Global Banks Outlook 2022:
Back On Course

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S&P Global
Ratings

This report does not constitute a rating action

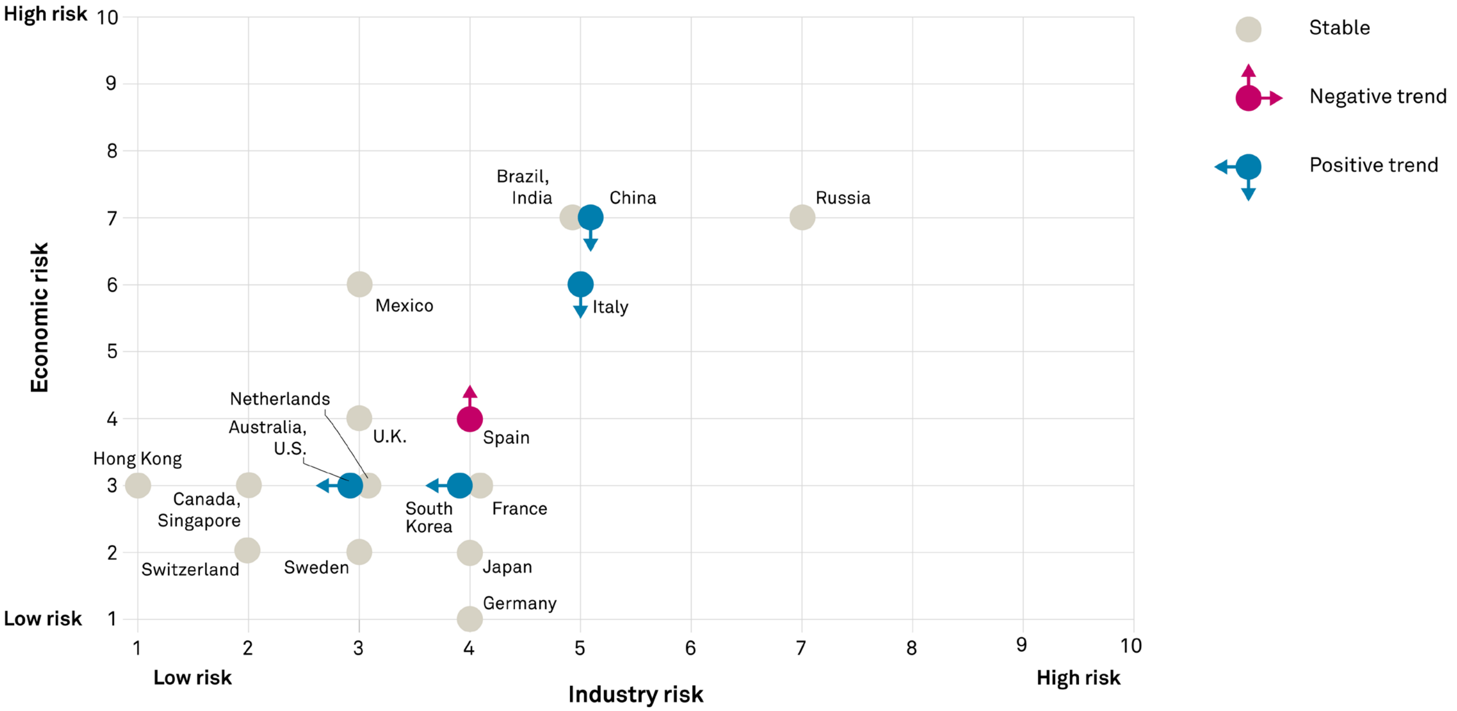
Contents

Key Takeaways

- Rating trends in the global banking sector have stabilized in 2021. Our base case is that this will continue in 2022. Net rating outlooks improved significantly recently, from negative 31% in October 2020, to positive 2% in November 2021. About 74% of banks are on stable outlook, with 12% on negative outlook, and 14% on positive outlook.
- Given the recent improvement in rating outlooks, many bank ratings have scope to solidify. The net outlook bias for banks is unlikely to sustainably improve. Noted is the global corporate sector bias of about negative 6%, in November 2021. Banks' capacity to positively diverge from the financial strength of the corporate and household sectors is limited, over the long-term.
- A key risk is that the economic recovery envisaged in our base case stalls because of omicron or potential new variants, or vaccination progress, which is lagging in some jurisdictions.
- Other key risks include the potential for spillover from high debt leverage in the corporate and government sectors, disorderly reflation, property sector challenges, and bank business models. These risks could still make it tough for banks in 2022.
- All said, bank balance sheets are in reasonably good shape heading into 2022. This will buffer headwinds. Bank capital has strengthened materially since the global financial crisis, and asset quality has improved.

Banking Industry Country Risk Assessments Trends Are Stabilizing

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



BICRA-Related Changes In The Top 20 Banking Markets: July 2021 to November 2021

- Italy: Economic risk (ER) trend to positive from stable (November).
- Russia: BICRA to Group '7' from Group '8', and economic risk score to '7' from '8' (October).
- China: ER trend to positive from stable (August)

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 November 23, 2021. Source: S&P Global Ratings.

Global BICRA Developments – July 2021 to November 2021

Positive change · Neutral change · Negative change

July

- **Oman:** Economic risk trend to stable from negative

Aug.

- **China:** Economic risk trend to positive from stable
- **Hungary:** Economic risk score to '5' from '6'
- **Sri Lanka:** Industry risk trend to negative from stable

Sept.

- **Kazakhstan:** Economic risk score to '8' from '9', economic risk trend to positive from stable, and industry risk trend to positive from stable
- **Thailand:** Thailand: Industry risk score to '5' from '4'
- **Uruguay:** BICRA to Group '5' from Group '6', and industry risk score to '6' from '7'
- **Malaysia:** Economic risk trend to negative from stable, and industry risk score to '4' from '3'
- **Trinidad and Tobago:** Economic risk trend to stable from negative

Oct.

- **Ukraine:** Industry risk trend to positive from stable
- **Russia:** BICRA to Group '7' from Group '8', and economic risk score to '7' from '8’
- **Italy:** Economic risk trend to stable from negative
- **El Salvador:** Economic risk trend to negative from stable, and Industry risk trend to negative from stable
- **Portugal:** Industry risk trend to positive from stable

Nov.

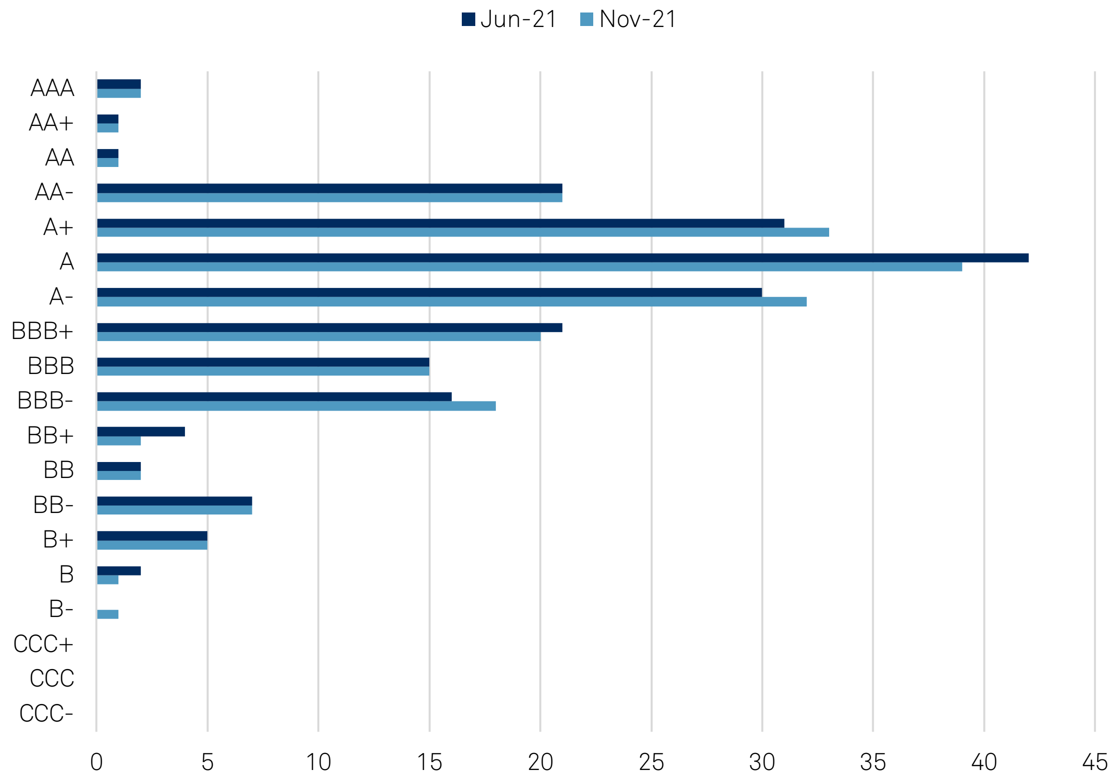
- **Italy:** Economic risk trend to positive from stable

Chart includes changes in BICRA group, industry risk trends and scores and economic risk trends and scores. Data as of November 23, 2021. BICRA--Banking Industry Country Risk Assessment. Source: S&P Global Ratings.

Top 200 Banks: Generally Stable Heading Into 2022

Bank Ratings Stay Resilient

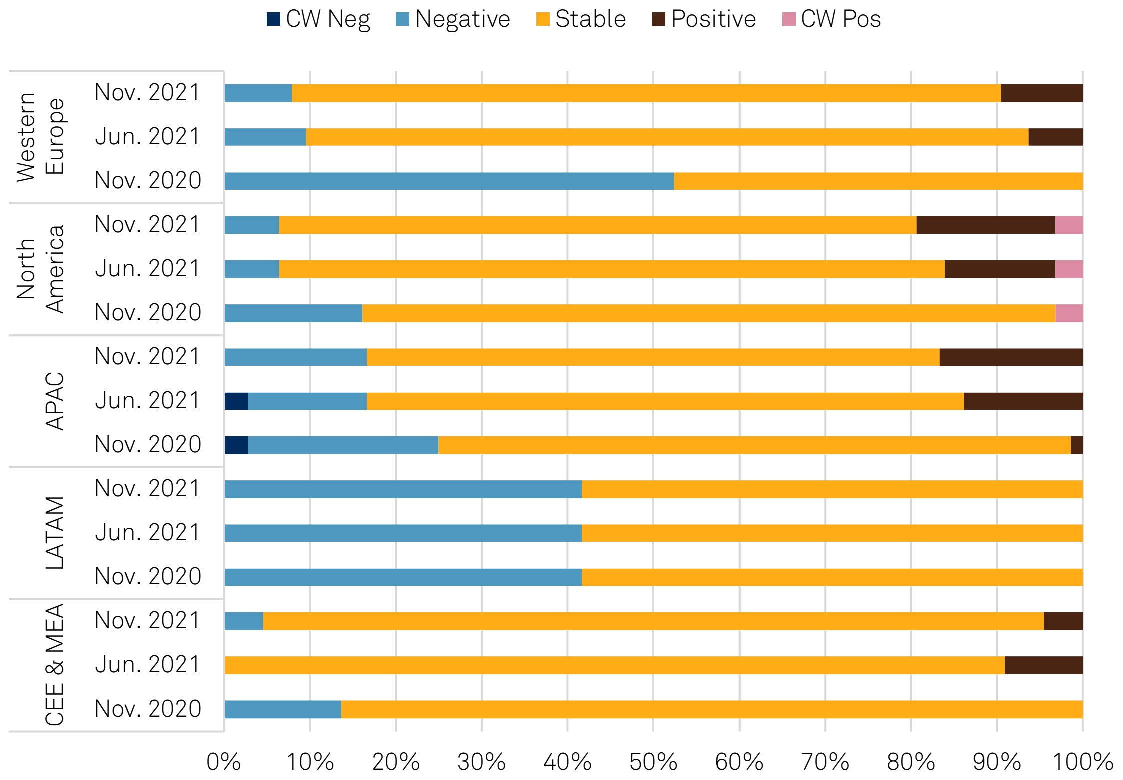
Evolution of ratings distribution for the top 200 rated banks



Operating company issuer credit ratings. Source: S&P Global Ratings.

Negative Outlooks Recede Globally Over 2021

Evolution of outlooks for the top 200 rated banks by region



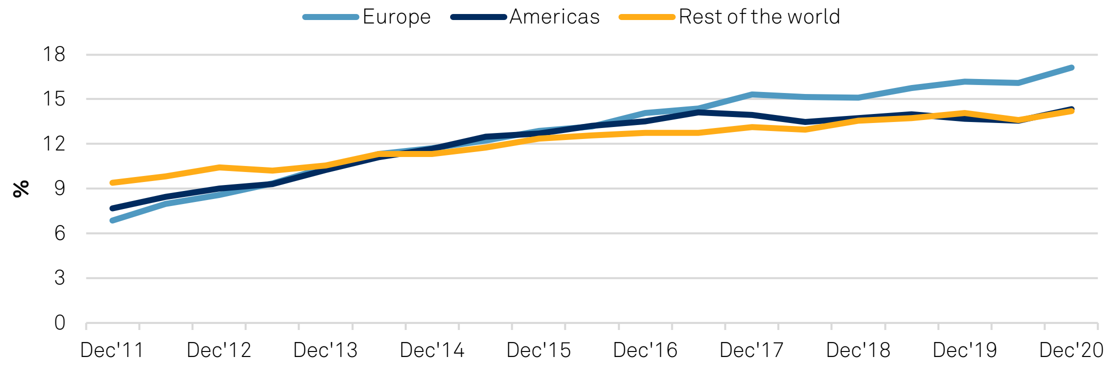
Note: Ratings bias is positive bias minus negative bias. APAC--Asia Pacific. LATAM--Latin America. CEE--Central and Eastern Europe. MEA--Middle East and Africa. Source: S&P Global Ratings.

