FitchRatings

Banks
Banks
Spain

Banco Cooperativo Espanol, S.A.

Ratings

Foreign Currency	
Long-Term IDR	BBB
Short-Term IDR	F2
Viability Rating	bbb
Government Support Rating	ns
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

Key Rating Drivers

Important Role Within Group: Banco Cooperativo Espanol, S.A.'s (BCE) ratings reflect its low-margin, but stable and low-risk, business model focused on providing treasury and other services for credit cooperatives in Asociacion Espanola de Cajas Rurales (AECR). The bank's healthy asset quality and solid funding profile are rating strengths.

Part of Institutional Protection Scheme: BCE is a member of the Institutional Protection Scheme (IPS) of the Spanish rural credit cooperative association (AECR). In Fitch Ratings' view, this support mechanism enhances the cohesion of its members, but not sufficiently to equalise the default risk of group members and assign a group rating. As the mutual support mechanism matures, this could result in increased cohesion that may eventually result in a group rating being assigned.

Business Focused on Credit Cooperatives: BCE's market footprint is weak, but its business model benefits from being the central treasurer of AECR's members, which translates into recurring income from its members. We view BCE's role as necessary for the adequate performance of the group, especially for smaller cooperatives, by helping them to improve their operating efficiency and to access larger corporate customers.

Low-Risk Appetite: BCE's balance sheet is mainly composed of its large securities portfolio and ECB deposits funded by interbank placements from AECR members. The securities portfolio is dominated by Spanish sovereign bonds, which result in a sizeable concentration – at 25% of assets at end-2023. Operational losses have been limited, and the bank has effective internal control systems in place.

Strong Asset Quality: Our asset-quality assessment mainly reflects non-loan assets because the bank's loan book represented only about 10% of assets at end-2023. It mostly comprises exposures to good-quality corporates, which result in a low impaired loan ratio of only 0.3% at end-2023 and largely negligible credit losses. The securities portfolio is of high credit quality, dominated by investment-grade issuers.

Modest but Stable Profitability: Profitability has generally been stable over the cycle and is highly dependent on net interest income (NII), which in turn depends directly on business volumes from AECR members. Cost efficiency is satisfactory and supported by adequate control of expenses. We expect BCE's profitability to slightly improve in 2024 and 2025, supported by higher business volumes and good cost control.

Solid Capitalisation: BCE's robust common equity Tier 1 (CET1) ratio of 37.2% at end-2023 benefitted from low risk-weight densities given the high share of capital-light assets. Risk-weighted assets (RWAs) represented only 14% of assets at end-2023. We expect capital ratios to remain strong on earnings retention.

Stable Funding and Liquidity: BCE is mainly funded by deposits placed by AECR members, and, to a lesser extent, by other customer deposits and repos. The bank's funding lacks diversification compared with larger domestic peers', and access to capital markets remains untested. However, this is not a rating weakness given the bank's low loans/deposit ratio and ample liquidity.

Applicable Criteria

Bank Rating Criteria (March 2024)

Related Research

Global Economic Outlook (September 2024)

Spanish Banks to Benefit from Improving Operating Environment (July 2024)

Fitch Affirms Banco Cooperativo Espanol at 'BBB'; Outlook Stable (September 2024)

