MORNINGSTAR | DBRS

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Morningstar DBRS Upgrades Abanca's Long-Term Issuer Rating to A (low), Trend Changed to Stable

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) upgraded the Long-Term Issuer Rating of Abanca Corporación Bancaria S.A. (Abanca or the Bank) to A (low) from BBB (high), the Long-Term Senior Debt and Long-Term Deposits to A (low) from BBB (high), and the Subordinated Debt to BBB from BBB (low). The trends on all long-term credit ratings have been changed to Stable from Positive. Morningstar DBRS also confirmed all short-term credit ratings on Abanca at R-1 (low). All short-term credit ratings have Stable trends. The Bank's Intrinsic Assessment is A (low), and the Support Assessment is SA3. See the full list of credit ratings in the table at the end of this press release.

KEY CREDIT RATING CONSIDERATIONS

The upgrades of Abanca's Long-Term credit ratings reflect the Bank's enhanced and resilient profitability over recent years. The upgrades also incorporate Morningstar DBRS' expectation that the Bank will continue to report solid levels of profitability in a declining, albeit higher than pre-2022, interest rate environment, supported by solid economic performance in Spain and Portugal. In addition, Morningstar DBRS views Abanca's profitability supported by a higher business perimeter, a lean cost structure with remaining synergies to be materialized, and a low cost of risk going forward. The upgrades also consider the Bank's acquisition of Banco BIC Português, S.A. (EuroBic) in July 2024, which has increased its business volume in Portugal to 17% at the end of 2024 from 5% at the end of 2023.

In addition, Abanca's credit ratings also consider its solid risk profile underpinned by its diversified loan book, and strong asset quality metrics, supported by robust coverage ratios, despite the increase in nonperforming loans (NPLs) because of EuroBic's acquisition. Finally, the credit ratings also incorporate the Bank's solid capital position, with an ample cushion over total minimum regulatory requirements, and its improved funding and liquidity profile over the recent years underpinned by a large and growing customer deposit base and an adequate wholesale funding mix.

Morningstar DBRS is mindful of geopolitical risks and heightened uncertainty from U.S. policy changes, particularly tariffs, which could affect the operating environment for banks. Nevertheless, Morningstar DBRS sees limited consequences to Abanca's credit ratings due to potential U.S. policy changes, as growth prospects in Spain and Portugal remain strong and supported by domestic demand.
The Bank's Intrinsic Assessment of A (low) has been assigned at the lower end of the Intrinsic Assessment Range. This mostly reflects the Bank's short track record of solid recurrent profitability when compared with those of higher-rated peers.

CREDIT RATING DRIVERS

Given the recent credit ratings action, an upgrade is unlikely in the short-term. Over the medium-term, an upgrade of the credit ratings would require a sustained record of solid and recurrent profitability, together with further improvements in its gross asset quality metrics while maintaining robust capital levels.

Conversely, Morningstar DBRS would downgrade Abanca's credit ratings in the event of a prolonged and material deterioration in

profitability, risk profile, and/or capital position.

CREDIT RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Good/Moderate

Abanca is a medium-size regional Spanish retail bank that had EUR 84 billion of total assets at the end of 2024. It provides retail banking services to individuals, small and medium-size enterprises, and corporates. It is mainly concentrated in Galicia, where it has a leading franchise with robust market share of 34% for loans and 46% for deposits. However, nationwide, the Bank's market share is more modest at 3.3% for loans and 3.4% for deposits. Abanca is also present in Portugal, where it has a small but growing franchise, which has recently been reinforced after the acquisition of EuroBic in July 2024. Technological integration of EuroBic is expected to be completed in Q4 2025. The Bank has a market share for loans and deposits in Portugal of 3.8%.

Earnings Combined Building Block (BB) Assessment: Good/Moderate

Abanca reported a net profit of EUR 1.2 billion in FY2024, up 69.1% year over year (YOY) largely driven by the consolidation of EuroBic in July 2024. Nevertheless, excluding EuroBic's impact, Abanca's net results increased by 13.5% YOY on the back of continuous positive momentum in core revenues, lower regulatory levies, and well-contained cost of risk. We calculated the Bank's return on equity to be 22.0% in 2024 and 16.5%, excluding negative goodwill and results from discontinuous operations. Net interest income grew 32.9% YOY in FY2024 driven by the larger business footprint after the acquisition of EuroBic, but also on the back of credit growth, higher Treasury volumes, and an active net interest margin management. Total operating costs, excluding one-offs and EuroBic, increased by 12.0% YOY, largely driven by the larger business perimeter and employees' wage inflation. Despite this, the Bank reported a solid efficiency ratio of 49%. Loan loss provisions increased by 34.1% YOY mainly driven by the larger loan book. Nevertheless, net cost of risk remained low at 18 basis points (bps) in FY2024.

