Global Banks Outlook Midyear 2021:
Clawing Back To Normalcy

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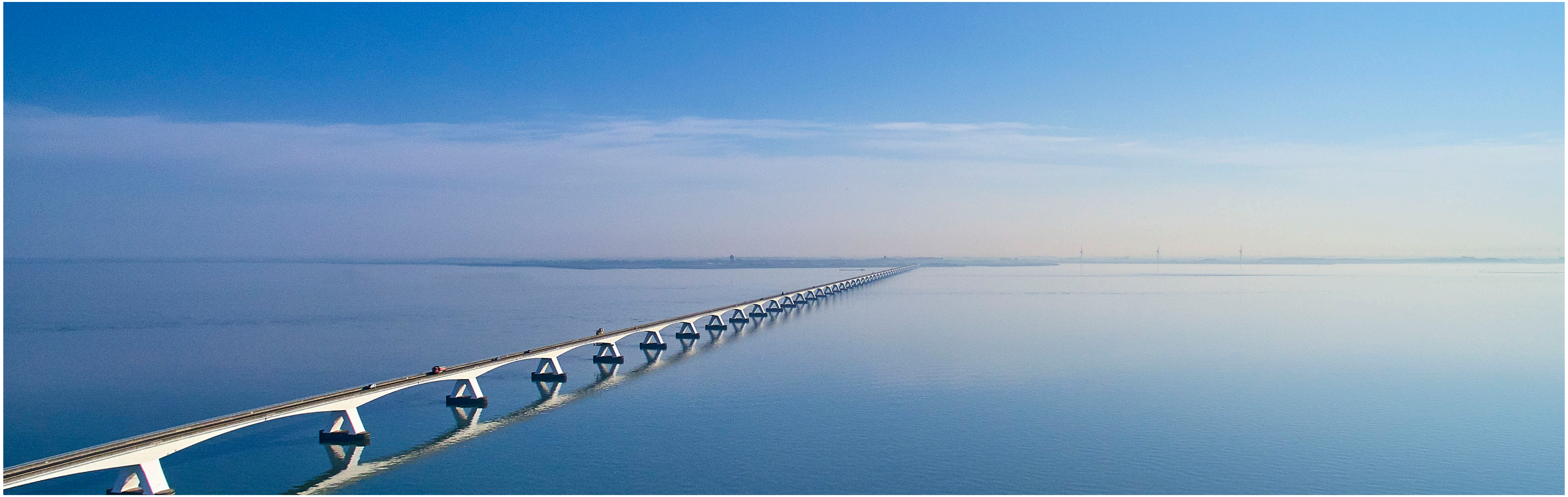
July 22, 2021



S&P Global
Ratings

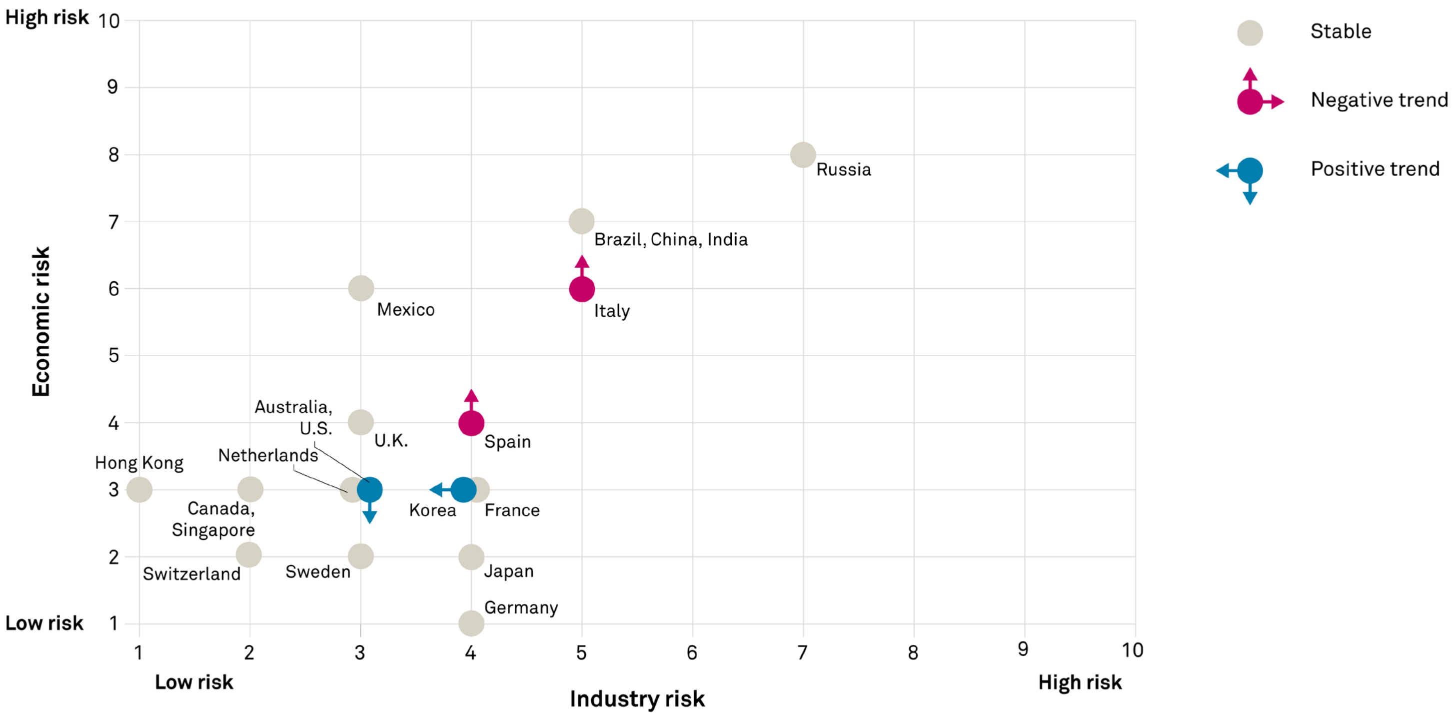
Contents

Key Takeaways

- Rating trends in the global banking sector are stabilizing. Net negative rating outlooks across the global banking sector have improved from 31% in October 2020 to 1% in June 2021.
- About 75% of banks are on stable outlook, with 13% on negative outlook, and 12% on positive outlook.
- We expect banks' recent stabilizing to continue, with our rating outlooks on lenders now largely mirroring the distribution seen just before the pandemic, albeit at a lower rating level for some banks. Prospects vary significantly across sectors and regions.
- Economic disruption from COVID-19 on corporates and households will continue to be a key risk for banks.
- Nine of the top 20 banking systems should recover to pre-COVID-19 levels of financial strength by 2022. These include Australia, Canada, China, Hong Kong, Saudi Arabia, Singapore, South Korea, the U.K., and the U.S. The rest of the top 20 likely won't recover until 2023 or beyond.

Banking Industry Country Risk Assessments Trends Are Stabilizing

BICRA Scores And Economic And Industry Risk Trends – Top 20 Banking Markets



Recent BICRA-Related Changes In The Top 20 Banking Markets

- Australia: Economic risk (ER) trend to stable from negative, and industry risk (IR) trend to positive from stable
- U.S.: ER trend to stable from negative, and IR trend to positive from stable
- Korea: IR trend to positive from stable
- Germany: BICRA to Group '3' from Group '2', ER trend to stable from negative, IR score to '4' from '3', and IR trend to stable from negative
- U.K.: ER trend to stable from negative
- France: ER trend to stable from negative, IR score to '4' from '3', and IR trend to stable from negative
- Netherlands: ER trend to stable from negative

A BICRA (Banking Industry Country Risk Assessment) is scored on a scale from 1 to 10, ranging from the lowest-risk banking systems (group 1) to the highest-risk (group 10). Data as of June 30, 2021. Source: S&P Global Ratings.

Global BICRA Developments In 2021

Positive change | Neutral change | Negative change

Jan.

Finland: Economic risk trend to stable from negative

Feb.

Turkey: Economic risk trend to stable from negative, and industry risk trend to stable from negative

March

Georgia: Government support assessment to uncertain from supportive

United Arab Emirates: Economic risk score to '6' from '5', economic risk trend to stable from negative, and industry risk trend to stable from negative

April

Australia: Economic risk trend to stable from negative, and industry risk trend to positive from stable

Greece: BICRA to Group '8' from Group '9', and economic risk score to '8' from '9'

New Zealand: Economic risk trend to stable from negative

Uzbekistan: Economic risk trend to stable from negative

May

Tunisia: Industry risk trend to negative from stable

U.S.: Economic risk trend to stable from negative, and our industry risk trend to positive from stable

Kenya: Economic risk score to '9' from '8', and our economic risk trend to stable from negative

June

Austria: Economic risk trend to stable from negative, and industry risk trend to negative from stable

Belgium: Economic risk trend to stable from negative

France: Economic risk trend to stable from negative, our industry risk score to '4' from '3', and our industry risk trend to stable from negative

Germany: BICRA to Group '3' from Group '2', economic risk trend to stable from negative, industry risk score to '4' from '3', and industry risk trend to stable from negative

Ireland: Economic risk trend to positive from stable

Korea: Industry risk trend to positive from stable

Netherlands: Economic risk trend to stable from negative

New Zealand: Economic risk trend to negative from stable

Poland: Economic risk trend to stable from negative

South Africa: Economic risk trend to stable from negative

U.K.: Economic risk trend to stable from negative

July

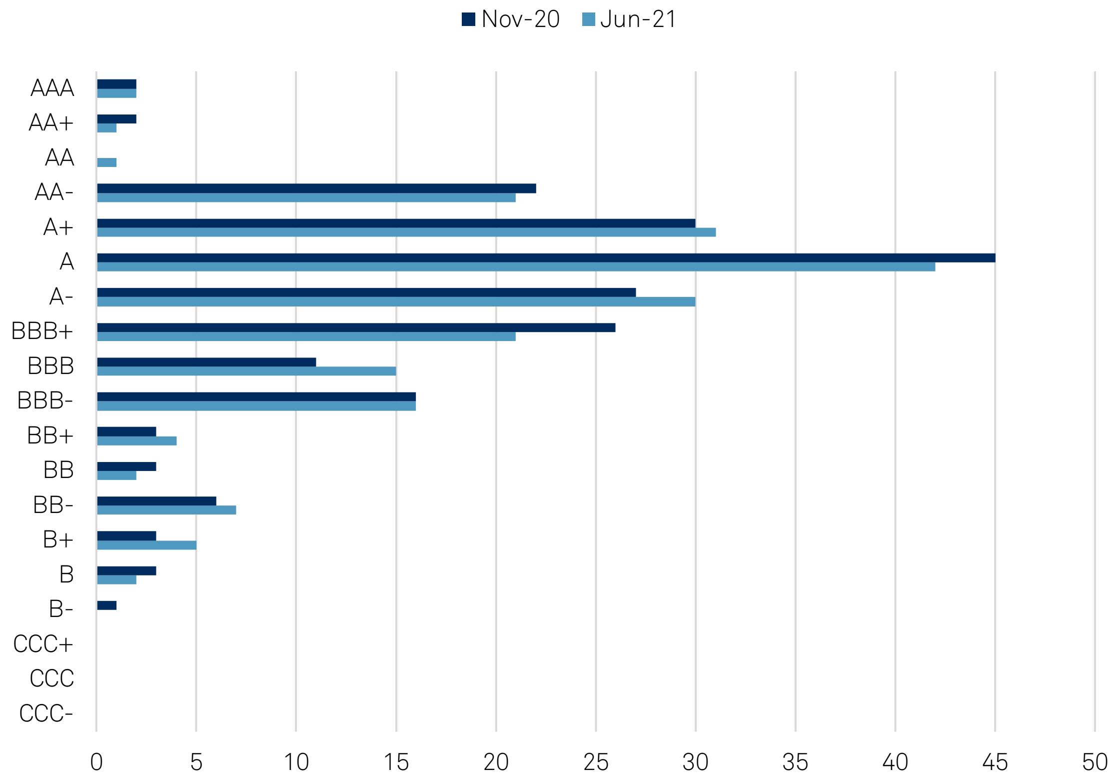
Oman: Economic risk trend to stable from negative.

BICRA--Banking Industry Country Risk Assessment. Chart includes changes in BICRA group, industry risk trends and scores and economic risk trends and scores. Data as of July 16, 2021. Source: S&P Global Ratings.

