

Long-Term Issuer Rating: BBB+
Outlook: stable

Short-Term Rating: L3

Preferred Sen. Unsec. Debt: BBB
Non-Preferred Sen. Unsec. Debt: BBB-
Tier 2 Capital: BB
AT1 Capital: BB-

08 July 2019

Rating Action:

Creditreform Rating upgrades CaixaBank S.A. (Group) long-term issuer rating by one notch to 'BBB+' (Outlook: stable). In addition, our ratings of the Group's bank capital and debt instruments are affected by the change in our rating methodology.

Creditreform Rating (CRA) has upgraded CaixaBank S.A. (Group) long-term issuer rating to 'BBB+' from 'BBB' and affirms the short-term rating at 'L3'. The rating outlook is stable.

At the same time, we upgrade the rating of the Tier 2 capital to 'BB' from 'BB-' and the rating of AT1 capital to 'BB-' from 'B+' of CaixaBank S.A. (Group). However, adjustments in our rating methodology for bank capital and debt instruments occurred because of legislative alterations in the European Union. As a result, CRA reclassifies its rating of senior unsecured debt to preferred senior unsecured debt and upgrades it to 'BBB' from 'BBB-'. In addition, CRA assigns the non-preferred senior unsecured debt, which ranks junior to preferred senior unsecured debt, the following rating: 'BBB-'.

Please find a complete list of rating actions regarding the bank at the end of this rating action paper.

Key Rating Drivers

CRA has revised the rating of CaixaBank S.A. (Group) - in the following referred to as CaixaBank - and its bank capital and debt instruments as a result of our updating process for the following reasons:

- Continues reduction of its non-performing exposures
- Sustainable improvement of its earnings figures
- Adequate but below peer group average capitalization
- Ongoing objective to improve its asset-quality and profitability according to its 2019-2021 Strategic Plan

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Rating Rationale

CaixaBank's credit rating upgrade was primarily driven by its improved and sustainable profitability and the considerably improvement of its asset quality.

Profitability

The bank's ongoing increase in its profitability over the last years is striking. Since 2015, CaixaBank steadily improved its main earnings figures ROA, ROE and RORWA. In addition, the bank revealed declining cost of funds. However, CaixaBank's cost-to-income ratios remain average.

Moreover, according to CaixaBank's '2019-2021 Strategic Plan' the bank targets to improve its asset quality by reducing its non-strategic assets while increasing its profitability by lowering its operating costs.

For details regarding the banks profitability, we refer to figure 2 and figure 3 in the appendix.

Asset Situation and Asset Quality

CaixaBank's non-performing exposures reduced considerably by about 3 bn € year-over-year. The banks NPL ratio (stage 3 loans over net loans to customers) dropped from 6.3% to 4.9%. Thus, the banks still displays an above average NPL ratio, while catching up to the average of the peer group with its ratio. In addition, according to CaixaBank's 2019-2021 Strategic Plan the banks aims to further reduce its bad loans to achieve an NPL ratio below 3% in 2021.

By contrast, the banks RWA ratio is still in line with the average of the peer group despite slight improvements.

For details regarding CaixaBank's asset situation and asset quality, we refer to figure 4 and figure 5 in the appendix.

Refinancing and Capital Quality

CaixaBank exhibits below average regulatory capital ratios, however, the bank targets to improve in it capitalization and expects to reach a fully loaded CET1 ratio by around 12% at year-end 2019. By contrast, the banks total equity to total assets ratio as well as its leverage ratio are in line with the average of the peer group. Nonetheless, the banks capitalization leaves room for improvements.

The ratings of CaixaBank's bank capital and debt instruments are affected due to our rating mechanism and the recent change in our methodology.

For details regarding the banks refinancing and capital quality, we refer to figure 6 and figure 7 in the appendix.

Liquidity

In our opinion, the overall liquidity situation of the bank is satisfactory. Noteworthy is the banks stable and balanced loan-to-deposit ratio as well as its relatively high liquidity coverage ratio.

For details regarding the banks liquidity, we refer to figure 8 in the appendix.

