CREDIT OPINION
11 December 2024

Update

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RATINGS

Ibercaja Banco SA

Domicile	ZARAGOZA, Spain
Long Term CRR	A2
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Baa1
Type	Senior Unsecured - Dom Curr
Outlook	Stable
Long Term Deposit	Baa1
Type	LT Bank Deposits - Fgn Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Alberto Postigo +34.91.768.8230
VP-Sr Credit Officer
alberto.postigoperez@moodys.com

Alvaro Moreno +34.91.768.8201
Sr Ratings Associate
alvaro.morenooortiz@moodys.com

Riccardo Magnoni +33.1.5330.3431
Analyst
riccardo.magnoni@moodys.com

Maria Cabanyes +34.91.768.8214
Senior Vice President
maria.cabanyes@moodys.com

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Americas 1-212-553-1653

Ibercaja Banco SA

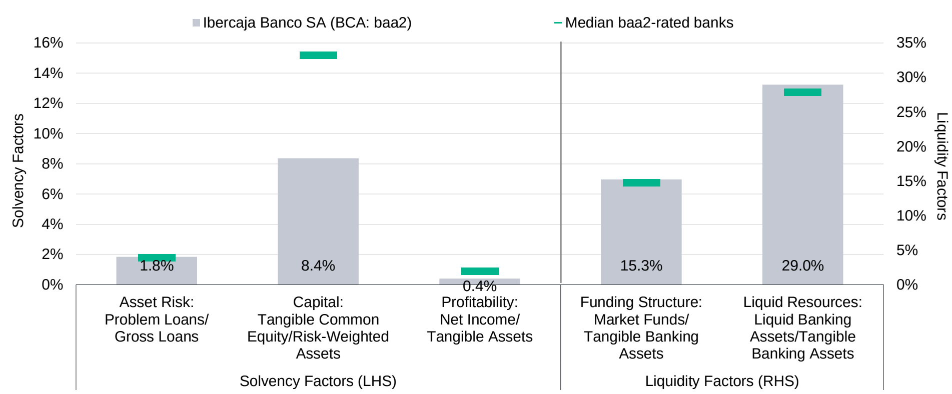
Update to credit analysis

Summary

Ibercaja Banco SA's long-term deposit and senior unsecured debt ratings of Baa1 reflect the bank's Baseline Credit Assessment (BCA) of baa2; one notch of rating uplift for both instruments under our Advanced Loss Given Failure (LGF) analysis; and our assessment of a low probability of support from the Government of Spain (Baa1 positive), which leads to no uplift.

Ibercaja's BCA of baa2 reflects its strong market position in its home region (Aragon, Spain), which supports stable and recurrent earnings; improved asset-quality metrics after substantial balance-sheet de-risking in recent years; and a sound funding profile, with a large and granular customer deposit base covering most of the bank's funding needs. The BCA also takes into account the bank's modest capital position constrained by a large volume of deferred tax assets (DTAs), although its risk-absorption capacity is reinforced through access to a reserve fund to cover potential capital shortfalls; and its modest profitability despite the improvement triggered by the higher interest rates.

Exhibit 1
Rating Scorecard - Key financial ratios



Source: Moody's Ratings

Credit strengths

» Strong market position in its home region, which supports stable and recurring earnings

» Low asset risk relative to the system

» Recapitalisation fund constituted by Ibercaja's main owner, which will provide access to additional capital if needed

» Solid funding profile, underpinned by a large and granular customer deposit base

Credit challenges

» Pressure on asset quality stemming from the still-high interest rates, despite ongoing monetary policy easing

» Profitability to remain overall modest, although above its historical levels

» Modest capital position, weighed down by a large volume of DTA

Outlook

The stable outlook on Ibercaja's long-term deposit and senior unsecured debt ratings reflects our view that the bank's expected credit performance over the next 12-18 months, which takes into consideration a moderate increase in problem loans and strengthening of earnings, is already captured in the current ratings.