Top 200 Banks: The Outlook Is Improving

Bank Ratings Stay Resilient

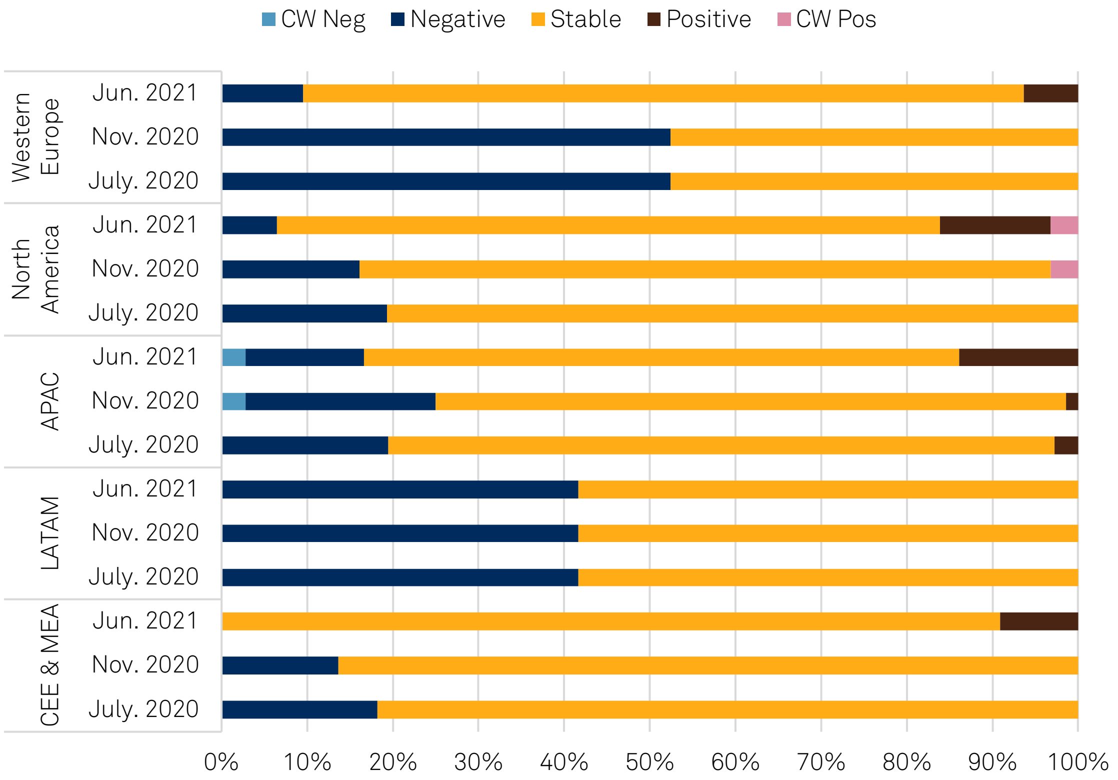
Evolution of ratings distribution for the top 200 rated banks



Operating company issuer credit ratings. Data as of June 30, 2021. Source: S&P Global Ratings.

Negative Outlooks Recede Globally; LATAM Stays Unchanged

Evolution of outlooks for the top 200 rated banks by region



Note: Ratings bias is positive bias minus negative bias. Data as of June 30, 2021. APAC--Asia Pacific. LATAM--Latin America. CEE--Central and Eastern Europe. MEA--Middle East and Africa. Source: S&P Global Ratings Research.

S&P Global Ratings

Shape Of Recovery: Accelerated For A Few, 2023 Or Beyond For Many

Shape Of Recovery For Many Banking Jurisdictions Could Be 2023 Or Beyond

	2021e	2022e	2023e	Beyond 2023e
Late-exiters High negative impact				India, Mexico, South Arica
Mid-exiters Moderate negative impact			Brazil, France, Germany, Indonesia, Italy, Japan, Russia, Spain,	
Early-exiters Low negative impact		Canada, China, Hong Kong SAR, Saudi Arabia, Singapore, South Korea, **Australia, U.K., U.S.**		

- Recovery for some banking jurisdictions to pre-COVID-19 levels is underway for some.
- For the U.S. , the U.K., and Australia, recovery is emerging sooner than we anticipated in the fourth quarter of 2021. We now expect these banking jurisdictions to join the early-exiter cohort with recovery in 2022.
- Recovery for Canada, Singapore, Hong Kong, South Korea, China and Saudi Arabia continues to remain sooner.
- Numerous banking jurisdictions continue to be on track to recover by 2023, including Brazil, France, Germany, Indonesia, Italy, Japan, Russia, and Spain.
- The Indian, Mexican, and South African banking systems may take longer to recover to pre-COVID-19 financial strength.

Note: We now assume banking systems in bold to recover sooner than previously estimated. Estimated time to recovery considers forward estimates of systemic and bank-specific credit factors guided by BICRA and entity-specific rating actions to-date. Time periods are in years based on the full calendar year. All information is based on analyst estimates. Banking sector recovery prospects for early-exiter jurisdictions are sooner, that of late-exiter jurisdictions later, and mid-exiter jurisdictions' recovery prospects are in between. Estimated impact is driven mainly by COVID-19, and other market stresses. e--Estimate. Source: S&P Global Ratings.

Five Key Risks For The Global Banking Sector

- Economic disruption on households and corporates because of uneven vaccine rollout and new variants.
- Surge in leverage and high corporate insolvencies.
- Disorderly reflation and market disruption.
- The low rates environment challenges banking business models.
- Property risks may still intensify; prices in some property sectors and other asset classes are high.

S&P Global Ratings' GDP Growth Forecasts

%	2020	2021	2022	2023	2024
U.S.	(3.5)	6.7	3.7	2.6	1.8
Eurozone	(6.7)	4.4	4.5	2.2	1.6
China	2.3	8.3	5.1	5.0	4.8
Japan	(4.7)	2.5	2.1	1.0	0.9
India*	(7.3)	9.5	7.8	5.7	6.5
U.K.	(9.8)	7.0	5.2	1.9	1.6
Brazil	(4.4)	4.7	2.1	2.2	2.3
Russia	(3.0)	3.7	2.5	2.0	2.0
World§	(3.4)	5.9	4.3	3.7	3.3

**Fiscal year begins April of reference year to March the following year. § Derived using purchasing power parity exchange rates.*
Source: S&P Global Economics, and see "Global Credit Conditions Q3 2021: Reopening, Reflation, Reset," published June 30, 2021.

Key Areas Driving Creditworthiness

Asset Quality And Profitability

- Lower-for-longer rates are the new normal
- High corporate leverage may lessen credit demand
- Consolidation as way to reduce overcapacity and improve efficiency
- Digitalization; cashless transactions

Technology

- More investment is needed to respond to changing customer preferences, but could boost efficiency over time
- Shifts to working from home, big data, artificial intelligence
- Cyberrisk
- Antifinancial crime

ESG

- Environmental, social and governance considerations are better integrated in business strategy and risk management
- Reporting is more standardized
- Offer growth opportunities and act as a differentiating factor
- A wider stakeholder approach with ability to reprice and restructure

Regulations

- Use of regulatory buffers
- Path and speed to regulatory normalization
- Resolution versus government support
- The way out of forbearance
- The unwinding of liquidity support

Source: S&P Global Ratings.

Interest Rates: Our Base Case Is That Low Rates Will Persist

- Our base case is that record-low interest rates are likely to persist for some time and that the surge in inflation risks will be transitory.
- There are risks from an uneven global recovery, especially if this results in rapid global interest rate repricing and volatile exchange rates, which could lead to destabilizing capital flows. The effects may be more pronounced for emerging markets.

Policy Interest Rates And S&P Global Ratings' Forecasts (%)

	U.S. (Fed)	Eurozone (ECB)		U.K. (BoE)	Switzerland (SNB)
Policy Rates	**Fed Funds rate**	**Deposit rate**	**Refi rate**		
2020	0-0.25	(0.50)	0.00	0.23	(0.75)
2021f	0-0.25	(0.50)	0.00	0.10	(0.75)
2022f	0-0.25	(0.50)	0.00	0.10	(0.75)
2023f	0.50-0.75	(0.50)	0.00	0.13	(0.75)
2024f	1.00-1.25	(0.44)	0.00	0.29	(0.69)

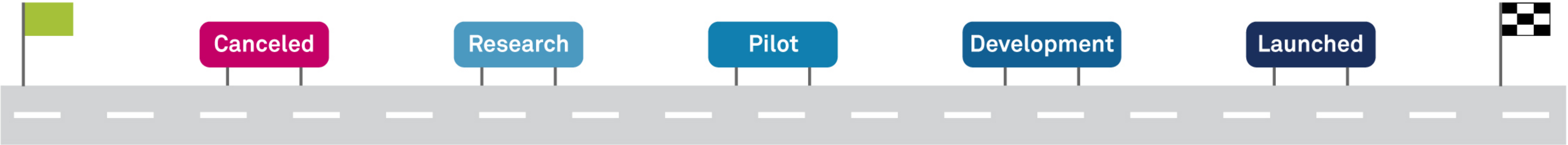
f--S&P Global Ratings forecast. ECB--European Central Bank. BOE--Bank of England. SNB--Swiss National Bank. Source: S&P Global Ratings.

COVID-19 Accelerates Digital Transformation

- The **COVID-19** pandemic **accelerates** the **digital transformation;** laggers need to speed up even more to tackle structural and infrastructure weaknesses.
- Many Asian and Northern European banking markets lead by offering products fully digitally. The move to **cashless economies** is accelerating broadly.
- Preparedness and agility to swiftly **shift business models** to the new digital normal become crucial to deliver on faster-changing **client preferences**.
- While **retail banking** and **payment segments** have been disrupted for years, we expect the **corporate banking, investment banking** and **asset management** segments to see tectonic shifts in digital offerings and market infrastructure, including use of **blockchain technology** for establishing **digital bonds** and a **token economy**.
- We expect banks to go from testing a move to the **cloud** to this being standard use, and to leverage **digital tools** to **streamline costs** and prepare for peaks in usage.
- **Regulators** will promote digital transformation by requiring digital business agendas, adjusting accounting rules, providing more guidance on IT outsourcing and data management. In parallel they will start defining the ground for **digital assets and currencies** and the potential transition to **decentralized financing**.

The Race For Retail Central Bank Digital Currencies Is Progressing At Different Speeds Across Jurisdictions

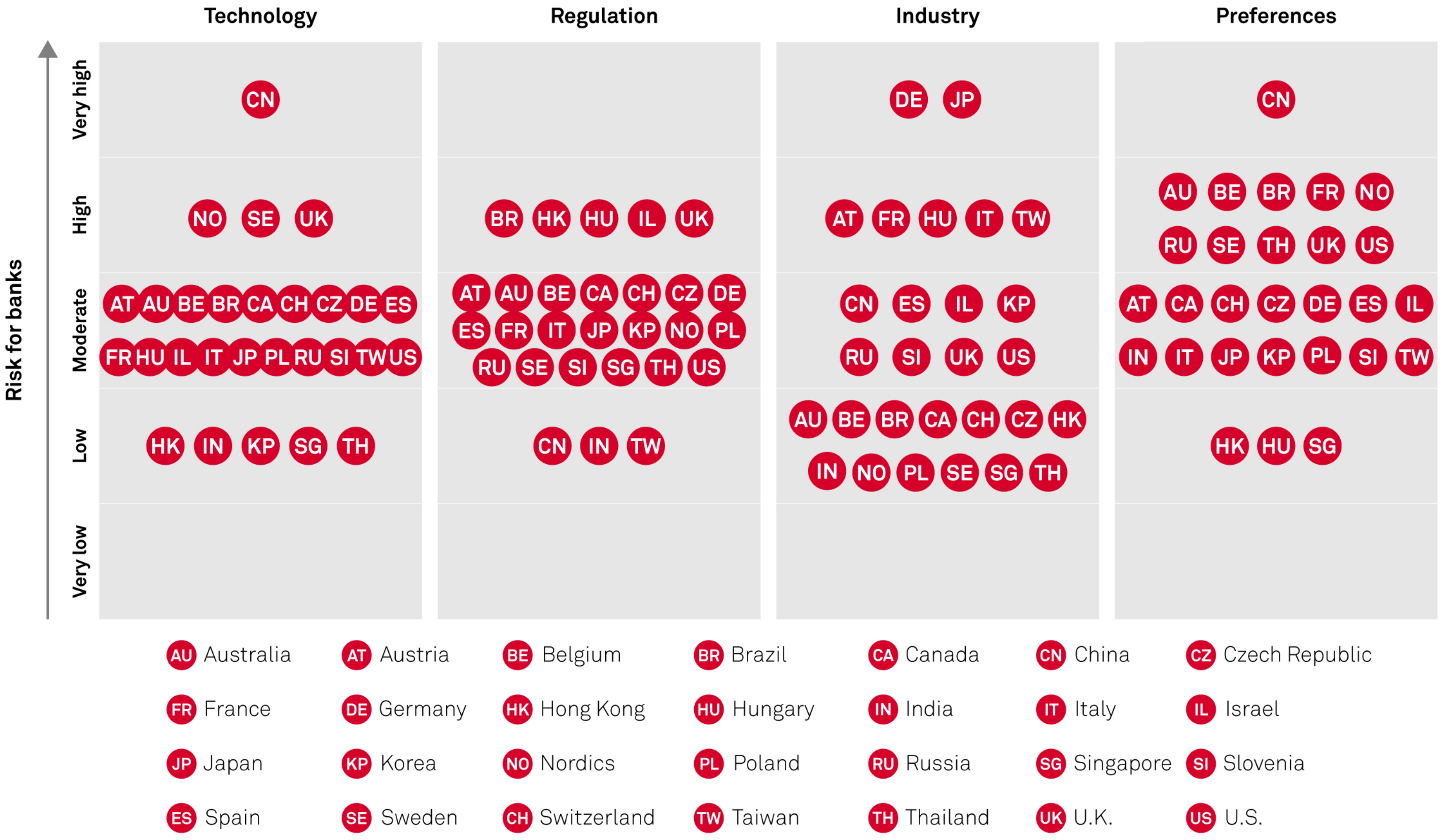
Central bank digital currencies might eventually affect banks' business. We still expect commercial banks to be central players in establishing a new infrastructure, in collaboration with central banks. Potential implementation plans are at widely different stages around the world.



