Global Banks 2021 Outlook

Banks Will Face The Next Test Once Support Wanes

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November 17, 2020

S&P Global
Ratings

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Key Takeaways

- The **sharp rebound** in global growth we expect in 2021, together with strong bank balance sheets, support from authorities to retail and corporate markets, and regulators' flexibility, should **limit bank downgrades** in 2021.
- **Deviation** from our base case, if the economic rebound is weaker or delayed, could result in more negative rating actions, particularly in regions with a **second wave** of infections and the reimposition of **restrictions**.
- The extent of prospective **asset quality** stress as **government support programs** tail off will be a key driver for our bank rating actions. The pathway to **recovery to pre-COVID-19** performance levels will be **slow** and **uneven**.
- Central banks' actions will remain **positive for funding** but weigh on banks' interest margins and profitability.
- The pandemic accelerates bank **digitalization** and could trigger another round of **restructuring** and **consolidation**.
- **ESG factors** are rapidly moving to the forefront of banks' business strategies and regulators' priorities.

COVID-19 Vaccine – A Central Assumption

- S&P Global Ratings believes there remains a **high degree of uncertainty** about the evolution of the **coronavirus pandemic**.
- Reports that at least one **experimental vaccine** is highly effective and might gain initial approval by the end of the year are **promising**, but this is merely the first step toward a return to social and economic normality; equally critical is the **widespread availability** of effective immunization, which could come by the **middle of 2021**.
- We use this assumption in assessing the economic and credit implications associated with the pandemic. As the situation evolves, we will **update our assumptions** and estimates accordingly.
- There will be the **challenge** of manufacturing of **billions of doses**, the cost of distribution, **availability** to emerging markets, and people's **willingness** to be inoculated.
- In addition, the **long-term efficacy** of any vaccine is unknown.

BICRA And Trends For The Top 20 Banking Markets

BICRA Scores And Economic And Industry Risk Trends

**The list includes only a selection of the changes made so far in 2020.*

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 Nov. 15, 2020. Source: S&P Global Ratings.

BICRA changes in 2020*

- Mexico and Iceland **lowered** to 5 from 4
- South Africa and India **lowered** to 6 from 5
- Oman **lowered** to 7 from 6
- Costa Rica **lowered** to 8 from 7
- Bolivia **lowered** to 9 from 8
- Sri Lanka and Tunisia **lowered** to 10 from 9

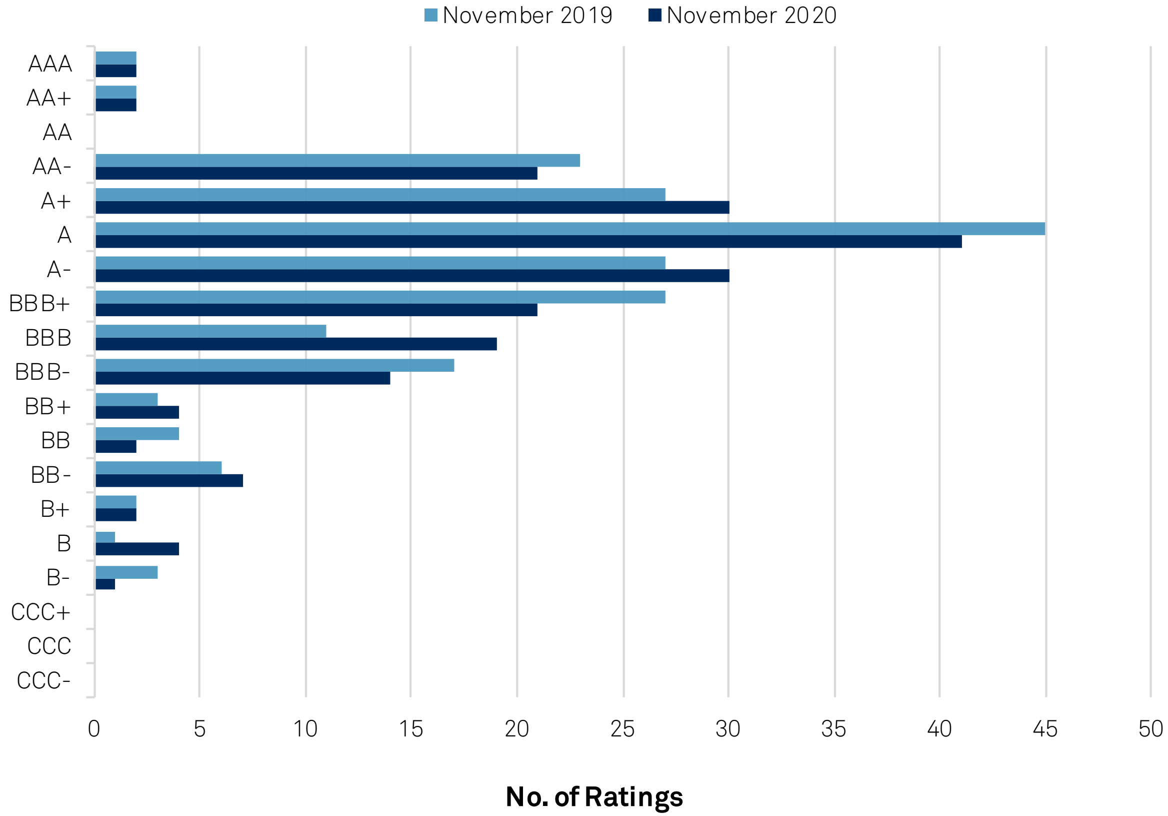
Trend changes in 2020*

- Economic risk to **negative** from stable for Australia, Austria, Belgium, Chile, Croatia, Finland, France, Iceland, Indonesia, Italy, Jamaica, Malta, Netherlands, New Zealand, Peru, Philippines, Poland, Spain, Sri Lanka, Thailand, Trinidad and Tobago, UAE, U.K., U.S., Uzbekistan
- Industry risk to **negative** from stable on France, Ireland, Sri Lanka, Turkey, UAE
- Economic risk to **stable** from positive on Bermuda, Cyprus, Georgia, Greece, Hungary, Slovenia

S&P Global
Ratings

Bank Ratings Remain Resilient

Evolution Of Ratings Distribution For The Top 200 Rated Banks



Operating company issuer credit ratings. Data as of Nov. 9, 2020. Source: S&P Global Ratings.

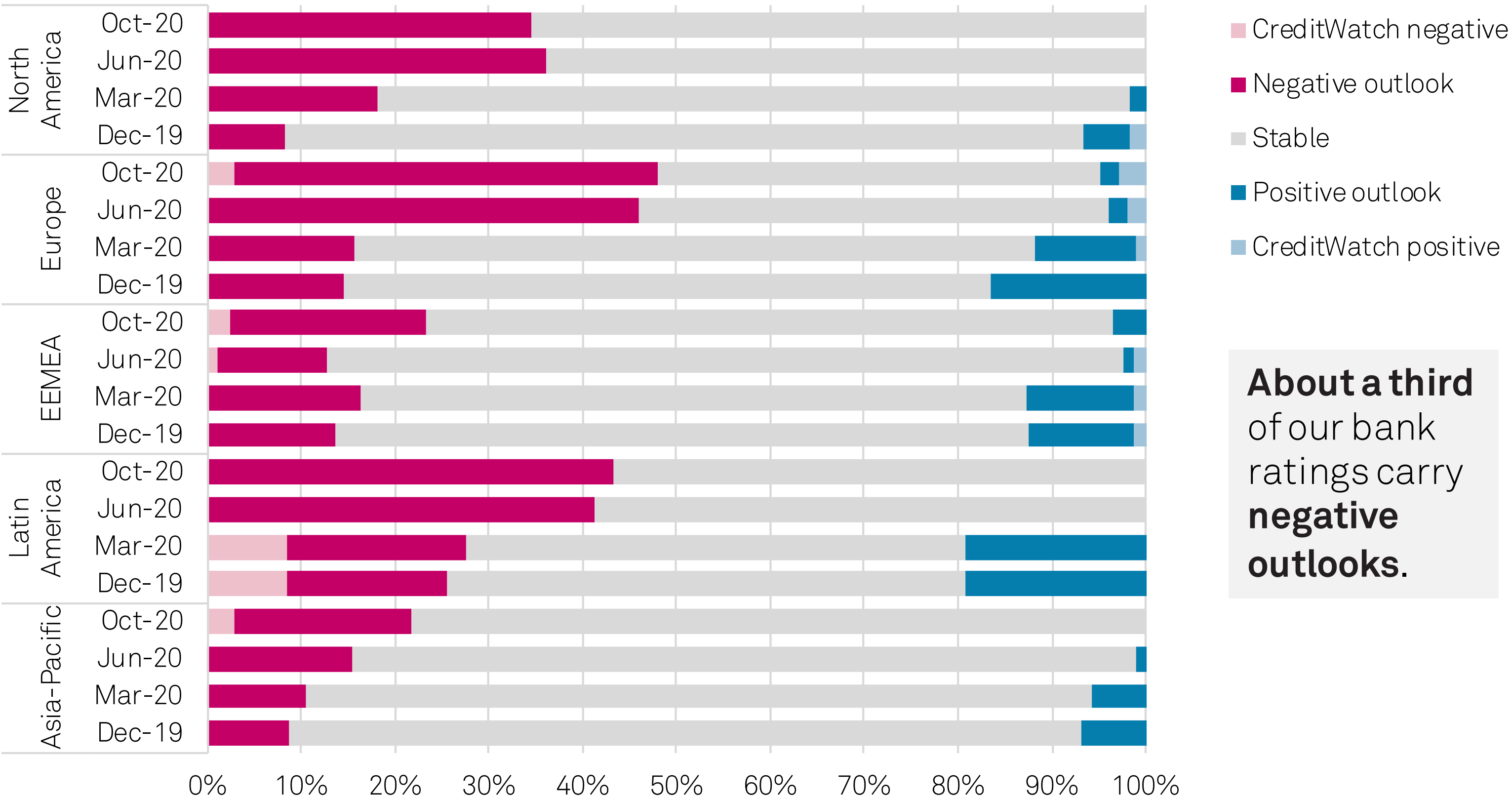
We have lowered our ratings on a smaller proportion of banks than in most other corporate sectors as they are **less procyclical**.

We took about **240 rating actions** on banks related to COVID-19 and the oil shock:

- About **76%** were **outlook revisions to negative**.
- About **23%** were **downgrades**.
- About **1%** were placements on **CreditWatch negative**.

