

Banco Cooperativo Espanol, S.A.

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 29 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, 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 (62% of total securities at end-June 2022). To date, 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 ratings reflect a low impaired loan ratio of 0.13% at end-2021, but it also factors in the bank's concentration on Spanish sovereign debt, which represented 38% of total assets at end-June 2022.

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

Strong Capitalisation: Regulatory capital ratios are robust for the bank's risk profile with a fully loaded common equity Tier 1 (CET1) ratio of 34% at end-2021. Capitalisation is supported by very modest risk-weighted assets (RWAs) as a share of BCE's total assets, as investment in sovereign debt represented 42% of total assets at end-June 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 298% and a net stable funding ratio of 275% at end-2021.

Ratings

Foreign Currency

Long-Term IDR	BBB
Short-Term IDR	F2

Viability Rating	bbb
------------------	-----

Government Support Rating	ns
---------------------------	----

Sovereign Risk (Spain)

Long-Term Foreign- and Local-Currency IDRs	A-
Country Ceiling	AAA

Outlooks

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

Applicable Criteria

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

Related Research

[Global Economic Outlook \(September 2022\)](#)

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

Analysts

Cristina Torrella Fajas
+34 93 323 8405
cristina.torrellafajas@fitchratings.com

Daniel Izqueaga
+34 91 076 1988
daniel.izqueaga@fitchratings.com

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.

Ratings Navigator

Banco Cooperativo Espanol, S.A.							ESG Relevance: <div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	
---------------------------------	--	--	--	--	--	--	---	--

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+' for BCE is below the 'a' category implied score due to high structural unemployment in Spain.

The business profile score of 'bbb' is above the 'b' category implied score as, in our view, the IPS strengthens the relationship between AECR members and underpins BCE's strategic role as central treasurer of the group.

The asset quality score of 'bbb+' is below the 'a' category implied score, reflecting counterparty risk concentration, particularly to sovereign risks, driven by BCE's role as the central treasurer of the AECR group. As a result, the large proportion of government bonds and cash on balance sheet results in a low risk-weighted density, overstating BCE's regulatory capital ratios.

The funding & liquidity score of 'bbb+' is above the 'bb' category implied score as BCE benefits from stable deposits from AECR banks.

Company Summary and Key Qualitative Factors

Business Profile

Central Treasurer for AEER members

BCE is the central treasurer for the credit cooperatives that are members of the AEER. The bank's main role is serving AEER member credit cooperatives by offering central treasurer services, channelling liquidity to and from the AEER banks, helping members to achieve economies of scale and improving their operating efficiency. Part of BCE's total balance sheet relates to activities conducted on behalf of AEER members, and it is regulated by a treasury agreement under which AEER banks guarantee any failure arising from BCE's interbank placements undertaken on their behalf.

BCE's functions also entail acting as a representative body for AEER members and offering ancillary services, including IT services through Rural Servicios Informaticos, RGA Seguros (insurance products) and BCE Formacion (training services). BCE also offers a range of wholesale banking services to other institutions and corporations, but this is limited. Fitch believes BCE will remain a significant service provider for AEER members, supported by its membership in the AEER cross-support scheme.

The AEER consisted of 30 members at end-2021, with aggregate equity of around EUR7 billion, with similar business models and common cooperative values. The credit cooperatives generally have sound retail franchises in their home regions or provinces, particularly in rural areas of Spain, but their national presence is small.

Given BCE's business model, operating income mainly arises from the management of its liquidity, invested in fixed-income debt or a small lending portfolio focused on Spanish corporates. This translates into net interest income being the main source of income, representing 64% of operating income in 2021. This is complemented with fees and commissions (18%) from the ancillary services provided to AEER banks, and dividends from its main subsidiaries (9%).

Institutional Protection Scheme

In March 2018, the group established a more cohesive cross-support mechanism under an Institutional Protection Scheme (IPS; under Article 113(7) of the EU Capital Requirements Regulation; CRR). The IPS entails the creation of an ex-ante recovery fund (end-2021: EUR332 million) to address liquidity and solvency problems within the group members. The fund strengthens both AEER'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 European peers given the lack of capital and liquidity fungibility and consolidated supervision.

Focused and Stable Strategy

BCE's executive team benefits from a long-established experience in the cooperative sector. 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 relatively resilient performance of the AEER banks has also helped in the stable performance of BCE in a challenging operating environment due to the pandemic.

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.

Risk Profile

Moderate Risk Appetite

BCE's risk-management systems and procedures are sound. BCE's activities are generally low risk, and it has well-developed risk-management systems to minimise its exposure to credit, market, liquidity and foreign-exchange risks. Counterparty risk is limited to leading European, OECD and US banks, and is mainly in the form of short-term exposures. At end-2021, about 91% of BCE's counterparty exposures were rated investment-grade. 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 AEER 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. BCE's IT system provides an immediate duplicate of critical transactions, ensuring that the back-up system is always available offsite. Operational errors so far have been very small. In addition, BCE has an insurance policy to cover potential losses from internal or external operational risks.

