Creditreform Bank Rating
CaixaBank S.A. (Group)

Creditreform Rating

Rating Object	Rating Information			
CaixaBank S.A. (Group)	Long Term Issuer Rating / Outlook: **BBB / stable**		Short Term: **L3**	Type: Update unsolicited
Creditreform ID: 175316	Rating of Bank Capital and Unsecured Debt Instruments:			
Incorporation: 1904	Preferred Senior Unsecured: **BBB-**	Non-Preferred Senior Unsecured: **BB+**	Tier 2: **BB-**	Additional Tier 1: **B+**
(Main-) Industry: Banks	Rating Date:	**13 October 2020**		
Management: Gonzalo Gortázar Rotaeche (CEO), Javier Pano Riera (CFO)	Monitoring until:	withdrawal of the rating		
	Rating Methodology:	CRA "Bank Ratings v.2.0" CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0" CRA "Environmental, Social and Governance Score for Banks v.1.0" CRA "Rating Criteria and Definitions v.1.3"		
	Rating History:	www.creditreform-rating.de		

Contents

Analysts

Daniel Keller
d.keller@creditreform-rating.de
Lead-Analyst

Philipp J. Beckmann
p.beckmann@creditreform-rating.de
Senior Analyst

Tobias Stroetges
t.stroetges@creditreform-rating.de
Person Approving Credit Ratings

Neuss, Germany

Key Rating Driver

Strengths

+ One of the leading financial institutions in Spain
+ Stable profitability in the past years
+ Adequate earnings figures
+ Diversified business activities in Spain

Weaknesses

- Low capitalization in comparison to the peer group
- High dependency on the home market
- Despite sound improvement in recent years, still below average asset quality

Opportunities / Threats

+ Advanced mobile and digital activities
+ Improving asset quality as a result of persistent pursuit of its strategy

+/- Merger with Bankia S.A.

- Impact of the Corona pandemic with Spain being heavily affected and suffering a strong economic downturn
- Concentration risk on the core market Spain
- High exposure affected to moratorium measures
- Low-interest 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 CaixaBank from Criteria Caixa as the group complied with the requirements of the ECB (see chart 1 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.

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 35.673 employees (average six month workforce, end-of-June 2020) and 4,467 branches (thereof 455 abroad) the Group served approximately 15.4 million customers.

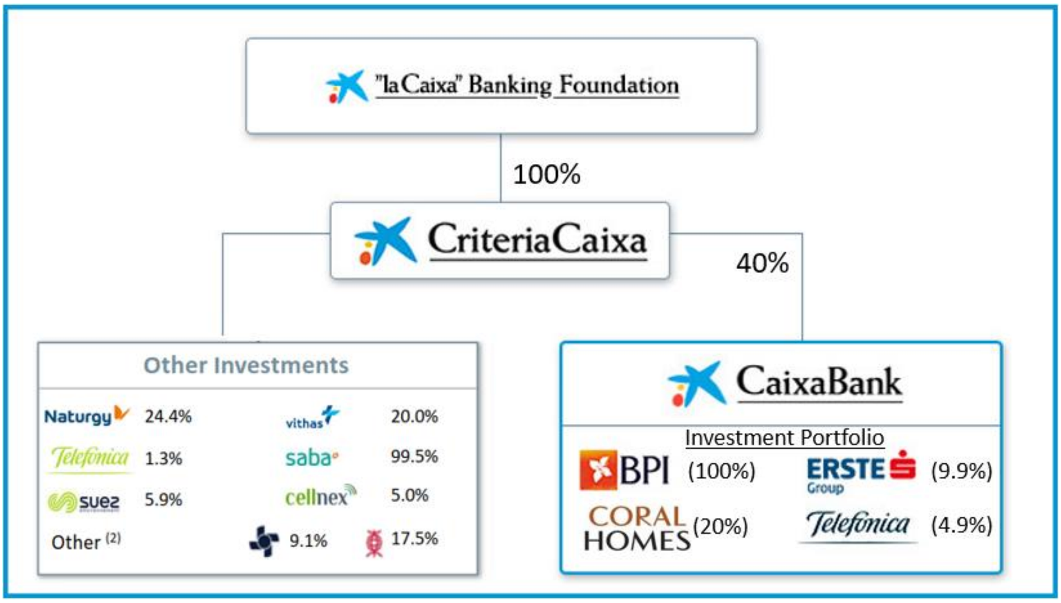
CaixaBank acts as a universal bank with activities in the insurance business and is primarily active in Spain (with 4,012 branches) and in Portugal; however, the Group has 5 international branches as well as 18 representative offices worldwide. Moreover, the Group has an international network with banks across the globe in order to support its international business needs. CB is divided into three business lines: *Banking and insurance business* which includes the former business line *Non-core real estate*, Equity *Investments* and *Banco Português de Investimento* (hereafter: BPI), which includes the business of CaixaBank's acquisition of BPI since February 2017, at which time the Group began fully consolidating the interest held. For the contributions of each business line to CB's gross operating income, see chapter profitability.

