Creditreform Bank Rating
CaixaBank S.A. (Group)

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Rating object	Rating information		
CaixaBank S.A. (Group)	**Long Term Issuer Rating / Outlook:** **BBB / Stable**		**Short Term:** **L3**
Creditreform ID: 175316 Incorporation: 1904 (Main-) Industry: Banks Management: Gonzalo Gortázar Rotaeche (CEO) Javier Pano Riera (CFO)	**Rating of Bank Capital and Unsecured Debt Instruments:**		
	Senior Unsecured **BBB-**	Tier 2 **BB-**	Additional Tier 1 **B+**
	Rating Date: **23 May 2018** Monitoring until: withdrawal of the rating Rating Type: **unsolicited** Rating Methodology: bank ratings; rating of bank capital and unsecured debt instruments		

Contents

Analysts

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SWOT-Analysis

Strengths

- \+ One of the leading lenders in Spain
- \+ Stable profitability in the past years
- \+ Adequate earnings figures
- \+ Sufficient liquidity
- \+ Diversified business activities in Spain

Weaknesses

- \- Low quality of assets
- \- Relatively high stock of NPL
- \- Low capitalization in comparison to the peer group
- \- Moderate growth opportunities in its core market Spain
- \- Moderate geographical diversification

Opportunities / Threats

- \+ Advanced mobile and digital activities
- \+ Improving asset quality as a result of its current strategic plan
- +/- Acquisition of Banco Português de Investimento
- \- Business is highly dependent on the economy of the core market in Spain
- \- Large amount of Spanish government debt securities
- \- Uncertainty regarding the bank’s operations in Catalonia as a result of Catalonia’s independence ambitions
- \- Increasing banking regulation leads to rising costs and low-interest rate policy of the ECB puts pressure on profitability

Company Overview

CaixaBank S.A. (hereafter: CaixaBank or CB) is a banking group created through the transformation of Criteria CaixaCorp S.A. in 2011, whereby Criteria Caixa became the controlling shareholder of CaixaBank and the parent of the Group. In 2016, Criteria Caixa agreed with the supervising authorities to lose its status as the controlling shareholder and that CaixaBank becomes the parent of the banking group before year-end 2017. In September 2017, the European Central Bank recognized the deconsolidation of Caixa-Bank from Criteria Caixa as the group complied with the requirements of the ECB (see chart 2 for CaixaBank's Group structure). The most relevant fully-owned subsidiarity of CB is the VidaCaixa Group, which carries out the Group's activities in the life insurance and pension plan businesses. Moreover, CB exhibits an interest of 12.24% of the Spanish bad bank Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria S.A. (SAREB).

CB relocated its headquarters from Barcelona to Valencia in October 2017 as a result of the independence ambitions of Catalonia. The Group is recognized as an "other systemically important institution" (O-SII) and must therefore comply with additional regulatory requirements. With 36.972 employees and 5,379 branches (full-time workforce, end-of-year 2017) the Group served approximately 15.7 million customers and had total assets of €383 billion in 2017.

CaixaBank acts as a universal bank with activities in the insurance business and is primarily active in Spain (with 4,874 branches) and in Portugal; however, the Group has 4 international offices (Warsaw, London, Frankfurt and three in Morocco) as well as 17 other representative offices worldwide. Moreover, the Group has an international network with banks across the globe in order to support its international business needs. CB is divided into four business lines: *Banking and insurance business*, *Non-core real estate activity*, *Investments* and *Banco Português de Investimento* (hereafter: BPI), which includes the business of CaixaBank's acquisition of BPI in February 2017, at which time the Group began fully consolidating the interest held. The following shows the contributions of each business line to CB's gross operating income (€8.2 billion) in 2017:

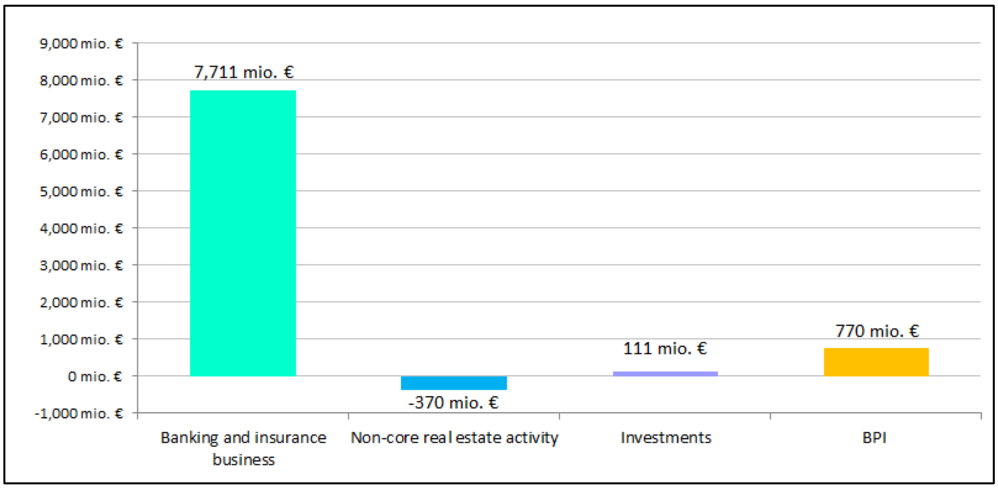

Chart 1: CaixaBank's operating gross operating income by its business lines (Source: Own presentation based on date of annual report 2017 of CaixaBank)

In February 2017, CaixaBank took control over BPI by increasing its stack of shares of BPI from 45.5% to 84.5% for a payment of €645 million. Since February 2017, the Group's total interest in BPI has been fully consolidated. BPI is a financial group focusing on retail and commercial banking in Portugal (customer base of around 2 million people), where it is the fifth largest financial institution in terms of assets (€29.6 million). Moreover, on 8 May 2018 CB announced that the bank had acquired an additional stake of 8.4% of BPI and that the bank will propose de-listing the remaining shares of BPI to raise its stake to 100%.

The main structure of CaixaBank and its investments can be found in the following chart:

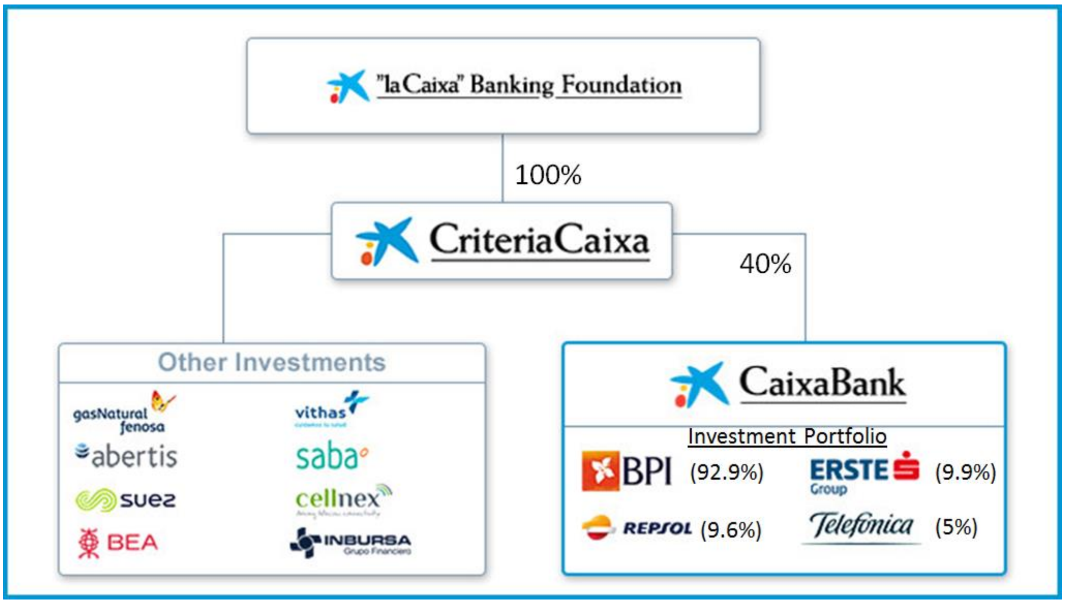

Chart 2: CaixaBank's Group structure.
(Source: Website of CaixaBank)

CaixaBank is currently pursuing its "Strategic Plan 2015-2018". According to the plan, CaixaBank intends to focus on its clients through its quality of service, sustain its profitability, enhance its leadership in banking digitalization, attract the top talent, and optimize its capital allocation by reducing its stack of non-performing assets.

