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CREDIT OPINION
28 December 2022

Update

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RATINGS

Ibercaja Banco SA

Domicile	ZARAGOZA, Spain
Long Term CRR	Baa2
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Long Term Debt	Withdrawn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Outlook	Rating(s) WithDrawn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	Baa3
Type	LT Bank Deposits - Fgn Curr
Outlook	Positive

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 following rating update

Summary

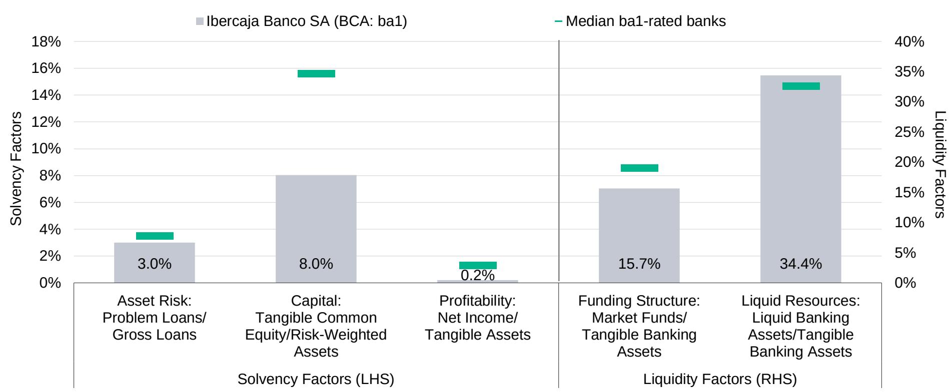
On 22 December, we upgraded Ibercaja Banco SA's (Ibercaja) deposit ratings to Baa3/Prime-3 from Ba1/Not Prime and changed the outlook on the long-term deposit ratings to positive from stable.

Ibercaja's Baa3 deposit ratings reflect the bank's Baseline Credit Assessment (BCA) of ba1; 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 ba1 BCA 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 low refinancing requirements and sizeable liquid assets. The BCA also takes into account the bank's modest capital position, although its solvency has improved following Ibercaja's main shareholder's decision to constitute a reserve fund to cover potential capital shortfalls, and its improving but modest recurring profitability. The ratings incorporate our expectation of an increase in problem loans, as rising interest rates along with soaring inflation undermines the repayment capacity of domestic businesses and households.

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.

» Improved asset quality following substantial balance sheet de-risking.

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

» Sound funding profile, underpinned by low refinancing requirements, a large deposit base and sizeable liquid assets.

Credit challenges

» Likely deterioration in asset quality because of the withdrawal of pandemic-related public support measures, a rising debt burden and high inflationary pressure.

» Profitability to remain modest despite tailwinds from rising interest rates.

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

Outlook

The positive outlook on Ibercaja's long-term deposit ratings reflects our expectation that the bank's profitability will continue to improve over the next 12 to 18 months on the back of stronger net interest income, balanced against headwinds stemming from lower activity levels and increased operating costs derived from the high inflation.

In assessing the bank's future profitability performance, we have considered the potential impact of the new banking tax that was announced by the Spanish government in July.

Factors that could lead to an upgrade

Ibercaja's BCA could be further upgraded primarily as a result of stronger and sustainable profitability ratios. A strengthening of the bank's capital and leverage ratios could also trigger a BCA upgrade.

Because the bank's deposit ratings are linked to its BCA, a positive change in its BCA would likely lead to a rating upgrade. The deposit 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

Given the positive outlook, Ibercaja's ratings face very limited downward pressure. However, downward pressure on the bank's BCA could principally result from an increase in problem loans materially above our current expectations.

