RESULTS FIRST HALF OF 2019

ABANCA obtains € 250.1 million profit, with a 10.7% return

- The bank continues to be one of the most profitable in the Spanish financial sector
- The business volume will soon reach € 80,000 million after the incorporation of Deutsche Bank PCB Portugal
- Recurrent revenues increased by 5.6% and reinforce its role as the main pillar of the results obtained
- The non-performing loan ratio chained 21 consecutive quarters of reduction and decreased to 3.3%, with a 57.1% coverage
- With 14.7% CET1 ratio, ABANCA maintains its strong position in solvency and far exceeds regulatory requirements (593 b.p.)
- The new insurance production grew 7.4% driven by innovation and technological capabilities
- DBRS upgraded ABANCA’s rating thanks to the continuous improvement of recurring income and asset quality.
- The bank boosts the growth of its business while deepening in the implementation of actions focused on sustainability

29.07.2019 ABANCA closed the first half of 2019 with a net profit of 250.1 million euros. This figure represents a 10.7% ROE, which continues placing ABANCA among the most profitable entities of the Spanish financial system.

The bank’s balance sheet reflects for the first time the effect of the recent integration of Deutsche Bank PCB Portugal, placing its business volume close to € 80,000 million pending the completion of the incorporation of Banco Caixa Geral.

It is important to mention the dynamism of credit activity with SMEs and freelancers (with a growth of 6.4% in new formalisations) and that of the insurance business (+7.4%), two of the pillars of the strategic plan that ABANCA is developing.

The bank continues to be among the first in the sector in terms of solvency, with a CET1 ratio of 14.7%; also in terms of portfolio quality, with a non-performing loan ratio that, after 21 consecutive quarters of improvement, already stands at 3.3%, one of the best ratios of the Spanish financial system.

The good performance of the bank is reflected in its credit ratings. Recently, DBRS upgraded ABANCA’s rating up to BBB, thanks to the continuous improvement of recurring income and asset
quality. ABANCA has investment grade in DBRS and Fitch.

Growing revenues

ABANCA continues to strengthen its capability to generate recurring revenues, with a net interest income of 272.1 million euros after increasing 5.6% year-on-year.

The margin growth results from the good performance of the business with customers, where the growth of credit and the good management of the prices of the new production stand out, as well as the strength shown in attracting deposits.

The cost of the risk (CoR) has remained stable and is among the best in the market thanks to the continuing reduction of non-performing loans and the policy of prudence in granting credit.

Revenue from services rendered have registered an increase of 5.7% year-on-year, standing out the income of insurance marketing, pension plans and funds, which increased 9.8%. In this area, innovation aimed at customers has been decisive, with innovative products such as the insurance flat rate or the ON-OFF insurances. Revenues from collection and payment services increased 8.1%.

Investment in technological capabilities

The financial strength of the bank allows it to undertake investments that enhance its technological and business capabilities. In the last 18 months ABANCA has allocated to it €145 million in toto.

The digital channels continue their growing role in the business and, after a 7.7% growth, now exceed 54.8% of all transactions. The investment in digital skills brings an increase in productivity in the commercial network, which already exceeds the unit marketed (product or service contracted) per day and employee.

Business volume

Following the integration of Deutsche Bank PCB Portugal, the ABANCA’s business grew 13.6%, standing at €78,661 million, close to the €80,000 million threshold. The growth is balanced both in credit, which increased 13.5% to €32,826 million, and in customer funds, which so does it by 14.3% to €44,515 million.

Apart from that incorporation, ABANCA continues showing a strong capability for organic growth. Without taking into account the Portuguese market, ABANCA shows growth rates of 4.9% in credit to customers and 4.7% in customer funds, driven by more than 50,000 new customers that ABANCA has acquired so far in 2019.

Within the credit portfolio, the financing to SMEs and freelancers presents a growing weight, thanks to the dynamism shown in new formalisations with these segments (+6.4% compared to June last year).

The successful incorporation of Deutsche Bank Portugal, one of the milestones of these six months,
leads to an increase of 44.7% of off-balance customer funds and boosts the capabilities of ABANCA in segments of personal and private banking. The acquired business provides ABANCA with a total share of 7% in investment funds in Portugal, a figure that rises up to 35% in the case of international funds. In addition, the incorporation brings with it a growth of 11.6% in securities deposits, amounting to €1,726 million.

Following the incorporation, ABANCA manages in Portugal a business volume of more than €7,000 million that makes the bank to be ranked tenth financial institution in the Portuguese market by both customer funds and credit. ABANCA is also the first bank in terms of advisory banking. The bank serves almost 79,000 customers (individuals and enterprises) through a commercial network made up of 70 points of sale in the main locations and economic centres of Portugal and has a local team of approximately 500 professionals with great expertise in the high value customer segment.

On the other hand, ABANCA continues to work on the incorporation process of Banco Caixa Geral that will contribute €7,000 million more to ABANCA’s business volume.

**Insurance business**

The insurance business is experiencing a strong growth driven by innovation and technological capabilities.

By categories, life insurance grows 6.1% and general insurance 18.0%. In the next few years the bank expects to give an important impetus to this business activity in Spain and Portugal.

To do this, ABANCA has just signed a long-term agreement with the intention of stability with Crédit Agricole Assurances, the first European bancassurance entity. Both groups will create a joint venture to 50% with headquarters in Galicia, which will be addressed to individuals and companies of less than two million euro turnover.

The alliance combines “Know Your Client” expertise of ABANCA with the technical and product experience of Crédit Agricole Assurances. The model, disruptive, will focus on the understanding of customer needs, the promotion of self-service contracting and omnichannel procedures with digital-first approach. The company will create and commercialise simple and innovative products, supported by technological solutions and accompanied by a differential customer experience.

**Risk quality**

ABANCA continues to reduce its NPL ratio, which by June 30th was at 3.3%, widely below the references of the sector. The bank chained 21 consecutive quarters of decline in NPL ratio.

ABANCA is the Spanish bank with the lowest credit portfolio and the third with lower foreclosed portfolio. The total coverage ratio stands at 59.0%, 57.1% for non-performing loans and the 61.8% for foreclosed property assets.

The combination of all these variables makes ABANCA to be ranked the bank with the healthiest balance sheet in the Spanish financial sector, with a Texas ratio of 34.5%.
Solvency and liquidity

Reinforced by the recent issuances of computable instruments, the total capital ratio reached 16.8% phase-in, (16.1% fully loaded). The highest quality capital (CET1) has been placed at 14.7% phase-in (14.0% fully loaded), among the highest in the Spanish sector. The bank presents a level of capitalisation of 593 basis points above regulatory requirements.

The entity has a comfortable liquidity position of 12,270 million euros of liquid assets and covered bond issue capability. Liquid assets cover almost twice the maturity of issuances. The net stable funding ratio NSFR (129%) and the liquidity coverage ratio LCR (196%), meet the regulatory requirements established in Basel III.

Sustainability

The six-month period has brought new impetus to the implementation of social responsibility criteria in the business activity and corporate governance.

The bank has been implementing governance practices required of listed companies. In April, ABANCA launched the market Alpha Responsible, a service of portfolio management for socially responsible mutual funds. The bank also participates in projects of the Proyectos del Plan Nacional Integrado de Energía y Clima, (PNIEC), related to renewable energy, Power Purchase Agreement (PPA), in collaboration with large companies, and in other green projects focused on the renewal of the fishing fleet and improving the energy efficiency of the primary sector. In addition, the bank is renovating its corporate premises and its branch network to make them energetically intelligent and has implemented sustainable and zero-paper policies.