Daiwa Capital Markets

CaixaBank S.A.

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	Sr. Preferred	Sr. Non-Preferred	Outlook
Moody's	Baa1	Baa3	Stable
S&P	A-	BBB	Stable
Fitch	A-	BBB+	Stable

Source: Moody's, S&P and Fitch;

Background and ownership

Operationally headquartered in Barcelona, CaixaBank S.A. (Caixa) is one of the leading banking franchises in Spain and became the country's undisputed largest domestic bank following its merger with Bankia, effective end-March 2021. As at 1Q22, total assets amounted to EUR689bn as Caixa operates the largest domestic branch network with 4,824 retail branches serving 18.6 million customers in Spain. In Portugal, Caixa counts a further 1.8 million customers via its fully owned subsidiary Banco Português de Investimento (BPI). BPI is Portugal's fifth largest bank and accounts for 6.6% of CaixaBank's total consolidated assets. Caixa's largest shareholders are la Caixa Foundation (30% of share capital), followed by FROB, Spain's resolution authority Fondo de Reestructuracion Ordenada Bancaria (16.1%), as a result of the merger with Bankia. 53.7% are free float.

Mergers and divestments

In Spain, CaixaBank and state-controlled Bankia agreed to merge in September 2020. The merger had significant implications for the competitive landscape in Spain as Caixa was already one of the country's largest domestic banks. The combined entity significantly widened the gap to its main rivals BBVA and Santander, whose business models are more international. The combined entity operates under the CaixaBank name with Bankia having transferred its balance sheet to Caixa at 1Q21 and ceased to exist as a legal entity. The Bankia merger underscores Caixa's successful track record of executing on various mergers and acquisitions over the past decade while tie-ups by some of its domestic peers failed to materialise over the same period.

Caixa revised upwards its planned annual pre-tax cost synergies from the merger to EUR940m by 2023 from the initial expectation of EUR770m when the deal was announced. 63% of those savings come from a reduction in personnel expenses, which Caixa agreed with trade unions in July 2021, resulting in a cut in headcount of nearly 6,500 employees (95% complete as of May) as well as 1,500 branch closures (90% complete as of May). Expected annual net revenue synergies amounting to EUR300m should materialise by 2025, following the unwinding of joint ventures that Bankia had previously entered. More broadly speaking, consolidation in the Spanish banking sector is considered relatively advanced at this stage as the top four banking groups already make up three quarters of the domestic loan market. Any further M&A activity is thus likely to take place outside of Spain.

In November, Caixa sold its 9.92% stake in Erste Group for EUR1.5bn through a combination of share sales and settling equity swaps. The move was communicated just one month prior, with Caixa stating that it considered its investment in the Austrian banking group to have been non-core. This is part of Caixa's wider strategy to shift its focus on its core markets, ending its foray into Eastern Europe where Erste is firmly positioned. The sale implies a positive effect on Caixa's gross profit by EUR54m and will strengthen the group's CET1 ratio by 16bps

2022-2024 Strategic plan objectives

2022-2024 - Key Financial Targets		
Ratios (%)	1Q22	2024
Revenue growth*	0.1	7
RoTE ratio	7.6	>12
Cost-to-Income ratio	57.4	<48
NPL ratio	3.5	<3
Cost of Risk (bps)	24	<35
Performing loan growth*	-2.8	0.5
CET1 ratio	13.4	11-12

*Source: Company reports,*yoy change*

CaixaBank raised some of its key financial targets under its new 2022-2024 strategic plan as it plans to broaden and further engage with its customer base. This is expected to support revenue growth of 7% CAGR by 2024 while RoTE is expected to grow to 12% from 7.6% in 1Q22. Drivers for this are expected to include a more favourable rates environment, stronger earnings and a well-managed cost base. The war in Ukraine still presents a drag on activity but Caixa points toward its post-pandemic GDP outlook in order to achieve these goals. It expects 2022 GDP growth of 4.2% for both Spain and Portugal, eventually slowing to 2.2% and 2% respectively by 2024. Net loan growth will likely be modest at best, with an annual growth rate of 0.5% reflecting the high churn rate of existing mortgages. Asset quality targets are only slightly improved suggesting delinquent loans could remain broadly unchanged in a slowing economic environment. Nevertheless, Caixa has guided for an average CoR measure of below 35bps for the forecast period, which is improved on assumptions from previous business plans. However, it should be noted that the figure benefits from a EUR1.4bn Covid-19 reserve release and would have otherwise been <45bps. The group's earnings-generating capacity and solid buffers over capital requirements allow for sizeable ~EUR9bn in capital distribution to shareholders, incl. EUR1.8bn in 2022 and a CET1 target range of 11-12%.

