

BBVA's strong, geographically diversified and profitable retail banking franchise; prudent risk management; and sound capitalization continue to support our ratings on the bank. However, the ratings also reflect the higher-than-average economic risk of the countries where the group operates. Since December 2021, our ratings on BBVA have also benefited from one notch of additional loss-absorbing capacity uplift because the bank reached a buffer of subordinated bailinable liabilities large enough to protect senior creditors in a resolution scenario.

Outlook: Stable

The stable outlook reflects our assumption that although the conflict in Ukraine will take a toll on the growth prospects of most economies where BBVA operates, the impact will be manageable and short-lived. Turkey is the geography that could suffer the most, which means BBVA's results might strengthen at a slower pace than we initially thought. That said, the benefits of the cost restructuring completed in Spain and likely maintenance of solid returns in Mexico give BBVA some room to accommodate potentially lower earning streams from Turkey, so we think it will post RoE of about 9%-10% in 2022-2023. Equally, we expect the bank to maintain solid capitalization, with a RAC ratio of about 8.5% by 2023, following the completion of the ongoing €3.5 billion share buyback program and the buyback of minorities in its Turkish subsidiary. Finally, we do not expect the cushion of subordinated bailinable instruments to change.

Downside scenario

The ratings could come under pressure over the next 18-24 months if risks were to become more acute in Turkey and BBVA had limited ability to offset their impact. This could happen if the completion of the ongoing offer to Garanti minorities led to substantially higher exposure to Turkey, or if some of the currently offsetting strengths were to become less pronounced. The latter could happen if economic growth prospects weakened more significantly across BBVA's geographical footprint or if the bank's capital, as measured by our RAC, eroded below 8%. A lowering of the sovereign rating on Spain would put pressure on the ratings on BBVA because we consider it likely that BBVA would default in the context of a hypothetical Spanish sovereign default, given its high relative exposure to Spain.

Upside scenario

Given the current rating level, we see limited ratings upside. An upgrade of BBVA would depend on an upgrade of Spain and a meaningful strengthening of BBVA's stand-alone creditworthiness.

BICRA Score Snapshot

BICRA Score Snapshot -- Spain

	To	From
BICRA Group	4	4
Economic Risk	4	4
Economic Resilience	Intermediate Risk	Intermediate Risk
Economic Imbalances	Intermediate Risk	Intermediate Risk
Credit Risk in the Economy	Intermediate Risk	Intermediate Risk
Economic Risk Trend	Stable	Negative
Industry Risk	4	4
Institutional Framework	Intermediate Risk	Intermediate Risk
Competitive Dynamics	High Risk	High Risk
Systemwide Funding	Low Risk	Low Risk
Industry Risk Trend	Stable	Stable

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Spain Outlook Revised To Stable From Negative On Balanced Growth; 'A/A-1' Ratings Affirmed, March 18, 2022
- Moving The Russia-Ukraine Scenario Needle: European Output At Risk, March 16, 2022
- Global Macro Update: Preliminary Forecasts Reflecting The Russia-Ukraine Conflict, March 8, 2022
- Six European Banks Upgraded On ALAC Or Group Support Uplift; Off UCO On Implementation Of Revised FI Criteria, Dec. 16, 2021
- Bulletin: Banco Bilbao Vizcaya Argentaria's Bid For Turkish Garanti Offers Potential For Higher Profits But Greater Volatility, Nov 16, 2021

Ratings List

* * * * * * * * * * Banco Bilbao Vizcaya Argentaria S.A. * * * * * * * * *		
Ratings Affirmed		
Banco Bilbao Vizcaya Argentaria S.A.		
Resolution Counterparty Rating	A+/--/A-1	
Ratings Affirmed; Outlook Action		
	To	**From**
BBVA Global Markets B.V.		
Banco Bilbao Vizcaya Argentaria S.A.		
Issuer Credit Rating	A/Stable/A-1	A/Negative/A-1
*** * * * * * * * * * * * * * Banco Santander S.A. * * * * * * * * * * * * ***		
Ratings Affirmed		
Banco Santander S.A.		
Resolution Counterparty Rating	AA-/--/A-1+	
Santander Consumer Bank AG		
Santander Consumer Finance S.A.		
Resolution Counterparty Rating	A+/--/A-1	
Ratings Affirmed; Outlook Action		
	To	**From**
Banco Santander S.A.		
Issuer Credit Rating	A+/Stable/A-1	A+/Negative/A-1
Santander Consumer Bank AG		
Santander Consumer Finance S.A.		
Issuer Credit Rating	A/Stable/A-1	A/Negative/A-1

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; or Stockholm (46) 8-440-5914