

Morningstar DBRS Upgrades Banco Cooperativo Español S.A.'s Long-Term Issuer Rating to A (low) From BBB (high); Changes Trend to Stable From Positive

BANKING ORGANIZATIONS

DBRS Ratings GmbH (Morningstar DBRS) upgraded Banco Cooperativo Español S.A.'s (BCE or the Bank) Long-Term Issuer Rating, as well as the credit ratings on the Bank's Long-Term Senior Debt and Long-Term Deposits, to A (low) from BBB (high). Morningstar DBRS also changed the trends on BCE's long-term credit ratings to Stable from Positive. In addition, Morningstar DBRS confirmed the Bank's short-term credit ratings at R-1 (low) with Stable trends. The Bank's Intrinsic Assessment (IA) was also raised to A (low) from BBB (high) and the Support Assessment maintained at SA1, reflecting the internal support provided by GrucajRural Inversiones, S.L. (Grucajrural or the Group), which is the larger consolidated entity to which BCE belongs. See the full list of credit ratings at the end of this press release.

KEY CREDIT RATING CONSIDERATIONS

The credit rating upgrades reflect the Bank's enhanced and resilient profitability over recent years, underpinned by the current interest rate environment, good revenue diversification, strong efficiency, and low cost of risk. Morningstar DBRS' credit ratings also consider the Bank's low risk profile because of its business model, supported by its solid interest rate risk management as demonstrated in the current interest rate cycle, given the lack of unrealised losses in BCE's large fixed-income portfolio.

The credit ratings also incorporate the Bank's robust funding position underpinned by a large and stable deposit base contributed by the members of the Asociación Española de Cajas Rurales (AECR), the largest co-operative group in Spain for which the Bank acts as the central treasurer and liquidity provider. In addition, the credit ratings reflect the Bank's substantial liquidity position driven by its large and highly liquid debt securities portfolio, as well as its robust capitalisation, with very large capital cushions over minimum regulatory requirements.

The IA is at the lower end of the IA range, reflecting the Bank's relatively limited track record of improved profitability.

CREDIT RATING DRIVERS

Morningstar DBRS would upgrade BCE's Long-Term Issuer Rating if the Bank demonstrated a longer track record of improved profitability while maintaining its sound risk, capital, and liquidity profiles. In addition, a credit rating upgrade would require the AECR to sustain its current earnings performance and asset quality for a longer period.

Conversely, Morningstar DBRS would downgrade BCE's credit ratings if the Bank's risk profile materially worsens, or if the BCE's or the AECR's profitability experiences a sustained and significant deterioration.

CREDIT RATING RATIONALE

Franchise Combined Building Block Assessment: Good/Moderate

BCE acts as the central treasurer and liquidity provider for the AECR, the largest co-operative group in Spain with total aggregated assets of EUR 98 billion and an average aggregated market share of around 4.3% of loans and 5.1% of deposits at a national level at YE2024. The AECR has stronger market shares in the regions of Navarra, Aragon, Asturias, and Andalusia. BCE is majority owned by Grucajrural, which is the entity at the highest level of prudential consolidation that holds BCE and RGA Seguros Generales Rural S.A. de Seguros y Reaseguros (RGA). RGA is a Spanish insurance company that operates through the AECR members' branches. The AECR members, BCE and Grucajrural, have also been members of an institutional protection scheme (IPS) since 2018. The IPS does not create a consolidated banking group as its members remain autonomous institutions, but it provides benefits with respect to supervisory treatment of capital and liquidity as well as risk management processes. The IPS has an ex-ante fund to provide support if a member faces severe financial difficulties. The size of this fund was EUR 375 million at YE2024.

Earnings Combined Building Block Assessment: Good/Moderate

BCE's profitability is solid underpinned by the Group's good revenue diversification, operating efficiency excellence, and low credit costs, as well as the AECR's solid and resilient profitability. The Group reported a net profit of EUR 138 million in F2024, up 14.6% year over year (YOY), driven by higher net interest income (NII), higher revenues from the services to the AECR members, and a lower contribution to the Deposit Guarantee Fund (DGF). In addition, the IPS reported a net profit of EUR 1,244 million in F2024, up by 32% YOY, driven by higher NII and fees, lower contribution to the DGF, and lower credit costs on the back of a strong domestic economy. As a result, the Group's return on equity (ROE), as calculated by Morningstar DBRS, rose to 10.2% in F2024 from 9.7% in F2023, while the IPS' ROE rose to 13.3% in F2024 from 11.7% in F2023.