The Ratings Bias Is Sharply Negative

Evolution Of Outlooks For The Top 200 Rated Banks By Region



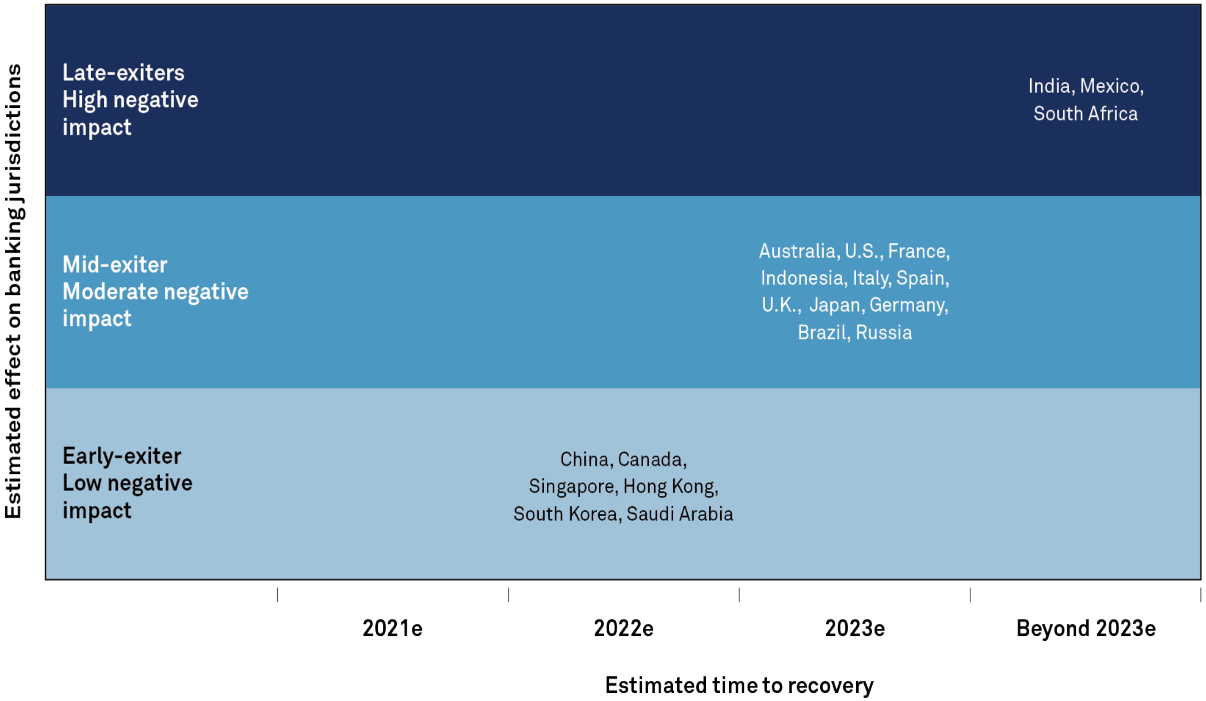
About a third of our bank ratings carry **negative outlooks.**

Note: Ratings bias is positive bias minus negative bias. Data as of Nov. 1, 2020. EEMEA--Eastern Europe, the Middle East, and Africa.
Source: S&P Global Ratings Research.

S&P Global Ratings

Shape Of Recovery: Slow, Uncertain, And Uneven

Our Estimate Of Recovery Prospects For Select Banking Jurisdictions



- Recovery of banking systems to pre-COVID-19 levels will be **slow**, **uncertain**, and **uneven**.
- China, Canada, Singapore, Hong Kong, South Korea, and Saudi Arabia are among the banking systems **likely to recover first**, by the end of 2022.
- Some banking systems may **not recover until 2023** including the U.S., U.K., France, Germany, Spain, Italy, Japan, Australia, Brazil, Indonesia, and Russia.
- India, Mexico, and South Africa are among the banking systems that will be **slower to recover**.

Note: The estimated time to recovery takes into account 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 full calendar year. All information is based on analysts' estimates. Banking sector recovery prospects for early-exiter jurisdictions are sooner, for late-exiter jurisdictions are later, and mid-exiter jurisdictions in between. Estimated impact is driven by COVID-19, oil price shock, and other market stresses. e--Estimate. Source: S&P Global Ratings, Global Banking: Recovery Will Stretch To 2023 And Beyond, Sept. 23, 2020.

Four Near-Term Risks For Banks

- Economic disruption from COVID-19 gets worse or lasts longer.
- Short-term support to banks and borrowers leaves longer-term overhangs.
- Anticipated surge in leverage leads to higher corporate insolvencies.
- The property sector is more severely hurt than expected.

S&P Global Ratings' GDP Growth Forecasts

	Current forecast (%)				
	2019	2020	2021	2022	2023
U.S.	2.2	(4.0)	3.9	2.4	2.6
Eurozone	1.3	(7.4)	6.1	3.0	2.0
China	6.1	2.1	6.9	4.8	5.2
Japan	0.7	(5.4)	3.2	1.0	0.9
India*	4.2	(9.0)	10.0	6.0	6.2
Brazil	1.1	(5.8)	3.5	3.0	2.9
World**	2.8	(4.1)	5.3	3.8	4.0

**The fiscal year for India is April of the reference year to March the following year. **This is calculated with purchasing power parity exchange rates. Sources: S&P Global Economics, Oxford Economics. Forecasts released on Sept. 29, 2020.*

Key Areas Driving Long Term 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 | Low For A Lot Longer

- Ultralow interest rates are squeezing banks' net interest margins, increasingly making weak profitability a structural problem for many banking sectors, particularly in Europe and Japan.
- Banks need to take strategic measures as the pain will worsen. Those able to make structural changes, including cost cutting and digitalization, will suffer less.
- Mediocre profitability increases the likelihood of a round of consolidation, especially in Europe.
- Extremely accommodative monetary policies mitigate near term asset quality risks but could trigger imbalances over time.

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

	U.S. (Fed)	Eurozone (ECB)		U.K. (BoE)	Switzerland (SNB)
Policy Rates	Fed Funds	Deposit Rate	Refi Rate		
2019	1.5-1.75	-0,43	0,00	0,75	-0,75
2020f	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	0-0.25	-0,50	0,00	0,10	-0,75

Sources: Oxford Economics; f--S&P Global Ratings forecast; End of Period - Q4 values.

f--S&P Global Ratings forecast. Data at end of period, Q4 values. Source: Oxford Economics.

COVID-19 Accelerates Digital Transformation

- The **COVID-19** pandemic **accelerates** the **digital transformation**.
- 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.
- We expect banks to go from testing a move to the **cloud** to standard use and leverage **digital tools** to **streamline costs** and prepare for peaks in usage.
- **Regulators** will further promote digital transformation by requiring detailed digital agendas, adjusting accounting rules, and provide more guidance on IT outsourcing and data management.
- **Digital currencies** might eventually impact banking business with governments exploring options to implement and test required infrastructure in various countries.

Tech Disruption: A Risk For All, 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, preferences.

Risk for banks	Technology	Regulation	Industry	Preferences
Very high	CN		DE, JP	CN, TH
High	NO, SE, UK	BR, HK, IL, UK	AT, FR, IT, TW	AU, BE, BR, FR, NO, RU, SE, UK
Moderate	AT, AU, BE, BR, CH, DE, ES, FR, IL, JP, IT, TW	AT, AU, BE, CH, DE, ES, FR, IT, JP, KP, NO, RU, SE, SG, TH	CN, ES, IL, KP, RU, UK	AT, CH, DE, ES, IL, IT, JP, KP, TW
Low	HK, KP, RU, SG, TH	CN, TW	AU, BE, BR, CH, HK, NO, SE, SG, TH	HK, SG
Very low				

AU Australia	AT Austria	BE Belgium	BR Brazil	CN China	FR France	DE Germany
HK Hong Kong	IT Italy	IL Israel	JP Japan	KP Korea	NO Nordics	RS Russia
SG Singapore	ES Spain	SE Sweden	CH Switzerland	TW Taiwan	TH Thailand	UK U.K.

Source: S&P Global Ratings. For a full list of our thought-leadership on tech disruption, see « The Future Of Banking: Research By S&P Global Ratings », published Sept. 14, 2020.

S&P Global Ratings

Regulation | Pragmatism Reigns But Global Consensus Could Dissipate Further

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

- Most regulators moved quickly to ease capital and liquidity requirements and some could go further.
- 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 but undermines stock valuations.

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.
- G20 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

- Regulators will eventually choose how to unwind recent easing measures. It will likely be gradual and well-flagged, from 2022 onward. The pace could differ markedly 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, impact of "output floors" in Europe).

Emerging Markets Are Under Severe Pressure

Ultra-accommodative monetary conditions in advanced economies are helping, but risks remain high.

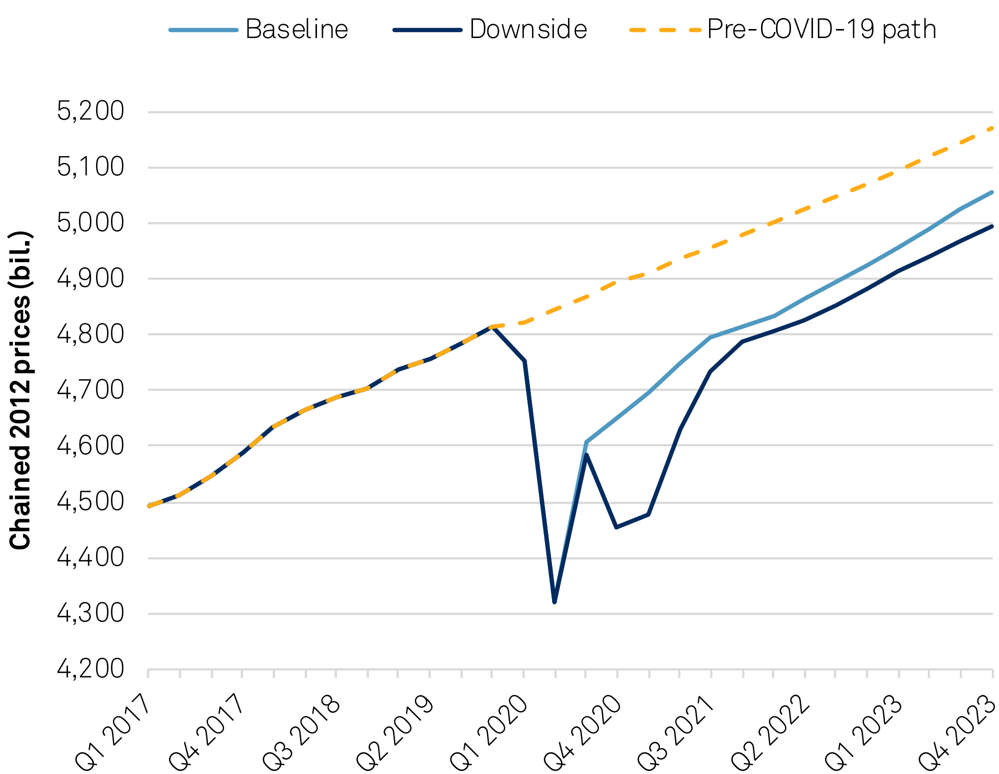
- Economic recovery is underway but losing steam. High-frequency data suggest the momentum has recently slowed in several emerging markets.
- The resurgence of COVID-19 cases in the northern hemisphere could potentially disrupt the recovery.
- Some large countries' economies are severely hurt, including India, Mexico, and South Africa.
- China's recovery is supportive for emerging markets. Activity is back above pre-pandemic levels as supply chains were quick to resume operations and manufacturing output expands. Softness of consumer casts doubts about the strength of the recovery.
- Financing conditions remain supportive. However, investors are differentiating and favoring the highest-rated entities in sectors less affected by the pandemic.