Outlook

We consider the outlook of CaixaBank's long-term issuer rating and its bank capital and debt instruments as stable. This reflects our view that the banks is likely to keep being profitable in the upcoming years while still have to manage its high stock of non-performing exposures. However, we will observe if CaixaBank is able to meet its targets according to its '2019-2021 Strategic Plan'.

In addition, we assume a stable political and economic environment in CaixaBank's markets of operations, especially in the Catalan region.

Scenario Analysis

In a scenario analysis, CaixaBank's rating developed significantly better in the "best case" scenario and significantly worse 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 could further upgrade CaixaBank's long-term issuer credit rating and its bank capital and debt instruments if we see CaixaBank outperforming its targets according to its 'Strategic Plan 2019-2021'. In addition, a continuous improvement of the bank's asset quality and a considerable increase in its capitalization might lead to an upgrade.

By contrast, a downgrade of CaixaBank's long-term issuer credit rating and its bank capital and debt instruments is likely if we see that CaixaBank is not able to reach its targets according to its 'Strategic Plan 2019-2021'. In addition, a declining or not sustainable profitability, as well as problems in relations with the bank's projected reduction of its non-performing exposures might lead to a downgrade of the bank's long-term issuer rating and its bank capital and debt instruments.

CRA's rating actions at a glance

CaixaBank S.A. (Group):

- Long-Term Issuer Rating upgraded to 'BBB+' from 'BBB', stable outlook
- Short-term rating affirmed at 'L3'
- Senior unsecured debt reclassified to preferred senior unsecured debt and upgraded to 'BBB' from 'BBB-'
- Non-preferred senior unsecured debt rated at 'BBB-'
- Tier 2 capital upgraded to 'BB' from 'BB-'
- AT1 capital upgraded to 'BB-' from 'B+'

Ratings Detail

Bank ratings

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

LT Issuer / 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-**

Ratings Detail and History

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

Figure 1: Ratings Detail and History

Bank Issuer Rating	Rating Date	Publication Date	Result
Initialrating	23.05.2018	04.06.2018	BBB / stable / L3
Rating Update	08.07.2019	10.07.2019	BBB+ / stable / L3
Bank Capital and Debt Instruments	Rating Date	Publication Date	Result
Senior Unsecured / T2 / AT1 (Initial)	23.05.2018	04.06.2018	BBB- / BB- / B+
PSU / NPS / T2 / AT1	08.07.2019	10.07.2019	BBB / BBB- / BB / BB-

Appendix

Figure 2: Group income statement | Source: eValueRate / CRA

Income Statement	2015	2016	2017	%	2018
Income (€000)					
Net Interest Income	4.352.650	4.156.856	4.745.533	+3,4	4.906.900
Net Fee & Commission Income	2.114.775	2.090.253	2.498.669	+3,4	2.583.343
Net Insurance Income	214.496	310.501	471.625	+16,7	550.503
Net Trading Income	863.728	849.141	282.843	-1,7	277.976
Equity Accounted Results	375.135	628.518	526.153	+57,0	825.963
Dividends from Equity Instruments	202.719	198.618	127.232	+15,1	146.491
Other Income	515.336	436.667	583.105	-74,0	151.894
Operating Income	8.638.839	8.670.554	9.235.160	+2,3	9.443.070
Expenses (€000)					
Depreciation and Amortisation	821.407	598.615	597.296	-24,1	453.135
Personnel Expense	3.178.805	2.745.349	2.981.413	-0,8	2.958.428
Tech & Communications Expense	301.940	301.010	358.214	+23,6	442.748
Marketing and Promotion Expense	116.406	133.954	142.541	+22,0	173.855
Other Provisions	422.315	486.532	761.648	-42,0	441.611
Other Expense	1.423.450	1.560.874	1.796.154	+2,0	1.831.363
Operating Expense	6.264.323	5.826.334	6.637.266	-5,1	6.301.140
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	2.374.516	2.844.220	2.597.894	+20,9	3.141.930
Asset Writedowns	1.359.163	519.138	501.730	-62,9	186.224
Net Income (€000)					
Non-Recurring Revenue	-	-	1.819	-	-
Non-Recurring Expense	377.249	787.020	-	-	148.920
Pre-tax Profit	638.104	1.538.062	2.097.983	+33,8	2.806.786
Income Tax Expense	-180.758	482.183	377.628	+88,5	711.859
Discontinued Operations	-2.360	-944	-1.727	> +100	-54.619
Net Profit	816.502	1.054.935	1.718.628	+18,7	2.040.308
Attributable to minority interest (non-controlling interest)	2.042	7.931	34.461	+61,5	55.661
Attributable to owners of the parent	814.460	1.047.004	1.684.167	+17,8	1.984.647

