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CREDIT OPINION

30 June 2022

Update

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RATINGS

Ibercaja Banco SA

Domicile	ZARAGOZA, Spain
Long Term CRR	Baa3
Type	LT Counterparty Risk Rating - Fgn Curr
Outlook	Not Assigned
Long Term Debt	Withdrawn
Type	Senior Unsecured - Dom Curr
Outlook	Rating(s) WithDrawn
Long Term Deposit	Ba1
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.

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Ibercaja Banco SA

Update to credit analysis

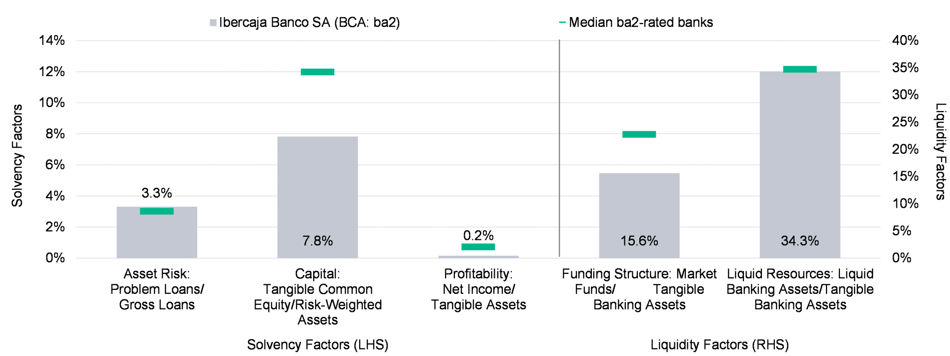
Summary

Ibercaja Banco SA's (Ibercaja) Ba1 deposit ratings reflect the bank's Baseline Credit Assessment (BCA) of ba2; its low loss given failure, which provides one notch of uplift to the long-term deposit ratings under our Advanced Loss Given Failure (LGF) analysis; and our assessment of a low probability of support from the Government of Spain (Baa1 stable), which leads to no uplift.

Ibercaja's ba2 BCA reflects its strong market position in its home region (Aragon, Spain), which supports stable and recurrent earnings; and its sound funding profile, with modest refinancing requirements and sizeable liquid assets. However, the BCA also takes into account the bank's weak capital position, constrained by a large amount of deferred tax assets (DTA) and its modest recurring profitability. The ratings incorporate our expectation of an increase in problem loans following the withdrawal of public measures supporting borrowers' credit quality, and inflationary pressure on households' purchasing power and corporate margins.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

Credit strengths

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

» Substantial progress in de-risking its balance sheet, which has driven the problem loan ratio below the system average

» Sound funding profile, underpinned by its modest refinancing requirements, stable deposit base and sizeable liquid assets

Credit challenges

» Likely deterioration in asset quality because of the withdrawal of pandemic-related public support measures and high inflationary pressure

» Profitability to remain modest despite tailwinds from rising interest rates

» Weak capital position despite the recent improvement, weighed down by a large volume of DTA

Outlook

The outlook on Ibercaja's long-term deposit ratings is stable, reflecting our expectation that the bank will maintain steady performance over the next 12-18 months.

Factors that could lead to an upgrade

Ibercaja's BCA could be upgraded primarily as a consequence of a sustained improvement in recurring profitability or stronger capital and leverage ratios.

As the bank's deposit and senior debt ratings are linked to its BCA, a positive change in its BCA would likely affect all the ratings. The 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 the bank's BCA could arise if there is a deterioration in asset quality beyond our current expectations or if the bank's funding profile becomes more reliant on market funding.

Ibercaja's deposit ratings could also be downgraded following a significant reduction in the stock of bail-in-able liabilities.

