Research Update:

Abanca Corporacion Bancaria Outlook Revised To Stable From Negative On Strengthened Capital; 'BB+/B' Ratings Affirmed

February 10, 2021

Overview

- Spain-based Abanca Corporacion Bancaria S.A. (Abanca) recent issuance of €375 million of additional Tier 1 notes (AT1), as well as its likely decision to abandon plans to acquire Banco BIC Portugues S.A. (Eurobic) has strengthened the bank’s capital position.
- While the impact of the pandemic-induced downturn is yet to affect credit quality, we believe Abanca’s strengthened capitalization will help the bank withstand expected deterioration or slower recovery of the economic environment.
- We are thus revising the outlook on Abanca to stable from negative.
- The stable outlook reflects that, over the next 12-18 months, we expect Abanca’s capitalization will sufficiently withstand the expected asset quality erosion and potentially more fragile economic conditions than we currently forecast.

Rating Action

On Feb. 10, 2020, S&P Global Ratings revised the outlook on Spain-based Abanca Corporacion Bancaria S.A. (Abanca) to stable from negative. We affirmed our ‘BB+/B’ long- and short-term issuer credit ratings on the bank.

Rationale

The outlook revision reflects our view that Abanca’s recent €375 million AT1 issuance, as well as its expected decision to abandon plans to acquire Portugal-based Eurobic will strengthen its capitalization, putting it in a better position to withstand any further deterioration in economic conditions. At the same time, we think Abanca’s risk profile is well placed to deal with expected asset quality erosion.

The AT1 issuance, completed in January 2021, caused Abanca’s risk—adjusted capital (RAC) ratio
to increase by about 80 basis points (bps), and fulfills the bank's AT1 regulatory requirements. We estimate the Eurobic acquisition, if it had gone ahead, would have caused the RAC ratio to fall by 90bps. While we believe Abanca's acquisition appetite remains intact, we do not incorporate any potential acquisitions into our forecasts. Thus, we now forecast our RAC ratio will stand about 8.8% by end-2021 compared with our previous expectation of about 7.9%. We think that it could mildly improve to about 9.0% by end-2022 due to modest retained earnings. Therefore, Abanca's capitalization would have a comfortable buffer to absorb a harsher economic shock than we currently envisage. We estimate that increasing economic risks in Spain would cause the RAC ratio to drop by 90bps, leaving it comfortably above 7%, which is in line with the current rating.

Abanca faces the current economic downturn with a healthier risk profile than most of its closest peers, having made good progress in the clean-up of its legacy problematic assets from the previous downturn. As of end-2020, the bank reported nonperforming assets (NPAs) of 3.8% of its gross loans, down 17% from the previous year in absolute terms. While we haven’t yet observed signs of asset quality erosion, we expect to see them throughout this year and into 2022. We estimate that Abanca's NPAs could increase by 2.0–2.5 percentage points. Consequently, we believe credit provisions will remain elevated at 60–45 bps in 2021 and 2022, but at a level that the bank could still cover with pre-provision income.

We expect Abanca's bottom-line profitability will remain modest this year and next, and anticipate modest efficiency improvements. Both factors will thus continue weighting negatively on the ratings. However, we expect Abanca will remain focused on further extracting commercial value from its recent acquisitions, starting to generate insurance revenue through its 50-50 joint venture with Credit Agricole Assurances and continuing with its digital transformation. We anticipate a high cost-to-income ratio of 65%-70%, since a flat yield curve and more moderate lending growth will weigh on net interest income.

**Outlook**

The stable outlook on Abanca indicates that, while we expect some asset quality deterioration and elevated provisions in the next 12–18 months, we think the bank's solid capitalization is sufficient to cope with a harsher economic scenario than we envisage. We also expect Abanca will focus on further extracting commercial value from its various recent acquisitions, while our expectation of an ultra-low interest rate environment and elevated credit losses will pose challenges to Abanca’s underlying profitability and efficiency, which we expect will remain comparatively weaker than those of highly rated peers.

**Downside scenario**

We could lower the ratings if Abanca’s asset quality deteriorates much more than what we expect; if it engages in additional acquisitions that weaken its capitalization, increase its risk profile, or pose managerial challenges; or if it increases its risk appetite in an attempt to build up business more rapidly.

**Upside scenario**

An upgrade is unlikely in the current environment. However, we could consider it in the medium term if Abanca successfully extracts business value from its recent acquisitions, enhancing its efficiency and underlying profitability to levels closer to those of its higher rated domestic peers. At the same time, Abanca would have to demonstrate that the downturn did not significantly
Ratings Score Snapshot

<table>
<thead>
<tr>
<th></th>
<th>BB+/Stable/B</th>
<th>BB+/Negative/B</th>
</tr>
</thead>
<tbody>
<tr>
<td>SACP</td>
<td>bb+</td>
<td>bb+</td>
</tr>
<tr>
<td>Anchor</td>
<td>bbb</td>
<td>bbb</td>
</tr>
</tbody>
</table>

- **Business Position**: Weak (-2) / Weak (-2)
- **Capital & Earnings**: Adequate (0) / Adequate (0)
- **Risk Position**: Adequate (0) / Adequate (0)
- **Funding and Liquidity**: Average and Adequate (0) / Average and Adequate (0)
- **Support**: (0) / (0)
- **ALAC Support**: (0) / (0)
- **GRE Support**: (0) / (0)
- **Group Support**: (0) / (0)
- **Sovereign Support**: (0) / (0)
- **Additional factors**: (0) / (0)

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Abanca Corporacion Bancaria S.A., Sept. 29, 2020
- Abanca Corporacion Bancaria S.A. 'BB+/B' Ratings Affirmed On Announced Bankoa Acquisition; Outlook Remains Negative, Aug. 4, 2020
- Set-Back In Abanca's Acquisition Of Eurobic, June 18, 2020

impair its risk profile or capitalization.
Research Update: Abanca Corporacion Bancaria Outlook Revised To Stable From Negative On Strengthened Capital; 'BB+/B' Ratings Affirmed

- Spain-Based Abanca Outlook Revised To Negative Amid Economic Downturn Linked To COVID-19; Ratings Affirmed; April 27, 2020

- Abanca Corporacion Bancaria Outlook To Stable On Announced Acquisition Of Eurobic S.A.; 'BB+/B' Ratings Affirmed, Feb. 12, 2020

Ratings List

<table>
<thead>
<tr>
<th>Ratings Affirmed; Outlook Action</th>
<th>To</th>
<th>From</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abanca Corporacion Bancaria S.A</td>
<td>BB+/Stable/B</td>
<td>BB+/Negative/B</td>
</tr>
</tbody>
</table>

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.
Research Update: Abanca Corporacion Bancaria Outlook Revised To Stable From Negative On Strengthened Capital; 'BB+/B' Ratings Affirmed

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P’s opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P’s public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR’S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor’s Financial Services LLC.