

DBRS Morningstar Revises Trend on Banco Cooperativo to Stable; Confirms BBB (high) Long-Term Issuer Rating

BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Banco Cooperativo Español S.A (BCE or the Bank), including the Long-Term Issuer Rating of BBB (high) and the Short-Term Issuer Rating of R-1 (low). The Trend has been revised to Stable from Negative. The Intrinsic Assessment (IA) for the Bank is BBB (high), while its Support Assessment remains SA1. A full list of rating actions is included at the end of this press release. The support Assessment is SA1 to reflect that BCE is part of the larger consolidated entity, GrucajRural Inversiones S.L. (the Group). A full list of rating actions is included at the end of this press release.

KEY RATING CONSIDERATIONS

The change of the Trend to Stable reflects DBRS Morningstar's view that the disruption resulting from the coronavirus (COVID-19) pandemic has not had a significant impact on the Bank, with the consolidated Group's H1 2021 net attributable profit higher than pre-COVID levels. The change of the Trend also reflects that the wider cooperative group's (the AECR) asset quality, profitability and capital levels have been resilient to the crisis. Nevertheless, risks are still present and, following the full removal of government support measures, DBRS Morningstar also expects that the AECR will be able to manage any deterioration during 2022, driven by expired loans under the state guarantee schemes.

The ratings also reflect the Bank's low risk profile, its stable profitability, which allows it to build up capital through retained earnings, and the benefit it receives from its funding relationship with AECR members, who provide a stable deposit base. BCE's ratings also take into account the Bank's relatively small size and scope, its moderate business diversification and its sizeable risk concentration to Spanish government bonds.

RATING DRIVERS

An upgrade of the Long-Term Issuer Rating would require the strengthening of the AECR's market shares. A more diversified funding mix would also be viewed positively.

A downgrade of the Long-Term Issuer Rating could arise from a prolonged deterioration in the Group's earnings or material asset quality weakening of the members of the AECR. Any material increase in the Bank's risk profile would also be viewed negatively.

RATING RATIONALE

Franchise Combined Building Block (BB) Assessment: Moderate

BCE acts as the central treasurer and liquidity provider for the members of the Asociación Española de Cajas Rurales (AECR), the largest cooperative Group in Spain by asset size. Moreover BCE's role within the AECR has been strengthened with the creation of an Institutional Protection Scheme (IPS) between the members of the AECR, BCE and the Holding Company "GrucajRural Inversiones S.L." in 2018. The AECR had a market share in Spain of around 3.9% of loans (EUR 46 billion) and around 4.1% of

deposits (EUR 61 billion) at end-June 2021. Following the creation of the IPS, the members of the AECR sold their stake in BCE to the Holding Company “GrucajRural” (or consolidated Group). As result, the Holding Company is now the entity at the highest level of prudential consolidation, which includes Banco Cooperativo SA and Grupo Seguros RGA. BCE’s assets account for approximately 78% of the consolidated balance sheet. The structure of this new IPS does not create a consolidated banking group, as the IPS members remain autonomous institutions. Members created an ex-ante fund to provide support in the event of a member institution facing severe financial difficulties. The goal of the IPS is to increase the size of this fund to around EUR 350 million or 1% of the AECR’s combined Risk Weighted Assets by 2024. As of end-June 2021, the total available amount in the ex-ante fund was around EUR 256 million.

Earnings Combined Building Block (BB) Assessment: Moderate

DBRS Morningstar considers that the Bank’s core profitability has been resilient during the COVID-19 crisis. In H1 2021, the Group reported a moderate decrease in net attributable income to EUR 30.5 million, down 2.6% Year-on-Year (YoY). However, the Group reported a higher net attributable income compared to pre-COVID levels (EUR 28 million in H1 2019). DBRS Morningstar does however recognise that during the COVID-19 crisis the Bank’s earnings were significantly supported by the extraordinary actions from national and supranational authorities which reduced the volatility and risk premia on financial markets. In addition, DBRS Morningstar considers that BCE has limited revenue diversification, as most of its revenues arise from its fixed income portfolio.