Key indicators

Exhibit 2

Ibercaja Banco SA (Consolidated Financials) [1]

	12-21[2]	12-20[2]	12-19[2]	12-18[2]	12-17[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	58,631.4	58,400.8	55,422.0	52,705.7	53,107.0	2.5[4]
Total Assets (USD Million)	66,435.6	71,456.6	62,211.1	60,250.3	63,770.7	1.0[4]
Tangible Common Equity (EUR Million)	1,895.6	1,768.6	1,761.3	1,675.0	1,873.7	0.3[4]
Tangible Common Equity (USD Million)	2,147.9	2,164.0	1,977.1	1,914.8	2,249.9	(1.2)[4]
Problem Loans / Gross Loans (%)	2.4	3.4	4.2	7.1	7.9	5.0[5]
Tangible Common Equity / Risk Weighted Assets (%)	7.8	7.8	7.2	6.6	7.3	7.4[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	29.4	41.9	53.7	81.4	86.5	58.6[5]
Net Interest Margin (%)	0.9	1.0	1.1	1.1	1.1	1.0[5]
PPI / Average RWA (%)	1.4	1.2	1.3	1.2	1.6	1.4[6]
Net Income / Tangible Assets (%)	0.3	0.0	0.2	0.1	0.1	0.1[5]
Cost / Income Ratio (%)	65.0	72.1	65.3	69.2	61.8	66.7[5]
Market Funds / Tangible Banking Assets (%)	15.6	16.3	16.8	14.3	16.1	15.8[5]
Liquid Banking Assets / Tangible Banking Assets (%)	34.4	32.9	26.5	24.2	24.1	28.4[5]
Gross Loans / Due to Customers (%)	79.6	82.7	94.1	101.0	102.8	92.0[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 Investors Service and company filings

Profile

Ibercaja Banco SA (Ibercaja) is a medium-sized bank, with €59 billion in assets as of the end of the first quarter of 2022 and ranking among the 10 largest banks in Spain. 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 year-end 2021, the bank's combined market share in these regions was 22% for loans and 31% for deposits. National market shares were around 2.4% and 2.7% for loans and deposits, respectively, as of the same date.

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 year-end 2021, constituted the bulk of its loan book (61% of total loans). The bank holds a strong franchise in asset management as well, with a 5.8% domestic market share in mutual funds, which is quite large compared with its balance-sheet size.

In June 2022, Fundacion Bancaria Ibercaja, Ibercaja's main owner holding 88% of the bank's shares, received approval from the Bank of Spain to constitute a reserve fund to comply with 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 RWA, with end-2025 as deadline for constitution.

Detailed credit considerations

Substantial balance-sheet de-risking has driven the problem loan ratio below the system average, but we expect some increase in problem loans

We assign Ibercaja an Asset Risk score of baa2, in line with its Macro-Adjusted score. Our Asset Risk score reflects the substantial improvement in the bank's asset quality in recent years, but also incorporates our expectation of a moderate increase in problem loans because of the gradual withdrawal of the public support measures put in place in response to the pandemic (for example, the expiry of repayment holidays on state-guaranteed loans starting from Q2 2022), and inflationary pressure on households' purchasing power and corporate margins.