Main Activities

Caixa provides universal banking services to retail clients, SME's and large corporates. The group is strongly retail oriented and as such its loan book largely comprises loans to households (52% of total), with loans to corporates and SME's making up most of the remainder (42%) at 1Q22. Following the integration of Bankia, Caixa's self-reported market shares indicate leading positions among loans to customers (24%) and customer deposits (25.2%). Caixa states that its business model broadly operates through its retail banking (Premier Banking, Individual Banking, Businesses and Micro-Enterprises) and specialised centres (Private Banking, CIB & International Banking, Business Banking). However, for segment financial reporting purposes, it groups the different divisions as follows:

- **Banking & Insurance (92.9% of 1Q22 gross revenues):** aggregates the group's banking, insurance and asset management activities mainly in Spain, as well as the real estate business and ALCO's activity in liquidity management and income from financing the other businesses. The insurance, asset management and cards business acquired by CaixaBank from BPI during 2018 is also part of this segment.
- **BPI (6.4%):** covers the income from BPI's domestic banking business. The income statement excludes the results and balance sheet figures associated with the assets of BPI assigned to the equity investments business. It furthermore excludes the results and balance sheet figures of participations in Banco de Fomento Angola (BFA) and Banco Comercial e de Investimentos (BCI).
- **Equity Investments (0.7%):** this line of business shows earnings, net of funding expenses, from the stakes held in Caixa's participations. As of end-March 2022, the bank had equity investments in SegurCaixa Adeslas (49.9% stake), BFA (48.1%), BCI (35.7%), Comercia Global Payments (20%), Coral Homes (20%), Gramina Homes (20%), Telefónica (4.5%).

Financial strength indicators

Profitability – As of 1Q22, Caixa reported operating income of EUR2.8bn (+0.1% yoy) against expenses of EUR1.5bn (-3.9%). Extraordinary expenses related to the Bankia merger were minimal and we don't expect further significant charges as these have mostly been taken in previous quarters. Lower costs are in line with guidance and reflect headcount reductions and branch closures. Net interest income stood at EUR1.6bn (-5.4% yoy), affected by a lower-day count and lower average loan volumes during the quarter, as well as the persistently low interest rate environment in the Eurozone. To mitigate this, Caixa has been shifting its asset composition towards fee and commission yielding activities as well as investing in digitalisation with the aim of reducing costs down the line. Fee and commission income registered at EUR969m, up 2.9% on the same period last year, benefitting mainly from management of higher asset volumes. Other income streams stem from insurance or reinsurance contracts (EUR202m), trading income (EUR144m) and share profit of equity accounted participations (EUR50m).

CaixaBank – Key Data			
Key Ratios (%)	1Q22	1Q21*	1Q20
CET1	13.4	14.1	12.0
Total Capital	17.9	19.0	15.8
NPL	3.5	3.6	3.6
NPL Coverage	65	67	58
LCR	315	309	234
Cost to Income (adj.)	57.4	53.5	56.1
Balance Sheet (EURbn)			
Total assets	689.2	663.5	416.3
Loans to customers	353.4	363.8	231.3
Customer deposits	400.6	372.5	224.7
Debt securities issued	51.9	52.7	34.5
Total Equity	35.9	35.5	24.2
Income Statement (EURbn)			
Revenues	2.7	2.0	2.0
o/w NII	1.5	1.6	1.2
Operating Expenses	-1.5	-1.6	-1.1
Loan Loss Provisions	-0.2	-0.3	-0.5
Net Income	0.7	0.6	0.1

*Source: Company earnings reports, Bloomberg, *Pro-forma figures including Bankia and excluding M&A one-offs*

Like many other banks in Europe, Caixa benefitted from being able to significantly lower loan loss provisions (LLP) in 2021 compared to last year. 1Q22 LLPs, including those of Bankia, stood at EUR228m (-23% yoy) which translates to an annualised cost of risk (CoR) of 24bps. Average 2022-2024 CoR guidance was set at <35bps (from <25bps previously). The group reported net attributable profit of EUR707m, which compared to the comparative pro-forma figures of last year represents a 21.9% increase. RoTE was 7.6% (excl. M&A impacts) compared to 8% one year prior. The cost to income ratio slightly worsened to 57.4% (1Q21: 53.5%) but would have been significantly higher at 76.4% when taking into account extraordinary expenses.