CaixaBank is currently pursuing its "Strategic Plan 2019-2021". According to the plan, CaixaBank intends among others to improve its customer experience, accelerate the digital transformation to boost efficiency, foster a people-centric culture, deliver an attractive shareholder return, and to be a benchmark with regard to responsible banking and social commitment.

Relevant events in recent years were as follows: In 2017, CB took over BPI and delisted the bank afterwards. Following that, BPI has been fully consolidated. BPI is a financial group focusing on retail and commercial banking in Portugal, where it is the fifth largest financial institutions in terms of total assets (€31 billion). In 2018, CB signed an agreement for the sale of its stake in Repsol S.A. with a gross loss of about €453 million. Moreover, in the same year CB sold a stake of 2% in BFA and lost thereby its significant influence on BFA and must therefore reclassify its shareholding to financial instruments valued at fair value with changes through other comprehensive income, with an impact of -€154 million. Moreover, CB still exhibits an interest of 12.24% of the Spanish bad bank Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria S.A. (SAREB).

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

Chart 1: CaixaBank's Group structure as of October 2020| Source: Corporate Presentation of Caixbank S.A. (Group)



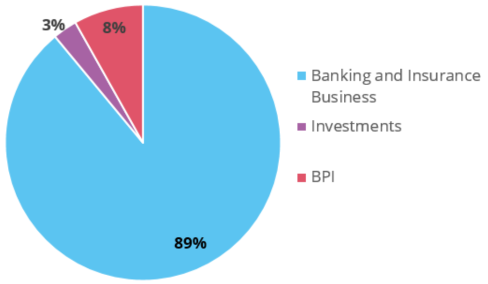
As of September 2020, CaixaBank announced the joint merger plan between CB and Bankia S.A., whereby CB is the absorbing company. The merger between both banks creates the largest financial institute within Spain with total assets of about €664 billion, a market share in Spain of about a quarter and 20 million customers in Spain. CaixaBank will remain as the brand and the closing is expected to be in Q1-2021, subject to regulatory approvals. The synergies are expected to lead to annual cost savings of about €770 million by end of 2023, additional revenue synergies of about €290 million by end of 2025. The expected Return on Equity is announced to be >8% by the end of 2022. The shareholder structure will be as follows: Criteria Caixa will hold 30% of total share capital while FROB (Fondo de Reestructuración Ordenada Bancaria; is a banking bailout and reconstruction program initiated by the Spanish government in 2009, which holds 62% of Bankia S.A. shares following the bailout of the bank in 2009) will hold 16%.

Business Development

Profitability

CaixaBank's operating income amounted to €9.7 billion in 2019, decreasing by 3.8% in a year-over-year comparison (€389 million). See Chart 2 for the contribution of each business line of CB to the operating income.

Chart 2: CaixaBank's operating gross operating income by its business lines | Source: Own presentation based on annual report 2019 of CB.



Net interest income as the major source of income increased slightly YOY by €44 million as a result of higher income from loans, mainly due to an increase in volume. In addition, 8.4% of CB's interest income is attributable to BPI. Net fee and commission income accounted for 26.7% of operating income, remaining stable YOY (€+15 million). Most relevant income sources in this regard are collection and payment fees and marketing of non-banking financial products. CB's equity accounted result reduced by about €401 million compared to the previous year, which is mainly attributable to sale of CB's shares in Repsol S.A. and Banco de Fomento de Angola S.A., thus the profit of both companies is not attributed to the Group in 2019.

Operating expenses amounted to €7.25 billion in 2019, decreasing slightly €65 million in a year-over-year comparison. Personnel expenses increased significantly by €998 million; however, the driver is CB's labor agreement for the staff reduction through an incentive program with over 2,000 employees being affected with an overall impact of -€978 million. By contrast, other expenses decreased significantly YOY, which is attributable to CB's realized losses in relation with the sale of its stakes in Repsol S.A. (€453 million) and Banco de Fomento de Angola SA (€212 million) in 2018.