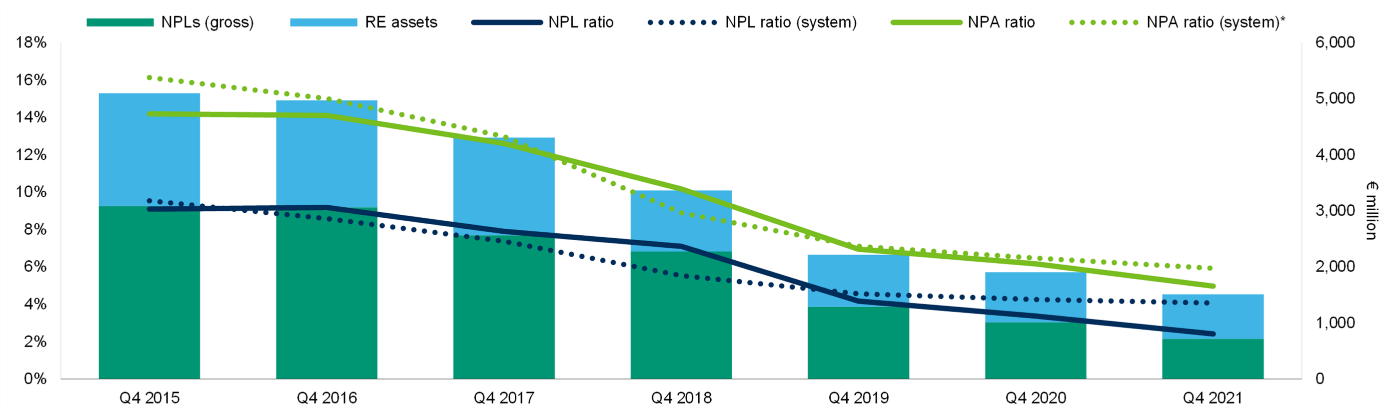
Despite the economic disruption caused by the pandemic, Ibercaja's asset-quality metrics have maintained the improving trend that started at the end of the global financial crisis. The bank's nonperforming loan (NPL) ratio (NPLs as a proportion of customer loans) was 2.2% as of the end of March 2022, down significantly from 3.4% as of year-end 2020 and comparing favourably with the system average of 4.0%. The improvement in the bank's problem loan ratio in 2021 was driven by lower NPL formation and the sale of a €51 million NPL portfolio to specialised investors — a tool which the bank, similar to other domestic peers, has used several times in the past to offload problematic assets from its balance sheet. The most significant of these transactions was the sale of a €285 million (net book value) portfolio of foreclosed assets in 2018 to a vehicle to which Ibercaja remains exposed through a 20% stake, while the remaining 80% is owned by Intrum AB (publ) (Ba2 negative).

Despite the improvement, Ibercaja still has high exposure to problematic assets, principally in terms of repossessed real estate assets. The bank's nonperforming assets (NPA; nonperforming loans + foreclosedreal estate assets) ratio was 5.0% as of year-end 2021, below the system average of 5.9%, but high by broader European standards.

Ibercaja's loan loss coverage ratio (defined as loan loss reserves as a percentage of NPLs) was 64% as of year-end 2021. The coverage ratio has improved significantly from 50% as of year-end 2019, driven by the decline in NPLs and the extraordinary loan loss provisions built in 2020 (see section on Profitability below).

Exhibit 3

Ibercaja's asset quality has improved substantially in recent years



Sources: Ibercaja's financial reports and Moody's Investors Service

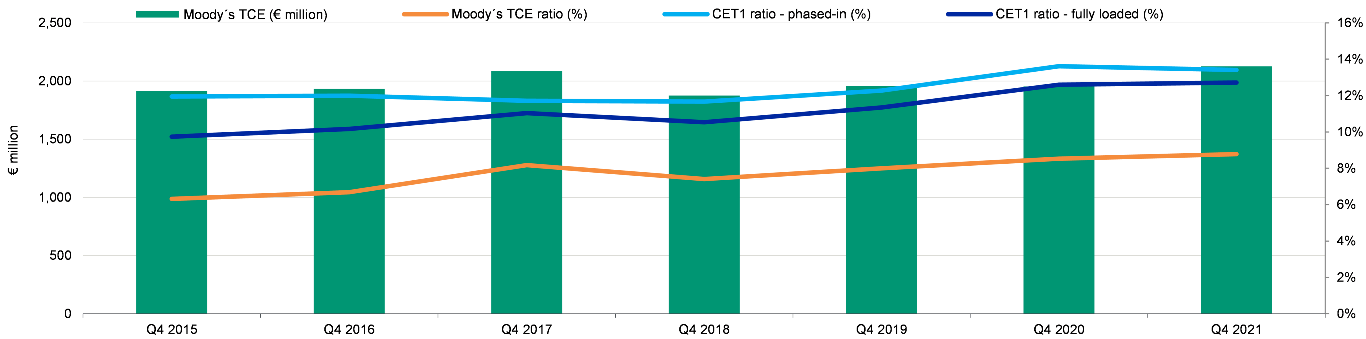
Weak capital position, weighed down by a large volume of DTA

