



RATING ACTION COMMENTARY

Fitch Affirms BCE at 'BBB'; Outlook Stable

Fri 06 Oct, 2023 - 10:55 AM ET

Fitch Ratings - Madrid - 06 Oct 2023: Fitch Ratings has affirmed Banco Cooperativo Espanol, S.A.'s (BCE) Long-Term Issuer Default Ratings (IDR) at 'BBB' with a Stable Outlook and Viability Rating (VR) at 'bbb'. A full list of rating actions is below.

KEY RATING DRIVERS

Important Role Within Group: BCE's ratings reflect its strategic importance as treasurer for the members of the Spanish rural credit cooperative association (Asociacion Espanola de Cajas Rurales; AECR). BCE's business model is focused on providing services to the credit cooperatives, which has provided it with a stable, albeit low-margin, business.

Part of Institutional Protection Scheme: BCE is a member of the Institutional Protection Scheme (IPS) of the AECR, which in Fitch's opinion contributes to the cohesion of its members. Fitch does not assign a group rating as it does not yet see sufficient evidence that the support mechanism is cohesive enough to substantially equalise the default risk of group members. As the mutual support mechanism matures, this could result in increased cohesion, which might eventually result in group ratings being assigned.

Moderate Risk Appetite: The ratings reflect the bank's conservative risk appetite. BCE's interbank and securities portfolios account for the bulk of its assets, reflecting its role as the central treasurer. The bank invests the liquidity received from AECR members primarily in Spanish sovereign debt, and to a lesser extent, in securities issued by other European sovereigns and financial institutions.

The bank is also exposed to market risk from the securities portfolio at fair value (60% of total securities at end-2022). Operational losses have been very small to date, and the bank has an internal control system in place, monitored by its internal audit department.

Adequate Asset Quality: BCE's balance sheet is mainly composed of its large securities portfolio, AECR's members balances placed at the ECB deposit facility, and a small loan book, which is highly covered by reserves. Our assessment reflects a low impaired loan

ratio of 0.2% at end-2022, but also factors in the bank's concentration on Spanish sovereign debt, which represented 44% of total assets.

Stable but Modest Profitability: As the central treasurer of AEER's members, BCE's performance depends directly on credit cooperatives' business volumes. The ratings reflect modest profits in absolute terms that have been broadly stable over the cycle and are highly dependent on net interest income. Cost efficiency is satisfactory and supported by adequate cost control.

Strong Capitalisation: Regulatory capital ratios are commensurate with the bank's risk profile with a phased-in common equity Tier 1 ratio of 34% at end-2022. However, capital ratios are supported by low risk-weighted assets density, reflecting high sovereign debt exposure. We believe capital ratios will continue to remain strong due to earnings retention.

Adequate Funding and Liquidity: BCE is mainly funded by deposits placed by AEER members. The bank has a comfortable liquidity position and regulatory ratios are solid, with a liquidity coverage ratio of 197% and a net stable funding ratio of 192% at end-2022.

RATING SENSITIVITIES

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

BCE's ratings could be downgraded if its importance within the AEER group diminishes or if the size of the group materially decreases, as this could reduce business volumes and cast uncertainty on BCE's role in the Spanish cooperative sector.

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

In the long term, continued strong relationships with AEER banks, supporting internal capital generation and strengthening the equity base, combined with an improvement of the aggregate business and financial profile of AEER member banks, could support an upgrade.

OTHER DEBT AND ISSUER RATINGS: KEY RATING DRIVERS

BCE's 'F2' Short-Term IDR is the lower of two options that map to a 'BBB+' Long-Term IDR, reflecting our 'bbb+' assessment of the bank's funding and liquidity profile.

The bank's Government Support Rating (GSR) of 'ns' reflect Fitch's view of a low probability of the bank receiving extraordinary support from the sovereign if needed.

Senior creditors can no longer expect to receive full extraordinary support from the government in the event that the bank becomes non-viable due to the implementation of resolution regimes.

OTHER DEBT AND ISSUER RATINGS: RATING SENSITIVITIES

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

VR ADJUSTMENTS

The operating environment score of 'bbb+' is below the 'a' category implied score due to the following adjustment reason: economic performance (negative).

The business profile score of 'bbb' is above the 'b' category implied score due to the following adjustment reason: group benefits and risks (positive).

The asset quality score of 'bbb+' is below the 'a' category implied score due to the following adjustment reason: concentrations (negative).

The capitalisation & leverage score of 'bbb' is below the 'a' category implied score due to the following adjustment reason: leverage and risk-weight calculation (negative).

The funding & liquidity score of 'bbb+' is above the 'bb' category implied score due to the following adjustment reason: non-deposit funding (positive).

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

Unless otherwise stated in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ↕	RATING ↕			PRIOR ↕
Banco Cooperativo Español, S.A.	LT IDR	BBB Rating Outlook Stable		BBB Rating Outlook Stable
		Affirmed		
	ST IDR	F2	Affirmed	F2
	Viability	bbb	Affirmed	bbb
	Government Support	ns	Affirmed	ns

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Bank Rating Criteria - Effective from 1 September 2023 to 15 March 2024 \(pub. 01 Sep 2023\) \(including rating assumption sensitivity\)](#)

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Banco Cooperativo Espanol, S.A.

EU Issued, UK Endorsed

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