FitchRatings

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Fitch Takes Action on 18 Spanish Banking Groups On Heightened Challenges from Coronavirus Outbreak

Fitch Ratings-Barcelona-27 March 2020:

Fitch has taken rating actions on 17 Spanish banking groups due to financial impact from the coronavirus outbreak as detailed below.

While the ultimate economic and financial market implications of the coronavirus pandemic are unclear, Fitch considers the risks to the banks' operating environment and credit profiles to be clearly skewed to the downside and this has driven the rating actions. Spain is one of the most affected European economies by coronavirus so far. Fitch expects a significant deterioration in eurozone GDP prospects.

Fiscal support measures for the private sector and financial markets have mixed first order implications for banks. Spanish government guarantees on loans to SMEs and corporates will support borrowers' viability and hence banks' asset quality. Mortgage loan relief programmes will have negative first order implications for banks, but compensation by the state for direct COVID-19-related losses appears to be approved by EU state aid authorities, so it is probable that the full financial impact for banks will ultimately be mitigated.

Nonetheless, we expect asset quality to weaken relative to our previous expectations and for earnings challenges to intensify due to weaker business volumes and rising loan impairment charges. The latter could be mitigated following ECB's flexibility in the prudential treatment of loans backed by public support measures and the recommendation to avoid excessive pro-cyclical effects when applying the IFRS 9 international accounting standard.

Capital markets volatility is likely to cause valuation losses on the banks' securities holdings and discourage debt issuances for funding or Minimum Requirement for own Funds and Eligible Liabilities (MREL) purposes and become more costly in the event monetary policy support packages, including the ECB's EUR750 billion Pandemic Emergency Purchase Programme (PEPP), fail to mitigate rising funding costs.

We consider the risks to funding profiles to be longer-term (eg term debt refinancing and market issuance), rather than a near-term risk, given limited use by Spanish banks of short-term wholesale funding and extensive monetary policy support facilities, including targeted longer-term refinancing operations (TLTRO) and the PEPP. Larger and some mid-sized banks are more vulnerable to SME and corporates drawing down on their credit facilities. Lower rated banks are more at risk of their deposit franchises coming under pressure in the event of adverse news-flow and are likely to be the last to access wholesale funding markets again.

The Spanish banks enter this period of crisis after improving their credit fundamentals over the past few years. In particular, they have improved their capitalisation, reduced capital encumbrance by unreserved problem assets, and significantly reduced stocks of problem assets, albeit with room to improve compared with some European peers. Spanish banks have gone through several restructuring cycles since the last crises, successfully reducing excess capacity and improving operating efficiency. Spanish banks generally benefit from balanced funding structures, underpinned by relatively large and stable deposit bases.

Key Rating Drivers

SANTANDER

Unless noted below, the key rating drivers for Santander are those outlined in our Rating Action Commentary published in July 2019 (Fitch Affirms Santander at 'A-'; Outlook Stable).

Santander's Outlook is revised to Negative Outlook from Stable because we believe the economic fallout from the coronavirus crisis represents a medium-term risk to its ratings. However, the ratings are underpinned by the bank's broad and balanced geographic and business diversification. The relatively low correlation between the performance of its various foreign subsidiaries and its domestic banking business has to date provided the group's earnings and asset-quality metrics with some resilience. However, the pandemic represents a major and unprecedented challenge for Santander in that the bank simultaneously has to manage tougher economic conditions in many of its core markets, albeit presumably to different stages of intensity. This may create additional downside risks to our assessment of management and strategy, (and its execution capabilities in particular), earnings and asset quality relative to when we last reviewed the bank's ratings.

Santander's tier 2 debt has been downgraded by one notch to 'BBB' and removed from being Under Criteria Observation (UCO) to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the Viability Rating (VR) since the bank does not meet the specific conditions under our criteria for applying one notch.

The AT1 debt has been upgraded by one notch to 'BB+' and removed from UCO to reflect a change in baseline notching to four notches (from the previous five) from the VR, reflecting a reduction in incremental non-performance risk relative to our previous assumptions. Our assessment is based on the bank operating with a common equity Tier 1 (CET1) ratio that is above maximum distributable amount (MDA) thresholds and our expectation that this will continue. Our assessment is also underpinned by the group's track record of strong pre-provision profit generation throughout the cycle.

SCF

Unless noted below, the key rating drivers for SCF are those outlined in our Rating Action Commentary published in October 2019 (Fitch Affirms Santander Consumer Finance's IDR at 'A-'; Upgrades Senior Preferred Debt to 'A').