CB's pre-impairment operating profit amounted to €2.48 billion in the fiscal year 2019, reducing by 11.5% (€324 million) YOY. Asset write-downs amounted to €425 billion in 2019 and consisted mainly of customer loan allowances. The increase year-over-year is attributable to a one-off aspect in 2018 where CB realized reversals of provisions of about €275 million. By contrast, in 2019 CB's adjusted its credit risk models which lead to an additional provision of about €119 million. Overall, CB reported a net profit of about €2.07 billion, which corresponds to a reduction of about €332 million YOY (-16.3%)

Considering the current Corona pandemic impact and CaixaBank's half-year 2020 results, SB report a net profit of about €203 million (H1-2019: €623 million). The strong decrease of CB's net profit is related to increased loan loss provisions following the Corona pandemic, which is in H1-2020 more than five times higher than in H1-2019. The cost of risk (calculated in relation to the banks net loans) amounted to 115 bp annualized for 2020 (2019: 23 bp), which are according to the bank frontloaded in H1-2020. Moreover, SB realized declining net interest income (€-187 million) in comparison to first half-year 2019 due to lower interest rates. In addition, the banks recorded a reduction of equity investments (€-112 million in comparison to H1-2019) following the economic downturn. By contrast, CB operating costs reduced as a result of the staff reduction and the negative one-off impact in relation with termination plan in 2019. Overall, despite the current economic conditions, the bank has achieved a solid result. Nevertheless, the final impact of Corona and the performance in 2020 is characterized by a high level of uncertainty and it is still uncertain whether CB will generate at positive result at year-end 2020.

A detailed group income statement for the years of 2016 through 2019 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate / CRA

Income Statement	2016	2017	2018	%	2019
Income (€000)					
Net Interest Income	4.156.856	4.745.533	4.907.000	+0,9	4.951.000
Net Fee & Commission Income	2.090.253	2.498.669	2.583.000	+0,6	2.598.000
Net Insurance Income	310.501	471.625	551.000	+0,9	556.000
Net Trading Income	849.141	282.843	278.000	+7,2	298.000
Equity Accounted Results	628.518	526.153	826.000	-48,5	425.000
Dividends from Equity Instruments	198.618	127.232	146.000	+11,6	163.000
Other Income	436.667	583.105	831.000	-10,7	742.000
Operating Income	**8.670.554**	**9.235.160**	**10.122.000**	**-3,8**	**9.733.000**
Expenses (€000)					
Depreciation and Amortisation	598.615	597.296	788.000	-0,3	786.000
Personnel Expense	2.745.349	2.981.413	2.958.000	+33,7	3.956.000
Tech & Communications Expense	339.690	428.712	511.000	+13,5	580.000
Marketing and Promotion Expense	133.954	142.541	174.000	+9,2	190.000
Other Provisions	486.532	761.648	441.000	-57,8	186.000
Other Expense	1.522.194	1.725.656	2.442.000	-36,5	1.551.000
Operating Expense	**5.826.334**	**6.637.266**	**7.314.000**	**-0,9**	**7.249.000**
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	**2.844.220**	**2.597.894**	**2.808.000**	**-11,5**	**2.484.000**
Asset Writedowns	519.138	501.730	187.000	> +100	425.000
Net Income (€000)					
Non-Recurring Income	-787.020	1.819	186.000	-90,3	18.000
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	**1.538.062**	**2.097.983**	**2.807.000**	**-26,0**	**2.077.000**
Income Tax Expense	482.183	377.628	712.000	-48,2	369.000
Discontinued Operations	-944	-1.727	-55.000	-	-
Net Profit (€000)	**1.054.935**	**1.718.628**	**2.040.000**	**-16,3**	**1.708.000**
Attributable to minority interest (non-controlling interest)	7.931	34.461	55.000	-94,5	3.000
Attributable to owners of the parent	1.047.004	1.684.167	1.985.000	-14,1	1.705.000

Due to CaixaBank's decreased net profit in 2019, all of its earnings figures worsened in comparison to the previous year. However, CB is still achieves sound earnings figures in relation to the peer group's average.

The values for ROA, ROE and RORWA after taxes worsened in a year-over-year comparison. However, the peer group values worsened likewise. Thus, CB's values are still more favorable than the average of the peer group as CB benefits from a strong decrease of its income taxes expense in 2019. By contrast, CB's before taxes figures of ROA, ROE and RORWA worsened significantly in comparison to the previous year and are now just in line with the average of the peer group. In addition, CB's presents still sound cost to income ratios despite the one-off impact in relation to the staff reduction process. While its cost income ratio is just slightly worse than the average of the peer group, the cost income ratio ex. trading is clearly better than the ones of the competitors on average. CB's net financial margin remained at a sound level.

Considering the development in 2020, the impact of the Corona pandemic represents a significant burden for CB. We expect a strong decline of CB's profitability due to increasing loan loss provisions following the Corona pandemic and it remains uncertain if CB is able to generate a positive net profit in 2020.