Factors that could lead to an upgrade

Ibercaja's BCA could be upgraded further principally as a result of stronger capital ratios. A substantial and sustained improvement in the bank's profitability could also trigger a BCA upgrade.

Because the bank's deposit and debt ratings are linked to its BCA, a positive change in its BCA would likely lead to a rating upgrade. The deposit and senior debt ratings could also be upgraded following a significant increase in the stock of more junior bail-in-able liabilities.

Factors that could lead to a downgrade

Downward pressure on Ibercaja's BCA could principally result from an increase in problem loans significantly above our current expectations, or a change in the bank's funding structure, with increased reliance on market funding.

Ibercaja's ratings could also be downgraded by changes in the liability structure that indicate a higher loss given failure to be faced by deposits or debt instruments.

Key indicators

Exhibit 2
Ibercaja Banco SA (Consolidated Financials) [1]

	06-24[2]	12-23[2]	12-22[2]	12-21[2]	12-20[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	54,103.4	54,516.5	54,636.1	58,631.4	58,400.8	(2.2)[4]
Total Assets (USD Million)	57,985.6	60,221.9	58,310.2	66,435.6	71,456.6	(5.8)[4]
Tangible Common Equity (EUR Million)	2,011.9	1,878.7	1,809.9	1,883.2	1,768.6	3.8[4]
Tangible Common Equity (USD Million)	2,156.3	2,075.3	1,931.6	2,133.9	2,164.0	(0.1)[4]
Problem Loans / Gross Loans (%)	1.6	1.7	1.7	2.4	3.4	2.1[5]
Tangible Common Equity / Risk Weighted Assets (%)	8.4	7.5	7.3	7.8	7.8	7.8[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	19.6	20.6	21.9	29.6	41.9	26.7[5]
Net Interest Margin (%)	1.3	1.3	0.8	0.9	1.0	1.0[5]
PPI / Average RWA (%)	2.4	2.3	1.5	1.4	1.2	1.8[6]
Net Income / Tangible Assets (%)	0.6	0.4	0.3	0.3	0.0	0.3[5]
Cost / Income Ratio (%)	56.1	54.6	61.4	65.0	72.1	61.8[5]
Market Funds / Tangible Banking Assets (%)	10.7	15.2	9.4	15.7	16.3	13.5[5]
Liquid Banking Assets / Tangible Banking Assets (%)	27.9	29.0	28.6	34.4	32.9	30.5[5]
Gross Loans / Due to Customers (%)	84.0	86.2	79.6	79.6	82.7	82.4[5]

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.
Sources: Moody's Ratings and company filings

Profile

Ibercaja Banco SA is a medium-sized bank, ranking as the 10th-largest bank in Spain with €53 billion in total assets as of the end of Q3 2024. The bank is based primarily in its home region of Aragon, with a solid presence in other Spanish provinces, such as Badajoz, Guadalajara, La Rioja and Burgos. As of the end of June 2024, the bank's combined market share in these regions was 19% for loans and 28% for deposits. National market shares were around 2.5% and 2.3% for loans and deposits, respectively, as of June 2024.

Ibercaja is a traditional retail bank, which provides a wide range of banking services to individuals and corporates (mainly small and medium-sized enterprises). The bank has traditionally focused on residential mortgages, which, as of the end of June 2024, constituted the bulk of its loan book (59% of total loans). The bank holds a strong franchise in asset management as well, with a 6.5% domestic market share in mutual funds as of June 2024.

In June 2022, Fundacion Bancaria Ibercaja, Ibercaja's main owner, with 88% of the bank's shares, received approval from the Bank of Spain to constitute a reserve fund to comply with the savings banks' regulation implemented in 2013 (law 26/2013). According to this regulation, foundations owning commercial banks must constitute a reserve fund to cover potential capital shortfalls, unless they reduce their stake in the commercial bank to less than 50%. The reserve fund amounts to 1.75% of Ibercaja's risk-weighted assets (RWA), and was fully funded in Q1 2024 at €326 million, ahead of the year-end 2025 deadline for fund constitution.