We expect bank asset quality to deteriorate across the board, with problem loans typically increasing by more than 50% and potentially doubling in some countries.

- Credit losses will widen, but regulatory forbearance delays bad debt recognition into 2021.
- Profitability is declining, but most banks should remain profitable due to hefty interest margins and good efficiency.
- Political instability and social protests could mount in a number of countries.

Credit Conditions | North America

Baseline And Downside Paths Of U.S. Real GDP Evolution



- We expect the **U.S. economy** to **contract by 4.0% in 2020** with downside risk to our forecasted **3.9% recovery in 2021**.
- The **unemployment rate** won't reach precrisis levels **until 2024**.
- The government's extraordinary **monetary** and **fiscal stimulus** help **stabilize** credit markets and temper market volatility.
- We expect the benchmark **federal funds rate** to remain at **0% until 2023**.

Sources: Oxford Economics, BEA, and S&P Global Economics.

North American Banks

Key Expectations

- U.S. bank earnings will improve in 2021 but remain relatively muted. Provisions for credit losses will fall but remain material.
- The U.S. election results may affect stimulus levels and, over time, corporate tax policy and appointments to regulatory bodies, but will not have an outsized direct impact on banking regulation or performance in 2021.
- Zero policy rates will continue to weigh on net interest margins, likely bottoming at their lowest levels in decades. Capital and liquidity will remain in good shape. Regulatory capital ratios, which have risen in 2020 in part due to restrictions on shareholder payouts, may decline if those restrictions are eased.

Key Assumptions

- U.S. real GDP will rebound at a modest 3.9% in 2021 after an estimated 4.0% contraction this year. Canada will grow a faster 4.9% after a deeper 5.6% decline.
- GDP won't reach its pre-pandemic level until late 2021 and early 2022 in the U.S. and Canada, respectively.
- The unemployment rate will not drop to pre-pandemic levels until 2024 in either country.

Key Risks

- The economic rebound sputters amid an increase in COVID-19 cases and/or a lack of sufficient government stimulus.
- The decline in loans on forbearance that occurred in third quarter 2020 reverses, leading to a rise in nonperforming assets and charge-offs.
- Even with the economic rebound, certain asset classes, such as commercial real estate, still suffer stress because of a medium- and long-term changes in the economy.

2021 U.S. Forecast | Hinging On Pandemic Control

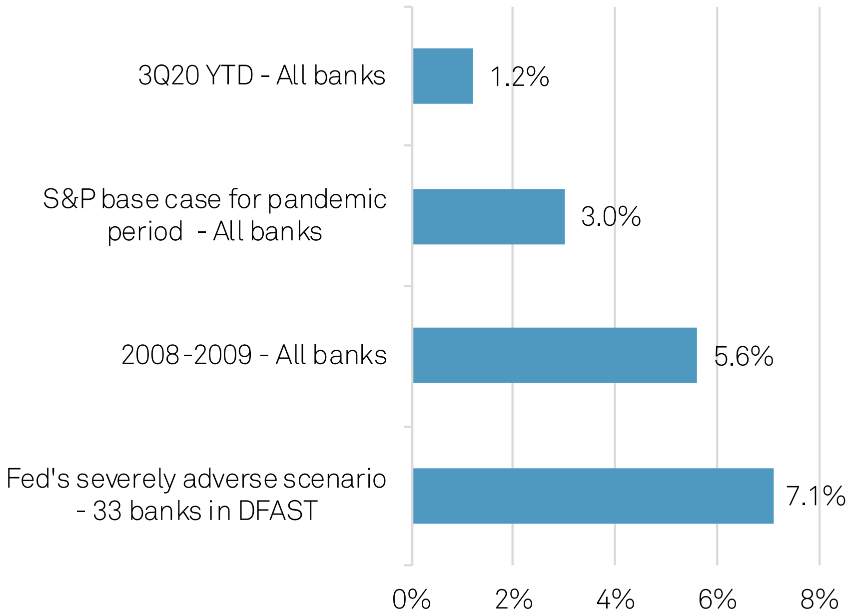
Worsening | | Neutral | | Improving

Revenues	Ultralow interest rates will continue to hurt spread income with margins near multi-decade lows. Loan growth has recently been tepid—with consumers deleveraging and commercial borrowers turning to the capital markets—and may only partially offset the pressure of low rates. A drop from 2020's elevated revenues from capital markets and mortgage activity could lead to an overall drop in fees.
Expenses	Expenses will remain in sharp focus. Banks will manage costs by redeploying personnel, consolidating branches, containing head count, and growing digitization, but rising servicing expenses will somewhat offset this. We expect positive operating leverage will remain a challenge for many banks.
Profitability	While banks are likely to report mediocre profitability, they should see somewhat better earnings than in 2020. We expect provisions to decline but remain elevated. Allowances, which surged in 2020, should begin to abate. However, revenue pressure will limit returns on equity to the single digits.
Credit Quality	Although banks have seen drops in loans on forbearance, certain loan classes remain under asset quality pressure, and we still expect pandemic-related charge-offs of 3%. The strength of the economy and the effectiveness of government stimulus will greatly influence that ratio.
Capital	Banks have maintained or improved upon the good regulatory capital ratios they entered the pandemic due in part to restrictions on payouts and a delay of the impact of CECL (Current Expected Credit Losses) regulation. However, ratios should decline somewhat when those restrictions are lifted.
Funding and liquidity	Extraordinary expansion of the Fed's balance sheet after the onset of the pandemic has once again lowered deposit costs, which will likely persist. Liquidity for most banks is likely to remain robust, aided by significant deposit inflows on the heels of the Fed's massive quantitative easing measures.

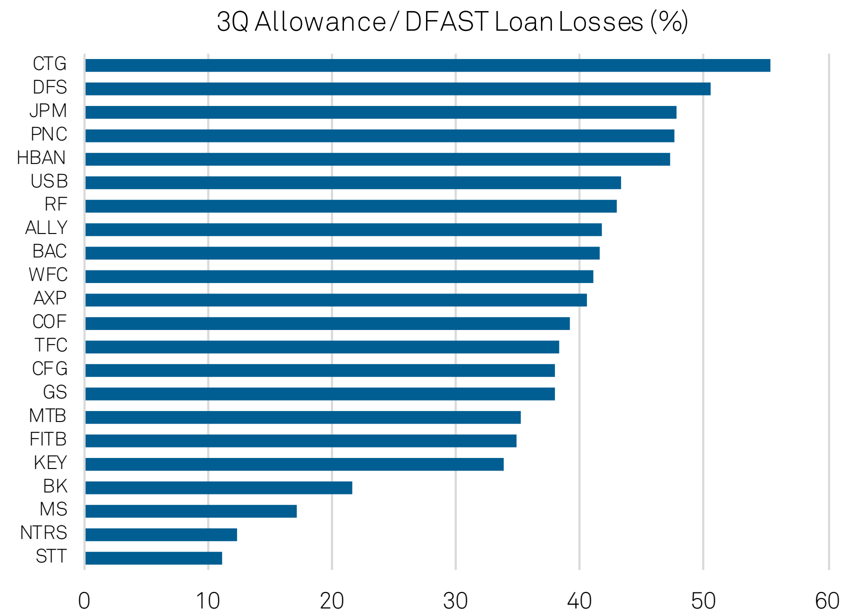
A Lens On Possible Loss Rates

- Our base projection is for a 3% aggregate loss rate in 2020 and 2021.
- We expect provisions to remain elevated but decline in 2021.

Provisions to Loans: Current vs. the Financial Crisis and Fed's Severely Adverse Scenario