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

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Key indicators

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

	06-22[2]	12-21[2]	12-20[2]	12-19[2]	12-18[2]	CAGR/Avg.[3]
Total Assets (EUR Million)	60,362.6	58,631.4	58,400.8	55,422.0	52,705.7	4.0[4]
Total Assets (USD Million)	63,105.8	66,435.6	71,456.6	62,211.1	60,250.3	1.3[4]
Tangible Common Equity (EUR Million)	1,940.8	1,883.2	1,768.6	1,761.3	1,675.0	4.3[4]
Tangible Common Equity (USD Million)	2,029.0	2,133.9	2,164.0	1,977.1	1,914.8	1.7[4]
Problem Loans / Gross Loans (%)	2.0	2.4	3.4	4.2	7.1	3.8[5]
Tangible Common Equity / Risk Weighted Assets (%)	8.0	7.8	7.8	7.2	6.6	7.5[6]
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	25.3	29.6	41.9	53.7	81.4	46.4[5]
Net Interest Margin (%)	0.9	0.9	1.0	1.1	1.1	1.0[5]
PPI / Average RWA (%)	1.5	1.4	1.2	1.3	1.2	1.3[6]
Net Income / Tangible Assets (%)	0.4	0.3	0.0	0.2	0.1	0.2[5]
Cost / Income Ratio (%)	61.6	65.0	72.1	65.3	69.2	66.6[5]
Market Funds / Tangible Banking Assets (%)	17.3	15.6	16.3	16.8	14.3	16.1[5]
Liquid Banking Assets / Tangible Banking Assets (%)	37.9	34.4	32.9	26.5	24.2	31.2[5]
Gross Loans / Due to Customers (%)	80.0	79.6	82.7	94.1	101.0	87.5[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 total assets as of the end of September 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 end of June 2022, 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 the end of September 2022, constituted the bulk of its loan book (58% of total loans). The bank holds a strong franchise in asset management as well, with a 5.0% domestic market share in mutual funds as of June 2022, 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, and as of end-September 2022 it was constituted for €136 million (almost 43% of the total amount).

Detailed credit considerations

Improved asset quality following substantial balance-sheet de-risking, but we anticipate an increase in problem loans

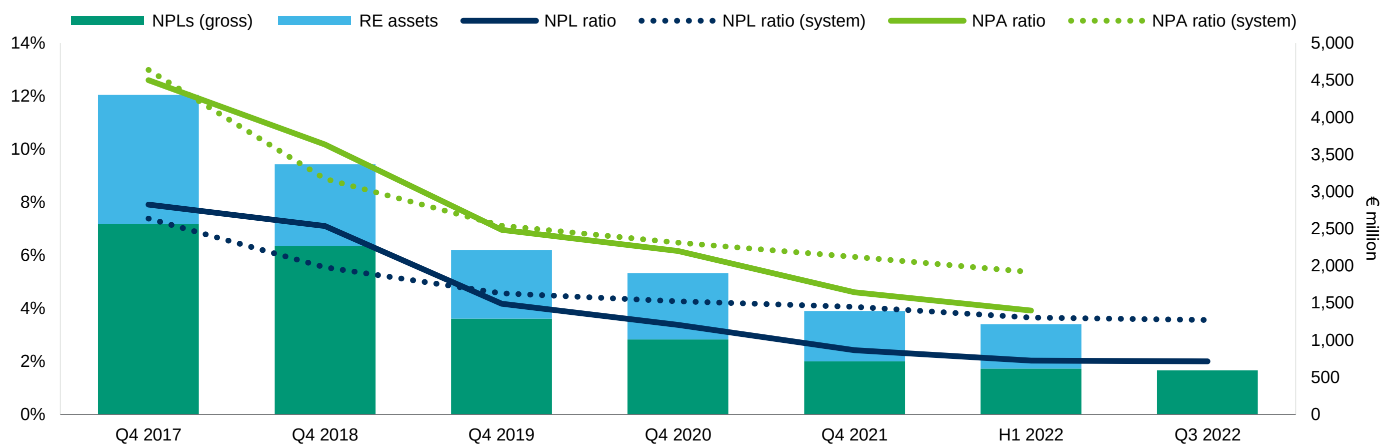
We assign Ibercaja an Asset Risk score of baa2, in line with its Macro-Adjusted score. Our Asset Risk score reflects the substantial improvement in the bank's asset quality in recent years, but also incorporates our expectation of a moderate increase in problem loans because of the gradual withdrawal 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), a rising debt burden from the higher interest rates 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 2.0% as of the end of September 2022, down from 2.85% as of September 2021 and comparing favourably with the system average of 3.6%. The improvement in the bank's problem loan ratio has been primarily driven by the lower NPL formation and the sale of problematic assets 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) (Ba3 stable).

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 + foreclosed real estate assets) ratio was 3.9% as of the end of June 2022, below the system average of 5.4%, but high by broader European standards.