S&P Global Ratings

Banks' Balance Sheets In Reasonably Good Shape

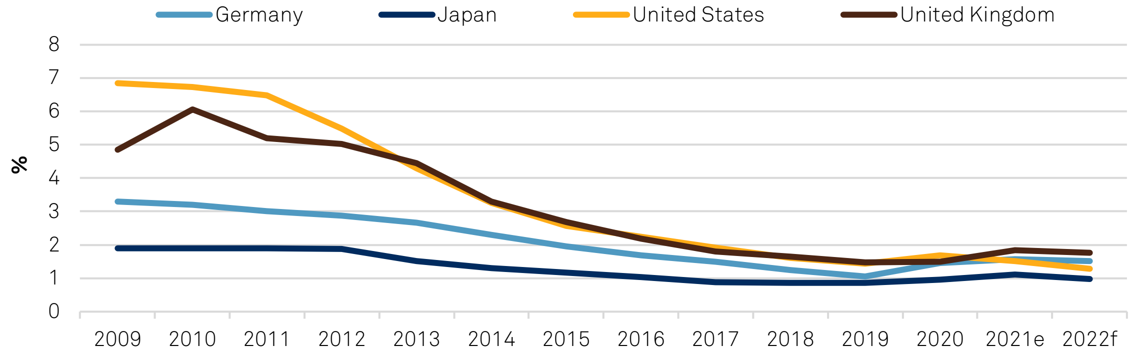
1. Stronger Capital Since The GFC Helped Banks Cope With COVID

Tier 1 ratios by region - group 1 banks

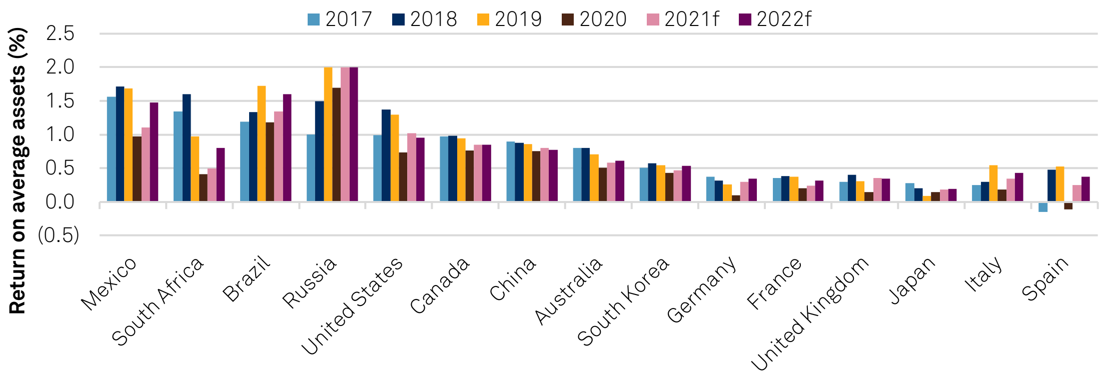


2. Asset Quality Is Sound Despite Higher NPAs Due To COVID

Nonperforming assets selected G20 jurisdictions

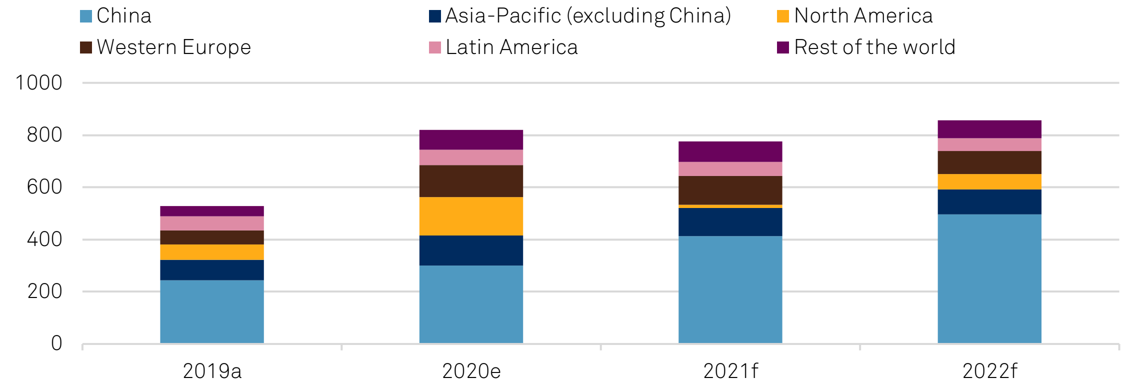


3. Banks' Profitability Outlook Is Recovering Post-COVID



4. Estimated Bank Credit Losses of US$1.6 Trillion Over 2021-2022

Domestic credit losses by region, 2019-2022 (bil. $)



1. Source: Basel Committee on Banking Supervision, Bank of International Settlements. Note: Group 1 banks are those that have Tier 1 capital of more than €3 billion and are internationally active. GFC – Global financial crisis. 2. e--Estimate. f--Forecast. Nonperforming assets as a % of systemwide loans. Source: S&P Global Ratings. 3. e--Estimate. f--Forecast. Source: S&P Global Ratings. 4. a--Actual. e--Estimate. f--Forecast. Figures are based on July 2021 estimates. See A Little More Clarity, A Little Less Gloom: An Update On Our Bank Credit Loss Forecasts, July 15, 2021. Source: S&P Global Ratings.

Five Key Risks For The Global Banking Sector

The **economic recovery** envisaged in our base case stalls.

High debt leverage in the corporate and government sectors results in higher corporate insolvencies and less government support for banks than anticipated.

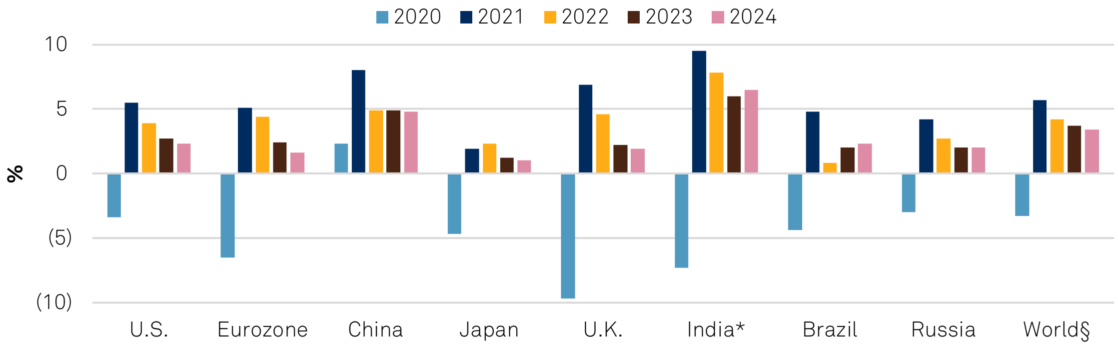
Disorderly reflation and market disruption.

Property sector challenges (that vary by jurisdiction), notably the stress in China and spiking house prices in many markets.

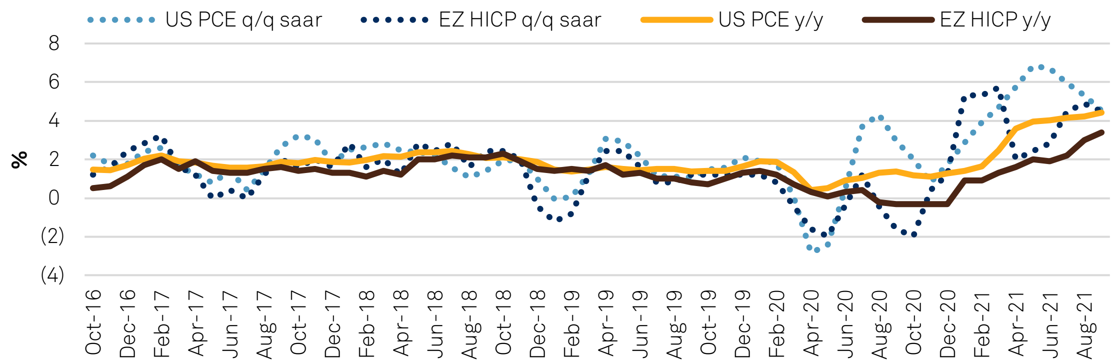
The low rates environment and fintech evolution **challenge banking business** models.

What Are We Watching In 2022?

1. Will The Economic Recovery Continue?

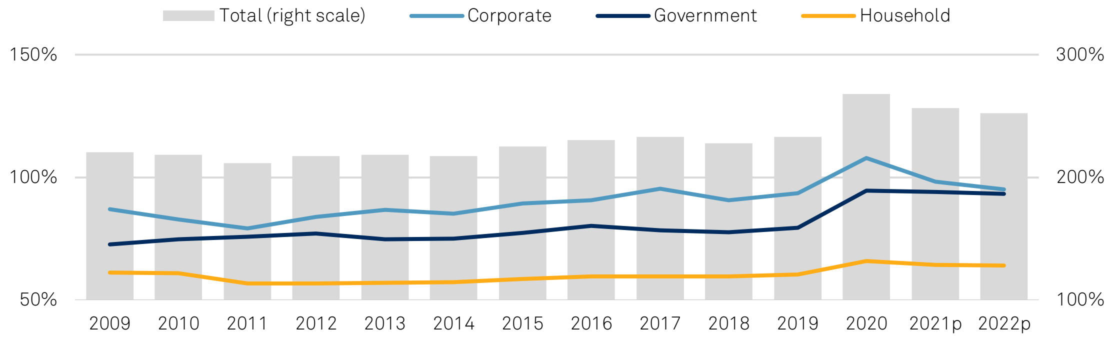


2. Inflation Will Help NIM But What About NPLs?



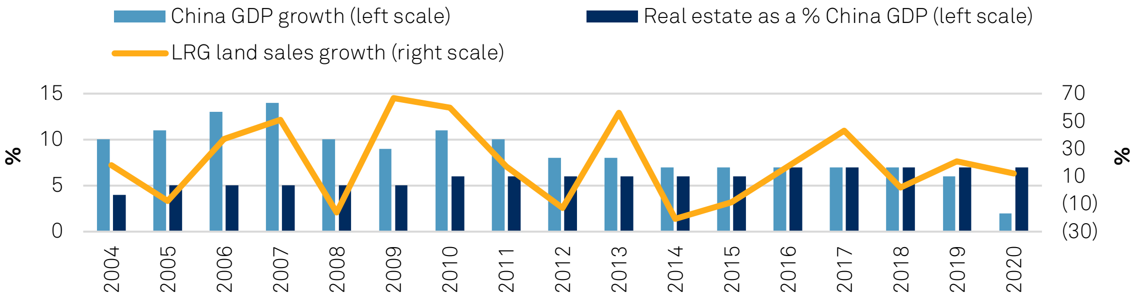
3. Will Higher Leverage Eventually Hurt Banks?

Global debt to GDP trends, 2009-2022p



4. How Much Will Property Affect Bank Asset Quality?

China – property sales drive local finances and the national economy



*1. *India: fiscal year April of reference year to March the following year. §World: Calculated using purchasing power parity (exchange) rates. Sources: S&P Global Economics, Oxford Economics. See Economic Outlook Q1 2022: Rising Inflation Fears Overshadow A Robust Rebound, published Dec. 1, 2021. 2. NIM--Net Interest Margins, NPL--Nonperforming Loans, PCE--Personal Consumer Expenditure Index. HICP--Harmonized Indices of Consumer Prices. Saar--Seasonally adjusted annual rate. Q/Q--Quarter on quarter. Y/Y--Year on year. Sources: U.S. Federal Reserve, Eurostat, S&P Global Economics.3. p--projection. Corporates refer to nonfinancial corporates. Data sources: 2009-2020 corporate--IIF; other--S&P Global Ratings. 4. Note: We measure land sales as LRG revenue collected from the sale of primary land for development. LRG--Local and regional government. Source: Statistics Bureau, Ministry of Finance, China; S&P Global Ratings. This chart references China property but S&PGR concerns regarding property apply in various ways across many jurisdictions.*

Key Areas Driving Creditworthiness

Asset Quality And Profitability

- Rates will likely remain low despite inflationary pressures
- Economic rebound will assist demand for credit
- Consolidation as way to reduce overcapacity and improve efficiency
- Digitalization; cashless transactions

Technology

- More investment is needed to respond to changing customer preferences and boost efficiency
- Shifts to work from home, big data, artificial intelligence
- Digitalization ecosystem continues to expand
- Cyber risk and anti-financial 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 unwinding of various forms of support by public authorities

Source: S&P Global Ratings.

Interest Rates: Stronger-For-Longer Inflation Will Weigh On Economies

- Our base case: record-low interest rates are likely to persist for some time despite the higher than anticipated headline inflation readings recorded recently. We believe inflation pressures will wane, but the risks of a disorderly COVID exit are rising.
- Inflation has remained stronger for longer and the question is now whether major central banks can let price pressures pass through the economy without aggressive monetary policy tightening.