SCF's Outlook has been revised to Negative mirroring the action on its parent bank, Santander. SCF's VR has been placed on RWN because the economic fallout from the pandemic, which also affects SCF's foreign markets, albeit to different degrees, represents a near-term risk to the rating given the cyclicality of its core consumer lending business, which is particularly sensitive to economic and unemployment prospects. Similarly to its parent, we believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality and earnings relative to when we last reviewed the bank's ratings.

BBVA

Unless noted below, the key rating drivers for BBVA are those outlined in our Rating Action Commentary published in July 2019 (Fitch Affirms BBVA's IDR at 'A-', Outlook Negative; Upgrades Senior Preferred Debt to 'A').

BBVA's Long-Term IDR, VR and debt ratings have been placed on RWN because the economic fallout from the pandemic represents a near-term risk to its ratings. This is because we consider BBVA will be challenged by the downside risks to its home-country operating environment while at the same time having to manage the risks in its more volatile and weaker emerging markets. We believe the economic and financial market fallout creates additional downside risks to our assessment of asset quality to when we last reviewed the bank's ratings.

BBVA's tier 2 debt has been downgraded by one notch to 'BBB' and removed from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

The AT1 debt has been upgraded by one notch to 'BB+' and removed from UCO to reflect a change in baseline notching to four notches (from the previous five) from the VR, reflecting a reduction in incremental non-performance risk relative to our previous assumptions. Our assessment is based on the bank operating with a CET1 ratio that is above maximum distributable amount (MDA) thresholds and our expectation that this will continue. Our assessment is also underpinned by the group's track record of strong pre-provision earnings generation throughout the cycle and low leverage relative to European peers.

CAIXABANK

Unless noted below, the key rating drivers for CaixaBank are those outlined in our Rating Action Commentary published in September 2019 (Fitch Affirms CaixaBank at 'BBB+'; Places Senior Preferred and DCR on RWP).

CaixaBank's Outlook has been revised to Negative from Stable because we believe the economic fallout from the pandemic represents a medium-term risk to its ratings. However, the bank benefits from a leading domestic bancassurance franchise and diversified business model that provides it with some cushion to protect earnings and ultimately its adequate capital buffers. CaixaBank's risk appetite is negatively influenced by its above-average, albeit recently reduced, exposure to market risks from equity investments, which make the bank vulnerable to capital markets volatility. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of risk appetite, management and strategy (execution in particular), asset quality, earnings and capitalisation relative to when we last reviewed the bank's ratings.

CaixaBank's Derivative Counterparty Rating (DCR) and senior preferred debt ratings have been upgraded by one notch to 'A-' and removed from UCO to reflect the protection that could accrue to senior preferred debt and DCR from more junior bank resolution debt and equity buffers. CaixaBank expects to fully meet its MREL with senior-non preferred (SNP) and more junior (AT1 and T2) debt.

Fitch has also assigned CaixaBank's deposits ratings at 'A-'/'F2', one notch above the bank's Long-Term IDR, reflecting Fitch's view that senior preferred liabilities, including deposits, would be protected by the bank's more junior debt and equity buffers in case of a resolution.

CaixaBank's tier 2 debt has been downgraded by one notch to 'BBB-' and removed from UCO to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

BANCO SABADELL

Unless noted below, the key rating drivers for Banco Sabadell are those outlined in our Rating Action Commentary published in December 2019 (Fitch Affirms Sabadell at 'BBB'; Upgrades Short-Term Rating to 'F2').

Banco Sabadell's Long-Term IDR, VR and debt ratings have been placed on RWN because the economic fallout from the pandemic represents a near-term risk to its ratings, since we consider Sabadell comparatively more at risk of asset quality pressures given its significant exposure to the SME segment which is particularly sensitive to interest rate and economic cycles. Its UK subsidiary's predominantly low-risk mortgage lending exposure and the impact of the Spanish government programme to support SMEs and corporates could partly alleviate pressure on asset quality. We expect Sabadell will be challenged in executing its strategy, particularly improving profitability, since the profitability of its domestic activities may come under greater pressure and its UK subsidiary remains lowly profitable.

Institutional funding access could become more difficult or costly while overdrafts may be extended to the SMEs and larger corporates draw down on their credit facilities. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality, earnings and funding relative to when we last reviewed the bank's ratings.

Sabadell's senior preferred debt and DCR have been upgraded by one notch to 'BBB+', removed from UCO and placed on RWN, to reflect the protection that could accrue to senior preferred debt and DCR from more junior bank resolution debt and equity buffers. Sabadell plans to operate with combined buffers of SNP, AT1 and T2 at above 10% of its risk-weighted assets (RWA).