Ibercaja's loan loss coverage ratio (defined as loan loss reserves as a percentage of NPLs) was 84% as of end of September 2022. 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



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

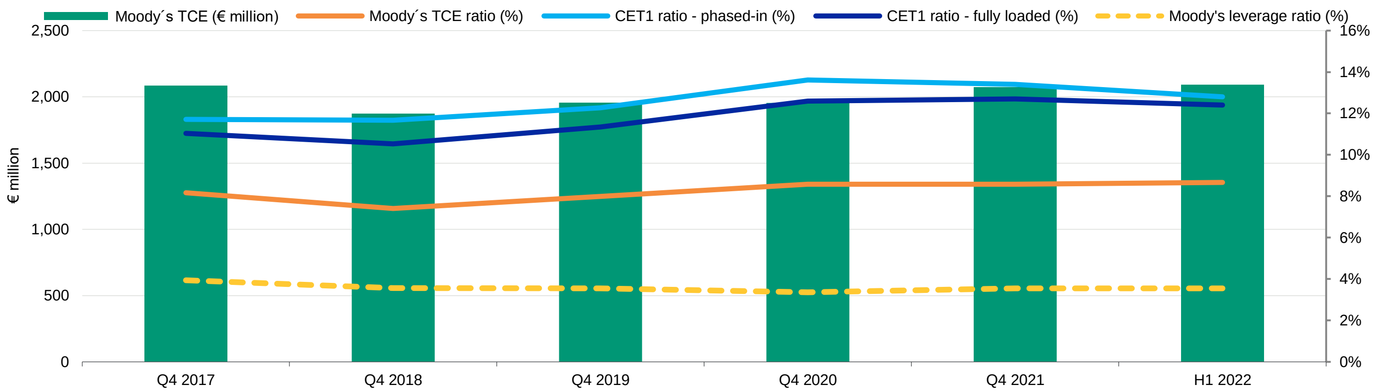
Modest capital position, weighed down by a large volume of DTA

We assess Ibercaja's capital adequacy at ba2, one notch above its Macro-Adjusted score. Our assessment reflects Moody's key capital metric Tangible Common Equity (TCE) ratio of 8.7% and leverage ratio (TCE/ tangible assets) of 3.5% as of end-June 2022, and it takes into account the reserve fund that the bank's owner is constituting to comply with the current legal framework (see the "Profile" section). When added to the TCE, the reserve fund actually constituted as of September 2022 would increase the TCE ratio by almost 60 basis points.

Despite some improvement in recent years because of a combination of earnings retention and a decline in RWA because of lower exposure to NPA and loan-book contraction, Ibercaja's TCE ratio is low. However, from a regulatory capital standpoint, Ibercaja benefits from stronger capital ratios, with the bank's CET1 capital ratio (fully loaded) standing at 12.4% as of end-September 2022. The regulatory capital ratio places close to the bank's capital guidance of 12.5% for 2023, and it stands significantly above the bank's Supervisory Review and Evaluation Process requirement of 8.2% prescribed by the European Central Bank (ECB) for 2023.

DTA (net of deferred tax liabilities), which amounted to €1.1 billion as of June 2022, or 49% of Ibercaja's CET1 capital (phased-in), 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
Despite some improvement in recent years, Ibercaja's TCE ratio remains low