Detailed credit considerations

Improved asset quality following substantial balance-sheet de-risking, but we expect a moderate increase in problem loans

We assign Ibercaja an Asset Risk score of baa1, two notches below its Macro-Adjusted score of a2. Our Asset Risk score reflects our expectation of a mild increase in problem loans from relatively low levels because, despite the ongoing monetary policy easing, the still-high interest rates strain household and corporate finances. The bank's Asset Risk score also reflects Ibercaja's exposure to other problematic assets, namely foreclosed real estate assets.

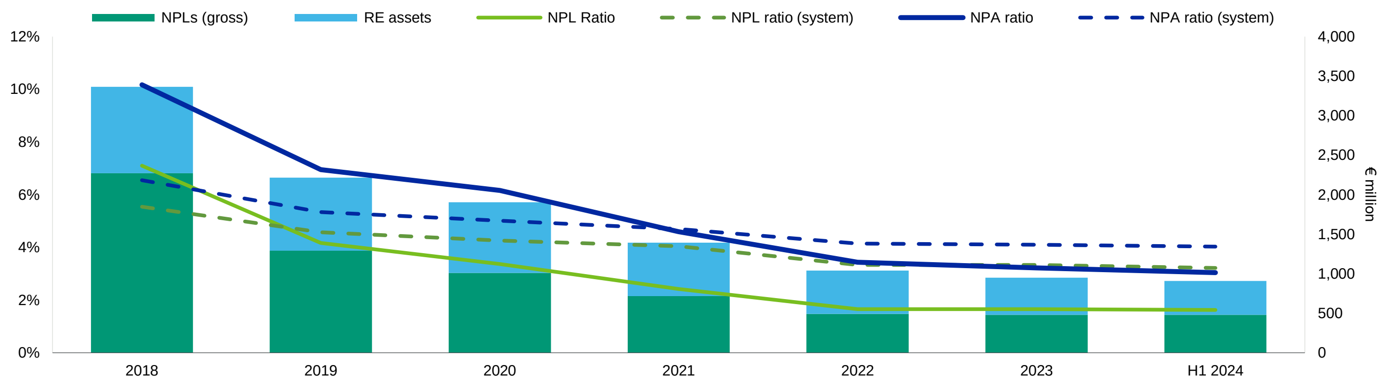
Ibercaja has achieved a substantial reduction in the stock of problem loans from the high levels reached in the past global financial crisis, leading to a nonperforming loan (NPL) ratio that, at 1.6% as of the end of June 2024, compared positively with the system average of 3.2%. The bank's exposure to stage 2 loans, broadly stable for a number of years at around 5% of total loans, also compares favourably with the 7.3% average for Spanish banks as of June 2024, according to the European Banking Authority (EBA) data. Ibercaja has also achieved a substantial reduction in the exposure to repossessed real estate assets, but to a lower extent than the decline in

NPLs. At 3.0%, the bank's nonperforming assets (NPLs + foreclosed real estate assets) ratio in June 2024 was below the 4.0% average ratio for rated banks.

Ibercaja's good asset-quality is also visible in the high loan loss coverage ratio (defined as loan loss reserves as a percentage of NPLs) of 91% as of June 2024, significantly above the system average of 68%, and the bank's low cost of risk (CoR, defined as loan loss provisions as a percentage of gross loans) which, at 19 basis points (bps) in H1 2024, was significantly lower than the bank's CoR guidance of less than 35 bps, included in its 2024-26 strategic plan.