With a tangible common equity (TCE) ratio (defined as TCE/Moody's-adjusted risk-weighted assets [RWA]) of 8.6% as of the end of December 2021 and a low leverage ratio (TCE/total tangible assets) of 3.6% as of the same date, Ibercaja has a modest capital position, which we assess at b1. Despite remaining low, the TCE ratio has increased significantly in recent years because of a combination of earnings retention, a decline in RWA because of lower exposure to NPA and loan-book contraction, and the implementation in 2020 of a number of capital regulatory changes by the EU.

The same factors have also boosted Ibercaja's regulatory Common Equity Tier 1 (CET1) capital ratio, which was 12.55% (fully loaded) as of March 2022 compared with levels below 11% a few years ago. The CET1 ratio stands significantly above the bank's Supervisory Review and Evaluation Process requirement of 8.2% for 2022, and places close to the target of 12.5% provided in the bank's 2021-23 strategic plan.

DTA (net of deferred tax liabilities), which amounted to €1.1 billion as of December 2021, or 47% of Ibercaja's CET1 capital, weigh negatively on our assessment of the bank's capital because we consider DTA a relatively low-quality assets. 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 them. 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
Ibercaja's TCE has improved since 2018, but remains weak



Source: Ibercaja's financial reports

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

We assign Ibercaja a Profitability score of ba3, equivalent to net income/tangible assets in the 0.25%-0.375% range. Our assessment is two notches above the Macro-Adjusted score, reflecting improved profitability metrics compared with its past performance on the back of stronger net interest income (NII) from rising interest rates, solid fee and commission (F&C) income and contained credit costs. Despite our expectation of an increase in problem loans, the bank's €52 million pandemic-related provision built in 2020, which remains unused, will help the bank absorb related losses without a material impact on its P&L account.

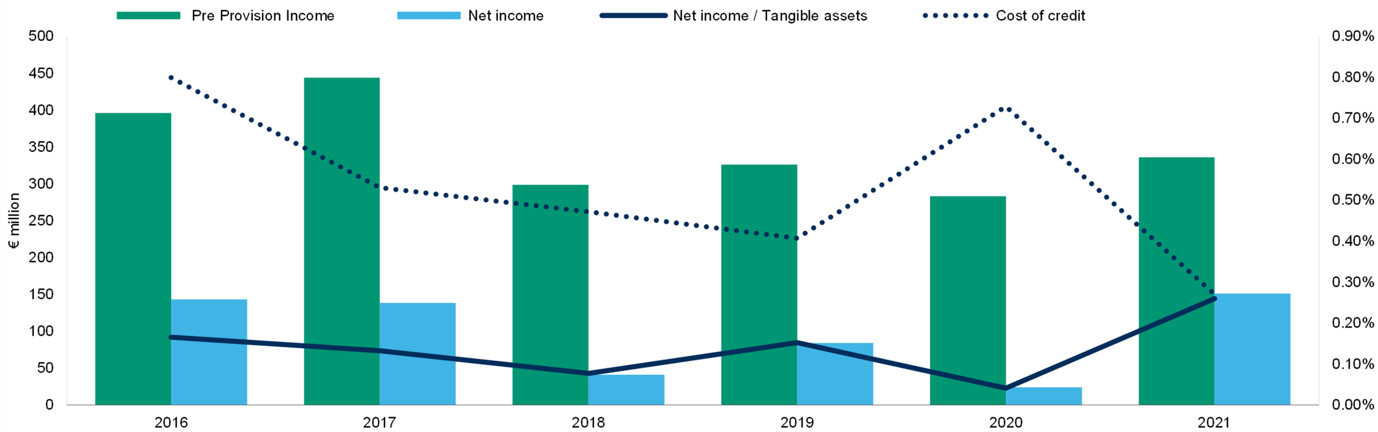
With pre-provision income/average RWA of 1.4% in 2021, Ibercaja's recurring profitability is modest, mostly generated through NII and F&C income because of its traditional commercial banking model. Because of the large portfolio exposure to variable-rate residential mortgages, the historically low interest rates have weighed on the bank's NII, its main earnings source, which has been trending down for a number of years. We nevertheless expect this trend to reverse in light of the rising interest rates, which market reference rates like the 12-month Euribor, commonly used for mortgage loans in Spain, have been anticipating since early 2022. We expect a net positive effect on Ibercaja's NII starting from H2 2022 as mortgage loans reprice at the higher rates.

