

Outlooks On Six Spanish Banks Revised To Positive On Stronger Profitability

April 29, 2024

Overview

- Spanish banks' profitability significantly improved in 2023, continuing the positive trend seen in 2022. The aggregate domestic return on equity reached almost 11% last year.
- Although the sharp increase in interest rates certainly supported banks' performance, they also benefited from the lean operating structures developed through more than a decade of downsizing and significant consolidation, combined with tight control over funding costs.
- Based on our view that these profitability improvements are structural, we see a positive trend in industry risk for the Spanish banking system.
- We revised to positive our outlook on the following Spanish banks: CaixaBank S.A., Banco de Sabadell S.A., Abanca Corporación Bancaria S.A., and Ibercaja Banco S.A., as well as Banco de Crédito Social Cooperativo S.A. and Cajamar Caja Rural S.C.C. (both belonging to Grupo Cooperativo Cajamar). The remaining six rated Spanish banks have stable outlooks.
- We affirmed our ratings on all these banks.

MADRID (S&P Global Ratings) April 29, 2024--S&P Global Ratings today took the following rating actions on Spanish banks:

- CaixaBank S.A.: We revised the outlook to positive from stable and affirmed our 'A-/A-2' long- and short-term issuer credit ratings (ICRs). We also affirmed our 'A/A-1' resolution counterparty ratings (RCRs).
- Banco de Sabadell S.A.: We revised the outlook to positive from stable and affirmed our 'BBB+/A-2' long- and short-term ICRs. We also affirmed our 'A-/A-2' RCRs.
- Abanca Corporación Bancaria S.A.: We revised the outlook to positive from stable and affirmed our 'BBB-/A-3' long- and short-term ICRs. We also affirmed our 'BBB/A-2' RCRs.
- Ibercaja Banco S.A.: We revised the outlook to positive from stable and affirmed our 'BBB-/A-3' long- and short-term ICRs. We also affirmed our 'BBB/A-2' RCRs.
- Cajamar Caja Rural S.C.C. and Banco de Crédito Social Cooperativo S.A.: We revised the outlook to positive from stable and affirmed our 'BB+/B' long- and short-term ICRs. We also affirmed our 'BBB/A-2' RCRs on Cajamar Caja Rural S.C.C.
- Banco Santander S.A.: We affirmed our 'A+/A-1' long- and short-term ICRs and our 'AA-/A-1+' RCRs. The outlook remains stable.

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- Santander Consumer Finance S.A.: We affirmed our 'A/A-1' long- and short-term ICRs and our 'A+/A-1' RCRs. The outlook remains stable.
- Banco Bilbao Vizcaya Argentaria S.A.: We affirmed our 'A/A-1' long- and short-term ICRs and our 'A+/A-1' RCRs. The outlook remains stable.
- Bankinter S.A.: We affirmed our 'A-/A-2' long- and short-term ICRs and our 'A/A-1' RCRs. The outlook remains stable.
- Cecabank S.A.: We affirmed our 'BBB+/A-2' long- and short-term ICRs and our 'A-/A-2' RCRs. The outlook remains stable.
- Caja Laboral Popular Cooperativa de Credito: We affirmed our 'BBB/A-2' long- and short-term ICRs and our 'BBB+/A-2' RCRs. The outlook remains stable.

Rationale

The return of positive interest rates significantly strengthened Spanish banks' profitability after years in which they could not meet their cost of capital. The Spanish banking system domestic return on equity (ROE) rose to 10.9% in 2023 and 9.3% in 2022. The average for 2014-2021 was just over 5%, excluding losses reported in 2020 and 2017 that were specific to two players. Obviously, the rapid increase in interest rates significantly boosted earnings, given Spanish banks' focus on traditional commercial banking, largely floating asset bases, and funding profiles that are weighted toward cheap retail deposits. Their net interest income jumped 52% in 2023 in aggregate, even though loan books continued to shrink.

That said, banks' profitability also benefited from their strong focus on efficiency in recent years. Spanish banks meaningfully downsized their operating structures organically and through consolidation. Since the end of 2008, the banking system has reduced its combined branch network by 61% and the number of staff by 41%. As revenue grew on the back of rising rates, banks have finally been able to benefit in full from their earlier efforts to enhance efficiency. The aggregate cost-to-income ratio has been about 45% over the past couple of years. Moreover, problem loans and the cost of risk remained contained, despite the rising cost of living and increased financing costs for borrowers. Although the extraordinary tax on revenue imposed by the government has reduced banks' bottom-line profits, it proved to be affordable, given their strong earnings.