Canceled	Research		Pilot	Development	Launched
Ecuador	Canada	Kenya	Bahrain	Brazil	Bahamas
New Zealand	EU	Russia	Bermuda	Cambodia	
	Ghana	Switzerland	Kazakhstan	Caribbean	
	India	U.K.	South Korea	China	
	Israel	U.S.	Sweden	Thailand	
	Japan		Ukraine	Turkey	
			Uruguay		

Research--Publishing research reports about CBDC doing some experimenting. Pilot--Piloting CBDC, in a real environment with a limited number of parties. Development--Launching small-scale pilots and preparing for a full-scale launch. Source: Bank of International settlements and Digital Euro Association, and see "Digital Wallets Will Replace Cash In Pockets," published June 14, 2021.

Tech Disruption: A Risk For All, But Unequally So



Source: S&P Global Ratings.

- We assess the risk of disruption in retail banking as part of our bank ratings.
- Opportunities and threats from tech disruption relate to four factors: technology, regulation, industry, and preferences.

Regulation: Intervention Worked

Regulators globally eased rules and guidance to soften procyclical effects and spur bank lending

- Most regulators moved quickly to ease capital and liquidity requirements.
- A pragmatic interpretation or implementation of accounting and regulatory capital rules softened the impact of IFRS and U.S. GAAP, but this temporary benefit unwinds once loans become nonperforming.
- Regulatory insistence on dividend cuts or halts has preserved capital. Dividends are resuming in many jurisdictions.

Regulatory reform agenda is on hold, with deadlines pushed back

- Planned 2020-2022 implementation of aspects of Basel III rules has been delayed to later years for some jurisdictions.
- G-20 policymakers will be even more cautious about eliminating extraordinary government support, if not yet done (such as in Europe).

Risk of widening cracks in the global regulatory consensus

- Public authorities and regulators will unwind easing measures. The pace varies by country and region.
- Increased risk of divergence in Basel implementation between the EU and the U.S. (e.g., treatment of sustainable finance, requirements for smaller banks, effect of "output floors" in Europe).

Regulators Show That They Can Flex Appropriately

Prudential Measures In Response To COVID

- One-year delay to the implementation of the latest revisions to the Basel III capital rules ("Basel IV").
- Transitional arrangements for expected credit-loss accounting.
- Greater flexibility in classification of and risk-weighting applied to forborne loans and lending under public support/guarantee schemes.
- Relaxation of countercyclical buffers (BOE, ECB, HKMA, etc.).

Outlook: Could These Changes Ever Become Permanent?

- We expect most changes may persist until there is a sustainable economic recovery. It is still too early to predict whether some of these changes could become permanent.
- If so, a long period of lower capital and liquidity targets, less transparency in recognizing bad debt, or delays in setting aside adequate provisions for loans could weaken banks' balance sheets and erode investor confidence (not our base case but on the radar).
- This period of regulatory relaxation is raising questions about the usability of regulatory capital buffers.
- We believe that regulators may explore the option of reducing some of the fixed buffer requirements and compensate with potentially larger countercyclical buffers in good times.

Note: Only select examples of prudential measures introduced in response to COVID have been listed. BOE--Bank of England. ECB--European Central Bank. HKMA--Hong Kong Monetary Authority. Source: "The Basel Capital Compromise For Banks: Better Buffers, Elusive Comparability," published June 3, 2021.

COVID-19 Demonstrates The Enduring Role Of Public Support

- Banks have been beneficiaries during the COVID-19 shock due to support from public authorities:
  - Indirect support, through various fiscal and monetary policy measures their corporate and household customers received.
  - Direct support in the form of liquidity or credit guarantees, as well as relief from minimum regulatory capital and liquidity requirements.
- The regulatory agenda of the past 10 years, however, has transformed banks globally by requiring them to shore up capital and liquidity. This is one of the main reason why banks have been able to withstand the pandemic's economic effect to date.
- The support from public authorities through the pandemic highlights that regulation isn't a substitute for the occasional need for systemic or potentially more-targeted financial aid, whatever its form.
- That said, we believe COVID-19 was an unusual shock. As such, it does not represent a reliable blueprint about how public authorities will handle future stress scenarios.

Source: "The Basel Capital Compromise For Banks: Better Buffers, Elusive Comparability," published June 3, 2021.

Emerging Markets: A Mixed Picture

The road to recovery will be long despite supportive financing conditions.

- Vaccination pace has picked up in most key emerging markets (EMs), but not fast enough to support an uninterrupted economic recovery, given that widespread immunity levels remain many months away in most EM economies. EMs with slow vaccination pace are highly susceptible to new variants and are at high risk of more lockdowns.
- Upbeat growth pace during the first quarter of 2021 mostly stemmed from a stronger-than expected domestic demand, and in many cases, from the better-than-expected performance of services. Economic activity continues to benefit from stimulus measures in most EMs.
- Inflation is picking up due to higher energy prices and supply-chain disruptions. Combined with a potential earlier-than-expected removal of monetary stimulus by the Fed is prompting yields to increase in many EMs.
- An interest rate rise would have a limited impact on most EM sovereigns' debt service. Out of 20 key EM sovereigns, four would see at least one percentage point of GDP increase in interest costs by 2023 in case of 300-basis point rate shock. In the case of South Africa, it would be twice that.

We expect bank asset quality deterioration to continue.

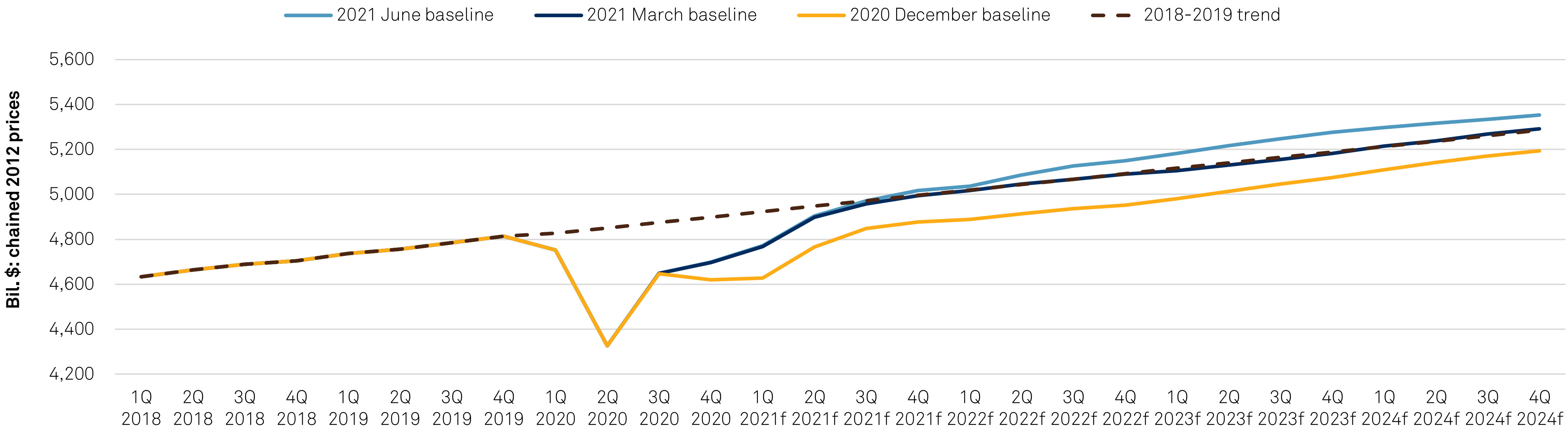
- Credit losses will remain high after the lifting of regulatory forbearance measures.
- Profitability has declined and will stabilize at lower levels. However, most banks should remain profitable due to hefty interest margins and good efficiency.
- Political instability and social protests is a risk to watch in several countries, such the social unrest seen in Chile and Colombia recently.

Note: For a list of 20 key EM sovereigns, please see "Take A Hike: Which Sovereigns Are Best And Worst Placed To Handle A Rise In Interest Rates," published May 24, 2021.

Credit Conditions: North America

- We raised our U.S. real GDP growth forecasts for 2021 and 2022 to 6.7% and 3.7%, respectively.
- We see the risk of recession over the next 12 months at 10% to 15%.
- We think the jump in inflation in second-quarter 2021 will prove largely transitory, and the Fed will not raise rates until 2023.

The Evolution Of U.S. Real GDP



F--Forecast. Bil.--Billion. Sources: Oxford Economics, S&P Global Economics calculations.

North American Banks

Key Expectations

- Asset quality will remain in good shape on the back of the rebound in the economy.
- Earnings will rise on a drop in provisions for credit losses and perhaps an increase in net interest income, especially if loan growth rises.
- Banks will pay out most earnings, but only moderately reduce capital ratios from the elevated levels that resulted from pandemic restrictions on repurchases. Balance sheets will remain in good shape.
- Consolidation in the U.S. banking system--driven in part by a desire to keep up with advancing financial technology--will continue following a series of sizable mergers in the past few years.

Key Assumptions

- The robust rise in U.S. real GDP of 6.7% this year and 3.7% next will support asset quality even as stimulus measures wind down. The same will be true in Canada with 6.1% and 3.2% growth in 2021-2022.
- The rise in inflation in the second quarter of 2021 will be largely transitory; the economy will not overheat, and asset bubbles won't threaten stability, notwithstanding a significant rise in some asset prices.
- Fed won't raise rates until first quarter of 2023, but it will announce tapering of large-scale asset purchases in the fourth quarter of 2021.

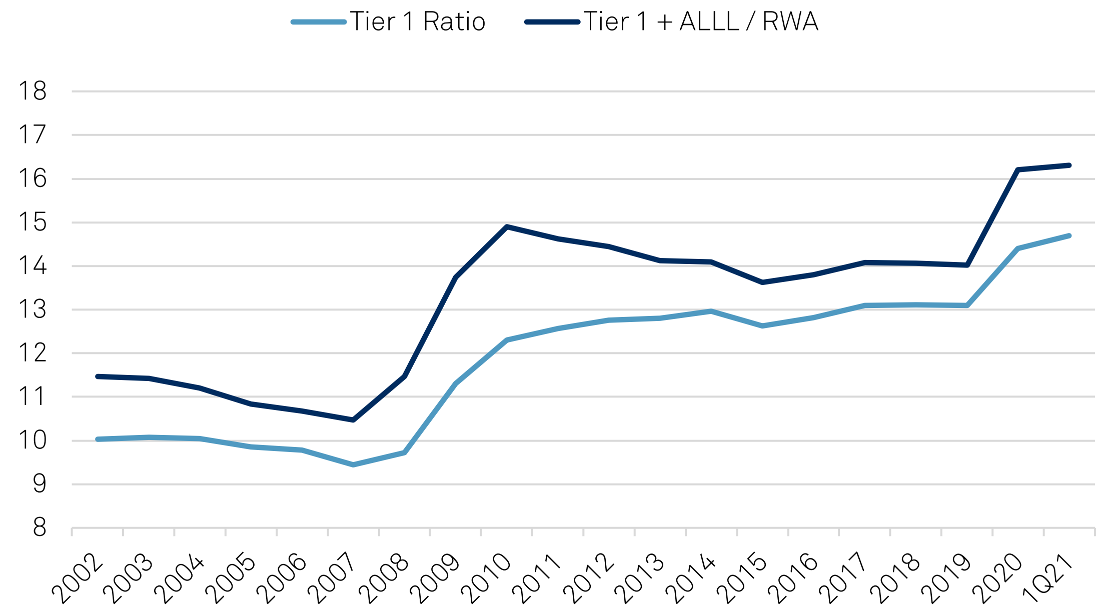
Key Risks

- Challenges in some lending areas, such as commercial real estate, last beyond the pandemic. For instance, remote-working arrangement may lead to reduced demand for office space and higher stress on office loans.
- The economy overheats--for instance with the U.S. core consumer price index exceeding our economists' forecast of around 2.8% for 2021 and 2.4% for 2022--perhaps forcing the Fed to tighten policy more quickly than expected.
- Some banks fail to keep up with advances in financial technology.

An Improving View Of The U.S. Banking System

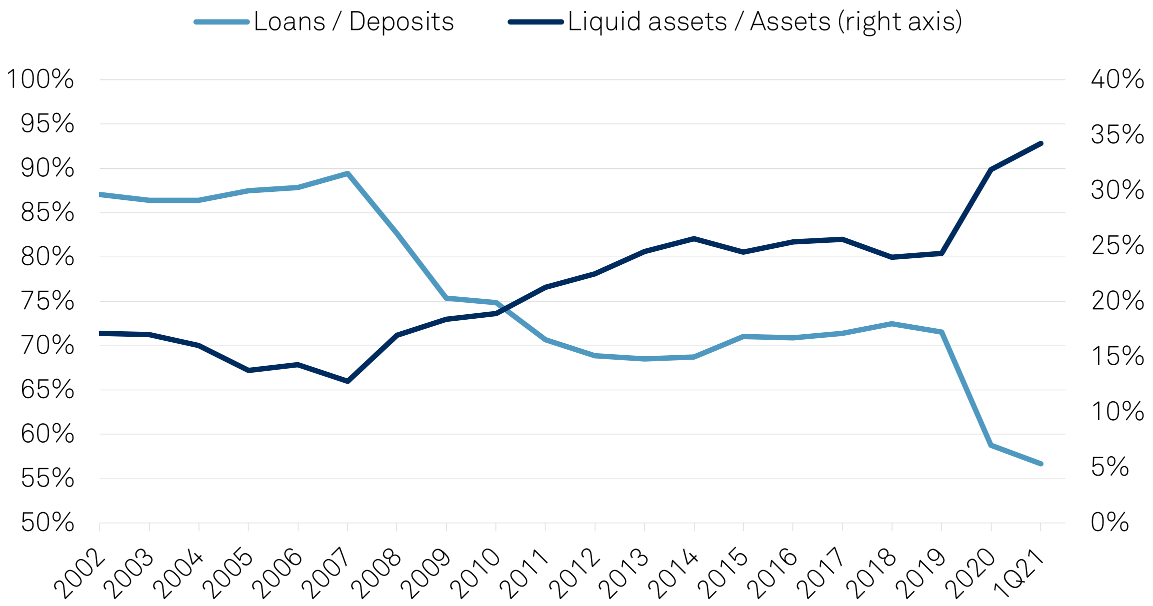
- The outlooks for the economy and asset quality have improved--<u>we now see a stable trend on economic risk.</u>
- The track record of bank regulation has improved and U.S. bank balance sheets look strong--<u>we now see a positive trend on industry risk.</u>
- We may raise the anchor for U.S. banks to 'a-' from 'bbb+' in the next two years with an improved BICRA.

