SCOPE Scope Ratings

Spanish banks quarterly

Strong domestic economy and lending growth sustain bank performance

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Spanish banks expect strong results for the second half of 2024, supported by higher-for longer interest rates and a faster than expected recovery in loan volumes. Asset quality remains solid, so risks to profitability and organic capital generation are well contained.

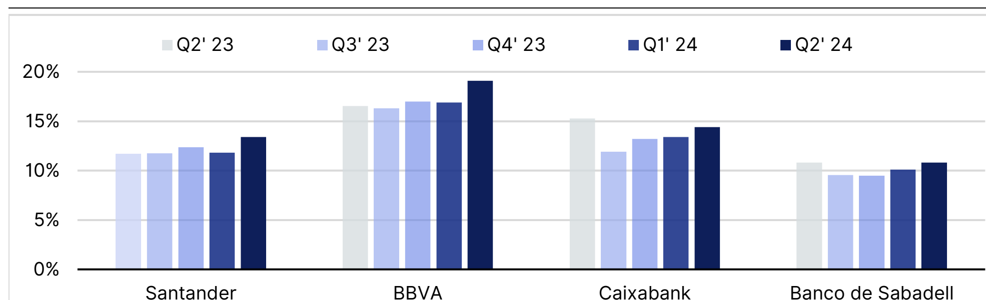
Stronger than expected operating environment in Spain, supported by a dynamic domestic economy. Spain's economy is expected to grow by 2.4% in 2024, outperforming the euro area, following stronger than expected contributions from net exports and resilient private consumption. Medium-term growth prospects will benefit from structural reforms and favourable labour market dynamics, including net migration flows and labour reforms that have improved job quality and supported employment.

Banks' profitability remains robust, still supported by net interest income and peak efficiency. Q2 results have outperformed the previous quarter, mainly due to net interest income, which continues to benefit from the high interest rates, as well as operating cost and low cost of risk.

Asset-quality metrics remain strong although signs of deterioration are present. While NPLs remains stable QoQ, we observe some increase in stage 2 loans and changes in cost-of-risk dynamics, with some banks actively managing credit risk with portfolio sales and provisioning.

Capital levels remain adequate. The introduction of a Countercyclical Capital Buffer (CCyB) in Spain (0.5% in 2025 and 1.0% in 2026) will have a larger impact on banks with higher domestic exposures. Even so, banks have stated that capital targets remain unchanged.

Figure 1: Spanish banks' RoE



Source: Banks' financial data, Scope Ratings.

Expected 2024 trends for Spanish banks		
Profitability	Stable, supportive net interest income and cost efficiency	→
Asset quality	Mildly negative, stage 2 levels growing	↘
Funding & Liquidity	Stable, deposits and liquidity remain strong	→
Capital	Stable, organic capital generation offset by RWAs grow	→

Profitability still robust, improving banks' expectations for YE 2024 results

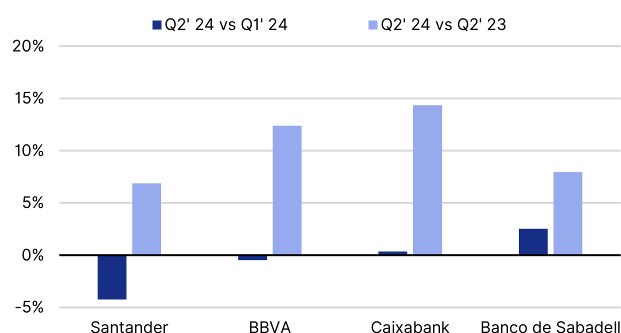
RoE remains high and supported by strong revenue generation

Spanish banks outperformed expectations in Q2 2024. Our sample of banks (BBVA, Santander, Sabadell and CaixaBank) achieved an average return on equity (RoE) of 14.4 % in the quarter, above the 13.1% in Q1 as the strong performance of net interest income (NII) remains supportive. All four banks revised upwards their guidance for YE 2024.

The repricing of loan portfolios continues to be the largest contributor to NII, as lending volumes have started to pick up (mostly consumer loans) while cost of deposits declined marginally, allowing the banks to maintain strong margins. Some banks also benefited from higher earnings on financial transactions (derivatives and securities portfolios). For the second half of the year, we expect NII to adjust downwards, as interest rates start to decrease following the recent ECB decision, while the cost of deposits adjusts more slowly considering the flow of time deposits seen in previous last quarters, which is now weighing on banks' funding structures.

