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**
Creditreform ID: 175316 Management: Gonzalo Gortázar Rotaeche (CEO) Javier Pano Riera (CFO)	Type: Update / Unsolicited	
Rating Date: **02 November 2021** Monitoring until: withdrawal of the rating Rating Methodology: CRA "Bank Ratings v.3.0" 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	Rating of Bank Capital and Unsecured Debt Instruments: Preferred Senior Unsecured: Non-Preferred Senior Unsecured: Tier 2: Additional Tier 1:	 **BBB+** **BBB** **BB** **BB-**

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Key Rating Driver

- \+ Leading financial institution in Spain with a diversified business model and high market shares in retail banking and insurance products
- \+ Sound intrinsic profitability with good earnings figures, despite the Corona pandemic impact and significant share of the net fee and commission income of operating income, which is a stable source of income in particular at a declining rates environment
- \+ Advanced mobile and digital activities
- \+ Improving asset quality as a result of persistent pursuit of its strategy, however, with a slight setback due to the Bankia merger
- +/- Merger with Bankia S.A. might enable revenue and cost synergies
- \- Low capital ratios with declining trend and decreasing targets, however, with still sufficient capital buffer to the SREP requirements
- \- Concentration risk and high dependency on the home market Spain with additional attachment due to the high amount of Government Debt Securities of Spain
- \- Low-interest rate environment puts pressure on profitability
- \- Despite sound improvement in recent years, still below average asset quality and increasing potential problem loans (stage 2) following the Corona pandemic

Executive Summary

Creditreform Rating AG has upgraded the long-term issuer rating of CaixaBank S.A. (Group) from BBB to BBB+- with a stable outlook. The upgrade of the rating is mostly a result of the change in our methodology where CB benefits from being the leading financial institution in Spain (after merger) with a diversified business model. In addition, CB's rating benefits from the only minor impact of the Corona pandemic on the bank's performance, in contrast to our previous expectations. However, the bank's business is subject to a concentration risk on its home market and the bank's capitalization remains low.

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 became 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 headquarters of the bank are located in Valencia and 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.

In September 2020, CaixaBank announced the joint merger plan between CB and Bankia S.A., whereby CB is considered to be the absorbing company. The merger between both banks created the largest financial institute within Spain with total assets of about €674 billion (as of June 2021), a market share in Spain of about a quarter and 21 million customers in Spain. The synergies are expected to lead to annual cost savings of about €940 million by end of 2023 and additional revenue synergies of about €290 million by end of 2025. The expected Return on Equity is targeted to be >8% by the end of 2022. The closure and registration of the Bankia takeover by CaixaBank took place in the first half of 2021. As a result, the merger is not considered in our provided tables, which only cover only full-year data until 2020. However, we consider the consolidated data as of June 2021 and the Q3-Results in our analysis, which is why the half-year and Q3-21 report is of particular importance for this rating update.

