

Rating Action: Moody's takes rating actions on 11 Iberian banks following update to banks methodology

13 Jul 2021

Senior unsecured ratings of three banks upgraded

Madrid, July 13, 2021 -- Moody's Investors Service (Moody's) has today taken rating actions on 11 Iberian banks, including the upgrade of the long-term junior senior ratings of six of them. The rating actions were driven by revisions to Moody's Advanced Loss Given Failure (Advanced LGF) framework, which is applied to banks operating in jurisdictions with Operational Resolution Regimes, following the publication of Moody's updated Banks Methodology on 9 July 2021. This methodology is available at this link: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL450090 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

All other Iberian bank ratings were unaffected by today's rating action and the update of the Banks Methodology.

RATINGS RATIONALE

Today's rating actions on 11 Iberian banking groups were driven by revisions to the Advanced LGF framework within Moody's updated Banks Methodology.

In particular, ratings were impacted by revised notching guidance table thresholds at lower levels of subordination in the liability structure, which have been applied to all Iberian banks. For Iberian banks with overseas subsidiaries the rating actions also reflects Moody's view that group-wide resolutions coordinated in a unified manner will be more common following the requirement to issue debt instruments eligible to internal loss absorbing capital (ILAC). The building up of ILAC will lead to a likely transfer of losses from subsidiaries to parents at the point of failure. For banks that are subsidiaries of international parents and subject to ILAC requirements the rating actions reflects the required and expected issuance of such instruments.

RATINGS RATIONALE FOR INDIVIDUAL BANKS

- BANCO SANTANDER S.A. (SPAIN) AND SANTANDER CONSUMER FINANCE S.A.

Moody's affirmed the subordinated debt ratings of Banco Santander S.A. (Spain) (Santander) and Santander Consumer Finance S.A. (SCF) at Baa2 and their subordinated programme ratings at (P)Baa2.

Moody's applies its Advanced LGF analysis on Santander's regulatory resolution perimeter, which includes the domestic activities of Santander and both domestic and international activities of SCF. Even though Moody's revised notching guidance table indicates bank's subordinated debt ratings at the level of the bank's Adjusted Baseline Credit Assessment (BCA), a sustained level of subordination at the current level would be necessary to warrant an upgrade of the current ratings.

- BANCO BILBAO VIZCAYA ARGENTARIA, S.A.

Moody's upgraded the subordinated debt ratings of Banco Bilbao Vizcaya Argentaria, S.A. (BBVA) by one notch to Baa2 from Baa3 and its subordinated programme ratings to (P)Baa2 from (P)Baa3.

Under Moody's Advanced LGF analysis, BBVA's subordinated instruments are now rated in line with the bank's BCA, better capturing the risk characteristics of this class of debt and BBVA's expected liability structure following the agency's revised view around the distribution of losses post failure.

- BANCO SABADELL, S.A.

Moody's upgraded the long-term junior senior unsecured debt ratings of Banco Sabadell, S.A. (Banco

Sabadell) to Ba2 from Ba3.

Banco Sabadell's long-term junior senior debt ratings were upgraded by one notch to Ba2 from Ba3. Under Moody's Advanced LGF analysis they are rated in line with the BCA, better capturing the risk characteristics of this class of debt following the agency's revised view around the distribution of losses post failure.

The action also reflects Moody's expectation that Banco Sabadell's resolution will be carried out separately from its overseas subsidiary TSB Bank plc (TSB), despite TSB's issuance of ILAC instruments to its parent, given the limited strategic and operational connections between the two institutions and the regulatory "ring-fencing" of TSB in the UK.

- BANKINTER, S.A.

Moody's upgraded the long-term junior senior unsecured debt rating of Bankinter, S.A. (Bankinter) to Baa2 from Baa3.

Bankinter's long-term junior senior debt ratings were upgraded by one notch to Baa2 from Baa3, as under Moody's Advanced LGF analysis they are now rated in line with the BCA, better capturing the risk characteristics of this class of debt following the agency's revised view around the distribution of losses post failure.

