Spanish Bank Ratings Affirmed Under Revised FI Criteria

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PRIMARY CREDIT ANALYSTS

Miriam Fernandez, CFA
Madrid
+ 34917887232
Miriam.Fernandez
@spglobal.com

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

SECONDARY CONTACTS

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

Antonio Rizzo
Madrid
+ 34 91 788 7205
Antonio.Rizzo
@spglobal.com

Marta Heras
Madrid
+ 34 91 389 6967
marta.heras
@spglobal.com

- We have reviewed our ratings on nine Spanish banks under our revised "Financial Institutions Rating Methodology".
- We have affirmed the ratings on these banks, and the outlooks are unchanged.

MADRID (S&P Global Ratings) Jan. 27, 2022--S&P Global Ratings today said that it has affirmed its issuer and issue credit ratings on the following Spanish banks. The affirmations follow a revision to our criteria for rating banks and nonbank financial institutions and for determining a Banking Industry Country Risk Assessment (BICRA) (see “Financial Institutions Rating Methodology,” published Dec. 9, 2021 and “Banking Industry Country Risk Assessment Methodology And Assumptions,” published Dec. 9, 2021). The affirmations include:

- Bankinter S.A. (ICR BBB+/Stable/A-2)
- Cecabank S.A. (ICR BBB+/Stable/A-2)
- Kutxabank S.A. (ICR BBB/Stable/A-2)
- Caja Laboral Popular Cooperativa de Credito (ICR BBB/Stable/A-2)
- Banco de Sabadell S.A. (ICR BBB-/Stable/A-3, RCR BBB/A-2)
- Abanca Corporacion Bancaria S.A. (ICR BB+/Stable/B)
- Ibercaja Banco S.A. (ICR BB+/Stable/B)
- Cajamar Caja Rural S.C.C. and Banco de Crédito Social Cooperativo S.A. (both with ICRs of BB/Stable/B)

Our outlooks on the banks remain stable.

Our assessments of economic risk and industry risk in Spain also remain unchanged at '4' and '4', respectively. These scores determine the BICRA and the anchor, or starting point, for our ratings on financial institutions that operate primarily in that country. The trends we see for economic risk and industry risk remain negative and stable, respectively.

Our assessments of these banks' stand-alone credit profiles remain unchanged under our revised criteria. None of the bank ratings reviewed today benefit from extraordinary external support in the form of additional loss-absorbing capacity (ALAC).

We reviewed separately our ratings on Mulhacen Pte. Ltd. (see “Mulhacen Pte. Ltd. Downgraded To ‘CC‘ On Announced Distressed Exchange Offer; Ratings Placed On CreditWatch Negative,” published Jan. 21, 2022). We also reviewed separately the ratings on Spanish banks that were placed under criteria observation (UCO) and subsequently raised. This includes Banco Santander S.A., Santander Consumer Finance S.A., Banco Bilbao Vizcaya Argentaria S.A., and Caixabank S.A. (see “Six European Banks Upgraded on ALAC or Group Support Uplift; Off UCO on Implementation of Revised FI Criteria,” and “Four European Bank Ratings Raised, One Affirmed on ALAC Uplift; Off UCO on Implementation of Revised FI Criteria,” both published on Dec. 16, 2021).

Bankinter S.A.

The ratings on Bankinter reflect its flexible and efficient operating structure, which supports its stronger profitability than peers; its good asset quality track record; and our view of its clear and well-implemented strategy. These strengths are balanced by its more limited size and weaker market position than large Spanish peers, which also applies to its Portuguese business. Although Bankinter is growing its buffer of subordinated bail-inable debt, which could exceed 400 basis points (bps) of S&P Global Ratings' risk-weighted assets (RWAs) by end-2023, its rating does not benefit from ALAC uplift. This is because we doubt that neither the envisaged "sale of business" primary resolution strategy nor the back-up open bank bail-in strategy would reliably ensure full and timely payment for all its senior preferred creditors in a resolution scenario.

Outlook

The stable outlook reflects our view that Bankinter should gradually compensate for most of the revenue lost from the sale of its non-life insurance arm and maintain solid profitability over the next 18-24 months. We also expect the bank to maintain a prudent risk profile, although provisions will likely remain above normalized levels in the next 18 months, due to the lingering effects of the pandemic.