How Allowances and Provisions Compare to DFAST Loan Losses and Provisions

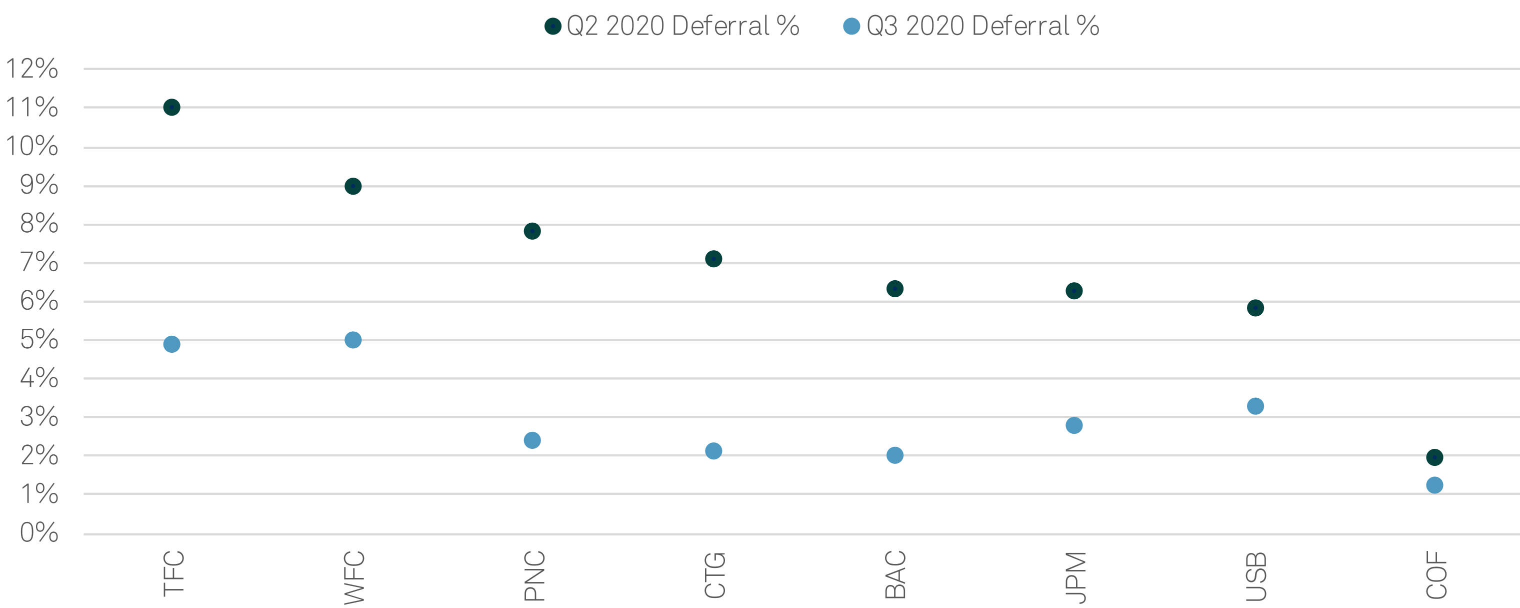


Note: DFAST: Dodd-Frank Act Stress Test. CTG: Citigroup Inc., DFS: Discover Financial Services, JPM: JPMorgan Chase & Co, PNC: PNC Financial Services Group Inc., HBAN: Huntington Bancshares Incorporated, USB: U.S. Bancorp, RF: Regions Financial Corporation, ALLY: Ally Financial Inc., BAC: Bank of America Corporation, WFC: Wells Fargo & Company, AXP: American Express Co., COF: Capital One Financial Corporation, TFC: Trust Financial Corp., GFG: Citizens Financial Group, Inc., GS: Goldman Sachs Group Inc., MTB: M&T Bank Corp., FITB: Fifth Third Bancorp, KEY: KeyCorp, BK: Bank of New York Mellon Corporation, MS: Morgan Stanley, NTRS: Northern Trust Corporation, STT: State Street. Source: S&P Global Ratings.

Deferred Loans Fell In Q3 But Uncertainty Remains

- The economic rebound and government stimulus helped several large banks report sharp declines in loans on deferral or forbearance in the third quarter of 2020.
- However, if the rebound stalls, rates will likely rise again in 2021.

Evolution Of Consumer Loans On Deferral Or forbearance For Selected Large U.S. Banks



Note: TFC: Trust Financial Corp., WFC: Wells Fargo & Co., PNC: PNC Financial Services Group Inc., CTG: Citigroup Inc, BAC: Bank of America Corp., JPM: JPMorgan Chase & Co., USB: U.S. Bancorp, COF: Capital One Financial Corp. BAC data is from July 23 and Oct. 21 rather than Q2 and Q3. Source: S&P Global Ratings, Company Filings.

2021 Canada Forecast | Strong Balance Sheets

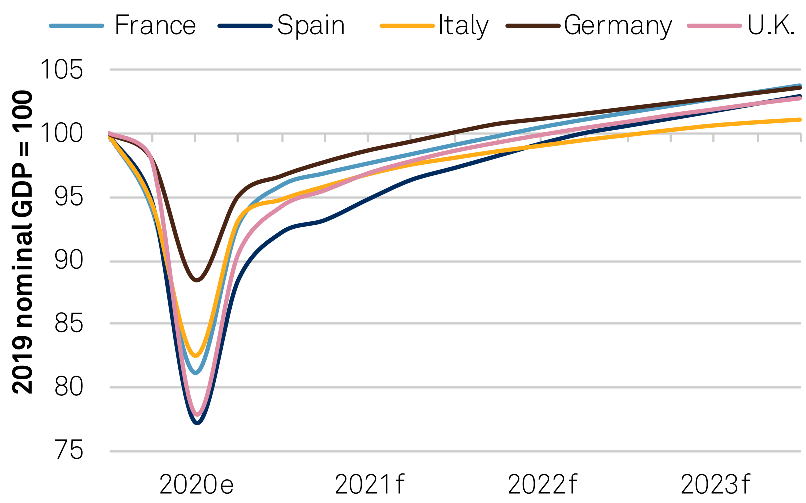
Worsening		Neutral		Improving

Revenues	We expect revenues for Canadian banks to improve as stronger loan growth offsets decreases in net interest income arising from ultralow interest rates. We think capital market revenues might decline.
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.
Profitability	Muted profitability reflecting elevated provisions and compressed interest margins. Net income will improve because of lower credit loss provisions, but possibly remain lower than in 2019.
Credit quality	Provisions will decline as credit losses materialize while impairments rise and peak. However, the degree of asset quality deterioration will depend on the effectiveness of government stimulus and the rebound in economic activity.
Capital	Our risk-adjusted capital (RAC) ratios will remain within our adequate range of 7%-10% for rated Canadian banks. We believe capital and liquidity for domestic systemically important banks (DSIBs) will be strong enough to endure downside scenarios characterized by credit losses of up to 1.8% (5x the 2019 average loss rate).
Funding & liquidity	Funding will remain broadly stable and market access for DSIB issuance will continue. The various funding programs put in place by the central bank will continue to provide support.

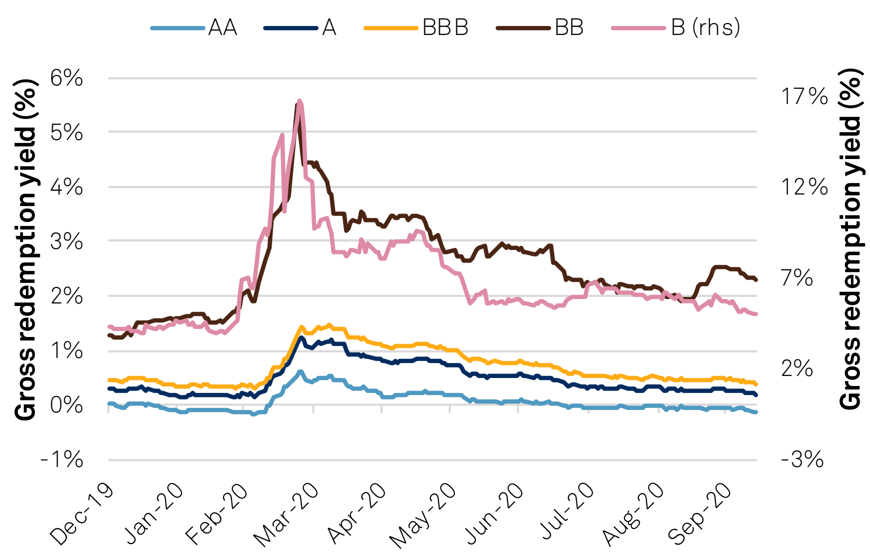
Credit Conditions | EMEA

- We expect eurozone GDP to rebound 6.1% in 2021 after contracting 7.1% this year. Economies will recover at different speeds, with Germany leading the pack.
- Extraordinary government measures will be gradually phased out but new fiscal stimulus will take the lead, supported by the EU Recovery Fund.
- Monetary policy will remain highly accomodative and support cheap funding.
- Risks include a second wave of contagion, delays in the implementation of the EU Recovery Fund, and lack of a trade deal between the U.K. and the EU.

Most European Economies Should Have Recovered The Lost Ground By 2022



Ample Liquidity Should Keep Funding Costs Low



Source: S&P Global Ratings. Note: rhs -- right scale.

EMEA Banks

Key Expectations

- Asset quality problems will become more evident in 2021 as debt moratoria expire. Problem loans will grow after barely changing in 2020. Credit losses will decline only marginally compared to 2020.
- Bottom-line results to improve mildly, but limited earnings and high-cost bases will constrain results.
- Moderate capital depletion.
- Bank consolidation will pick up in some countries.

Key Assumptions

- The economic rebound will continue through 2021. The second wave of infections will not lead to the type of full lockdowns that were imposed in the spring.
- Authorities will only reduce support measures when the economic recovery is well on track.
- A basic trade deal between the U.K. and EU will be reached.

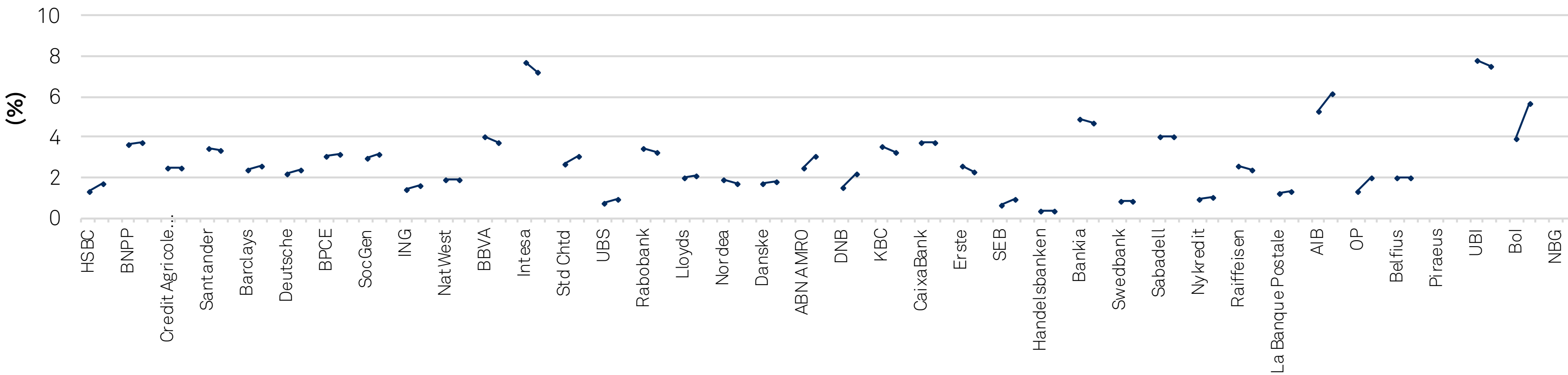
Key Risks

- A harsher macroeconomic environment leading to a slower or longer recovery phase.
- Lack of agreement between the U.K. and EU.
- Banks' lack of decisive responses to their profitability challenges, making low profitability a longer-term problem.