Fitch has also assigned Sabadell deposits ratings at 'BBB+'/'F2', one notch above the bank's Long-Term IDR, reflecting Fitch's view that senior preferred liabilities, which include deposits, would be protected by the bank's more junior debt and equity buffers in case of a resolution. The long-term deposit rating has been placed on RWN.

Sabadell's tier 2 debt has been downgraded by one notch to 'BB+', removed from UCO and placed on RWN, to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

The RWN on Sabadell's Short-Term IDR is in line with the RWN on the Long-Term IDR.

BANKIA

Unless noted below, the key rating drivers for Bankia are those outlined in our Rating Action

Commentary published in February 2020 (Fitch Affirms Bankia at 'BBB'; Upgrades Short-Term IDR to 'F2').

Bankia's Long-Term IDR, VR and debt ratings have been placed on RWN because the economic fallout from the pandemic represents a near-term risk to its ratings since the bank enters the economic downturn from a position of relative weakness with a less diversified revenue profile and a large holding of less-liquid and low-yielding SAREB bonds compared to some of its more diversified domestic peers. The pandemic will make meeting business diversification objectives and improving profitability more difficult to achieve and result in higher pressure on revenues. Weaker revenues will result in a reduced flexibility to absorb the higher loan impairment charges that are likely to be necessary given its weaker asset quality than peers'. However, Bankia benefits from sound capital buffers and has suspended its plans to return excess capital.

Institutional funding access could become more difficult for Bankia compared to the largest domestic banks. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality, earnings and funding relative to when we last reviewed the bank's ratings.

The SNP debt has been downgraded by one notch to 'BBB-', removed from UCO and placed on RWN, to reflect the risk of below-average recoveries arising from the use of more senior debt to meet resolution buffer requirements and the combined buffer of AT1, Tier 2 and SNP debt being unlikely to exceed 10% of RWAs.

Bankia's tier 2 debt has been downgraded by one notch to 'BB+', removed from UCO and placed on RWN, to reflect the change in baseline notching for loss-severity to two notches (from one previously) from the VR since the bank does not meet the specific conditions under our criteria for applying one notch.

The RWN on Bankia's Short-Term IDR is in line with the RWN on the Long-Term IDR.

UNICAJA

Unless noted below, the key rating drivers for Unicaja are those outlined in our Rating Action Commentary published in March 2020 (Fitch Affirms Unicaja at 'BBB-'; Stable Outlook).

Unicaja's Long-Term IDR, VR and subordinated debt ratings have been placed on RWN because the economic fallout from the pandemic represents a near-term risk to its ratings since the bank's asset quality metrics, despite having improved in the past few years, lag behind stronger domestic peers'. Hence, meeting planned asset quality and profitability improvement targets has become more difficult, in our view. However, Unicaja benefits from satisfactory capital buffers above minimum requirements. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality and earnings relative to when we last reviewed the bank's ratings.

The RWN on Unicaja's Short-Term IDR is in line with the RWN on the Long-Term IDR.

KUTXABANK

Unless noted below, the key rating drivers for Kutxabank are those outlined in our Rating Action Commentary published in March 2020 (Fitch Affirms Kutxabank at 'BBB+'; Rates Deposits 'A-').

Kutxabank's Outlook has been revised to Negative from Stable because we believe the economic fallout from the pandemic represents a medium-term risk to its ratings. The bank's ratings are underpinned by solid capitalisation and a sound regional franchise in the Basque Country, a region that weathered the last recession better than the rest of Spain, but the bank will nonetheless have to face asset-quality pressures.

Kutxabank's risk appetite is negatively influenced by an above-average exposure to market risks from its equity investments, despite these having recently been reduced, making the bank vulnerable to capital- markets volatility. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of risk appetite, management and strategy, asset quality and earnings relative to when we last reviewed the bank's ratings.

IBERCAJA

Unless noted below, the key rating drivers for Ibercaja are those outlined in our Rating Action Commentary published in March 2020 (Fitch Revises Ibercaja's Outlook to Stable; Affirms IDR at 'BB+').

Ibercaja's Long-Term IDR, VR and debt ratings have been placed on RWN because the economic fallout from the pandemic represents a near-term risk to its ratings. Despite benefiting from a more diversified business model than many domestic peers', Ibercaja's capital position is tighter. Its comparatively weaker capital in combination with modest profitability and asset-quality pressure reduce financial flexibility to absorb shocks. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality, earnings and capital relative to when we last reviewed the bank's ratings.