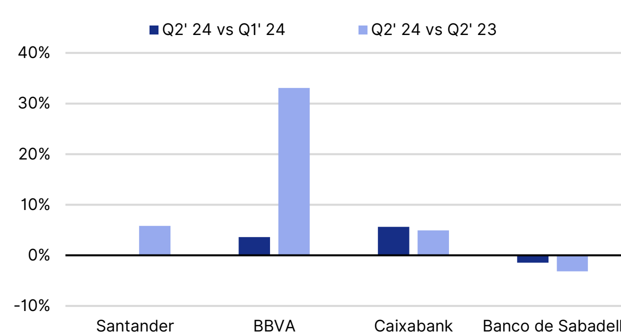
Fee and commission income is recovering QoQ, supported by payments and wealth management products. We expect this revenue line to continue growing in Q3 and Q4, supported by Spain's economic momentum and seasonal consumption that will help banks with a higher retail component benefit from higher payments and credit card fees.

Figure 2: Net interest income, quarterly comparison



Source: Company data, Scope Ratings

Figure 3: Net fees and commissions, quarterly comparison

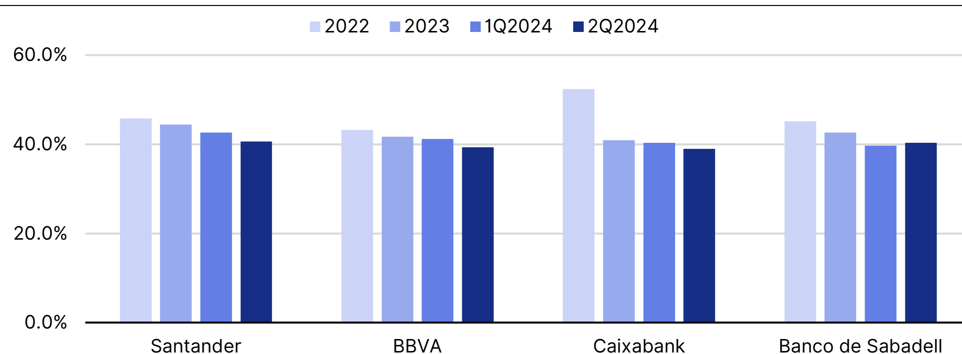


Source: Company data, Scope Ratings

Cost-to-income improving consistently for all banks

Efficiency ratios are at their peak and aligned across all four banks in our sample, reaching levels below 40% in Q2 24, a significant improvement compared to 40%-45% in 2023. The effect of salary increases and suppliers' costs (mostly for banks with large international operations) continues to be well absorbed by the strong revenue generation, and we expect this to remain favourable for the rest of the year as banks' cost-to-income ratios outperform their own targets.

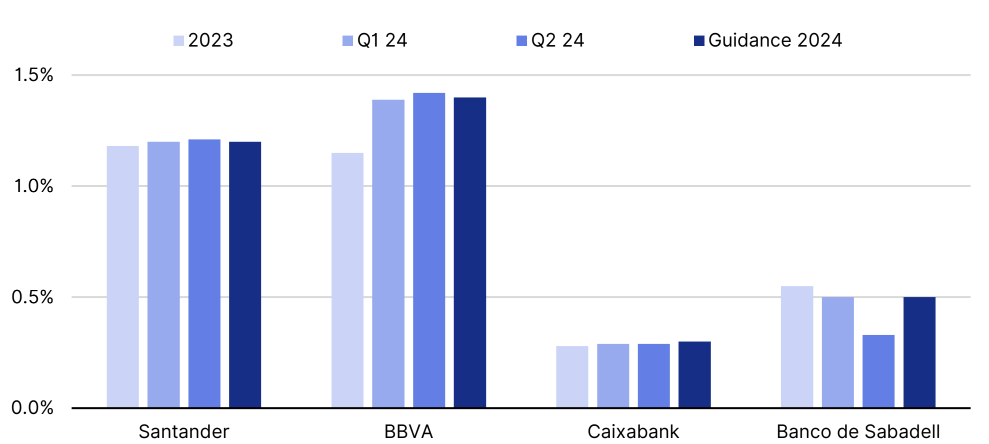
Figure 4: Efficiency, cost-to-income ratio



Source: Banks' financial data, Scope Ratings.