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	(0.5)	0.0	0.2	(0.8)
2021f	0-0.25	(0.5)	0.0	0.1	(0.8)
2022f	0.25-0.50	(0.5)	(0.0)	0.4	(0.8)
2023f	1.00-1.25	(0.5)	(0.0)	0.6	(0.8)
2024f	1.50-1.75	(0.3)	(0.0)	0.9	(0.6)

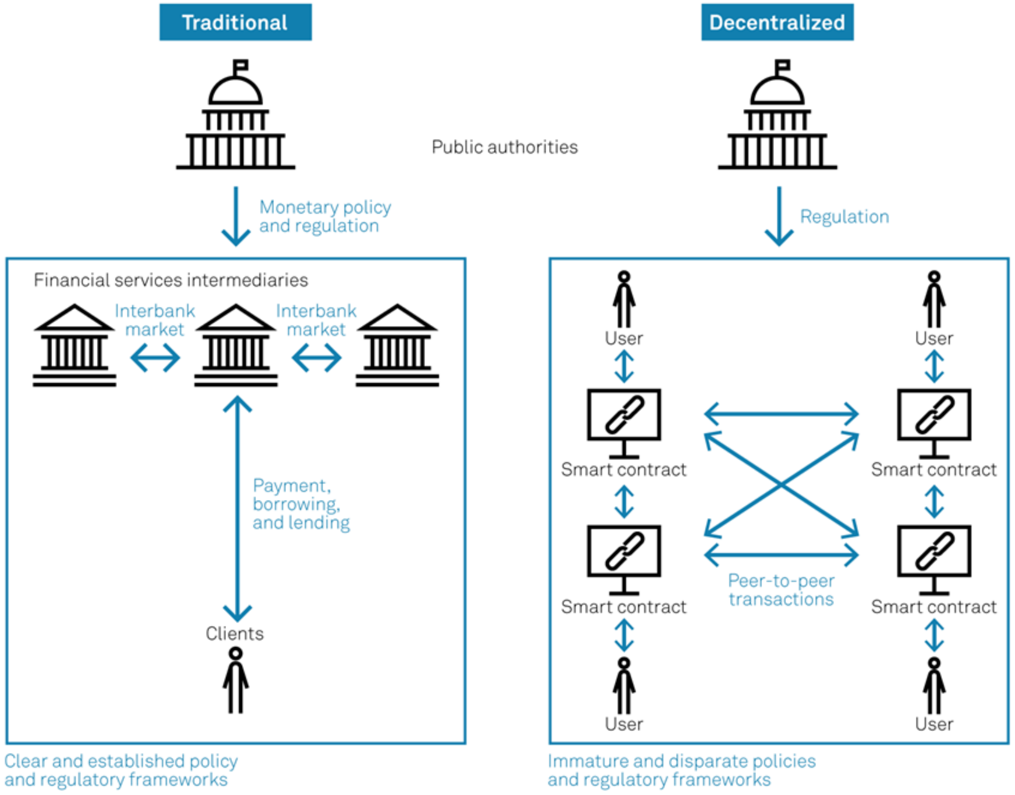
f--S&P Global Ratings forecast. ECB--European Central Bank. BOE--Bank of England. SNB--Swiss National Bank. Source: S&P Global Ratings.

Digital Transformation Of Business Models Will Be The Difference Between Failure And Success

- The **COVID-19** pandemic **accelerates** the **digital transformation;** laggards need to speed up even more to tackle structural and infrastructure weaknesses to remain viable in the long-run.
- **Banks swiftly reacted to lockdowns** by strengthening their digital products and services. The move to **cashless economies** is accelerating broadly with card and mobile payment usage increasing.
- Preparedness and agility to **shift business models** to the new digital normal has become crucial to delivering on faster-changing **client preferences**.
- We expect banks to move to the **cloud for standard use**, and to increasingly leverage cloud-based solutions to prepare for peaks in usage, streamline costs and hasten the time to market.
- While **retail banking** and **payment segments** have been disrupted for years, we expect the **corporate and investment banking** and **asset management** segments will increasingly **see similar trends in digital offerings**. Digital solutions and market infrastructure will be much more diverse, but personal relationships will continue to play a role.
- The **rise of cryptocurrencies** has put the **spotlight on blockchain solutions,** which offer the potential for **efficiency gains** by reducing or **eliminating the need and role for intermediaries** to execute transactions in both primary and secondary markets. Discussions about **central bank digital currencies** are gearing up.
- **Regulators will push for digital transformation** by requiring digital business agendas, the adjustment of accounting rules, more guidance on IT outsourcing and data management. **At the same time, they will catch up on new emerging trends and increase supervisory focus** in blockchain and distributed ledger technologies.

Digitalization of Markets Is Reshaping Market Structures

Traditional Finance Versus Decentralized Finance

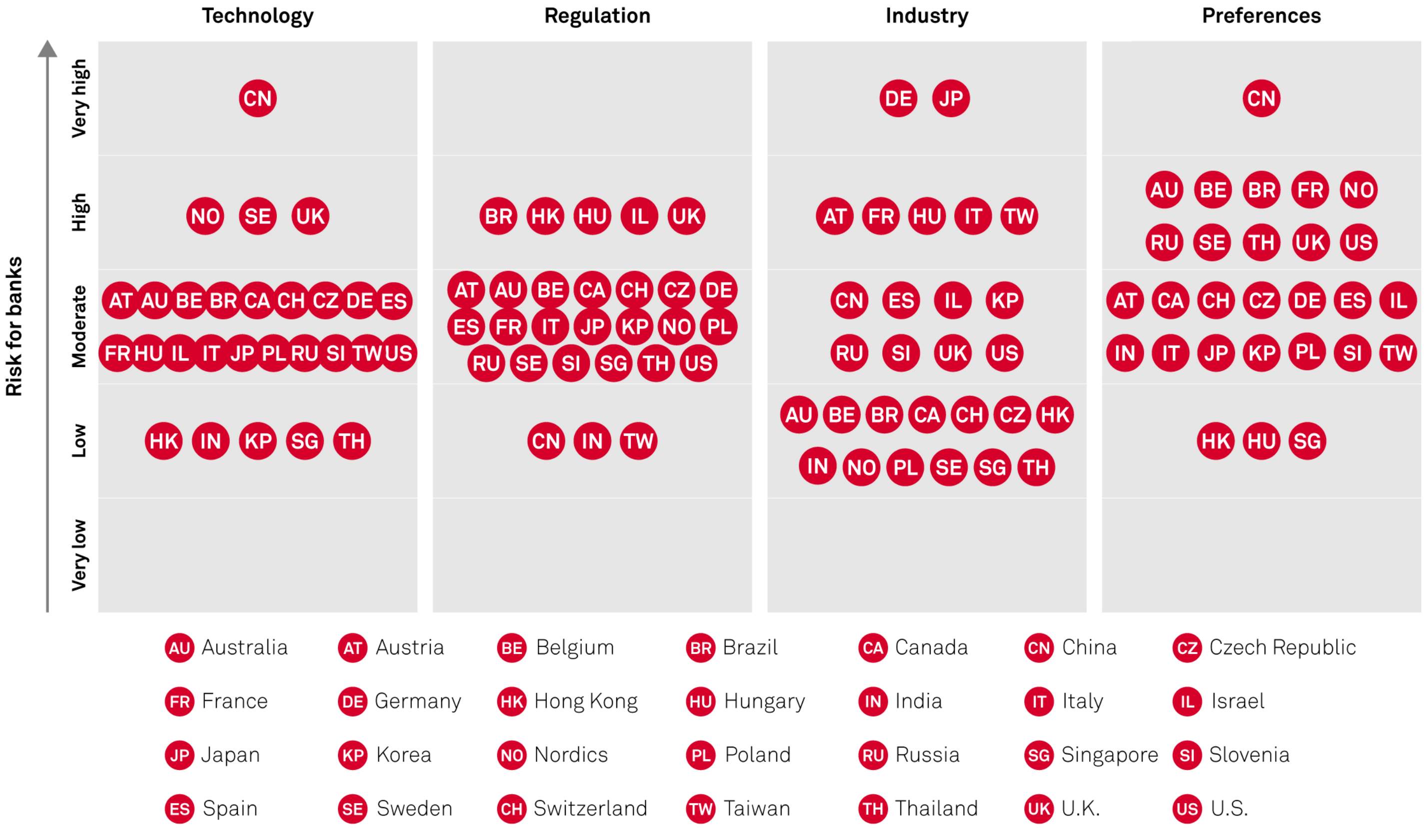


Source: S&P Global Ratings.

Decentralized finance (DeFi) is a new financial ecosystem that uses smart contracts on blockchains instead of central financial intermediaries to offer financial products and services. It is driving change and introducing a new era of economic organization by:

- Redefining the role of traditional players, including banks and central banks
- Establishing new transaction frameworks
- Creating new client needs and workflows
- Redefining product landscapes
- Reshaping risk parameters
- Removing intermediaries
- Necessitating new regulatory approaches

Tech Disruption: A Risk For All Banks, But Unequally So



- 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.

Source: S&P Global Ratings.

S&P Global Ratings

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 are unwinding 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, likely delayed and diluted Basel implementation in Europe).

Regulators Show That They Can Flex Appropriately

Prudential Measures In Response To COVID

- 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. This is not our base case but remains on the radar.
- This period of regulatory relaxation raises questions about if and when regulatory capital buffers should be used.
- 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

- During the COVID-19 shock, banks have benefited from the support of public authorities:
  - Indirect support, through various fiscal and monetary policy measures their corporate and household customers benefited from.
  - 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 reasons 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 is no 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

Financing conditions remain broadly supportive, but inflation is biting.

- Most economies in emerging markets (EMs) should grow at above-trend rate in 2022, given that recovery from the COVID-related downturn isn't yet complete, and some sectors continue to operate below capacity.
- Slower growth in China resulting from shifting policies could affect EMs substantially, as several economies have large trade exposure.
- Inflation continues to rise in many EMs because of higher fuel and food prices, and supply chain disruptions interacting with a stronger economic rebound. Rising inflation will continue to keep central banks on a tightening bias. The pace of tightening accelerated, with more aggressive moves in Latin America and EM-EMEA.
- Financing conditions have tightened in EMs in recent months, mostly due to the rising benchmark yields.

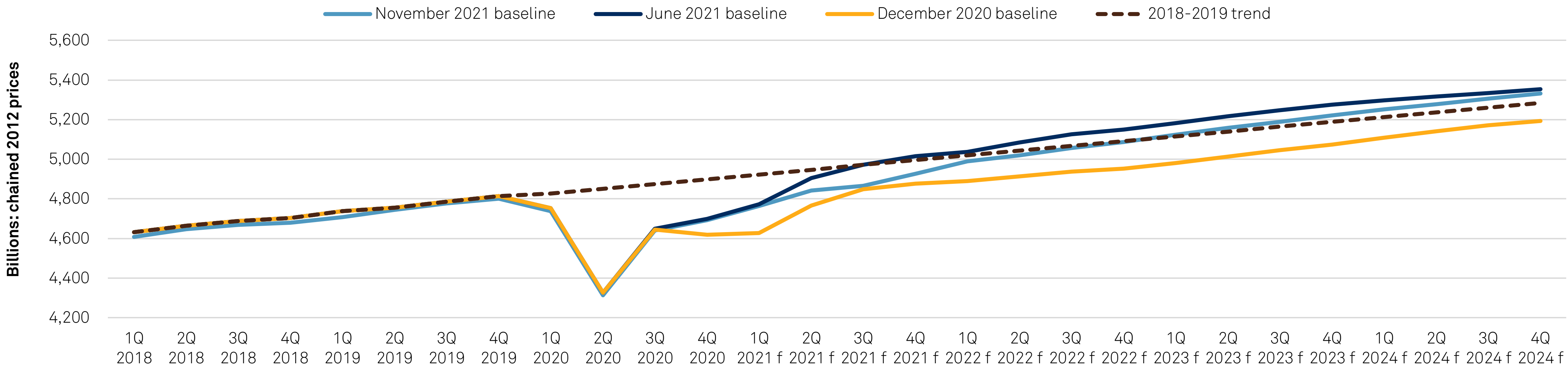
We expect bank asset quality deterioration to continue in some countries.

- Credit losses will gradually decline as the economies recover. The exception is Turkey where the deterioration in asset quality is yet to occur.
- Profitability will improve slightly, helped by increasing interest rates, and reduce cost of risk. EM banks continue to benefit from hefty interest margins and good efficiency.
- Political instability and social protests are risks to watch in several countries.

Credit Conditions: North America

- We expect the U.S. economy to grow 5.5% in 2021--the fastest in 37 years--and 3.9% in 2022.
- However, we have moderately lowered our growth forecasts in recent months, due in part to supply disruptions. A drop in labor force participation is also limiting growth.
- With inflationary pressures continuing, we expect the Fed to taper asset purchases at a faster pace in the first quarter of next year and to start raising rates in September.

U.S. Real GDP--Baseline Forecasts



f--Forecast. Sources: BEA, Oxford Economics, and S&P Global Economics' forecasts.

North American Banks

Key Expectations

- U.S. bank earnings--which have risen sharply in 2021 on reserve releases--will fall as provisions for credit losses climb from the negative levels of 2021. However, preprovision profitability should rise on higher net interest income.
- Banks will report stable asset quality though charge-offs on consumer loans will rise towards normalized historical levels. Criticized commercial loans will continue to fall following the 2020 pandemic spike.
- Capital ratios will edge down towards pre-pandemic levels given the expiration of regulatory limitations on shareholder payouts earlier in 2021. Funding and liquidity will remain in good shape but is unlikely to improve further given the Fed's tapering and potential rate hikes.

Key Assumptions

- In 2022, real GDP will rise 3.9% in the U.S. and 3.7% and Canada.
- Pricing pressures will moderate later in 2022, though we don't expect the core Personal Consumption Expenditures (PCE) deflator, the Fed's preferred inflation indicator, to reach the Fed's 2.0% target until late in 2023.
- The Fed will finish tapering asset purchases in the first half of 2022 and began hiking the Fed funds rate in September.