ABANCA

Unless noted below, the key rating drivers for Abanca are those outlined in our Rating Action

Commentary published in March 2020 (Fitch Affirms Abanca at 'BBB-'; Stable Outlook).

Abanca's Long-Term IDR, VR and debt ratings have been placed on RWN because the economic fallout from the pandemic represents a near-term risk to the rating since the bank enters the economic downturn from a position of relative weakness. We see a heightened risk that Abanca will find it difficult to strengthen capital, which deteriorated following several acquisitions, and to improve its low profitability as planned. The potential acquisition of a small Portuguese bank could add execution challenges and risks. While Abanca benefits from better-than-average asset quality domestically, we believe this will come under pressure. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality, earnings and capital relative to when we last reviewed the bank's ratings.

The RWN on Abanca's Short-Term IDR is in line with the RWN on the Long-Term IDR.

LIBERBANK

Unless noted below, the key rating drivers for Liberbank are those outlined in our Rating Action Commentary published in March 2020 (Fitch Revises Liberbank's Outlook to Positive; Affirms at IDR 'BB+').

Liberbank's Outlook has been revised to Negative from Stable because we believe the economic fallout from the pandemic represents a medium-term risk to its ratings. However, the bank's ratings are underpinned by its significant progress in addressing asset-quality problems, albeit remaining weaker relative to some of its peers', and by improving capital buffers, which compare well with peers'. We expect the positive asset-quality trends to reverse, ultimately adding pressure to its already modest profitability and to capital. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality, earnings and capital relative to when we last reviewed the bank's ratings.

LABORAL KUTXA

Unless noted below, the key rating drivers for Laboral Kutxa are those outlined in our Rating Action Commentary published in July 2019 (Fitch Affirms Laboral Kutxa at 'BBB+'; Outlook Stable).

Laboral Kutxa's Outlook has been revised to Negative from Stable because we believe the economic fallout from the pandemic represents a medium-term risk to its ratings. The bank's ratings are underpinned by solid capitalisation, adequate funding and liquidity, and a regional franchise in the Basque Country, a region that weathered the last recession better than the rest of

Spain but the bank will nonetheless face asset-quality pressures. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality and earnings relative to when we last reviewed the bank's ratings.

CRS

Unless noted below, the key rating drivers for CRS are those outlined in our Rating Action Commentary published in July 2019 (Fitch Upgrades Caja Rural del Sur to 'BBB+'; Outlook Stable).

CRS's Outlook has been revised to Negative from Stable because we believe the economic fallout from the pandemic represents a medium-term risk to the bank's ratings. However, the bank's ratings are underpinned by solid capital ratios, moderate risk appetite and better asset quality than domestic averages. However, asset-quality pressures add risks to its modest profitability. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality and earnings relative to when we last reviewed the bank's ratings.

CRN

Unless noted below, the key rating drivers for CRN are those outlined in our Rating Action Commentary published in July 2019 (Fitch Affirms Caja Rural de Navarra at 'BBB+'; Outlook Stable).

CRN's Outlook has been revised to Negative from Stable because we believe the economic fallout from the pandemic represents a medium-term risk to the bank's ratings. However, the bank's ratings are underpinned by solid capitalisation and a stringent risk appetite, which has to date resulted in consistently stronger asset quality than domestic peers'. This has helped the bank support its stable but modest profitability. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality and earnings relative to when we last reviewed the bank's ratings.

EUROCAJA

Unless noted below, the key rating drivers for Eurocaja are those outlined in our Rating Action Commentary published in July 2019 (Fitch Affirm Eurocaja Rural at 'BBB'/ Stable; Upgrades Short-Term Rating to F2).

Eurocaja's Outlook has been revised to Negative from Stable because we believe the economic fallout from the pandemic represents a medium-term risk to the bank's ratings. However, the bank's ratings are underpinned by better-than- average asset-quality metrics domestically, a moderate risk appetite and above-average capitalisation. However, asset-quality pressures add risks to its modest profitability. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality and earnings relative to when we last reviewed the bank's ratings.

BCE

Unless noted below, the key rating drivers for BCE are those outlined in our Rating Action Commentary published in July 2019 (Fitch Upgrades Banco Cooperativo Espanol's ST IDR to 'F2', Affirms LT IDR at 'BBB').