Profitability prospects remain solid. We forecast that interest rates will start to fall from mid-2024, which will put some pressure on earnings. However, we feel confident that Spanish banks will maintain sound returns going forward. Our forecasts show domestic ROE for Spanish banks at 10.2% in 2024 and 9.2% in 2025. Active hedging strategies and the likely return of lending volume growth from 2025 onward should help smooth the negative effect of repricing. Fees will also likely resume growth, while both operating and credit costs should remain under control. We see a positive trend in our industry risk assessment for the Spanish banking system. If we revise our industry risk assessment upward, our anchor (or starting point) for rating banks that operate primarily in Spain would rise to 'bbb+' from the current 'bbb'.

Our assessment of the economic risks faced by Spanish banks remains unchanged. The Spanish economy growth prospects are sound, and growth will outpace that of European peers. In addition, the private sector has meaningfully reduced leverage over more than a decade, placing households and corporates in a good position, and the country has made progress in correcting

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external imbalances. Nevertheless, we consider that Spain still faces challenges. On the fiscal front, the still-elevated public debt is expected to decline only slowly, which limits the government's capacity to act, if needed. Spain also has a complex political landscape and its unemployment is still the highest in the EU, although it has reduced in the past years.

Profitability has improved across the board, but we see rating upside for only a few players.

For example, we revised to positive the outlook of midsize banks Abanca, Ibercaja, Banco de Crédito Social Cooperativo, and Cajamar, because for them the return of more-solid profits was particularly beneficial to ensure their long-term viability, bolstering their ability to invest in their digital transformation and supporting the build up of capital. Additionally, these banks all exhibited a path toward stronger capitalization. We also revised to positive our outlook on two other entities which, in our view, had not yet been able to achieve their full potential: CaixaBank because it had earlier been involved in a merger with Bankia and Sabadell because it has undergone restructuring in recent years. In the case of CaixaBank, an additional factor supporting the outlook revision was its progress in building up a larger buffer of subordinated bail-inable instruments. For those banks where the outlook is stable, improved profitability simply provides them with a buffer against unexpected downside risks.

More than one factor typically supports ratings upside. Thus, in the case of the Spanish banks where we assigned a positive outlook, the timing of any future rating actions may differ from one bank to another.

Caixabank S.A.

Lucía Gonzalez

The positive outlook indicates not only that CaixaBank's performance has significantly improved, but also that it has continued to strengthen its buffer of bail-inable subordinated instruments, which would provide protection to senior creditors in a resolution scenario.

CaixaBank's stronger profitability is only partly based on the more favorable operating environment. CaixaBank was also successful in generating synergies from its integration of Bankia and it benefits from its powerful franchise and significant size as Spain's largest domestic bank by far. Initially, the Bankia integration mainly generated cost synergies, but it is now also seeing benefits on the revenue side.

We estimate that CaixaBank's additional loss-absorbing capacity (ALAC) reached 5.7% of S&P Global Ratings' risk-weighted assets (RWAs) at year-end 2023, compared with 4.5% at end-2022. Furthermore, issuances planned for this year and next could give it sufficient ALAC to gain two notches of ratings uplift under our criteria. We increased the threshold for gaining two notches of uplift to 600 basis points (bps) from 550 bps to incorporate the reduced impact of its insurance company undercapitalization in our calculation of RWAs.

Outlook

The positive outlook indicates that we could raise our long- and short-term ratings on CaixaBank by one notch over the next 18-24 months, which would align them with our sovereign ratings on Spain.

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Upside scenario: We could raise the ratings if we revise our assessment of industry risk in the Spanish banking industry positively, so that we raise the anchor for banks operating primarily in Spain, and Caixabank preserves its solid profitability, enjoying the benefits of its powerful retail franchise and dominant market position in Spain.

Alternatively, we could raise our ratings if Caixabank delivers on its funding plans, building and sustaining a buffer of subordinated bail-inable debt above 6% of S&P Global Ratings' RWAs. This would make it eligible for two notches of ALAC uplift. In that scenario, we would not revise our view of its stand-alone creditworthiness, or raise our ratings on its senior nonpreferred debt and hybrid instruments.

Downside scenario: We could revise the outlook back to stable if we see no chance of any of the above materializing.

CaixaBank S.A.--Ratings Score Snapshot

	To	From
Issuer credit rating	A-/Positive/A-2	A-/Stable/A-2
SACP	bbb+	bbb+
Anchor	bbb	bbb
Business position	Strong (+1)	Strong (+1)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Adequate (0)	Adequate (0)
Funding	Adequate (0)	Adequate (0)
Liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	0	0
Support	+1	+1
ALAC support	+1	+1
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Banco de Sabadell S.A.

