FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Abanca to 'BBB'; Outlook Stable

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Fitch Ratings - Barcelona - 28 Feb 2025: Fitch Ratings has upgraded ABANCA Corporacion Bancaria, S.A.'s (Abanca) Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BBB-'; its Viability Rating (VR) to 'bbb' from 'bbb-'; and its Short-Term IDR to 'F2' from 'F3'. The Outlook on the Long-Term IDR is Stable. A full list of rating actions is detailed below.

The upgrade mainly reflects structural improvements in Abanca's profitability, asset quality and capitalisation, also aided by our revision of the operating environment in Spain to 'a-'/stable outlook from 'bbb+'/positive outlook. In our view, the integration plan of Banco BIC Portugues, S.A. (EuroBic), acquired in late 2024, is credible and will support the group's performance in 2025-2026.

KEY RATING DRIVERS

Iberian Franchise, Improved Financial Profile: Abanca's ratings reflect its strengthened franchise in Spain and Portugal in recent years, which has supported structural improvements in profitability, while preserving its sound asset quality and adequate capital management. The ratings also factor in a stable deposit franchise and weaker, albeit improving, revenue diversification than peers'.

Good Execution of Integrations: In recent years, Abanca has enhanced its business profile and earnings resilience through organic growth and successfully made opportunistic acquisitions of small banks. The takeover of EuroBic in 2024 enhanced the group's presence in Portugal and should strengthen its Portuguese market share. We expect Abanca to complete the integration in 2025 and start benefiting from synergies in the following two years.

Focus on Business Lending: Abanca has a slightly higher share of loans to SMEs and corporates than domestic peers (41% of gross loans at end-2024), but its moderate risk profile is underpinned by strong underwriting standards resulting in sound asset-quality metrics. Like most of its domestic peers, Abanca has a material debt securities portfolio

at 3.1x of common equity Tier 1 (CET1) at end-2024, mainly comprising Spanish and Italian sovereign bonds. Appropriate hedging is in place to reduce interest-rate risks.

Satisfactory Asset Quality: The bank's impaired loan ratio of 2.6% at end-2024 remains better than the sector average and its coverage improved to close to 80%. We expect this ratio to remain stable, due largely to the sound prospects for Spanish and Portuguese economies, coupled with interest-rate cuts. The bank's acquisitions have not eroded Abanca's asset quality or weakened its overall risk profile, due to the small sizes of the acquired entities, except for EuroBic.

Structural Profitability Turnaround: Abanca's operating profit has structurally improved in recent years and reached 2.4% of risk weighted assets (RWAs) in 2024, aided by business growth, synergies from acquisitions, and higher interest rates. We expect the ratio to slightly decline in 2025 on lower rates, but to remain above 2%, supported by an increase in lending, higher fee income and stable asset quality.

Good Capital Buffers: Abanca's capitalisation is adequate for its business model and risk profile. The bank's CET1 ratio improved to 12.8% in 2024 from 12.4% in 2023, despite its EuroBic acquisition. The improvement was supported by sound earnings and a low dividend pay-out of 25% versus peers'. We expect Abanca to maintain its CET1 ratio above its medium-term target of 13%, as its improved earnings generation will cushion a likely increase in the dividend payout ratio.

Stable Deposits, Good Liquidity Buffers: Funding benefits from a stable and granular deposit base, which fully funds the bank's loan book. Abanca has adequate access to wholesale funding markets but taps them less frequently than some higher-rated domestic peers.

Healthy liquidity buffers should address upcoming maturities and are reflected in its sound regulatory ratios. Access to wholesale markets should benefit from improving prospects for Spanish banks after our recent revision of the Spanish sovereign Outlook to Positive.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The bank has significant rating headroom at its current rating. Negative rating pressure could arise from a consistent deterioration in its impaired loan ratio to above 4% and operating profit falling below 1% of RWAs, resulting in capital pressure.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade would require a more resilient business model manifested in greater revenue diversification without structurally altering Abanca's current conservative risk appetite. An upgrade would also require a durable reduction in the impaired loans ratio towards 2%, coupled with operating profit being maintained above 2.5% RWAs and a CET1 ratio sustained above 13%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Abanca's 'F2' Short-Term IDR is the higher of two options corresponding to a 'BBB' Long-Term IDR on Fitch's rating scale, reflecting our 'bbb+' assessment of Abanca's funding and liquidity profile.

Abanca's senior preferred (SP) debt is rated in line with the bank's Long-Term IDR and reflects our expectation that it will use SP debt to meet its minimum requirement for own funds and eligible liabilities and that the buffer of senior non-preferred (SNP) and more junior debt will not exceed 10% of the bank's RWAs.

Subordinated Tier 2 debt is rated two notches below the VR for loss severity, reflecting poor recoveries arising from its subordinated status.

Additional Tier 1 (AT1) debt is rated four notches below Abanca's VR, which is the baseline notching for this type of debt under Fitch's criteria. This notching reflects loss severity, due to the notes' deep subordination (two notches) as well as incremental non-performance risk relative to the VR (two notches), given fully discretionary coupon payments and a write-down trigger.

Government Support Rating (GSR)

Abanca's GSR of 'no support' (ns) reflects Fitch's belief that senior creditors cannot rely on full extraordinary support from the sovereign if Abanca becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors to participate in losses ahead of a bank receiving sovereign support.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

Short-Term IDR

Abanca's Short-Term IDR is primarily sensitive to changes in the bank's Long-Term IDR and its funding and liquidity score.

SP Debt

The SP debt rating is primarily sensitive to a change in the bank's Long-Term IDR. The rating is also sensitive to a change in the bank's strategy to meet its resolution buffer requirements. Although currently not expected, the rating could be upgraded by one notch if we expect the combined buffer of SNP and more junior debt to exceed 10% of RWAs on a sustained basis or if the bank meets its resolution requirements only with SNP debt and more junior instruments.

Subordinated Debt

Subordinated Tier 2 and AT1 debt ratings are primarily sensitive to a change in Abanca's VR. The ratings of AT1 debt could also be downgraded if non-performance risk increases relative to the risk captured in the bank's VR. This could reflect, for example, a material erosion of capital buffers over coupon omission triggers.

GSR

An upgrade of the GSR would be contingent on a positive change in the sovereign's propensity to support its banks. Although not impossible, this is highly unlikely, in Fitch's view.

VR ADJUSTMENTS

The operating environment score of 'a-' is below the implied category score of 'aa' due to the following adjustment reason: sovereign rating (negative).

The funding and liquidity score of 'bbb+' is below the implied category score of 'a' due to the following adjustment reason: non-deposit funding (negative).

Sources of Information

The principal sources of information used in the analysis are described in the Applicable Criteria.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
ABANCA Corporacion Bancaria, S.A.	LT IDR	BBB	Upgrade	BBB-
	ST IDR	F2	Upgrade	F3
	Viability	bbb	Upgrade	bbb-
	Government Support	ns	Affirmed	ns
subordinated	LT	BB+	Upgrade	BB
junior subordinated	LT	BB-	Upgrade	B+
Senior preferred	LT	BBB	Upgrade	BBB-

PREVIOUS Page 1 of 1 10 rows NEXT

VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

ABANCA Corporacion Bancaria, S.A.	EU Issued, UK Endorsed

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