- ABANCA CORPORACION BANCARIA, S.A.

Moody's upgraded the deposits ratings of ABANCA Corporacion Bancaria, S.A. (Abanca) to Baa3/Prime-3 from Ba1/Not Prime. Concurrently, Moody's affirmed the bank's Baseline Credit Assessment (BCA) and Adjusted BCA of ba1, subordinated debt rating of Ba2, Counterparty Risk Assessment of Baa1(cr)/P-2(cr) and Counterparty Risk Rating of Baa2/P-2. The outlook on the long-term deposits ratings remains stable.

The affirmation of Abanca's BCA was driven by Moody's view that the bank's credit profile will remain resilient over the outlook horizon. Asset quality deterioration stemming from the economic consequences of the pandemic is expected once the public support measures put in place are progressively withdrawn. However, the negative impact will likely be moderate in light of the solid economic growth prospects in Spain and also partly compensated by the forward-looking loan loss provisions that the bank set aside in 2020 in anticipation of a rise in problem loans.

The recent integration of Bankoa, S.A. and that of the Spanish business of Novo Banco, S.A., expected before year-end 2021, weighs on the bank's capital position. Moody's estimates a negative hit on Abanca's Tangible Common Equity (TCE) ratio from both acquisitions ranging between 60 and 70 basis points. Nevertheless, the rating agency expects the hit on capital to be partly offset by net profits retention, and the bank's TCE ratio, which stood at 7.5% at end-2020, to remain in the range of 7% - 8%. Given their small size, both acquisitions will have a minor effect on Abanca's profitability, which is nevertheless expected to recover in 2021 from 2020 levels mainly thanks to a lower level of provisions.

Abanca's long-term deposits ratings were upgraded by one notch to Baa3 from Ba1 because under Moody's Advanced LGF analysis they are now rated one notch above the BCA, which better captures the risk characteristics of junior deposits following the agency's revised view around the distribution of losses post failure.

- IBERCAJA BANCO SA

Moody's upgraded the long-term deposits ratings of Ibercaja Banco SA (Ibercaja) to Ba2 from Ba3. Concurrently, Moody's upgraded the bank's Counterparty Risk Assessment (CRA) to Baa3(cr)/P-3(cr) from Ba1(cr)/NP(cr) and its long-term Counterparty Risk Rating (CRR) to Ba1 from Ba2.

Ibercaja's deposits ratings were upgraded by one notch to Ba2 from Ba3, as under Moody's Advanced LGF analysis they are now rated one notch above the BCA, which better captures the risk characteristics of this class of debt following the agency's revised view around the distribution of losses post failure.

The upgrade of Ibercaja's CRA and CRR was driven by a higher notching uplift under Moody's Advanced LGF analysis, prompted by a higher cushion against losses provided by non-preferred deposits and debt instruments subordinated to the senior obligations represented by the CRA and to the CRR liabilities.

- CAIXA GERAL DE DEPOSITOS, S.A.

Moody's upgraded the senior unsecured debt rating of Caixa Geral de Depositos, S.A. to Baa3 from Ba1, senior unsecured programme rating to (P)Baa3 from (P)Ba1, junior senior unsecured rating to Ba1 from Ba2 and the junior senior unsecured programme rating to (P)Ba1 from (P)Ba2. At the same time, the bank's other short-term rating was upgraded to (P)Prime-3 from (P)Not Prime and its commercial paper to Prime-3 from Not Prime.

This action reflects the outcome of Moody's Advanced LGF analysis, which now better captures the risk characteristics of these classes of debt following the agency's revised view around the distribution of losses post failure.

- BANCO COMERCIAL PORTUGUES, S.A.

Moody's upgraded the junior senior unsecured programme rating of Banco Comercial Portugues, S.A. to (P)Ba2 from (P)Ba3.