Exhibit 3

Ibercaja's asset quality has improved substantially in recent years, comparing positively with the system average



Sources: Ibercaja, Bank of Spain and Moody's Ratings

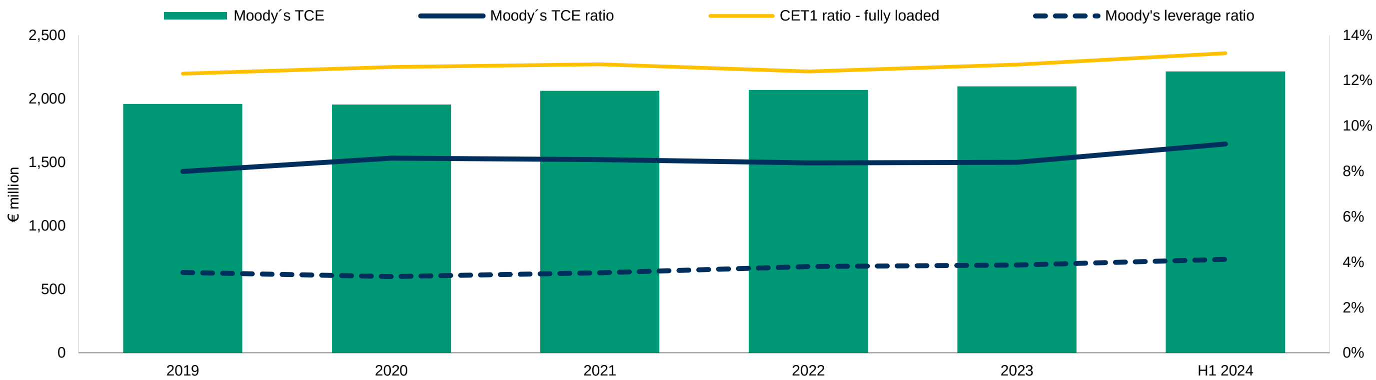
Modest capital position, weighed down by a large volume of DTA

We assess Ibercaja's Capital Adequacy at baa3. The Capital score reflects our key capital metrics — tangible common equity (TCE) ratio of 9.2% and leverage ratio (TCE/tangible assets) of 4.1% as of June 2024 — and takes into account the reserve fund that the bank's owner constituted to comply with the current legal framework (see the Profile section). If added to the TCE, the reserve fund would increase the TCE ratio by around 136 bps based on June 2024 data.

Ibercaja's TCE ratio is modest, despite some improvement in recent years because of earnings retention. The improvement in the TCE ratio was particularly high in H1 2024 (by 80 bps), driven by strong internal capital generation and the bank's decision to lower the payout ratio to 40% from 60% in 2023. From a regulatory capital standpoint, Ibercaja benefits from stronger capital ratios, with a Common Equity Tier 1 (CET1) capital ratio (fully loaded) of 13.3% as of Q3 2024. The CET1 ratio is close to the capital guidance of 13.5%-14% according to the bank's 2024-26 strategic plan, and it stands significantly above the bank's Supervisory Review and Evaluation Process requirement of 8.069% prescribed by the European Central Bank (ECB) for 2025.

Ibercaja's TCE ratio differs substantially from its CET1 ratio because of our more conservative assessment of DTA that are eligible for conversion into tax credits. Regulators do not deduct convertible DTA from the capital base, while we provide benefit as a capital component to only a part of those. The difference is additionally exacerbated by the more conservative risk weighting that we apply to the sovereign exposure (50% for Spain's sovereign bonds), compared with regulators' risk weighting of 0%.

Exhibit 4
Despite recent improvement, Ibercaja's TCE ratio remains at modest level

