2018 INTERIM RESULTS

ABANCA obtains 247 million, advances 8.1% in recurring revenues and gets 11.8% profitability

- Net profit grew by 7.8% driven by recurring revenues, which remain as the pillar of profitability
- Strength of the commercial positioning of the bank, with a growth of 6.3% in the business volume, which is already close to 70,000 million
- The sale of general insurance increased by 6.9% and is consolidated as one of the main strategic axes of the organisation
- Intense rhythm of credit granting, with special emphasis on the SME and self-employed segments, which has received 500 million more credit than in the first half of 2017
- The non-performing loan balance was reduced by 18 consecutive quarters and the NPL ratio reached 4.6% which made ABANCA to remain among the best entities in the sector as regards to asset quality.
- The CET1 capital ratio stands at 14.6% with a margin of 1,809 million, which allows the bank to face opportunities of growth
- The four rating agencies that assess the bank have improved their rating so far this year, and all of them state a positive outlook for the future
- The number of new direct-salary deposits in ABANCA was 41,000 in June

26.07.2018 ABANCA has obtained in the first half of 2018 a net result of 247 million euros, 7.8% more than in the same period of the previous year. This represents a ROE profitability of 11.8% which is among the most prominent within the financial sector. This outcome is based on a remarkable growth in the basic margin, which grew by 8.1% and continues to increase its contribution to the income statement.

Other key elements in the business and in the financial profile of the bank also maintain good progress. The non-performing loan ratio has been placed at 4.6% with a year-on-year decrease of 27.6% which firmly positions ABANCA as the second bank with the best asset quality. This is the eighteenth consecutive quarter in which ABANCA reduces its non-performing loan balance.

With regard to commercial activity, the degree of specialisation achieved with the creation of specific business units translates into higher levels of satisfaction and the attraction of new customers. Thus, the entity achieved a growth of 6.3% in the total business volume, which stood at
69,255 million euros.

Credit has advanced by 6.2%, with special weight of SMEs and self-employed segments. Between January and June of 2018 the completion of formalities as for credit addressed to this segment exceed in more than 500 million compared to those in the same period of 2017.

The reinforcement of the commercial positioning of the entity is reflected in the attraction of customer resources. The stable deposits from customers grew by 5.7% and the marketing of savings insurance, mutual funds and pension plans by 18.2%. The number of new direct salary deposits from customers reached 41,000 in June.

The sale of insurance, on the other hand, advanced 6.9%, highlighting the insurance of companies and health insurance as the most dynamic lines, although all the lines reflected improvements.

Customer satisfaction and specialisation

During these six-month period, ABANCA has continued with the reshuffling of its commercial network to continue deepening its strategy of specialisation of the service. The entity has a total of 45 business service centres.

Thanks to actions such as those described, ABANCA has received the award for the Best Customer Experience Strategy from the Asociación para el Desarrollo de la Experiencia del Cliente (Association for the Development of the Customer Experience DEC), it has been placed in the top 5 of the Smart Companies ranking of companies more customer-focused of Smartme Analytics and it has been recognised as the second entity with the best evolution of the emotional bond with its customers in the last three years according to the survey “Estudio de emociones de clientes particulares en el sector bancario español” (Study of emotions of customers in the Spanish banking sector) of the consulting firm EMO Insights International.

As a result, the bank has increased its acquisition of value-customers by 75.1% (those with the highest level of customer loyalty with the bank) with respect to the same period of the previous year.

The weight of recurring revenues increase

The first half of 2018 represented a 11.0% increase in the net interest income. The activity with retail customers, which makes up the core business of the entity, is the fundamental basis on which this improvement is based.

Revenues from services rendered increased by 0.7% although the increase rises to 7.7% year-on-year once the effect of non-recurring items has been deducted. The commercialisation of mutual funds, pension plans and savings and general insurance generated 16.6% more income.