So far, Ibercaja has managed to offset the decline in NII to a great extent with growing F&C income, principally from asset management activities in which the bank holds a strong franchise (see the "Profile" section). This revenue trend has also contributed to revenue diversification, with F&C income accounting for 46% of the bank's operating income in 2021, compared with levels close to 30% a few years earlier.

Besides growing F&C income, Ibercaja is using cost-cutting measures, including two staff redundancy plans implemented in 2017 and 2020, to improve profitability. The bank expects these plans to translate into annual costs savings of around €40 million from 2022.

Ibercaja's profitability maintained in Q1 2022 the improving trend initiated in 2021. Recurring revenue increased by 5.2% from that in the year-earlier period, with the 14.4% growth in F&C income more than offsetting the 2.1% decline in NII. We nevertheless expect a deceleration in F&C income growth throughout 2022, primarily from asset management activities because of the volatile performance of the financial markets. The cost of credit (Q1 2022 annualised figure) was 0.23%, similar to 0.27% in 2021 but significantly lower than 0.71% in 2020. Overall, the bank reported a net profit of €63 million in Q1 2022, up from €55 million in Q1 2021.

Exhibit 5
Ibercaja's profitability metrics are modest although we expect an improvement from rising interest rates



Sources: Moody's Investors Service and Ibercaja's financial report

Sound funding profile, underpinned by modest refinancing requirements, stable deposit base and sizeable liquid assets

Ibercaja benefits from a large retail deposit base that covers most of its funding needs (79% as of the end of December 2021). The share of customer deposits in total funding has been increasing over the last few years because the deposit base has strengthened, while the bank's balance sheet has progressively declined. As of year-end 2021, the bank's loan-to-deposit ratio was low at 80%, down from 83% as of year-end 2020 and 94% as of year-end 2019.