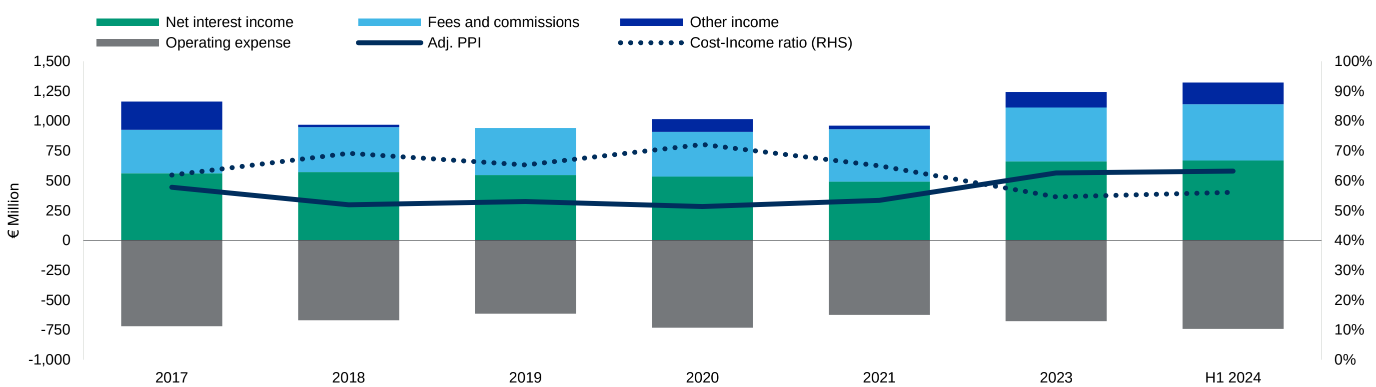


Sources: Ibercaja and Moody's Ratings

Modest profitability to benefit from rising interest rates and contained credit costs

We assign Ibercaja a Profitability score of ba1, equivalent to an annual return on assets (ROA, calculated as net income/tangible assets) in the 0.375%-0.5% range in line with the Macro-Adjusted score. Our assessment reflects improved profitability metrics compared with its past performance on the back of stronger net interest income (NII) from the higher interest rates, which however we expect to peak in 2024 (ROA of 0.64% as of September 2024, based on annualised data), and stabilise at more moderate levels. Our expectation reflects the ongoing monetary policy easing, which has translated into a decline in market reference rates after they peaked in Q3 2023 (particularly the 12-month Euribor, Spain's key reference rate) and is leading to a repricing of variable-rate loans at lower rates starting in 2024. In turn, we expect deposit remuneration to continue to strain customer margins. The change in trend has become apparent since Q4 2023, when the customer margin peaked at 3.18%, narrowing to 2.95% as of Q3 2024.

Exhibit 5
Improved profitability metrics on the back of stronger net interest income



Source: Ibercaja's financial statements

A factor constraining Ibercaja's profitability is the low operating efficiency relative to peers, despite the application of a number of cost-cutting initiatives in recent years which led to a 6% decline in operating costs between 2021 and 2022. In combination with revenue growth, the bank's cost-to-income ratio improved to 56% in H1 2024 from levels above 65% in preceding years, but was still significantly above the system average of 43% as of Q2 2024 (source: EBA risk dashboard).

Weighing on the bank's profit is the bank tax introduced by the Spanish government as of year-end 2022, which resulted in a tax payment of €47 million in 2024. Positively, profitability in 2024 will benefit from the absence of contributions to the Single Resolution Fund or Deposit Guarantee Fund, which amounted to €63 million in 2023.

Sound funding profile, underpinned by a large and granular deposit base and low reliance on market funding