Higher Capital Allowances
Percentages, all FDIC-insured commercial banks



FDIC--Federal Deposit Insurance Corp. RWA--Risk weighted assets. Source: S&P Global Ratings.

Improved Funding & Liquidity
Percentages, all FDIC-insured commercial banks



FDIC--Federal Deposit Insurance Corp. RWA--Risk weighted assets. Source: S&P Global Ratings, S&P Market Intelligence, and FDIC.

Canadian Banks: Our Outlook Is Solidly Stable

Canadian banks appear poised for a strong recovery in operating performance underscored by a rebound in economic activity and largely stable credit performance.

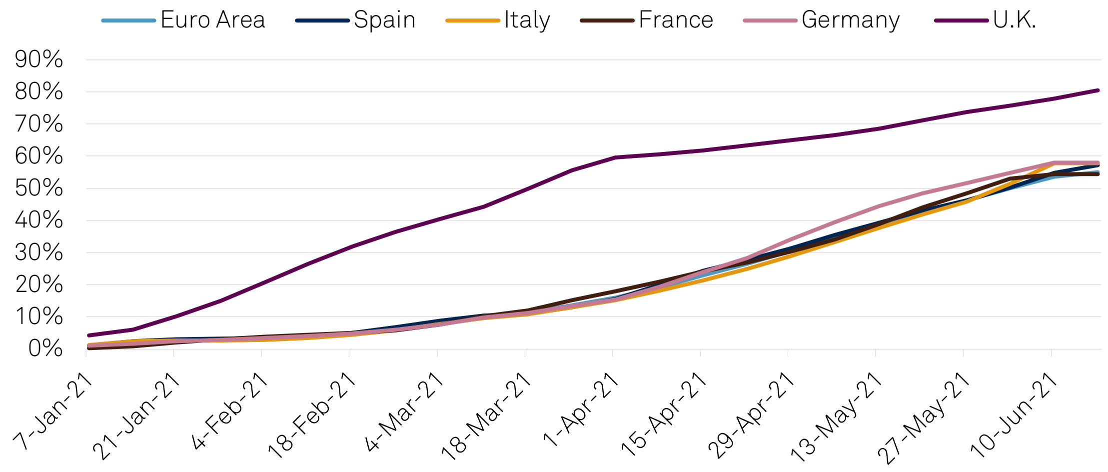
Worsening | | Neutral | | Improving

Revenues	We expect revenues to improve as the continued pressure on net interest income from low interest rates is expected to be offset in part by stronger loan growth in the second half of 2021. We also expect capital markets revenues, which have been the largest driver of revenue growth to moderate.
Expenses	Expenses will increase marginally, reflecting higher service costs and investments in personnel and technology. Still, we believe revenues will likely outrun expenses at most banks.
Pre-tax income	Net income to rise in 2021 from 2020, reflecting significantly lower credit loss provisions with domestic systemically important banks' (DSIBs) operating performance returning to the 2019 level, or higher.
Asset quality	Loan losses have declined in the year to date from fiscal 2020 but could be delayed due to ongoing government stimulus. Once that ends, we expect specific credit losses and impairments to increase, likely in 2022, but to remain manageable. All DSIBs have built adequate reserves to cover impaired loans, almost all customers which were on payment deferral plans are back to payment status, and the Canadian and U.S. economies are reopening and rebounding well with improving rates of vaccination.
Capital	Our risk-adjusted capital (RAC) ratios will remain within our adequate range of 7%-10% even with the resumption of share repurchases and dividend increases (once restrictions are lifted by the Office of the Superintendent of Financial Institutions) and higher risk-weighted asset growth, which will create some downward pressure.
Funding and liquidity	Funding will remain broadly stable and market access for DSIB issuance will continue. We expect the significant customer deposit levels amassed during the pandemic to, in part, leave the banks or turn into borrowings as economic activity picks up.

Credit Conditions: Europe

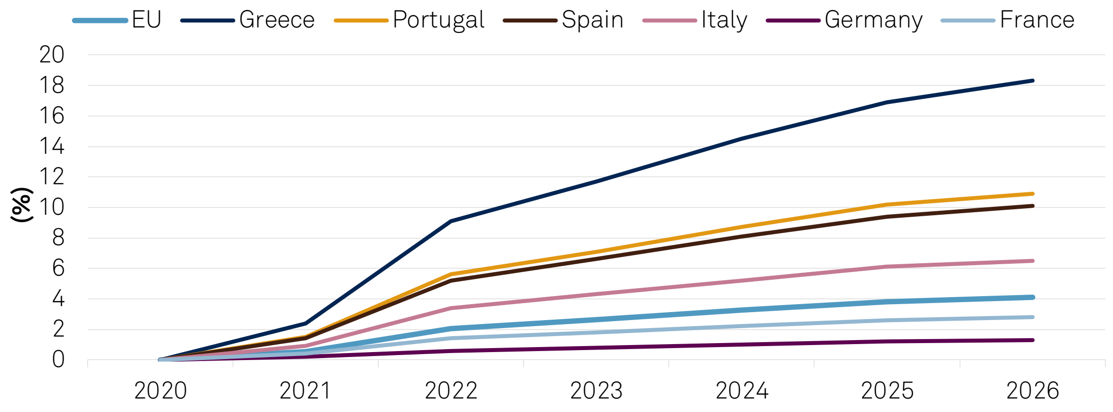
- Despite a weaker-than-expected first quarter of 2021, European economies should grow strongly during the remainder of the year, with 2021 GDP expanding by 4.4% in the euro area and 7% in the U.K.
- Fiscal stimulus through the EU Next Generation Fund could potentially contribute 1.5%-4.1% of additional GDP to the EU over the next five years.
- Monetary policy will remain supportive. Rate hikes in the euro area are unlikely before 2024.
- Key risks ahead relate to potential new virus variants or weakening financing conditions challenging the economic rebound.

Vaccination Progress Boosts Confidence In Economic Rebound
Percentage of population with at least one vaccine dose



Source: Europa Vaccine Tracker for EU countries. Ourworldindata.org for the UK.

Next Generation Fund Will Help Growth And Cut Economic Divides
Potential boost to 2020 GDP from the fund in a high-impact scenario



High-impact scenario assumes 91% absorption rate and fiscal. Source: S&P Global Ratings.

European Banks

Key Expectations

- The chances of banks facing severe asset quality problems have reduced, supported by the strength of the economic rebound underway and the effectiveness of government support measures.
- Conversely, profitability challenges are deepening for some banks and banking systems. The persistence of negative rates and suboptimal efficiency will remain strong headwinds.
- Capitalization has peaked for most banks and the resumption of normal dividend distribution may not be far away.

Key Assumptions

- The economic rebound will continue, with GDP expanding this year by 4.4% in the EU and 7% in the U.K.
- EU Next Generation funds will be deployed quickly and efficiently, supporting economic growth.
- Inflationary pressures will be temporary and monetary authorities will maintain an accommodative stance.

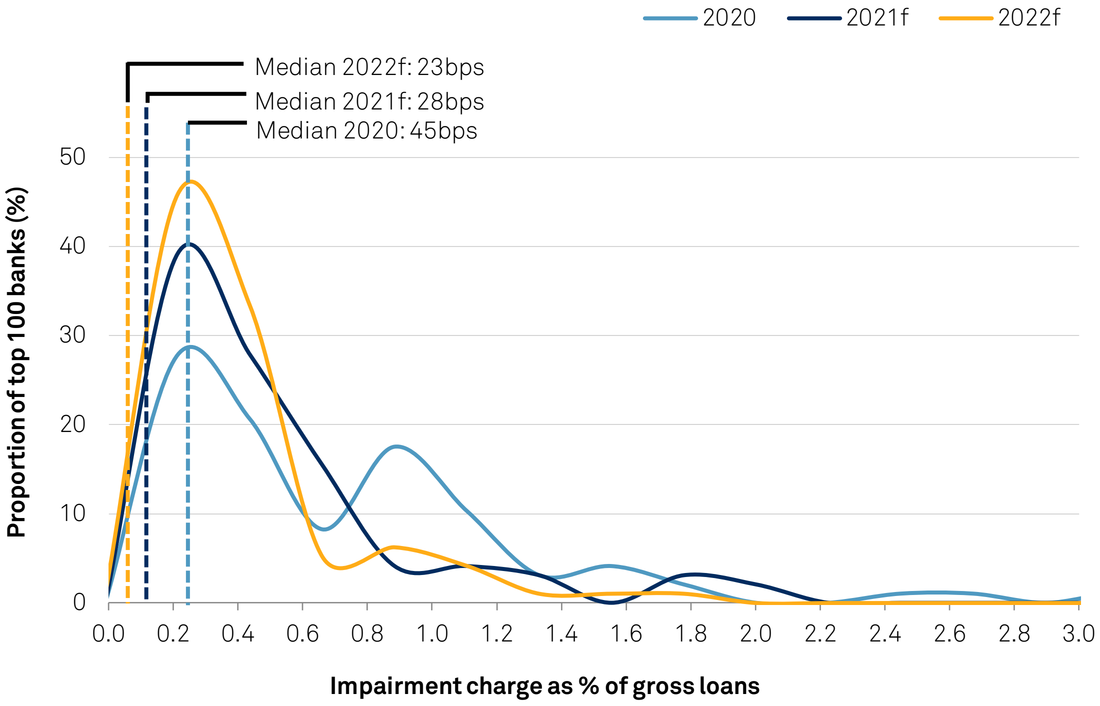
Key Risks

- Interruption of the ongoing recovery, most likely due to a resurgence of infections from a new virus variant.
- Banks' limited success in revamping their business models, adapting quickly to an increasingly digitalized world, and improving their profitability.
- A reversal of the currently favorable financing conditions, resulting in higher funding costs or limited funding access.
- Distortion of risk-pricing and a buildup of asset bubbles, particularly in the property market.

European Banks: Asset Quality Deterioration Yet To Come, But Likely To Be Manageable

Credit Costs Will Decline From 2020 Peak Levels And Will Be Easily Absorbed By Banks

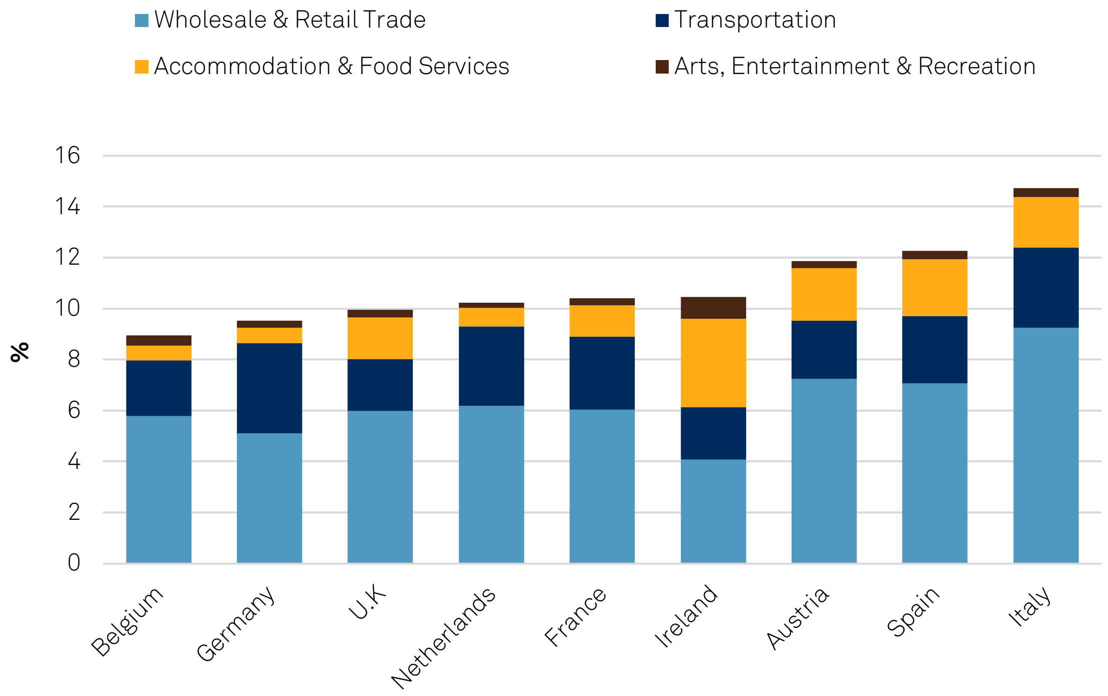
Distribution of projected credit costs for top 100 European banks



Data as of June 24, 2021. bps--Basis points. f--Forecast. Source: S&P Global Ratings.