Lucía Gonzalez

The positive outlook indicates that Sabadell's creditworthiness could benefit from stronger industry dynamics in Spain. Sabadell has already completed a successful restructuring and has recently been upgraded. A further upgrade would depend on the bank harnessing its franchise to strengthen its profitability and efficiency further, so that these are in line with levels at its higher-rated peers. In addition, we would expect that its asset quality indicators not deviate substantially from our base-case expectations.

Outlooks On Six Spanish Banks Revised To Positive On Stronger Profitability

Outlook

The positive outlook indicates that we could raise our long-term rating on the bank over the next 18-24 months if industry risks for banks operating in Spain were to ease and, at the same time, Sabadell strengthens its financial ratios further.

Upside scenario: We could raise the rating on Sabadell if it improved its financials, especially its profitability and efficiency, and achieved levels closer to those of higher-rated peers. An upgrade would also depend on industry risks easing for banks operating in Spain, Sabadell's asset quality not deteriorating substantially beyond our expectations, and it preserving its risk profile. We also assume the bank will remain eligible to benefit from one notch of ALAC uplift because we forecast that it will maintain a buffer of subordinated bail-inable instruments at 4.7% of S&P Global Ratings' RWAs over the next 18-24 months, that is, above the 300 bps threshold required.

Downside scenario: We could revise the outlook back to stable if we revised our view of the trend on industry risk for the Spanish banking system to stable, or if we conclude that Sabadell's asset quality or operating performance will lag that of higher rated peers.

Banco de Sabadell S.A.--Ratings Score Snapshot

	To	From
Issuer credit rating	BBB+/Positive/A-2	BBB+/Stable/A-2
SACP	bbb	bbb
Anchor	bbb	bbb
Business position	Adequate (0)	Adequate (0)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Adequate (0)	Adequate (0)
Funding	Adequate (0)	Adequate (0)
Liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	0	0
Support	+1	+1
ALAC support	+1	+1
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Abanca Corporación Bancaria S.A.

Marta Heras

The positive outlook is based on Abanca's improved earnings capacity and strengthening

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capitalization. The bank continues to enhance its returns and efficiency, and more of its earnings are now recurring. In 2023, Abanca posted a recurrent ROE of 10.6% and a cost-to-income ratio of 54.6%. Furthermore, recent acquisitions offer the possibility of further cost optimization. Additionally, based on the upward trend in Abanca's capitalization, we consider that its risk-adjusted capital (RAC) could exceed 10% over the coming 18-24 months.

Outlook

The positive outlook indicates the possibility that we could raise our long- and short-term ratings on Abanca by one notch within the next 18-24 months.

Upside scenario: We could raise the rating if:

- Our view of industry risk in the Spanish banking industry improves, so that we raise the anchor for banks operating primarily in Spain; and
- Abanca's performance improves further, reaching levels closer to those of higher-rated peers without an excessive increase in risk appetite.

We could also raise our ratings on Abanca if its capitalization were to strengthen so that its RAC ratio consolidates sustainably above 10%.

Downside scenario: We could revise the outlook back to stable if we revised our view of the trend on industry risk for the Spanish banking system to stable.

Alternatively, we could revise the outlook to stable if Abanca's performance deviated from our expectations--that is, not improving in line with the systemwide trend--and we do not expect the bank's capitalization to become a ratings strength. This could happen if the recent Eurobic acquisition leads to higher integration costs or pose managerial challenges, or the bank engages in additional acquisitions that erode its capital buffers or increase its risk profile.

Abanca Corporacion Bancaria S.A.--Ratings Score Snapshot

	To	From
Issuer credit rating	BBB-/Positive/A-3	BBB-/Stable/A-3
SACP	bbb-	bbb-
Anchor	bbb	bbb
Business position	Moderate (-1)	Moderate (-1)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Adequate (0)	Adequate (0)
Funding	Adequate (0)	Adequate (0)
Liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	0	0
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0

Abanca Corporacion Bancaria S.A.--Ratings Score Snapshot (cont.)

	To	From
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Ibercaja Banco S.A.

Lucía González

The positive outlook is based on the progress Ibercaja has made in improving its operating performance through restructuring and streamlining its business over the past couple of years. This was further fueled by the favorable interest rate dynamics. In 2023, Ibercaja's net profits rose by 67%, and its ROE reached 10.5%. Although its net interest income could come under pressure as interest rates decline from mid-2024 onward, we expect it to sustain solid earnings. In our view, its efficiency gains should bolster its results, as will contributions from other income sources, such as asset management and insurance. We forecast that ROE will be 9%-10.5% through 2025. Furthermore, sound profitability will help Ibercaja build up its capital further, so that the RAC ratio edges closer to the upper threshold of the 7%-10% bucket.

Outlook

The positive outlook signifies that we could raise our long- and short-term ratings on Ibercaja by one notch over the next 18-24 months.