Risk Combined Building Block (BB) Assessment: Strong/Good

DBRS Morningstar considers BCE to have a generally low risk profile, driven by its low-risk business mix and specialised franchise. At end-2020 the consolidated Group had a material exposure to financial securities, mainly Sovereign bonds (41% of total assets) as part of its intermediary role for the AECR Cajas Rurales, and its fixed income portfolio related to its insurance business. At end-2020, the consolidated Group’s sovereign bond exposures totalled EUR 7 billion, 90% of which related to Spain and 9% to Italy. Apart from its securities portfolio, the consolidated Group’s main exposures are lending to financial institutions (around 17% of total assets) and direct client lending (8% of total assets at end-June 2021). Given its limited exposure to lending, the Bank’s non-performing loans (NPLs) stood at only EUR 2.5 million, with an NPL ratio of 0.2% at end-H1 2021. Moreover, as of end-H1 2021, the COVID-19 impact on the asset quality of the members of the AECR has been limited, with an aggregate NPL ratio of 3.3% at end-H1 2021, down from 3.8% at end-H1 2020. However, following the full removal of government support measures, DBRS Morningstar also expects that asset quality is likely to deteriorate during 2022, loans under the state guarantee schemes expire.

Funding and Liquidity Combined Building Block (BB) Assessment: Good

BCE’s funding and liquidity position is underpinned by a large and stable deposit base from credit institutions, which represents the bulk of the funding resources. A large part of these deposits are from the members of the AECR, who deposit their excess liquidity at BCE in the form of bank deposits. At end-2020, the consolidated Group had a solid liquidity position with strong LCR and NSFR ratios of 325% and 249% respectively. DBRS Morningstar considers BCE’s liquidity position as solid, although, given the nature of the Bank’s business model, diversification of funding sources is limited.

Capitalisation Combined Building Block (BB) Assessment: Strong/Good

DBRS Morningstar views BCE as having robust regulatory capital ratios given its low risk profile. Moreover, BCE’s sustainable profits have supported the organic build-up of capital in recent years. The Group’s consolidated phased-in Common Equity Tier 1 (CET1) ratio was 40.5% at end-2020 or 34.2% on an individual basis. This compares to a minimum Overall Capital Requirement (OCR) for total capital of 11.63% in 2021 according to the Supervisory Review and Evaluation Process (SREP). The Group’s leverage ratio stood at 9.74% at end-2020. DBRS Morningstar views BCE’s membership within the IPS positively as it provides potential support from the ex-ante fund should BCE face severe financial difficulties.

Further details on the Scorecard Indicators and Building Block Assessments can be found at <https://www.dbrsmorningstar.com/research/386645>

ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework can be found in the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings at <https://www.dbrsmorningstar.com/research/373262>.

Notes:

All figures are in Euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (19 July 2021).

<https://www.dbrsmorningstar.com/research/381742/global-methodology-for-rating-banks-and-banking-organisations>

Other applicable methodologies include the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (3 February 2021)

<https://www.dbrsmorningstar.com/research/373262/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>

The sources of information used for this rating include Company Documents, BCES Annual Accounts (2015 – 2020), Bank of Spain, European Banking Authority and S&P Global Market Intelligence. DBRS Morningstar considers the information available to it for the purposes of providing this rating to be of satisfactory quality.

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

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

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: <http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>. DBRS Morningstar understands further information on DBRS Morningstar historical default rates may be published by the Financial Conduct Authority (FCA) on its webpage: <https://www.fca.org.uk/firms/credit-rating-agencies>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/386647>

This rating is 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 www.dbrsmorningstar.com.

Ratings

Banco Cooperativo Espanol S.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
27-Oct-21	Long-Term Issuer Rating	Trend Change	BBB (high)	Stb	EU U
27-Oct-21	Short-Term Issuer Rating	Trend Change	R-1 (low)	Stb	EU U
27-Oct-21	Long-Term Senior Debt	Trend Change	BBB (high)	Stb	EU U
27-Oct-21	Short-Term Debt	Trend Change	R-1 (low)	Stb	EU U
27-Oct-21	Short-Term Deposits	Trend Change	R-1 (low)	Stb	EU U
27-Oct-21	Long-Term Deposits	Trend Change	BBB (high)	Stb	EU U

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