BCE's exposure to market risk is largely structural given that trading activities are small; the exposure is also average for the industry, and the bank has appropriate techniques to mitigate risks. 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. However, sizeable exposure to Spanish sovereign debt (EUR6 billion at end-June 2022; 81% of total securities) results in some market risk exposure. The duration of the debt portfolio considering hedging techniques was around 0.6 years at end-June 2022 and the bulk of it was valued at fair value (62%), which can bring some volatility to regulatory capital due to valuation adjustments. The rest was at amortised cost (38%).

Treasury Agreement Covers Part of the Credit Risk

The process of investing AECR members' liquidity through BCE is governed by a treasury agreement, through which AECR members guarantee any losses or commitments that could arise from interbank placements made by BCE on their behalf. Any claim under the guarantee is split between the AECR members in proportion to their equity shares in BCE, regardless of the volumes of their activity under the agreement. As a result, BCE is exempt from complying with large exposure limits under the EU capital adequacy requirements. At end-2021, BCE managed EUR7.6billion liquidity (42% of total assets at end-2021) on behalf of the AECR members under this agreement. The funds under the treasury agreement are mostly invested in cash and reverse repos, and debt securities – mainly Spanish sovereign bonds.

Financial Profile

Asset Quality

Liquid Balance Sheet

BCE's balance sheet is composed of cash (33% of total assets at end-2021), securities (30%), interbank placements (17%) with highly rated counterparties, and the small loan book (10%). Securities mainly include Spanish sovereign debt and public administrations, which results in some concentration, and, to a lesser extent, debt from Italy, financial institutions and corporates.

BCE's loan book is relatively small in relation to the balance sheet and comprised mainly loans to large corporates, and SMEs. Impaired loans were small at EUR2.4 million at end-2021, accounting for only 0.1% of gross loans, and were more than covered by reserves. Despite the context of rising interest rates and inflation, we expect asset-quality pressures to be contained at BCE given its small risk appetite for loans and the well-collateralised profile of its operations.

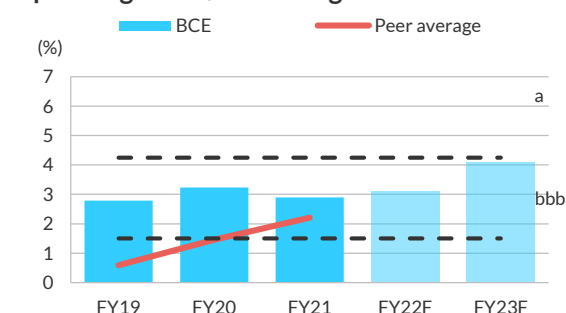
Earnings and Profitability

Improved Profitability Prospects

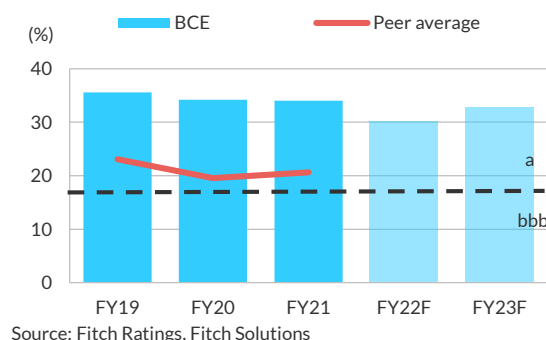
BCE's modest profitability has remained relatively stable over the cycle, reflecting BCE's role as an intermediary for AECR members and charging a fixed margin on the volume of funding and liquidity channelled. The operating profit/risk-weighted assets ratio has been at acceptable levels in recent years, helped by higher business volumes, sound cost efficiency and reversal of loan-impairment charges. The good cost control also supports the stable but low performance, as well as sufficient internal capital generation.

BCE's ability to sustain profitability depends on the interest rate environment and on the business volumes from cooperatives. We expect the bank to benefit from higher interest rates, which, combined with a good cost control and contained asset quality deterioration, should improve profitability in the medium term.

Operating Profit/Risk-Weighted Assets



CET 1 Ratio



Capital and Leverage

Robust Capital Ratios

BCE maintains robust risk-weighted capital ratios, with satisfactory buffers above regulatory minimums, although its overall equity base is small. Capital ratios benefit from low risk-weight densities given BCE's balance-sheet structure – the risk-weighted assets/total assets ratio was 10% at end-2021. We view the bank's Basel III 6.7% leverage ratio as a better indicator of its capitalisation, which is sound for its risk profile. The liquid nature of its own investments (excluding assets related to AECR members) means BCE has some flexibility to deleverage its balance sheet quickly, if needed. Apart from deleveraging, the main methods available for BCE to improve its capital position are to retain earnings and to raise capital from its members. According to the AECR's statutes, all member banks are obliged to subscribe to BCE's capital increases, as they did in 2009–2010.

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 relatively stable based on deposits placed by AECR members. Liquidity is comfortable given the bank's business model, and largely placed in highly liquid assets. As the central treasurer for the AECR members, the bank accessed TLTRO III funding in cooperation with the smallest cooperatives. At end-2021, the bank had EUR1.1 billion of ECB funding, of which EUR0.5 billion was distributed among some small AECR members.