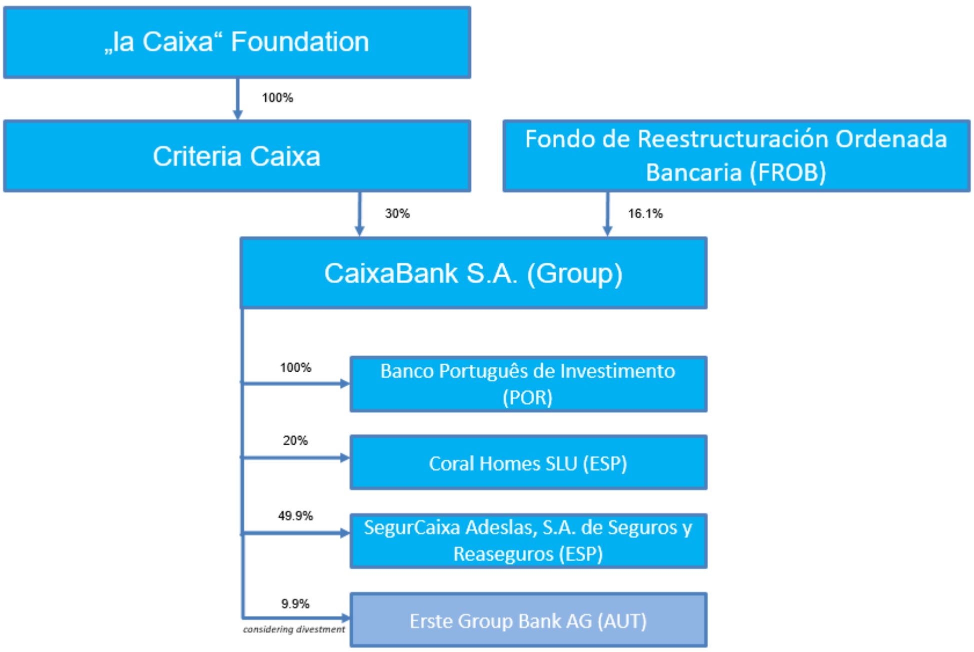
CaixaBank acts as a universal bank with activities in the insurance business and is primarily active in Spain (with 5,775 branches) and in Portugal; however, the Group has 5 international branches as well as 18 representative offices worldwide. Moreover, the Group has an international network with banks across the globe in order to support its international business needs. CB is divided into three business lines: *Banking and insurance business* where most of the activity and results generated by Bankia are included, Equity *Investments* and *Banco Português de Investimento* (hereafter: BPI), which includes the business of CaixaBank's acquisition of BPI. 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. The next strategic plan is expected to be presented in spring 2022 and will be addressed once the integration of the merger is at a more advanced stage.

Relevant events in recent years were in addition to the aforementioned merger with Bankia as follows: In 2017, CB took over BPI, a financial group focusing on retail and commercial banking in Portugal, where it is the fifth largest financial institutions in terms of total assets (€37 billion). In 2018, CB sold 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. Moreover, as of year-end 2020 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).

About 53.7% of CB's shares are in free float. The other shares are in control of Criteria Caixa and FROB (Fondo de Reestructuración Ordenada Bancaria; is a banking bailout and reconstruction program initiated by the Spanish government in 2009, which became shareholder following the merger with Bankia). The structure of CaixaBank and its main investments can be found in the following chart:

Chart 1: CaixaBank's Group structure and main investments as of June 2020| Source: own presentation based on the corporate presentation of Caixbank S.A. (Group)

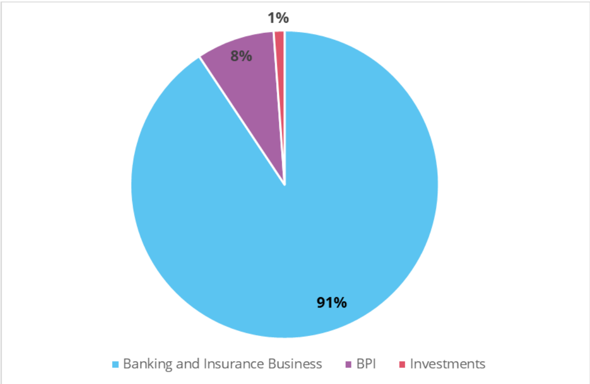


Business Development

Profitability

CaixaBank's operating income amounted to €9.5 billion in 2020, decreasing slightly in a year-over-year comparison. See Chart 2 for the contribution of each business line of CB to the operating income. As of June 2021, the shares of each segment to the gross operating income did not change significantly; however, CB's investments line increased its share to about 4% following the normalization after the Corona impact in 2020.

Chart 2: CaixaBank's gross operating income by its business lines | Source: Own presentation based on annual report 2020 of CB.



Net interest income as the major source of income remained almost unchanged YOY. CB was able to counteract the negative development of its interest income on mortgage loans primarily through reduced finance cost of its insurance products. Thereby, interest income on mortgage loans contributed about 26% to the bank's interest income, while personal loans contributed about 31% and debt securities about 29%. In addition, about 9.7% of CB's net interest income is attributable to BPI. Like other banks, CB is struggling with the low interest environment, which puts significant pressure on the bank's main income source. As of June 2021, CB reported increasing net interest income by about 16% mainly due to the integration of Bankia. Net fee and commission income as the second largest source of income remained at a stable level, as in previous years. Most relevant income sources in this regard are collection and payment fees and marketing of non-banking financial products. While CB records a fall in fees from payment methods, the bank denotes a solid growth of fees from wholesale banking. The impact of the Bankia integration has an even stronger impact on this income source, as fees and commission increased by about 29% according to the bank's half-year report 2021.