Upside scenario: We could raise the ratings if:

- Our view of industry risk in the Spanish banking industry improves, so that we raise the anchor for banks operating primarily in Spain; and
- Ibercaja's operating profitability and efficiency proves resilient, even as interest rates start to decline.

We could also consider raising the ratings on Ibercaja if we expect its capitalization to strengthen further, so that its RAC ratio is sustainably above 10%.

Downside scenario: We could revise the outlook back to stable if:

- We revised our view of the trend on industry risk for the Spanish banking system to stable; or
- Ibercaja's performance deviated from our expectations and does not improve in line with the systemwide trend, and we no longer anticipate that its capitalization will become a ratings strength.

Ibercaja Banco S.A.--Ratings Score Snapshot

	To	From
Issuer credit rating	BBB-/Positive/A-3	BBB-/Stable/A-3

Ibercaja Banco S.A.--Ratings Score Snapshot (cont.)

	To	From
SACP	bbb-	bbb-
Anchor	bbb	bbb
Business position	Moderate (-1)	Moderate (-1)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Adequate (0)	Adequate (0)
Funding	Adequate (0)	Adequate (0)
Liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	0	0
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

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

Lucía González

The positive outlook is based on the improvement in the operating performance of Grupo Cooperativo Cajamar (GCC), combined with its stronger capitalization and cleaned up balance sheet. Banco de Crédito Social Cooperativo and Cajamar Cajar Rural are core members of GCC. GCC's pre-provision income almost doubled in 2023, compared with 2022, aided not only by favorable interest rates, but also by cost savings from previous restructurings. GCC's cost-to-income ratio reached 53% at the end of 2023; the four-year average for 2019-2022 was 65%. Bottom-line results in 2023 remained modest as the bank set aside provisions to cover legacy problematic assets and finance early retirements. That said, we see room for improvement from 2024 onward, even if earnings come under some pressure as interest rates decline. We anticipate that cost savings and more-normalized credit losses will contribute to the group's ROE increasing to about 5.5%-6.5% during 2025, compared with an average of 2% over 2020-2023. In turn, stronger returns and modest asset growth should enable GCC to build up additional capital, so that RAC could consolidate above 10%.

Outlook

The positive outlook signifies that we could raise our long- and short-term ratings on Banco de Crédito Social Cooperativo and Cajamar Cajar Rural by one notch over the next 12-18 months.

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Upside scenario: We could raise our ratings if:

- Our view of industry risk in the Spanish banking industry improves, so that we raise the anchor for banks operating primarily in Spain; and
- We forecast that GCC's underlying profitability will not diverge significantly from industry trends and that of higher-rated peers.

We could also raise the ratings if GCC's capitalization improves further, so that we expect its RAC ratio to remain comfortably above 10%.

Downside scenario: We could revise the outlook back to stable if we see no chance of any of the above materializing.

Grupo Cooperativo Cajamar S.C.C.--Ratings Score Snapshot

	To	From
Issuer credit rating	BB+/Positive/B	BB+/Stable/B
SACP	bb+	bb+
Anchor	bbb	bbb
Business position	Moderate (-1)	Moderate (-1)
Capital and earnings	Adequate (0)	Adequate (0)
Risk position	Moderate (-1)	Moderate (-1)
Funding	Adequate (0)	Adequate (0)
Liquidity	Adequate (0)	Adequate (0)
Comparable ratings analysis	0	0
Support	0	0
ALAC support	0	0
GRE support	0	0
Group support	0	0
Sovereign support	0	0
Additional factors	0	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Banco Santander S.A.

Elena Iparraguirre

We affirmed the ratings because we consider that they appropriately capture:

- The bank's robust business model, based on a geographically diversified franchise with leading market positions in the countries where it operates and a focus on stable retail business;
- A record of solid, resilient profits, and good efficiency;
- A clear, well-executed strategy;

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- The benefits of diversification in its risk profile; and
- The higher-than-average economic risk in its footprint.

We apply one notch of ALAC uplift to the ratings. Our long-term rating on Santander is one notch above our long-term sovereign rating on Spain.

Outlook

The stable outlook reflects that over the next 18-24 months we expect Santander to be able to preserve its credit strengths, including its large and diversified footprint, strong earnings power, and sound risk-adjusted capitalization. We anticipate the group's performance will remain solid, even as interest rates decrease, as progress in implementing the One Transformation plan pays off and volumes resume. We forecast that ROE will be about 11.5%-10.5% over 2024-2026. The bank's capitalization, measured by our RAC, could improve moderately to above 8% over 2024-2026, even though we expect shareholder distributions will average 50% of profits. Although asset quality may remain under pressure, we expect deterioration to be contained and that the cost of risk (measured against average loans) will be about 130-120 bps over 2024-2026.