About Fitch Forecasts

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.

Notes on charts: Black dashed lines represent 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. Light-blue columns represent Fitch's forecasts.

Peer average includes Caja Laboral Popular Coop. de Credito (VR: bbb+), Caja Rural de Navarra, Sociedad Cooperativa de Credito (bbb+), Eurocaja Rural, Sociedad Cooperativa De Credito (bbb), Cecabank, S.A. (bbb), Gruppo Bancario Cooperativo Iccrea (bb-), DZ BANK AG Deutsche Zentral-Genossenschaftsbank (no VR).

Financials

Financial Statements

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	Year end (USDm)	Year end (EURm)	Year end (EURm)	Year end (EURm)	Year end (EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	66	58.6	64.1	51.6	83.7
Net fees and commissions	16	14.3	10.7	12.0	12.0
Other operating income	7	6.6	6.6	4.2	5.2
Total operating income	90	79.5	81.4	67.8	100.9
Operating costs	35	30.6	29.8	28.1	26.5
Pre-impairment operating profit	55	48.9	51.6	39.7	74.4
Loan and other impairment charges	-2	-1.7	-3.0	-4.1	-3.3
Operating profit	57	50.6	54.6	43.8	77.7
Other non-operating items (net)	0	-0.1	0.2	0.0	0.1
Tax	14	12.4	12.5	11.8	13.8
Net income	43	38.1	42.3	32.0	64.0
Other comprehensive income	7	6.3	-19.5	34.0	-17.8
Fitch comprehensive income	50	44.4	22.8	66.0	46.2
Summary balance sheet					
Assets					
Gross loans	2,084	1,842.7	1,496.1	1,369.3	639.4
- Of which impaired	3	2.4	2.5	1.7	2.1
Loan loss allowances	20	17.4	20.1	22.4	28.2
Net loans	2,064	1,825.3	1,476.0	1,346.9	611.2
Interbank	3,371	2,980.8	2,163.0	1,580.3	255.9
Derivatives	1,941	1,716.1	1,271.8	937.7	804.8
Other securities and earning assets	6,226	5,505.3	5,260.1	4,964.9	5,327.6
Total earning assets	13,603	12,027.5	10,170.9	8,829.8	6,999.5
Cash and due from banks	6,686	5,911.2	3,276.6	248.1	1,471.9
Other assets	63	55.5	54.9	44.1	59.1
Total assets	20,351	17,994.2	13,502.4	9,122.0	8,530.5
Liabilities					
Customer deposits	1,416	1,251.7	954.0	894.4	788.0
Interbank and other short-term funding	12,194	10,782.0	8,588.3	5,886.3	6,082.4
Other long-term funding	1,226	1,084.4	n.a.	n.a.	n.a.
Trading liabilities and derivatives	2,970	2,625.7	1,932.3	1,664.7	1,058.7
Total funding and derivatives	17,806	15,743.8	11,474.6	8,445.4	7,929.1
Other liabilities	1,825	1,613.2	1,434.7	105.0	95.5
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	721	637.2	593.1	571.6	505.9
Total liabilities and equity	20,351	17,994.2	13,502.4	9,122.0	8,530.5
Exchange rate		USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057
Source Fitch Ratings, Fitch Solutions, BCE					

Key Ratios

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	2.9	3.2	2.8	4.8
Net interest income/average earning assets	0.5	0.6	0.6	1.0
Non-interest expense/gross revenue	38.5	36.6	41.5	26.3
Net income/average equity	6.2	7.5	5.9	13.0
Asset quality				
Impaired loans ratio	0.1	0.2	0.1	0.3
Growth in gross loans	23.2	9.3	114.2	-67.6
Loan loss allowances/impaired loans	725.0	804.0	1,317.7	1,342.9
Loan impairment charges/average gross loans	-0.1	-0.2	-0.3	-0.2
Capitalisation				
Common equity Tier 1 ratio	34.0	34.2	35.6	30.5
Fully loaded common equity Tier 1 ratio	n.a.	n.a.	n.a.	n.a.
Fitch Core Capital ratio	n.a.	n.a.	n.a.	n.a.
Tangible common equity/tangible assets	3.5	4.2	6.2	5.6
Basel leverage ratio	6.7	6.9	7.9	n.a.
Net impaired loans/common equity Tier 1	-2.6	-3.0	-3.7	-5.2
Net impaired loans/Fitch Core Capital	n.a.	n.a.	n.a.	n.a.
Funding and liquidity				
Gross loans/customer deposits	147.2	156.8	153.1	81.1
Liquidity coverage ratio	297.9	324.8	260.1	281.9
Customer deposits/total non-equity funding	9.5	10.0	13.2	11.5
Net stable funding ratio	274.8	249.0	244.2	307.1
Source Fitch Ratings, Fitch Solutions, BCE				

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

			Overall ESG Scale	
<p>Banco Cooperativo Espanol, S.A. has 5 ESG potential rating drivers</p> <ul style="list-style-type: none"> ➔ 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)

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

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2022 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.