

Research Update:

Spain's Banco Santander Outlook Revised To Negative On Global Economic Downturn; 'A/A-1' Ratings Affirmed

April 29, 2020

Overview

- Despite governments' measures to contain the COVID-19 pandemic, the world is facing an unprecedented economic challenge, with most economies entering into deep recessions in 2020.
- Banco Santander S.A. has strong earnings to absorb the likely substantial increase in credit provisions ahead while remaining profitable, albeit at levels well below the prior year's. This, combined with paused dividends, should help sustain adequate capitalization.
- For the first time, though, the bank will face a synchronized economic downturn in all the markets where it operates, which will test its resilience.
- We are therefore revising our outlook on Banco Santander S.A. to negative from stable, and affirming our 'A/A-1' long- and short-term ratings.
- The negative outlook reflects the possibility of Banco Santander's credit strength being more severely damaged, either because, in the current scenario, the bank's wide geographic diversification does not cushion the effects of the economic downturn as much as we previously thought, or because the environment turns even more challenging.

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Rating Action

April 29, 2020, S&P Global revised its outlook to negative from stable on Spain's Banco Santander S.A. We affirmed our 'A' long-term and 'A-1' short-term credit ratings.

At the same time, we affirmed our 'A+/A-1' long- and short-term resolution counterparty ratings on the bank, as well as our issue ratings on all of the bank's senior, senior unsecured, and hybrid debt.

Rationale

Our rating action takes into account the far more challenging outlook for the global economy because of the lockdown measures governments imposed to contain the spread and effects of COVID-19.

Large parts of economic activity in basically all the markets where Santander operates, from Europe to the Americas, have ground to a halt. With isolation strategies still very much in force, our economists expect sharp economic contraction in the second quarter of 2020, followed by a rebound starting in the third quarter. However, they are now more cautious on the strength of recovery through end-2020 and into 2021. We are forecasting the eurozone economy to contract by 7.3% this year, rebounding by 5.6% in 2021; while for the U.K., our forecast is that GDP will fall by 6.5% in 2020 and recover by 6.0% in 2021. The U.S. economy will also take a substantial hit, with GDP falling by 5.2%, although our forecasts indicate a stronger rebound of 6.2% growth in 2021. Latin American countries will not escape the downturn either. Brazil's GDP is set to contract by 4.6% in 2020, resuming growth of 3.3% in 2021; while Mexico's GDP will likely slump by 6.7% in 2020, with an expected rebound of just 2.9% in 2021.

We acknowledge that authorities, particularly in developed markets, have delivered unprecedented policy responses in the form of monetary, fiscal, and regulatory support to their economies. These will certainly help to contain, although not to fully avoid, the damage.

Santander faces this cyclical shock from a position of strength. Its strong earnings (even if they will naturally weaken) provide substantial room to accommodate the likely material increase of credit costs that the bank will face, particularly in its consumer and small and mid-sized enterprise portfolios, and remain profitable. Still, we expect bottom-line profitability to fall markedly (it could well halve) compared with the prior year, and it might stay below pre-COVID 19 levels in 2021. Capital, nevertheless, should hold up well, particularly if earnings are fully retained, as recommended by authorities. We capture these factors in the rating affirmation.

Nevertheless, Santander is up against an unprecedented scenario, with all its markets of operation facing stress at the same time, undoubtedly testing the benefits of the group's wide geographic diversification. We also consider the uncertainty surrounding the unwinding of the COVID-19 pandemic, including the success of policy responses in avoiding permanent economic damage, the potential repercussions of additional indebtedness for the sovereign and the private sector, and possible setbacks in the normalization of economic activity. We capture all these risks in the negative outlook on the bank.

Outlook

The negative outlook reflects the possibility of downgrading Santander over the next 18-24 months if the bank's credit strength is materially damaged amid COVID-19 fallout. This could happen if the bank's wide geographic diversification proves less effective than we thought, and the bank records massive provisions, or loses substantial earnings power, that impair its profits and potentially challenge its capital position. Santander's creditworthiness could also feel strain if the 2020 downturn is more profound or the 2021 economic recovery in the countries where the bank has meaningful operations is substantially weaker than expected or delayed.

We could revise the outlook to stable if the bank demonstrates resilience through the recession and downside risks to our macroeconomic forecasts ease. Even if that were not the case, and we continue to see pressure on the bank's stand-alone creditworthiness, we could consider affirming

the ratings if Santander continues to build-up its buffer of minimum requirement for own funds and eligible liabilities, and looks likely to reach a cushion of bail-inable debt large enough to protect senior creditors in resolution.

Ratings Score Snapshot

Banco Santander S.A.

	To	From
Issuer Credit Rating	A/Negative/A-1	A/Stable/A-1
SACP	a	a
Anchor	bbb+	bbb+
Business Position	Very Strong (+2)	Very Strong (+2)
Capital & Earnings	Adequate (0)	Adequate (0)
Risk Position	Strong (+1)	Strong (+1)
Funding & Liquidity	Average and Adequate (0)	Average and Adequate (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.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- 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
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- General Criteria: Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Outlooks Revised To Negative On Several Spanish Banks On Deepening COVID-19 Downside Risks, April 29, 2020
- How COVID-19 Risks Prompted European Bank Rating Actions, April 29, 2020
- Credit Conditions In Europe Darken As Costs Of Lockdowns Add Up, April 27, 2020 Outlooks Revised On Six U.K. Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Negative Rating Actions Taken On Various French Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Negative Rating Actions Taken On Multiple German Banks On Deepening COVID-19 Downside Risks, April 23, 2020
- Europe's AT1 Market Faces The COVID-19 Test: Bend, Not Break, April 22, 2020
- How COVID-19 Is Affecting Bank Ratings, April 22, 2020
- Europe Braces For A Deeper Recession In 2020, April 20, 2020
- European Banks' First-Quarter Results: Many COVID-19 Questions, Few Conclusive Answers, April 1, 2020
- COVID-19: The Steepening Cost To The Eurozone And U.K. Economies, March 26, 2020
- COVID-19 Countermeasures May Contain Damage To Europe's Financial Institutions For Now, March 13, 2020
- The Coronavirus Will Shave 50 Basis Points Off Eurozone Growth, March 4, 2020
- Full Analysis: Banco Santander S.A., Dec. 20, 2019

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

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