Upside scenario: We see limited upside to our ratings on Santander. We could raise the ratings if the bank reached and maintained a higher level of risk-adjusted capital providing that we also expected to see stronger resilience in a hypothetical sovereign default scenario. This would allow us to rate Santander two notches--the maximum under our methodology--above our sovereign credit rating on Spain.

Downside scenario: We could lower the ratings if the bank failed to maintain a buffer of bail-inable debt sustainably exceeding 500 bps of its S&P Global Ratings' RWAs. We could also lower the ratings if the bank's risk profile no longer benefited tangibly from its wide geographical and business diversification or its capital position was unexpectedly undermined by an event such as a material acquisition.

If we were to downgrade Spain, we would also likely lower our rating on Santander, all else being equal, because we would be unlikely to rate Santander two notches above the rating on Spain.

Banco Santander S.A.--Ratings Score Snapshot

Issuer credit rating	A+/Stable/A-1
SACP	a
Anchor	bbb
Business position	Very strong (+2)
Capital and earnings	Adequate (0)
Risk profile	Strong (+1)
Funding	Adequate (0)
Liquidity	Adequate (0)
Comparable ratings analysis	0
Support	+1
ALAC support	+1
GRE support	0

Banco Santander S.A.--Ratings Score Snapshot (cont.)

Group support	0
Sovereign support	0
Additional factors	0

SACP—Stand-alone credit profile. ALAC—Additional loss-absorbing capacity. GRE—Government-related entity.

Santander Consumer Finance S.A.

Marta Escutia

The affirmation of Santander Consumer Finance (SCF) follows the affirmation of its parent, Banco Santander S.A. As a highly strategic subsidiary, our ratings on SCF stand one notch below those on its parent. We also see SCF's stand-alone creditworthiness unchanged at 'bbb', reflecting its position as a leading consumer finance lender in Europe that benefits from wide geographic diversification, comfortable capitalization, and a solid earnings generation capacity. These positives are offset by SCF's high concentration in inherently higher-risk consumer lending, particularly in the auto sector.

Outlook

The stable outlook on SCF mirrors that on its parent, Santander, as well as that on Spain, SCF's country of domicile. As long as we continue to assess SCF as highly strategic to Santander, and it remains within Santander's resolution perimeter, our long-term rating on SCF will remain one notch below that on its parent, and will be capped by our sovereign rating on Spain.

Upside scenario: An upgrade is unlikely because we are including as much extraordinary support as possible from the parent, given SCF's group status and Santander's current rating. However, we could consider raising the ratings if we raised both the ratings on Santander and the sovereign rating on Spain, or if we were to consider SCF a core entity of the group. If we were to improve our view on the industry risks faced by the Spanish banking industry, SCF's anchor would remain unchanged at 'bbb+'.

Downside scenario: We could lower the ratings on SCF if:

- We downgraded its parent or Spain;
- We thought that the parent's commitment to SCF had weakened; or
- SCF fell out of Santander's resolution perimeter.

Santander Consumer Finance S.A.—Ratings Score Snapshot

Issuer credit rating	A/Stable/A-1
SACP	bbb
Anchor	bbb+
Business position	Moderate (-1)

Santander Consumer Finance S.A.—Ratings Score Snapshot (cont.)

Capital and earnings	Strong (+1)
Risk position	Moderate (-1)
Funding	Adequate (0)
Liquidity	Adequate (0)
Comparable ratings analysis	0
Support	+3
ALAC support	0
GRE support	0
Group support	+3
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Banco Bilbao Vizcaya Argentaria S.A.

Regina Argenio

Our ratings on BBVA are supported by the bank's geographically diversified franchise; conservative credit risk culture; adequate capitalization; and record of solid and resilient profitability. Profitability is itself supported by wide, diversified earnings and strong efficiency. That said, the bank operates in countries where economic risks are higher than average, such as Turkiye, Mexico, and other Latin American countries. Although risks in Turkiye seem to be easing, with the return of orthodox economic policies, rebalancing the economy will take some time and is not risk-free. We expect the contribution of the Turkish operations to the group's results to remain subdued until inflation further eases.

Outlook

The stable outlook reflects our belief that over the next 18-24 months BBVA will remain resilient and continue to benefit from robust profitability. We forecast that the bank's ROE will average 14% over 2024-2026. Despite asset expansion and increased distributions to shareholders, we expect BBVA's capitalization to strengthen further, so that its RAC reaches 8.5% by 2026, up from an estimated 8% at end-2023. Asset quality could deteriorate moderately, particularly among small companies and in unsecured consumer loans, as well as in weaker geographies, like Turkiye. Finally, we do not expect the cushion of subordinated bail-inable instruments to change.