Asset Quality Deterioration Only Visible in 2021

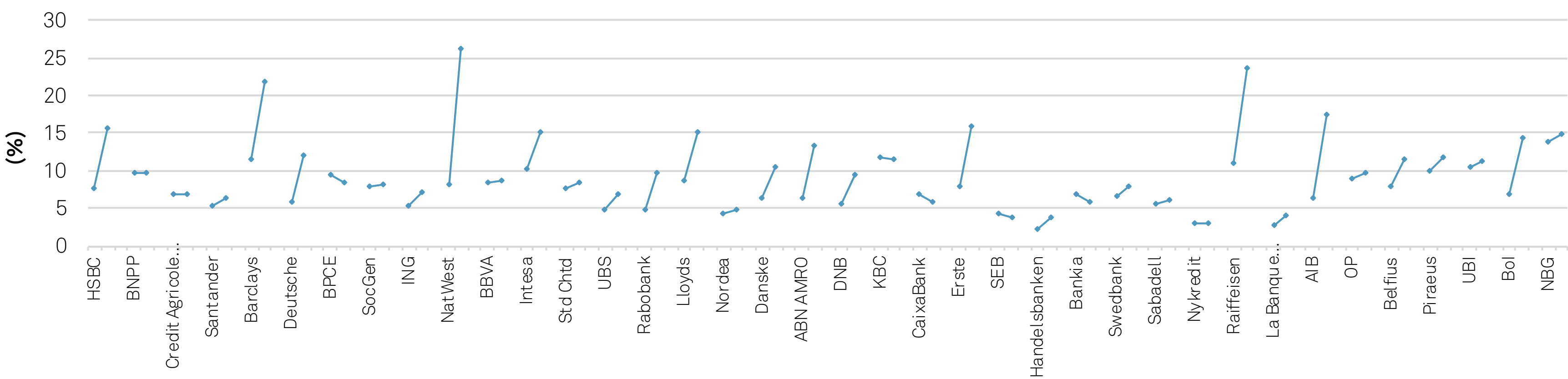
Migration To Stage 3 Remained Limited In Most Cases

Stage 3 gross loans as a proportion of total gross loans, Dec-2019 (first dot) to June-2020 (second dot)



Huge Variability In The Proportion Of Loans Classified As Stage 2

Stage 2 gross loans as a proportion of total gross loans, Dec-2019 (first dot) to June-2020 (second dot)

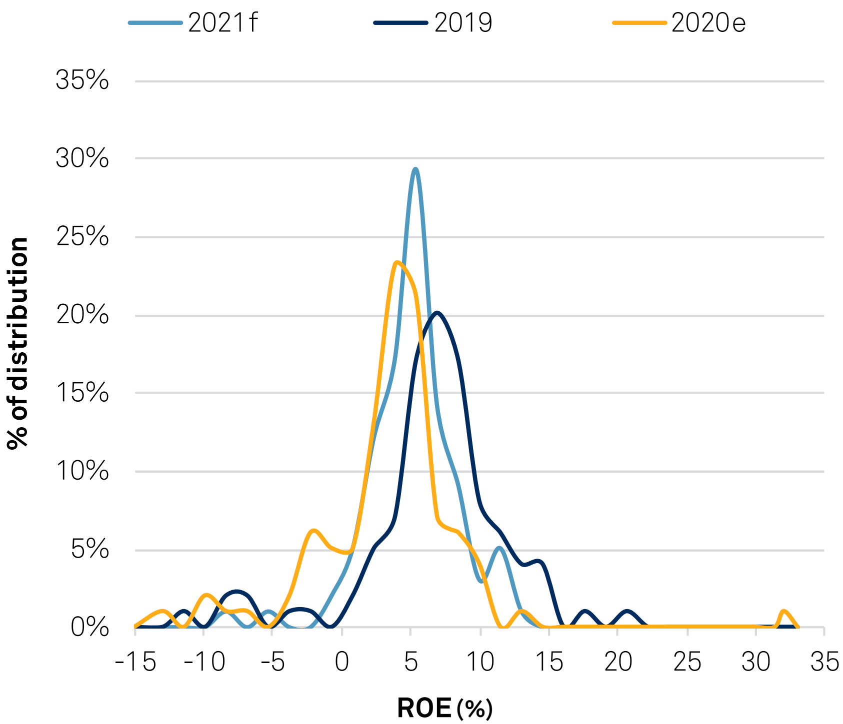


Note: The data is ordered by bank size, largest to smallest. Source: S&P Global Ratings.

Profitability: No Quick Fix At Sight

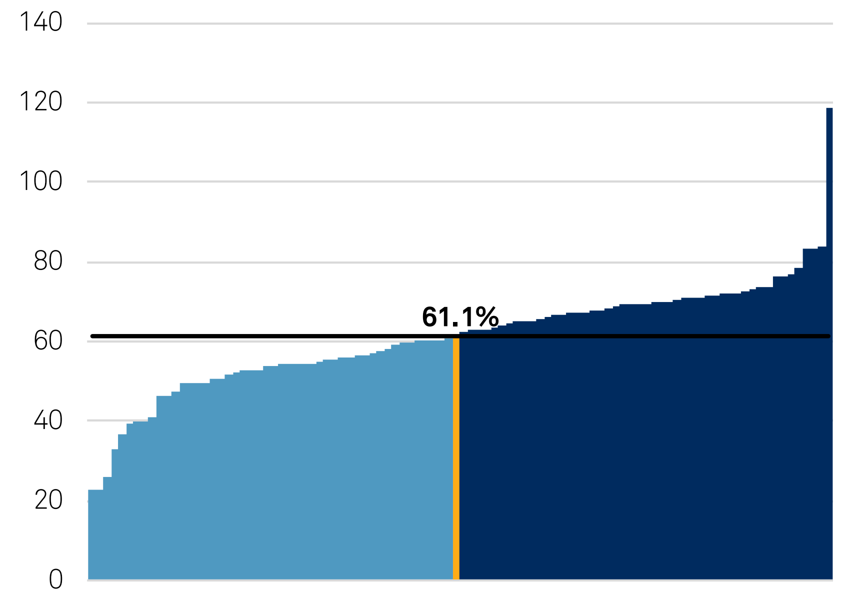
2021 Returns Will Improve Only Marginally

Distribution of Top 100 EMEA banks' ROE (%)



Banks Remain Challenged To Tackle Costs While They Progress In Digital Transformation

Expected 2021 cost-to-income ratio (%) for Top 100 EMEA banks



Source: S&P Global. ROE –Return On Equity.

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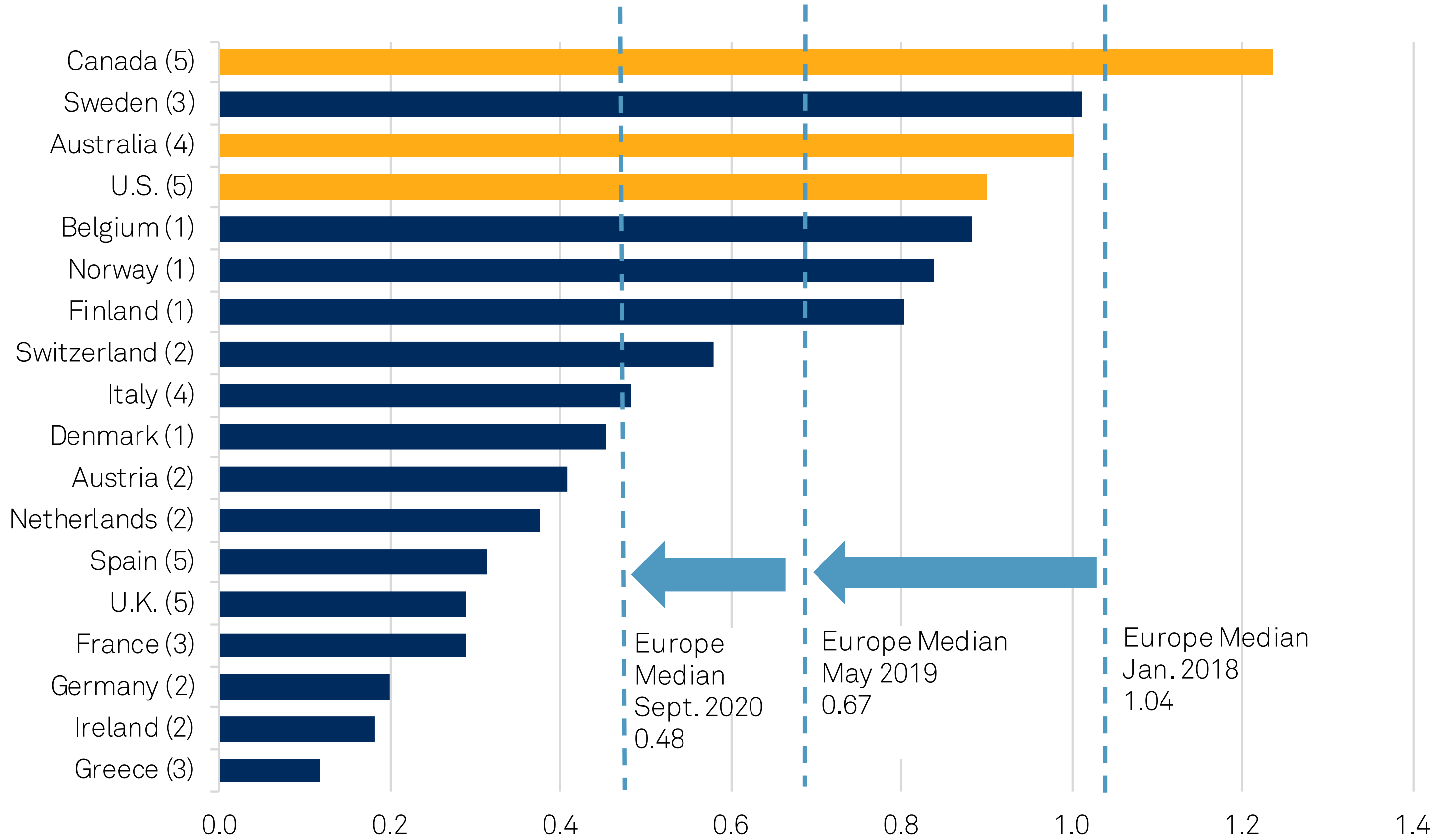
EMEA Banks Unloved By Equity Investors

Weak Profitability Prospects Are Weighting On Share Prices



Source: S&P Capital IQ. Numbers in brackets represent the number of banks considered for each country. Data covers Euro Top 50 Banks (when available), plus selected U.S., Canadian and Australian majors for comparison purposes. Data as of Jan. 31, 2018, May 9, 2019 and Sept. 22, 2020. Bars reflect data as of Sept. 22, 2020.

S&P Global Ratings

Banks Will Consolidate Further

Growing Momentum Behind European Bank Consolidation, Particularly Domestic Mergers

EU Bank M&A

Catalysts

- Excess capacity and structurally low profitability in some markets. There is plenty of scope for M&A in most countries without raising competition issues.
- Prolonged revenue pressure and limited organic growth opportunities due to ultra-low interest rates and the deep economic downturn triggered by COVID-19.
- Increased support from policymakers for consolidation. Regulators appear more concerned by the sustainability of banks' business models than too-big-to-fail concerns.
- Required technology and digitalization spending inflates costs and are particularly expensive for smaller banks.
- Earnings pressures from MREL issuance and regulatory compliance costs.
- Once transactions begin in a particular market, the fear of missing out from the consolidation process may encourage more banks to participate.