CB's equity accounted result lowered following the Corona pandemic impact on the economies except for SegurCaixa Adeslas, which significantly improved its net profit due to lower insurance claims. However, an overall lower level of contribution in this regard is expected despite the increase as of June 2021. On one hand, CB sold its shares of Repsol S.A. and Banco de Fomento de Angola S.A. in 2019 already. On the other hand, in October 2021 the bank announced the consideration of the sale of its shares of Erste Group, which represents a substantial investment of CB. Extrapolated from the half-year report 2021, CB's operating income would reach around €11bn by year-end 2021.

Operating expenses lowered YOY and amounted to about €6 billion in 2020. Main driver of the decrease were the bank's personnel expenses, which lowered following the labour agreement and the early retirement payments. In this regard, CB announced two relevant events. In July 2021 and following the merger with Bankia, CB agreed with the labour union on a collective redundancy plan, which establishes a maximum number of 6,452 dismissal and led to extraordinary expenses of about €-1,970 million. Moreover, already in 2019, CB reached a labor agreement for the staff reduction through an incentive program with over 2,000 employees being affected with an overall impact of -€978 million (relisted under the line item of Non-Recurring Expense in 2019 in contrast to CB's presentation). By contrast, other expenses decreased slightly YOY, and contain among others contributions to the deposit guarantee fund of about €355 million. Extrapolated from the half-year report 2021, CB's operating expense will reach more than €7bn by year-end 2021 leaving out extraordinary effects. Moreover, as of Q3-21 CaixaBank is ahead of its cost reduction plan (and even increased the targeted cost synergies amount to €940mn) and expects to reach 80% of the synergies in 2022 already, which will likely improve the bank's intrinsic profitability.

CB's pre-impairment operating profit was in line with the previous year. However, significant impairments on financial assets of about €1.94 billion (almost entirely on customer loan) following the Corona pandemic burdened the bank's result. With cost of risk (calculated in relation to the bank's net loans) of about 82bp (19bp in 2019) CB was at a relatively high level in comparison to other large European banks. In addition, the impairment on the stake in Erste Group of about €311 million increased the bank's asset-write down to a high level. Eventually, CB's net result was boosted by the sale of 29% of the stake in Comercia Global Payments with gains of about €420 million, net of taxes. As of June 2021 and after consolidation with Bankia, CaixaBank's impairments on financial assets normalized and reached annualized cost of risk of about 19bp (guidance of CB is <30bp). However, with the run-out of public guarantees and support measures, an increase in this regard is likely. In addition, the merger with Bankia created a significant negative goodwill of about €4.3 billion, which boosted half-year 2021 results, however, this impact is of accounting nature and does not represent CB's intrinsic profitability.

A detailed group income statement for the years of 2017 through 2020 can be found in Figure 1 below:

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

Income Statement (EUR m)	2020	%	2019	2018	2017
Income					
Net Interest Income	4.900	-1,0	4.951	4.907	4.746
Net Fee & Commission Income	2.576	-0,8	2.598	2.583	2.499
Net Insurance Income	598	+7,6	556	551	472
Net Trading Income	238	-20,1	298	278	283
Equity Accounted Results	307	-27,8	425	826	526
Dividends from Equity Instruments	147	-9,8	163	146	127
Other Income	703	-5,3	742	831	698
Operating Income	**9.469**	**-2,7**	**9.733**	**10.122**	**9.350**
Expense					
Depreciation and Amortisation	759	-3,4	786	788	773
Personnel Expense	2.841	-4,6	2.978	2.958	2.981
Tech & Communications Expense	594	+2,4	580	511	429
Marketing and Promotion Expense	168	-11,6	190	174	143
Other Provisions	221	+18,8	186	441	762
Other Expense	1.468	-5,4	1.551	2.442	1.726
Operating Expense	**6.051**	**-3,5**	**6.271**	**7.314**	**6.812**
Operating Profit & Impairment					
Pre-impairment Operating Profit	**3.418**	**-1,3**	**3.462**	**2.808**	**2.537**
Asset Writedowns	2.259	> +100	425	187	943
Net Income					
Non-Recurring Income	441	> +100	18	186	690
Non-Recurring Expense	-	-	978	-	186
Pre-tax Profit	**1.600**	**-23,0**	**2.077**	**2.807**	**2.098**
Income Tax Expense	219	-40,7	369	712	378
Discontinued Operations	-	-	-	-55	-2
Net Profit	**1.381**	**-19,1**	**1.708**	**2.040**	**1.719**
Attributable to minority interest (non-controlling interest)	-	-	3	55	34
Attributable to owners of the parent	1.381	-19,0	1.705	1.985	1.684

CB's intrinsic profitability, which is indicated by the bank's cost to income ratio (CIR), remained at a satisfying level. As trading income does not have a significant impact, the bank's cost to income ratio excl. trading is in line with the bank's CIR. After consolidation with Bankia, we expect no worsening in this regard in the long-run in particular following the bank's cost cutting and employee redundancy programs.

The values for ROA, ROE and RORWA before and after taxes worsened in a year-over-year comparison following the significant impairments on loans due to the Corona pandemic in 2020. However, this development is in line with other large European banks. Still, CB reached decent figures, which are a result of the aforementioned sale of the stake in Comercia Global Payments with a significant positive impact. CB's net financial margin lowered to an only average level, which indicates the current pressure on margins respectively interest rates.

Considering the development in 2021 and following the consolidation with Bankia, we expect no significant changes of the profitability figures in the short run (excl. extraordinary impact of the consolidation and the employee redundancy program). However, in the long-run CB will likely benefit from its cost cutting measures. In addition, the release of the bank's loan loss impairments of 2020 following the Corona pandemic might boost CB's earnings figures (in addition to the one-off effect of negative goodwill of about €4.3bn). Overall, CB's profitability figures are on a moderate level, but are subject to the pressure of the low interest rate environment.

A detailed overview of the income ratios for the years of 2017 through 2020 can be found in Figure 2 below:

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

Income Ratios (%)	2020	%	2019	2018	2017
Cost Income Ratio (CIR)	63,90	-0,53	64,43	72,26	72,86
Cost Income Ratio ex. Trading (CIRex)	65,55	-0,91	66,47	74,30	75,13
Return on Assets (ROA)	0,31	-0,13	0,44	0,53	0,45
Return on Equity (ROE)	5,46	-1,33	6,79	8,37	6,96
Return on Assets before Taxes (ROAbT)	0,35	-0,18	0,53	0,73	0,55
Return on Equity before Taxes (ROEbT)	6,33	-1,93	8,26	11,52	8,50
Return on Risk-Weighted Assets (RORWA)	0,96	-0,20	1,15	1,40	1,16
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,11	-0,29	1,40	1,92	1,41
Net Interest Margin (NIM)	1,49	-0,34	1,82	1,75	1,45
Pre-Impairment Operating Profit / Assets	0,76	-0,13	0,88	0,73	0,66
Cost of Funds (COF)	0,54	-0,19	0,73	0,69	0,74