BCE's Outlook has been revised to Negative from Stable because we believe the economic fallout from the pandemic represents a medium-term risk to the bank's ratings. However, the ratings are underpinned by the bank's strategic role as treasurer for the members of the Spanish rural credit cooperative association, which provides the bank with a stable, albeit low margin, business flow, relatively low risk appetite, adequate risk management and stable liquidity profile.

BCE's business volumes are largely dependent on that of the Spanish rural cooperatives and its treasury activities bear counterparty risks with potentially weaker sovereigns as a result of the pandemic. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality and earnings relative to when we last reviewed the bank's ratings.

CECABANK

Unless noted below, the key rating drivers for Cecabank are those outlined in our Rating Action Commentary published in September 2019 (Fitch Affirms Cecabank at 'BBB-'; Outlook Stable).

Cecabank's Outlook has been revised to Negative from Stable because we believe the economic fallout from the pandemic represents a medium-term risk to its ratings. However, the bank's ratings are underpinned by a well-established specialised franchise in Spain (recently strengthened by the acquisition of Kutxabank's custody business), moderate risk appetite, satisfactory capital buffers, and adequate funding and liquidity. Cecabank's profitability is negatively influenced by the current market volatility and the low interest-rate environment, which impact the revenue generated by its treasury, custody and administration activities. Despite the moderate risk profile, the bank is exposed to some counterparty risk concentration in Spanish and Italian sovereigns and in a few financial institutions. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality and earnings relative to when we last reviewed the bank's ratings.

ALLFUNDS

Unless noted below, the key rating drivers for Allfunds are those outlined in our Rating Action Commentary published in July 2019 (Fitch Affirms AFB at 'BBB+' and LHC3 at 'BB-' on CS InvestLab Acquisition).

Allfunds's Outlook has been revised to Negative from Stable because we believe the economic fallout from the pandemic represents a medium-term risk to its ratings. However, the ratings are underpinned by the bank's leading franchise in the open architecture fund distribution business in Europe, low risk appetite and adequate funding and liquidity. Allfunds's profitability is negatively influenced by the concentration of revenues in the fund distribution and intermediation segment, which makes earnings sensitive to current market volatility. Heightened market volatility will also challenge the bank's growth strategy. We believe the economic and financial market fallout from the pandemic creates additional downside risks to our assessment of management and strategy, asset quality and earnings relative to when we last reviewed the bank's ratings.

RATING SENSITIVITIES

The most immediate downside rating sensitivity for the banks' IDRs, VRs and debt ratings now relates to the economic and financial market fallout arising from the pandemic as this represents a clear risk to our assessment of asset quality, earnings, capitalisation and funding. The extent to which government and central bank support packages can mitigate rating pressure on banks' ratings will depend on the amount and form such support takes.

SANTANDER

Santander has headroom to emerge with its IDRs, VR, debt and deposit ratings intact due to the relative strength of its company profile supported by its broad geographic diversification, management and strategy, earnings resilience, capitalisation and funding profile, which are all in line with or above its VR. But this outcome will depend on the ultimate depth and duration of the pandemic shock to the Spanish economy and the other core markets where Santander operates.

Santander's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery in Spain but also in the major markets were Santander operates would likely result in a more permanent damage of the bank's earnings resilience and asset quality, ultimately increasing pressure on its capital. Its ratings are also sensitive to a downgrade of Spain (A-/Stable). For Santander's ratings to be upgraded, Spain would need to be upgraded. This would have to be accompanied by further improved capital metrics and better asset quality, along with maintaining earnings resilience.

AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded.

SCF

SCF's IDRs and debt ratings are sensitive to the same factors that might drive a change in Santander's IDRs.

The RWN on SCF's VR reflects the near-term risks to the rating arising from the pandemic and the heightened probability of a downgrade. Its concentrated and more vulnerable business model, heavily focused on consumer lending means SCF has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent.

Potential downgrade triggers are: i) sustained asset-quality deterioration ii) sustained pressure on operating profitability from lower revenues and higher loan impairment charges; or iii) a further downward revision of Fitch's expectations for the Spanish economy as well as other core economies where SCF operates (i.e. Germany, Nordics, France). In resolving the RWN, Fitch will seek to understand the extent to which compensation by governments for direct pandemic-related losses in its main markets will cushion the financial impact on the bank's asset quality, earnings and solvency.

BBVA

The RWN on BBVA's VR reflects the near-term risks to the rating arising from the pandemic and the heightened probability of a downgrade. Its earnings resilience is based on geographic diversification in emerging economies and in the US, which we believe will cushion the bank less than in the past as simultaneous economic disruptions are taking place globally as the pandemic spreads. This means BBVA has moderate rating headroom to offset pressure on its earnings and ultimately on its capitalisation. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent.