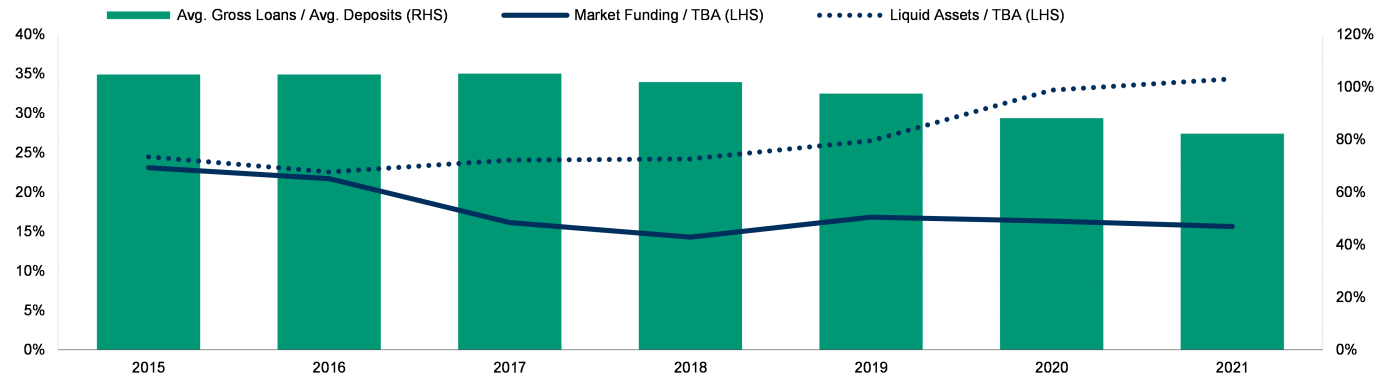
Ibercaja's market funding ratio (measured as market funds/tangible banking assets [TBA]) was 16% as of year-end 2021, below that of its domestic peers. We assign the bank a Funding Structure score of a3, one notch above the Macro-Adjusted score of baa2, as a result of deducting a portion of the targeted longer-term refinancing operations (TLTRO) III funds. Part of these funds are used to take advantage of the favourable terms offered by the European Central Bank (ECB). They are deposited back at the central bank rather than being used for lending or for investment purposes, thereby temporarily inflating Ibercaja's market funds. As of year-end 2021, Ibercaja had drawn €5.9 billion from the ECB's TLTRO III programme, accounting for around 10% of total assets. The rest of the bank's wholesale funding is primarily composed of covered bonds (3.4% of total funding).

We expect an increase in market funding from compliance with the minimum requirement for own funds and eligible liabilities (MREL) regulation because of the gap between Ibercaja's MREL ratio, which was 15.9% of RWA (excluding the capital used to cover the combined buffer requirement of 2.5% of RWA) as of the end of December 2021, and the requirement of 18.6% by January 2024. The gap was partly covered by the bank's €500 million senior debt issuance launched in June. Ibercaja already complies with the interim MREL requirement set at 15.4% for January 2022.

We assess Ibercaja's Liquid Resources score at baa2, below the Macro-Adjusted score of a3. The assigned score incorporates a two-notch negative adjustment to reflect the group's temporary balance-sheet inflation resulting from its increased exposure to TLTRO III funds (see comment above), and the encumbrance of part of the bank's liquid assets.

Ibercaja's stock of liquid assets stems primarily from its securities portfolio. Our liquidity assessment excludes the bonds from Sareb (€1.6 billion as of year-end 2021) because those are less liquid than other tradable securities. The bank reported a stock of liquid assets of €14.5 billion as of December 2021, further reinforced with a covered bond issuance capacity of €8.8 billion. The entity disclosed LCR and NSFR of 452% and 152%, respectively, as of the same date.

Exhibit 6
Ibercaja's funding profile benefits from sizeable liquid assets and low reliance on market funding



Source: Ibercaja's financial reports

ESG considerations

In line with our general view of the banking sector, Ibercaja has low exposure to environmental risks. See our Environmental risk heat map for further information.

Overall, we expect banks to face moderate social risks. These risks include considerations in relation to the rapid and widening spread of the pandemic, given the substantial implications for public health and safety. See our Social risk heat map for further information.

Governance is highly relevant for Ibercaja, as it is to all competitors in the banking industry. Corporate governance weaknesses can lead to a deterioration in a bank's credit quality, while governance strengths can benefit its credit profile. Governance risks are largely internal rather than externally driven, and, for Ibercaja, we do not have any particular governance concern. Similar to other former savings banks, the bank's governance structure strengthened significantly after several governance shortcomings were identified during the past financial crisis, including a high degree of political interference. Although the bank is yet to be listed to fully comply with the regulatory framework for savings banks implemented in 2013, its current governance structure does not pose any incremental credit risk. Nonetheless, corporate governance remains a key credit consideration and requires ongoing monitoring.