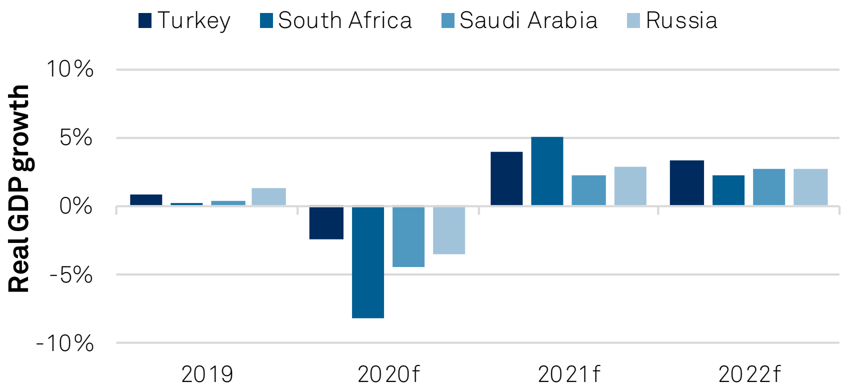
Inhibitors

- Banking union is not yet sufficiently advanced to justify major cross-border mergers.
- Management and shareholders are focused on short-term priorities such as mitigating the impact of COVID-19 and improving cost efficiency.
- Shareholder support for M&A depends on sizable cost and revenue synergies to justify acquisition premia and inherent execution risks.
- Due diligence may not fully identify conduct and litigation risks.
- Job losses resulting from M&A can be politically difficult.

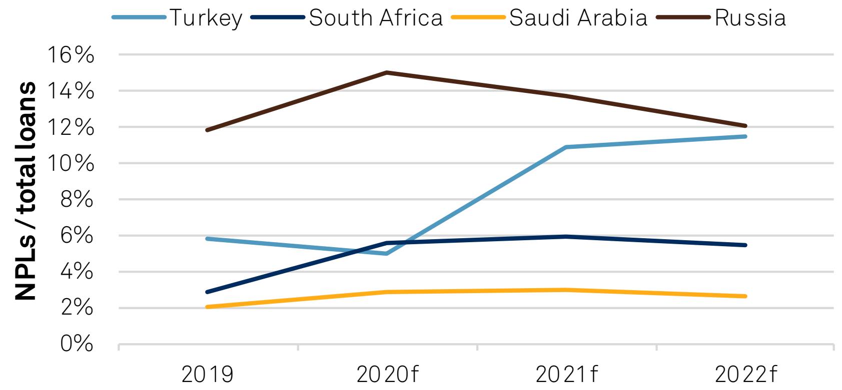
M&A--Mergers and acquisitions. MREL--Minimum Requirement for own funds and Eligible Liabilities. Source: S&P Global Ratings.

Pressure On Emerging Market Banks In EMEA

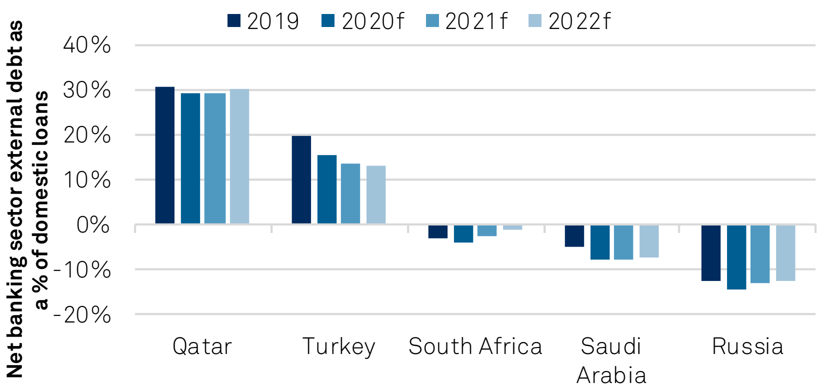
1. COVID-19 And Oil Trigger Economic Recession



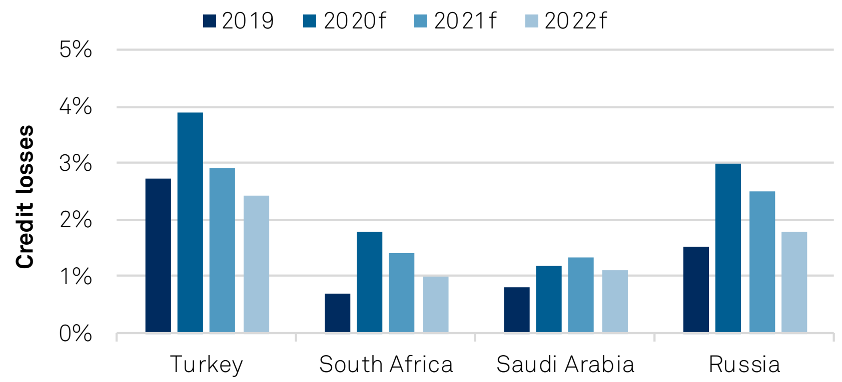
2. Asset Quality Takes A Hit



3. Vulnerable Funding For Turkish And Qatari Banks



4. Credit Losses Are Increasing

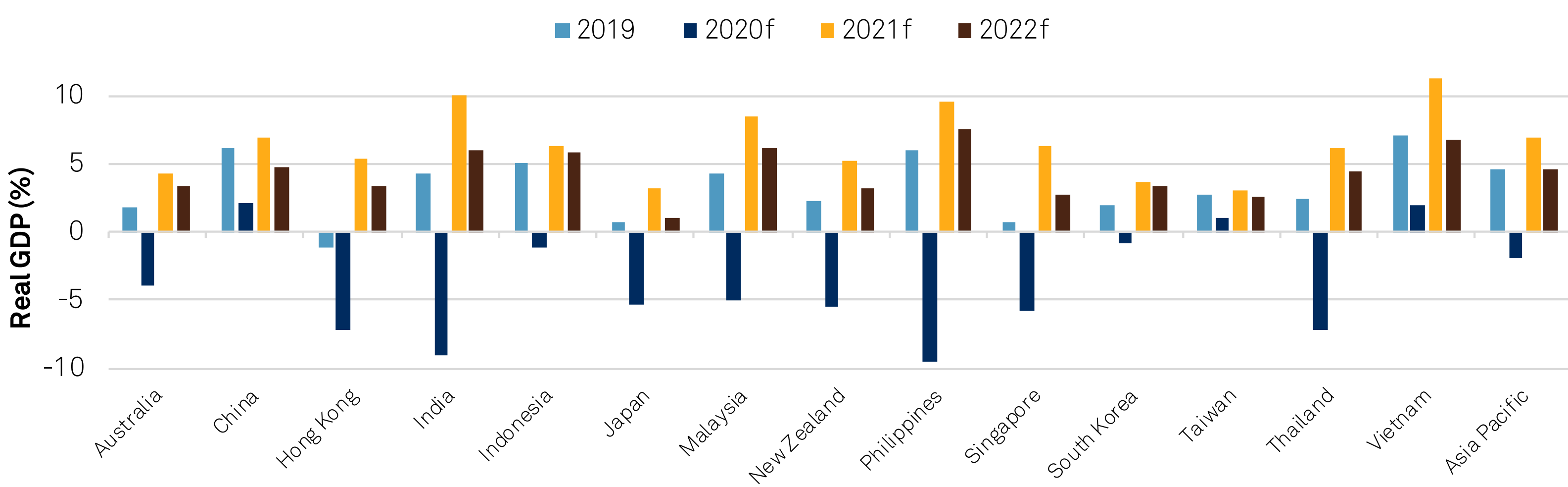


Source: S&P Global Ratings. bps--basis points. f--S&P Global Ratings forecast. NPLs--Nonperforming loans. ROAA—Return on average assets.

Credit Conditions | Asia-Pacific

- As relief measures taper, the true economic costs of COVID-19 will emerge.
- We expect real GDP in Asia-Pacific to shrink by 2% in 2020 and rebound to 6.9% next year.
- China's recovery continues but is not yet self-sustaining. India's path to a new normal will be blighted by permanent economic damage. Japan's post-Abenomics future will hinge on household confidence.
- China's potentially harder turn toward self-reliance, in response to geopolitical tensions, would move the economy closer to our downside medium-term growth scenario.

COVID-19 Has Hit Several Asia-Pacific Economies Hard: Our Forecast For Real GDP



Note: For India, the fiscal year runs April to March (e.g. 2019 is the year ended March 31, 2020). For Australia and New Zealand, the fiscal year runs July to June. f--forecast. Source: S&P Global Ratings.

Asia-Pacific Banks

Key Expectations

- COVID-19 is hitting lenders hard with bank credit losses to rise by about US$500 billion to year-end 2021. We took negative rating actions on banks since the onset of COVID-19, including in Australia, New Zealand, Japan, India, Indonesia, Malaysia, Thailand and Philippines. Ratings in some banking systems are holding up quite well despite stresses associated with COVID-19 – including China.
- Support from authorities is aiding resilience. Fiscal, monetary, policy, and prudential support are providing buffers. Banks in many countries benefit from strong earnings capacity compared with European peers.

Key Assumptions

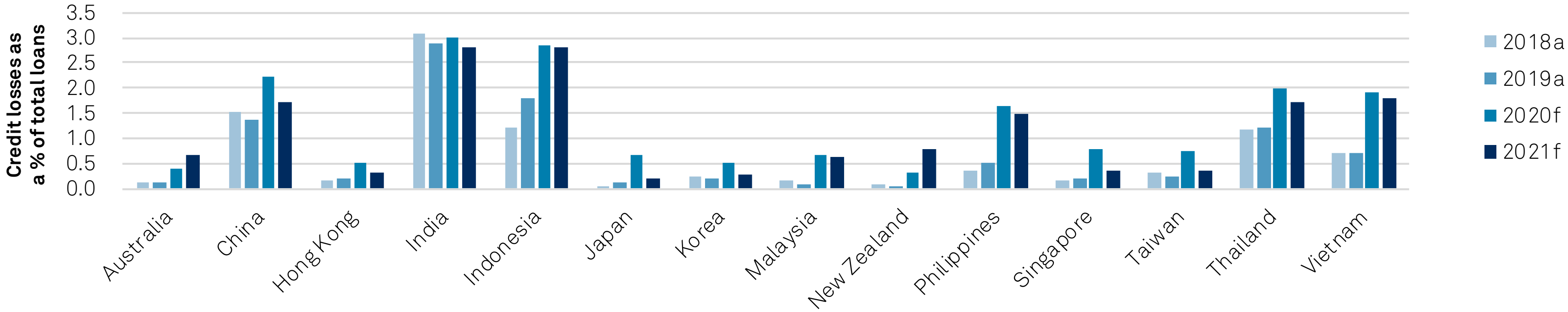
- Strong economic rebound in 2021 post the downturn.
- Many banks will be able to absorb a multifold increase in credit losses. Earnings should start to improve with the economic recovery by the end of 2021.
- In our view, governments in most countries will provide extraordinary support to systemically important banks, if needed.