Key Risks

- Inflation is even more persistent than expected, the economy overheats, and the Fed is forced to more aggressively tighten monetary policy.
- A resurgence of the virus hurts asset quality, particularly in areas such as commercial real estate.
- Competitive pressures from advances in fintech and the shadow banking system weaken the market positions of some banks.

U.S. Forecast | Rates, Loan Growth Play Big Part

Worsening — Neutral — Improving

Revenues	Net interest income should rise on some acceleration in loan growth and perhaps a modest increase in rates related to the Fed's tapering--ahead of potentially more meaningful rate rises in 2023. We expect little change in fee income but see risk that the robust fees from capital markets and residential mortgage activity could fall.
Expenses	Banks will keep expenses in sharp focus but will also invest considerable sums in technology. They likely will consolidate more branches, consider personnel changes, and use digitization to improve operations. At the same time, M&A should remain strong as banks try to gain scale and drive efficiencies.
Profitability	Profitability will fall from 2021's elevated level as reserve releases ease. Provisions will likely begin to normalize in 2022--up from this year's negative levels--offsetting the benefit of higher revenues. However, preprovision profitability should rise on higher revenue, and we expect returns on common equity for the industry to be about 9%-10%, somewhat below the 11% reached in 2019 and the 12% we expect for full year 2021.
Credit Quality	Asset quality should remain in good shape absent a slowdown in the economy. Allowances relative to loans should fall closer to their pre-pandemic levels (inclusive of CECL). That said, delinquencies and charge-offs should rise toward historical levels on consumer loans, and certain commercial loan categories, such as in CRE, may face medium-term challenges.
Capital	Capital ratios should gradually decline, moving closer to pre-pandemic level because regulatory restrictions on payouts have been lifted and the economic outlook remains relatively strong. However, leverage requirements and other factors may limit the ability of the large banks to reduce capital.
Funding & Liquidity	Deposit growth should slow meaningfully as the Fed tapers and perhaps ultimately ceases its asset purchases by mid 2022, in advance of a potential rate hike in September 2022. Still, funding and liquidity will remain robust, leaving many related ratios near their best levels in years.

Source: S&P Global Ratings.

Canada Forecast | Results Should Remain Sound

Worsening		Neutral		Improving

Revenues	Revenue growth could moderate somewhat in 2022 from 2021 (up 5.5% on average year-to-date), reflecting slower growth from capital markets businesses after a solid 2021, offset by still-strong mortgage loan growth, particularly ahead of rate hikes, and a stronger pipeline in business lending.
Expenses	Expenses could increase marginally, reflecting higher service costs and investments in technology, including digitization. Still, we believe positive operating leverage is likely at most banks as expense management remains key.
Pretax income	Pretax income is likely to be modestly higher in 2022 than in 2021, as the year won't benefit from provisioning tailwinds as it did in 2021 with earnings rebounding and surpassing 2019 levels from significant declines in provisions.
Asset quality	Net charge-offs and nonperforming assets declined in 2021. They are likely to be stable or increase only gradually in 2022 after government stimulus winds down. Nevertheless, household indebtedness, imbalances in the housing market, and prolonged supply-side disruptions remain key risks. As borrowers are qualified at higher rates, modest rate increases should not impair debt affordability.
Capital	S&P Global Ratings RAC ratios will remain within our adequate range of 7%-10%. However, the resumption of share repurchases and dividend increases, beginning in fiscal 2022, will pressure D-SIBs' RACs. Continued strong operating performance will largely offset this.
Funding & liquidity	Funding will remain broadly stable and market access for D-SIBs' issuances internationally will remain strong. The high levels of customer deposits amassed during the pandemic are dropping; this will likely continue into 2022 because customer spending is up, though the consumer savings rate remains high. In addition, corporations are investing in their businesses.

Source: S&P Global Ratings.

North America Key Risks

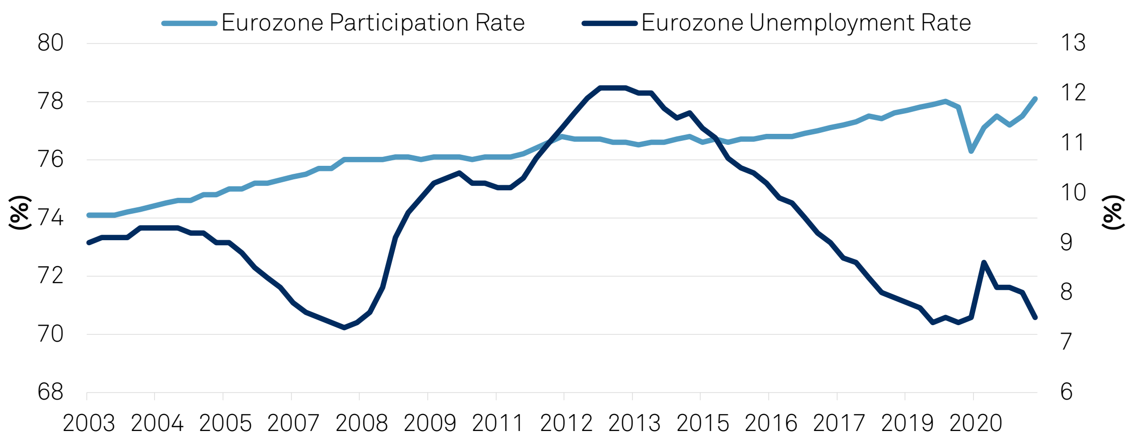
Market disruption due to Fed tapering, or an increase in short-term rates	Asset bubbles from economic overheating (e.g. corporate debt, housing)	A rise in inflation proves more than transitory	An economic slowdown caused by a resurgence in the virus
Larger-than-expected capital distributions to shareholders	Challenges from fintech, cybersecurity, digital transformation	LIBOR transition preparedness for June 2023 deadline	Secular changes affecting CRE demand

Source: S&P Global Ratings

Credit Conditions: Europe

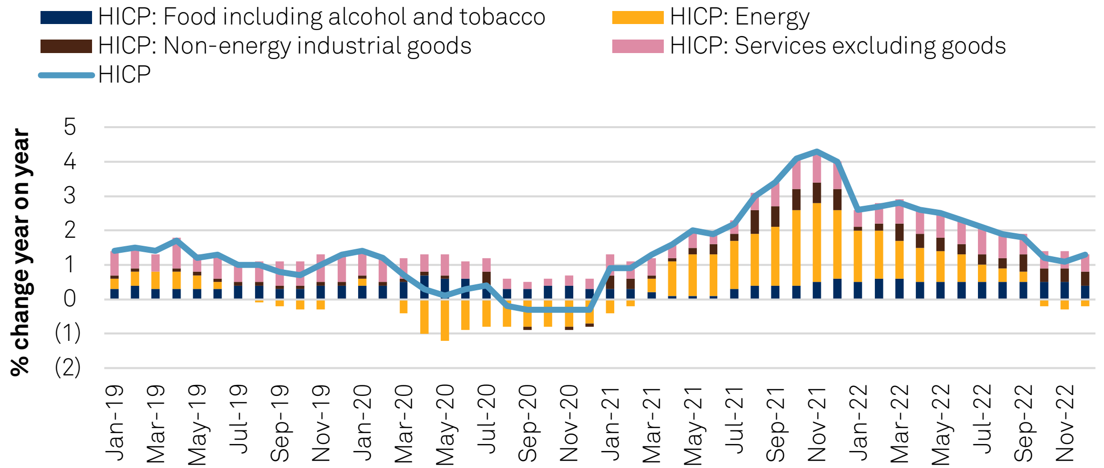
- The appearance of the omicron variant has increased uncertainty and downside risks, but our base case remains that economies will continue expanding at a solid rate in 2022.
- Financing conditions will remain supportive. We expect inflation pressures to ease as we move into 2022 and thus, we do not anticipate the ECB to raise rates until early 2024. In the UK, however, we expect the Bank of England to act in 2022.
- Key risks ahead relate to: broadening cost pressures, which could accelerate monetary tightening; accumulation of debt by the public and private sectors; and the new virus variant undermining growth prospects.

Employment Is Back To Pre-Covid Levels And Few Workers Have Left The Labor Force



Source: Eurostat, S&P Global Ratings.

Inflationary Pressures Are Temporary and Will Ease in 2022, Particularly The Energy Price Component



HICP--Harmonized Index of Consumer Prices. Sources: Eurostat, S&P Global Ratings.

European Banks

Key Expectations

- Credit provisioning will remain contained, even if some further asset quality problems from the pandemic emerge.
- Bottom-line profitability will improve only modestly, remaining structurally weak in many markets amid persistently low rates, suboptimal efficiency and overcapacity.
- Capitalization may decline moderately as shareholder distributions rebound and large banks feel less pressure from the implementation of Basel III reforms, which have been delayed (to January 2025) and softened.

Key Assumptions

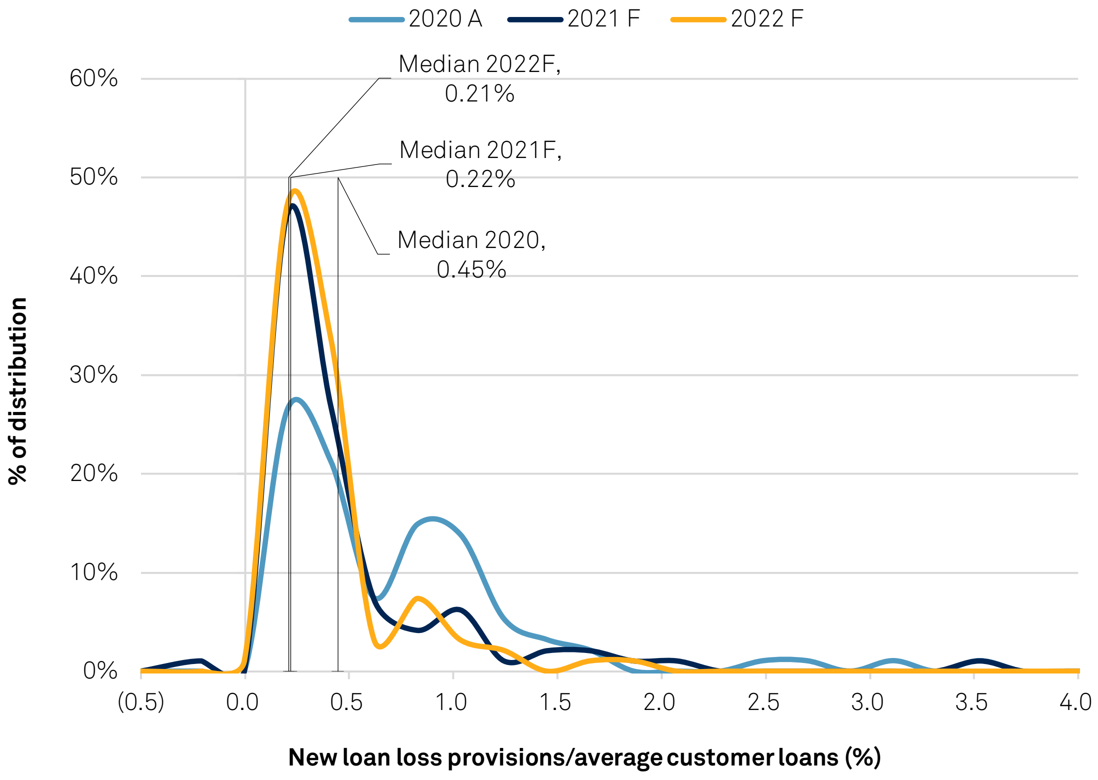
- Despite the resurgence of the virus, economies will continue expanding, with GDP growing by 4.4% in the EU and 4.6% in the U.K.
- Supply bottlenecks and rising energy and transportation costs will gradually ease.
- The ECB will maintain an accommodative stance: it will not raise rates until 2024 and will manage smoothly the exit from its pandemic quantitative easing program. The BoE, however, is expected to moderately raise rates twice in 2022.

Key Risks

- Interruption of the ongoing recovery, most likely due to higher infections, concerns arising from the new virus variant or a decline in vaccine efficacy.
- Persistence of inflation, which would force monetary authorities to act earlier, leading to tighter financing conditions and financial turbulence.
- Banks' limited success in revamping their business models, adapting quickly to an increasingly digitalized world, and improving their profitability.
- Distortion of risk-adjusted pricing and a buildup of asset bubbles, particularly in the property market.