Figure 3: Group key earnings figures | Source: eValueRate / CRA

Income Ratios (%)	2015	2016	2017	%	2018
Cost Income Ratio (CIR)	72,51	67,20	71,87	-5,14	66,73
Cost Income Ratio ex. Trading (CIRex)	80,57	74,49	74,14	-5,39	68,75
Return on Assets (ROA)	0,24	0,30	0,45	+0,08	0,53
Return on Equity (ROE)	3,24	4,48	6,96	+1,52	8,48
Return on Assets before Taxes (ROAbT)	0,19	0,44	0,55	+0,18	0,73
Return on Equity before Taxes (ROEbT)	2,53	6,53	8,50	+3,17	11,67
Return on Risk-Weighted Assets (RORWA)	0,57	0,78	1,15	+0,24	1,40
Return on Risk-Weighted Assets before Taxes (RORWAbT)	0,45	1,14	1,41	+0,51	1,92
Net Interest Margin (NIM)	1,72	1,60	1,45	+0,30	1,75
Pre-Impairment Operating Profit / Assets	0,69	0,82	0,68	+0,13	0,81
Cost of Funds (COF)	1,48	0,96	0,74	-0,05	0,69
Change in %Points					

Figure 4: Development of assets | Source: eValueRate / CRA

Assets (€000)	2015	2016	2017	%	2018
Cash and Balances with Central Banks	6.615.172	13.259.957	20.160.318	-4,9	19.163.213
Net Loans to Banks	6.649.545	6.741.354	7.374.035	+2,4	7.550.115
Net Loans to Customers	202.896.200	200.338.444	216.418.160	+0,9	218.294.660
Total Securities	73.036.837	79.175.515	92.049.159	-56,1	* 40.427.730
Total Derivative Assets	13.726.932	12.800.893	10.769.958	+2,1	10.995.382
Other Financial Assets	-	-	-	-	-
Financial Assets	302.924.686	312.316.163	346.771.630	-14,5	296.431.100
Equity Accounted Investments	9.673.694	6.420.710	6.224.425	-37,7	3.878.906
Other Investments	-	-	-	-	-
Insurance Assets	391.225	344.144	275.495	> +100	* 61.688.347
Non-current Assets & Discontinued Ops	7.960.663	6.404.860	6.068.930	-79,6	1.239.460
Tangible and Intangible Assets	9.964.907	10.124.260	10.285.417	-4,0	9.869.502
Tax Assets	11.123.143	10.521.402	11.054.984	+2,6	11.339.607
Total Other Assets	2.217.157	1.795.723	2.505.282	-13,2	2.175.328
Total Assets	344.255.475	347.927.262	383.186.163	+0,9	386.622.250

* Discrepancy in comparison to the previous years due to accounting changes

Figure 5: Development of asset quality | Source: eValueRate / CRA

Asset Ratios (%)	2015	2016	2017	%	2018
Net Loans / Total Assets	58,94	57,58	56,48	-0,02	56,46
Non-Performing Loans (NPL) / Net Loans to Customers	8,18	7,16	6,37	-1,45	4,92
Impairments/ Net loans to customers (%)	4,52	3,34	3,15	-0,53	2,62
Potential Problem Loans / NPL	100,14	63,85	113,66	+38,47	152,13
Risk-Weighted Assets (RWA) / Total Assets	41,63	38,76	38,87	-1,07	37,80
Non-Performing Loans / Risk-Weighted Assets	11,59	10,64	9,25	-1,91	7,34
Net Write-offs / Net Loans to Customers	0,82	0,23	0,36	-0,30	0,06
Net Write-offs / Risk-Weighted Assets	1,16	0,35	0,52	-0,44	0,09
Impairments/ Impaired Loans (%)	55,23	46,61	49,46	+3,77	53,23
Level 3 Assets / Total Assets	0,34	0,23	0,75	+0,81	1,56
Change in %Points					