Cost of risk, while still contained, continues to increase QoQ for most banks and in some cases slightly above year-end guidance. However, banks have kept 2024 targets unchanged, expecting the cost of risk to align to guidance by Q3 and Q4 as interest rates start to decrease, providing relief to households and SMEs. Positive employment prospects, rising real income and immigration flows are also positive to support household confidence, leading to encouraging expectations on recovery of lending demand for Q3 and Q4.

Figure 4: Cost of risk (bp)

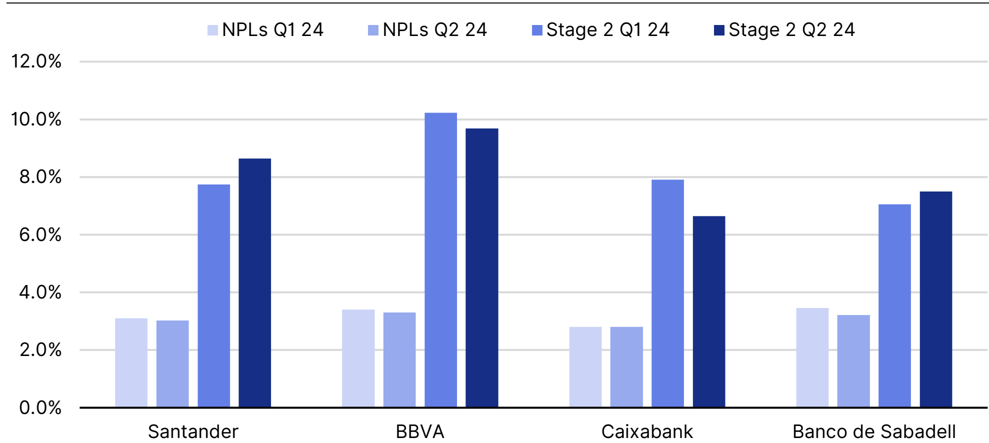


Source: Banks' financial data, Scope Ratings.

Asset quality, NPLs stable while Stage 2 slightly increasing

NPL ratios for our sample slightly decreased QoQ in Q2, following more active credit risk management and growth of good quality loan portfolios. BBVA executed portfolio sales in June and improved loan recoveries, while CaixaBank finalised its alignment to the prudential definition of default, which resulted in higher Stage 3 exposures. Santander reported a strong performance in its retail portfolio, and Banco de Sabadell noted that new lending is of better credit quality. Despite this slight improvement in asset quality, we expect further deterioration in Q3 and Q4 as NPLs normalise.

Figure 5: Asset quality, NPL and stage 2 ratios



Source: Banks' financial data, Scope Ratings.

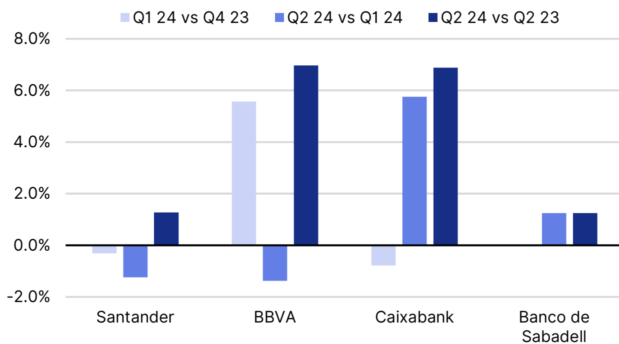
Stage 2 loans showed mixed trends in Q2: BBVA and CaixaBank reported decreases while Santander and Sabadell showed slight increases due to changes in classification criteria improving early warnings of credit risk and growth of retail portfolios. At an aggregate level, both NPLs and Stage 2 loans are increasing YoY, as interest rates continue to weigh and raise higher interest expenses among households and companies.

We do not currently see sector-specific credit-quality deterioration, as is the case with commercial real estate in other EU countries. Spanish banks' sector exposures are well diversified across productive sectors of the economy (manufacturing, trade and services). But we are cautious about any tail risk that could affect the positive momentum of the Spanish economy mainly due to relatively high geopolitical risk, within the EU and worldwide.

