

# Banco Cooperativo Espanol, S.A.

Update

## Key Rating Drivers

**Important Role Within Group:** Banco Cooperativo Espanol, S.A.'s (BCE) 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 IPS Scheme:** BCE is a member of the Institutional Protection Scheme (IPS) of the AECR, which includes 30 cooperative banks and BCE. The IPS does not imply the mutualisation of solvency, liquidity or profits but strengthens AECR member's existing cross-support mechanism and contributes to the cohesion of the cooperative group.

**Moderate Risk Appetite:** The ratings reflect the bank's conservative risk appetite. Due to its role as the central treasurer, BCE's interbank and securities portfolios account for the bulk of its assets. The bank invests the liquidity received from AECR members primarily in Spanish sovereign debt, which results in some counterparty risk concentration, and, to a lesser extent, concentration in securities issued by other European countries 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 errors have been very small, 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 interbank and securities portfolios, and a small loan book, which is highly covered by reserves. The bank's impaired loan ratio was low, at 0.2% at end-2022. Our asset quality assessment also factors in the bank's concentration on Spanish sovereign debt, which represented 44% of total assets at end-2022.

**Modest but Stable Profitability:** As the central treasurer of AECR's members, BCE's performance depends directly on credit cooperatives' business volumes. The bank's modest profitability has been broadly stable over the cycle and is highly dependent on net interest income. Cost efficiency is satisfactory and supported by adequate cost control.

**Strong Capitalisation:** Regulatory capital ratios are robust for the bank's risk profile, with a phased-in common equity Tier 1 (CET1) ratio of 34% at end-2022. Capitalisation is supported by very modest risk-weighted assets (RWAs) as a share of BCE's total assets, as investment in sovereign debt represented 49% of total assets at end-2022. We believe capital ratios will continue to remain strong on earnings retention.

**Adequate Funding and Liquidity:** BCE is mainly funded by deposits placed by AECR members and, to a lesser extent, by other customer deposits, repos and TLTRO funding. The bank's regulatory ratios are solid, with a liquidity coverage ratio of 197% and a net stable funding ratio of 192% at end-2022.

## Ratings

### Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F2

Viability Rating	bbb
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Government Support Rating	ns
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### Sovereign Risk (Spain)

Long-Term Foreign-Currency IDR	A-
Long-Term Local-Currency IDR	A-
Country Ceiling	AAA

### Outlooks

Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Foreign-Currency IDR	Stable
Sovereign Long-Term Local-Currency IDR	Stable

## Applicable Criteria

[Bank Rating Criteria \(September 2022\)](#)

## Related Research

[Fitch Affirms BCE at 'BBB'; Outlook Stable \(October 2022\)](#)

[Global Economic Outlook \(June 2023\)](#)

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## 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 AECR group diminishes or if the size of the group decreases materially, as this could reduce business volumes and cast uncertainty on BCE's role in the Spanish cooperative sector, which we view as unlikely given the presence of a cross-support mechanism.

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

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

## Significant Changes from Last Review

### Improved Profitability in 2022

BCE's operating profit/RWAs ratio has slightly improved (end-2022: 3.1%; end-2021: 2.9%), supported by higher operating income (+13%) that more than offset an increase in expenses (+7%). BCE's operating income was supported by some trading gains and healthy growth in fee income (+11%). Net interest income remained nearly stable (+2%) as the higher interest income on rising rates was mostly offset by higher funding costs due to BCE's funding profile based on interbank funding.

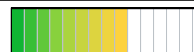
Operating expenses have increased, mainly due to inflationary pressures as well as the hiring of additional staff in line with the strategic plan. The cost/income ratio slightly improved to 36.5% in 2022 (38.5% in 2021).

The bank finished its 2019–2022 strategic plan, meeting the main targets in terms of business growth, cost efficiency, risk management and digitalisation. We expect the new 2023–2025 strategic plan to remain focused on the same strategic lines, while preserving BCE's key role in the AECR group.