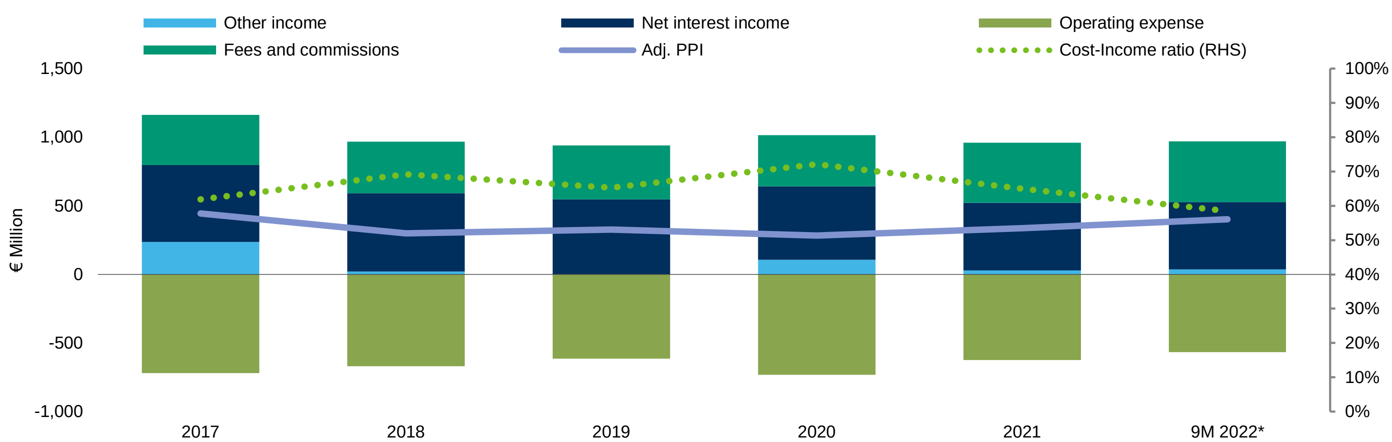
Source: Ibercaja's financial reports

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

We assign Ibercaja a Profitability score of ba2, equivalent to net income/tangible assets in the 0.375%-0.5% range. Our assessment is three 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, an unused €58 million macro-related provision will help the bank absorb related losses without a material impact on its P&L account.

With (annualized) pre-provision income/tangible assets of 0.68% as of Q3 2022, Ibercaja's recurring profitability is modest, mostly generated through NII and F&C income because of its traditional commercial banking model. Due to 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. This trend however started to reverse in Q2 2022 in light of the rising interest rates, which market reference rates like the 12-month Euribor, commonly used for mortgage loans in Spain, had been anticipating since early 2022. In Q3 2022, the bank's average loan spread had grown to 1.38% from 1.14% in Q1 2022, a positive trend that we expect to continue in the coming quarters.

Exhibit 5
Stronger F&C income and lower operating costs have improved Ibercaja's pre-provision income since 2020



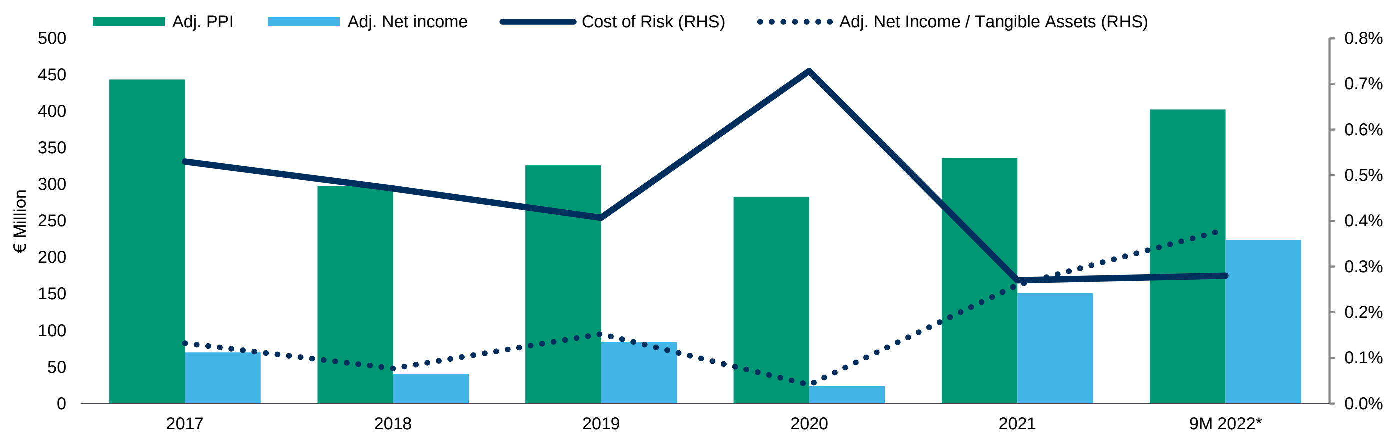
9M2022 figures annualized
Source: Ibercaja financial statements

In recent years, Ibercaja managed to offset the decline in NII through the application of cost-cutting measures and stronger 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 45% of the bank's operating income in September 2022. Despite growth prospects for NII, we expect Ibercaja's revenue composition to be more balanced, with F&C income contribution standing above the levels close to 30% observed a few years earlier.