More Problem Loans Will Likely Arise From The Sectors Hardest-Hit By Social Distancing

Exposure to vulnerable sectors as a % of total private sector loans



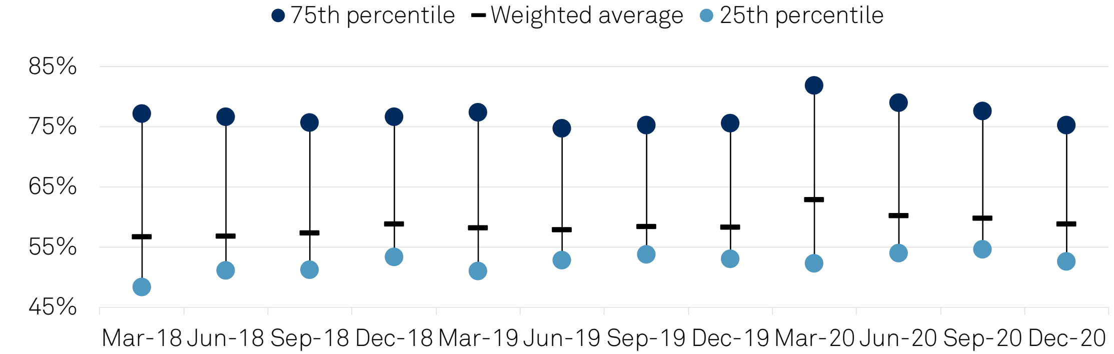
Source: European Banking Authority, S&P Global Ratings.

S&P Global Ratings

European Banks: A Need To Tackle Profitability

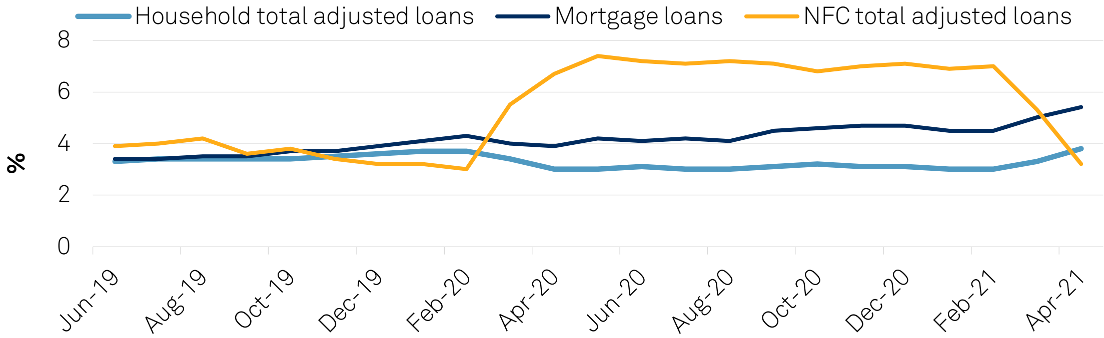
Business Models Emphasize Net Interest Income

Net interest income's contribution to total net operating income



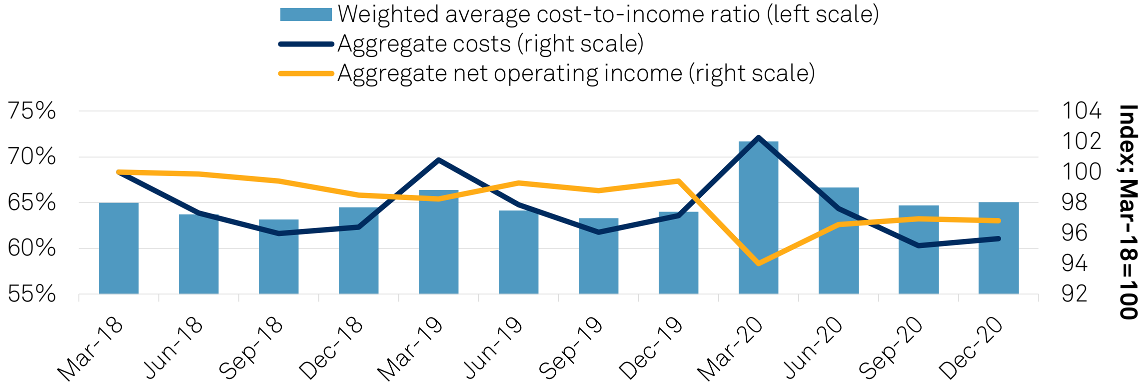
Prospects For Lending Growth Are Modest

Annual growth rate of European banks loans to residents



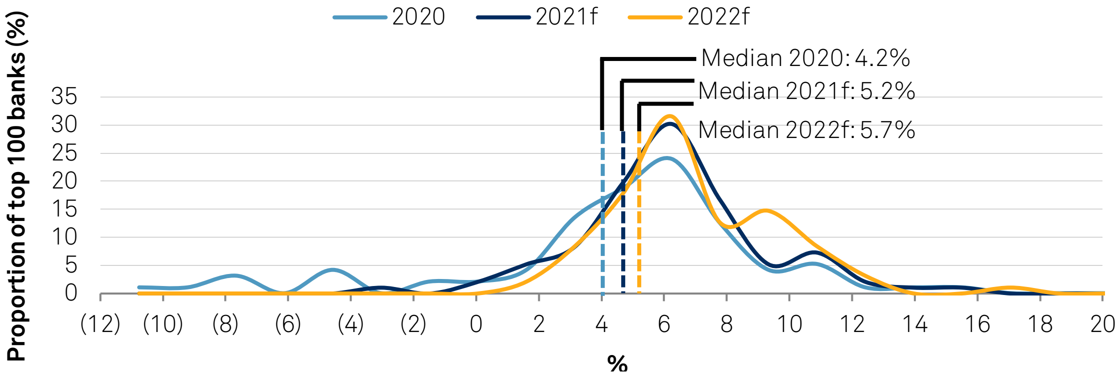
Most Banks Have Suboptimal Operating Efficiency

Trend in European banks' cost-to-income ratios



Upside For Banks' Profitability Will Remain Constrained

Distribution of projected RoE for top 100 European banks

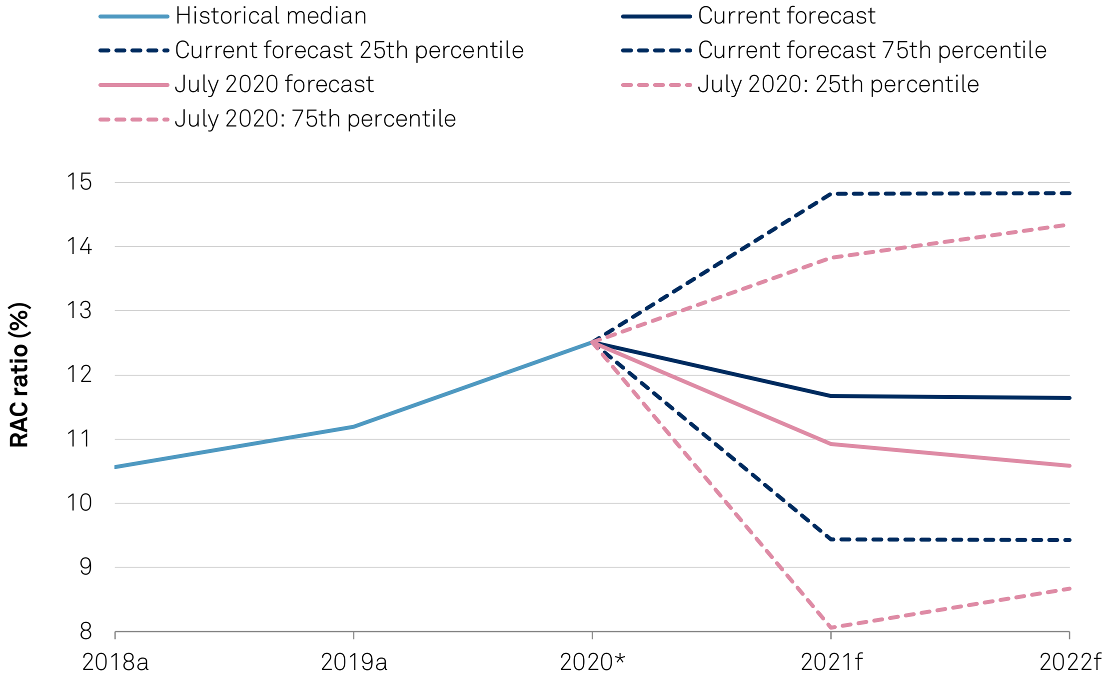


Data as of June 24, 2021. RoE--Return on equity. f--Forecast. Source: European Banking Authority risk dashboard, European Central Bank, and S&P Global Ratings.

European Banks' Capital And Liquidity Have Likely Reached A Peak

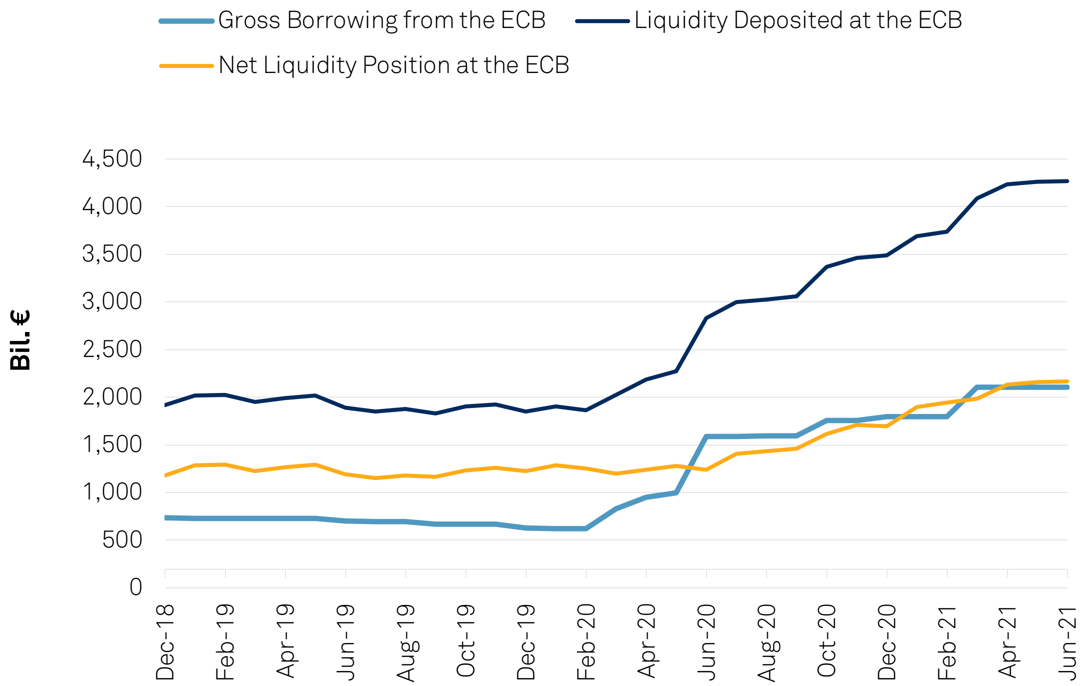
Resumption Of Dividends Will Put Some Pressure On Capital, But It Will Prove Stronger Than We Initially Thought

European top 100 banks' RACs: Median and middle 50% of distribution



*Data as of June 24, 2021. *2020 data are actual as far as available; we used estimates for a few entities. a--Actual. f--Forecast. RAC--Risk-adjusted capital. ECB--European Central Bank. Source: S&P Global Ratings.*

Dealing With Costly Excess Liquidity Is Becoming A Challenge

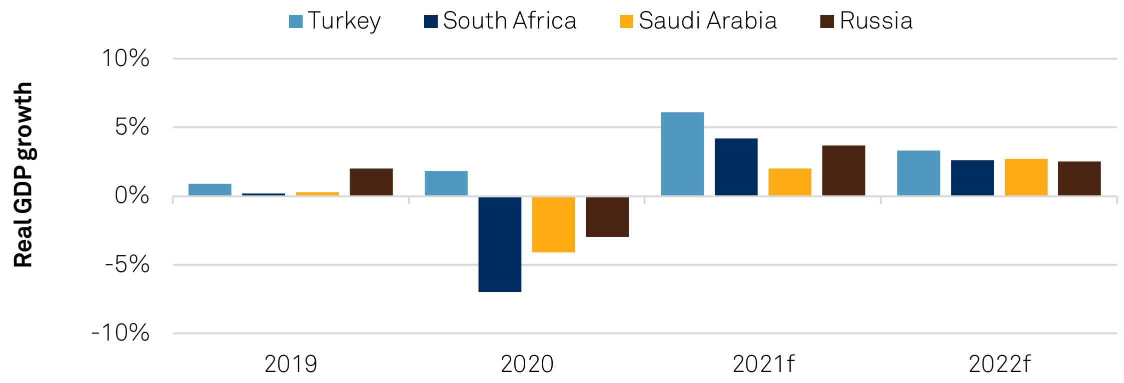


Bil.--Billion. Source: European Central Bank.