Risk Combined Building Block Assessment: Strong/Good

The Group has a low risk profile driven by its business mix and specialised franchise. The main risks stem from its large exposure to financial securities because of BCE's intermediary role for the AECR members and its high borrower concentration in a small customer loan book. The Group had EUR 7.2 billion in debt securities at YE2024 (45% of total assets), up from EUR 6.9 billion at YE2023, mainly with BCE contributions largely related to Spanish sovereign bonds. Despite the size of this portfolio, Morningstar DBRS acknowledges BCE's solid interest rate risk management of its portfolio as demonstrated during the current interest rate cycle, given the lack of unrealised losses. Finally, because of its limited exposure to lending, the Group's nonperforming loans are not material.

Funding and Liquidity Combined Building Block Assessment: Good

The Group's funding and liquidity position is underpinned by a large and stable deposit base from credit institutions, mostly comprising AECR members, which represents the bulk of the funding resources. At YE2024, the Group had a robust liquidity position, with strong liquidity coverage and net stable funding ratios of 254% and 288%, respectively. Grucajrural also had high-quality liquid assets totalling EUR 6.2 billion, which represented 2.9 times its customer deposits with maturity up to one year. However, Morningstar DBRS views the Group's diversification of funding sources as limited.

Capitalisation Combined Building Block Assessment: Good

The Group's capitalisation is solid given its very large capital buffers over minimum requirements, low risk profile, and resilient internal capital generation capacity. In addition, Morningstar DBRS also views BCE's membership in the IPS positively as it would provide potential support from the ex-ante fund if BCE were to face severe financial difficulties. The Group reported a consolidated CET1 ratio of 44.8% at YE2024, well above its minimum regulatory requirement of 12.1% in 2024. The Group's leverage ratio was also strong at 12.1% at

YE2024. The Group and BCE met all minimum requirements for own funds and eligible liabilities at YE2024.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://dbrs.morningstar.com/research/463119>.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

There were no Environmental, Social and Governance factors that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (16 May 2025) at <https://dbrs.morningstar.com/research/454196>.

Notes:

All figures are in euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (23 May 2025), <https://dbrs.morningstar.com/research/454637>. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings, <https://dbrs.morningstar.com/research/454196> in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/methodologies>.

The sources of information used for these credit ratings include Morningstar, Inc. and company documents, BCE and AECR presentations, BCE's annual reports (2020 to 2024), Grucajural's annual and regulatory reports (2020 to 2024), audited IPS reports (2020 to 2024), European Banking Authority data, and European Central Bank data. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' outlooks and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <https://registers.esma.europa.eu/cerep-publication>. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see <https://data.fca.org.uk/#/ceres/craStats>.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: <https://dbrs.morningstar.com/research/463120>.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

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For more information on this credit or on this industry, visit <https://dbrs.morningstar.com>.

Ratings

Banco Cooperativo Espanol S.A.

| Date Issued | Debt Rated | Action | Rating | Trend | Attributes |
|-------------|--------------------------|--------------|------------|-------|--------------------------------------|
| 24-Sep-25 | Long-Term Issuer Rating | Trend Change | BBB (high) | Stb | <div><div>EU</div><div>U</div></div> |
| 24-Sep-25 | Long-Term Issuer Rating | Upgraded | A (low) | Stb | <div><div>EU</div><div>U</div></div> |
| 24-Sep-25 | Short-Term Issuer Rating | Confirmed | R-1 (low) | Stb | <div><div>EU</div><div>U</div></div> |
| 24-Sep-25 | Long-Term Senior Debt | Trend Change | BBB (high) | Stb | <div><div>EU</div><div>U</div></div> |
| 24-Sep-25 | Long-Term Senior Debt | Upgraded | A (low) | Stb | <div><div>EU</div><div>U</div></div> |
| 24-Sep-25 | Short-Term Debt | Confirmed | R-1 (low) | Stb | <div><div>EU</div><div>U</div></div> |
| 24-Sep-25 | Short-Term Deposits | Confirmed | R-1 (low) | Stb | <div><div>EU</div><div>U</div></div> |
| 24-Sep-25 | Long-Term Deposits | Trend Change | BBB (high) | Stb | <div><div>EU</div><div>U</div></div> |
| 24-Sep-25 | Long-Term Deposits | Upgraded | A (low) | Stb | <div><div>EU</div><div>U</div></div> |

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