Potential downgrade triggers are: i) sustained asset-quality deterioration ii) sustained pressure on operating profitability from lower revenues and higher loan impairment charges; or iii) a further downward revision of Fitch's expectations for the Spanish economy as well as other core economies where BBVA operates. In resolving the RWN, Fitch will seek to understand the extent to which compensation by governments for direct pandemic-related losses in BBVA's main markets will cushion the financial impact on the bank's asset quality, earnings and solvency.

AT1 ratings could be downgraded if non-performance risk increases relative to the risk captured in the bank's VR, for example if capital buffers over regulatory requirements are eroded.

CAIXABANK

CaixaBank has headroom to emerge with its IDRs, VR, debt and deposit ratings intact due to the relative strength of its company profile, management and strategy, risk appetite, earnings, capital and funding profile, which are all in line with or above its VR. But this outcome will depend on the ultimate depth and duration of the pandemic shock to the Spanish economy.

CaixaBank's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery in Spain would likely result in a more permanent damage of the bank's capital and asset quality, which would be difficult to restore within a short period of time, exerting downward rating pressure. An upgrade of CaixaBank's ratings would be contingent on a material improvement in the operating environment. This would have to be accompanied by a further strengthening of capitalisation and better asset-quality metrics. Additional divestments of equity holdings in non-financial companies, resulting in lower capital encumbrance, and improvement in profitability would also be rating-positive.

SABADELL

The RWN on Sabadell reflects the near-term risks to its ratings arising from the pandemic and the heightened probability of a downgrade. The bank's significant exposure to the SME and corporate sector means it has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent.

Potential downgrade triggers are: i) sustained asset-quality deterioration ii) sustained pressure on operating profitability from lower revenues and higher loan impairment charges; or iii) a further downward revision of Fitch's expectations for the Spanish and UK economies. In resolving the RWN, Fitch will seek to understand the extent to which compensation by the Spanish and UK government for direct pandemic-related losses will cushion the financial impact on the bank's asset quality, earnings and ultimately on capital. The ratings remain sensitive to deterioration in the bank's funding and liquidity profile.

BANKIA

The RWN on Bankia reflects the near-term risks to its ratings arising from the pandemic and the heightened probability of a downgrade. Its weaker asset quality than domestic-peers' and less profitable business model than larger banks', with a larger share of low-yielding mortgage loans and SAREB bonds, mean it has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent.

Potential downgrade triggers are i) sustained asset-quality deterioration ii) sustained pressure on operating profitability from lower revenues and higher loan impairment charges; or iii) a further downward revision of Fitch's expectations for the Spanish economy. In resolving the RWN, Fitch will seek to understand the extent to which compensation by the Spanish government for direct pandemic-related losses will cushion the financial impact on the bank's asset quality, earnings and ultimately on capital. The ratings remain sensitive to deterioration in the bank's funding and liquidity profile.

UNICAJA

The RWN on Unicaja reflects the near-term risks to its ratings arising from the pandemic and the heightened probability of a downgrade. The bank's somewhat weaker asset quality metrics than some domestic peers' and less profitable business model than larger banks', mean it has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent.

Potential downgrade triggers are i) material asset-quality deterioration ii) pressure on operating profitability from lower revenues and higher loan impairment charges; or iii) a further downward revision of Fitch's expectations for the Spanish economy. In resolving the RWN, Fitch will seek to understand the extent to which compensation by the Spanish government for direct pandemic-related losses will cushion the financial impact on the bank's asset quality, earnings and ultimately on capital. The ratings remain sensitive to deterioration in the bank's funding and liquidity profile.

KUTXABANK

Kutxabank has headroom to emerge with its IDRs, VR, debt and deposit ratings intact due to the relative strength of primarily its capitalisation but also its management and strategy and risk appetite, which are all in line with or above its VR. But this outcome will depend on the ultimate depth and duration of the pandemic shock to the Spanish economy.

Kutxabank's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery in Spain would likely result in a more permanent damage of the bank's earnings and asset quality, which would be difficult to restore within a short period of time. An upgrade would be contingent on a material improvement of the operating environment. This would have to be accompanied by a further strengthening of asset-quality metrics and operating profitability, and reduced exposure to market risk from equity investments.

IBERCAJA

The RWN on Ibercaja reflect the near-term risks to its ratings arising from the pandemic and the heightened probability of a downgrade. The bank's modest core profitability and tighter capital levels than peers' mean it has moderate headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent.