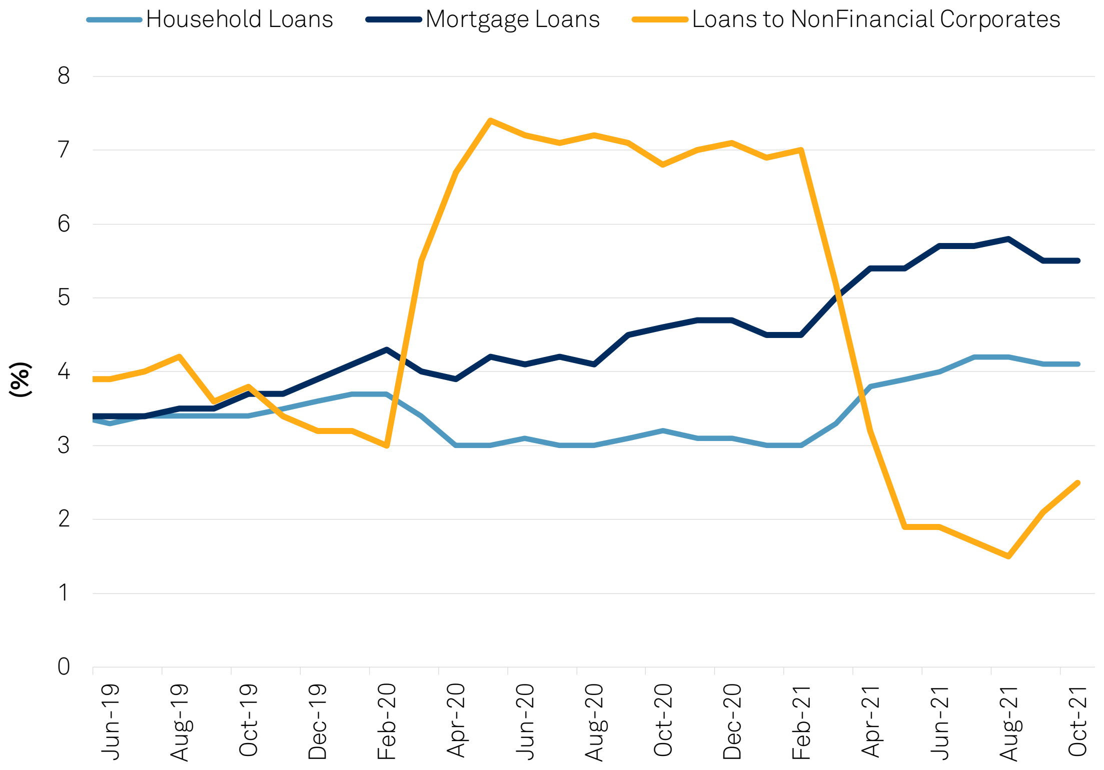
Manageable Provisioning Ahead, But Lending Growth Only Marginally Higher Than Pre-Pandemic

Credit Costs Will Remain Fairly Flat In 2022
Distribution of risk charges Top 100 European Banks



A -- Actual, F -- Forecast. Source: S&P Global Ratings.

Only Mortgage Lending Shows Dynamism
Annual domestic lending growth rate by European banks

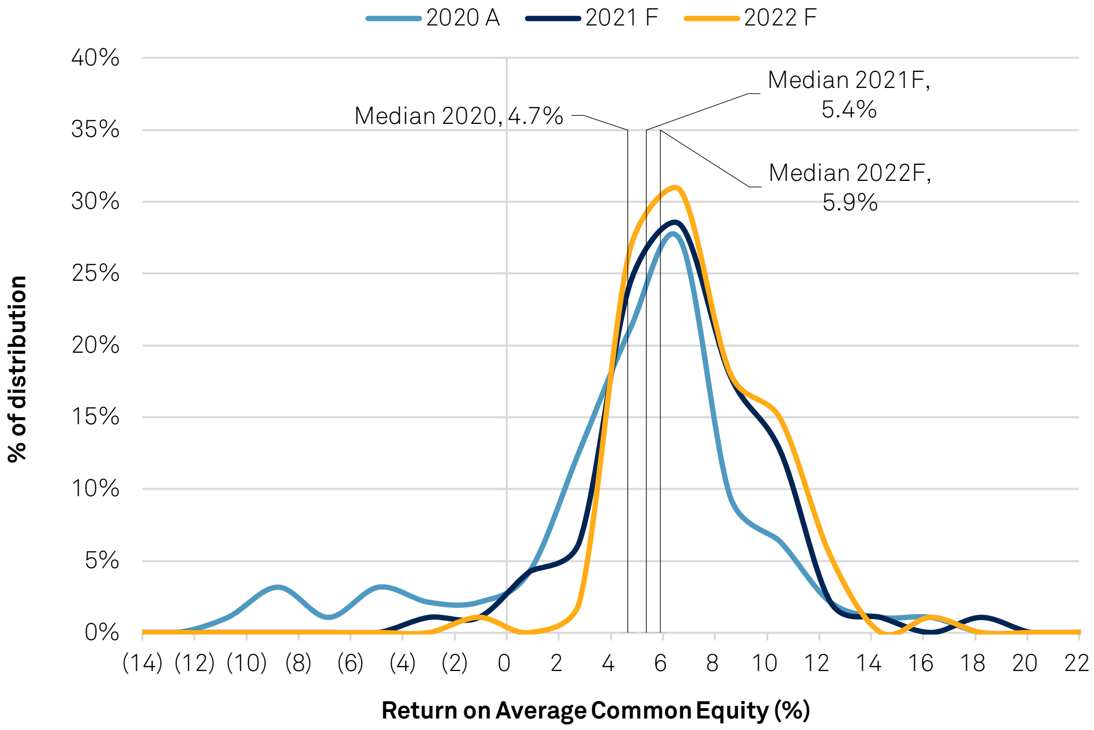


Source: European Central Bank.

S&P Global Ratings

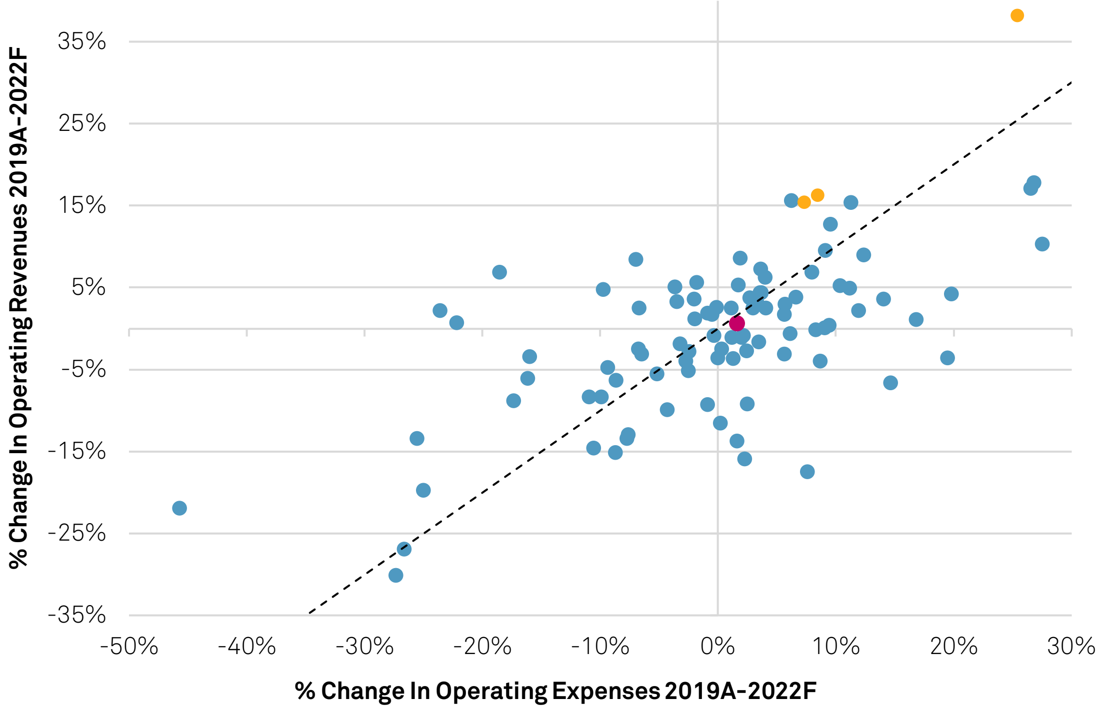
Profits Will Rise a Bit, But Will Remain Structurally Low

Low Rates Will Continue Pressuring Earnings Generation
Distribution of return on average common equity of European top 100 banks



A -- Actual. F -- Forecast. Data as of Sept. 30, 2021. Source: S&P Global Ratings.

And Efficiency Will Barely Improve
Cost growth will exceed revenue growth for 57% of the top 100 European banks



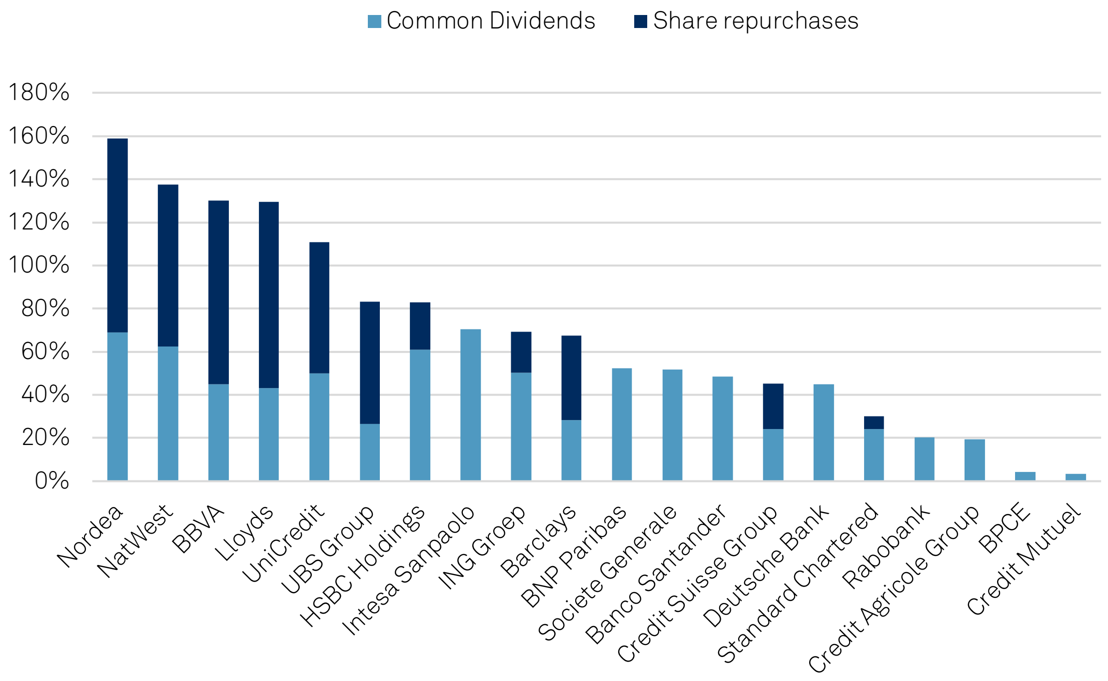
Dashed line indicates proportionate change in both metrics. Pink dot is the median, 1.6% rise in costs, 0.6% fall in revenues. Yellow dots are banks that undertook material M&A. Data as of Oct. 1, 2021. Source: S&P Global Ratings.

S&P Global
Ratings

Shareholders Remuneration Has Returned, But Capital Will Remain Solid

Banks Are Increasing Payouts and Returning Excess Capital To Shareholders

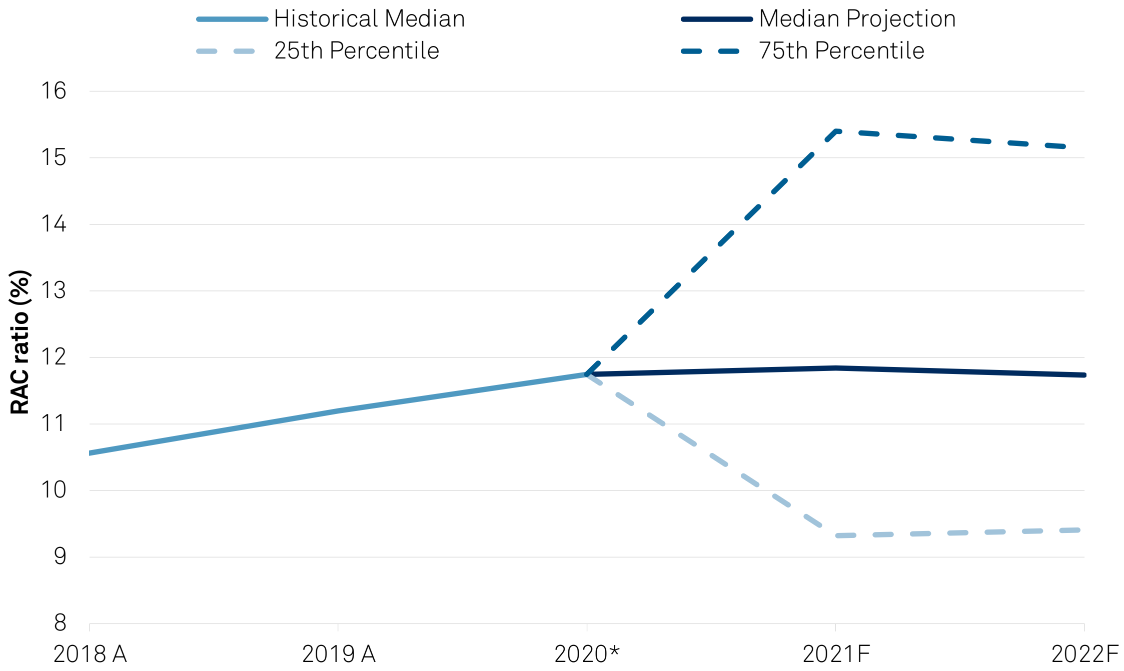
S&P Global Ratings' expectations for dividend distributions in 2022 for Europe's largest banks (as a % of 2022 F net income)



Note: Some of the buy-back program started already in 2021 and may be extended longer than 2022. Source: S&P Global Ratings.