Change in %- Points

Asset Situation and Asset Quality

Net loans to customers represent the largest share of assets, increasing YOY as well as after consolidation with Bankia as of June 2021 to about €355 billion. The increase YOY is driven by the increased demand of corporates and SME's following the Corona pandemic impact and increased liquidity needs in addition to increased lending to the public sector impacted by a one-off transaction. However, ongoing lower volume of home loans, which is a result of ongoing deleveraging of households partially, offsets the positive development. As of June 2021 and after consolidation with Bankia, CB's lending portfolio consists primarily of loans to individuals for home purchases (€143.5 billion), loans to corporates (€146.3 billion) and loans to the public sector (€24 billion). As a result of the Corona pandemic, CB granted about €22bn (as of June 2021) of government-backed loans where CB bears only a partial risk. In addition, CB reduced its loans outstanding affected by moratorium measures significantly to only about €6.8 billion. Overall, CB's loan book is diversified by customers and industries, but geographically highly concentrated in Spain.
CB's cash position is the bank's second largest asset. As of June 2021, CB further increased its balances with central banks as a result of additional funding due to the ECB's TLTRO III program to a total volume of €81.1 billion (€25.2 billion related to Bankia). Although this program enables very favorable rates if conditions are met, CB's huge cash position indicates difficulties in finding appropriate investment opportunities. Following that, the bank has to be aware of negative deposit rates.
Total securities, as the third largest financial asset consists primarily of Spanish government debt securities. As of year-end 2020, CB reported about €31 billion of debt securities of Spain (CRA Sovereign Rating as of 16.07.2021: A-/negative), however, the bank increased (mostly due to the merger with Bankia) its holdings to about €70 billion as of June 2021 and tightened thereby the relation to the wellbeing of the Spanish economy. The increase in CB's insurance assets since 2018 is related to accounting applications and the presentation of the specific presentation of these assets and did not change significantly following the merger with Bankia.

A detailed look at the development of the asset side of the balance sheet for the years of 2017 through 2020 can be taken in Figure 3 below:

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

Assets (EUR m)	2020	%	2019	2018	2017
Cash and Balances with Central Banks	51.615	> +100	15.116	19.163	20.155
Net Loans to Banks	5.847	+13,5	5.153	7.550	7.479
Net Loans to Customers	237.073	+6,6	222.320	218.294	215.406
Total Securities	45.267	+21,7	37.198	40.428	92.049
Total Derivative Assets	6.085	-27,8	8.433	10.995	10.770
Other Financial Assets	-	-	-	-	912
Financial Assets	**345.887**	**+20,0**	**288.220**	**296.430**	**346.772**
Equity Accounted Investments	3.443	-12,6	3.941	3.879	6.224
Other Investments	2.007	-15,2	2.367	2.812	-
Insurance Assets	77.241	+6,3	72.683	61.688	275
Non-current Assets & Discontinued Ops	1.198	-11,5	1.354	1.239	6.069
Tangible and Intangible Assets	8.899	+1,7	8.754	7.058	10.285
Tax Assets	10.626	-4,4	11.113	11.264	11.055
Total Other Assets	2.219	-25,6	2.982	2.176	2.505
Total Assets	**451.520**	**+15,4**	**391.414**	**386.546**	**383.186**

CaixaBank's asset quality improved significantly over the recent years and CB was able to catch up to its competitors, however, the merger with Bankia shows a step backwards in this regard.

The NPL ratio reached a satisfying level of 3.3% at year-end 2020; however, after the merger with Bankia and as of June 2021, CB recorded a worsening in this regard and presented a NPL ratio of about 3.6%. The coverage ratio of 67% at year-end 2020 is at a reasonable level and shows an adequate, prudent approach. As of June 2021, CB presented only a slight worsening in this regard and reached a coverage ratio of 64%. As of now, one of the most significant impacts of the Corona pandemic is evident through the increased stage 2 loan exposure, which indicates potential problem loans. With a potential problem loan ratio of about 8.5%, CB reached an elevated level. In addition, as of June 2021, CB recorded a further increase to about 9.5%, which indicates upcoming risk. In particular, after the run-out of all government support measures a shift from potential problem loans to non-performing loans is likely.
CB's net write-offs / RWAs ratio as well as the bank's net-write-offs to total assets ratio dropped to an unsatisfying level, however, this development is in line with other large European banks. The background of this development are huge loan loss provisions of about €1.9bn primarily on customer loans. However, about €1.2bn of these risk provisions were a result of adjusted macroeconomic scenarios and predetermined to anticipate future impacts associated with COVID-19. As of June 2021 and after the merger with Bankia, both of CB's write-off ratios normalized and reached a reasonable level. By contrast, the RWA ratio of CB remained YOY and after the Bankia merger at a sound level and is in line with other large European banks.