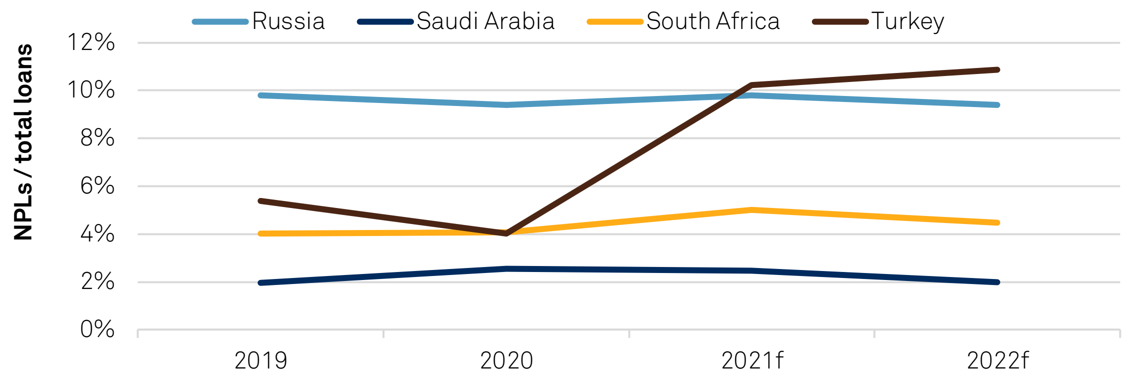
S&P Global Ratings

Pressure On Emerging Market Banks In EMEA Continues

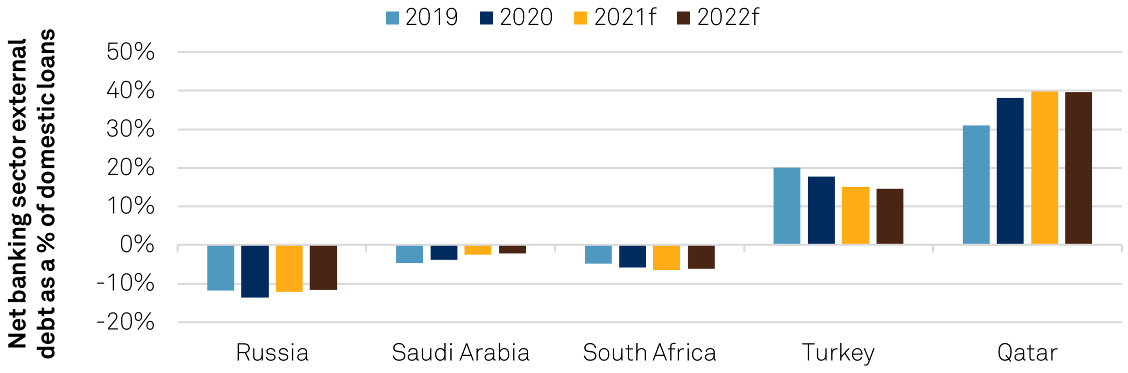
1. Economic Recovery Is Mild



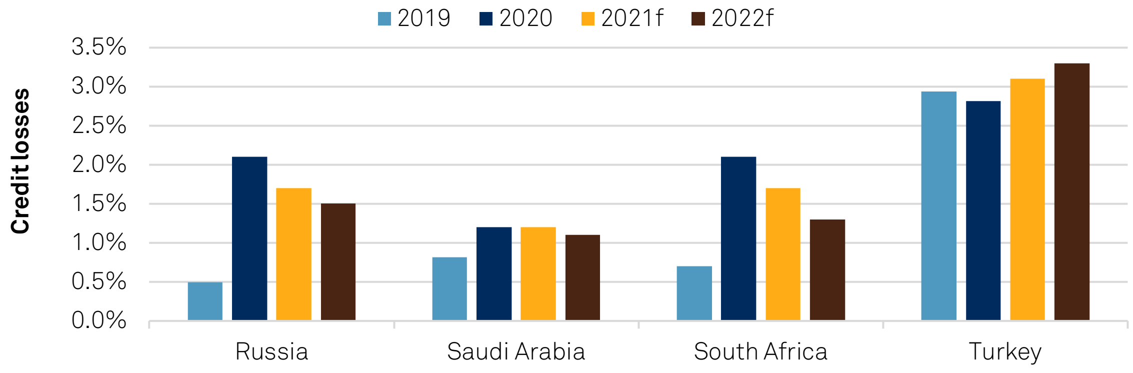
2. Asset Quality Will Deteriorate For Some



3. Vulnerable Funding For Turkish And Qatari Banks



4. Credit Losses Will Remain High



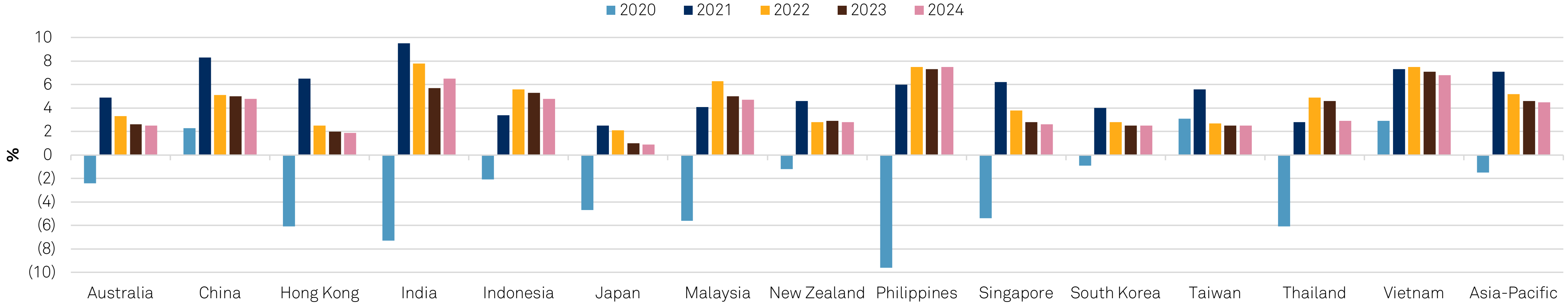
bps--basis points. f--S&P Global Ratings forecast. NPLs--Nonperforming loans. EMEA--Europe, Middle East and Africa. Source: S&P Global Ratings.

Credit Conditions: Asia-Pacific

- The COVID-19 vaccination rate in Asia-Pacific is much slower than that of the U.S. and Western Europe. Governments are set to expedite vaccinations following the resurgence of infections with new variants in the region.
- The region's unbalanced "K"-shaped recovery is highlighted by export growth benefiting China and some developed economies, while higher COVID caseloads weigh on growth in some developing markets. The disparity means that rating trends remain divergent.
- Most rated issuers have so far been able to manage the health and operating environment challenges, thanks in part to government support measures. Credit quality has largely steadied with negative rating actions tapering. However, some issuers do remain vulnerable.

Asia-Pacific's Recovery Regains Its Footing

Year-on-year GDP growth



Note: For India, 2020 = FY 2020/21 end March 31, 2021; 2021 = FY 2021/22, 2022 = FY 2022/23, 2023 = FY 2023/24, 2024 = FY 2024/25. Source: S&P Global Ratings, "Economic Research: Asia-Pacific's Recovery Regains Its Footing," published June 24, 2021.

Asia-Pacific Banks

Key Expectations

- The subdued interest margins outlook will dampen profitability prospects. Inflation may alleviate interest margins pressure, to an extent, and weigh on credit losses. Eventual stabilization of underlying economic risk trends (as has occurred recently in Australia) in line with our base case will in turn have a stabilizing effect on banks' asset quality.
- We estimate that credit losses will rise by about US$581 billion to year-end 2022 because of COVID-19 and other market stresses.

Key Assumptions

- A return to pre-COVID-19 metrics for asset quality and profitability will be slow and is unlikely to occur until end-2022 for many banking systems. Capitalization trends are expected to be broadly stable.
- Short-term fiscal and monetary support for households and corporates from public authorities will continue to stabilize bank credit. Ultimately, we expect many systemically important banks would be beneficiaries of extraordinary government support in the unlikely event it was ever required.

Key Risks

- A more severe economic hit would intensify damage on households and corporates, thereby magnifying banks' credit losses. Regionally, slow vaccinations will constrain the economic recovery with credit losses still vulnerable until the health situation improves.
- Higher corporate and government sector leverage, and anticipated higher corporate defaults in 2021, are also among our top risks. Also, Asia-Pacific banks' property exposures are significant, and the full effect of COVID-19 on banks' asset quality is not yet evident.

Asset Quality: Credit Losses To Decline For Most Jurisdictions As The Economic Recovery Takes Hold

Credit Losses Fall And Remain Below Our Expected Long-Term Average For Most

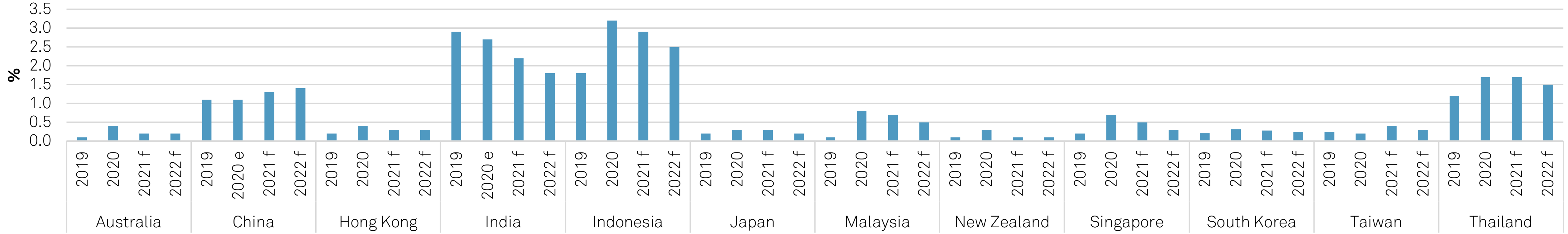
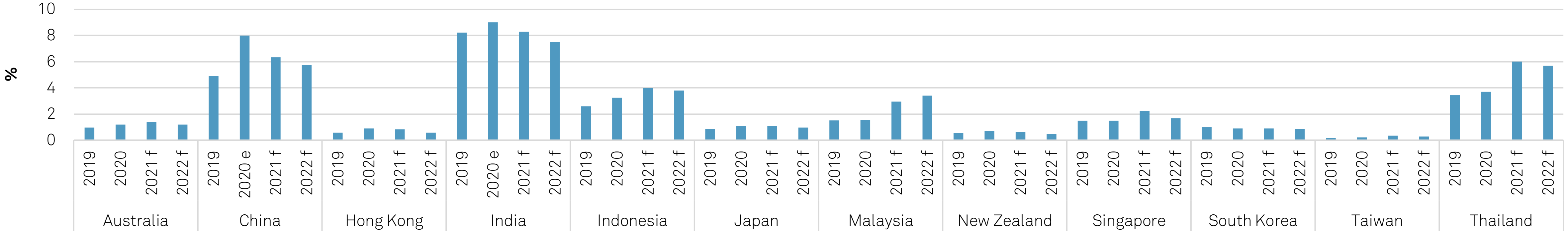


Chart reflects credit losses (% of gross customer loans). e--estimated. f– Forecast. For India and Japan, 2020 refers to fiscal year ended March 31, 2021. Figures for China include policy banks. Data as of June 1. Source: S&P Global Ratings.

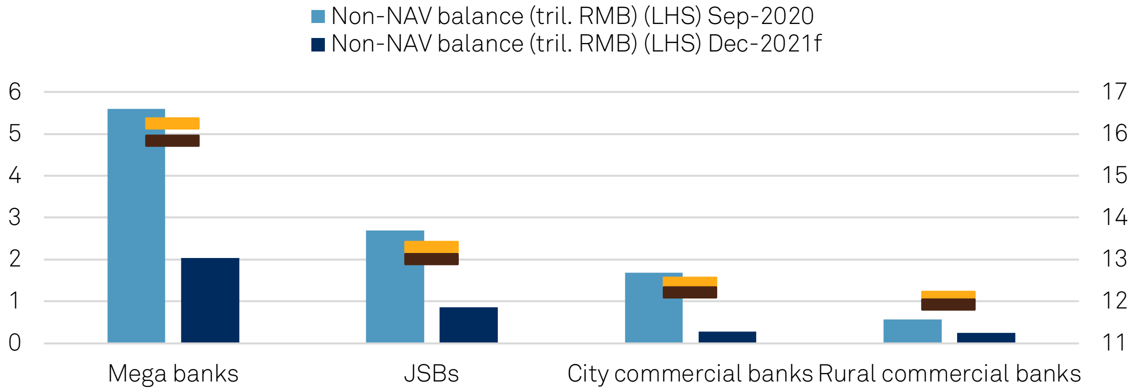
Nonperforming Assets Will Remain Elevated



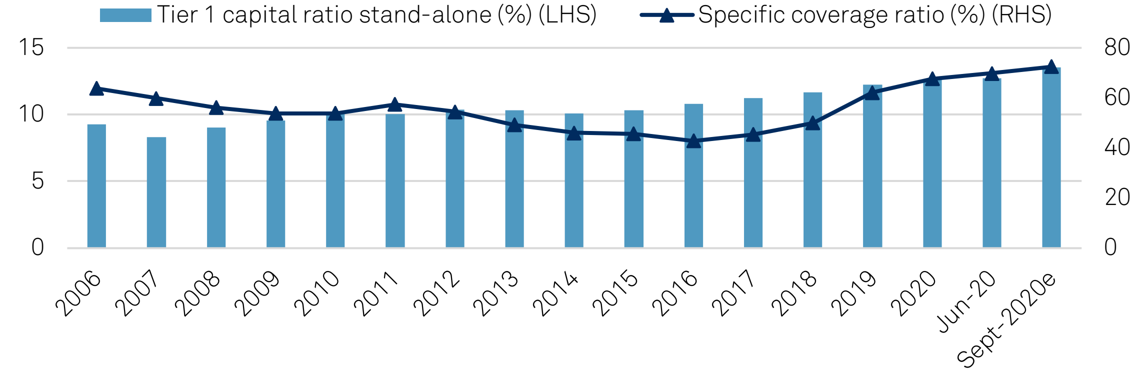
For India and Japan, 2020 refers to fiscal year ended March 31, 2021. Figures for China include policy banks. e--Estimate. f--forecast. Source: S&P Global Ratings.