Downside scenario: We could lower the ratings if Bankinter fails to compensate for the revenue lost from the insurance spin-off and its profitability does not strengthen enough to counterbalance its more modest, concentrated franchise compared with that of similarly rated peers. We could also lower the ratings if profitability improvements relied on lower quality, less stable revenue sources. In addition, although less likely, we could lower our ratings if Bankinter's risk appetite increased, either due to aggressive lending or acquisitions that could impair its financial profile.

Upside scenario: An upgrade based on its stand-alone creditworthiness is unlikely since we consider it improbable that we would give more weight to the bank's capital and risk strength. We could consider raising the ratings based on external support if we had more clarity about the degree of senior creditor protection under resolution and, at the same time, Bankinter's ALAC buffers remained sustainably above the threshold of 350 bps of S&P Global Ratings' RWAs we set up for a one-notch ratings uplift (the threshold is 50 bps above the standard threshold to reflect a concentration of ALAC instruments).

Ratings Score Snapshot

Issuer Credit Rating: BBB+/Stable/A-2

Stand-alone credit profile: bbb+

- Anchor: bbb

- Business Position: Adequate (0)
- Capital and Earnings: Adequate (0)
- Risk Position: Strong (+1)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG Credit Indicators: E-2, S-2, G-2

Cecabank S.A.

The ratings on Cecabank reflect the bank's very strong and high quality capitalization; its key role as a service provider for Spanish banks, which limits its credit risk; and its conservative management. The ratings also factor in Cecabank's concentrated business in a limited number of customers; and larger exposure than peers to operational and market risk. Its strong liquidity cushions balance its structurally higher reliance than peers on wholesale and short-term debt.

Outlook

The stable outlook assumes that Cecabank will remain strongly capitalized, maintaining a risk-adjusted capital (RAC) ratio in excess of 15% over the next 18-24 months. Indeed, the bank already managed to restore capital to that level, after the acquisition-driven abrupt decline experienced in 2020. At the current level, capital will support Cecabank's resilience--even in a more difficult economic scenario than the one we currently contemplate--but provides limited room to accommodate further material inorganic growth. We also expect the bank to maintain its low risk and concentrated profile, together with its resilient business performance.

Downside scenario: We could lower the ratings on Cecabank if the bank were to engage in additional material acquisitions that might impair its capital base, with its RAC materially declining below 15%, or if it increased its risk appetite.

Upside scenario: We consider an upgrade unlikely at this stage, given Cecabank's concentrated business model and rating level.

Ratings Score Snapshot

Issuer Credit Rating: BBB+/Stable/A-2

Stand-alone credit profile: bbb+

- Anchor: bbb
- Business Position: Moderate (-1)
- Capital and Earnings: Very Strong (+2)
- Risk Position: Adequate (0)
- Funding and Liquidity: Moderate and Strong (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG Credit Indicators: E-2, S-2, G-2

Kutxabank S.A.

The ratings on Kutxabank reflect its strong retail banking franchise in its home market, the wealthy Basque Country; its diversified earnings stream, including fee-generating businesses like asset management and insurance; sound capitalization; and its low-risk loan book. These strengths are balanced by its limited geographic diversification and scale compared to larger domestic peers that make Kutxabank more vulnerable to fierce competition, and prospects of only modest returns amid prolonged ultra-low interest rates and the accelerated need for digital transformation.

Outlook

The stable outlook on Kutxabank balances the bank's limited profitability prospects with the benefits of a gradually strengthening capital base. While results should improve in the coming years on the back of higher fee income and lower provisions, we see the bank's return on equity (RoE) reaching just 4.5% in 2023, which is still low, even if it is higher than the 2.9% it reported in 2020. In turn, Kutxabank's capitalization, as measured by our RAC, may approach the 10% mark by 2023 provided that downside risks to the Spanish economic environment do not materialize. Our stable outlook also assumes that the bank will maintain its sound liquidity and conservative risk culture, and that potential asset quality deterioration over the next 18-24 months will be modest.

Downside scenario: We could lower the ratings if the bank fails to respond effectively to the sector's structural challenges (negative interest rates, digitalization race, intense competition), with its profitability underperforming that of its peers, and stronger capitalization is not a sufficient rating strength to compensate it. We could also lower the ratings if the bank were to engage in inorganic expansion that takes a toll on its solid capitalization, increases its risk profile, or results in managerial challenges.