Upside scenario: We see limited ratings upside. If we were to improve the industry risk assessment for Spanish banking, the anchor for BBVA would not change, given the average economic risk of its footprint. In addition, our rating on BBVA is in line with that on Spain. An upgrade would depend on both an upgrade of Spain and a meaningful strengthening of BBVA's stand-alone creditworthiness.

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Downside scenario: The ratings could come under pressure if we lowered our sovereign rating on Spain, as we consider BBVA likely to default in the context of a hypothetical sovereign default, given its high relative exposure to its home country. Additional pressures could occur if risks resume in Turkiye and BBVA has limited ability to offset the effect because of weakening profitability in other regions (specifically, Mexico and Spain, which are currently performing strongly); or if the bank's capital, measured by our RAC ratio, erodes materially.

Banco Bilbao Vizcaya Argentaria--Ratings Score Snapshot

Issuer credit rating	A/Stable/A-1
SACP	a-
Anchor	bbb
Business position	Strong (+1)
Capital and earnings	Adequate (0)
Risk profile	Strong (+1)
Funding	Adequate (0)
Liquidity	Adequate (0)
Comparable ratings analysis	0
Support	+1
ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Bankinter S.A.

Marta Heras

Our affirmation indicates that the rating is supported by Bankinter's solid profitability and asset quality record. It also takes into account that the bank's flexible and efficient operating structure has historically allowed it to adapt its business model to changes in the environment. These positives are balanced by Bankinter's limited size and weaker market position in both Spain and Portugal, compared with some of its Spanish peers.

Additionally, our ratings on Bankinter continue to benefit from one notch of ALAC uplift, as we expect its buffer of subordinated bail-inable debt to remain above the 350 bps threshold. The threshold is 50 bps higher than the standard, to reflect the concentration of ALAC in a small number of instruments, which entails higher refinancing risk. Given the long average maturity of the ALAC instruments, we consider a 50 bps increase more appropriate than the 100 bps we previously applied.

Outlook

The stable outlook indicates that over the next 18-24 months, we expect Bankinter to maintain solid profitability even though interest rate are likely to be less favorable. We forecast that RoE will be about 15% over 2025-2026, and that Bankinter will preserve its sound capitalization, so that RAC hovers around 10%. Although the bank is set to continue to grow faster than the market, we assume it will maintain a prudent risk profile and expect asset quality deterioration to be contained. Credit costs are predicted to be about 40 bps over the next two years.

The outlook also incorporates our view that the bank will be willing and able to maintain a buffer of bail-inable instruments comfortably above 3.5% of S&P Global Ratings' RWAs over the next 18-24 months. Indeed, we forecast the bank's ALAC will be about 4.4% of RWAs by 2025.

Upside scenario: An upgrade is unlikely, even if our assessment of industry risk for the Spanish banking sector improves, because we consider our ratings already capture Bankinter's solid record of profitability. In addition, we do not anticipate giving more weight to the bank's capital and risk strength in our rating or that Bankinter will build up a buffer of subordinated bail-inable instruments sufficient to make it eligible for a second notch of ALAC uplift.

Downside scenario: Although we consider a downgrade unlikely, we could consider lowering the ratings if Bankinter's asset quality performance weakens meaningfully or its risk appetite increases due to aggressive lending or acquisitions. We could also lower the ratings if the bank fails to maintain a profitability gap with peers that compensates for its more modest, concentrated franchise, or if its returns rely excessively on lower-quality, less-stable revenue sources.

Bankinter S.A.--Ratings Score Snapshot

Issuer credit rating	A-/Stable/A-2
SACP	bbb+
Anchor	bbb
Business position	Adequate (0)
Capital and earnings	Adequate (0)
Risk position	Strong (+1)
Funding	Adequate (0)
Liquidity	Adequate (0)
Comparable ratings analysis	0
Support	+1
ALAC support	+1
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Cecabank S.A.

Marta Heras

The ratings on Cecabank reflect the bank's very strong and high-quality capitalization; its conservative management; and its key role as a service provider for Spanish financial institutions, which limits its credit risk. Cecabank succeeded in adapting its business model; it built a strong depositary and custodian business and it is emerging as provider of digital services to small banks that do not have the scale and resources to cope with costly IT investments, while also is making good progress in expanding its services to provide solutions to insurance companies and new fintech players in Spain. Nevertheless, the ratings continue to factor in Cecabank's concentrated business in limited number of customers, as well as its larger exposure to operational and market risks relative to domestic peers. It has a higher structural reliance on wholesale and short-term debt than peers, which is balanced by its strong liquidity cushion.

Outlook

The stable outlook is based on our base-case assumption that Cecabank will make no acquisitions over the outlook horizon and will remain strongly capitalized with a RAC ratio comfortably above 15% over the next 18-24 months. We also expect its performance to remain resilient and that the bank will further develop its franchise, emphasizing its securities services business and continuing to add new clients. That said, we anticipate that new clients are unlikely to dilute its business and revenue base concentration much, given the high contribution from its largest clients.