Ibercaja reported a net profit of €168 million in Q3 2022, maintaining the improving trend initiated in 2021. Recurring revenue increased by 1.7% from that in the year-earlier period, with the 4.1% growth in F&C income more than offsetting the 0.4% decline in NII. Recurrent expenses decreased by 3.6% over the same period because of the cost-cutting measures implemented. The cost of credit placed at 28 bps, in line with the bank's medium-term target of 30 bps.

Exhibit 6

Ibercaja's profitability metrics are modest, although likely to improve from rising interest rates



*9M2022 figures annualized
Source: Ibercaja's financial report

Sound funding profile, underpinned by low refinancing requirements, a large deposit base and sizeable liquid assets

Ibercaja benefits from a large retail deposit base that covers most of its funding needs (77% as of the end of June 2022). The bank's loan-to-deposit ratio stood at a low 80% as of such date, following substantial deposit growth over the last few years while its loan book reduced.

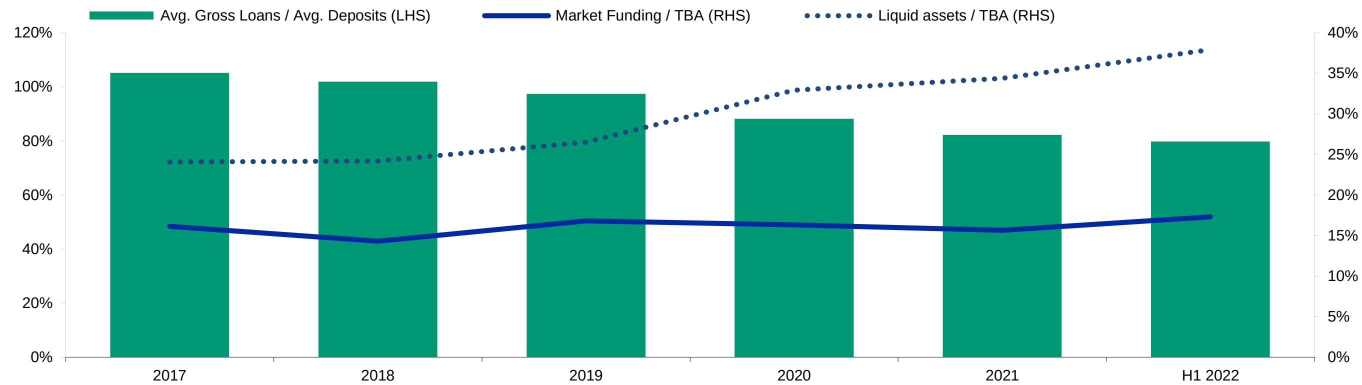
Ibercaja's market funding ratio (measured as market funds/tangible banking assets [TBA]) was 17% as of end of June 2022, below that of its domestic peers. We assign the bank a Funding Structure score of a3, two notches above the Macro-Adjusted score of baa2, as a result of deducting a portion of the 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 June 2022, Ibercaja had drawn €5.8 billion from the ECB's TLTRO III programme, accounting for around 10% of total assets.

Debt issued to wholesale markets represents approximately 5% of the bank's total funding. Ibercaja's minimum requirement for own funds and eligible liabilities (MREL) is set at 18.6% of RWA (excluding the combined buffer requirement of 2.5% of RWA), to be met by 1 January 2024. The bank's MREL ratio improved to 18.0% in June 2022 from 15.9% at the end of 2021, following the issuance of €500 million senior unsecured notes which are eligible for MREL purposes.

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 end-June 2022) because those are less liquid than other tradable securities. The bank reported a stock of liquid assets of €14.2 billion as of June 2022, further reinforced with a covered bond issuance capacity of €9.0 billion. The entity disclosed LCR and NSFR of 423% and 154%, respectively, as of the same date.