Capital Will Hold Up Well

European top 100 banks: median and middle 50% of distribution

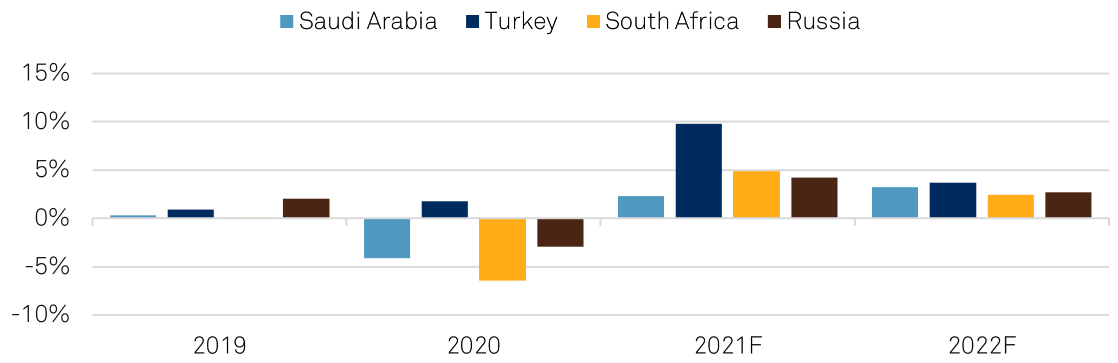


**2020 data is actual as far as available, for a few entities we used estimates. Data as of Oct 01, 2021. RAC --Risk Adjusted Capital. A--Actual. F--Forecast. Source: S&P Global Ratings.*

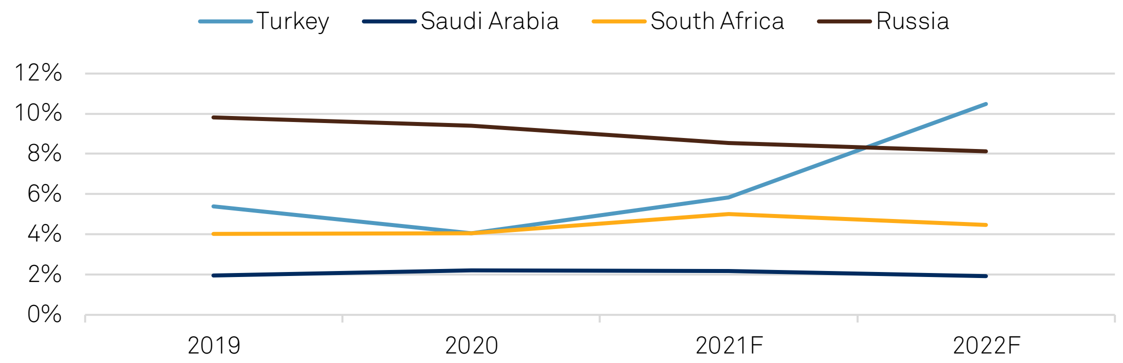
S&P Global
Ratings

Pressure on EM-EMEA Banks Is Easing

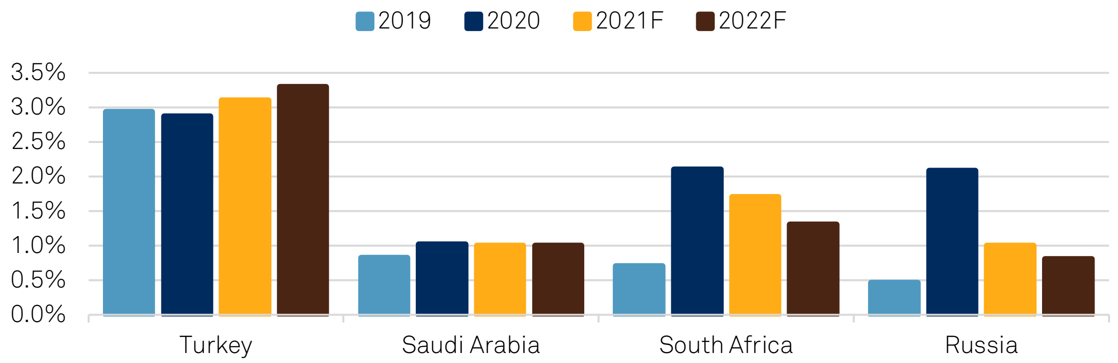
1. Economies are recovering
GDP growth (%)



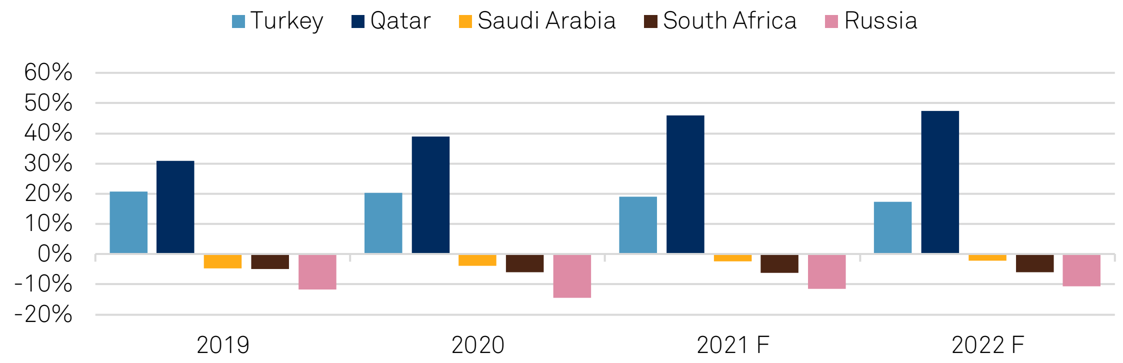
2. Asset quality is stabilizing except for Turkey
NPLs/total loans (%)



3. Credit losses will gradually decline
Credit losses as a % total loans



4. Qatar and Turkey are vulnerable to change in investors' sentiment
Net banking sector external debt as a % of systemwide domestic loans



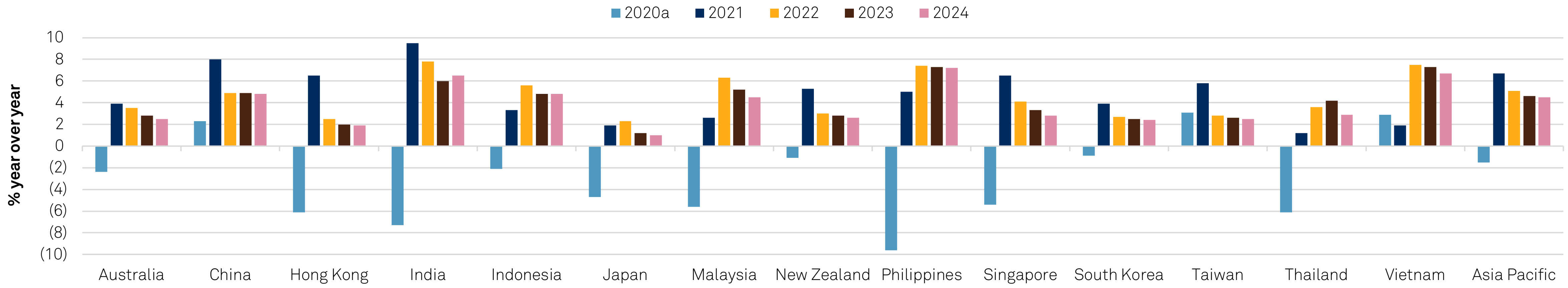
bps--basis points. f--S&P Global Ratings forecast. NPLs--Nonperforming loans. EMEA--Europe, Middle East and Africa. Source: S&P Global Ratings.

S&P Global Ratings

Credit Conditions: Asia-Pacific

- COVID-19 trends and policy responses, contagion risk from Chinese property woes, and rising inflation expectations have introduced regional uncertainty.
- The omicron variant threatens the reimposition of mobility and travel restrictions, just as Asia-Pacific authorities are seeking to reopen their economies. Meanwhile, China and Hong Kong's zero-COVID policy underpins localized lockdowns and tight border restrictions. Soft domestic consumption and dependence on exports point to uneven recovery patterns among geographies and industry sectors.
- While inflationary pressures remain controlled in the region, persistently high input prices could hike inflation expectations. This could propel demand for higher risk premiums. A disorderly reset of financial and real assets repricing could hit financing conditions for the region's borrowers, particularly highly leveraged ones.
- China's recent wave of property developer-related defaults points to mounting liquidity and funding challenges. Slower real estate sales, and recent enforcement of socioeconomic policies to promote "common prosperity" have increased uncertainty about the credit and growth trajectories of the country and individual borrowers. Consequently, we have lowered China's GDP growth to 4.9% in 2022.

GDP Expectations



Note: For India, 2020 is fiscal year 2021 (year ending March 31, 2021), 2021 is fiscal year 2022 (year ending March 31, 2022), and so on. a--Actual. Source: S&P Global Economics.

Asia-Pacific Banks

Key Expectations

- Mixed outlook. Economic trends affecting banks are negative in some Southeast Asian jurisdictions but are generally stable elsewhere across the region. Property sector weakness in China should be manageable for most rated banks at current rating levels.
- Post-COVID credit losses remain high compared with those of 2019 (pre-COVID). Peak credit losses will likely now be lower than we initially forecast in mid-2020.
- Tight interest margins. Higher inflation will eventually alleviate some pressure on interest margins but will commensurately weigh on credit losses.

Key Assumptions

- Strong economic rebound. A return to pre-COVID 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 remain broadly stable, however.
- Highly supportive governments. Fiscal and monetary policy support for households and corporates from public authorities will continue to stabilize bank credit. Ultimately, we expect extraordinary government support would be extended to many systemically important banks in the unlikely event it were required.

Key Risks

- A downturn that is more severe than our base case. A patchier economic rebound will intensify the damage on households and corporates, magnifying banks' credit losses. Credit losses may stay elevated until the health situation improves.
- Leverage, inflation, and property. We see our top risks as higher corporate and government sector leverage, the potential for disorderly reflation, and banks' property exposures that have not yet reckoned with the full effect of COVID. Further, low interest rates are fueling imbalances via strong asset price increases in some jurisdictions and sectors.

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

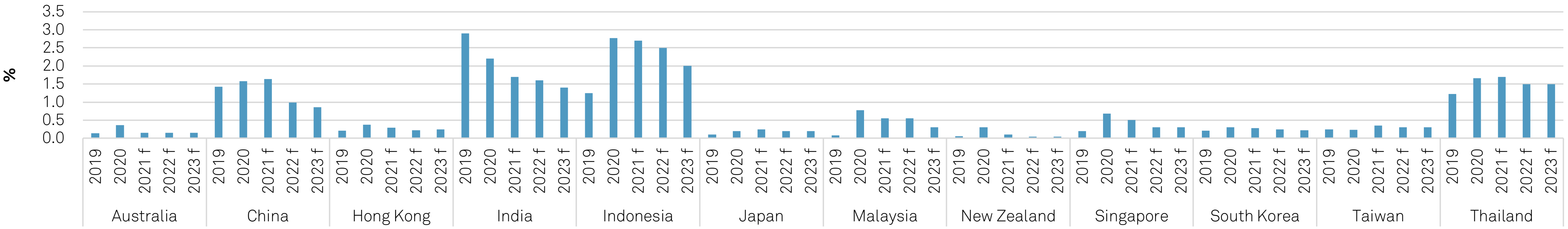


Chart reflects credit losses as a % of gross customer loans. f– Forecast. For India and Japan, 2020 refers to fiscal year ended March 31, 2021. Source: S&P Global Ratings.

Nonperforming Assets Will Remain Elevated In Some Jurisdictions

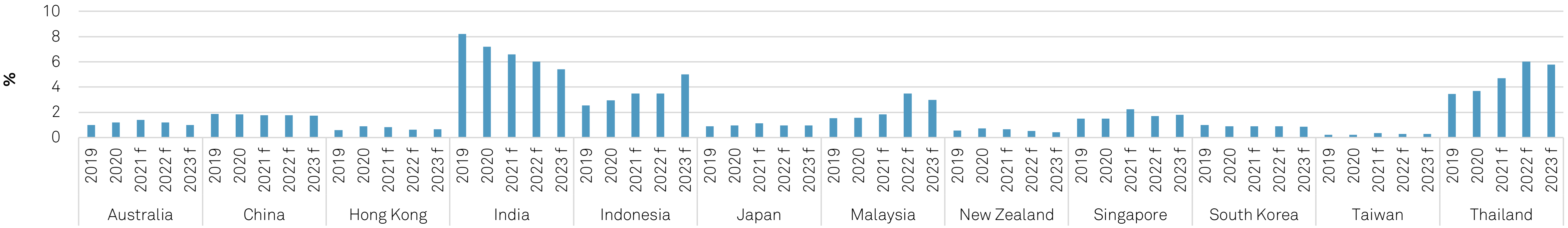
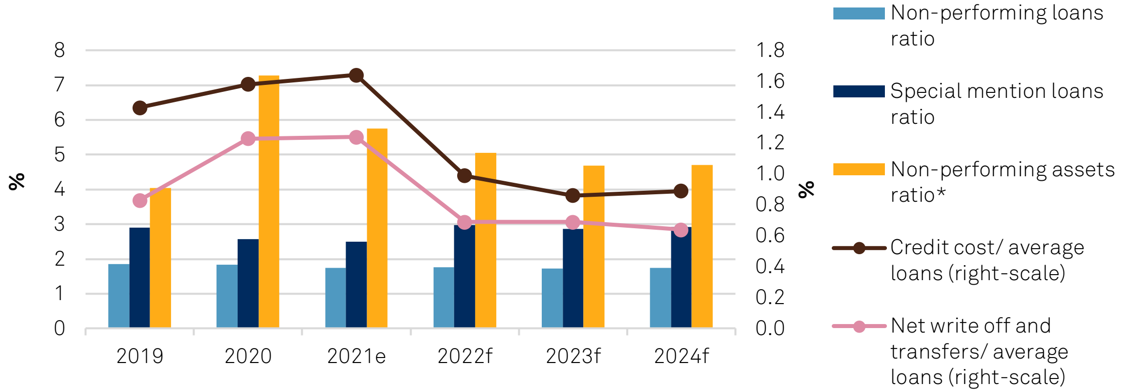


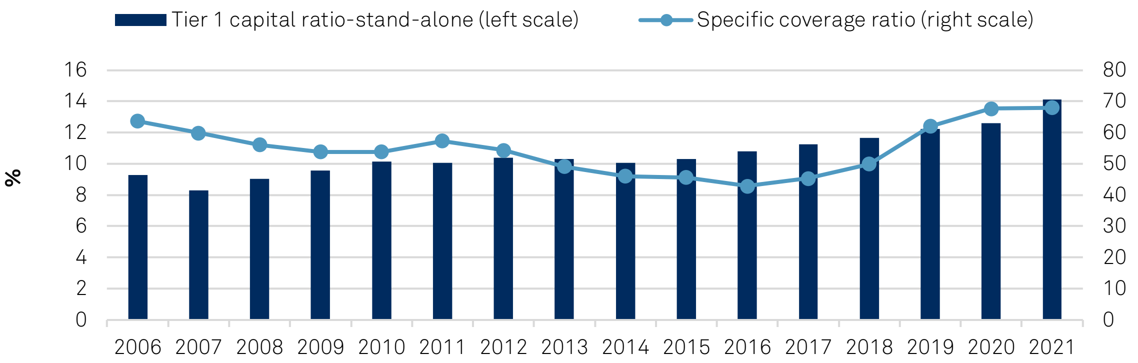
Chart reflects Nonperforming assets as a % of systemwide loans (year-end). For India and Japan, 2020 refers to fiscal year ended March 31, 2021. f--forecast. Source: S&P Global Ratings.