Key Risks

- A more severe or prolonged hit to the economies is the main downside risk, as the damage on households and corporates would intensify credit losses and drive earnings lower.
- Disorderly correction in asset prices. In many countries, banks have high exposure to the property sector, and prices and private sector debt remain high. This could trigger a disorderly correction in asset prices, which would heighten and prolong banks' asset quality problems.

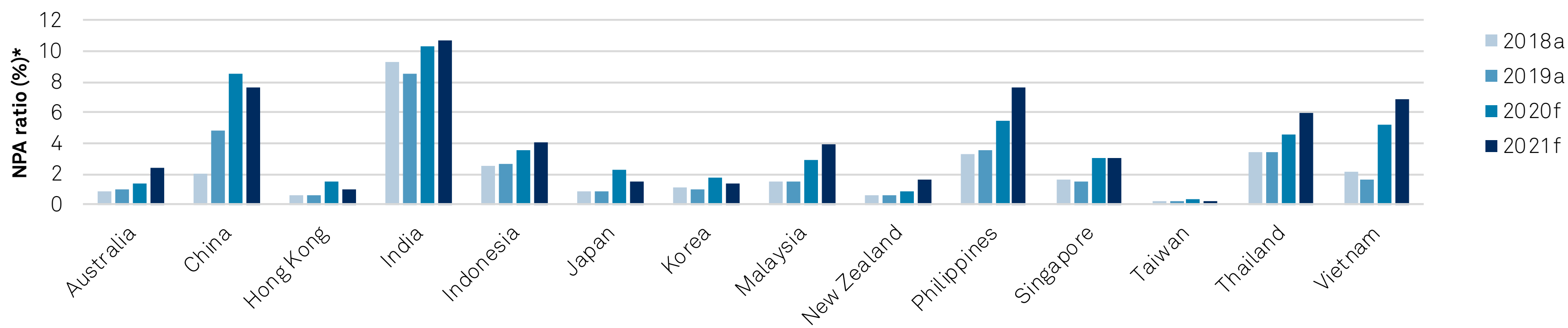
Asia-Pacific Banks | COVID-19 Pushes Up Credit Losses And Nonperforming Assets

Credit Costs Will Cool Off In 2021 After The Multifold Rise



Credit losses are net charge-offs of private-sector exposures or loan loss provisions allocated to cover potential losses on exposures to resident borrowers by resident banks. Both are expressed as a percent of the average of loans to domestic borrowers. a--Actual. f--Forecast. Source: S&P Global Ratings.

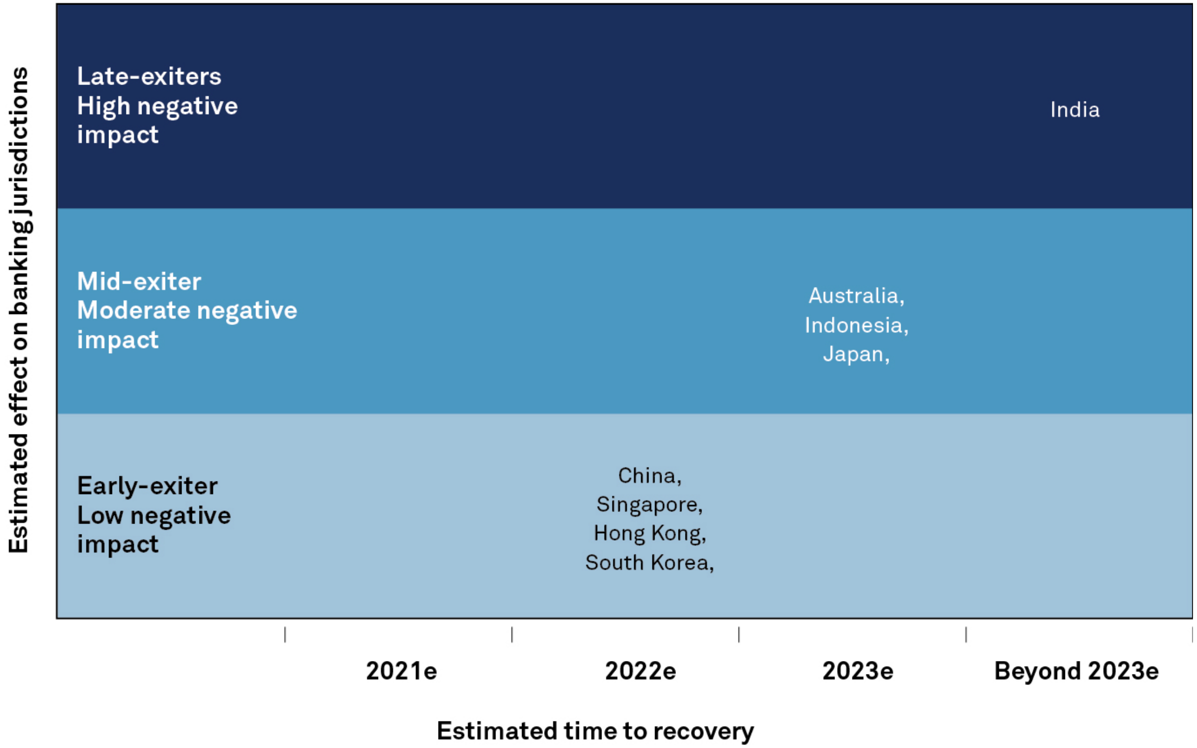
Nonperforming Assets To Increase Materially In Some Countries



** Nonperforming assets as a % of systemwide loans (year-end). Sum of problematic exposures (including loans and foreclosed assets) due by resident borrowers to a country's resident banks as a percent of loans granted to domestic private and public borrowers. a--Actual. f--Forecast. Source: S&P Global Ratings.*

Asia Pacific Banks | Recovery Will Be Slow

Our Estimate Of Recovery Prospects For Select Banking Jurisdictions Because Of COVID-19, Oil Price Shock, And Other Market Stresses



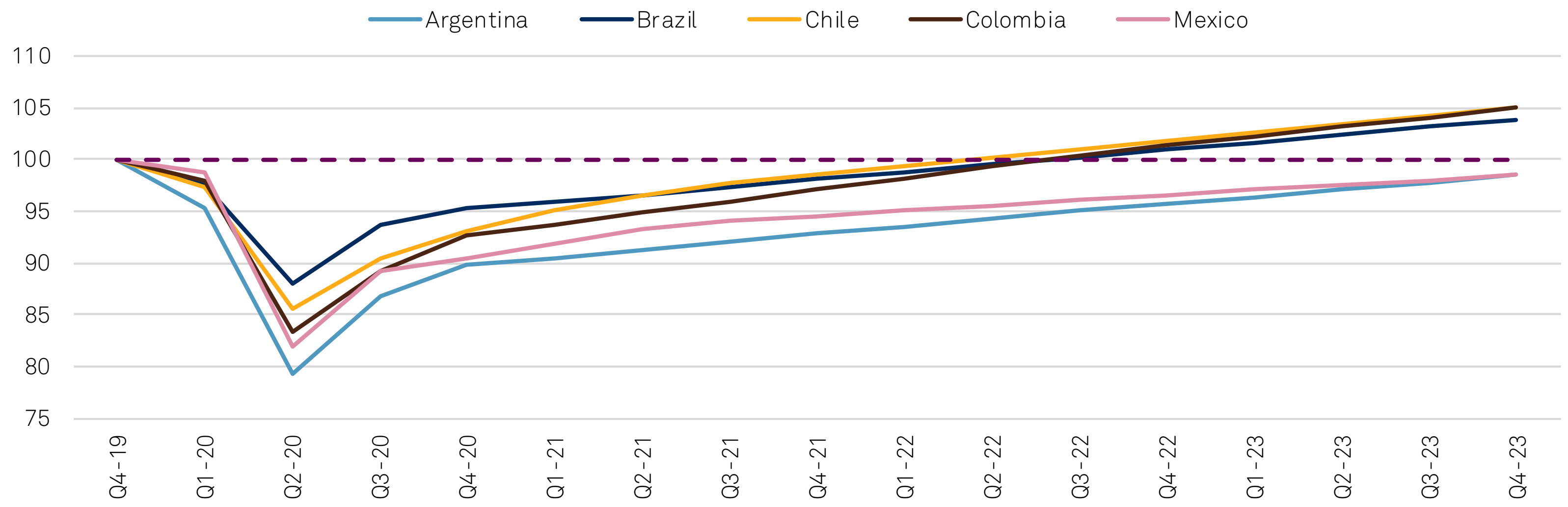
- **China**, **Singapore**, **Hong Kong** and **South Korea** are likely to be among the systems to recover first--by the **end of 2022**.
- Other banking systems may not recover **until 2023**, including **Australia**, **Indonesia** and **Japan**.
- **India** will be slower to recover--likely **beyond 2023**.

Note: The estimated time to recovery takes into account 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 full calendar year. All information is based on analysts' estimates. Banking sector recovery prospects for early-exiter jurisdictions are sooner, for late-exiter jurisdictions are later, and mid-exiter jurisdictions in between. Estimated impact is driven by COVID-19, oil price shock, and other market stresses. e--Estimate. Source: S&P Global Ratings, Global Banking: Recovery Will Stretch To 2023 And Beyond, Sept. 23, 2020.

Credit Conditions | Latin America

- The recovery from the worst of the pandemic is underway across the major economies of the region. The permanent income losses will average 6% of GDP--among the highest in emerging markets.
- We see the regional GDP contracting 8.5% in 2020 and growing by 4.5% next year. Brazil performs better than we anticipated, while Argentina, Colombia, Mexico, Peru fare worse, and Chile in line.
- Most major economies will not return to pre-pandemic levels of GDP until 2022, and some beyond.

Latin American Economies Will Face Relatively High Permanent Losses
Projected GDP Level Versus Pre-Pandemic Level, Q4 2019 = 100



Source: Oxford Economics, S&P Global Ratings.

Latin American Banks

Key Expectations

- Material asset quality deterioration, especially in sensitive economic sectors, SMEs, and self-employed workers.
- Low single-digit credit growth in 2020 for countries where stimulus packages for banks to lend have been limited, such as Mexico, and double-digit growth for those where stimulus has been stronger (for example, Peru and Brazil). Loan growth will be slower in 2021.
- Credit demand from the corporate sector is increasing due to the liquidity need from corporates affected by social-distancing policies, while consumer and mortgage lending will remain limited.