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Rating Sensitivities

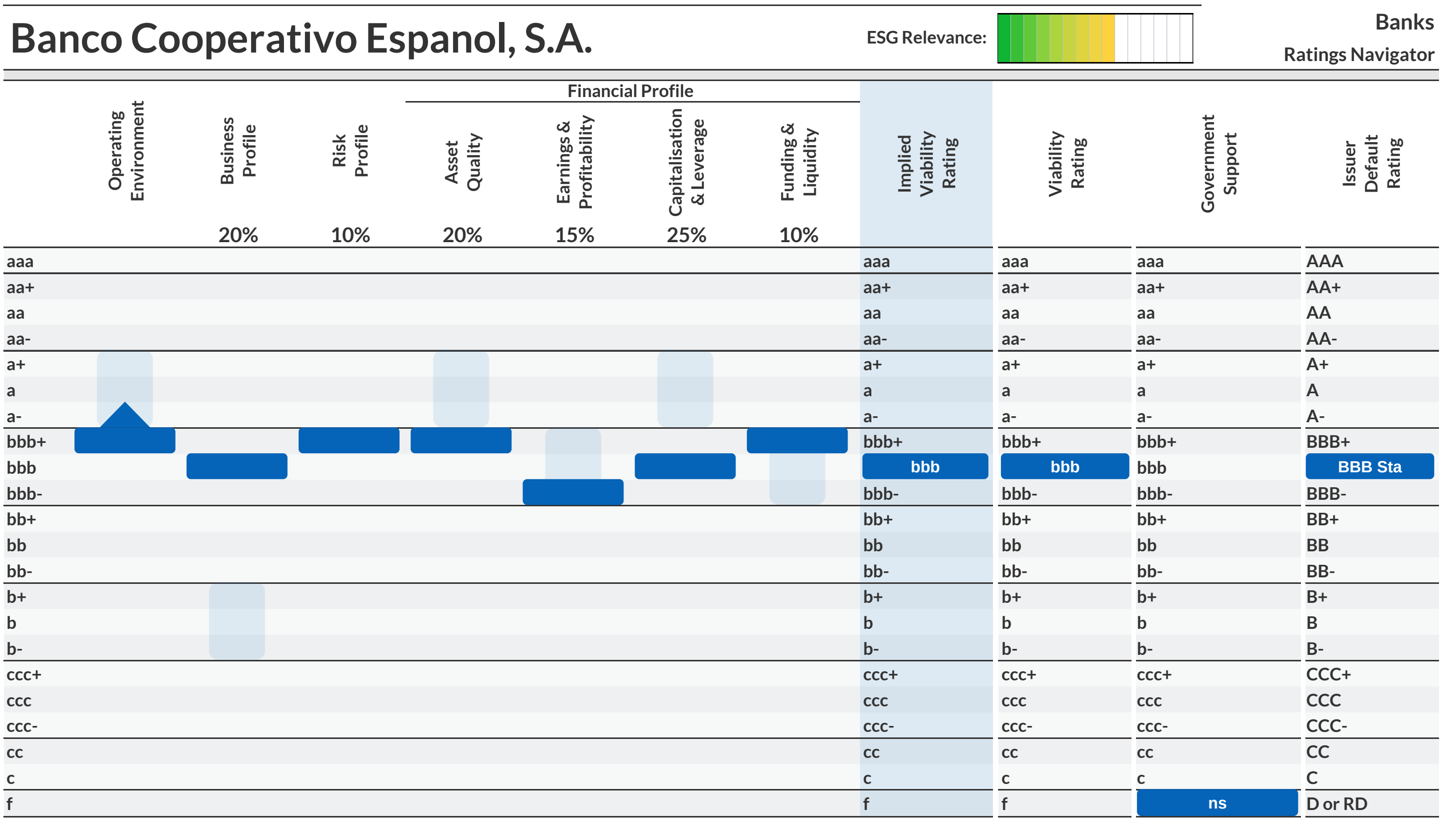
Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

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. However, we view this unlikely given the presence of a cross-support mechanism.

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

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.

Ratings Navigator



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 capitalisation & leverage score of 'bbb' is below the 'a' category implied score due to the following adjustment reason: risk profile and business model (negative).

Company Summary and Key Qualitative Factors

Business Profile

Central Treasurer for AECR Members

BCE's main role is serving AECR member credit cooperatives by offering central treasurer services, channelling liquidity to and from the AECR banks, and helping members to achieve economies of scale and operating efficiency. Part of BCE's balance sheet relates to activities conducted on behalf of AECR members, and it is regulated by a treasury agreement under which AECR banks guarantee any failure arising from BCE's interbank placements undertaken on their behalf. BCE also acts as a representative body for AECR members, and offers ancillary services, including IT services, insurance products and training services. BCE also offers a range of wholesale banking services to other institutions and corporations, but this is limited.

The AECR consisted of 30 members at end-2023, making up about EUR92 billion total assets, with similar business models and common cooperative values. The credit cooperatives generally have sound retail franchises in their home regions, particularly in rural areas of Spain. BCE is owned by the credit cooperatives through a holding company and by the DZ BANK AG Deutsche Zentral-Genossenschaftsbank (12%; AA-/Stable), the central institution of the German cooperative banking group.

