RESULTS 3Q 2019

ABANCA obtains 401.9 million, with a 11.5% profitability

- The sound solvency position is maintained, with a capital ratio of 16.0% and € 1,326 million surplus on CET1 regulatory requirements
- The bank raises its business volume to nearly €85,000 million with the consolidation of Banco Caixa Geral
- The recurring revenues grew by 6.9%, as a result of the good evolution of the business with customers, and ABANCA continues to be one of the most profitable banks in the Spanish Financial System
- ABANCA reduces its NPL ratio to around 3%, and maintains the highest non-performing asset coverage in the sector (59.7%)
- The new insurance production grew 7.4% driven by innovation and technological capabilities
- The bank’s customer base increases to 2.3 million as a result of the improvement in customer experience

29.10.2019 ABANCA has obtained in the first nine months of 2019 a net profit of € 401.9 million. This figure represents a 11.5% ROE, which continues placing ABANCA among the most profitable banks of the Spanish financial sector.

Recurring revenues grow by 6.9% thanks to the good evolution of the business with customers, highlighting the commercial dynamism shown in new loan formalisations with SMEs and freelancers, which grew by 6.8% year-on-year, and in the new insurance production, which increased 7.4%

The bank has managed to attract more than 80,000 new customers so far this year thanks to the improvement of the customer experience, reinforcing the tools for listening and measuring experience at the key moments of the sales process. As a result, ABANCA has improved to stand between the two best Spanish entities in commercial service.

The bank’s balance sheet includes for the first time the consolidation of Banco Caixa Geral and contributes to placing the ABANCA’s business volume at € 84,751 million and its customer base at 2.3 million.

The NPL ratio remains one of the best in the Spanish financial system and stands at 3.1% thanks to the constant recovery of non-performing assets.

The ABANCA’s sound track is endorsed both by the rating improvements granted by the agencies
and by the great demand of its issuances across markets. In October, ABANCA launched its second issuance of Tier2 instruments, which was placed in less than two hours with an over demand of three times its amount.

Profitability
The net interest income reached €424.1 million in the first nine months of the year and, which means an increase of 5.1% year-on-year, as a result of the good evolution of the business with customers.

Within this good evolution, the growth of new loans with SMEs and freelancers (+6.8%), one of the priority groups in the bank’s strategy, stands out. Other specialised segments such as insurance and consumer finance also show significant growth in their production rates (+7.4 and +21.8% respectively).

Revenues from services rendered registered a growth of 12.6%, with special strength of the lines of more value for customers, such as off-balance investment products, which grew 18.0%. Revenues from collection and payment services increased by 11.0% and revenues from banking services by 8.7%.

The bank maintains a high rate of investment in technology focused on enhancing its technological and business capabilities, boosting efficiency by reinforcing recurring revenues along with measures to limit of operating expenses.

The cost of risk (CoR) remains among the best in the sector (0.20% vs 0.31% from the sector), which shows the prudence applied in the risk granting policies.

Business
After the consolidation of Banco Caixa Geral, ABANCA raises its business volume to around the threshold of 85,000 million after growing 22.6% year-on-year. This corporate transaction (in addition to the incorporation of Deutsche Bank PCB Portugal, carried out in the second quarter), makes ABANCA position itself as the seventh Spanish bank by own funds.

The acquisition of Banco Caixa Geral, as well as that of Deutsche Bank PCB Portugal, is a clear example of value business that complements the bank’s strategy as it provides a great potential for generating income in the enterprise business line, in cross-border transactions with Portugal and new regions such as Extremadura, where the bank had less presence, thus reinforcing the Iberian profile of the bank.

The growth is balanced both in credit, which increased 23.5% to € 35,784 million, and in customer funds, which so did it by 22.3% to € 47,939 million. Deducting ABANCA’s business in Portugal and Banco Caixa Geral’s contribution, credit growth stands at 4.5%, while customer funds increased by 4.3%.

Within the loan portfolio, the enterprise segment, which forms, along with private customers, the core of the bank’s business increases its presence.
Customer funds

With regard to customer funds, deposits increase by 16.5% (4.3% without taking into account the business in Portugal and Banco Caixa Geral’s contribution) thanks to the momentum generated by attracting new customers. The bank has managed to attract 80,000 new customers in the year, a figure that must be added another 200,000 from the two incorporations carried out during this year, which results in a total customer base of 2.3 million.

It is worth to mention the increase registered in off-balance sheet customer funds: 51.1% in the last twelve months thanks to the good performance of related products and the aforementioned acquisitions.

Mutual funds are one of the most outstanding items, with positive net subscriptions of € 167 million versus the downward trend (-214 million) shown by the banking sector as a whole. Eight out of ten funds marketed by ABANCA generate a higher than average return compared to its competitors.

The insurance activity, meanwhile, has received a strong boost by ABANCA to strengthen its technological and innovation capabilities. The new production of general insurance grows 18.8% year-on-year, while premiums for life insurance do so by 5.9%.

Risk quality

ABANCA continues to improve the quality of its portfolio and places its NPL ratio at 3.1% taking into account the organic recoveries carried out during the quarter and the sale of non-performing assets portfolio completed in October.

The non-performing balances are reduced by 7.3% in year-on-year terms (23.6% if the movements derived from the business in Portugal and Banco Caixa Geral are isolated) while the coverage ratio stands at very robust levels of 57.8%.

Solvency and liquidity

ABANCA has a liquidity position of € 13,969 million of liquid assets and covered bond issue capability. This figure covers more than double the total maturities of issuances. The NSFR (net stable funding ratio) and the LCR (liquidity coverage ratio) stand at 125% and 189% respectively, fulfilling the regulatory requirements established in Basel III.

Retail deposits, which represent 78% of the bank’s total financing structure, show the ABANCA’s clear retail vocation. The LTD (loans/deposits) ratio stands at 96.8%, indicating the sound financing structure ABANCA is able to provide.

The bank maintains its sound solvency position. The total capital ratio reaches 16% phase-in. The highest quality capital ( CET1) stands at 13.1% phase-in. The bank presents a capital surplus of € 1,326 million above the CET1 regulatory requirements.
The capital position has been reinforced with the recent issuance of € 300 million Tier2 subordinated debt, which was completed on 7th October. This issuance has had a great reception in light of the rapid demand of more than € 1,000 million received in less than 2 hours. With this issuance, ABANCA completes the requirements for eligible instruments such as Tier2 and advances with its planned issuance schedule in order to comply with the MREL requirements set for 2022.

Ratings: the upward trend continues

The good performance of the bank resulted in new positive rating actions in the period.

In July, DBRS raised the ABANCA’s long-term rating one notch, from BBB (low) to BBB, and the short-term rating from R-2 (middle) to R-2 (high), both with a stable outlook, consolidating ABANCA within the investment grade.

In September, Standard and Poor’s improved ABANCA’s valuation by raising the rating outlook from stable to positive. The long-term rating was affirmed in BB+, one notch away from the investment grade, and the short-term rating in B.

ABANCA is the entity that accumulates the highest number of rating improvements, supporting its solid performance in recent years.