Risk Combined Building Block (BB) Assessment: Strong/Good

Abanca's risk profile is strong, underpinned by its diversified loan book and solid provisioning level. Abanca's nonperforming loans (NPLs) grew 15% YOY at the end of 2024 because of the consolidation of EuroBic. However, when EuroBic is excluded, NPLs decline by 1.6% in the period. Despite this, the Bank's total NPL ratio remained controlled at 2.5% at YE2024. In addition, Abanca's NPLs are strongly provisioned, which led to a net NPL ratio of 0.6% at YE2024. Abanca also holds a portfolio of legacy foreclosed assets with a net exposure of approximately EUR 153 million at the end of 2024. As a result, Abanca's net nonperforming asset ratio was 0.9% at the end of 2024.

Funding and Liquidity Combined Building Block (BB) Assessment: Strong/Good

Abanca's funding and liquidity position is robust, supported by its large, growing, and resilient customer deposit base, its adequate wholesale funding as well as its strong liquidity position. Customer deposits are Abanca's largest source of funding, accounting for 91% of total nonequity funding at the end of 2024 followed by issued debt. The Bank's customer deposits kept growing in 2024 (17.0% YOY), partly helped by the acquisition of EuroBic, which resulted in a net loan-to-deposit ratio (as calculated by Morningstar DBRS and excluding repos and retail covered bonds) of 79% at the end of 2024. Abanca reported a very strong liquidity coverage ratio of 239% and a net stable funding of 147% at the end of 2024.

Capitalisation Combined Building Block (BB) Assessment: Good/Moderate

Abanca's capitalisation is solid despite the capital consumption resulting from the Bank's recent acquisitions, supported by its improved capacity to generate capital through retained earnings, and its ample capital buffer over minimum regulatory requirements, especially when considering the Bank's very high risk-weighted assets (RWA) density when compared with European peers. However, Morningstar DBRS also views the Bank's shareholder's structure somewhat limits Abanca's flexibility to raise equity in the capital markets during an unlikely stress scenario. Abanca reported a CET1 ratio of 12.8% at the end of 2024, 20 bps higher than at the end of 2023, driven by internal earnings generation despite the increase in RWAs due to business growth. The Bank's capital buffer over minimum regulatory requirements remained very strong at 458 bps. Abanca reported a total Minimum Requirement for Own Funds and Eligible Liabilities (MREL) ratio of 22.2% of its RWAs at the end of 2024, above its minimum

requirement for 2025 of 21.5% of its RWAs.

Further details on the Scorecard Indicators and Building Block Assessments can be found at https://dbrs.morningstar.com/research/447722/.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS
There were no Environmental, Social, or Governance factors that had a significant or relevant effect on the credit analysis.
A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (13 August 2024), https://dbrs.morningstar.com/research/437781.

Notes:
All figures are in euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (4 June 2024), https://dbrs.morningstar.com/research/433881. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (13 August 2024) https://dbrs.morningstar.com/research/437781) in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: https://www.dbrsmorningstar.com/about/methodologies.

The sources of information used for these credit ratings include Morningstar Inc. and company documents, Abanca's 2024 and 2023 quarterly reports and presentations, Abanca's annual reports (2018-23), Abanca's semiannual reports (H1 2023 and H1 2024), and European Banking Authority and European Central Bank data. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' outlooks and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://registers.esma.europa.eu/cerep-publication. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see https://data.fca.org.uk/#/ceres/craStats.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: https://dbrs.morningstar.com/research/447723/.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

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For more information on this credit or on this industry, visit https://dbrs.morningstar.com.

Ratings

Abanca Corporación Bancaria S.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
11-Feb-25	Long-Term Issuer Rating	Trend Change	BBB (high)	Stb	EU U
11-Feb-25	Long-Term Issuer Rating	Upgraded	A (low)	Stb	EU U
11-Feb-25	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	EU U
11-Feb-25	Long-Term Senior Debt	Upgraded	A (low)	Stb	EU U
11-Feb-25	Long-Term Senior Debt	Trend Change	BBB (high)	Stb	EU U
11-Feb-25	Short-Term Debt	Confirmed	R-1 (low)	Stb	EU U
11-Feb-25	Short-Term Deposits	Confirmed	R-1 (low)	Stb	EU U
11-Feb-25	Subordinated Debt	Upgraded	BBB	Stb	EU U
11-Feb-25	Subordinated Debt	Trend Change	BBB (low)	Stb	EU U
11-Feb-25	Long-Term Deposits	Trend Change	BBB (high)	Stb	EU U
11-Feb-25	Long-Term Deposits	Upgraded	A (low)	Stb	EU U

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