Upside scenario: We could raise the rating in the medium term if the bank strengthens and sustains its capital at a strong level, while demonstrating banking franchise, management, and profitability strength that could compensate for its limited scale and lower geographical diversification. For an upgrade, downside risks to Spain's macroeconomic outlook would first have to ease.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/A-2

Stand-alone credit profile: bbb

- Anchor: bbb
- Business Position: Adequate (0)
- Capital and Earnings: Adequate (0)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG Credit Indicators: E-2, S-2, G-2

Caja Laboral Popular Cooperativa de Credito

The ratings are supported by the bank's strong capitalization, prudent and traditional business model, its retail-funded profile, and healthy liquidity. At the same time, our ratings incorporate Caja Laboral's limited scale and high concentration; modest profitability prospects amid ultra-low interest rates and intense competition; and still-sizable stock of legacy problematic assets from the previous crisis.

Outlook

Our stable outlook on Caja Laboral reflects our view that it will preserve its strong capital, ample liquidity, and conservative risk profile. It also reflects our view that, despite marginally improving, its returns are unlikely to reach those of pre-COVID-19 levels, with RoE hovering around 5.5% in 2022-2023. We expect the bank's balance sheet to remain resilient to the remaining effects of the pandemic shock, with the bank recording only a modest increase of problem loans over the next 12-24 months. Credit provisions will therefore remain manageable, at below 20 bps of average loans. Our RAC ratio will improve marginally to about 14%.

Downside scenario: We could downgrade Caja Laboral if we observed little progress in the workout of its stock of legacy problematic assets, resulting in a widening of the gap with domestic peers, or if Caja Laboral is unable to preserve its franchise in the context of a more competitive and demanding operating environment.

Upside scenario: We consider an upgrade unlikely, even if downside risks to Spain's macroeconomic outlook were to ease. This is because we deem it improbable that we would give more weight to the bank's capital and risk strength.

Ratings Score Snapshot

Issuer Credit Rating: BBB/Stable/A-2

Stand-alone credit profile: bbb

- Anchor: bbb
- Business Position: Moderate (-1)
- Capital and Earnings: Strong (+1)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG Credit Indicators: E-2, S-2, G-2

Banco de Sabadell S.A.

The ratings balance its valuable banking franchise in Spanish small and midsize enterprises (SMEs), adequate capitalization, and proven ability to reduce legacy problem assets with the need to undertake a restructuring that will weigh on returns over the next 18-24 months. Unlike other systemically important Spanish lenders, our ratings on Sabadell do not benefit from ALAC uplift. This is because its cushion of bail-inable instruments--which we forecast will reach about 280 bps of S&P RWAs in 2023--is still not large enough to comfortably protect senior creditors in resolution. It is getting close, however. We set up Sabadell's threshold to benefit from one notch of ALAC uplift at the standard 300 bps.

Outlook

Our stable outlook on Sabadell balances the challenges facing the new management team from the need to restructure the business in order to sustainably improve its competitive position and profitability with our expectation that, over the next 18-24 months, its capitalization should prove sufficient to weather remaining potential downside risks to Spain's macroeconomic outlook. While Sabadell is structurally more exposed to corporate lenders, and therefore more vulnerable to the emergence of problematic loans from the pandemic, we think any asset quality deterioration yet to come will be manageable.

Downside scenario: Although unlikely at this stage, we could lower our ratings if management fails in its restructuring efforts or does not execute strategic deleveraging for some of its international operations, leading to a sharp deterioration of capitalization, with our RAC ratio falling below 7%.

Upside scenario: We could raise the ratings on Sabadell if the bank made more progress in building up is bail-inable debt buffer, reaching an ALAC buffer sustainably above 300 bps. We see an upgrade based on its stand-alone creditworthiness as unlikely while Sabadell works through its restructuring. However, we could consider it once we see clear evidence that Sabadell's efficiency and profitability have improved materially, reducing the gap with that of higher-rated peers, combined with a more supportive operating environment for Spanish banks.

Ratings Score Snapshot

Issuer Credit Rating: BBB-/Stable/A-3

Resolution Counterparty Rating: BBB/A-2

Stand-alone credit profile: bbb-

- Anchor: bbb
- Business Position: Moderate (-1)
- Capital and Earnings: Adequate (0)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG Credit Indicators: E-2, S-2, G-2

Abanca Corporacion Bancaria S.A.

The ratings reflect Abanca's geographic concentration, lower business diversification than higher rated peers, and still modest operating profitability and efficiency, amid a highly competitive and increasingly concentrated market. The latter are partly balanced by Abanca's large and strong franchise in its core market of Galicia, sound capital, and limited stock of legacy problem assets compared with domestic peers.