Figure 6: Development of refinancing and capital adequacy | Source: eValueRate / CRA

Liabilities (€000)	2015	2016	2017	%	2018
Total Deposits from Banks	34.262.452	36.345.140	43.196.050	-13,3	37.440.274
Total Deposits from Customers	186.469.781	190.930.684	211.849.059	-0,8	210.199.908
Total Debt	35.037.842	28.605.754	30.662.795	-3,3	29.642.210
Derivative Liabilities	12.467.975	12.004.957	10.063.472	+5,9	10.652.729
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	2.789.945	2.873.432	4.174.857	+33,6	5.576.181
Total Financial Liabilities	271.027.995	270.759.967	299.946.233	-2,1	293.511.302
Insurance Liabilities	40.290.523	45.803.579	49.750.389	+21,5	60.452.025
Non-current Liabilities & Discontinued Ops	79.059	86.039	82.141	+0,1	82.260
Tax Liabilities	1.555.970	1.186.209	1.388.070	-8,6	1.269.049
Provisions	4.597.740	4.730.271	5.000.941	-7,8	4.610.395
Total Other Liabilities	1.499.638	1.805.635	2.335.108	+13,0	2.638.774
Total Liabilities	319.050.925	324.371.700	358.502.882	+1,1	362.563.805
Total Equity	25.204.550	23.555.562	24.683.281	-2,5	24.058.445
Total Liabilities and Equity	344.255.475	347.927.262	383.186.163	+0,9	386.622.250

Figure 7: Development of capital ratios | Source: eValueRate / CRA

Capital Ratios (€000)	2015	2016	2017	%	2018
Total Equity/ Total Assets	7,32	6,77	6,44	-0,22	6,22
Leverage Ratio	5,70	5,70	5,50	+0,10	5,60
Phased-in: Common Equity Tier 1 Ratio (CET1)	12,90	13,20	12,70	-0,90	11,80
Phased-in: Tier 1 Ratio (CET1 + AT1)	12,90	13,20	12,80	+0,50	13,30
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	15,90	16,20	16,10	-0,50	15,60
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	11,60	12,40	11,70	-0,20	11,50
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	11,60	12,40	12,30	+0,70	13,00
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	14,60	15,40	15,70	-0,40	15,30
SREP Capital Requirements	9,25	9,50	7,37	+0,69	8,06
Change in %Points					

Figure 8: Development of liquidity | Source: eValueRate / CRA

Liquidity (%)	2015	2016	2017	%	2018
Net Loans / Deposits (LTD)	108,81	104,93	102,16	+1,69	103,85
Interbank Ratio	19,41	18,55	17,07	+3,09	20,17
Liquidity Coverage Ratio (LCR)	172,00	160,00	202,00	-2,00	200,00
Customer Deposits / Total Funding (excl. Derivatives)	60,82	61,12	60,80	-1,07	59,73
Change in %Points					

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 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 46 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 unsolicited bank ratings as well as the methodology for the rating of bank capital and unsecured debt instruments in conjunction with Creditreform`s basic document "Rating Criteria and Definitions".

On 08 July 2019, 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 subject to one-year monitoring from the rating date and is valid until withdrawal of the rating. Within this period, the rating can be updated. At the latest after one year, a monitoring is required to maintain the validity of the rating.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG (CRA) is permitted to issue credit ratings within the EU, and is obligated 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 nor any other natural persons whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

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

Rules on the Presentation of Credit Ratings and Rating Outlooks

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

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

1. Transaction structure and participants
2. Transaction documents
3. Issuance documents

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

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

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

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

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

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

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