Asset quality – Group total assets amounted to EUR689n, up considerably from EUR541.5bn at FY20 due to the inclusion of Bankia assets. The balance sheet is comprised of customer loans (51% of total), cash and balances at central banks (16%), insurance assets (11%), debt securities (11%), trading assets (1%) and others. Asset quality remained robust with NPLs amounting to just 3.5% of customer loans at 1Q22 while provisions for the same were adequate at 65%. Caixa also reports NPL ratios by segment showing that within loans to individuals, consumer lending had the highest NPLs at 4.2% while loans to businesses had an NPL ratio of 3.4%. Caixa's NPL ratio is slightly above the FY21 domestic sector average of 3.05% as reported by the ECB's supervisory banking statistics report. We observed a considerable increase in stage 2 loans between FY20 and 1H21, indicating increased credit risk, which may translate into higher NPLs in the near term. Caixa's asset quality metrics are more sensitive to macroeconomic developments in Spain than its main peers Santander and BBVA given their international footprints. Despite the shock from higher inflation, Spain's economic recovery from the pandemic should continue this year, supported by stronger demand for services including those related to hospitality and tourism. Indeed, in April the Bank of Spain forecast GDP growth of 4.5% and 2.9% in 2022 and 2023 respectively, above rates expected in other large Euro area member states.

Additional asset quality risks from loans currently backed by government guarantees is fairly limited for Caixa. The group reports that a manageable portion (6%) of its loans are backed by a government guarantee of which proportionally the highest share relates to business loans. In Spain, loan moratoria and government guarantee schemes were implemented to guard businesses from the adverse effects of Covid but were not extended beyond April and May of 2021. However, banks can extend the support to borrowers on their own accord and therefore the expected asset quality deterioration may not be visible on balance sheets immediately. In the case of Caixa this exposure is limited anyway. Overall, the EUR353bn loan book predominantly comprises mortgages (39%), corporates and SME's (42%) or consumer lending (5%).

Funding & Liquidity – Backed by its leading domestic franchise, the group is mostly funded by customer deposits. The group's non-equity funding base amounted to EUR653bn, 77% of which were customer deposits while wholesale funding accounted for 8%. The group's new 2022-2024 funding plan comprises EUR4bn in senior preferred debt, EUR8.5bn in senior non-preferred, EUR5bn in Tier 2 and AT1. Since the beginning of the year, Caixa has already completed 14% of the programme. It is also looking towards currency diversification with GBP and CHF issuance as well as the establishment of a USD MTN programme. We calculate gross customer loans to deposits at 88% (1Q21: 96%; 1Q20: 103%) further highlighting the limited reliance on wholesale market funding. Caixa's maturity profile is conservatively managed in that maturities are evenly spread out. Upcoming debt maturities are deemed manageable while high quality liquid assets (HQLA) amount to a sizeable EUR171bn at 1Q22 (25% of total assets), comfortably covering any undrawn corporate or SME credit lines. Caixa has taken advantage of favourable funding rates offered by the ECB's TLTRO programme and as at 1Q22 total funding under the programme amounted to EUR80.7bn. This is up EUR31bn since the beginning of 2021, considering the inclusion of Bankia but also additional use of the facility. The annual NII revenue contribution from participation in the TLTRO programme currently amounts to some EUR400m but with the end of the favourable borrowing rate in June, Caixa is looking to offset the anticipated decline in top-line revenue through expected bank rate hikes by the ECB and an increased focus on fee and commission income. Liquidity indicators are well above requirements with the LCR at 315% and NSFR at 154%.