Outlook

The stable outlook on Abanca indicates that, while some asset quality deterioration from the pandemic has yet to emerge, it should be manageable, allowing credit provisions to continue declining from the 2020 peak, as we have seen so far in 2021. Capitalization will remain solid and operating profitability should gradually improve over the next 12-18 months, as Abanca focuses on further extracting value from its various recent acquisitions. Still, it may take some time until Abanca's returns become more aligned with those of highly rated peers.

Downside scenario: We could lower the ratings if Abanca engages in additional acquisitions that weaken its capitalization, increase its risk profile, or pose managerial challenges; or if it increases its risk appetite in an attempt to build up business more rapidly.

Upside scenario: We could consider an upgrade if Abanca successfully extracts business value from its recent acquisitions, enhancing its efficiency and underlying profitability to levels closer to those of its higher rated peers, while remaining spillover effects from the pandemic remain manageable.

Ratings Score Snapshot

Issuer Credit Rating: BB+/Stable/B

Stand-alone credit profile: bb+

- Anchor: bbb
- Business Position: Constrained (-2)
- Capital and Earnings: Adequate (0)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG Credit Indicators: E-2, S-2, G-2

Ibercaja Banco S.A.

The ratings reflect its geographic and business concentration, limited scale amid a very competitive, increasingly digitized environment, and modest earnings capacity relative to peers. The latter are partly offset by its conservative management and prudent risk practices, comfortable liquidity, and steady stable funding through its loyal clientele in its home region.

The announcement of the bank's largest shareholder, Fundación Bancaria Ibercaja, to place about 42% of its share capital in the market through a listing process, has no immediate implications for its ratings. It will not translate into higher capital at the bank as there are no plans to undertake a capital increase. However, being listed opens the possibility of the bank turning to the market for capital if needed, and therefore improves its financial flexibility. We are also mindful that being listed implies higher market scrutiny on the bank's delivery of its business plan and very likely higher dividend pay-outs.

Outlook

The stable outlook on Ibercaja reflects our belief that, while the spill-over effects of the pandemic on asset quality are yet to come, additional problem loans will be manageable, credit provisions will hover at around 25 bps-30bps over 2022-2023, and its capitalization will not be hampered. We see the banks' RAC ratio improving modestly, reaching 8.3% by end-2022 from 7.9% in 2020. Profits should also improve somewhat on the back of higher fee income and lower provisions, but the negative interest rates and still-high costs will continue to weigh on Ibercaja's returns and efficiency, which will likely remain lower than that of higher-rated peers' over the next 12-18 months. We see the bank's cost-to-income ratio at 60%-64% over 2022-2023.

Downside scenario: At the current ratings level, the downside is limited, and would most likely be linked to a capital event.

Upside scenario: We could raise the ratings in the medium term if Ibercaja enhances its efficiency and underlying profitability to levels closer to those of higher-rated domestic peers, while preserving its capital strength and conservative risk profile.

Ratings Score Snapshot

Issuer Credit Rating: BB+/Stable/B

Stand-alone credit profile: bb+

- Anchor: bbb
- Business Position: Constrained (-2)
- Capital and Earnings: Adequate (0)
- Risk Position: Adequate (0)
- Funding and Liquidity: Adequate and adequate (0)
- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG Credit Indicators: E-2, S-2, G-2

Banco de Crédito Social Cooperativo S.A. and Cajamar Caja Rural S.C.C.

The ratings on Banco de Crédito Social Cooperativo S.A. and Cajamar Caja Rural S.C.C. reflect our view of the creditworthiness of the group to which they belong, Grupo Cooperativo Cajamar (GCC). We consider them to be core members of it. Thus, their ratings balance the group's comparatively high stock of legacy problematic assets from the previous recession, geographically concentrated business, and limited profitability with a resilient cooperative franchise in core regions, adequate capitalization, and predominantly retail funding profile.

Outlook

The stable outlook indicates that we expect the group's balance sheet to remain resilient to the remaining spill-over effects of the pandemic shock. New problem loans could still emerge, but we think they will be manageable, and credit provisions could gradually reduce. Reducing the bank's stock of legacy problematic assets remains an item on the agenda. Capital will remain relatively stable over the next 12-18 months, but profitability will take longer to recover to pre-COVID-19 levels, with earnings pressure and a still-large cost base constraining bottom-line results at modest levels. However, we expect GCC to preserve a resilient business model in its core region, as well as its funding advantage.