BCE's business model means operating income mainly arises from the management of its liquidity, invested in fixed-income debt or a small loan book focused on Spanish corporates. This translates into NII being the main source of income (60% of operating income in 2023). This is complemented with fees and commissions (17%) from the ancillary services provided to AECR banks, and dividends from its main subsidiaries (10%).

Institutional Protection Scheme

In March 2018, the group established a more cohesive cross-support mechanism under an IPS (under Article 113(7) of the EU Capital Requirements Regulation; CRR). The IPS entails the creation of an ex-ante recovery fund to address liquidity and solvency problems within the group members. The fund strengthens both AECR's existing cross-support mechanism to support members undergoing financial distress and BCE's role within the group, even though, on its own, the fund is insufficient to provide support to the entire group. The IPS members are supervised on an individual basis, but benefit from lower regulatory requirements, such as capital relief on intragroup lending, and lower contributions to the Deposit Guarantee Fund. However, the structure of the IPS is weaker than that of European peers due to the lack of capital and liquidity fungibility and consolidated supervision.

Strategy Focused on the Group

BCE has been consistent in executing its strategy, linked to the quality and efficiency of services offered to member banks, and the setting up of the IPS while maintaining reasonable earnings. The bank's strategy remains focused on business growth and efficiency, while preserving BCE's key role in the AECR group. BCE's main projects consist of provide high-quality services to the group, and most of them are oriented towards compliance and risk management, digitalisation and ESG strategies.

Risk Profile

Conservative Risk Appetite

BCE's activities are generally low risk, and the bank has well-developed risk-management systems to minimise its exposure to credit, market, liquidity and foreign-exchange risks. Non-bank lending accounts for a small part of the balance sheet, and often relates to clients operating with various cooperatives. The size and equity of the AECR banks limit their ability to extend large loans; consequently, BCE arranges loan syndications or assists its members by providing this service. The bank is exposed to the risk of losses from operational errors, reflecting its reliance on effective IT systems for processing. Operational errors have so far been very small.

BCE's exposure to market risk is largely structural given that trading activities are small. Exposure to structural balance-sheet mismatches (interest rate and liquidity) is minimised by the short-term nature of assets and liabilities, which are closely matched in terms of interest rates and maturities. The bank securities portfolio has reduced in 2023 but remains sizeable at 35% of total assets at end-2023, and largely valued at amortised cost (68%), which reduces volatility to regulatory capital. We expect the bank to maintain the securities portfolio at similar levels and with a lean towards Spanish sovereign debt over the medium term.

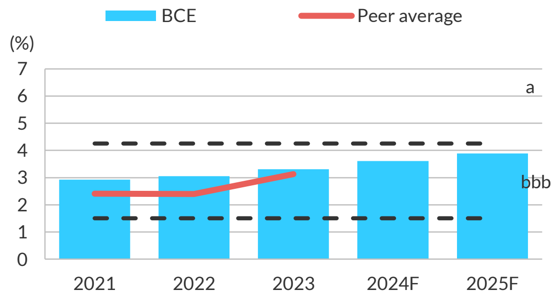
Financial Profile

Asset Quality

BCE's balance sheet is composed of its large securities portfolio (end-2023: 35% of total assets), cash (24%), interbank placements (12%), which mostly relates to AECR's members' balances placed at the ECB deposit facility, and the small loan book (10%). Securities mainly include Spanish sovereign debt (71% of total securities), which results in some concentration, and, to a lesser extent, debt from Italy, financial institutions and corporates. At end-2023, about 92% of BCE's counterparty exposures were rated investment-grade.

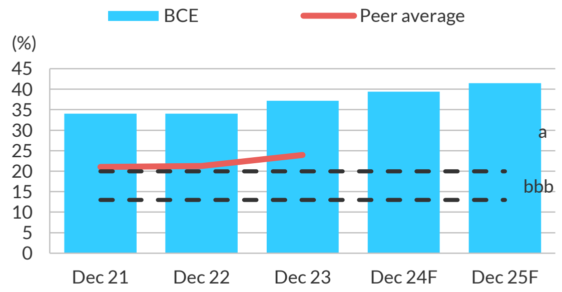
BCE's fairly small loan book mainly comprises loans to large corporates and SMEs. Impaired loans accounted for only 0.3% of gross loans, and were more than covered by loan loss reserves. We expect any asset quality pressures to be contained given BCE's low risk appetite for loans and the well-collateralised profile of its operations.