A detailed overview of the asset quality for the years of 2017 through 2020 can be found in Figure 4 below:

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

Asset Ratios (%)	2020	%	2019	2018	2017
Net Loans/ Assets	52,51	-4,29	56,80	56,47	56,21
Risk-weighted Assets/ Assets	31,91	-5,87	37,78	37,76	38,80
NPLs*/ Net Loans to Customers	3,30	-0,30	3,60	4,70	3,38
NPLs*/ Risk-weighted Assets	5,73	+0,06	5,67	7,35	4,90
Potential Problem Loans**/ Net Loans to Customers	8,46	+1,47	6,99	7,48	3,28
Reserves/ NPLs*	67,94	+11,92	56,02	53,23	93,49
Reserves/ Net Loans	2,37	+0,25	2,11	2,62	3,16
Net Write-offs/ Net Loans	0,95	+0,76	0,19	0,09	0,44
Net Write-offs/ Risk-weighted Assets	1,57	+1,28	0,29	0,13	0,63
Net Write-offs/ Total Assets	0,50	+0,39	0,11	0,05	0,25
Level 3 Assets/ Total Assets	1,72	+0,14	1,58	1,56	0,75
Change in %- Points					

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

Refinancing, Capital Quality and Liquidity

Total deposits from customers represent the major source of refinancing with 57% of the Group's total liabilities, increasing to 60% after the merger with Bankia as of June 2021. Overall and after the Bankia merger, CB records increasing customer deposits following the increased liquidity needs of customer primarily as a result of the Corona pandemic. In particular, the Group attracts massive demand deposits (90% of customer deposits), while the time deposits (10% 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, which is however an unlikely scenario. About 7.3% of the Group's customer deposits are related to BPI.

Total debt, decreasing over recent years and accounting for only 8.3% (€53bn) of CB's liabilities as of June 2021. In 2020, CB issued two senior preferred bonds each €1bn, one senior non-preferred bond worth €1bn and an AT1 bond of about €750mn. In addition, CB issued in January 2021 a senior non-preferred green bond of about €1bn. CB's debt securities issued at year-end 2020 are diversified and consists primarily of mortgage covered bonds (€14.5 billion) and plain vanilla bonds (€11.7 billion), which increased over the recent years. CB did not present any post-merger data with regard to debt securities issued in its half-year report 2021.

Over the last years, CB increased its deposits at central banks significantly. This development is in line with other large European Banks and a result of the TLTRO III funding program of the ECB, which enables very favorable funding rates if conditions are met. CB participated in this program and took a total amount of €81.1bn as of June 2021 (thereof €25.2bn related to Bankia). However, as seen on the bank's assets side, CB has difficulties in finding investment opportunities.

CB's insurance liabilities are related to its fully-owned subsidiary VidaCaixa, and the balance sheet item includes mainly mathematical provisions (79%) relating to the life insurance business.

A detailed overview of the development of liabilities for the years of 2017 through 2020 can be found in Figure 5 below:

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

Liabilities (EUR m)	2020	%	2019	2018	2017
Total Deposits from Banks	54.597	> +100	19.738	35.047	43.196
Total Deposits from Customers	243.163	+10,7	219.600	206.974	211.849
Total Debt	35.813	+6,4	33.648	29.244	29.919
Derivative Liabilities	2.002	-48,1	3.856	10.653	10.063
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	7.635	-23,3	9.952	11.594	4.919
Total Financial Liabilities	**343.210**	**+19,7**	**286.794**	**293.512**	**299.946**
Insurance Liabilities	75.129	+6,1	70.807	61.519	49.750
Non-current Liabilities & Discontinued Ops	14	-80,3	71	82	82
Tax Liabilities	1.231	-5,0	1.296	1.351	1.388
Provisions	3.195	-11,8	3.624	3.079	5.001
Total Other Liabilities	3.463	-5,7	3.671	2.639	2.335
Total Liabilities	**426.242**	**+16,4**	**366.263**	**362.182**	**358.503**
Total Equity	**25.278**	**+0,5**	**25.151**	**24.364**	**24.683**
Total Liabilities and Equity	**451.520**	**+15,4**	**391.414**	**386.546**	**383.186**

CaixaBank's regulatory capital ratios improved over the recent years but are still below average.