Exhibit 7
Ibercaja's funding profile benefits from a large deposit base and sizeable liquid assets

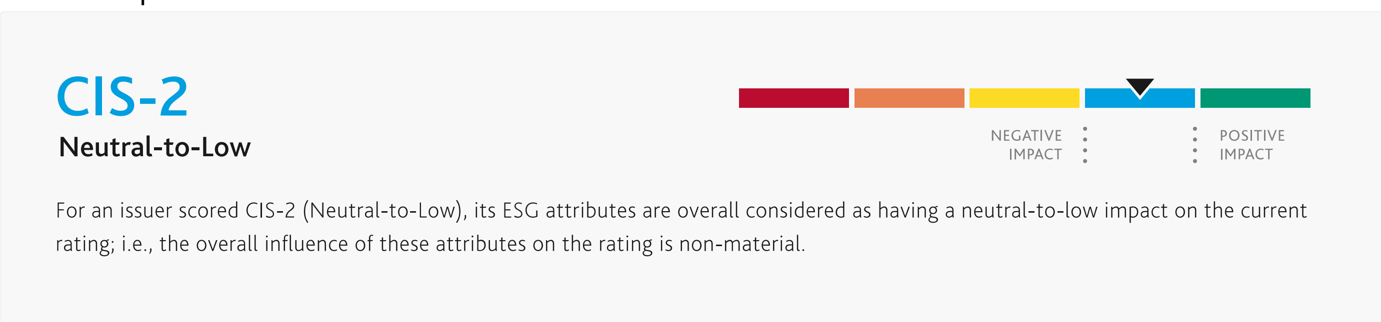


Source: Ibercaja's financial reports

ESG considerations

Ibercaja Banco SA's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 8
ESG Credit Impact Score



Source: Moody's Investors Service

Ibercaja's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the limited credit impact of environmental and social factors on the rating to date, and neutral-to-low governance risks.

Exhibit 9
ESG Issuer Profile Scores

Source: Moody's Investors Service

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 is exposed to high industrywide social risks particularly related to customer relations risk and associated regulatory and litigation risks, requiring high compliance standards. These risks are mitigated by Ibercaja's developed policies and procedures. Ibercaja's high cyber and personal data risks are mitigated by the bank's sound IT framework.

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. 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 Baa2, two notches above the Adjusted BCA of ba1, 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 Baa1(cr), three notches above the Adjusted BCA of ba1, 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 10

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	3.0%	a3	↔	baa2	Expected trend	Non lending credit risk
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - fully loaded)	8.0%	ba3	↔	ba2	Access to capital	Nominal leverage
Profitability						
Net Income / Tangible Assets	0.2%	b2	↑	ba2	Expected trend	
Combined Solvency Score		ba1		ba1		
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				baa3		
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				baa2 - ba1		
Assigned BCA				ba1		
Affiliate Support notching				0		
Adjusted BCA				ba1		

Balance Sheet	**in-scope (EUR Million)**	**% in-scope**	**at-failure (EUR Million)**	**% at-failure**
Other liabilities	8,868	17.8%	11,529	23.2%
Deposits	38,012	76.4%	35,351	71.0%
Preferred deposits	34,211	68.7%	32,500	65.3%
Junior deposits	3,801	7.6%	2,851	5.7%
Senior unsecured bank debt	550	1.1%	550	1.1%
Dated subordinated bank debt	500	1.0%	500	1.0%
Preference shares (bank)	350	0.7%	350	0.7%
Equity	1,493	3.0%	1,493	3.0%
Total Tangible Banking Assets	49,773	100.0%	49,773	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	11.5%	11.5%	11.5%	11.5%	2	2	2	2	0	baa2
Counterparty Risk Assessment	11.5%	11.5%	11.5%	11.5%	3	3	3	3	0	baa1 (cr)
Deposits	11.5%	4.7%	11.5%	5.8%	1	1	1	1	0	baa3
Dated subordinated bank debt	4.7%	3.7%	4.7%	3.7%	-1	-1	-1	-1	0	ba2

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	baa2	0	Baa2	Baa2
Counterparty Risk Assessment	3	0	baa1 (cr)	0	Baa1(cr)	
Deposits	1	0	baa3	0	Baa3	Baa3
Dated subordinated bank debt	-1	0	ba2	0	Ba2	

[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 11

Category	Moody's Rating
IBERCAJA BANCO SA	
Outlook	Positive
Counterparty Risk Rating	Baa2/P-2
Bank Deposits	Baa3/P-3
Baseline Credit Assessment	ba1
Adjusted Baseline Credit Assessment	ba1
Counterparty Risk Assessment	Baa1(cr)/P-2(cr)
Subordinate -Dom Curr	Ba2

Source: Moody's Investors Service

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