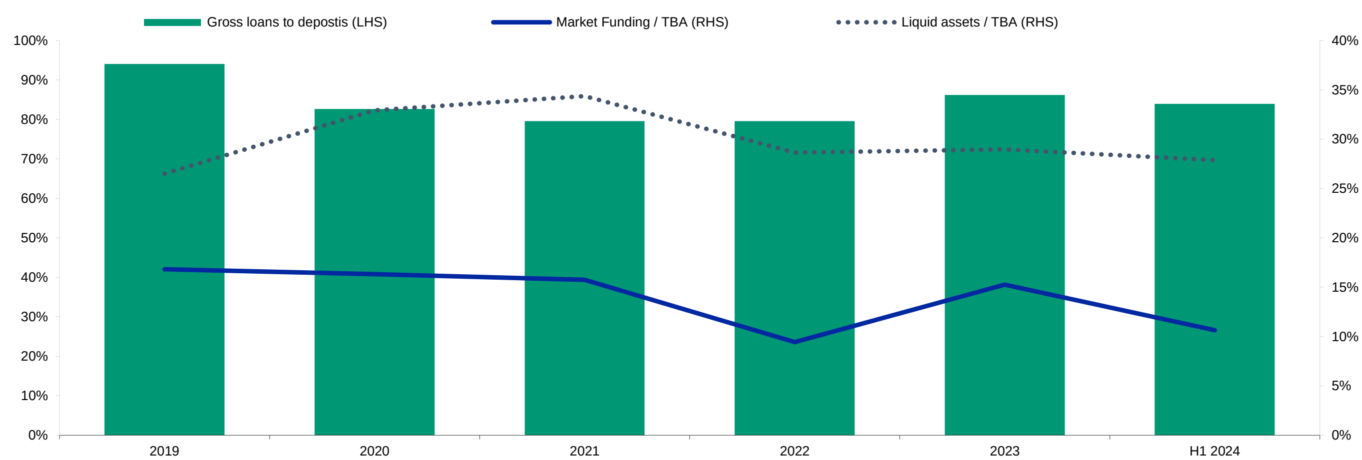
Ibercaja's funding profile benefits from a large retail deposit base that covers most of its funding needs (87% as of June). The customer deposit base benefits from high granularity, with the top 20 depositors accounting for 2.6% of total deposits as of June 2024, and a high coverage by the Spanish deposit guarantee fund, which was 77% as of the same date.

Despite some recovery in H1 2024, customer deposits were below their level as of year-end 2020, mainly caused by a substantial decline (by 10%) in 2023. This decrease was partly because deposits were used to amortize loans early in a context of high interest rates, and also because a big share of deposits were transferred to off-balance-sheet positions (e.g., insurance and asset management products) in search of higher-yielding investment alternatives by the bank's customers. In fact, Ibercaja reported a 1.9% increase in the volume of customer resources (which include both on- and off-balance-sheet positions) during this period. Despite the decrease in deposits, the bank's loan-to-deposit ratio remained low, at 84%, as of June 2024, amid subdued loan activity.

Ibercaja's reliance on market funds — measured as market funds/tangible banking assets — was 11% as of June 2024, mainly in the form of repos with financial institutions and senior debt issuances (55% and 21% of market funding, respectively). The bank faces modest debt maturities in the coming years. Debt issuance is primarily driven by the need to maintain an adequate stock of bail-in-able liabilities to comply with the bank's minimum requirement for own funds and eligible liabilities (MREL). This requirement is set at 21.8% (including the combined buffer requirement of 2.5% of RWA) for 2024, which compares with the bank's MREL ratio of 23.4% as of June 2024.

Ibercaja's stock of liquid assets stems primarily from its securities portfolio, which, according to our liquidity assessment, excludes the bonds from Sareb (€1.4 billion as of the end of June 2024) because those are less liquid than other tradable securities. The assigned Liquid Resources score of baa2 incorporates a one-notch negative adjustment because of the encumbrance of part of the bank's liquid assets in repo transactions. The bank's regulatory liquidity coverage ratio stood at a high 236% as of June 2024, despite it decreased substantially after the repayment of ECB funding.

Exhibit 6
Ibercaja's funding profile benefits from low reliance on market funding, with the loan-to-deposit ratio well below 100%