A detailed overview of the income ratios for the years of 2016 through 2019 can be found in Figure 2 below:

Figure 2: Group key earnings figures| Source: eValueRate / CRA

Income Ratios (%)	2016	2017	2018	%	2019
Cost Income Ratio (CIR)	67,20	71,87	72,26	+2,22	74,48
Cost Income Ratio ex. Trading (CIRex)	74,49	74,14	74,30	+2,53	76,83
Return on Assets (ROA)	0,30	0,45	0,53	-0,09	0,44
Return on Equity (ROE)	4,48	6,96	8,37	-1,58	6,79
Return on Assets before Taxes (ROAbT)	0,44	0,55	0,73	-0,20	0,53
Return on Equity before Taxes (ROEbT)	6,53	8,50	11,52	-3,26	8,26
Return on Risk-Weighted Assets (RORWA)	0,78	1,15	1,40	-0,24	1,15
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,14	1,41	1,92	-0,52	1,40
Net Interest Margin (NIM)	1,60	1,45	1,75	+0,07	1,82
Pre-Impairment Operating Profit / Assets	0,82	0,68	0,73	-0,09	0,63
Cost of Funds (COF)	0,96	0,74	0,69	+0,04	0,73
Change in %- Points					

Asset Situation and Asset Quality

CaixaBank's financial assets accounted for 73.6% of total assets in 2019. Net loans to customers represent the largest share of assets, accounting for 56.8% of total assets and increasing by 1.8% YOY (€4 billion). The increase is driven by the increased lending's to corporates and SME's (€5.5 billion), which was partially offset by a lower volume of home loans (-€3.1 billion), which is a result of deleveraging of households. In general, CB's lending portfolio consists primarily of loans to individuals for home purchases (€88.5 billion), loans to corporates (€91.3 billion) and loans to the public sector

(€11.7 billion). Considering CB's H1-2020 development, the banks presents a significant increase in Corporate and SME loans (+€14.5 billion), while the loans to individuals remained almost unchanged. The increase in business financing is a result of increased liquidity needs following the Corona pandemic; however, CB's only partially bears the risk as about €9.5 billion are government-backed loans. However, about €15.5 billion of CB's loans are under moratorium measures, whereby almost half of this loans are home loans where a risk might arise. As of June 2020, CB increased its balances with central banks, as CB took part at ECB's TLTRO III funding program at very favorable conditions and requested a total amount of about €49.7 billion. Thus, CB displays a high level of liquidity for upcoming funding operating; however, the bank has to be aware of negative deposit rates.
Total securities, as the second largest asset consists primarily of Spanish government debt securities. As of year-end 2019 CB reported about €23 billion of debt securities of Spain, however, the bank increased its holdings to about €33 billion as of June 2020 and tightened thereby the relation to the wellbeing of the Spanish economy. The balance sheet item of equity accounted investments largely comprises CB's investments portfolio as shown in Chart 1. Moreover, the increase in CB's insurance assets since 2018 is related to accounting applications and the presentation of the specific presentation of these assets.

A detailed look at the development of the asset side of the balance sheet for the years of 2016 through 2019 can be taken in Figure 3 below:

Figure 3: Development of assets| Source: eValueRate / CRA

Assets (€000)	2016	2017	2018	%	2019
Cash and Balances with Central Banks	13.259.957	20.160.318	19.163.000	-21,1	15.116.000
Net Loans to Banks	6.741.354	7.374.035	7.550.000	-31,7	5.153.000
Net Loans to Customers	200.338.444	216.418.160	218.294.000	+1,8	222.320.000
Total Securities	79.175.515	92.049.159	40.428.000	-8,0	37.198.000
Total Derivative Assets	12.800.893	10.769.958	10.995.000	-23,3	8.433.000
Other Financial Assets	-	-	-	-	-
Financial Assets	**312.316.163**	**346.771.630**	**296.430.000**	**-2,8**	**288.220.000**
Equity Accounted Investments	6.420.710	6.224.425	3.879.000	+1,6	3.941.000
Other Investments	3.432.246	3.404.090	2.812.000	-15,8	2.367.000
Insurance Assets	344.144	275.495	61.688.000	+17,8	72.683.000
Non-current Assets & Discontinued Ops	6.404.860	6.068.930	1.239.000	+9,3	1.354.000
Tangible and Intangible Assets	6.692.014	6.881.327	7.058.000	+24,0	8.754.000
Tax Assets	10.521.402	11.054.984	11.264.000	-1,3	11.113.000
Total Other Assets	1.795.723	2.505.282	2.176.000	+37,0	2.982.000
Total Assets	**347.927.262**	**383.186.163**	**386.546.000**	**+1,3**	**391.414.000**

CaixaBank's asset quality improved significantly over the recent years and CB was able to catch up to its competitors.