This action reflects the outcome of Moody's Advanced LGF analysis, which now better captures the risk characteristics of these classes of debt following the agency's revised view around the distribution of losses post failure.

- BANCO BPI S.A.

Moody's upgraded the issuer rating of Banco BPI S.A. (Banco BPI) to Baa2 from Baa3, its senior unsecured programme rating to (P)Baa2 from (P)Baa3, its junior senior unsecured programme rating to (P)Baa3 from (P)Ba1 and its other short-term rating to (P)Prime-2 from (P)Prime-3. At the same time, the bank's long-term deposit ratings were affirmed at Baa1.

The action reflects the expectation that Banco BPI will be resolved in a unified manner alongside its Spanish parent CaixaBank S.A. The rating agency expects that Banco BPI's will issue junior senior instruments, which will be subscribed by its parent to comply with ILAC requirement. The inclusion of these instruments in Moody's Advanced LGF analysis results in an additional notch of support to the bank's issuer and programme ratings referred above, reflecting the greater levels of protection afforded to the bank's junior senior and senior creditors. Moody's has not reduced its expectation of a high probability of affiliate support, because it believes that the presence of ILAC is additive to any extraordinary support the bank might receive from its parent prior to the point of failure.

The increased protection for depositors has not translated into an upgrade of the bank's long-term deposit ratings of Baa1, given that they already exceed the sovereign rating by two notches and are therefore constrained at that level under our Banks Methodology.

The upgrade of Banco BPI's junior senior programme ratings by one notch also reflects the fact that Moody's Advanced LGF analysis now captures better the risk characteristics of this class of debt following the agency's revised view around the distribution of losses post failure.

- CAIXA ECONOMICA MONTEPIO GERAL, CEB, S.A.

Moody's upgraded the senior unsecured programme rating of Caixa Economica Montepio Geral, CEB, S.A. (Banco Montepio) to (P)B3 from (P)Caa1 and its junior senior unsecured programme rating to (P)B3 from (P)Caa1.

This action reflects the outcome of Moody's Advanced LGF analysis, which now better captures the risk characteristics of these classes of debt following the agency's revised view around the distribution of losses post failure.

OUTLOOK

The rating outlooks on Abanca's and Ibercaja's long-term deposit ratings and on Caixa Geral de Depositos' senior unsecured debt rating remain stable.

The outlook on Banco BPI's long-term deposit ratings was changed to positive from stable, in line with the outlook on the rating of the Government of Portugal (Baa3 positive). An upgrade of the government bond rating by one notch would lift the current constraint on the bank's long-term deposit ratings and could lead to an upgrade of these ratings to A3.

The rating outlooks for all other banks affected by today's rating action remain unchanged.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

The affected long-term deposit ratings, senior unsecured debt ratings, issuer ratings, CRRs and CR Assessments could be upgraded following an improvement in the standalone creditworthiness of the banks, or an upgrade of the relevant country sovereign debt rating.

The long-term deposit, senior unsecured debt ratings, and issuer ratings could also be upgraded following a significant increase in the stock of more junior bail-in-able liabilities.

The affected ratings and assessments could be downgraded following a substantial deterioration in the standalone creditworthiness of the banks or following a significant reduction in the stock of bail-in-able liabilities.

In the case of Abanca, ratings could be upgraded as a consequence of a sustained improvement in recurrent profitability or materially stronger capital and leverage ratios. In turn, any negative development affecting the bank's capital position, e.g. prompted by a new M&A transaction, would translate into downward pressure on its ratings. A worsening of Abanca's asset quality and profitability beyond Moody's current expectations could also lead to a downgrade of its ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Banks Methodology published in July 2021 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1269625. Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The List of Affected Credit Ratings announced here are a mix of solicited and unsolicited credit ratings. Additionally, the List of Affected Credit Ratings includes additional disclosures that vary with regard to some of the ratings. Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL450090 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and provides, for each of the credit ratings covered, Moody's disclosures on the following items:

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