FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Ibercaja to 'BBB+'; Outlook Stable

Fri 28 Feb, 2025 - 9:52 AM ET

Fitch Ratings - Madrid - 28 Feb 2025: Fitch Ratings has upgraded Ibercaja Banco, S.A.'s (Ibercaja) Long-Term Issuer Default Rating (IDR) to 'BBB+' from 'BBB'; and its Viability Rating (VR) to 'bbb+' from 'bbb'. The Outlook on the Long-Term IDR is Stable. Fitch has also upgraded the bank's Short-Term IDR to 'F2' from 'F3'.

The upgrade is driven by a sustainable improvement in Ibercaja's business and financial profiles. In particular, this reflects the strengthening of the bank's profitability and capitalisation, coupled with a better-than-expected improvement in asset-quality metrics. It is also underpinned by our revision of the Spanish operating environment to 'a-' from 'bbb+'.

KEY RATING DRIVERS

Strong Financial Profile: Ibercaja's ratings reflect its structurally improved profitability and capitalisation, coupled with better asset quality than peers' and a stable funding base. The ratings also consider its strong regional footprint and income diversification.

Small Franchise, Diversified Revenue: Ibercaja is a medium-sized retail bank with a nationwide market share of about 3% in loans and deposits, but it has a strong franchise in its home regions. The bank's business model is supported by well-developed insurance and asset-management businesses, which provide it with more revenue diversification than similarly rated banks.

Moderate Risk Profile: Ibercaja's risk profile is commensurate with its business model, which is dominated by resilient residential mortgage loans. Lending growth will accelerate, on the back of the stronger operating environment and lower rates, but we expect the bank to maintain strict underwriting standards. Ibercaja has a large structural securities portfolio, mostly composed of Spanish sovereign debt, due to its ample liquidity and the size of its insurance business.

Strong Asset Quality: Ibercaja's impaired loans ratio of 1.6% at end-September 2024 is better than peers. Asset quality has been broadly stable over the last three years, despite higher interest rates, supported by the bank's strict underwriting standards and a favourable economic environment. We expect the impaired loans ratio to remain below 2% in 2025 and 2026, underpinned by economic growth, a stable labour market, and interest-rate cuts.

Structural Profitability Improvements: We estimate the bank's operating profit at slightly below 3% of risk-weighted assets (RWAs) in 2024. We expect the ratio to decline in 2025 due to lower rates, but to remain above 2.5% in the medium term, still well above historical levels.

Improving Capital Ratios: Ibercaja's common equity Tier 1 (CET1) ratio (end-3Q24: 13.3%) provides comfortable buffers above its Supervisory Review and Evaluation Process (SREP) requirement of 8.1%. We expect the ratio to reach the upper end of the bank's updated medium-term target of 13.5%-14% by end-2026. Capital generation is improved by stronger profitability and a reduced dividend payout ratio to 40%, partially offset by increased business volumes.

Stable Funding Profile: The bank's main funding source is its stable and granular retail deposit base, which fully funds the loan book. Wholesale funding is mostly to build resolution buffers and, to a lesser extent, in the form of covered bonds. The bank is not as frequent an issuer as its higher-rated and larger peers but has shown good access to wholesale funding.

Access to the wholesale markets should benefit from improving prospects for Spanish banks after our recent revision of the Spanish sovereign rating Outlook to Positive.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

The ratings have headroom to withstand a moderate deterioration in Spanish economic environment. The bank could be downgraded if the impaired loans ratio worsens to above 3%, operating profit weakens structurally below 1.5% of RWAs, and the fully loaded CET1 ratio falls below 13% on a sustained basis.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Rating upside is limited by the bank's limited franchise compared with higher rated banks. An upgrade would require a significantly strengthened nationwide footprint, without structurally altering Ibercaja's current conservative risk appetite, resulting in a structural improvement of operating profit/RWAs above 3%.

The bank would also need to sustainably maintain its impaired loans ratio comfortably below 2% and a CET1 ratio well above 14%.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

Ibercaja's 'F2' Short-Term IDR is the lower of two options mapping to a 'BBB+' Long-Term IDR on Fitch's rating scale, reflecting our 'bbb+' assessment of its funding and liquidity profile.

Ibercaja's senior preferred (SP) debt is rated in line with the bank's Long-Term IDR and reflects our expectation that it will use SP debt to meet its minimum requirement for own funds and eligible liabilities and that the buffer of senior non-preferred (SNP) and more junior debt will not exceed 10% of the bank's RWAs.

Subordinated Tier 2 debt is rated two notches below the VR for loss severity, reflecting loss severity arising from its subordinated status.

Government Support Rating (GSR)

Ibercaja's GSR of 'no support' (ns) reflects Fitch's belief that senior creditors cannot rely on full extraordinary support from the sovereign if Ibercaja becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors to participate in losses ahead of a bank receiving sovereign support.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

SP Debt

The SP debt rating is primarily sensitive to a change in the bank's Long-Term IDR. The rating is also sensitive to a change in the bank's strategy to meet its resolution buffer requirements. Although currently not expected, the rating could be upgraded by one notch if we expect the combined buffer of SNP and more junior debt to exceed 10% of RWAs on a sustained basis or if the bank meets its resolution requirements only with SNP debt and more junior instruments.

Subordinated Debt

Subordinated debt ratings are primarily sensitive to a change in Ibercaja's VR.

Short-Term IDR

Ibercaja's Short-Term IDR is primarily sensitive to changes in the bank's Long-Term IDR and its funding and liquidity score.

GSR

An upgrade of the GSR would be contingent on a positive change in the sovereign's propensity to support its banks. Although not impossible, this is highly unlikely, in Fitch's view.

VR ADJUSTMENTS

The operating environment score of 'a-' is below the 'aa' category implied score due to the following adjustment reason: sovereign rating (negative).

The funding and liquidity score of 'bbb+' is below the 'a' category implied score due to the following adjustment reason: non-deposit funding (negative).

Sources of Information

The principal sources of information used in the analysis are described in the Applicable Criteria.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	PRIOR ⬍

Ibercaja Banco, S.A.	LT IDR BBB+ Upgrade	BBB
	ST IDR F2 Upgrade	F3
	Viability bbb+ Upgrade	bbb
	Government Support ns Affirmed	ns
subordinated	LT BBB- Upgrade	BB+
Senior preferred	LT BBB+ Upgrade	BBB

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VIEW ADDITIONAL RATING DETAILS

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

Bank Rating Criteria (pub. 15 Mar 2024) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Ibercaja Banco, S.A.	EU Issued, UK Endorsed

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