In terms of asset and liability management, Caixa stated that its ALCO book grew to EUR70.3bn from EUR62.3bn one year prior with the medium-term target being EUR90bn (~15% of total assets). The book is skewed towards securities at amortised cost (79%) and the remainder fair value through other comprehensive income (FV-OCI). The NII contribution was positive during the last quarter as the bank increased the portfolio size and consequently saw yields improve to 0.5% with the average life remaining below 5 years. During the recent results presentation, senior management stated that they observed a stabilisation in back-book yields and margins at 161bps while the front-loan book was up 27bps to 191bps. The more favourable interest rate outlook is expected to offer material upside to NII going forward. Any steepening of the yield curve will determine the size of the ALCO portfolio going forward. In this context, sovereign exposures are predominantly weighted towards Spain (83%), Italy (7%) and Portugal (5%).

ESG Funding

Caixa developed its SDG bond framework in 2019, which permits the issuance of green, social and sustainability bonds. The framework carries a second party opinion by Sustainalytics, deeming it credible and aligned with the four core components of ICMA's Green and Social Bond Principles. As per Bloomberg data, Caixa has eight ESG-themed bonds outstanding for a total amount of EUR7.5bn. In 2021, ESG issuance amounted to EUR3.6bn across three green and one social bond accounting for 38% of overall Spanish FIG ESG-bonds. This placed CaixaBank second in Daiwa Capital Markets Europe's (DCME) ranking of FIG ESG issuers in terms of volume. Turbulent market conditions throughout 1Q22 have raised concerns that ESG bond volumes from peripheral lenders may be muted in 2022. However, Spanish banks have already issued EUR2.37bn, which is up slightly on last year (+3% yoy). In January, Caixa added to Spanish ESG bond supply with the first socially labelled FIG bond of the year in senior preferred format. Caixa underscored its commitment to ESG activities by establishing a new ESG advisory service, aimed at helping corporate and institutional clients develop their sustainable objectives and drive their transition to carbon neutrality. It also operates the largest private microfinance institute in Europe, called MicroBank, extending social loans to self-employed workers, mirco-enterprises and families. The self-labelled 'social-bank' was founded in 2007 and counts 1.2 million customers and has so far extended EUR1bn in micro-loans.

Capitalisation - The group's CET1 ratio of 13.4% may appear at the lower end but Caixa has one of the lowest SREP requirements in its peer group and its capitalisation is above its own internal target range of 11-12%. In June 2021, Caixa received post-merger SREP requirements that require the P2R to increase by 15bps to 1.65% while the domestic systemic risk buffer (O-SII) was set at 37.5bps for 2022 resulting in an overall SREP of 8.31%. The O-SII will rise to 50bps over the next two years, which will likely prompt Caixa to raise its internal capitalisation targets once it presents its new strategic plan in May. Nevertheless, Caixa has managed to build a comfortable 511bps MDA buffer over SREP through its ability to generate capital internally through retained earnings, while maintaining good access to capital markets if needed. However, factors such as the high pay-out ratio of 50-60% of 2022 consolidated net income, higher requirements resulting from the merger as well as a more volatile operating environment could put a strain on capital ratios in the near term. As for the MREL requirement, CaixaBank had a ratio of 26.51% on RWA, meeting the level required for 2024 (23.93% of RWAs). At a subordinated level, excluding senior preferred debt and other pari-passu liabilities, the MREL ratio reached 23.06% of RWAs, comfortably above the 2024 regulatory requirements of 18.7% of RWAs. These are the revised requirements following the Bankia merger. Caixa's leverage ratio of 5.4% was solid and average compared to peers.

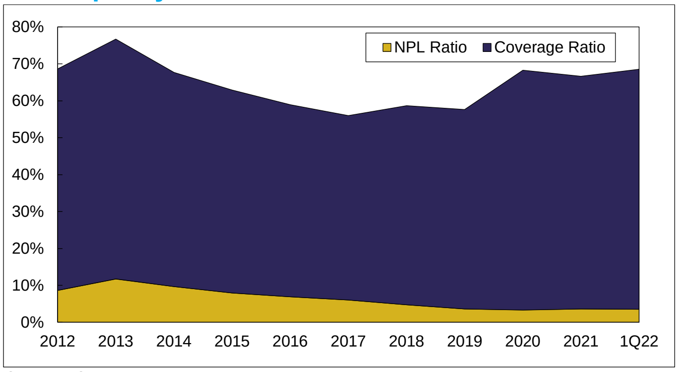
Rating agencies' views

Moody's: As of October 2021, CaixaBank's ratings are considered to be supported by the Spanish banking system's Strong-Macro Profile and reflect Moody's view that the bank's standalone creditworthiness will not be significantly affected by the integration of Bankia, despite the one-off negative impacts on its capital ratio, and the difficulties stemming from the coronavirus pandemic-induced economic downturn, principally in terms of asset risk and profitability. The ratings also take into account the long-term benefits of the transaction in terms of revenue opportunities and efficiency gains, and CaixaBank's proven track record of preserving sound capital ratios.