Business Development

Profitability

CaixaBank's operating income amounted to €8.1 billion in 2017, increasing by 7.6% in a year-over-year comparison (€574 million). Net interest income contributed 58.4% to CB's operating income, increasing by 14.2% compared to the previous year (€589 million). However, the acquisition of BPI accounted for 9.1% of the growth in CB's net interest income. The remaining increase in net interest income is due to cost savings, in particular the reduction of interest expenses, mainly in the area of interests' payments for customer deposits. Net fee and commission income accounted for 30.8% of operating income, increasing by 19.5% (€408 million) YOY – with 13.2% of this growth attributable to the acquisition of BPI. The remaining increase in this position of 6.3% is a result of the increase in assets under management and correspondingly rising fee income, as well as increased fees on insurance sales. Net insurance income contributed 5.8% to the operating income of CB, increasing by 51.9% YOY (€161 million) as a result of intensive commercial activity and the termination of a reinsurance contract of VidaCaixa. The reduction in net trading income by 58.6% (€401 million) is due to lower gains on fixed-income assets, according to CB. By contrast, equity-accounted results remained largely unchanged YOY and consist of profit from the period of CB's Investments in joint ventures and associates such as BPI and Repsol, as well as Erste Group Bank AG.
The position of other noninterest income is, as in the previous years, negative at €726 million and consists among others of contributions to the *Deposit Guarantee Fund/Single Resolution Fund* (2017: €308 million; 2016: €263 million), operating expenses from investment properties (including expenses related to leased investment properties), and changes in inventories and other expenses of non-financial activities.

Operating expenses amounted to €4.6 billion in 2017, increasing by 3% in a year-over-year comparison (€138 million). Personnel expenses accounted for 62.2% of operating expenses, increasing by 9.4% YOY (€247 million), and are the main driver of CB's increase in operating expenses. The increase in this position is mainly driven by the acquisition of BPI. By contrast, other provisions declined by €334 million YOY, and consist primarily of provisions for pending legal issues and tax litigations as well as provisions for commitments and guarantees given – which cause the volatility in this position.

CB's pre-impairment operating profit amounted to €3.5 billion in the fiscal year 2017. Asset write-downs amounted to 1.3 billion in 2017 and consisted mainly of impairments on loans and receivables, primarily from previously released provisions, which increased YOY by €366 million. The volatility in this position over the past years is due to CB's adjustment of its internal models. After deduction of taxes and non-recurring events (revenues in relation with the acquisition of BPI; expenses in relation with early retirements and write-downs on exposure to the SAREB [bad bank of Spanish government]), the operating net profit increased by 63% (€663 million) to an amount of €1.7 billion in 2017.

Considering CB's first quarter results 2018, CaixaBank records a stable growth in its main sources of operating income (net interest income, net fee & commission income as well as insurance and trading income) in comparison to the first quarter 2017. In addition, the growth of operating income is more profound in comparison to the operating expenses in the first quarter 2018.

A detailed group income statement for the years 2014 - 2017 is shown in Figure 1 below:

Income Statement	2014	%	2015	%	2016	%	2017	%
Income (€000)								
Net Interest Income	4,154,566	61.4%	4,352,650	55.5%	4,156,856	55.0%	4,745,533	58.4%
Net Fee & Commission Income	1,825,160	27.0%	2,114,775	27.0%	2,090,253	27.7%	2,498,669	30.8%
Net Insurance Income	148,736	2.2%	214,496	2.7%	310,501	4.1%	471,625	5.8%
Net Trading Income	639,586	9.5%	863,728	11.0%	684,067	9.1%	282,843	3.5%
Equity Accounted Results	305,705	4.5%	375,135	4.8%	628,518	8.3%	623,153	7.7%
Dividends from Equity Instruments	185,374	2.7%	202,719	2.6%	198,618	2.6%	127,232	1.6%
Rental Revenue	NA	0.0%	59,182	0.8%	106,630	1.4%	102,960	1.3%
Lease and Rental Revenue	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Other Noninterest Income	-497,642	-7.4%	-341,192	-4.4%	-624,372	-8.3%	-726,857	-8.9%
Operating Income	**6,761,485**	**100%**	**7,841,493**	**100%**	**7,551,071**	**100%**	**8,125,158**	**100%**
Expenses (€000)								
Depreciation and Amortisation	349,811	8.4%	363,923	8.1%	370,202	8.3%	426,929	9.2%
Personnel Expense	2,577,893	62.0%	2,988,805	66.6%	2,624,349	58.6%	2,871,413	62.2%
Occupancy & Equipment	225,324	5.4%	276,403	6.2%	247,960	5.5%	291,512	6.3%
Tech & Communications Expense	232,781	5.6%	301,940	6.7%	301,010	6.7%	358,214	7.8%
Marketing and Promotion Expense	106,123	2.6%	116,406	2.6%	133,954	3.0%	142,541	3.1%
Other Provisions	384,874	9.3%	422,315	9.4%	486,532	10.9%	152,648	3.3%
Other Expense	281,321	6.8%	15,238	0.3%	317,140	7.1%	376,599	8.2%
Operating Expense	**4,158,127**	**100%**	**4,485,030**	**100%**	**4,481,147**	**100%**	**4,619,856**	**100%**
Operating Profit & Impairment (€000)								
Pre-impairment Operating Profit	**2,603,358**		**3,356,463**		**3,069,924**		**3,505,302**	
Asset Writedowns	2,401,185		2,713,542		986,861		1,288,874	
Net Income (€000)								
Nonrecurring Revenue	0		602,183		231,999		600,555	
Nonrecurring Expense	0		607,000		777,000		719,000	
Pre-tax Profit	**202,173**		**638,104**		**1,538,062**		**2,097,983**	
Income Tax Expense	-417,752	-206.6%	-180,758	-28.3%	482,183	31.4%	377,628	18.0%
Discontinued Operations	0		-2,360		-944		-1,727	
Net Profit	**619,925**		**816,502**		**1,054,935**		**1,718,628**	

Figure 1: Group income statement
(Source: S&P Global Market Intelligence)

Due to CaixaBank's increased net profit in 2017, all of its earnings figures improved in comparison to the previous year. However, CB is still slightly behind its peers on average. The values for ROAA, ROAE and RORWA improved significantly in a year-over-year comparison. However, the peer group was also able to improve its values on average. Thus, CB's values are still slightly less favorable than the average of the peer group. By contrast, CB was able to improve its net interest margin more dramatically than the peer group, and is now in line with the average of its peers. In addition, CB's cost income ratios are remarkable, and the best performers in the area of earnings figures in comparison to its peers. While its cost income ratio is just slightly above the average of the peer group, the cost income ratio ex. trading is clearly better than the ones of the competitors.

The development of the key earnings figures for the years 2014 - 2017 is detailed as follows:

Income Ratios (%)	2014	%	2015	%	2016	%	2017	%
Return on Average Assets (ROAA)	0.19	0.10	0.24	0.05	0.31	0.07	0.46	0.15
Return on Equity (ROAE)	2.52	1.22	3.17	0.65	4.44	1.27	7.00	2.56
RoRWA	0.44	0.23	0.55	0.12	0.77	0.21	1.15	0.39
Net Interest Margin	1.41	0.14	1.44	0.03	1.36	-0.08	1.41	0.05
Cost income Ratio ex. Trading	67.92	-5.11	64.28	-3.65	65.26	0.98	58.91	-6.35
Cost income Ratio	61.50	-3.62	57.20	-4.30	59.34	2.15	56.86	-2.49
Change in %-Points								

Figure 2: Group key earnings figures
(Source: S&P Global Market Intelligence)

Asset Situation and Asset Quality

CaixaBank's financial assets accounted for 90% of total assets in 2017, increasing by 11% (€34.5 billion) mainly as a result of the acquisition of BPI. Net loans to customers represent the largest share of assets, accounting for 56.5% and increasing by 8% YOY (€16 billion). The increase, however, is driven by the aforementioned acquisition. Net off the acquisition, CB would record a small decline in its net loans to customers. In general, CB's lending portfolio consists primarily of loans to individuals for home purchases (€94 billion) and loans to companies (€83 billion). Total securities, as the second largest asset, represent 26.8% of CB's total assets and increased significantly by 11.8% YOY (€10.8 billion). The increase in this position is a result of various smaller movements in CB's balance sheet; among others, the most noteworthy are the increase in CB's Spanish government debt securities (2017: €54.5 billion; 2016: €52.9 billion) as well as the increase in foreign government debt securities (2017: €8.7 billion; 2016: €3.3 billion). In addition, CB increased its cash balances at central banks YOY by €6.1 billion, while the net loans to banks remained roughly unchanged.