Asia-Pacific Banks

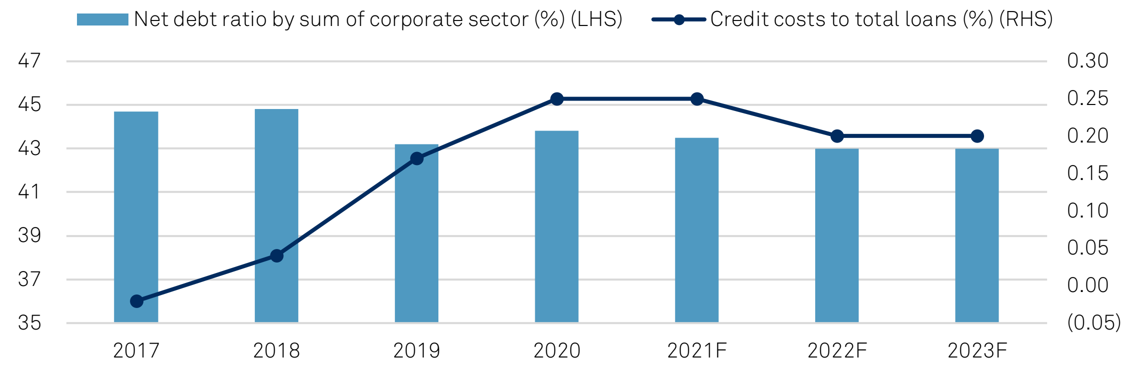
1. China: 2021: Another Year Of Heavy-Duty Bad Loans Cleanup



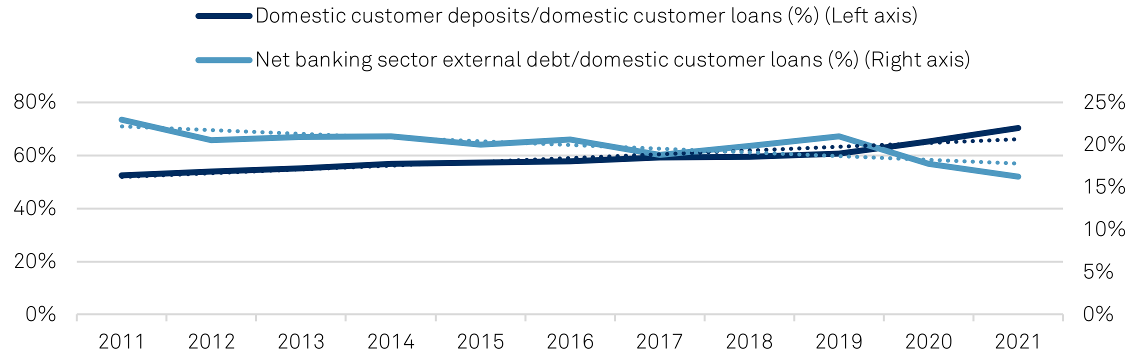
2. India: Provisioning And Capital Buffers Are Strengthening



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



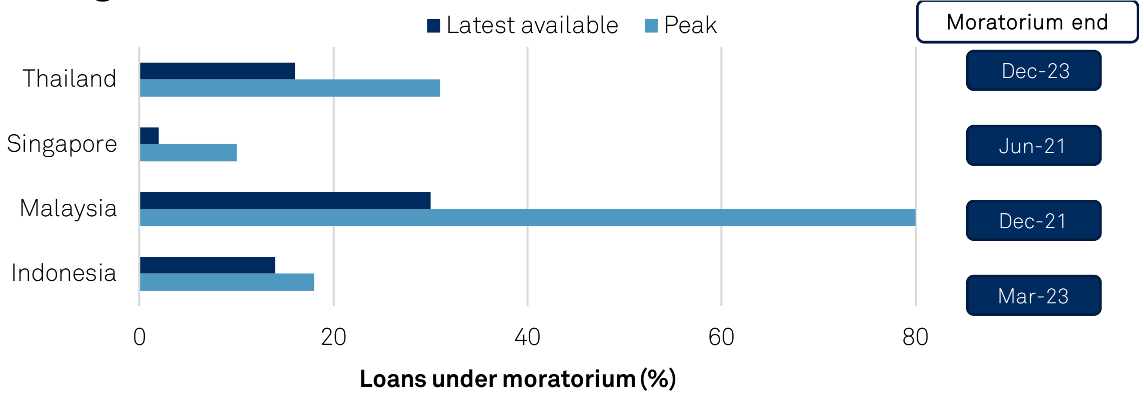
4. Australia: Growth In Customer Deposits Has Reduced Banks' Offshore Funding Dependence



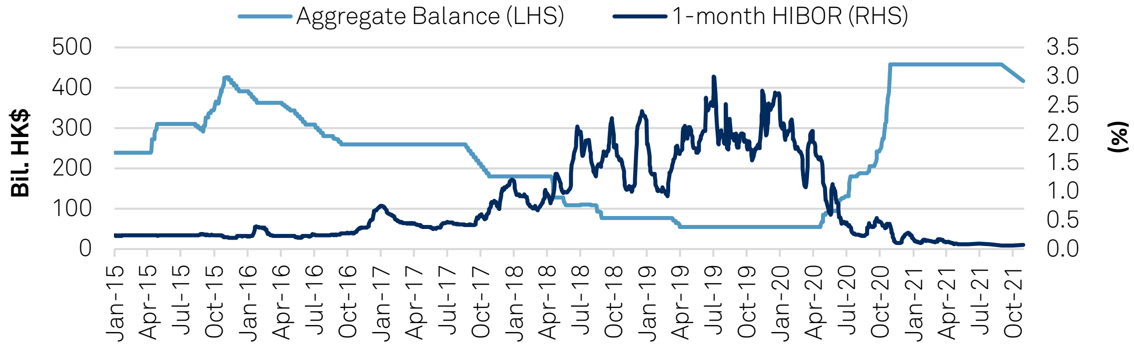
*1. Note: * NPL, SML, forborne loans and other problem loans under normal classification estimated to be overdue by 90 days or more. Figures are for commercial banks only. e--estimate, f--forecast. Source: S&P Global Ratings. 2. All fiscal years end on March 31. Coverage ratio is specific coverage excl. write off. f--Forecast. Source: RBI, S&P Global Ratings calculations. 3. Year means Fiscal Year. Thus, 2017 is Mar.2018 and 2018 is Mar.2019, respectively. Credit costs to total loans (%): FSA, Japanese Bankers Association, Disclosures of individual banks. Credit costs to total loans (%)= (Net charge-off + Net increase of loan losses reserves) / End-balance of Loans Net debt ratio (%): Policy research institute, Ministry of Finance, Japan Net debt ratio (%) = (Total Liabilities - (Cash+Deposit)) / Total assets ; All data are the sum of corporate sectors (excluding Financial Institutions and Insurance Co.s). 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

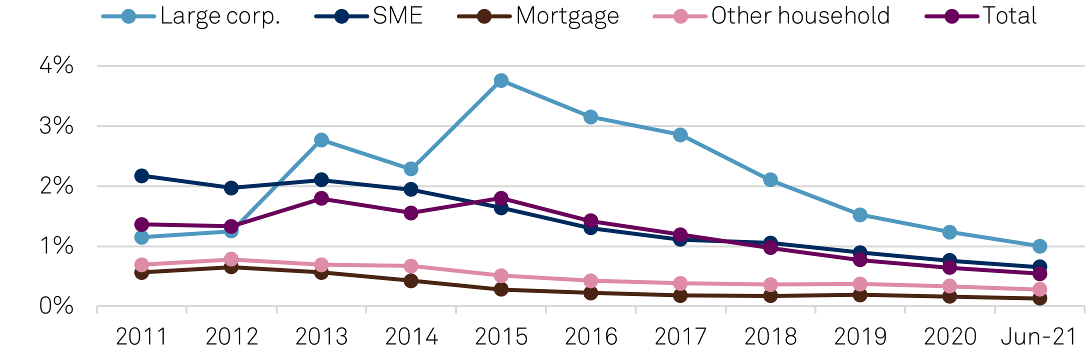


2. Hong Kong: Excess Liquidity In The System Is Driving HIBOR Down And Pressurizing NIM

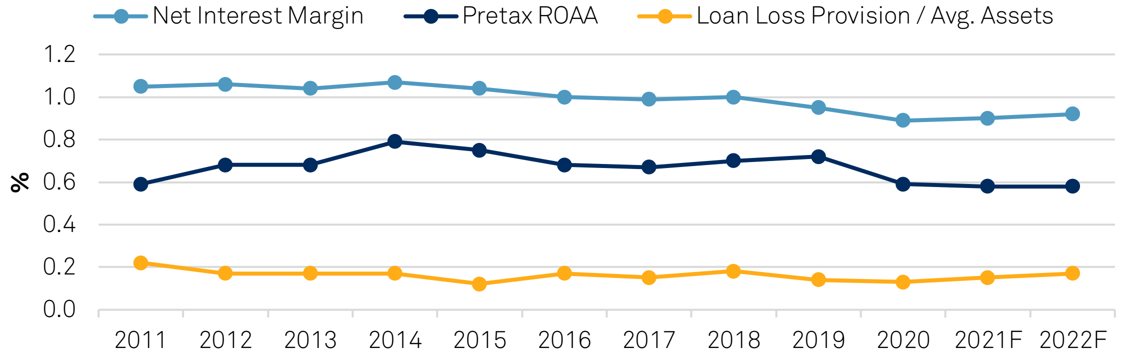


3. Korea: Banks Are Managing Asset Quality Well

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. LHS--Left hand scale. RHS--Right hand scale. 3. SME--Small and midsize enterprise. NPA -- Nonperforming assets. Source: FSS, S&P Global Ratings. 4. ROAA--Return on average assets. f--Taiwan Ratings Corp. forecast. Sources: Financial Supervisory Commission, FSS, S&P Global Ratings.

Credit Conditions: Latin America

- We lowered our 2022 GDP growth forecast for the six major Latin American economies by roughly half a percentage point--to 2% from 6.6% expected in 2021. This is mainly due to inflation being higher and less transitory than expected, which will translate into higher interest rates across the region.
- Several factors will keep downside risks to growth particularly high in 2022. The combination of slow growth, high inflation, and still-weak labor market dynamics, amid a heavy electoral cycle, will increase demands for continued fiscal stimulus measures. This could add more upward pressure on interest rates to compensate for the associated higher fiscal risk premia and keep investment subdued.
- Two countries stand out for having a higher risk of GDP deteriorating more than expected in 2022--Chile and Brazil. In Chile, domestic demand surged in 2021 due in large part to sizeable stimulus measures that are unlikely to be repeated in 2022. In Brazil, the ongoing aggressive tightening in monetary policy that will continue into 2022, partly due to weaker fiscal dynamics, threatens to take a large toll on domestic demand.
- While details are beginning to emerge about the omicron variant of COVID-19, the associated uncertainty and potential for more widespread mobility restrictions also increase downside risk to our growth projections.

Table 1 | Download Table

Latin America: GDP Growth And S&P Global's Forecasts

(%)	2019	2020	2021F	2022F	2023F	2024F
Argentina	(2.0)	(9.9)	7.5	2.1	2.1	2.0
Brazil	1.4	(4.4)	4.8	0.8	2.0	2.3
Chile	0.9	(6.0)	11.4	2.0	2.8	3.0
Colombia	3.3	(6.8)	9.2	3.5	3.0	3.2
Mexico	(0.2)	(8.5)	5.8	2.8	2.3	2.1
Peru	2.2	(11.0)	13.5	3.0	4.0	3.7
LatAm 5	0.7	(6.6)	6.2	1.9	2.2	2.3
LatAm 6	0.8	(6.8)	6.6	2.0	2.3	2.4

Note: The LatAm GDP aggregate forecasts are based on PPP GDP weights. LatAm 5 excludes Peru. PPP--Purchasing power parity. Source: Oxford Economics; F--S&P Global Ratings forecast.