Upside scenario: We consider an upgrade unlikely at this stage, even if we were to improve our view of industry risk in the Spanish banking system, given Cecabank's concentrated business model and rating level.

Downside scenario: We could lower the ratings on Cecabank if it engaged in additional material acquisitions that could impair its capital base so that its RAC ratio declined materially below 15%, or if it increased its risk appetite.

Cecabank S.A.--Ratings Score Snapshot

Issuer credit rating	BBB+/Stable/A-2
SACP	bbb+
Anchor	bbb
Business position	Moderate (-1)
Capital and earnings	Very Strong (+2)
Risk position	Adequate (0)
Funding	Moderate (0)
Liquidity	Strong (0)
Comparable ratings analysis	0
Support	0
ALAC support	0

Cecabank S.A.--Ratings Score Snapshot (cont.)

GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Caja Laboral Popular Cooperativa de Credito

Marta Escutia

Our current ratings on Caja Laboral balance its strong capitalization and high quality of capital, sound funding profile, comfortable liquidity, and traditional business profile, against its limited scale and business concentration in the Basque Country and Navarre, a wealthy but small region in Spain, where Laboral ranks second.

Outlook

The stable outlook assumes no meaningful changes to Caja Laboral's business and financial profile over the next 18-24 months. We anticipate that the bank will be able to preserve much of the solid profitability it has achieved in recent years, which will help it to maintain a strong capital position. We forecast that ROE may weaken somewhat, toward 8%, over the next 18-24 months, from the 9.5% it reached in 2023.

Due to its cooperative status, we anticipate that Caja Laboral will continue to distribute a lower proportion of earnings than peers. However, we expect it to increasingly invest the capital generated in financing further growth, particularly outside its home market. We forecast that retail deposits will continue to dominate Caja Laboral's funding mix and that its liquidity will remain very comfortable. Asset quality could deteriorate, but only modestly, and new credit provisions are likely to remain manageable at 40 bps of average loans.

Upside scenario: We consider an upgrade during our 18-24 months outlook horizon unlikely, even if the anchor for banks operating primarily in Spain rises, because the rating is constrained by the bank's business profile. An upgrade would depend on a much stronger financial profile to compensate for the bank's limited scale and diversity.

Downside scenario: Although we consider a downgrade to be unlikely, we could consider it if Caja Laboral's solvency were to deteriorate materially or if its risk appetite increased.

Caja Laboral Popular Cooperativa de Credito--Ratings Score Snapshot

Issuer credit rating	BBB/Stable/A-2
SACP	bbb
Anchor	bbb
Business position	Moderate (-1)

Caja Laboral Popular Cooperativa de Credito--Ratings Score Snapshot (cont.)

Capital and earnings	Strong (+1)
Risk position	Adequate (0)
Funding	Adequate (0)
Liquidity	Adequate (0)
Comparable ratings analysis	0
Support	0
ALAC support	0
GRE support	0
Group support	0
Sovereign support	0
Additional factors	0

SACP--Stand-alone credit profile. ALAC--Additional loss-absorbing capacity. GRE--Government-related entity.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, 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

- Banking Industry Country Risk Assessment Update, April 26, 2024
- Economic Outlook Eurozone Q2 2024: Labor Costs Hinder Disinflation As Rate Cuts Loom, March 26, 2024

Outlooks On Six Spanish Banks Revised To Positive On Stronger Profitability

- Spain 'A/A-1' Ratings Affirmed; Outlook Stable, March 15, 2024
- Eurozone Banks: ECB's Operational Framework Review Backs The Status Quo, March 14, 2024
- Banco de Sabadell Upgraded To 'BBB+' On Successful Turnaround; Outlook Stable; 'A-2' Short-Term Rating Affirmed, Feb. 9, 2024
- Slides: Spanish Banks in 2024: Clear Skies, Jan. 24, 2024

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
Trend	Stable	Stable
Industry risk	4	4
Institutional framework	Intermediate risk	Intermediate risk
Competitive dynamics	High risk	High risk
Systemwide funding	Low risk	Low risk
Trend	Positive	Stable

Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

Ratings List

***** Abanca Corporacion Bancaria S.A. *****

Ratings Affirmed

Abanca Corporacion Bancaria S.A.

Resolution Counterparty Rating BBB/--/A-2

Ratings Affirmed; Outlook Action

	To	From
Abanca Corporacion Bancaria S.A.		
Issuer Credit Rating	BBB-/Positive/A-3	BBB-/Stable/A-3

Outlooks On Six Spanish Banks Revised To Positive On Stronger Profitability

***** Banco Bilbao Vizcaya Argentaria S.A. *****

Ratings Affirmed

Banco Bilbao Vizcaya Argentaria S.A.