The balance sheet item of equity accounted investments largely comprises CB's investments portfolio as shown in Chart 2. Moreover, the drop in this position from the year 2015 is due to a swap of stakes in Grupo Financiero Inbursa and The Bank of East Asia of CB with Criteria Caixa.

The group's total assets amounted to €383 billion in 2017, increasing by 10% YOY (€35.3 billion).

The development of CaixaBank's assets for the years 2014 - 2017 is shown in detail in the following:

Assets (€000)	2014	%	2015	%	2016	%	2017	%
Cash and Balances with Central Banks	4,156,781	1.2%	6,615,172	1.9%	13,259,957	3.8%	20,155,318	5.3%
Net Loans to Banks	4,377,197	1.3%	6,649,545	1.9%	6,741,354	1.9%	7,479,334	2.0%
Net Loans to Customers	188,761,864	55.7%	202,896,200	58.9%	200,338,444	57.6%	216,317,861	56.5%
Total Securities	101,790,009	30.1%	86,763,769	25.2%	91,976,408	26.4%	102,819,117	26.8%
Financial Assets	**299,085,851**	**88%**	**302,924,686**	**88%**	**312,316,163**	**90%**	**346,771,630**	**90%**
Equity Accounted Investments	9,266,397	2.7%	9,673,694	2.8%	6,420,710	1.8%	6,224,425	1.6%
Other Investments	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Insurance Assets	451,652	0.1%	391,225	0.1%	344,144	0.1%	275,495	0.1%
Noncurrent Assets HFS & Discontinued Ops	8,294,130	2.4%	9,060,608	2.6%	7,373,063	2.1%	6,909,250	1.8%
Tangible and Intangible Assets	10,038,982	3.0%	9,964,907	2.9%	10,124,260	2.9%	10,285,417	2.7%
Tax Assets	10,097,557	3.0%	11,123,143	3.2%	10,521,402	3.0%	11,054,984	2.9%
Total Other Assets	1,388,880	0.4%	1,117,212	0.3%	827,520	0.2%	1,664,962	0.4%
Total Assets	**338,623,449**	**100%**	**344,255,475**	**100%**	**347,927,262**	**100%**	**383,186,163**	**100%**

Figure 3: Development of assets
(Source: S&P Global Market Intelligence)

CaixaBank's asset quality improved significantly in comparison to the previous year; however, the bank's asset quality is still clearly below the average of the peer group.

The NPL ratio of 6.61%, as well as the NPL / RWA ratio of 9.6% are - despite their improvements YOY - still significantly less favorable in comparison to the peer group. CB is still struggling with legacy issues from their non-performing loan portfolio. Nevertheless, CB records a continuous decline of its NPL stock since 2013 and is still ambitious about reducing its NPL ratio in the upcoming years. Considering the reserves / impaired loans ratio, CB records an increase in this ratio while the peer group registers a decline on average. Nonetheless, the peer group shows a more prudent approach in this respect. CB's net write-offs / risk-adjusted assets ratio improved over the previous years; however, the peer group is still better on average. By contrast, the RWA ratio of CB is in line with its competitors. Considering the improvements in the bank's assets quality over the previous years, CB should be able to catch up to its competitors in the upcoming future; therefore, CB should continue with its strategic development.

Nonetheless, CaixaBank's asset quality figures are the least favorable performers in any of the areas analyzed.

The development of asset quality figures in the years 2014 - 2017 is detailed as follows:

Asset-Quality (%)	2014	%	2015	%	2016	%	2017	%
Non Performing Loans (NPL) / Loans	10.43	-2.18	8.18	-2.24	7.36	-0.82	6.61	-0.75
NPL / RWA	14.09	-5.26	11.59	-2.50	10.94	-0.65	9.60	-1.34
Potential Problem Loans / NPL	10.67	-2.86	9.29	-1.38	NA	NA	NA	NA
Reserves / Impaired Loans	53.82	-6.17	55.23	1.40	46.61	-8.62	49.40	2.80
Net Write-offs / Risk-adjusted Assets	3.08	0.33	2.04	-1.04	1.35	-0.69	0.80	-0.55
Risk-weighted Assets/ Assets	41.26	3.33	41.63	0.37	38.76	-2.87	38.87	0.11
Change in %-Points								

Figure 4: Development of asset quality (Source: S&P Global Market Intelligence)