Key Assumptions

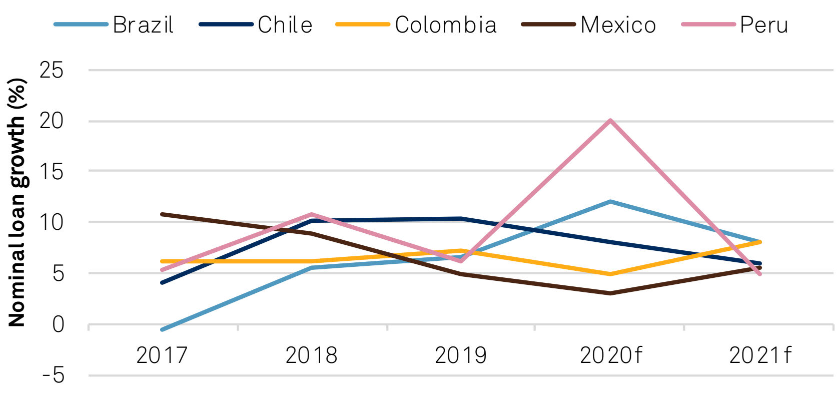
- Credit losses to significantly hit banks. However, high interest margins and consistently robust provisioning coverage will help lessen the impact.
- Debt moratorium programs will allow banks to defer recognition of some bad loans into 2021, although they already started to set aside provisions in 2020.
- Improvement in economic activity in 2021 thanks to stimulus packages and recovery in China, with Mexico and Argentina benefiting less due to lower stimulus.

Key Risks

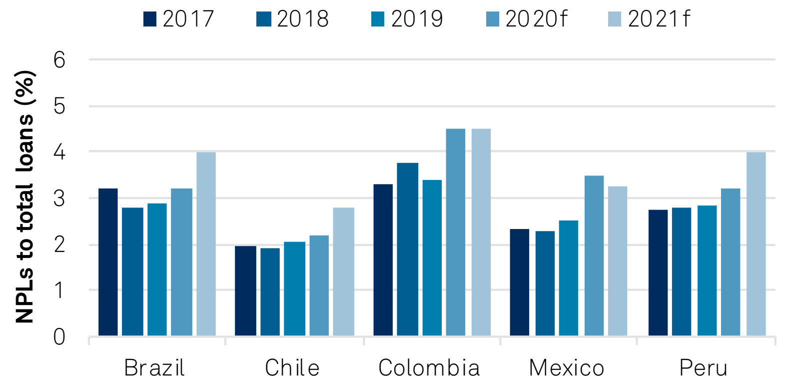
- Economic recovery takes longer than anticipated.
- Social unrest could weaken the economic recovery. As the number of individuals with COVID-19 escalates and weighs on the fragile health system, social unrest could emerge.

Latin American Banks

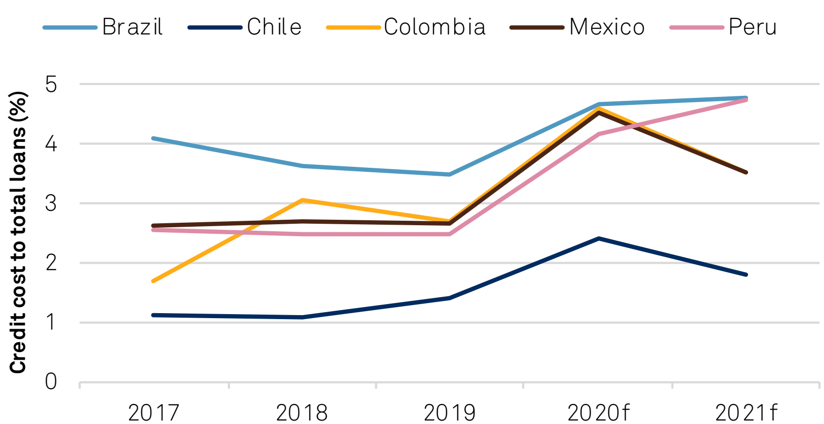
1. Lending Growth To Slow



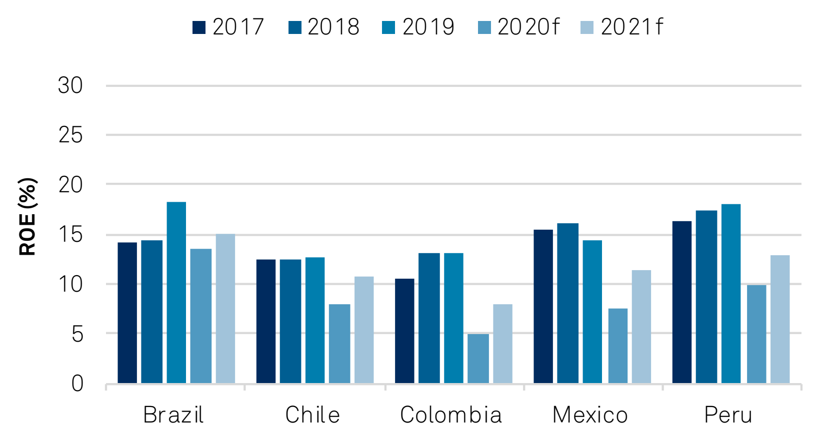
2. Nonperforming Loans To Escalate In 2021



3. Credit Losses Are Rising



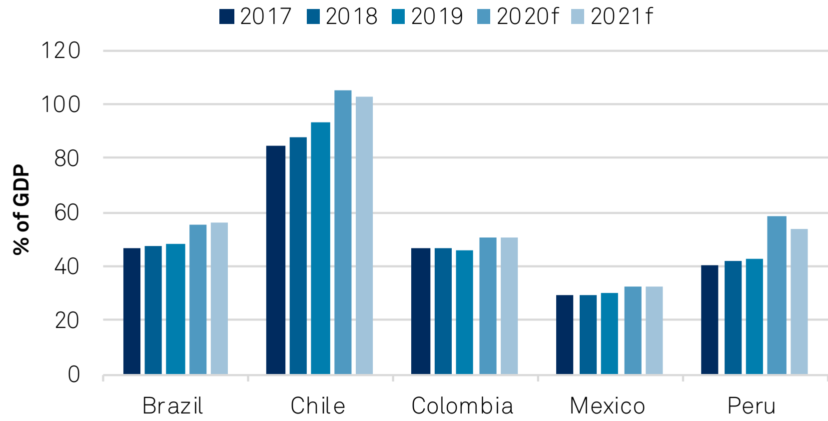
4. Adequate Profitability Despite Challenges



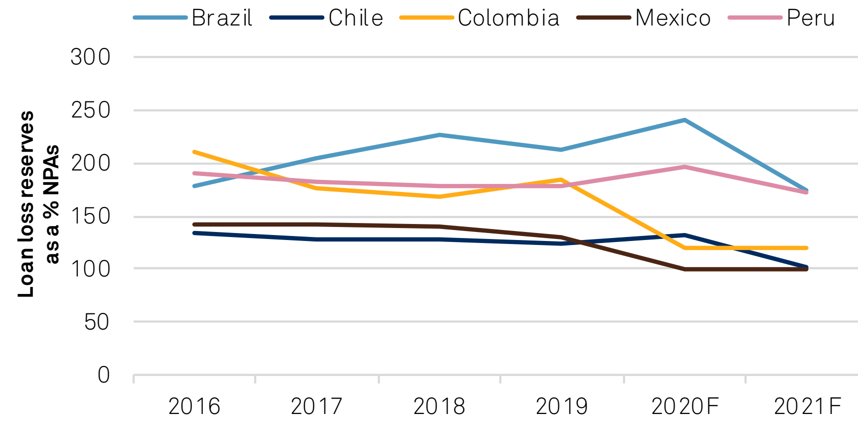
Source: S&P Global Ratings. F--Forecast. 2. Nonperforming loans as a percentage of total loans. 4. ROE-- Return on equity.

Latin American Banks

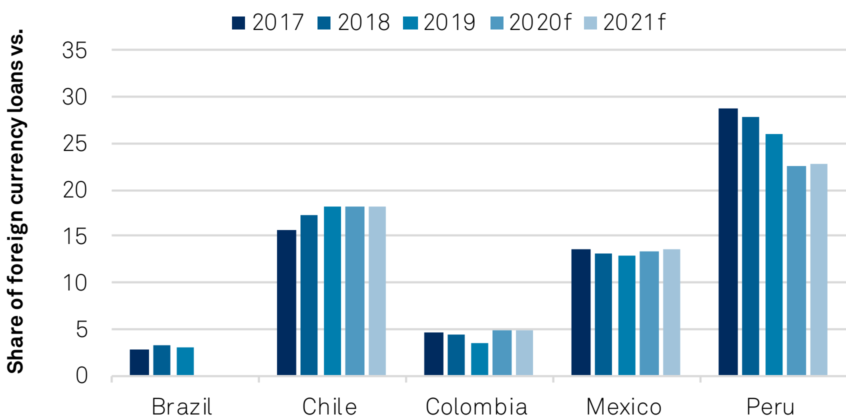
1. Low Credit To GDP Apart From Chile



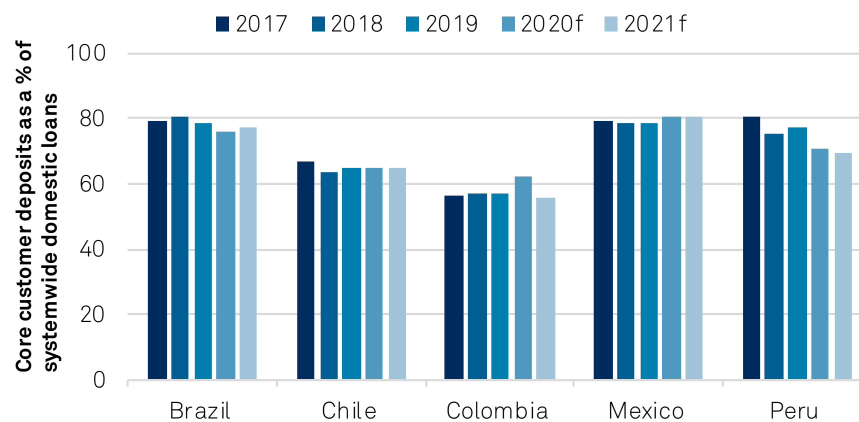
2. Comfortable Provisioning Coverage



3. Foreign Currency Loans Are Mainly Directed To Exporters Except In Peru



4. Ample Liquidity



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

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- Banking Horizons Europe 2020: COVID-19 As A Catalyst For Change, Oct. 13, 2020
- Comparative Statistics: U.S. Banks (October 2020), Oct. 13, 2020
- Top 100 Banks: COVID-19 To Trim Capital Levels, Oct. 6, 2020
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- Bank Regulatory Buffers Face Their First Usability Test, June 11, 2020

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