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. We assume a residual TCE of 3% and the percentage of post-failure losses over TBA following a truncated normal distribution, with a mean value of 8%, a 25% run-off in junior wholesale deposits, a 5% run-off in preferred deposits and a 10% proportion of junior deposits, and assign a 25% probability to deposits being preferred to senior unsecured debt. These metrics are in line with our standard assumptions.

In analysing the bank's liability structure, we exclude from Ibercaja's TBA a portion of the funds the bank has borrowed from, and redeposited at, the ECB because we expect these funds to run off over the medium term.

Our Advanced LGF analysis for Ibercaja's deposits indicates a low loss given failure, which leads us to position the Preliminary Rating (PR) Assessment one notch above the Adjusted BCA.

For 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.

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.

Counterparty Risk Ratings (CRRs)

Ibercaja's CRRs are Baa3, two notches above the Adjusted BCA of ba2, reflecting the very low loss given failure from the high volume of instruments that are subordinated to CRR liabilities.

Under our Banks methodology, a bank's CRR will typically not exceed the sovereign rating by more than two notches. Therefore, Spanish banks' maximum achievable CRRs are A2/Prime-1.

Counterparty Risk (CR) Assessment

Ibercaja's CR Assessment is Baa2(cr), three notches above the Adjusted BCA of ba2, based on the substantial buffer against default provided to the senior obligations represented by the CR Assessment by more subordinated instruments. The main difference from our Advanced LGF approach used to determine instrument ratings is that the CR Assessment captures the probability of default on certain senior obligations, rather than expected loss. Therefore, we focus purely on subordination and take no account of the volume of the instrument class.

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 7

Ibercaja Banco SA

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	3.3%	baa2	↔	baa2	Non lending credit risk	Expected trend
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	7.8%	b2	↔	b1	Nominal leverage	
Profitability						
Net Income / Tangible Assets	0.2%	b2	↑	ba3	Expected trend	
Combined Solvency Score		ba3		ba2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	15.6%	baa2	↑	a3	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	34.4%	a3	↓	baa2	Expected trend	Asset encumbrance
Combined Liquidity Score		baa1		baa1		
Financial Profile				ba1		
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				baa3 - ba2		
Assigned BCA				ba2		
Affiliate Support notching				0		
Adjusted BCA				ba2		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	11,482	22.5%	14,081	27.6%
Deposits	37,131	72.7%	34,532	67.7%
Preferred deposits	33,418	65.5%	31,747	62.2%
Junior deposits	3,713	7.3%	2,785	5.5%
Senior unsecured bank debt	50	0.1%	50	0.1%
Dated subordinated bank debt	500	1.0%	500	1.0%
Preference shares (bank)	350	0.7%	350	0.7%
Equity	1,531	3.0%	1,531	3.0%
Total Tangible Banking Assets	51,044	100.0%	51,044	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	10.2%	10.2%	10.2%	10.2%	2	2	2	2	0	baa3
Counterparty Risk Assessment	10.2%	10.2%	10.2%	10.2%	3	3	3	3	0	baa2 (cr)
Deposits	10.2%	4.7%	10.2%	4.8%	1	1	1	1	0	ba1
Dated subordinated bank debt	4.7%	3.7%	4.7%	3.7%	-1	-1	-1	-1	0	ba3

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	2	0	baa3	0	Baa3	Baa3
Counterparty Risk Assessment	3	0	baa2 (cr)	0	Baa2(cr)	
Deposits	1	0	ba1	0	Ba1	Ba1
Dated subordinated bank debt	-1	0	ba3	0	Ba3	

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

Ratings

Exhibit 8

Category	Moody's Rating
IBERCAJA BANCO SA	
Outlook	Stable
Counterparty Risk Rating	Baa3/P-3
Bank Deposits	Ba1/NP
Baseline Credit Assessment	ba2
Adjusted Baseline Credit Assessment	ba2
Counterparty Risk Assessment	Baa2(cr)/P-2(cr)
Subordinate -Dom Curr	Ba3

Source: Moody's Investors Service

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CLIENT SERVICES

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