S&P: As of December 2021, the one-notch upgrade of CaixaBank indicates that the bank has a sufficient buffer of bail-inable instruments to provide protection to senior debtholders in a resolution scenario, thus reducing the likelihood of default. CaixaBank now benefits from one notch of 'additional loss-absorbing capacity' (ALAC) uplift. CaixaBank's stand-alone assessment has not changed and is still supported by the bank's powerful retail banking franchise in Spain, tight underwriting standards, and improved capital base, although the latter has a limited buffer to absorb adverse economic conditions. Such strengths mitigate the bank's geographic concentration in Spain and Portugal, in the agency's view.

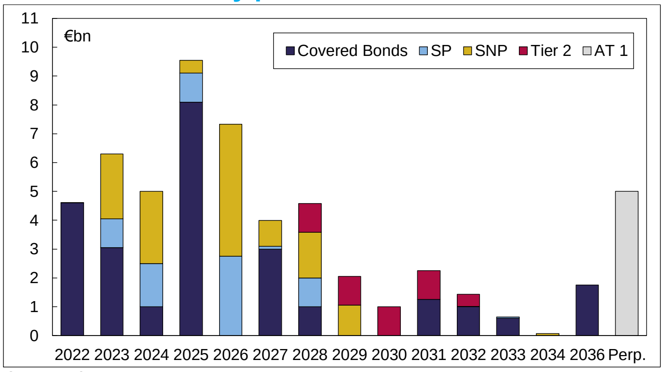
Fitch: In September 2021, Fitch revised the Outlook on CaixaBank's Long-Term Issuer Default Ratings (IDRs) to Stable from Negative and affirmed the IDR at 'BBB+' and Viability Rating (VR) at 'bbb+'. The Outlook revision reflects Fitch's views that CaixaBank's leading franchise in Spain, diversified business model and synergies from the merger with Bankia provide the bank with sufficient headroom to support capital generation, despite expected pressure from the pandemic on asset quality in 2021 and 2022. The Outlook revision also considers that CaixaBank should be able to navigate short-term risks to Spain's improved economic prospects. Fitch expects Spain's GDP to grow by 6% in 2021, after the economy suffered more than other developed economies from the pandemic in 2020. However, Fitch also believe that risks to the Spanish economy from the pandemic have not yet subsided sufficiently to stabilise the operating environment score of 'bbb+'.

Asset quality metrics



Source: Company reports

Wholesale maturity profile



Source: Company reports, Bloomberg

Recent Benchmark Transactions

Issue Date	Security	Maturity/Call	Currency	Size (m)	Coupon	Yield	Final Spread (bps)
05/04/2022	SNP	4NC3	EUR	1,000	1.625	1.664%	MS + 80
29/03/2022	SNP	6NC5	GBP	500	3.50	3.50%	G + 210
13/01/2022	SP (Social)	6NC5	EUR	1,000	0.625	0.673%	MS + 62
02/09/2021	AT1	PNC7.5	EUR	750	3.625%	3.625%	n.a.
26/05/2021	SNP (Green)	5.5NC4.5	GBP	500	1.50%	1.523%	G + 132
18/05/2021	SNP	7NC6	EUR	1,000	0.75%	0.867%	MS + 100
09/03/2021	Tier 2 (Green)	10.25NC5.25	EUR	1,000	1.25%	1.335%	MS + 163
02/02/2021	SNP (Green)	8NC7	EUR	1,000	0.50%	0.571%	MS + 90

Source: BondRadar

This is an issuer profile and contains factual statements only. All statements are sourced from the issuer's financial reports, which can be found at https://www.caixabank.com/en/shareholders-investors.html

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2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
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4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
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