Asia-Pacific Banks

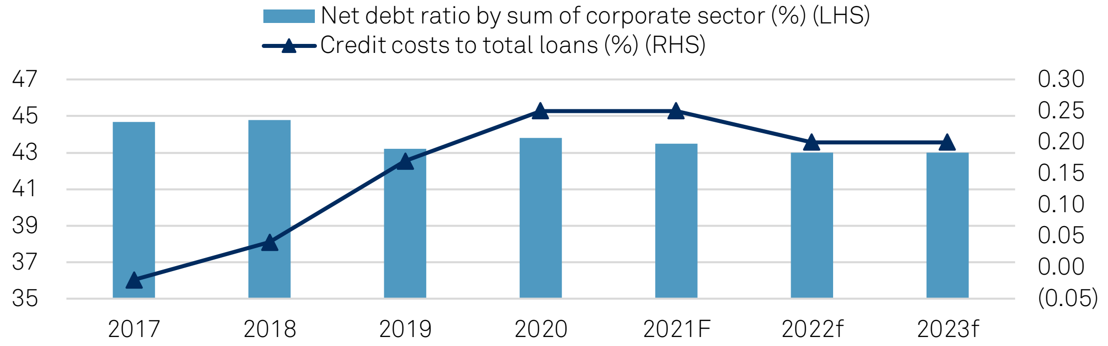
1. China: Banks May Still Have RMB3 Trillion In Shadow Assets By Year-End Deadline



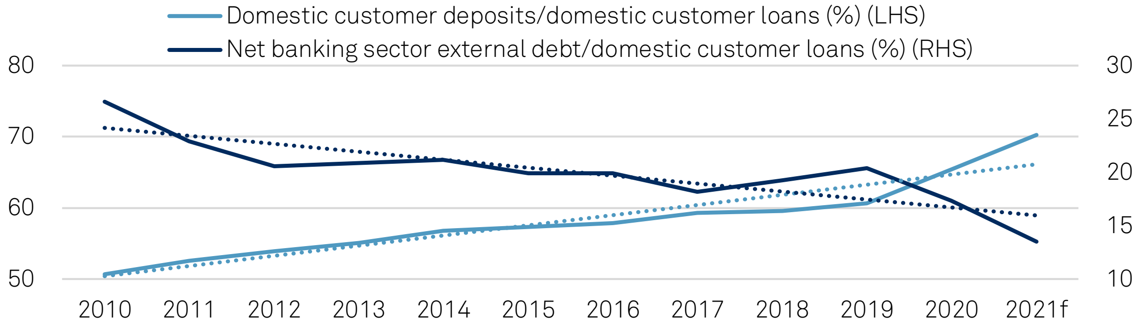
2. India: Provisioning And Capital Buffers Are Strengthening



3. Japan: Government's Large Support Curbs Banks' Credit Losses And Corporate Sector's Net Debt



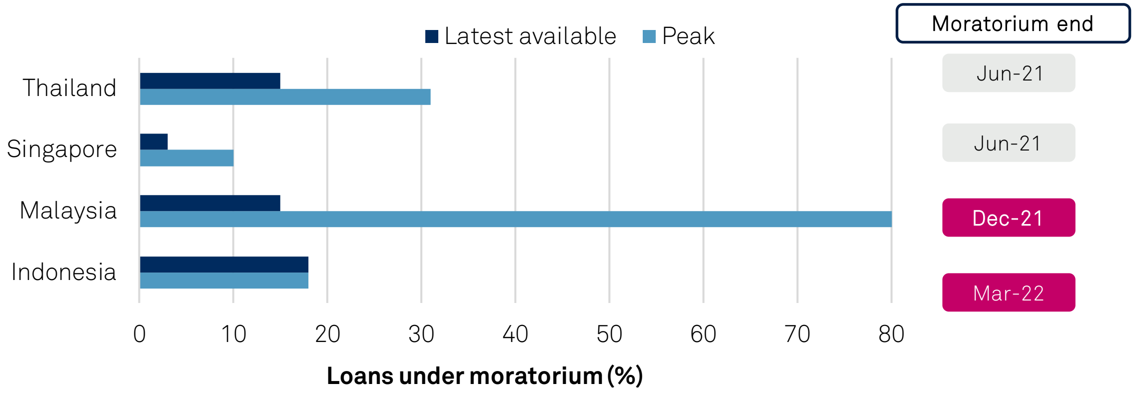
4. Australia: Growth In Customer Deposits Has Reduced Banks' Offshore Funding Dependence



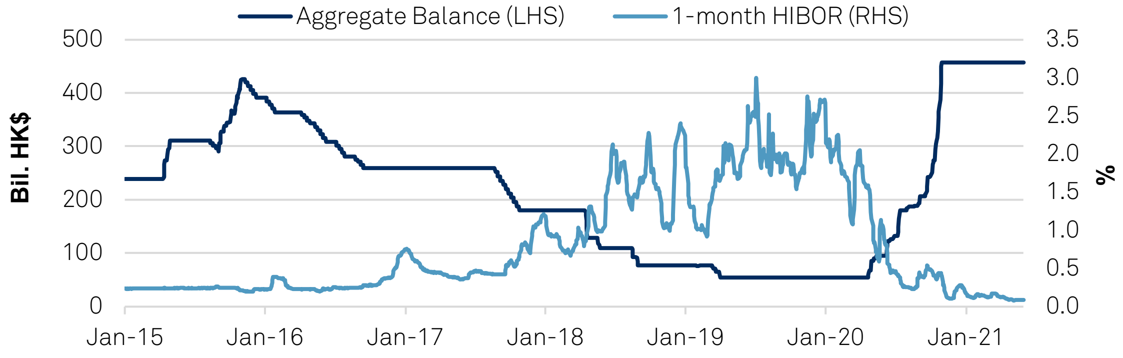
1. RMB--Chinese renminbi. JSB--Joint-stock bank. Source: S&P Global Ratings. 2. Data for fiscal years ending March 31. Coverage ratio excludes standard reserves and write-offs. e--Estimated. Source: RBI, S&P Global Ratings calculations. 3. For Japan, 2017 is the fiscal year ended March 2018 and so on. Credit costs to total loans (%)= (net charge-off + net increase of loan losses reserves) / end-balance of loans; Net debt ratio (%) = [total liabilities - (cash + deposit)] / total assets; All data are the sum of corporate sectors (excluding Financial Institutions & Insurance Companies.) LHS--Left-hand scale. RHS--Right-hand scale. Sources: FSA, Japanese Bankers Association, Ministry of Finance. 4. Year ending June 30. Source: Australia Prudential Regulation Authority, Reserve Bank of Australia, S&P Global Ratings.

Asia-Pacific Banks

1. SSEA: Loans Under Moratorium Remain A Latent Risk Amid A Resurgence Of COVID

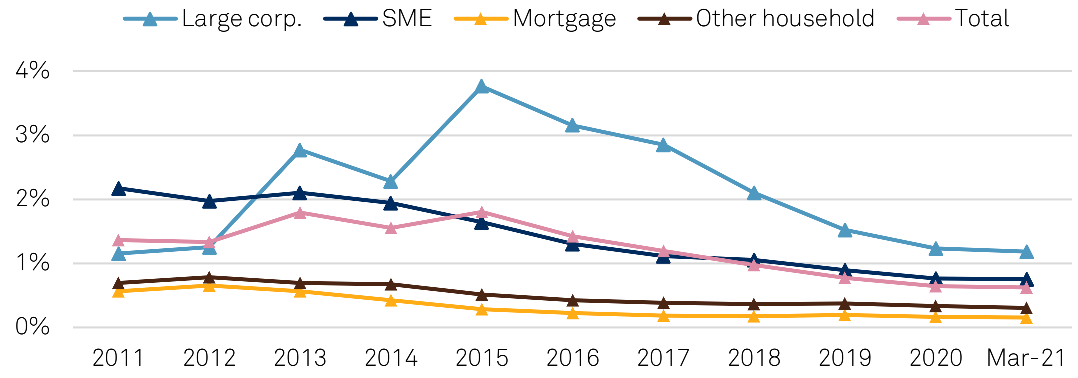


2. Hong Kong: Excess Liquidity In The System Is Driving HIBOR Down And Pressurizing NIM

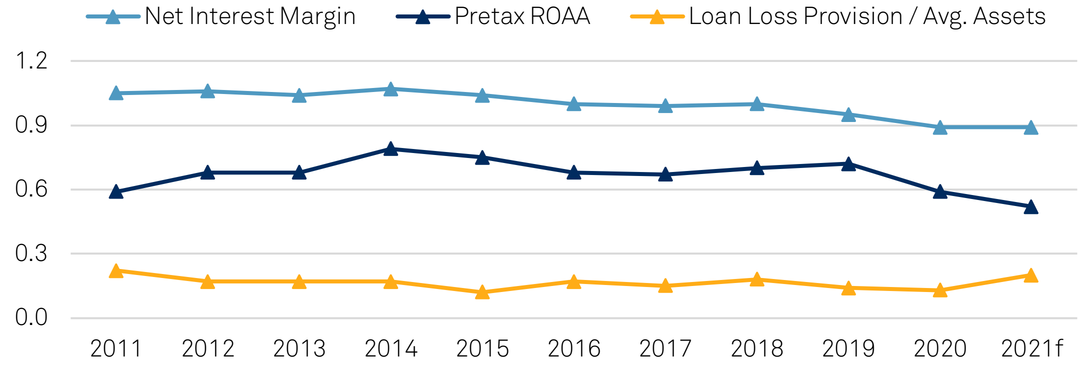


3. Korea: Banks Are Managing Asset Quality Well

NPA ratio trends by loan type



4. Taiwan: Profitability Constrained By Low Interest Rate And Higher Credit Costs



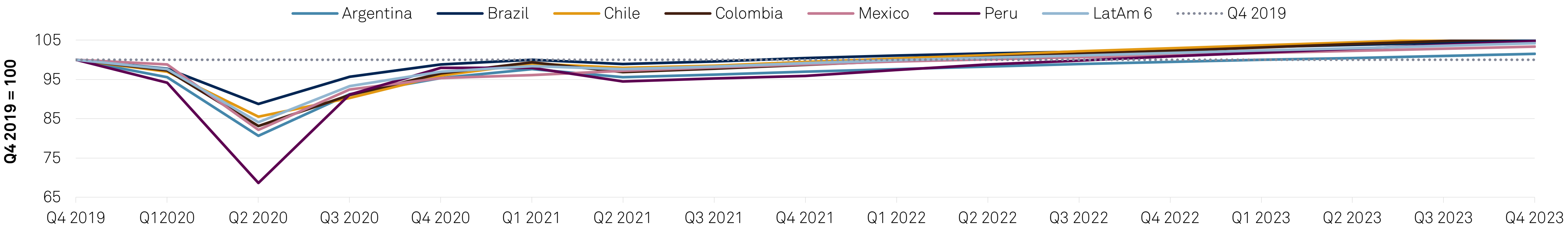
1. SSEA--South and Southeast Asia. 2 HIBOR--Hong Kong Interbank Offered Rate. NIM--Net interest margin. 3. SME--Small and midsize enterprise. 4. ROAA--Return on average assets. LHS--Left hand scale. RHS--Right hand scale. f--Taiwan Ratings Corp. forecast. Sources: Financial Supervisory Commission, FSS, S&P Global Ratings.

Credit Conditions: Latin America

- We have increased our 2021 GDP growth projections for the major economies in Latin America to 5.9% from 4.9%, due to better-than-expected performance of the services sectors so far this year. Households and businesses are adapting quickly to living in a pandemic, and lockdowns are having much less of an impact on activity than anticipated.
- However, we have lowered our GDP forecasts for 2022 for most economies in the region, as monetary policy normalization, fiscal tightening, and less predictable policy actions will slow the recovery.
- Our long-term macroeconomic assumptions, at roughly 2.5%, are due to low levels of investment.
- The pandemic has hit the middle- and lower-income households the hardest, and increased social and political tensions will generate a high degree of policy uncertainty in the post-pandemic years. This could further dampen investment and lower long-term potential GDP growth.

Projected GDP Level Versus Pre-Pandemic Level

December 2019 = 100



Note: for Chile, we use Q3 2019 as a starting point, given the sizable impact of protests on Q4 2019 GDP. We then average out Q4 2019 and Q1 2020, and use that value as Q1 2020 to smooth out the volatility. Sources: Oxford Economics, Haver Analytics, S&P Global Ratings.

Latin American Banks

Key Expectations

- We expect profitability to improve in 2021 as provisioning needs moderate and margins to improve. We expect Brazilian banks to have the strongest operating performance thanks to the diversified revenue mix and lower provisioning needs, followed by Chilean and Colombian banks.
- Peruvian banks will have a weaker performance in 2021 due to pressures on margins because of the higher share of government guaranteed loans and lower fees, but we expect profitability to recover in 2022.
- We expect lending growth to moderate in 2021 from high levels in countries where we saw stronger incentives from the government to lend, such as in Brazil and Peru. In contrast, we expect lending to recover in Mexico--after the contraction in 2020--where incentives from the government have been small. In Colombia, credit growth will remain moderate this year.