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions, banks

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions, banks

Earnings and Profitability

BCE's profitability has been fairly stable over the cycle, reflecting its role as an intermediary for AECR members, and the bank charging a fixed margin on the funding and liquidity channelled. Hence, BCE's ability to sustain profitability depends on the interest rate environment and on the business volumes from cooperatives. Higher business volumes, sound cost efficiency and reversal of loan impairment charges have kept the operating profit/RWAs ratio at adequate levels for the ratings in recent years.

BCE's operating profit/RWAs slightly improved to 3.3% in 2023 (3.1% in 2022), with operating income increasing by 7%. This compensated for the growth in operating expenses (6%), which was mainly due to inflationary pressures, as well as the hiring of additional staff in line with the strategic plan. NII increased by 10%, helped by higher business volumes as margins slightly narrowed on higher funding costs due to BCE's funding profile based on interbank funding. The bank's operating income was also supported by some trading gains and fee income. The cost/income ratio remained good at about 36% in 2023.

We expect profitability to slightly improve and benefit from higher business volumes from the group cooperative members in 2024 and 2025. This, combined with a good cost control, and should limit asset quality pressures.

Capitalisation and Leverage

BCE's robust capital ratios have satisfactory buffers above regulatory minimums, although its overall equity base is small. Capitalisation is supported by the bank's low risk weights as cash and securities represented 59% of total assets at end-2023. The bank's leverage ratio (end-2023: 7.3%) reflects better its capitalisation, which is also sound. The liquid nature of its own investments means BCE has some flexibility to deleverage its balance sheet quickly, if needed. Additionally, BCE can leverage on higher earnings retention and capital raising from its members to support capital. According to the AECR's statutes, all member banks are obliged to subscribe to BCE's capital increases.

Funding and Liquidity

In its role as the central treasurer for AECR member banks, BCE's main function is to provide the members with access to funding from the ECB and wholesale markets, and to manage their liquidity. BCE's funding position is fairly stable, based on deposits placed by AECR members, which accounted for 74% of total non-equity funding at end-2023.

Liquidity is comfortable given the bank's business model, and largely placed in highly liquid assets. As the central treasurer for the AECR member credit cooperatives, BCE's main functions are to provide them with access to funding from the ECB and the wholesale markets, and to manage their liquidity.

Additional Notes on Charts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics per Fitch's Bank Rating Criteria. They are based on a combination of Fitch's macro-economic forecasts, outlook at the sector level and company-specific considerations. As a result, Fitch's forecasts may materially differ from the guidance provided by the rated entity to the market.

To the extent Fitch is aware of material non-public information with respect to future events such as planned recapitalisations or merger and acquisition activity, Fitch will not reflect these non-public future events in its published forecasts. However, where relevant, such information is considered by Fitch as part of the rating process.

Black dashed lines represent boundaries for indicative quantitative ranges and implied scores for Fitch's core financial metrics for banks operating in the environments that Fitch scores in the 'bbb' category.

Peer average includes Cecabank, S.A. (VR: bbb), Gruppo Bancario Cooperativo Iccrea (bbb-), DZ BANK AG Deutsche Zentral-Genossenschaftsbank. Unless otherwise stated, financial year (FY) end is 31 December for all banks in this report.