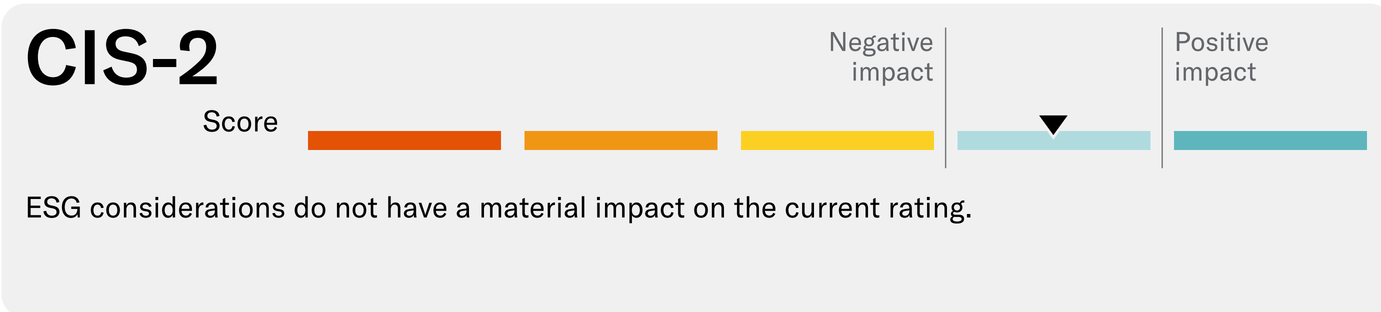
Source: Ibercaja's financial reports

ESG considerations

Ibercaja Banco SA's ESG credit impact score is CIS-2

Exhibit 7

ESG credit impact score

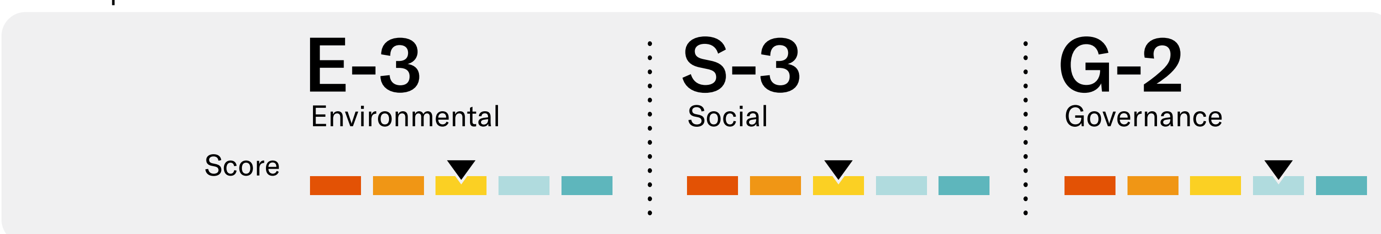


Source: Moody's Ratings

Ibercaja's **CIS-2** indicates that ESG considerations do not have a material impact on the current rating.

Exhibit 8

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Ibercaja faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with its peers, the bank is exposed to mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Ibercaja is developing its climate risk and portfolio management capabilities, and is actively transitioning its lending portfolios to achieve carbon neutrality targets.

Social

Ibercaja faces moderate social risks mainly related to customer relations as well as to demographic and societal trends. The bank's developed policies and procedures mitigate conduct risk associated with the distribution of financial products such as regulatory and reputational risks, as well as exposure to litigation. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance that ensure adherence to regulatory standards, help to manage high cyber and personal data risks. Ibercaja operates mainly in Spain, which faces challenges from adverse demographic trends affecting long-term economic growth prospects and impacting the demand for certain banking products. Product diversity as well as an ability to adapt to consumer preferences, regulatory changes and societal trends such as digitization are key to address these risks.

Governance

Ibercaja faces low governance risks. The bank demonstrates sound corporate governance and risk management practices, further supported by the good track record of its management team in improving the bank's financial fundamentals over the past few years. Ibercaja is 88% owned by Fundacion Bancaria Ibercaja, therefore exposed to potential outsized influence by the controlling shareholder on the bank's management and board. The risk is however mitigated by the presence of independent directors in the board and Spain's developed institutional framework.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Loss Given Failure (LGF) analysis

Ibercaja is subject to the EU Bank Recovery and Resolution Directive, which we consider an operational resolution regime. Thus, we apply our Advanced LGF analysis. We assume the proportion of deposits considered junior at 10%, below our standard assumption of 26%, because of the bank's largely retail-oriented depositor base. All the other assumptions are in line with our standard ones.