CaixaBank's increase in the CET1 ratio to 13.6% at year-end 2020 is mainly a result of organic variation, transitional adjustments and retained earnings (dividend reduction following Covid-19). However, as of June 2021 CB reported a reduction of its CET1 ratio to 12.9% (12.5% fully loaded). The reduction is among others due to the impact of the purchase price allocation following the Bankia integration, restructuring costs in addition to regulatory impacts, while Bankia's integration and the organic evolution partially counteracted the negative development. As CB's internal targeted CET1 ratio is between 11% and 11.5% (excl. IFRS9 impact) and a buffer of 250-300bp to the SREP requirements, a further decline of the CET1 ratio is expected and a payout ratio of 50% is already announced. As of June 2021, CB shows a large capital buffer of 468bp to its SREP requirement of 8.19% with regard to its CET1 ratio. The bank's AT1 ratio as well as its Total Capital ratio dropped similarly to the CET1 ratio as of June 2021 (AT1: 14.8%, TC: 17.4%). However, the bank's AT1 ratio benefits from the issue of a €750 million AT1 bond carried out in October 2020. In addition, a further decline is expected for both ratios according to the CET1 target, which would eventually result in below average regulatory capital ratios. Nonetheless, CB meets clearly all requirements but the bank would do well to increase its leeway with regard to the targeted buffer to the SPEP requirements. Considering the Leverage ratio and the bank's total equity to total assets ratio, each at 5.6%, CB reports a decline YOY, which has continued as of the half-year 2021 (each ratio at about 5.1%) and reached thereby an only below average level.

As of June 2021, CaixaBank's capital figures are the least favorable performers in any of the areas analyzed with a declining trend.

The Group's LCR of 276% at year-end 2020 and of 333% as of June 2021 is clearly at the upper end in comparison to other large European banks and shows the bank's massive excess liquidity position. The bank's 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 significant TLTRO III participation). In addition, the almost equal LTD ratio shows an adequate demand for the Group's loans, however, with a declining trend.

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 capital and liquidity ratios for the years of 2017 through 2020 can be found in Figure 6 below:

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

Capital Ratios and Liquidity (%)	2020	%	2019	2018	2017
Total Equity/ Total Assets	5,60	-0,83	6,43	6,30	6,44
Leverage Ratio	5,60	-0,30	5,90	5,50	5,50
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	13,60	+1,60	12,00	11,50	11,70
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	15,70	+2,20	13,50	13,00	12,30
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	18,10	+2,40	15,70	15,30	15,70
SREP Capital Requirements	8,10	-0,68	8,78	8,75	7,38
MREL / TLAC Ratio	26,30	+4,50	21,80	18,90	17,20
Net Loans/ Deposits (LTD)	97,50	-3,74	101,24	105,47	101,68
Interbank Ratio	10,71	-15,40	26,11	21,54	17,31
Liquidity Coverage Ratio	276,00	+97,00	179,00	200,00	202,00
Customer Deposits / Total Funding (excl. Derivates)	57,32	-3,28	60,59	58,88	60,80
Net Stable Funding Ratio (NSFR)	145,00	+16,00	129,00	117,00	112,00
Change in %- Points					

*Fully loaded figures whenever available.

In general, CB's capital and debt instruments have been upnotched following the upgrade of the long-term issuer rating. Due to CB's bank capital and debt structure, the Group's Preferred Senior Unsecured debt instruments have not been notched down in comparison to the long-term issuer rating. Due to the seniority structure, CaixaBank's Non-Preferred Senior Unsecured debt has been notched down by one notch. Both, PSU and NPS received an additional upnotch in comparison to the rating in the previous year, due to the increased upstreamed capital buffer. However, CB's Tier 2 capital rating is rated 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.