Financials

Financial Statements

	31 Dec 23		31 Dec 22	31 Dec 21	31 Dec 20
	Year end (USDm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified	Year end (EURm) Audited - unqualified
Summary income statement					
Net interest and dividend income	74	67.3	62.1	58.6	64.1
Net fees and commissions	18	16.5	15.9	14.3	10.7
Other operating income	13	12.2	11.5	6.6	6.6
Total operating income	105	96.0	89.5	79.5	81.4
Operating costs	38	34.5	32.7	30.6	29.8
Pre-impairment operating profit	67	61.5	56.8	48.9	51.6
Loan and other impairment charges	-2	-1.7	-1.1	-1.7	-3.0
Operating profit	69	63.2	57.9	50.6	54.6
Other non-operating items (net)	0	-0.3	0.2	-0.1	0.2
Tax	17	15.7	14.2	12.4	12.5
Net income	52	47.2	43.9	38.1	42.3
Other comprehensive income	21	19.3	-29.3	6.3	-19.5
Fitch comprehensive income	73	66.5	14.6	44.4	22.8
Summary balance sheet					
Assets					
Gross loans	1,481	1,352.2	994.6	1,842.7	1,496.1
- Of which impaired	4	3.9	2.1	2.4	2.5
Loan loss allowances	14	12.6	15.9	17.4	20.1
Net loans	1,468	1,339.6	978.7	1,825.3	1,476.0
Interbank	1,817	1,658.8	2,420.1	2,980.8	2,163.0
Derivatives	2,022	1,845.2	1,842.7	1,716.1	1,271.8
Other securities and earning assets	6,064	5,534.9	6,995.5	5,505.3	5,260.1
Total earning assets	11,371	10,378.5	12,237.0	12,027.5	10,170.9
Cash and due from banks	3,604	3,289.4	263.4	5,911.2	3,276.6
Other assets	40	36.3	97.6	55.5	54.9
Total assets	15,014	13,704.2	12,598.0	17,994.2	13,502.4
Liabilities					
Customer deposits	1,925	1,756.6	1,465.1	1,251.7	954.0
Interbank and other short-term funding	8,084	7,379.0	5,736.3	10,782.0	8,588.3
Other long-term funding	93	84.9	897.4	1,084.4	n.a.
Trading liabilities and derivatives	2,705	2,468.9	2,474.1	2,625.7	1,932.3
Total funding and derivatives	12,807	11,689.4	10,572.9	15,743.8	11,474.6
Other liabilities	1,420	1,296.5	1,374.8	1,613.2	1,434.7
Total equity	787	718.3	650.3	637.2	593.1
Total liabilities and equity	15,014	13,704.2	12,598.0	17,994.2	13,502.4
Exchange rate		USD1 = EUR0.912742	USD1 = EUR0.937559	USD1 = EUR0.884173	USD1 = EUR0.821963

Sources: Fitch Ratings, Fitch Solutions, Banco Cooperativo Espanol, S.A.

Key Ratios

	31 Dec 23	31 Dec 22	31 Dec 21	31 Dec 20
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	3.3	3.1	2.9	3.2
Net interest income/average earning assets	0.6	0.5	0.5	0.6
Non-interest expense/gross revenue	35.9	36.5	38.5	36.6
Net income/average equity	6.9	7.0	6.2	7.5
Asset quality				
Impaired loans ratio	0.3	0.2	0.1	0.2
Growth in gross loans	36.0	-46.0	23.2	9.3
Loan loss allowances/impaired loans	323.1	757.1	725.0	804.0
Loan impairment charges/average gross loans	-0.2	-0.1	-0.1	-0.2
Capitalisation				
Common equity Tier 1 ratio	37.2	34.0	34.0	34.2
Basel leverage ratio	7.3	6.6	6.7	6.9
Net impaired loans/common equity Tier 1	-1.2	-2.1	-2.6	-3.0
Funding and liquidity				
Gross loans/customer deposits	77.0	67.9	147.2	156.8
Liquidity coverage ratio	256.8	197.4	297.9	324.8
Customer deposits/total non-equity funding	19.1	18.1	9.5	10.0
Net stable funding ratio	224.2	192.3	274.8	249.0

Sources: Fitch Ratings, Fitch Solutions, Banco Cooperativo Espanol, S.A.

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

BCE's Government Support Rating (GSR) of 'no support' reflects our view that, although external extraordinary sovereign support is possible, it cannot be relied on. This is because senior creditors can no longer expect to receive full extraordinary support from the sovereign in the event that the bank becomes non-viable.

Environmental, Social and Governance Considerations

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

Banks
Ratings Navigator

Credit-Relevant ESG Derivation

ESG Relevance to Credit Rating

Banco Cooperativo Espanol, S.A. has 5 ESG potential rating drivers 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. Governance is minimally relevant to the rating and is not currently a driver.	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) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
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

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
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

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Business Profile (incl. Management & governance)	5
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
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)	3
Financial Transparency	3	Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)	2
				1

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

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to result in a negative impact unless indicated with a '+' sign for positive impact.h scores of 3, 4 or 5) and provides a brief explanation for the score.

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), the Sustainability Accounting Standards Board (SASB), and the World Bank.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

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.
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.
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.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Unless otherwise disclosed 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. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation of the materiality or relevance of ESG factors in a rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.