Deposits and off-balance customer funds continue to show strong growth

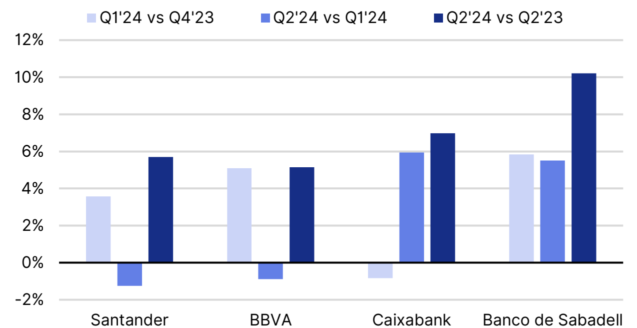
Deposits continued to grow QoQ and YoY for most of the banks, especially for domestic players (CaixaBank and Banco de Sabadell), as the operating environment improves. Time deposits as well as wealth management products (mostly mutual funds) continue to show the highest growth QoQ as they offer the most attractive remuneration. The shift made by customers from current or transaction accounts to time deposits has allowed banks to improve their liquidity ratios. The banks in our sample show LCRs largely above 160%, improving compared to Q1 24.

Figure 6: Total deposits, QoQ and YoY



Source: ECB, Macrobond, Scope Ratings

Figure 7: Deposits in Spain QoQ and YoY



Source: ECB, Scope Ratings

Capital remains stable, introduction of CCyB reduces buffer for domestic-focused players

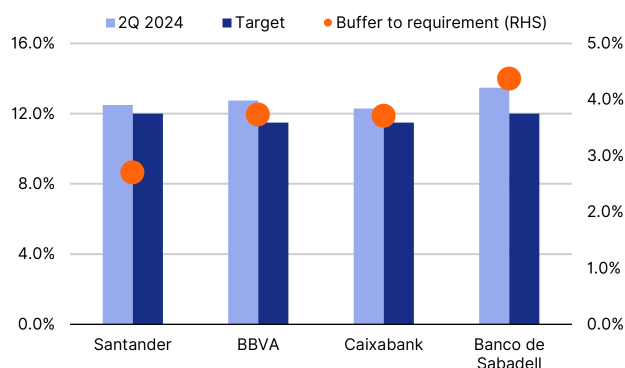
Spanish banks maintain adequate levels of capital, even though the buffer above regulatory requirements at our sample of banks is still below the average of EU peers. This reflects optimisation strategies and business-model differences. The average CET 1 ratio was 12.8% for our sample, only 20bp higher than December 2023 as RWA increased by 1.8% year-to-date, mostly due to consumer lending growth in the case of BBVA and Banco de Sabadell.

In line with the proactive approach by European regulators to macroprudential policies, the Bank of Spain announced a revision to its framework[1], setting a countercyclical capital buffer (CCyB) on domestic private-sector exposures at 0.5% from Q4 2024 (applicable from 1 October 2025), to be increased to 1.0% from Q4 2025 (applicable from 1 October 2026), if cyclical systemic risk remains at current levels. This measure is set to strengthen the banking sector's resilience in economic downturns, as the current economic scenario is allowing banks to significantly improve their capital generation capacities.

[1] Bank of Spain, press release dated 28 June 2024.

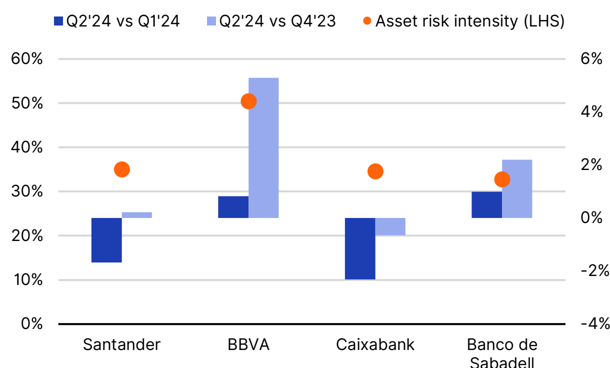
The incorporation of a higher CCyB will reduce existing headroom, with a larger effect on banks with a higher component of domestic exposures (CaixaBank and Banco de Sabadell). Santander and BBVA's credit exposure to the Spanish market is much lower, at around 20%-35% of RWAs. We expect the higher CCyB requirement to be well managed by all four banks, considering their existing buffers as well as the positive momentum favouring the bottom line, supporting organic capital growth under our current baseline scenario.

Figure 8: CET 1 ratio, target and buffer to requirements



Source: Company data, Scope Ratings

Figure 9: Asset risk intensity and RWAs growth



Source: Company data, Scope Ratings.

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Full depositor preference a step towards EDIS?, August 2024

Italian bank quarterly: Higher-for-longer rates support performance, credit fundamentals improve, August 2024

Supervisory changes to assess bank risk and calculate capital add-ons a positive step, August 2024

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European Bank Capital Quarterly: refinements to supervision and regulations are credit supportive, July 2024

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