## Ratings Navigator

## Banco Cooperativo Espanol, S.A.

ESG Relevance:


Banks  
Ratings Navigator

Operating Environment	Business Profile	Risk Profile	Financial Profile				Implied Viability Rating	Viability Rating	Government Support	Issuer Default Rating
			Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding & Liquidity				
	20%	10%	20%	15%	25%	10%				
aaa							aaa	aaa	aaa	AAA
aa+							aa+	aa+	aa+	AA+
aa							aa	aa	aa	AA
aa-							aa-	aa-	aa-	AA-
a+							a+	a+	a+	A+
a							a	a	a	A
a-							a-	a-	a-	A-
bbb+							bbb+	bbb+	bbb+	BBB+
bbb							bbb	bbb	bbb	BBB Sta
bbb-							bbb-	bbb-	bbb-	BBB-
bb+							bb+	bb+	bb+	BB+
bb							bb	bb	bb	BB
bb-							bb-	bb-	bb-	BB-
b+							b+	b+	b+	B+
b							b	b	b	B
b-							b-	b-	b-	B-
ccc+							ccc+	ccc+	ccc+	CCC+
ccc							ccc	ccc	ccc	CCC
ccc-							ccc-	ccc-	ccc-	CCC-
cc							cc	cc	cc	CC
c							c	c	c	C
f							f	f	ns	D or RD

The Key Rating Driver (KRD) weightings used to determine the implied VR are shown as percentages at the top. In cases where the implied VR is adjusted upwards or downwards to arrive at the VR, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD.

## VR - Adjustments to Key Rating Drivers

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

## Financials

### Financial Statements

	31 Dec 22		31 Dec 21	31 Dec 20	31 Dec 19
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
<b>Summary Income Statement</b>					
Net interest and dividend income	66	62.1	58.6	64.1	51.6
Net fees and commissions	17	15.9	14.3	10.7	12.0
Other operating income	12	11.5	6.6	6.6	4.2
Total operating income	95	89.5	79.5	81.4	67.8
Operating costs	35	32.7	30.6	29.8	28.1
Pre-impairment operating profit	61	56.8	48.9	51.6	39.7
Loan and other impairment charges	-1	-1.1	-1.7	-3.0	-4.1
Operating profit	62	57.9	50.6	54.6	43.8
Other non-operating items (net)	0	0.2	-0.1	0.2	0.0
Tax	15	14.2	12.4	12.5	11.8
Net income	47	43.9	38.1	42.3	32.0
Other comprehensive income	-31	-29.3	6.3	-19.5	34.0
Fitch comprehensive income	16	14.6	44.4	22.8	66.0
<b>Summary Balance Sheet</b>					
<b>Assets</b>					
Gross loans	1,061	994.6	1,842.7	1,496.1	1,369.3
- Of which impaired	2	2.1	2.4	2.5	1.7
Loan loss allowances	17	15.9	17.4	20.1	22.4
Net loans	1,044	978.7	1,825.3	1,476.0	1,346.9
Interbank	2,581	2,420.1	2,980.8	2,163.0	1,580.3
Derivatives	1,965	1,842.7	1,716.1	1,271.8	937.7
Other securities and earning assets	7,461	6,995.5	5,505.3	5,260.1	4,964.9
Total earning assets	13,052	12,237.0	12,027.5	10,170.9	8,829.8
Cash and due from banks	281	263.4	5,911.2	3,276.6	248.1
Other assets	104	97.6	55.5	54.9	44.1
Total assets	13,437	12,598.0	17,994.2	13,502.4	9,122.0
<b>Liabilities</b>					
Customer deposits	1,563	1,465.1	1,251.7	954.0	894.4
Interbank and other short-term funding	6,118	5,736.3	10,782.0	8,588.3	5,886.3
Other long-term funding	957	897.4	1,084.4	n.a.	n.a.
Trading liabilities and derivatives	2,639	2,474.1	2,625.7	1,932.3	1,664.7
Total funding and derivatives	11,277	10,572.9	15,743.8	11,474.6	8,445.4
Other liabilities	1,466	1,374.8	1,613.2	1,434.7	105.0
Total equity	694	650.3	637.2	593.1	571.6
Total liabilities and equity	13,437	12,598.0	17,994.2	13,502.4	9,122.0
Exchange rate		USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015
Source: Fitch Ratings					