Potential downgrade triggers are: i) sustained asset-quality deterioration ii) sustained pressure on profitability from lower revenues and higher loan impairment charges and ultimately on capitalisation ; or iii) a further downward revision of Fitch's expectations for the Spanish economy. In resolving the RWN, Fitch will seek to understand the extent to which compensation by The Spanish government for direct pandemic-related losses will cushion the financial impact on the bank's asset quality, earnings and ultimately on capital.

ABANCA

The RWN on Abanca reflects the near-term risks to its ratings arising from the pandemic and the heightened probability of a downgrade. The bank's modest core profitability, less diversified business model than peers' and limited capital buffers due to recent acquisitions, means it has moderate rating headroom in the face of the economic disruption posed by the outbreak. We expect to resolve the RWN in the near term, when the impact of the outbreak on the bank's credit profile becomes more apparent.

Potential downgrade triggers are: i) sustained asset-quality deterioration ii) sustained pressure on operating profitability from lower revenues and higher loan impairment charges and ultimately on capitalisation; or iii) a further downward revision of Fitch's expectations for the Spanish economy. In resolving the RWN, Fitch will seek to understand the extent to which compensation by The Spanish government for direct pandemic-related losses will cushion the financial impact on the bank's asset quality, earnings and ultimately on capital.

The ratings are also sensitive to the outcome of the bank's non-binding offer for EuroBic and would come under pressure if Abanca's exposure to operational and reputational risk increases as a result of the transaction, or if the terms of the offer, which are not yet known, are such that they would weaken capitalisation and asset quality further.

LIBERBANK

Liberbank has headroom to emerge with its IDRs, VR, and debt ratings intact due to the relative strength of its company profile, management and strategy, risk appetite and capital and funding profile, which are all in line with or above its VR. But this outcome will depend on the ultimate depth and duration of the pandemic shock to the Spanish economy.

Liberbank's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery in Spain would likely result in a more permanent damage of the bank's asset quality and ultimately capital, which would be difficult to restore within a short period of time, exerting downward rating pressure. An upgrade would be contingent on an improvement in asset-quality metrics and capital exposure to unreserved problem assets. This should be accompanied by stable risk-weighted capital ratios.

LABORAL KUTXA

Laboral Kutxa has headroom to emerge with its IDRs and VR intact due to the relative strength of its capitalisation primarily but also its funding and liquidity profile, which underpin its VR. But this outcome will depend on the ultimate depth and duration of the pandemic shock to the Spanish economy.

Laboral Kutxa's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery in Spain would likely result in a more permanent damage of the bank's capital and asset quality, which would be difficult to restore within a short period of time, exerting downgrade pressures. An upgrade would be contingent on a material improvement of the operating environment. This would have to be accompanied by a more diversified franchise and businesses combined with better asset-quality metrics and reduced securities holdings. Improving the profitability of its core banking activities would also be rating-positive.

CRS

CRS has headroom to emerge with its IDRs and VR intact due to the relative strength of its capitalisation primarily but also its funding and liquidity profile, which underpin its VR. But this outcome will depend on the ultimate depth and duration of the pandemic shock to the Spanish economy.

CRS's ratings would likely be downgraded if prospects that the health crisis is resolved globally in

2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery in Spain would likely result in a more permanent damage of the bank's asset quality and earnings, which would be difficult to restore within a short period of time, exerting downward rating pressure. An upgrade of CRS's ratings is unlikely given the bank's small equity base. In the long term, any upside is contingent on a substantial improvement in the operating environment and a strengthening of the bank's equity base, franchise and business model combined with reduced risk concentration from its sovereign debt portfolio. Material improvements in the profitability of its core banking activities and asset quality, while maintaining robust capital buffers will also be rating-positive.

CRN

CRN has headroom to emerge with its IDRs and VR due to the relative strength of its capitalisation primarily but also its management and strategy, asset quality, risk appetite and funding and liquidity which are all in line with its VR. But this outcome will depend on the ultimate depth and duration of the pandemic shock to the Spanish economy.

CRN's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in a more permanent damage of asset quality and earnings, which would be difficult to restore within a short period of time. Upside to the ratings is currently limited. In the long-term, upside would require a material improvement in the operating environment and a strengthening of the bank's franchise and business model combined with reduced securities holdings. Improving core banking profitability would also be rating-positive.