Key Assumptions

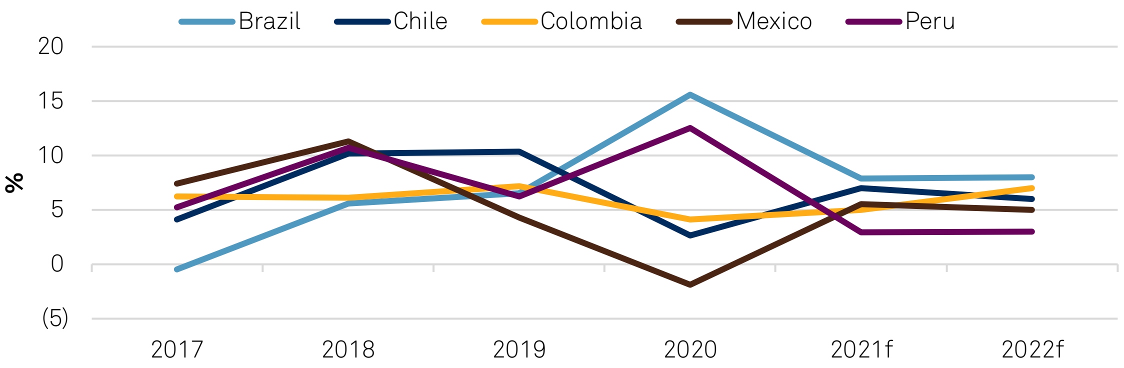
- Asset quality has performed better than expected as moratoriums are lifted, We expect asset quality to deteriorate but to remain manageable thanks to banks' conservative growth strategies prior to the pandemic.
- Banks' still high margins and consistently high provisioning coverage will help mitigate the hit on their balance sheets.
- We expect an improvement in economic activity in 2021 due to better-than-expected performance of the services sectors. On average, we expect GDP in the region to return to its pre-pandemic level in the middle of 2022.

Key Risks

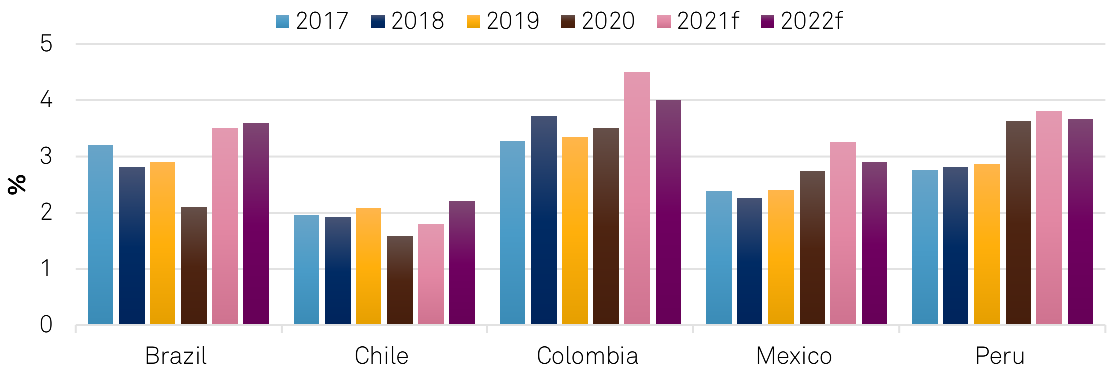
- Social unrest and political instability could pressure investment and economic recovery. This could result in weaker internal demand result in lower lending growth and weaker asset quality. In this context, banks' operating performance could struggle.
- Problem loans could rise above our expectations. LATAM economies have been exposed to soft economic conditions prior to the pandemic hit; a weaker than expected recovery could pressure some businesses' sustainability.

Latin American Banks

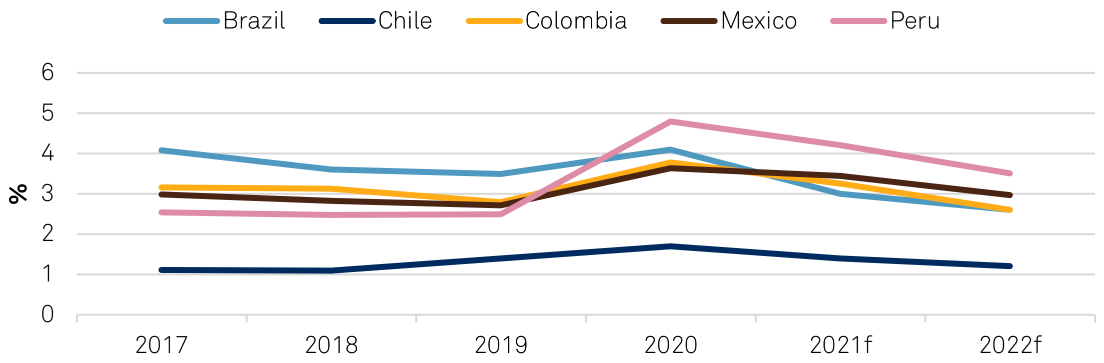
1. Lending Growth To Slow



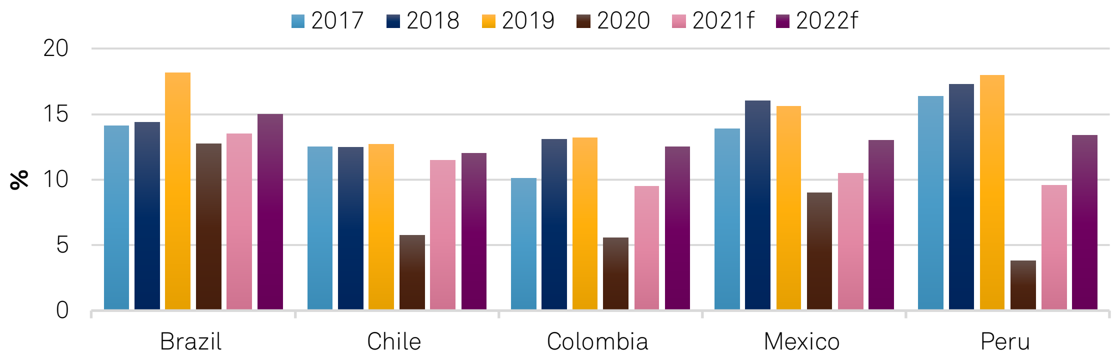
2. Nonperforming Loans To Escalate



3. Credit Cost To Stabilize



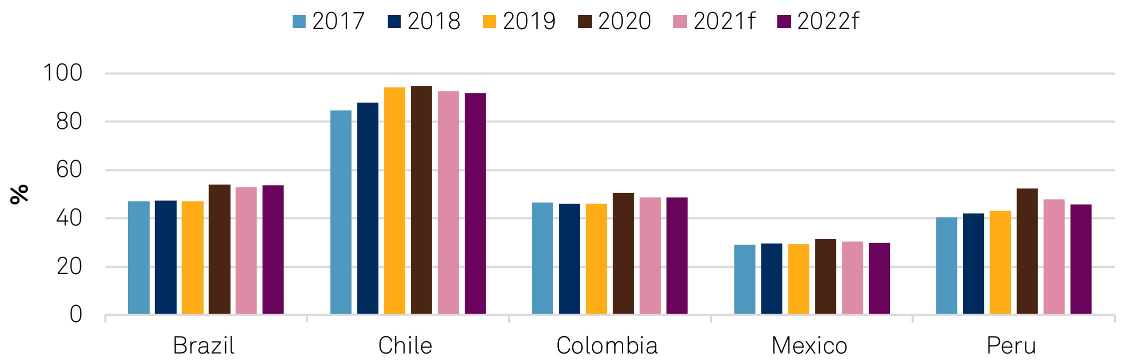
4. Profitability (ROE) Should Recover



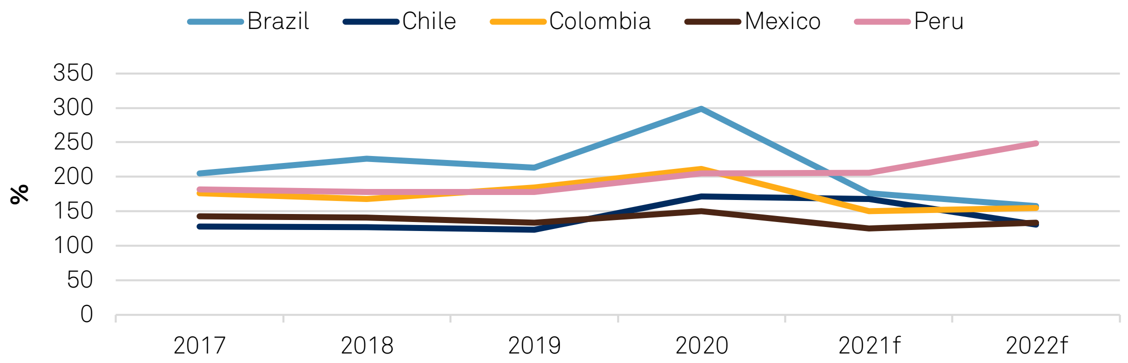
ROE--Return on equity, f--S&P Global Ratings forecast. Source: S&P Global Ratings.

Latin American Banks

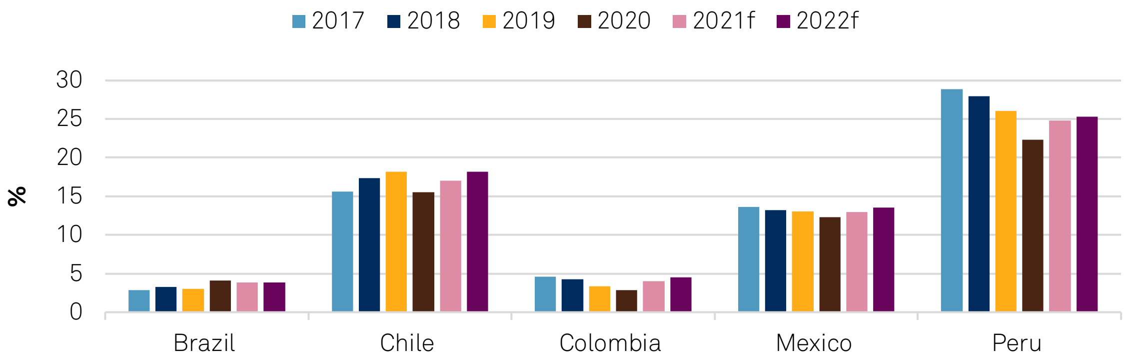
1. Low Credit To GDP, Apart From Chile



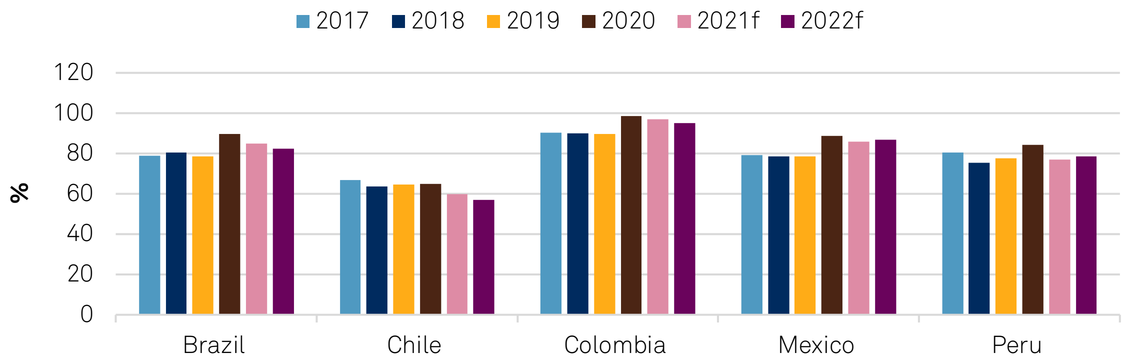
2. Comfortable Provisioning Coverage



3. Share Of Foreign Currency Loans Is Mainly Directed To Exporters (Except In Peru)



4. Low Loan-To-Deposit Ratios



f--S&P Global Ratings forecast. 2. Provisioning coverage as measured by the ratio of loan loss reserves to nonperforming assets. Source: S&P Global Ratings.

Related Research

- "Global Banking Country Outlook Midyear 2021: Tantalizing Signs Of Stability," July 22, 2021
- "EMEA Financial Institutions Monitor 3Q2021: Resilience Amid The Search For Stronger Profitability," July 16, 2021
- "A Little More Clarity, A Little Less Gloom: An Update On Our Bank Credit Loss Forecasts," July 15, 2021
- "Asia-Pacific Financial Institutions Monitor 3Q 2021: Inching Toward The Positive," July 14, 2021
- "Ratings Component Scores For The Top 200 Banks Globally--July 2021," July 13, 2021
- "Banking Industry Country Risk Assessment Update: June 2021," June 30, 2021
- "Global Credit Conditions Q3 2021: Reopening, Reflation, Reset," June 30, 2021
- "Global Economic Outlook Q3 2021: Picking Up Steam, Fueled By Vaccinations," June 30, 2021
- "Fed Stress Test Results Give Banks Room To Release The Capital They Built Up During The Pandemic," June 28, 2021
- "As Near-Term Risks Ease, The Relentless Profitability Battle Lingers For European Banks," June 25, 2021
- "The Basel Capital Compromise For Banks: Better Buffers, Elusive Comparability," June 3, 2021
- "Intervention Worked: Credit Losses Set To Decline For Most Asia-Pacific Banks," June 3, 2021
- "Banking Risk Indicators: May 2021 Update," May 12, 2021
- "The Future Of Banking: Research By S&P Global Ratings," April 8, 2021

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