## Key Ratios

	31 Dec 22	31 Dec 21	31 Dec 20	31 Dec 19
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.1	2.9	3.2	2.8
Net interest income/average earning assets	0.5	0.5	0.6	0.6
Non-interest expense/gross revenue	36.5	38.5	36.6	41.5
Net income/average equity	7.0	6.2	7.5	5.9
Asset quality				
Impaired loans ratio	0.2	0.1	0.2	0.1
Growth in gross loans	-46.0	23.2	9.3	114.2
Loan loss allowances/impaired loans	757.1	725.0	804.0	1,317.7
Loan impairment charges/average gross loans	-0.1	-0.1	-0.2	-0.3
Capitalisation				
Common equity Tier 1 ratio	34.0	34.0	34.2	35.6
Equity/total assets	5.2	3.5	4.4	6.3
Basel leverage ratio	6.6	6.7	6.9	7.9
Net impaired loans/common equity Tier 1	-2.1	-2.6	-3.0	-3.7
Funding and liquidity				
Gross loans/customer deposits	67.9	147.2	156.8	153.1
Liquidity coverage ratio	197.4	297.9	324.8	260.1
Customer deposits / total non-equity funding	18.1	9.5	10.0	13.2
Net stable funding ratio	192.3	274.8	249.0	244.2
Source: Fitch Ratings				

## Support Assessment

### Commercial Banks: Government Support

Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	bbb+ or bbb
Actual jurisdiction D-SIB GSR	ns
Government Support Rating	ns

### Government ability to support D-SIBs

Sovereign Rating	A- / Stable
Size of banking system	Negative
Structure of banking system	Neutral
Sovereign financial flexibility (for rating level)	Neutral

### Government propensity to support D-SIBs

Resolution legislation	Negative
Support stance	Neutral

### Government propensity to support bank

Systemic importance	Negative
Liability structure	Neutral
Ownership	Neutral

The colours indicate the weighting of each KRD in the assessment.

Higher influence Moderate influence Lower influence

The bank's 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.

## Environmental, Social and Governance Considerations

### FitchRatings Banco Cooperativo Espanol, S.A.

Banks  
Ratings Navigator

#### Credit-Relevant ESG Derivation

Banco Cooperativo Espanol, S.A. has 5 ESG potential rating drivers				Overall ESG Scale	
<ul style="list-style-type: none"> <li>Banco Cooperativo Espanol, S.A. has exposure to compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security) but this has very low impact on the rating.</li> <li>Governance is minimally relevant to the rating and is not currently a driver.</li> </ul>	key driver	0	issues	5	
	driver	0	issues	4	
	potential driver	5	issues	3	
	not a rating driver	4	issues	2	
		5	issues	1	

#### Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale	
GHG Emissions & Air Quality	1	n.a.	n.a.	5	
Energy Management	1	n.a.	n.a.	4	
Water & Wastewater Management	1	n.a.	n.a.	3	
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2	
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk appetite & management; catastrophe risk; credit concentrations	Business Profile (incl. Management & governance); Risk Profile; Asset Quality	1	

**How to Read This Page**  
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

**The Environmental (E), Social (S) and Governance (G) tables** break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

**The Credit-Relevant ESG Derivation table** shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

#### Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale	
Human Rights, Community Relations, Access & Affordability	2	Services for underbanked and underserved communities: SME and community development programs; financial literacy programs	Business Profile (incl. Management & governance); Risk Profile	5	
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Compliance risks including fair lending practices, mis-selling, repossession/foreclosure practices, consumer data protection (data security)	Operating Environment; Business Profile (incl. Management & governance); Risk Profile	4	
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)	3	
Employee Wellbeing	1	n.a.	n.a.	2	
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core banking practices	Business Profile (incl. Management & governance); Financial Profile	1	

**Classification of ESG issues** has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

**Sector references** in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

#### Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale		CREDIT-RELEVANT ESG SCALE	
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5		5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Business Profile (incl. Management & governance); Earnings & Profitability; Capitalisation & Leverage	4		4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3		3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2		2	Irrelevant to the entity rating but relevant to the sector.
				1		1	Irrelevant to the entity rating and irrelevant to the sector.

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](http://www.fitchratings.com/esg)

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