EUROCAJA

Eurocaja has headroom to emerge with its IDRs, VR, debt and deposit ratings intact due to the relative strength of its capitalisation primarily but also its management and strategy, risk appetite asset quality and funding profile which are all in line with or above its VR. But this outcome will depend on the ultimate depth and duration of the pandemic shock to the Spanish economy.

Eurocaja's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely exercise sustained pressure on its earnings and could result in a sustained deterioration of its asset quality given its exposure to SMEs and small businesses. This is despite its business model being geared towards lower-risk clients and strong underwriting standards that have to date resulted in Eurocaja outperforming the domestic sector.

BCE

BCE has headroom to emerge with its IDRs and VR due to the relative strength of its capital primarily but also of its company profile and strategic role for the Spanish rural credit cooperative association, management and strategy, risk appetite, asset quality and funding which are all in line or above its VR. But this outcome will depend on the ultimate depth and duration of the pandemic shock to the Spanish economy.

BCE's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery could reduce BCE's importance within the group and business volumes and put sustained pressure on its profitability. Rating upside is limited. In the long term, continued strong relationships with AECR banks, supporting internal capital generation and strengthening the capital base, combined with an improvement of the aggregate financial profile of AECR member banks, could support an upgrade.

CECABANK

Cecabank has headroom to emerge with its IDRs and VR intact due to the relative strength of its company profile, management and strategy, risk appetite, asset quality, earnings and profitability, capitalisation and funding and liquidity profile, which are all in line with or above its VR. But this outcome will depend on the ultimate depth and duration of the pandemic shock to the Spanish economy.

Cecabank's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery in Spain would likely result in a more permanent damage of the bank's profitability and asset quality, which would be difficult to restore within a short period of time. Cecabank's ratings could be upgraded if the bank strengthens its franchise through a more balanced and diversified customer and business mix. A positive rating action would also require its sound capitalisation to be maintained and risk appetite not to increase.

ALLFUNDS

Allfunds has headroom to emerge with its IDRs and VR intact due to the relative strength of its company profile, management and strategy, risk appetite, asset quality, earnings and profitability and funding and liquidity profile, which are all in line with or above its VR. But this outcome will depend on the ultimate depth and duration of the pandemic shock to the global economy and the markets where the bank operates (i.e. Spain, Italy, Switzerland, UK).

Allfunds's ratings would likely be downgraded if prospects that the health crisis is resolved globally in 2H20 become less likely, which would make a sharp recovery in global growth in 2021 more remote. A delay to this sharp recovery would likely result in a more permanent damage of the bank's earnings and asset quality, which would be difficult to restore within a short period of time, exerting downward rating pressure. An upgrade would be contingent on sustained business and earnings growth and more balanced business and client diversification. A positive rating action would also require preserving the bank's current capitalisation and risk appetite.

Public Ratings with Credit Linkage to other ratings

Not applicable

ESG Considerations

ESG issues are credit neutral or have only a minimal credit impact on the entity(ies), either due to their nature or the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Contacts:
Primary Rating Analyst
Raphael Nascimento,
Associate Director
+34 93 323 8406
Fitch Ratings Espana. S.A.U.
Av. Diagonal 601
Barcelona 08028

Primary Rating Analyst
Cristina Torrella Fajas,
Senior Director
+34 93 323 8405
Fitch Ratings Espana. S.A.U.
Av. Diagonal 601
Barcelona 08028

Primary Rating Analyst
Pau Labro Vila,

Director
+34 93 494 3464
Fitch Ratings Espana. S.A.U.
Av. Diagonal 601
Barcelona 08028

Primary Rating Analyst
Fernando Sanchez Garcia-Yanes,
Associate Director
+34 91 076 1987
Fitch Ratings Spain - Madrid
Paseo de la Castellana 31 9ºB
Madrid 28046

Secondary Rating Analyst
Danel Izqueaga,
Analyst
+34 91 076 1988

Secondary Rating Analyst
Pau Labro Vila,
Director
+34 93 494 3464

Secondary Rating Analyst
Fernando Sanchez Garcia-Yanes,
Associate Director
+34 91 076 1987

Secondary Rating Analyst
Raphael Nascimento,
Associate Director
+34 93 323 8406

Committee Chairperson
Francesca Vasciminno,
Senior Director
+39 02 879087 225

Media Relations: Louisa Williams, London, Tel: +44 20 3530 2452, Email: louisa.williams@thefitchgroup.com
Pilar Perez, Barcelona, Tel: +34 93 323 8414, Email: pilar.perez@fitchratings.com

Additional information is available on www.fitchratings.com

Applicable Criteria

Bank Rating Criteria (pub. 28 Feb 2020)

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