On the other hand, the bank continues to increase its productivity levels thanks, among other reasons, to the intensive use of digital channels, which already generate more than half of total transactions (54.2% in June, with a year-on-year increase of 37.5% as to the number of digital transactions). This makes it possible that at the end of June 2018 both the business volume per
employee and the productivity per employee grow.

**Boost to credit**

Loans to customers grew by 6.2% up to 28,933 million euros. In this first half of the year, the good performance of the companies segment stood out, with year-on-year growth of more than 500 million euros in new formalisations.

In the household segment, the entity has managed to increase the completion of formalities of first-home mortgages by 14.6% and consumer finance transactions by 15.7%.

The non-performing loan ratio of new production generated since January 2015 is still below 0.5%, a level much lower than that of the portfolio as a whole.

**Strength in customer funds**

The funds raised from customers increased by 7.6% with a leading role in demand balances, mutual funds, pension plans and savings insurances.

This was due to, among other factors, the 4.2% increase registered in the number of new customer registrations and the attraction of 41,000 new direct salary deposits from customers; figures that support the attractiveness of the entity as recipient of savings.

The portfolio of off-balance sheet products (mutual funds, pension plans and savings insurance) already exceeds, after an increase of 18.2% year-on-year, 6,500 million euros.

The bank has gained market share in both mutual funds and pension funds (20 b.p. and 6 b.p. respectively).

**Development of the insurance business**

General insurance, another lever of income diversification, recorded a 6.9% growth in new production premiums. Within the good general trend, business insurance showed the most outstanding behaviour, with a 28% growth, followed by health care, with 18% life-risk, with 16% and home insurance, with 15%

Insurance business has played a leading role with regard new features recently implemented into the ABANCA’s mobile banking, one of the best rated by users. Currently the app allows customers to consult and modify the charge account of a policy, check the last bill of an insurance already paid and, as to home insurance, change the insured amount for buildings and content.

**Among the best entities by asset quality**

ABANCA remains in a differential position regarding the quality of its assets. After 18 consecutive quarters of decline in doubtful balances, the NPL ratio stood at 4.6%. This figure is clearly lower than the banking sector average, estimated at 6.1% at the end of June.
The bank based in Galicia is the financial entity with the lowest doubtful loan portfolio in the Spanish financial sector. The proportion of foreclosed assets on its balance sheet is 0.7%, less than half of the sector average. With a weight of only 2.0%, ABANCA is the second Spanish financial entity with the lowest weight of unproductive assets (non-performing loans and foreclosed assets) over its total assets. These figures have placed ABANCA among the entities with the best asset quality.

The reduction of non-performing assets has been carried out maintaining a high level of coverage. The non-performing loan coverage ratio stood at 53.6% by the end of June, while that corresponding to foreclosed assets stood at 61.2%. With this, the total coverage presents a level of 56.6% of the non-performing assets and foreclosed assets.

**Soundness in capitalisation and liquidity**

The entity has one of the highest levels of capitalisation in the industry, with a CET1 Phase In ratio of 14.6% and an excess of capital over the requirements of the ECB of 1,809 million euros.

ABANCA also presents a broad compliance with the liquidity requirements established by the regulator. The NSFR, net stable funding ratio, stands at 125% while the LCR, liquidity coverage ratio, is 225% levels that demonstrate the compliance with the Basel III requirements for 2018.

The entity has a liquidity position of 10,305 million euros between issue capacity of bonds and liquid assets, being the latter almost twice the ABANCA’s issues maturities forecasted.

**Improvements recognised by rating agencies**

So far in 2018, the four rating agencies that assess ABANCA have improved the rating of the entity. The items highlighted by the agencies are, mainly, the improvement in the quality of assets of the bank and the greater capacity shown to generate recurring income.

After these actions, all the agencies assign to ABANCA a positive outlook, an indicator that states confidence in the future evolution of its rating. ABANCA has among its ratings an investment rating.

These improvements are also recognised by other specialised analysts, as shown in the report “El pulso de la banca 1T2018” prepared by the consultant company Alvarez&Marsal, in which ABANCA ranks first in the analysis made based on the results obtained in the first quarter of 2018.