Refinancing and Capital Quality

CaixaBank's financial liabilities accounted for 84% of total liabilities in 2017, increasing by 10.7% YOY (€29.2 billion). Total deposits from customers represent the largest share of the Group's liabilities with 59.1%, increasing by 10.9% YOY (€20.9 billion). The increase is mainly attributable to the aforementioned acquisition and consolidation of BPI (€19.65 billion). Total deposits from banks correspond to 12% of CB's liabilities, increasing by 18.9% YOY (€6.8 billion), mainly due to CB's increased amount of repurchase agreements (+€3.2 billion) as well as due to BPI's contribution of €1.8 billion in deposits from credit institutions. Total debt, accounting for only 8.3% of CB's liabilities, increased by 8% YOY (€2.2 billion) and consists of senior debt (€24.8 billion, thereof: €17.5 billion of mortgage covered bonds) and subordinated debt (€5 billion). Derivative liabilities, accounting for 2.8% of CB's liabilities, decreased by 16% YOY (€1.9 billion), mainly as a result of a reduced amount of interest rate swaps.

CB's insurance liabilities are related to its fully-owned subsidiary VidaCaixa, and the balance sheet item includes mainly mathematical provisions (98.8 %) relating to the life insurance business.

The development of refinancing and capitalization in the years 2014 - 2017 is detailed as follows:

Liabilities (€000)	2014	%	2015	%	2016	%	2017	%
Total Deposits from Banks	25,918,931	8.3%	34,262,452	10.7%	36,345,140	11.2%	43,196,050	12.0%
Total Deposits from Customers	181,642,841	58.0%	186,469,781	58.4%	190,930,684	58.9%	211,849,059	59.1%
Total Debt	37,316,294	11.9%	32,336,159	10.1%	27,708,015	8.5%	29,918,503	8.3%
Derivative Liabilities	14,224,455	4.5%	12,467,975	3.9%	12,004,957	3.7%	10,063,472	2.8%
Securities Sold, not yet Purchased	1,869,466	0.6%	2,701,683	0.8%	897,739	0.3%	744,292	0.2%
Other Financial Liabilities	4,102,981	1.3%	2,789,945	0.9%	2,873,432	0.9%	4,174,857	1.2%
Total Financial Liabilities	**265,074,968**	**85%**	**271,027,995**	**85%**	**270,759,967**	**83%**	**299,946,233**	**84%**
Insurance Liabilities	40,434,093	12.9%	40,290,523	12.6%	45,803,579	14.1%	49,750,389	13.9%
Non-Current Liab. HFS & Discontinued Ops	0	0.0%	79,059	0.0%	86,039	0.0%	82,141	0.0%
Unit-Linked Insurance and Investment Contr.	NA	0.0%	NA	0.0%	NA	0.0%	NA	0.0%
Tax Liabilities	1,671,832	0.5%	1,555,970	0.5%	1,186,209	0.4%	1,388,070	0.4%
Noncurrent Asset Retirement Obligations	2,964,457	0.9%	2,858,645	0.9%	3,001,379	0.9%	3,330,853	0.9%
Other Provisions	1,406,050	0.4%	1,739,095	0.5%	1,728,892	0.5%	1,670,088	0.5%
Total Other Liabilities	1,839,481	0.6%	1,499,638	0.5%	1,805,635	0.6%	2,335,108	0.7%
Total Liabilities	**313,390,881**	**92.5%**	**319,050,925**	**92.7%**	**324,371,700**	**93.2%**	**358,502,882**	**93.6%**
Total Equity	**25,232,568**	**7.5%**	**25,204,550**	**7.3%**	**23,555,562**	**6.8%**	**24,683,281**	**6.4%**
Total Passiva	**338,623,449**	**100%**	**344,255,475**	**100%**	**347,927,262**	**100%**	**383,186,163**	**100%**
Deposits from Customers Growth*	2.96	NA	2.66	-0.31	2.39	-0.27	10.96	8.56
Change in %-Points								

Figure 5: Development of refinancing and capital adequacy
(Source: S&P Global Market Intelligence)

CaixaBank’s regulatory capital ratios declined mostly in comparison to the previous year and are clearly below the average of its competitors. In the same period, the peer group was able to improve its ratios.