Environmental, Social and Governance (ESG) Score Card

CaixaBank has one significant and two moderate ESG rating driver

• Corporate Governance is identified as a 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 late integration of ESG factors in its general strategy whereby we perceive a catch-up in this regard.

• Corporate Behaviour and Green Financing / Promoting are identified as moderate rating driver. While Green Financing / Promoting is rated neutral due to relatively low but increasing 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 2021	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 Environmental Factors	The sub-factor "Exposure to Environmental Factors" has a low relevance for the credit rating, and is rated positive 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, and is rated very 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, and 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 positive 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 neutral 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 positive 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 positive 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) showed a decent year of performance in 2020 despite the Corona pandemic impact. However, the bank faces a challenging period due to the merger with Bankia. CaixaBank reached a considerable net result despite the impact of the Corona pandemic, which resulted in significant loan loss impairments but as of now not in a material worsening of the asset quality of the bank. We upgrade the long-term issuer rating of CB from BBB to BBB+ due to a change in our methodology where CB benefits from being the leading financial institution in Spain (after merger) with a diversified business model. In addition, CB's rating benefits from the only minor impact of the Corona pandemic on the bank's performance, in contrast to our previous expectations.

The Group reported decent earnings figures in 2020 despite the Corona pandemic impact, however, the bank's earnings figures were boosted by the sale of the stake in Comercia Global Payments. The massive increase in loan loss provisions has a significantly negative impact on the bank's profitability. However, as the Corona impact did not materialize as expected some reversals of the loan loss provisions are likely, which will boost eventually the bank's profitability in the upcoming years. In addition, the merger with Bankia might lead to cost and revenue synergies as well. Moreover, CB reports a normalization of its cost of risk (calculated as impairment on financial assets over net loans to customers) already in 2021. In addition, CB will benefit from its ongoing cost cutting/restructuring measures in the upcoming years, which will ensure that the bank will maintain its sound intrinsic profitability.

The asset quality of CB improved over the last years to a moderate level, however, the bank denotes little worsening due to the Corona pandemic and due to the merger with Bankia. As of now, the Corona pandemic has led to increased stage 2 exposure (potential problem loans) and higher loan impairments. The exposure related to memorandum measures was reduced to an insignificant amount. However, with the run out of public guarantees and support measures, the Corona pandemic might have a negative impact on the bank's asset quality over the next years.

On the liabilities side, CB reported increasing customer deposits and increasing cash and balances with central banks, which is in line with the development of other large European banks. The participation in ECB's TLTRO III funding program, enables CB to reduce its costs of funding. CaixaBank's regulatory capital ratios are clearly below the average of its competitors but the bank meets all regulatory requirements with sufficient buffer to the SREP requirements. However, a further lowering in this regard is expected following the lower targeted ratios of the bank. The liquidity situation of BBVA remains sufficient.

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 and mange a cost efficient integration of Bankia. However, we will observe if the bank will reach its targeted synergies and to which end the final impact of the Corona pandemic will have an impact on the bank's business operations. In addition, we assume no significant economic worsening due to the Corona pandemic and stable political environment in the bank's markets of operations.

Scenario Analysis

Best-case scenario: A

Worst-case scenario: BBB-

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 "A" rating in the "best case" scenario and an "BBB-" 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 CaixaBank 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 bank's 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): **BBB**
Tier 2 (T2): **BB**
Additional Tier 1 (AT1): **BB-**

Rating History

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

Figure 7: 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
Rating Update	02.11.2021	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+
PSU / NPS / T2 / AT1	02.11.2021	BBB+ / BBB / BB / BB-

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.

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 (v3.0), the methodology for the rating of bank capital and unsecured debt instruments (v2.0) as well as the rating methodology for Environmental, Social and Governance Score for Banks (v1.0) in conjunction with Creditreform's basic document Rating Criteria and Definitions (v1.3).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (v1.3) are published on our homepage:

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

On 02 November 2021, 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.

Rating Endorsement Status: The rating of CaixaBank S.A. (Group) was not endorsed by Creditreform Rating AG from a third country as defined in Article 4 (3) 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.

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