The NPL ratio of 3.6%, as well as the NPL / RWA ratio of 5.6%, are slightly less favorable than the ones of its competitors on average, however CB was able to catch up clearly. This shows CB's good performance in the reduction of its legacy non-performing loan portfolio since 2013. Moreover, the bank reduced its non-performing loans by €2.4

billion to overall €8.8 billion at year-end 2019. In addition, the bank's reserves / NPLs figure as well as the Group's stage 2 loans in relation to its net loans to customers are in line with the peer group average. CB's net write-offs / RWAs ratio as well as the banks net-write-offs to total assets ratio are still more favorable than the average of the peer group, despite the worsening over the previous years. By contrast, the RWA ratio of CB is still above average and represents the banks higher risk in this regards. Up to now, the Corona pandemic had no significant impact on CB's asset quality. The NPL ratio increased slightly to 3.6%. In addition, CB increased its coverage ratio to 63%, which results in a higher resilience. Overall, we are pleased about the improvements in the bank's assets quality over the previous years and CB should continue with its strategic development.

A detailed overview of the asset quality for the years of 2016 through 2019 can be found in Figure 4 below:

Figure 4: Development of asset quality| Source: eValueRate / CRA

Asset Ratios (%)	2016	2017	2018	%	2019
Net Loans/ Assets	57,58	56,48	56,47	+0,33	56,80
Risk-weighted Assets/ Assets	38,76	38,87	37,76	+0,03	37,78
NPLs*/ Net Loans to Customers	7,16	6,37	4,70	-1,10	3,60
NPLs*/ Risk-weighted Assets	10,64	9,25	7,35	-1,68	5,67
Potential Problem Loans**/ Net Loans to Customers	4,57	7,24	7,48	-0,49	6,99
Reserves/ NPLs*	46,61	49,46	53,23	+2,79	56,02
Reserves/ Net Loans	3,34	3,15	2,62	-0,50	2,11
Net Write-offs/ Net Loans	0,26	0,23	0,09	+0,11	0,19
Net Write-offs/ Risk-weighted Assets	0,38	0,34	0,13	+0,16	0,29
Net Write-offs/ Total Assets	0,15	0,13	0,05	+0,06	0,11
Level 3 Assets/ Total Assets	0,23	0,75	1,56	-0,24	1,33
Change in %- Points					

* NPLs are represented from 2017 onwards by Stage 3 Loans.
** Potential Problem Loans are Stage 2 Loans where available.

Refinancing and Capital Quality

CaixaBank's financial liabilities accounted for 78.7% of total liabilities in 2019. Total deposits from customers represent the largest share of the Group's liabilities with 60%, increasing by 6.1% YOY (€12.6 billion). In addition, as of June 2020, CB achieved a further increase in its customer deposits to about €234.9 billion. The increase is mainly attributable to increased liquidity needs of the banks customers. In particular, the Group attracts massive demand deposits (89% of customer deposits), while the time deposits (11% of customer deposits) are continuously declining due to the low interest rates. However, despite the very favorable financing from customer deposits, the bank faces a liquidity risk if its customers draw down its deposits. About 10.5% of the Group's customer deposits are related to BPI.
Total debt, accounting for only 9.2% of CB's liabilities, increasing by 15% YOY (€4.4 billion) and consists primarily of covered bonds (€15.5 billion) and plain vanilla bonds (€8.7 billion), which increase is the result of the increase in total debt. As of June 2020, CB's debt volume and structure did not change significantly. However, CB increased its deposits at central banks, as CB took part at ECB's TLTRO III funding program at

very favorable conditions and requested a total amount of about €49.7 billion. Moreover, CB reduced its interest rate swaps distinctly, which leads to a massive drop in the item of derivative liabilities. CB's insurance liabilities are related to its fully-owned subsidiary VidaCaixa, and the balance sheet item includes mainly mathematical provisions (81.6 %) relating to the life insurance business.

A detailed overview of the development of liabilities for the years of 2016 through 2019 can be found in Figure 5 below:

Figure 5: Development of refinancing and capital adequacy| Source: eValueRate / CRA