CaixaBank’s drop in the CET1 ratio by 46 basis points is mainly due to the integration of BPI, which had an impact of -115 basis points on this ratio, according to CB. Due to this development, CB is not able to keep up with the peer group. The same development applies to the bank’s Tier 1 ratio. However, CaixaBank issued €1,000 million of eligible *Additional Tier 1* in 2017.
Only the total capital ratio remained stable YOY; the peer group, however, improved in this ratio in the same period. However, CB made three new issuances of subordinated debt for a total amount of €2.15 billion, and redeemed one issuance with a nominal amount of €1.302 billion in 2017. Regarding the leverage ratio of 5.3%, CB saw a small decline, while the peer group was able to improve its ratio on average. As a result of this development, CB’s leverage ratio is now in line with the average of the peer group. In 2017, CB complied with all regulatory capital ratios. The growth of CB’s RWA in 2017 is primarily due to the acquisition of BPI in 2017.

The development of capital ratios for 2014 - 2017 is detailed as follows:

Capital (€000)	2014	%	2015	%	2016	%	2017	%
Total Capital	22,450,071	19.71	22,827,495	1.68	21,791,875	-4.54	24,047,214	10.35
Total Risk-weighted Assets	139,729,074	8.23	143,311,652	2.56	134,863,962	-5.89	148,940,259	10.44
Capital Ratios (%)								
Core Tier 1 Ratio	12.95	0.02	12.90	-0.05	13.19	0.29	12.73	-0.46
Tier 1 Ratio	12.95	0.02	12.90	-0.05	13.19	0.29	12.81	-0.38
Total Capital Ratio	16.07	1.54	15.93	-0.14	16.16	0.23	16.15	-0.01
Leverage Ratio	5.31	0.11	5.20	-0.11	5.40	0.20	5.30	-0.10
Fully Loaded: Common Equity Tier 1 Ratio	12.11	-0.82	11.55	-0.56	12.39	0.84	11.65	-0.74
Fully Loaded: Tier 1 Ratio	12.11	-0.82	11.55	-0.56	12.39	0.84	12.32	-0.07
Fully Loaded: Risk-weighted Capital Ratio	15.39	0.87	14.64	-0.75	15.43	0.79	15.70	0.27
Total Equity/ Total Assets	7.45	0.42	7.32	-0.13	6.77	-0.55	6.44	-0.33
Change in %-Points								

Figure 6: Development of capital ratios
(Source: S&P Global Market Intelligence)

Due to CaixaBank's bank capital and debt structure, the Group's senior unsecured debt instruments have been notched down by one notch in comparison to the long-term issuer rating. However, CB's Tier 2 capital rating is four notches below the long-term issuer rating based on the bank's capital structure and seniority in accordance with our rating methodology. Additional Tier 1 capital is rated five notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution.

Liquidity

CaixaBank's liquidity situation is satisfactory. The Group's liquidity coverage ratio is significantly better than the average of the peer group as a result of CB's strong improvement in this ratio YOY.

The bank's interbank ratio is markedly lower than the average of its competitors, and reflects CB's relatively high amount of total deposits from banks in comparison to its net loans to credit intuitions. CaixaBank's loan to deposit ratio remained stable over the previous years and is in line with the average of the peer group.

The development of the liquidity ratios for the years 2014 - 2017 is shown in detail as follows:

Liquidity (%)	2014	%	2015	%	2016	%	2017	%
Liquidity Coverage Ratio	175.20	NA	172.13	-3.06	159.93	-12.20	201.76	41.83
Interbank Ratio	16.89	2.60	19.41	2.52	18.55	-0.86	17.31	-1.23
Loan to Deposit (LTD)	103.92	-8.36	108.81	4.89	104.93	-3.88	102.11	-2.82
Change in %-Points								

Figure 7: Development of liquidity
(Source: S&P Global Market Intelligence)

Conclusion

Overall, CaixaBank recorded a considerable growth (thanks to the acquisition of BPI) and an improved performance in the fiscal year 2017; however, the Group's asset quality remains unsatisfactory despite the improvements in recent years. In addition, the Group struggles to keep up with its competitors regarding its regulatory capital ratios and has seen declining figures in this area.

Despite the low-interest environment in Europe, CaixaBank was able to noticeably boost its net interest income in 2017. In addition, the Group increased its net fee & commission income significantly in the same period and recorded only a minor increase in its operating expenses. As a result, the Group improved its profitability markedly over the previous year. This improvement in performance, however, was driven by the acquisition of BPI in 2017. Moreover, despite this performance boost in 2017, CB's earnings figures just meet the average of the peer group.