BBVA Global Markets B.V.

Issuer Credit Rating A/Stable/A-1

Banco Bilbao Vizcaya Argentaria S.A.

Resolution Counterparty Rating A+/-/-A-1

Certificate Of Deposit A/A-1

Banco Bilbao Vizcaya Argentaria S.A.

Senior Unsecured A

Senior Subordinated BBB+

Subordinated BBB

BBVA Global Finance Ltd.

Subordinated BBB

BBVA Global Markets B.V.

Senior Unsecured A

Senior Unsecured Ap

***** Banco Santander S.A. *****

Ratings Affirmed

Banco Santander S.A.

Banco Santander S.A. (New York Branch)

Issuer Credit Rating A+/Stable/A-1

Banco Santander S.A.

Resolution Counterparty Rating AA-/-/-A-1+

Certificate Of Deposit

Local Currency A+/A-1

Santander Consumer Finance S.A.

Issuer Credit Rating A/Stable/A-1

Resolution Counterparty Rating A+/-/-A-1

Banco Santander S.A.

Senior Unsecured A+

Senior Subordinated A-

Subordinated BBB+

Preference Stock BB+

Commercial Paper A-1

Santander Consumer Finance S.A.

Senior Unsecured A

Senior Subordinated BBB+

Outlooks On Six Spanish Banks Revised To Positive On Stronger Profitability

Subordinated	BBB
Commercial Paper	A-1

Banco Santander S.A. (New York Branch)

Commercial Paper	A-1
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Banco Santander SA (London Branch)

Certificate Of Deposit	A-1
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******* Banco de Credito Social Cooperativo S.A. *******

Ratings Affirmed

Cajamar Caja Rural S.C.C.

Resolution Counterparty Rating	BBB/--/A-2
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Banco de Credito Social Cooperativo S.A.

Senior Unsecured	BB+
Subordinated	B+

Ratings Affirmed; Outlook Action

	To	From
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Banco de Credito Social Cooperativo S.A.

Cajamar Caja Rural S.C.C.

Issuer Credit Rating	BB+/Positive/B	BB+/Stable/B
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******* Banco de Sabadell S.A. *******

Ratings Affirmed

Banco de Sabadell S.A.

Resolution Counterparty Rating	A/--/A-2
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Banco de Sabadell S.A.

Senior Unsecured	BBB+
Senior Subordinated	BBB-
Subordinated	BB+
Preferred Stock	BB-

Ratings Affirmed; Outlook Action

	To	From
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Banco de Sabadell S.A.

Issuer Credit Rating	BBB+/Positive/A-2	BBB+/Stable/A-2
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******* Bankinter S.A. *******

Ratings Affirmed

Bankinter S.A.

Issuer Credit Rating	A-/Stable/A-2
Resolution Counterparty Rating	A/--/A-1

Bankinter S.A.

Senior Unsecured	A-
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Outlooks On Six Spanish Banks Revised To Positive On Stronger Profitability

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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*****CaixaBank, S.A.*****

Ratings Affirmed

CaixaBank, S.A.

Resolution Counterparty Rating	A/--/A-1
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CaixaBank, S.A.

Senior Unsecured	A-
Senior Subordinated	BBB
Subordinated	BBB-
Preferred Stock	BB
Commercial Paper	A-2

Ratings Affirmed; Outlook Action

	To	From
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CaixaBank, S.A.

Issuer Credit Rating	A-/Positive/A-2	A-/Stable/A-2
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***** Caja Laboral Popular Cooperativa de Credito *****

Ratings Affirmed

Caja Laboral Popular Cooperativa de Credito

Issuer Credit Rating	BBB/Stable/A-2
Resolution Counterparty Rating	BBB+/--/A-2

***** (IBERCAJA) *****

Ratings Affirmed

Ibercaja Banco S.A.

Resolution Counterparty Rating	BBB/--/A-2
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Ibercaja Banco S.A.

Senior Unsecured	BBB-
Subordinated	BB
Preferred Stock	B+

Ratings Affirmed; Outlook Action

	To	From
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Ibercaja Banco S.A.

Issuer Credit Rating	BBB-/Positive/A-3	BBB-/Stable/A-3
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Outlooks On Six Spanish Banks Revised To Positive On Stronger Profitability

*****Cecabank S.A.*****

Ratings Affirmed

Cecabank S.A.

Issuer Credit Rating	BBB+/Stable/A-2
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Resolution Counterparty Rating	A/--/A-2
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Outlooks On Six Spanish Banks Revised To Positive On Stronger Profitability

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