Liabilities (€000)	2016	2017	2018	%	2019
Total Deposits from Banks	36.345.140	43.196.050	35.047.000	-43,7	19.738.000
Total Deposits from Customers	190.930.684	211.849.059	206.974.000	+6,1	219.600.000
Total Debt	27.708.015	29.924.162	29.244.000	+15,1	33.648.000
Derivative Liabilities	12.004.957	10.063.472	10.653.000	-63,8	3.856.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	3.771.171	4.913.490	11.594.000	-1,1	11.461.000
Total Financial Liabilities	**270.759.967**	**299.946.233**	**293.512.000**	**-1,8**	**288.303.000**
Insurance Liabilities	45.803.579	49.750.389	61.519.000	+15,1	70.807.000
Non-current Liabilities & Discontinued Ops	86.039	82.141	82.000	-13,4	71.000
Tax Liabilities	1.186.209	1.388.070	1.351.000	-4,1	1.296.000
Provisions	4.730.271	5.000.941	3.079.000	+17,7	3.624.000
Total Other Liabilities	1.805.635	2.335.108	2.639.000	-18,1	2.162.000
Total Liabilities	**324.371.700**	**358.502.882**	**362.182.000**	**+1,1**	**366.263.000**
Total Equity	**23.555.562**	**24.683.281**	**24.364.000**	**+3,2**	**25.151.000**
Total Liabilities and Equity	**347.927.262**	**383.186.163**	**386.546.000**	**+1,3**	**391.414.000**

CaixaBank's regulatory capital ratios improved in comparison to the previous year but are clearly below the average of its competitors. In the same period, the peer group was able to improve its ratios to a larger extent.

CaixaBank's increase in the CET1 ratio by 50 basis points is mainly due to retained earnings. However, despite the positive development, the bank's CET1 ratio is clearly below the average of its competitors, which were even able to increase its ratio on average more distinctly. The bank's AT1 ratio as well as its Total Capital ratio improved similarly to the CET1 ratio. However, both regulatory capital ratios are less favorable than the average of the peer group. In addition, CB did not issue any additional AT1 instruments nor Tier 2 instruments since 2018.

As of June 2020, CB reports a CET1 ratio of 12.3%. However, depending on the macroeconomic situation CB announced to distribute any capital that exceeds the CET1 ratio of 12%. Following the Corona pandemic CB reduced its dividend payment from a targeted 50% payout ratio to a payout ratio of about 24.6% for fiscal year 2019. Thus, CB did not follow the ECB recommendation to waive the dividend payments. However, the bank decided at least to distribute not more than 30% of its net profit in 2020. Considering the Leverage ratio of 5.9% and the banks total equity to total assets ratio of 6.43%, CB reports a small increase, and remains with both ratios slightly above the average of its competitors.

Overall, CB meets comfortably all regulatory requirements with regard to its capital ratios (e.g. CET1 requirement of 8.1% as of June 2020). CB's rating would clearly benefit from higher regulatory capital ratios and a lowering or suspension of its dividend distribution. Unfortunately, the bank reduced its target for the CET1 ratio to 11.5% from previously 12%.

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

A detailed overview of the development of capital ratios for the years of 2016 through 2019 can be found in Figure 6 below:

Figure 6: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (%)	2016	2017	2018	%	2019
Total Equity/ Total Assets	6,77	6,44	6,30	+0,12	6,43
Leverage Ratio	5,70	5,50	5,50	+0,40	5,90
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	12,40	11,70	11,50	+0,50	12,00
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	12,40	12,30	13,00	+0,50	13,50
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	15,40	15,70	15,30	+0,40	15,70
Capital Requirements CET1	9,50	7,37	8,75	+0,03	8,78
Change in %- Points					

Due to CB's bank capital and debt structure and in particular the low CET1 capital, the Group's Preferred Senior Unsecured Debt instruments have been notched down by one notch in comparison to the long-term issuer rating. Due to the seniority structure of, CB's non-preferred senior unsecured debt has been notched down by two notches. SB'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. All ratings were notched down by one notch in comparison to the previous rating due to the downgrade of the long-term issuer rating.

Liquidity

The Group's LCR of 179% outperforms the average of the peer group. The banks Net Stable Funding Ratio is in line with its competitors, however, this ratio is binding starting 2021.

The customer deposits to total funding ratio shows the Group's stable and favorable source of funding - the deposits of its customers. However, considering the negative interest rate for deposits at the ECB, CB has to be aware of excess liquidity (in particular after the recent TLTRO III participation). In addition, the almost equal LTD ratio with about 101.2% shows an adequate demand for the Group's loans. However, the banks competitors report a higher LTD ratio on average, showing a higher demand for loans in comparison to its customer deposits.

Overall, CaixaBank's liquidity situation is satisfactory. Up to now, we do not perceive any liquidity issues at CB and the whole banking sector.

A detailed overview of the development of liquidity for the years of 2016 through 2019 can be found in Figure 7 below.

Figure 7: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2016	2017	2018	%	2019
Net Loans/ Deposits (LTD)	104,93	102,16	105,47	-4,23	101,24
Interbank Ratio	18,55	17,07	21,54	+4,56	26,11
Liquidity Coverage Ratio	160,00	202,00	200,00	-21,00	179,00
Customer Deposits / Total Funding (excl. Derivates)	61,12	60,80	58,88	+1,72	60,59
Net Stable Funding Ratio (NSFR)	-	112,00	117,00	+12,00	129,00
Change in %- Points					

Environmental, Social and Governance (ESG) Score Card

CaixaBank has one significant and two moderate ESG rating driver

• Corporate Governance is identified as a highly significant rating driver. The relevance for the credit rating results from the impact of the Corporate Governance factor on all other ESG factors and the overall well-being of the bank. This sub-factor is rated neutral due to the bank's relatively low sustainable ambitions with regard to the ESG development.

• Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is rated neutral due to relatively low amount of green financing activities, Corporate Behaviour is rated positive due its business activities in accordance with the ideas and beliefs of the society.

ESG Score
3,6 / 5

ESG Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
< = 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2020	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating and is rated neutral in terms of the CRA ESG criteria.	3	( )
	1.2 Exposure to Environ-mental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating and is rated neutral in terms of the CRA ESG criteria.	2	(+)
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, but is rated positive in terms of the CRA ESG criteria.	1	(+ +)
Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating, but is rated positive in terms of the CRA ESG criteria.	2	(+)
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating and is rated neutral in terms of the CRA ESG criteria.	1	(+)
Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" is highly relevant for the credit rating and is rated positive in terms of the CRA ESG criteria.	4	( )
	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has a moderate relevance for the credit rating and is rated neutral in terms of the CRA ESG criteria.	3	(+)
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating and is rated potive in terms of the CRA ESG criteria.	1	(+)

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
( )	Neutral
(-)	Negative
(- -)	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage https://creditreform-rating.de/en/about-us/regulatory-requirements.html. In addition, we refer to CRA's position paper "Consodering the Impact of ESG Factors".

Conclusion

Overall, CaixaBank S.A. (Group) had a sound year of performance in 2019, but faces a challenging fiscal year 2020. The downgrade of the rating has the following reasons. The Corona pandemic has a massive impact on the economy in Spain, which is the major market of CB. Moreover, the current adverse economic development is characterized by a high degree of uncertainty for CB. In addition, the Corona pandemic effects will lead to a tremendous decrease in the banks profitability. The rating actions follows CaixaBank's annual review and does not consider the merger with Bankia S.A. yet.

The Group reported a good level of profitability with its earnings figures in 2019. However, following the Corona pandemic, we expect a strong, negative impact on the profitability of the bank in 2020. The massive increase in loan loss provisions has a significantly negative impact. CaixaBank did not provide any estimate regarding its net profit 2020. Nevertheless, a positive result in 2020 is uncertain and a second wave of the pandemic would likely lead to negative net profit. The strong economic downturn in Spain bears a significant risk for CB. However, we assume that CB will overcome this difficult period whereby the bank will benefit from its already initiated cost cutting measures. In addition, fiscal stimulus measures and guarantees will help the bank as well.

The asset quality of CB improved significantly in recent years. However, the sudden impact of the Corona pandemic and the following economic downturn, likely leads to a significant regression with regard to CB's reduction of its NPL portfolio. In addition, CB reports a significant amount of exposure related to memorandum. Thus, SB might bear huge credit risk in its loan portfolio, which currently do not lead automatically to an unwillingness to pay.

On the liabilities side, SB reports stable customer deposits and increasing cash and balances with central banks following the participation in ECB's TLTRO III funding program, which enables SB to reduce its costs of funding. SB's capital ratios are constantly below the average of its competitors. In addition, the bank lowered its targeted CET1 ratio to just 11.5%. CB's resilience would clearly benefit from a higher capitalization as it would have an positive impact on the rating.

The impact of the Corona pandemic bears a high risk for the Group next to the still challenging low interest rate environment. Nevertheless, we assume CB to overcome this challenging environment with its strong franchise. However, the upcoming economic development is characterized by a high level of uncertainty. In addition, it remains to be seen if the merger with Bankia S.A. will be approved and the expected synergies will apply.

Outlook

We consider the outlook of CaixaBank's (Group) long-term issuer rating and its bank capital and debt instruments as stable. This reflects our view that the bank is able to overcome the current adverse impact by the Corona pandemic. However, we will observe how the bank will deal with the Corona pandemic effects on the economy, as the final impact is still uncertain. In addition, we assume no significant economic worsening due to the Corona pandemic and stable political environment in the banks markets of operations.

Scenario Analysis

Best-case scenario: BBB+

Worst-case scenario: BB+

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

In a scenario analysis, the bank is able to reach an "BBB+" rating in the "best case" scenario and an "BB-" rating in the "worst case" scenario. The ratings of bank capital and 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.

We might upgrade CB's long-term issuer credit rating and its bank capital and debt instruments if we see that Sabadell is able to release its current loan loss provisions and regain solid earnings figures. In addition, significantly higher regulatory capital ratios and maintaining at least its current asset quality might lead to an upgrade as well.