Latin American Banks

Key Expectations

- We expect profitability to continue improving in 2022, reflecting lower provisioning needs. As interest rates pick up, banks' net interest margins should be resilient. This is due to their ability to transfer the higher funding costs to ultimate borrowers and to the high share of variable rate loans and the short tenor of the bulk of fixed rate loans.
- We expect lending growth to remain modest in 2022 due to the soft economic performance and political uncertainty which limits investment and internal demand. We expect retail loans to grow at a higher speed than corporate loans. This is due to the high demand from the retail sector and the soft appetite from companies.
- Asset quality metrics remain stronger than expected and should slightly weaken due to the softer economic performance expected for 2022 and the weaker credit growth, but to remain manageable thanks to banks' conservative growth strategies prior to the pandemic.

Key Assumptions

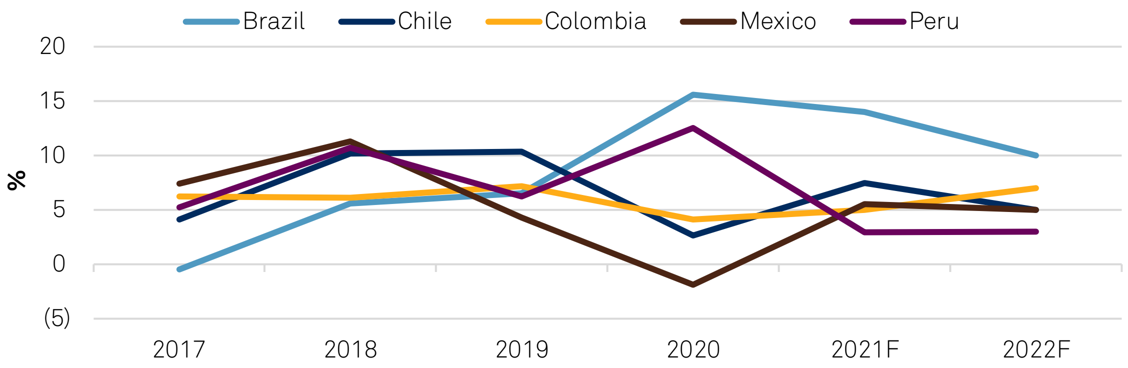
- We don't expect major additional asset quality issues caused by the pandemic because social distancing restrictions are likely to be minor in the region.
- Central banks are likely to continue lifting interest rates in order to contain inflationary pressures, but we assume banks should be able to maintain their margins.
- As economic growth moderates after the strong rebound in 2021, we expect credit demand to follow a similar path.

Key Risks

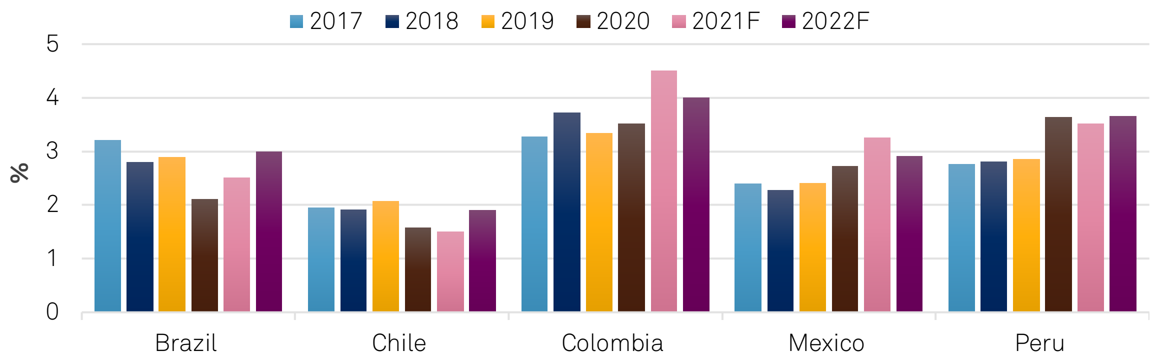
- Increasing inflation and interest rates could hurt household income levels and add pressure to asset quality.
- Social unrest and political instability could pressure investment and economic performance. This could result in weaker internal demand, resulting in lower lending growth and weaker asset quality. In this context, banks' operating performance could struggle.

Latin American Banks

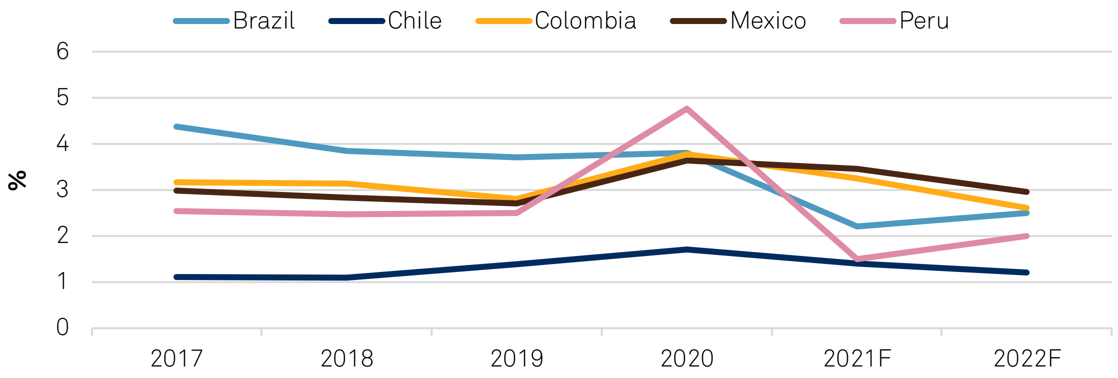
1. Lending Growth To Slow



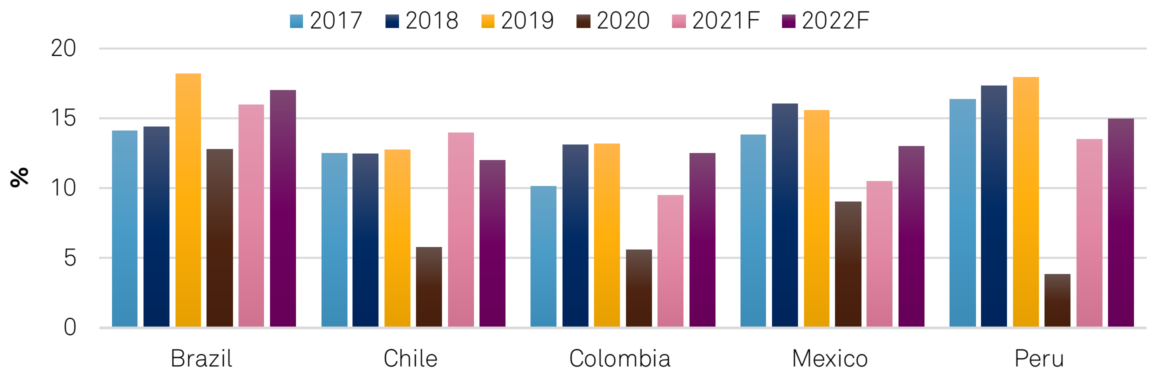
2. Non Performing Loans To Increase In Most Countries



3. Credit Cost Outlook Varies



4. Profitability (ROE) Recovering

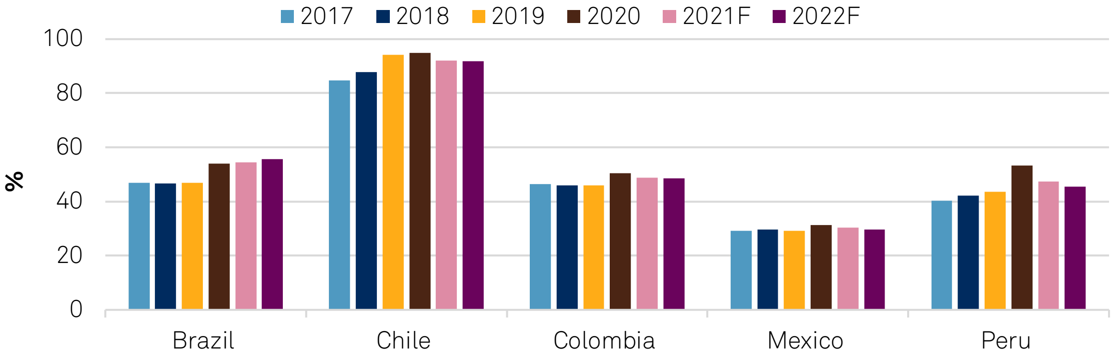


F--S&P Global Ratings forecast. Source: S&P Global Ratings.

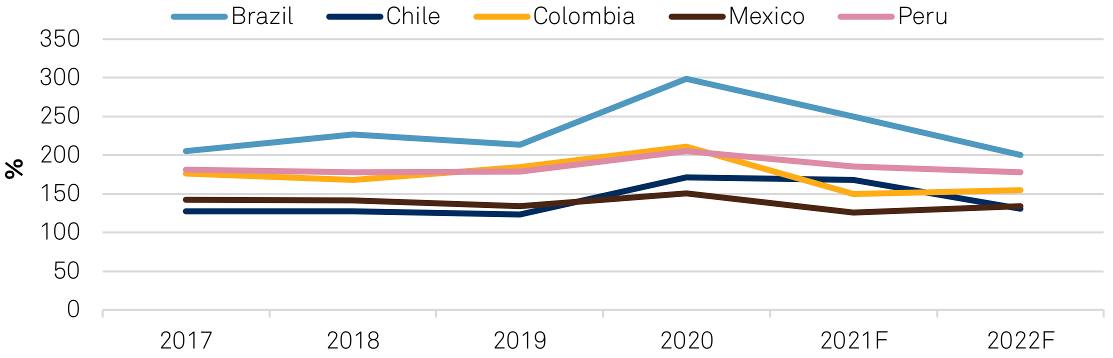
S&P Global Ratings

Latin American Banks

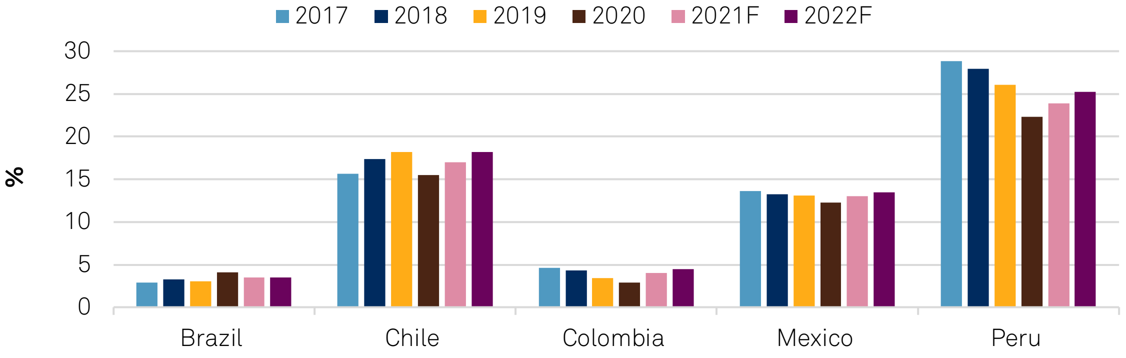
1. Low Credit To GDP, Apart From Chile



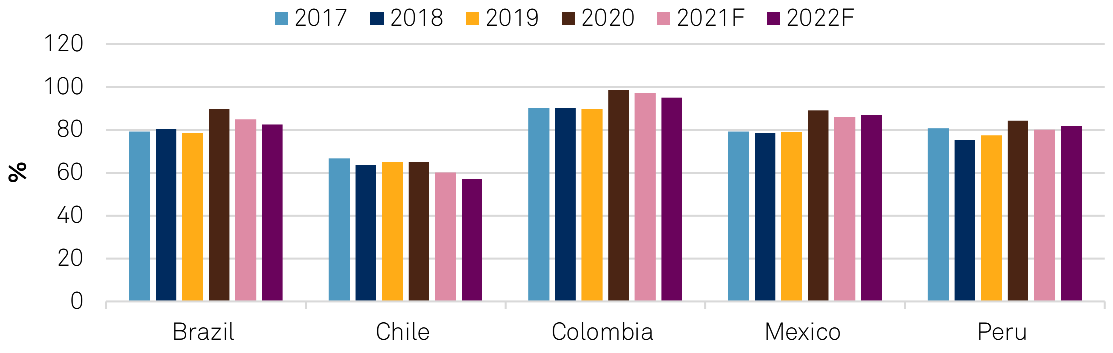
2. Comfortable Provisioning Coverage



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

Related Research

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- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- How A 300bp Rise In Inflation And Interest Rates Could Hit Borrowers, Dec. 7, 2021
- Economic Outlook Q1 2022: Rising Inflation Fears Overshadow A Robust Rebound, Dec. 1, 2021
- Banking Industry Country Risk Assessment Update: November 2021, Nov. 24, 2021
- Industry Report Card: Large U.S. Banks' Profitability Should Rise Despite Limited Reserve Releases, Nov. 17, 2021
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- The Future Of Banking: Central Bank Digital Currencies In Asia-Pacific--Pathways Are Plenty, Destination Is Uncertain, Oct. 5, 2021
- Digitalization Of Markets: Framing the Emerging Ecosystem, Oct. 4, 2021
- Top 100 Banks: Capital Ratios Show Resilience To The Pandemic, Sept. 28, 2021
- Credit FAQ: Evergrande Default Contagion Risk--Ripple Or Wave?, Sept. 20, 2021
- A Little More Clarity, A Little Less Gloom: An Update On Our Bank Credit Loss Forecasts, July 15, 2021

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