

PRESS RELEASE

OCTOBER 25, 2022

## DBRS Morningstar Confirms Banco Cooperativo's Long-Term Issuer Rating at BBB (high), Stable Trend

### 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 on all ratings remains Stable. 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 confirmation of the ratings 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 the Asociación Española de Cajas Rurales (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. In addition, the confirmation also reflects the solid capital levels at both the Group and the individual Bank. Nevertheless, risks are still present and DBRS Morningstar expects the Group's profitability will be affected by higher interest rates, tighter financial conditions and a weaker macroeconomic environment than previously anticipated. DBRS Morningstar also expects that the AECR's members will be able to manage the more challenging economic environment expected in Spain.

### RATING DRIVERS

An upgrade of the Long-Term Issuer Rating would require the strengthening of the AECR's franchise coupled with BCE maintaining strong credit fundamentals and capital ratios.

A downgrade of the Long-Term Issuer Rating would arise from a prolonged deterioration in the earnings or material asset quality weakening of the members of the AECR. Any material increase in the BCE'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 AECR, the largest cooperative Group in Spain by asset size, which at end-June 2022 had a market share in Spain of around 3.9% of loans and around 4.2% of deposits. In 2018 BCE's role within the AECR was 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.". 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 83% of the consolidated balance sheet at end-2021. The structure of this new IPS does not create a consolidated banking group, as the IPS members remain autonomous institutions. The members have 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 2022, the total available amount in the ex-ante fund was around EUR 280 million.

#### Earnings Combined Building Block (BB) Assessment: Good/Moderate

DBRS Morningstar considers that the Bank's core profitability has been resilient in recent years, including through the COVID-19 crisis, however, DBRS Morningstar notes that during the pandemic 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 H1 2022, the Group reported an increase in net attributable income to EUR 37.8 million, up 24% Year-on-Year (YoY) positively affected by higher interest rates. In addition, DBRS Morningstar considers that the Group has limited revenue diversification, as most of its revenues arise from its fixed income portfolio and its insurance division.

#### 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-2021 the consolidated Group had a material exposure to financial securities (37% of total assets), mainly comprising Sovereign bonds, as part of its intermediary role for the members of the AECR, and its fixed income portfolio related to its insurance business. At end-2021, the consolidated Group's sovereign bond exposures (excluding the insurance portfolio) totalled EUR 5 billion, 89% of which related to Spain and 11% to Italy. Apart from its securities portfolio, the consolidated Group's main exposures are lending to financial institutions (around 15% of total assets) and direct client lending (8% of total assets at end-2021). Given its limited exposure to lending, the Bank's non-performing loans (NPLs) stood at only EUR 2.4 million, with an NPL ratio of 0.2% at end-H1 2022. DBRS Morningstar also notes that, as of end-H1 2022, the asset quality of the members of the AECR has improved YoY, with an aggregate NPL ratio of 2.9%, down from 3.3% at end-H1 2021.

#### 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-2021, the consolidated Group had a solid liquidity position with strong LCR and NSFR ratios of 298% and 257% 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: Good

DBRS Morningstar views BCE as having robust regulatory capital ratios given its low risk profile. Moreover, BCE's consistent 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 41.9% at end-2021. 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 10% at end-2021. DBRS Morningstar considers that the capital ratios of the individual Bank are also strong, with a CET1 ratio of 34% at end-2021 and a leverage ratio of 6.6%. However, excluding the transitional rules applicable to the leverage ratio, in particular those related to central bank exposures, the individual bank leverage ratio was 4.99% at end-2021. Lastly, DBRS Morningstar also notes that the Group and the individual Bank meet their MREL requirements as of June 2022. 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/404370>

## ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS

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

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/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings>. (17 May 2022)

### Notes:

All figures are in Euros unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (June 23, 2022) <https://www.dbrsmorningstar.com/research/398692> . In addition DBRS Morningstar uses the DBRS Morningstar Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings <https://www.dbrsmorningstar.com/research/396929/dbrs-morningstar-criteria-approach-to-environmental-social-and-governance-risk-factors-in-credit-ratings> (May 17, 2022) in its consideration of ESG factors.

The sources of information used for this rating include Morningstar Inc. and Company Documents, and BCES Annual Accounts (2015 – 2021). 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.

The conditions that lead to the assignment of a Negative or Positive trend are generally 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: <https://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/404371>

This rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

Lead Analyst: Pablo Manzano - Vice President - Global FIG

Rating Committee Chair: Ross Abercromby - Managing Director - Global FIG

Initial Rating Date: 2 April 2013

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DBRS Ratings GmbH, Sucursal en España  
Paseo de la Castellana 81

Plantas 26 & 27  
28046 Madrid, Spain  
Tel. +34 (91) 903 6500

DBRS Ratings GmbH  
Neue Mainzer Straße 75  
60311 Frankfurt am Main Deutschland  
Tel. +49 (69) 8088 3500  
Geschäftsführer: Detlef Scholz  
Amtsgericht Frankfurt am Main, HRB 110259

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## Ratings

### Banco Cooperativo Espanol S.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
25-Oct-22	Long-Term Issuer Rating	Confirmed	BBB (high)	Stb	<b>EU</b> <b>U</b>
25-Oct-22	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	<b>EU</b> <b>U</b>
25-Oct-22	Long-Term Senior Debt	Confirmed	BBB (high)	Stb	<b>EU</b> <b>U</b>
25-Oct-22	Short-Term Debt	Confirmed	R-1 (low)	Stb	<b>EU</b> <b>U</b>
25-Oct-22	Short-Term Deposits	Confirmed	R-1 (low)	Stb	<b>EU</b> <b>U</b>
25-Oct-22	Long-Term Deposits	Confirmed	BBB (high)	Stb	<b>EU</b> <b>U</b>

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## Contacts

**Pablo Manzano, CFA**  
*Vice President - Global FIG*  
+34 91903 6502  
[pablo.manzano@dbrsmorningstar.com](mailto:pablo.manzano@dbrsmorningstar.com)

**Ross Abercromby**  
*Managing Director - Global FIG*  
+44 20 7855 6657  
[ross.abercromby@dbrsmorningstar.com](mailto:ross.abercromby@dbrsmorningstar.com)

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