Despite the improvement of the asset quality of CB, the Group still struggles with the legacy of its relatively high stock of non-performing loans. These NPL's have a significant negative impact on the Group's asset quality. Here, CB should continue with its priority to reduce its NPL stock, respectively to improve its asset quality, in the upcoming years. Moreover, a more diversified business model, in Spain and abroad, would enable CB to improve its creditworthiness more distinctly, since the bank is highly dependent on the economic situation on the Iberian Peninsula.

On the liabilities side, CB records a profound growth in its deposits from customers. However, this is mainly the result of the acquisition of BPI. In addition, this acquisition had a negative impact on CB's regulatory capital ratios. Thus, even though the Group complies with all regulatory requirements in this area, it is clearly behind its competitors as regards its ratios. Moreover, a further negative impact of IFRS 9 is expected. A lower dividend payment would enable CB to catch up to its peers and improve its capitalization at the same time. However, CB's relatively low value of total debt is remarkable. Furthermore, the liquidity situation of the bank is satisfactory.

It remains to be seen to what extent the Group will be able to create value out of the acquisition of BPI. Moreover, the decision to move the Group's headquarters from Barcelona to Valencia creates a certain reliability of expectations; however, due to the CB's large business in the Catalonian region, there is still a degree of political risk due to Catalonian's independence ambitions, which might have a negative impact on CB's business.

In the near future, growing regulations, ongoing digitization, as well as the low-interest rate environment in the EU pose a general challenge for the banking landscape. Notwithstanding, an interest rate reversal is becoming more likely, as well as the termination of the ECB bond-buying program. In particular, a rapid increase in the interest rates goes hand-in-hand with an interest-rate adjustment risk for banks, which have adjusted to long-term low-interest rates.

In a scenario analysis, the rating developed significantly better in the “best case” scenario and significantly worse in the "worst case" scenario. The ratings of bank capital and (preferred) senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

Ratings Detail

Bank ratings

The bank ratings are dependent on a host of quantitative and qualitative factors. An improvement in either sub-category may result in a higher rating score.

LT Issuer / Short-Term / Outlook **BBB / L3 / Stable**

Bank Capital and Debt Instruments Ratings

The ratings for bank capital and debt instruments are inter alia dependent on subordination and relative size of the instrument class, based on the long-term issuer rating of the bank.

‘preferred senior unsecured debt: **BBB-**
Tier 2 (T2): **BB-**
Additional Tier 1 (AT1): **B+**

Ratings Detail and History

Ratings			
Bank Capital und Debt Instruments			
Instruments	Rating Date	Publication Date	Ratings
Senior Unsecured / T2 / AT1	23.05.2018	24.05.2018	BBB- / BB- / B+

Bank Issuer Ratings			
Type	Rating Date	Publication Date	Ratings
LT Issuer / Outlook / Short-Term	23.05.2018	24.05.2018	BBB / Stable / L3

Figure 8: Ratings Detail and History

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third parties for the rating. The analysis took place on a voluntary basis by Creditreform Rating AG and is to be described in the regulatory sense as an unsolicited rating.

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by S&P Global Market Intelligence subject to a peer group analysis were 46 competing institutes.

The information and documents processed satisfied the requirements according to the rating system of Creditreform Rating AG published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform`s basic document “Rating Criteria and Definitions”.

On 23 May 2018, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to CaixaBank S.A. (Group) and the preliminary rating report was made available to it. There was no change in the rating score.

The rating is subject to one-year monitoring from the creation date (see cover sheet). Within this period, the rating can be updated. At the latest after one year, a follow-up is required to maintain the validity of the rating.

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration, Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

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No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In case of providing ancillary services to the rated entity, CRA will disclose all ancillary services in the credit rating report.

Rules on the Presentation of Credit Ratings and Rating Outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our ‘Rating Committee’ policy, all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, CRA has used following substantially material sources:

1. Transaction structure and participants

2. Transaction documents

3. Issuance documents

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the CRA website. Furthermore CRA considers satisfactory the quality and extent of information available on the rated entity. In regard to the rated entity Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The ‘Basic Data’ information card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated including any rating outlooks is indicated clearly and prominently in the ‘Basic Data’ card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within ‘Basic Data’ information card.

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