By contrast, a downgrade of the Group`s long-term issuer credit rating and its bank capital and debt instruments is likely if we see a lasting decline of CB's profitability and / or a further reduction of the banks' capital ratios. In particular, we will observe the ongoing Corona pandemic impact on CB's asset quality and its business activities in general.

Appendix

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 / Outlook / Short-Term **BBB / stable / L3**

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 (PSU): **BBB-**
Non-Preferred Senior Unsecured Debt (NPS): **BB+**
Tier 2 (T2): **BB-**
Additional Tier 1 (AT1): **B+**

Rating History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 8: Rating History

Bank Issuer Rating	Rating Date	Result
Initialrating	23.05.2018	BBB / stable / L3
Rating Update	08.07.2019	BBB+ / stable / L3
Monitoring	24.03.2020	BBB+ / NEW / L3
Rating Update	13.10.2020	BBB / stable / L3
Bank Capital and Debt Instruments	**Rating Date**	**Result**
PSU / NPS / T2 / AT1 (Initial)	23.05.2018	BBB- / BB- / B+
PSU / NPS / T2 / AT1	08.07.2019	BBB / BBB- / BB / BB-
PSU / NPS / T2 / AT1 (NEW)	24.03.2020	BBB / BBB- / BB / BB-
PSU / NPS / T2 / AT1	13.10.2020	BBB- / BB+ / BB- / B+

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party 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 following scheme clarifies the level of participation of the rated entity (rating object):

Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

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 eValueRate / CRA. Subject to a peer group analysis were 24 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website www.creditreform-rating.de. The rating was carried out on the basis of the rating methodology for bank ratings as (Version 2.0), the methodology for the rating of bank capital and unsecured debt instruments (Version 2.0) as well as the rating methodology for Environmental, Social and Governance Score for Banks (Version 1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (Version 1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (Version 1.3) are published on our homepage:

https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html

On 13 October 2020, 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 the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

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.

Conflict of Interests

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 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 policy “Rating Committee,” 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. Aggregated data base by eValueRate

2. Annual Report and interim reports

3. Investors relations information and other publications

4. Website of the rated bank

5. Public and internal market analyses

6. Internet research

There are no other attributes and limitations of the credit rating or rating outlook other than 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 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 case 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 credit rating and indicates how the different methodologies or these 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 as well as best-case scenario credit ratings are explained in mentioned methodologies and / or in the credit rating report.

The date at which the credit rating was released for distribution for the first time and when it was last updated including any rating outlooks is indicated clearly and prominently in the “Basic data” card as a “Rating action”; first 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.

In accordance to Article 11 (2) EU-Regulation (EC) No 1060/2009 registered or certified credit rating agency shall make available in a central repository established by ESMA information on its historical performance data, including the ratings transition frequency, and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

An explanatory statement of the meaning of Creditreform's default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

Any rating performed by Creditreform Rating AG is subject to the Creditreform Rating AG Code of Conduct which has been published on the web pages of Creditreform Rating AG. In this Code of Conduct, Creditreform Rating AG commits itself – systematically and with due diligence – to establish its independent and objective opinion as to the sustainability, risks and opportunities concerning the enterprise or the issue under review.

Future events are uncertain, and forecasts are necessarily based on assessments and assumptions. This rating is therefore no statement of fact, but an opinion. For this reason, Creditreform Rating AG cannot be held liable for the consequences of decisions made on the basis of any of their ratings. Neither should these ratings be construed as recommendations for investors, buyers or sellers. They should only be used by market participants (entrepreneurs, bankers, investors etc.) as one factor among others when arriving at corporate or investment decisions. Ratings are not meant to be used as substitutes for one's own research, inquiries and assessments.

We have assumed that the documents and information made available to us by the client are complete and accurate and that the copies provided to us represent the full and unchanged contents of the original documents. Creditreform Rating AG assumes no responsibility for the true and fair representation of the original information.

This report is protected by copyright. Any commercial use is prohibited without prior written permission from Creditreform Rating AG. Only the full report may be published in order to prevent distortion of the report's overall assessment. Excerpts may only be used with the express consent of Creditreform Rating AG. Publication of the report without the consent of Creditreform Rating AG is prohibited. Only ratings published on the Creditreform Rating AG web pages remain valid.

Creditreform Rating AG

Contact information

Creditreform Rating AG
Europadamm 2-6
D-41460 Neuss

Phone +49 (0) 2131 / 109-626
Fax +49 (0) 2131 / 109-627

E-Mail info@creditreform-rating.de
www.creditreform-rating.de

CEO: Dr. Michael Munsch

Chairman of the Board: Dr. Hartmut Bechtold
HR Neuss B 10522