2020 Half-year Results

ABANCA gets €133 million profit, after reinforcing provisions with €163 million

- The bank announced the agreement with Credit Agricole Group for the acquisition of Bankoa, a sound financial entity in the Basque Country specialised in enterprises and asset management.
- The bank registers a 56.1% growth in the pre-provision profit
- Recurrent revenues are still improving (+15.0% basic margin) and remain as profitability pillar
- The NPL ratio stood at 2.7% in the period and places ABANCA as the leader in terms of asset quality
- The coverage ratio of non-performing assets rises up to 66.2%, the highest in the industry, and the Texas ratio stands at 31.6%
- The capital ratio increases up to 16% with €1,110 million excess over regulatory requirements
- The bank increased its business volume beyond €88,600 million, with remarkable growth in loans and deposits
- Support for households and companies to face the economic effects of COVID results into more than €2,200 million granted through ICO loans and almost €1,000 million in moratoriums
- The financial report “Observatorio ABANCA by IESIDE” verifies recovery signs in the economic activity and shows Galicia, the bank’s main market, with strong resilience

03.08.2020 ABANCA obtained in the first six months of 2020 an attributable profit of 133 million euros, in a half-year period marked by the development of measures to respond the economic and social and health effects of covid-19 and by the strengthening of the bank’s financial position to face with guarantees the environment resulting from the crisis.

ABANCA has consolidated its position among the strongest banks in the Spanish financial industry thanks to the excellent quality of its assets (NPL ratio of 2.7%) and high levels of coverage (66.2% coverage of non-performing assets and Texas ratio of 31.6%) The bank also has high levels of capitalisation (total capital of 16% with €1,110 million excess on regulatory requirements), as well as a comfortable liquidity position (96.7% retail LTD ratio and €9,654 million in liquid assets).

Intense financial support for the economic fabric and households has resulted in the granting of state-guaranteed financing transactions for companies, SMEs and the self-employed for an amount
of € 2,224 million, and in the application of financial moratoriums for an amount of € 987 million. In addition, the bank has applied other measures to support the productive fabric and households in financial, economic and welfare spheres.

ABANCA has announced in recent days an agreement with the Crédit Agricole Group for acquiring Bankoa, a new corporate action that continues its growth plan. With this action, ABANCA gets a strong position in the Basque Country, one of the strongest and most dynamic economies in Spain, and reinforces strategic business segments such as enterprises and asset management.

Comprehensive support to society to overcome the effects of the pandemic

In addition to financing granted to the enterprise sector under state-guaranteed financing schemes and the provision of extensive easy payment terms to people in difficulties, the bank has paid special attention to segments with specific needs, by virtue of which it has implemented special measures for commerce (abolition of POS fees during confinement for more than 30,000 establishments), agriculture and livestock (advance of Common Agricultural Policy aids) and the sea and fishing industry (agreements with fishing associations).

As for individuals, ABANCA advanced a total of € 400 million in benefits for 385,000 pensioners and 3,164 in aids for layoff procedures. In the healthcare field, the bank donated 514 healthcare equipment to Galician hospitals, of which more than 150 are intensive care units, and 4 automatic readers for testing. Also, the bank has provided more than 80,000 meals for schoolchild in vulnerable situation.

Quick adaptation to changing financial customer habits

The bank’s digital service capacity has been essential to meet the financial needs of customers in the confinement process and subsequent de-escalation, in a context in which on-line channels and payment methods have emphasized their growing role.

This increase in digital activity is seen in the fact that during the half-year period there has been a significant increase in the use of credit and debit cards, whose number in circulation has grown by 12% year-on-year, and whose volume of basic consumer payments has done so by 46%. In contrast, the volume of cash withdrawals has decreased by 31% year-on-year.

In this context, the use of digital channels has registered a strong increase. Digital transactions have grown 54.7% between June 2019 and June 2020, and represent 62.4% of the total by this date, almost 8 percentage points more than a year ago.

The bank’s service capacity is reflected in the high level of satisfaction shown by users: seven out of ten customers of ABANCA give their mobile banking app a score of almost 10 out of 10.
Galician economy resilience

Thanks to the big data analysis, clear signs of economic recovery have been found at the end of the quarter, with better performance in Galicia, where ABANCA is the leading financial institution with a market share of over 40%, compared to the rest of Spain.

This trend has been reflected in the report “ABANCA by IESIDE Observatory”, launched in collaboration with the Instituto Superior Intercontinental de la Empresa (IESIDE) with the aim of contributing data to society, and especially to its productive fabric (self-employed, professionals, businesses, SMEs, companies, corporations), to support their decisions. Its first reports, compiled from card purchase data made by Galician customers, focused on monitoring the evolution of commercial activity during confinement and subsequent de-escalation.

Acquisition of Bankoa: profitable growth strategy continues

ABANCA has announced in recent days an agreement with the Crédit Agricole Group for the acquisition of Bankoa, a new corporate action that continues its growth plan. With this action, ABANCA multiplies by seven its presence in the Basque Country, reinforces strategic business segments such as enterprises and asset management, and will have growth potential in lines such as working capital, businesses, consumer and insurance. The transaction generates a high value for ABANCA with low execution risk and minimal capital consumption.

