PRESS RELEASE

DBRS Morningstar Revises Trend on Abanca to Negative, Confirms BBB Long-Term Issuer Rating

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Abanca Corporación Bancaria S.A. (Abanca or the Bank) including the Long-Term Issuer Ratings of BBB and the Short-Term Issuer Ratings of R-2 (high). The trend on all ratings has been changed to Negative from Stable. DBRS Morningstar has also maintained the Intrinsic Assessment at BBB and the Support Assessment at SA3. A full list of rating actions is included at the end of this press release.

KEY RATING CONSIDERATIONS

The change of the trend to Negative on the long-term ratings reflects our view that the wide and growing scale of economic disruption caused by the coronavirus (COVID-19) pandemic is negatively affecting the Bank’s operating environment. The impact of economic slowdown is likely to emerge in the coming quarters whilst the implications for the medium to long-term will depend on the evolution of the pandemic and the recovery of economic activity in Spain. In particular, we expect this to translate into a deterioration in the Bank’s asset quality profile, as well as lower revenues and higher loan loss provisions, which will pressure profitability. At the same time, we will also monitor measures being taken to support the franchise and customer base, including the implementation of debt moratoriums. In addition, we take into account the impact of unprecedented support measures implemented by the Spanish government, as well as several other international authorities and central banks. In our view, the high social buffers in Spain will help mitigate the impact of the crisis on the retail and SME side.

The ratings continue to reflect the Bank’s leading regional franchise in its home market of Galicia, its sound capital position and improved levels of non-performing loans (NPLs) which compare well to domestic and European peers. The ratings also take into account the Bank’s profitability improvement in recent years even though the bank’s costs have increased, partly due to recent acquisitions, as well as the stable funding and liquidity profile, supported by its large and resilient customer deposit base and ample liquidity portfolio.

RATING DRIVERS

Any upgrade of the Long-Term ratings is unlikely in the short-term given the recent change of trend. However, an upgrade could occur should the Bank manage to improve core profitability despite the global COVID-19 pandemic as well as showing limited asset quality impact.

The Long-Term ratings could be downgraded should the Bank experience a material decline in its capital position, potentially as a result of the COVID-19 pandemic. A downgrade could also occur through a material deterioration of the Bank’s risk profile reversing the progress made by the Bank so far.

RATING RATIONALE
Abanca’s ratings continue to be underpinned by its well-established regional franchise in Galicia, where the Bank maintains leading market shares for loans and deposits. In addition, DBRS Morningstar notes that Abanca has reinforced its presence in Spain and in Portugal, through the acquisitions of Banco Caixa Geral’s Spanish operations and the private and commercial business of Deutsche Bank AG in Portugal in the last two years. In 2019, Abanca simplified its shareholder structure via the merger of its holding, Abanca Holding Financiero S.A., making its current chairman, Mr. Escotet Rodriguez, the direct controlling shareholder through his 77.76% of the capital.

Abanca reported EUR 127 million of net attributable income in Q1 2020, down 13.2% year-on-year (YoY). Results included EUR 78 million of provisions, of which a large part were to cover the expected deterioration in economic conditions as a result of COVID-19. Nonetheless, the Bank’s Q1 performance remained solid, supported by the integration of Abanca Portugal and Banco Caixa Geral and also underlying core revenue growth, despite higher operating expenses. DBRS Morningstar expects the COVID-19 crisis to impact the Bank’s revenues in a more significant way in coming quarters. Abanca’s operating expenses increased 12.3% due to integration costs. Nonetheless, the cost-to-income ratio improved to 48% from 54% a year ago. The crisis has started to affect the cost of risk, as the Bank reported EUR 78 million in provisions for credit losses related to the COVID-19 outbreak and incorporating the future deterioration in economic conditions. As a result, the cost of risk increased to 82 bps in Q1 2020 from an average of 24 bps in 2019. DBRS Morningstar expects similar levels of loan loss provisioning in coming quarters.

We expect asset quality to deteriorate as a result of the COVID-19 crisis. However, We consider Abanca starts this unprecedented crisis from a sound asset quality starting point. The NPA ratio stood at 4.7% at end-March 2020, compared to 4.8% at end-2019 and 6.5% at end-2018. Total NPLs stood at EUR 1.0 billion at end-March 2020, relatively stable since end-2018. As a result, Abanca’s NPL ratio (as calculated by DBRS Morningstar) was 2.7% at end-March 2019, a ratio now in line with European peers.

Abanca’s funding position is supported by its large and resilient customer deposit base, which has strongly increased through acquisitions, and ample pool of unused liquid assets. Reflecting the Bank’s focus on further diversifying revenue sources through commissions, the Bank’s off-balance sheet customer funds increased 37.1% YoY in Q1 2020 or 3.4% YoY on a like-to-like basis (excluding the integration of Abanca Portugal and Banco Caixa Geral), principally due to mutual funds and insurance products. Abanca had a sound net loan-to-deposit ratio (LTD) excluding repos and covered bonds included in deposits, as calculated by DBRS Morningstar, of 99.1% at end-Q1 2020. Abanca also has a sound liquidity position with a Liquidity Coverage Ratio (LCR) of 210% and a Net Stable Funding Ratio (NSFR) of 127%.

Abanca’s capital position is sound, supported by the Bank’s ability to reinforce capital levels through retained earnings and more recently through the issuance of AT1 and Tier 2 instruments. At end-March 2020, Abanca reported a fully loaded Common Equity Tier 1 (CET 1) ratio of 12.0%, fairly stable from end-2019. The fully loaded total capital ratio stood at 14.9% at end-March 2020. This continued to provide the Bank with comfortable buffers of around 400 bps over the SREP Overall Capital Requirement (OCR) for CET1 and a 270 bps buffer over the minimum OCR for total capital. DBRS Morningstar also considers that Abanca is well positioned to reach its MREL requirement of 20.06% by January 1st, 2022, although we understand that regulators could extend the deadline to provide more flexibility during the crisis.

ESG CONSIDERATIONS
A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: https://www.dbrsmorningstar.com/research/357792.

The Grid Summary Grades for Abanca Corporación Bancaria, SA are as follows: Franchise Strength – Good / Moderate; Earnings Power – Moderate; Risk Profile – Good / Moderate; Funding & Liquidity – Good / Moderate; Capitalisation – Good / Moderate.

Notes:
All figures are in EUR unless otherwise noted.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: [https://www.dbrsmorningstar.com/research/357883](https://www.dbrsmorningstar.com/research/357883).

The sources of information used for this rating include Company Documents, Abanca 2019 and Q1 2020 Annual Accounts, Abanca 2019 and Q1 2020 Reports, Abanca 2019 and Q1 2020 Press Release, Abanca 2019 and Q1 2020 Presentation and S&P Global Market Intelligence. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

DBRS Morningstar does not audit the information it receives in connection with the rating process, and it does not and cannot independently verify that information in every instance.

Generally, the conditions that lead to the assignment of a Negative or Positive trend are resolved within a 12-month period. DBRS Morningstar’s outlooks and ratings are under regular surveillance.


The sensitivity analysis of the relevant key rating assumptions can be found at: [https://www.dbrsmorningstar.com/research/363584](https://www.dbrsmorningstar.com/research/363584).

Ratings assigned by DBRS Ratings GmbH are subject to EU and U.S. regulations only.

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Initial Rating Date: December 10, 2014
Last Rating Date: July 18, 2019

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### Ratings

**Abanca Corporación Bancaria S.A.**

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