For Ibercaja's deposits and senior unsecured debt, our LGF analysis indicates a low loss given failure, which leads us to position the bank's Preliminary Rating (PR) Assessment one notch above its Adjusted BCA for both instruments.

For more junior securities, our Advanced LGF analysis indicates a high loss given failure, given the small volume of debt and limited protection from more subordinated instruments and residual equity. The resulting PR Assessment for subordinated debt is one notch below the Adjusted BCA. We also incorporate additional downward notching for preference share instruments to reflect coupon suspension risk, ahead of a potential failure.

Government support considerations

We assign a low probability of government support for all the bank's rated debt instruments, which does not translate into any rating uplift.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our Rating Committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (although it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 9
Rating Factors

Macro Factors						
Weighted Macro Profile	**Strong**	**100%**				

Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	1.8%	a2	↓	baa1	Expected trend	Non lending credit risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	8.4%	ba3	↔	baa3	Access to capital	
Profitability						
Net Income / Tangible Assets	0.4%	ba1	↓	ba1	Expected trend	
Combined Solvency Score		baa3		baa2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	15.2%	baa1	↔	a3	Extent of market funding reliance	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	29.0%	baa1	↔	baa2	Asset encumbrance	
Combined Liquidity Score		baa1		baa1		
Financial Profile				baa2		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa1		
BCA Scorecard-indicated Outcome - Range				baa1 - baa3		
Assigned BCA				baa2		
Affiliate Support notching				0		
Adjusted BCA				baa2		

Balance Sheet	in-scope (EUR Million)	% in-scope	at-failure (EUR Million)	% at-failure
Other liabilities	9,328	20.3%	11,667	25.3%
Deposits	33,425	72.6%	31,086	67.5%
Preferred deposits	30,083	65.3%	28,579	62.1%
Junior deposits	3,343	7.3%	2,507	5.4%
Senior unsecured bank debt	1,050	2.3%	1,050	2.3%
Dated subordinated bank debt	500	1.1%	500	1.1%
Preference shares (bank)	350	0.8%	350	0.8%
Equity	1,381	3.0%	1,381	3.0%
Total Tangible Banking Assets	46,034	100.0%	46,034	100.0%

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF Notching Guidance vs. Adjusted BCA	Assigned LGF notching	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	12.6%	12.6%	12.6%	12.6%	3	3	3	3	0	a2
Counterparty Risk Assessment	12.6%	12.6%	12.6%	12.6%	3	3	3	2	0	a3 (cr)
Deposits	12.6%	4.8%	12.6%	7.1%	1	1	1	1	0	baa1
Senior unsecured bank debt	12.6%	4.8%	7.1%	4.8%	1	0	1	1	0	baa1
Dated subordinated bank debt	4.8%	3.8%	4.8%	3.8%	-1	-1	-1	-1	0	baa3
Non-cumulative bank preference shares	3.8%	3.0%	3.8%	3.0%	-1	-1	-1	-1	-2	ba2

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	3	0	a2	0	A2	A2
Counterparty Risk Assessment	2	0	a3 (cr)	0	A3(cr)	
Deposits	1	0	baa1	0	Baa1	Baa1
Senior unsecured bank debt	1	0	baa1	0	Baa1	
Dated subordinated bank debt	-1	0	baa3	0	Baa3	
Non-cumulative bank preference shares	-1	-2	ba2	0	Ba2 (hyb)	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.
Source: Moody's Ratings

Ratings

Exhibit 10

Category	Moody's Rating
IBERCAJA BANCO SA	
Outlook	Stable
Counterparty Risk Rating	A2/P-1
Bank Deposits	Baa1/P-2
Baseline Credit Assessment	baa2
Adjusted Baseline Credit Assessment	baa2
Counterparty Risk Assessment	A3(cr)/P-2(cr)
Senior Unsecured -Dom Curr	Baa1
Subordinate -Dom Curr	Baa3
Pref. Stock Non-cumulative -Dom Curr	Ba2 (hyb)

Source: Moody's Ratings

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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454