



ISSUER RATING

Long-term Rating

Outlook: Stable

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Review date: 24/07/2020

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Executive Summary

We reviewed our unsolicited credit rating of CaixaBank S.A. (hereinafter CaixaBank) from A to A - with a stable outlook based on the expected impact that the current economic shock will have on the Bank's situation compared to its rating peers, given its high presence in the Iberian market - highly affected by the complex macroeconomic scenario caused by the COVID-19 and for which we forecast a decline in Spanish GDP of 10,8%-, causing a reduction in banking profitability, an increase in non-performing loans and downward pressure on capitalization, as well as an expected adjustment in the valuation of its financial assets heightening market risk. These consequences have already been reflected in the results of the first quarter of the year despite the partial effects of the crisis in that period.

However, even with these challenges, our rating range continues to consider CaixaBank's leading position in Spanish and Portuguese banking sector, the group's broad diversification of income, the entity's moderate risk profile and the process of improving fundamentals in recent years with a reduction in non-performing loans and a strengthening of the liquidity position that has been accompanied by the ECB's accommodative policies.

Likewise, it is worth noting the adequate capitalization with a wide margin over the supervisor's requirements, the higher coverage of non-performing loans compared to the Spanish banking sector and a stable financing structure based on deposits and complemented by the affordable access to capital markets and the low cost of funding by the central bank.

Fundamentals

- ▶ Macroeconomic scenario of global economic recession with an expected decline in Spanish and Portuguese GDP to historical levels and high uncertainty due to the difficulty of forecasting the progress and intensity of the covid-19 preventing normality in all sectors of the economy.
- ▶ Despite its leading position in the Spanish and Portuguese markets, where it maintains a solid income diversification due to its outstanding position in the credit activity, the strong presence in asset management, the good performance of its insurance business and the participation in other business groups, these activities do not represent a counter-cyclical element given the current economic shock.
- ▶ Ongoing efforts to improve the group's digitalization and reduced presence in physical branches, contributing to cost reduction and improving the group's efficiency, although we expect the scenario of low profitability to continue, which hinders the internal generation of capital.
- ▶ Moderate risk loan portfolio focused on highly prudent mortgage lending and loans to large companies. Less exposure to SMEs compared to their peers and contained involvement in lending to those activities most affected by social distancing measures, a situation that will alleviate the rise in non-performing loans.
- ▶ Adequate levels of capitalization according to the group's risk profile and above the minimum regulatory requirements with a cushion of almost 400bps. Stable deposit-based funding structure with proven effectiveness in accessing capital markets even with the issuance of social bonds demonstrating the inclusion of ESG principles in its activity.
- ▶ Remarkable liquidity position with a balanced loan-to-deposit ratio and comfortable compliance with the main metrics in this regard. The ECB's policies contribute to providing resources to the banking sector and reduce the possibility of a liquidity shock.

Financial figures

Main financial figures (millions €)			
	2018	2019	2020Q1
PROFITABILITY			
Net profit	2.095	1.708	90
ROA*	0,52%	0,44%	0,09%
ROE*	8,01%	6,60%	1,45%
EFFICIENCY			
Cost-to-income	53,13%	54,40%	56,10%
ASSET QUALITY			
Cost of risk	0,06%	0,15%	0,89%
NPL ratio	4,70%	3,60%	3,60%
NPL/Loan loss reserves	53,70%	55,00%	58,00%
LIQUIDITY			
Loan-to-Deposit	105%	100%	101%
SOLVENCY			
CET1 <i>phased-in</i>	11,70%	12,03%	12,01%
CET1 <i>fully loaded</i>	11,50%	12,03%	12,01%
Solvency ratio (<i>fully loaded</i>)	15,30%	15,72%	15,78%
APR density	37,76%	37,78%	35,50%
Leverage*	5,50%	5,90%	5,40%
MARKET VALUATION			
P/BV	0,94	0,80	0,51

Source: CaixaBank & Axesor*

Outlook

Our credit rating with a stable outlook is based on the expected resilience of the Entity to face the complexity of the current macroeconomic scenario, which is particularly deep in the core markets in which CaixaBank operates, and the adequate levels of capitalization and liquidity, and less exposure to the corporate segment most affected by this economic shock.

Sensitivity analysis

Currently and due to the intense deterioration of the macroeconomic environment, we do not expect an improvement in CaixaBank's rating. On the contrary, the rating could be downgraded if the group's profitability falls more than expected, asset quality deteriorates sharply, non-performing loans increase and provisioning requirements increase, all of which would lead to a reduction in capitalization.

Regulatory information

Sources of information

The credit rating issued in this report is unsolicited. The credit rating is based exclusively on public information, being the main sources the following:

1. Annual Audit Report.
2. Quarterly Financial Report.
3. Corporate Website.
4. Corporate Governance Report.
5. Prudential Relevance Report.
6. Information published in the Official Bulletins.

The information was thoroughly reviewed to ensure that it is valid and consistent, and is considered satisfactory. Nevertheless, Axesor Rating assumes no responsibility for the accuracy of the information and the conclusions drawn from it.

Level of the rated entity participation in the rating process

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

Additional information

- The rating was carried out in accordance with Regulation (EC) N°1060/2009 of the European Parliament and the Council of 16 September 2009, on credit rating agencies, and in accordance with the Outlook Methodology and Banks Rating Methodology that can be consulted on www.axesor-rating.com/en/about-axesor/methodology and according to the Long-term Corporate Rating scale available at www.axesor-rating.com/en/about-axesor/rating-scale.
- Axesor publishes data on the historical default rates of the rating categories, which are located in the central statistics repository CEREP, of the European Securities and Markets Authority (ESMA).
- In accordance with Article 6 (2), in conjunction with Annex I, section B (4) of the Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009, it is reported that during the last 12 months axesor has provided ancillary services to related third parties of the rated entity, but not to the rated entity. However, according to our Conflict of Interest Policy, it does not involve a conflict of interest, since the aggregate sale does not exceed 5% of net turnover.
- The issued credit rating has been notified to the rated entity, and has not been modified since.

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