Downside scenario: We could lower the ratings if there is a material impairment to the bank's capital base or the group's franchise weakens.

Upside scenario: We consider an upgrade unlikely at this stage. We could take a positive rating action if, in addition to GCC's loan book proving resilient to the pandemic shock, the group significantly reduces its stock of legacy problematic assets from the last recession, narrowing the gap with domestic peers, while at the same time preserving adequate capitalization.

Ratings Score Snapshot

Issuer Credit Rating: BB/Stable/B

Stand-alone credit profile: bb

- Anchor: bbb
- Business Position: Moderate (-1)
- Capital and Earnings: Adequate (0)
- Risk Position: Constrained (-2)
- Funding and Liquidity: Adequate and adequate (0)

- Comparable Rating Analysis: 0

Support: 0

- ALAC Support: 0
- GRE Support: 0
- Group Support: 0
- Sovereign Support: 0

Additional Factors: 0

ESG Credit Indicators: E-2, S-2, G-2

Related Criteria

- 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: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- 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: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Certain Financial Institution Issuer And Issue Ratings Placed Under Criteria Observation Following Criteria Update, Dec. 9, 2021
- RFC Process Summary: Financial Institutions Rating Methodology, Dec. 9, 2021
- RFC Process Summary: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Financial Institutions And BICRA Criteria Published, Dec. 9, 2021
- Mulhacen Pte. Ltd. Downgraded To ‘CC‘ On Announced Distressed Exchange Offer; Ratings Placed On CreditWatch Negative, Jan. 21, 2022
- Six European Banks Upgraded on ALAC or Group Support Uplift; Off UCO on Implementation of Revised FI Criteria, Dec 16, 2021
- Four European Bank Ratings Raised, One Affirmed on ALAC Uplift; Off UCO on Implementation Of Revised FI Criteria, Dec. 16, 2021

Ratings List

*** * * * * * * * * * * Abanca Corporacion Bancaria S.A * * * * * * * * * ***	
Ratings Affirmed	
Abanca Corporacion Bancaria S.A	
Issuer Credit Rating	BB+/Stable/B
*** * * * * * * * * Banco de Credito Social Cooperativo S.A. * * * * * * * ***	
Ratings Affirmed	
Cajamar Caja Rural S.C.C.	
Banco de Credito Social Cooperativo S.A.	
Issuer Credit Rating	BB/Stable/B
Banco de Credito Social Cooperativo S.A.	
Senior Unsecured	BB
Subordinated	B
*** * * * * * * * * * * * * Banco de Sabadell S.A. * * * * * * * * * * * * ***	
Ratings Affirmed	
Banco de Sabadell S.A.	
Issuer Credit Rating	BBB-/Stable/A-3
Resolution Counterparty Rating	BBB/--/A-2
Banco de Sabadell S.A.	
Senior Unsecured	BBB-
Senior Subordinated	BB+
Subordinated	BB
Preferred Stock	B+
*** * * * * * * * * * * * * * * Bankinter S.A. * * * * * * * * * * * * * * ***	
Ratings Affirmed	
Bankinter S.A.	
Issuer Credit Rating	BBB+/Stable/A-2
Bankinter S.A.	
Senior Unsecured	BBB+
Senior Subordinated	BBB
Subordinated	BBB-
Junior Subordinated	BB
Commercial Paper	A-2
Bankinter Sociedad de Financiacion, S.A	
Commercial Paper	A-2

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Ratings Affirmed	
Kutxabank S.A.	
Issuer Credit Rating	BBB/Stable/A-2
Kutxabank S.A.	
Senior Subordinated	BBB-
*** * * * * * * * Caja Laboral Popular Cooperativa de Credito * * * * * * ***	
Ratings Affirmed	
Caja Laboral Popular Cooperativa de Credito	
Issuer Credit Rating	BBB/Stable/A-2
*** * * Ibercaja Banco S.A. * * * * * * ***	
Ratings Affirmed	
Ibercaja Banco S.A.	
Issuer Credit Rating	BB+/Stable/B
Ibercaja Banco S.A.	
Subordinated	B+
Preferred Stock	B-
*** * * * * * * * * * * * * * * Cecabank S.A. * * * * * * * * * * * * * * ***	
Ratings Affirmed	
Cecabank S.A.	
Issuer Credit Rating	BBB+/Stable/A-2