Rating Action: Moody's takes actions on four Spanish banks

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Coronavirus-related economic shock drives outlook changes

Madrid, April 22, 2020 -- Moody's Investors Service today took actions on four Spanish banks. The outlooks on the long-term deposit and senior unsecured debt ratings of Bankia S.A. (Bankia) as well as the long-term deposit ratings of Liberbank have been changed to negative from stable. At the same time, the outlooks on the long-term deposit ratings of ABANCA Corporacion Bancaria, S.A. (Abanca) and Ibercaja Banco S.A. (Ibercaja) were changed to stable from positive.

Today's rating actions reflect the deteriorating operating environment from the coronavirus outbreak in Spain and the associated downside risks to the standalone credit profiles of Bankia, Liberbank and Abanca, as well as limited upside potential for that of Ibercaja. The Baseline Credit Assessments (BCAs) of these four Spanish banks are particularly exposed to:

- Worsening asset quality: despite the large support package put in place by the Spanish government as well as the supervisory measures decided by the European Central Bank (ECB), the rating agency expects an increase in problem loans and the cost of risk as households and companies struggle to deal with their sudden change in economic circumstances, and;

- Deteriorating profitability: bottom line results will likely come under pressure from rising loan loss provisions, lower lending and fee-related business volumes, and continued margin pressure as very low interest rates persist. The rating agency expects that the increase in loan loss provisions will be greater the longer the coronavirus outbreak lasts and also that Spanish banks have limited scope for counterbalancing cost cuts, with some leeway to reduce non-essential investment.

RATING ACTIONS OVERVIEW

OUTLOOK CHANGE TO NEGATIVE

- Bankia: The outlooks on the bank's Baa2 long-term deposit ratings and on the Baa3 long-term senior unsecured debt ratings were changed to negative from stable. All ratings and assessments were affirmed.

- Liberbank: The outlook on Liberbank's Ba2 long-term deposit rating was changed to negative from stable. All ratings and assessments were affirmed.

OUTLOOK CHANGE TO STABLE

- Abanca: The outlook on Abanca's Ba1 long-term deposit ratings was changed to stable from positive. All ratings and assessments were affirmed.

- Ibercaja: The outlook on the bank's Ba3 long-term deposit ratings was changed to stable from positive. All ratings and assessments were affirmed.

The ratings and rating assessments of all other rated Spanish banks are not affected by today's rating actions.

Please click on this link https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL422939 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

Spain is one of the countries that has been most heavily impacted by the coronavirus, which Moody's expects will have a very disruptive impact on the country's economy. The rating agency has changed the outlooks of Bankia, Liberbank, Abanca and Ibercaja to reflect the challenges on their intrinsic financial strength in light of the deteriorating operating environment. Moody's regards the coronavirus outbreak as a social risk under its Environmental Social and Governance framework, given the substantial implications for public health and
Moody's views Bankia's and Liberbank's BCAs as more vulnerable to a deterioration of their credit profiles, and hence has changed the outlook on their ratings to negative from stable. While the same vulnerability affects Abanca's BCA, the negative pressure on its deposit ratings is offset by expected changes in the bank's balance sheet structure, whereby deposits could benefit from a higher protection against losses according to Moody's Advanced Loss-Given Failure analysis, underpinning the stable outlook. By stabilizing the outlook on the ratings of Ibercaja, the rating agency aims to reflect the challenges that the bank will face to maintain the improving trend on its financial profile, principally in terms of asset quality.

**ASSET QUALITY AND PROFITABILITY WILL DETERIORATE**

The very rapid spread of the coronavirus outbreak has led Spain to enforce strict and widespread limitations on movement which will have a material impact on the country's economy, affecting both corporate and individuals, with more acute consequences for the SME sector as well as self-employed, which account for a significant portion of banks' loan portfolios.

Moody's therefore expects Spanish banks' asset quality and profitability to weaken due to higher problem loans, even though the duration of the disruption and its implications for the overall economy and the Spanish banking system are dependent upon the containment of the virus and gradual recovery of the economic activity, which remains difficult to predict.

To some extent, the economic consequences will be mitigated by government actions. On 18 March, the Spanish government approved a support package (Royal Decree Law 8/2020) that included specific measures for the banking system. The package included the introduction of state guarantees for an amount of up to €100 billion as well as some unemployment benefits and extraordinary subsidies for individuals and self-employed. The government also approved payment deferrals on mortgage loans, which Moody's viewed as credit negative for Spanish banks' asset quality and profitability.

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

An upgrade of Bankia's and Liberbank's ratings is unlikely given the current negative outlook, while the stabilization of Abanca's and Ibercaja's outlooks limits the potential of higher ratings.

A downgrade of the four banks' ratings would likely be driven by a lower BCA. A BCA downgrade could be driven by an expectation of a deterioration in Spain's operating environment, leading to a worsening of these banks' asset quality and profitability and reduced loss-absorption capacity.

Changes to the banks' liability structures could also have an impact of the banks' ratings.

**PRINCIPAL 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_ARFTL422939](https://www.moodys.com/viewresearchdoc.aspx?docid=PBC_ARFTL422939) 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:

- Rating Solicitation
- Issuer Participation
- Participation: Access to Management
- Participation: Access to Internal Documents

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and
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The ratings have been disclosed to the rated entity or its designated agent(s) and issued with no amendment resulting from that disclosure.

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Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

At least one ESG consideration was material to the credit rating action(s) announced and described above.

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