The bank has demonstrated a high capacity for execution in the incorporations of the businesses acquired in recent years, obtaining results consistently above what was initially expected.

With a weight of 8.4% of the total result, ABANCA Portugal maintains its important contribution to the group’s business and recovers its dynamism. In June, it shows the recovery of the path of compliance with the objectives established in such relevant lines as investment funds or loans to enterprises.

On the other hand, the incorporation of Banco Caixa Geral has exceeded the expectations initially foreseen both in implementation costs (which stood at 92% of what was initially expected) and in obtaining synergies (40% higher). This corporate action has led to a significant development of the business in Extremadura, a region in which ABANCA has increased its business volume by € 573 million during the half-year period, thus exceeding targets by 10%.

Recurrence and maximum prudence

The profit obtained by the bank in the half-year period highlights ABANCA’s capability to generate profitability, despite the focus on reinforcing provisions. The basic margin grew by 15.0%, with contributions from both intermediation and services, the gross margin increased by 27.4% and the pre-provision profit improved by 56.1%. The attributable profit obtained, of € 133.1 million, represents a 5.7% ROE, despite the aforementioned reinforcement of provisions made during the half-year period.

The main lines of income generation continue to grow solidly: the interest margin grew by 11.2%
year-on-year, while the revenues from services provided registered an increase of 25.9%. In this last aspect, the promotion of services with higher added value for customers is essential, with income from off-balance-sheet resources improving 31.7% year-on-year.

Operating expenses remain practically stable once the effects of incorporations are excluded, while income grows at higher rates (+ 15.0% vs. + 11.4% year-on-year), so ABANCA has managed to improve its efficiency up to place it at 56.2%.

ABANCA has strengthened its loan provisions with € 162.8 million in order to face the foreseeable economic deterioration derived from the current situation, thus placing its cost of risk at 0.68%. These provisions include € 57 million intended to cover the full potential effect of the macroeconomic deterioration in the loan portfolio forecast according to the bank’s expected loss models. This reinforcement of the cost of risk together with the reduction in non-performing loan ratio (which stands at 2.7%) resulting in high levels of provisioning (66.2%).

Business growth

Business volume grew 12.8% driven by the balanced rise both in loans and customer funds, standing at € 88,693 million.

Customer performing loans grew by 15.6% up to € 37,944 million. The portfolio is focused on financing households and companies, which represent 47% and 38% respectively.

The customer funds rose by 11.6% up to € 49,662 million and deposits from customers registered an increase of more than € 5,000 million last year (+15.3%).

During the half-year period the revitalization in the marketing of insurance and off-balance-sheet resources has been maintained.

Once the most adverse moments in the stock markets were overcome, ABANCA managed to increase off-balance sheet customer funds by 4.3% in the second quarter, to € 9,319 million. This good performance in the quarter has allowed ABANCA to gain a new market share, registering year-on-year growth of 17 basis point in investment funds, 11 point in pension plans and 13 point in life-savings insurance.

General insurance and life-risk premiums have grown 6.7% year-on-year. The performance of the new production of protected payment insurance stands out, with a 18% growth, funeral insurance, which increased by 12%, life-risk insurance, which did so by 7%, and car insurance, also by 7%.

Higher quality of Spanish banking assets

ABANCA is the leading financial entity in the Spanish financial industry in terms of asset quality thanks to a further year-on-year decrease of 6.9% in its non-performing balances. The NPL ratio stood at 2.7% in line with the European average and well below the Spanish average.

ABANCA ranks first among the Spanish banks in terms of non-performing assets coverage, with a
total coverage ratio of 64.0%. The NPL ratio stands at 66.2%, while the coverage of foreclosed assets stands at 60.9%.

ABANCA’s sound financial profile confirms it as one of the soundest banks in the Spanish financial industry. Both in NPA ratio, with a 4.5% and Texas ratio, with a 31.6%, ABANCA is among the best banks in Spain.

High liquidity and capitalisation

ABANCA has a comfortable liquidity position based on retail deposits, which would be another of the highlights of its prudence and management policy focused on long-term financial sustainability. Its retail loan to deposits ratio is 96.7% and its wholesale liquidity position is estimated at € 15,084 million including covered bond issuance capacity (€ 5,431 million) and liquid assets (€ 9,654 million), which allows the bank to cover more than triple the expected maturities of issues.

The net stable financing ratio -NSFR- and liquidity coverage ratio -LCR- stand, respectively, at 135% and 258%, levels that demonstrate compliance with the Basel III regulatory requirements.

The bank has also a sound solvency position. By the end of June the highest quality capital ratio, CET1, rose up to 13.0%, with an excess of 496bp (€ 1,489 million) on regulatory requirements. The total capital ratio stood at 16.0%, with an excess of 370bp (€ 1,110 million) on regulatory requirements.