

## DBRS Morningstar Upgrades Banco Cooperativo Español's LT Rating to BBB (high), Stable Trend

### BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) upgraded the ratings of Banco Cooperativo Español S.A (BCE or the Bank), including the Long-Term Issuer Rating to BBB (high) from BBB, and the Short-Term Issuer Rating to R-1 (low) from R-2 (high). All ratings have now a Stable Trend. Concurrently, DBRS Morningstar raised the Bank's Intrinsic Assessment (IA) to BBB (high). The support Assessment is SA1 to reflect that BCE is part of the larger consolidated entity, GrucajRural Inversiones S.L. A full list of rating actions is included at the end of this press release.

### KEY RATING CONSIDERATIONS

The upgrade of BCE's ratings considers the Bank's positive track record of maintaining solid profitability levels and a low risk profile under the new Institutional Protection Scheme (IPS) framework. This is coupled with the improvement in the Kingdom of Spain's credit quality, to which the bank has a sizeable exposure. The improvement is reflected in DBRS Morningstar's upgrade in April 2018 of the rating of the Kingdom of Spain to A and the change in the trend to Positive in September 2019.

The ratings also reflect the Bank's important role as the central clearing bank and liquidity provider for the Cajas Rurales (CRs) that are members of the Asociación Española de Cajas Rurales (AECR). It also considers 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.

### RATING DRIVERS

Further upward pressure on the ratings is unlikely considering the recent upgrade and the Bank's limited franchise. Negative rating pressure could also come from a material increase in the risk profile, including increasing unsecured counterparty risks. Given its large exposure to Spanish sovereign bonds, a downgrade of Spain's sovereign rating could also have negative rating implications.

### RATING RATIONALE

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 a new IPS between the members of the AECR, BCE and the Holding Company "GrucajRural Inversiones S.L.". The IPS was officially recognised by the Bank of Spain at end-March 2018. The IPS had a market share in Spain of around 3.5% of loans (EUR 40 billion) and around 3.6% of deposits (EUR 48 billion) at end-June 2019.

Following the creation of the Institutional Protection Scheme (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 75% 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. However, there are significant benefits regarding supervisory treatment, such as 0% risk weights for exposures to other IPS members and liquidity waivers. In addition, the IPS has created a uniform definition of standards and methodologies for the risk management of the member banks. At the same time, 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 300 million or 1% of the AEER's combined Risk Weighted Assets by 2024. As of end-September, the total available amount in the ex-ante fund is EUR 175 million. In 2019 the fund used EUR 25 million to recapitalise one small Caja Rural (CR) due to its weak capital position.

DBRS Morningstar sees BCE ´s earnings profile as resilient, although it is affected by the low interest rate environment. The Bank has generated stable profits over recent years, with similar net results each year since 2013. BCE has limited revenue diversification, as most of its revenues arise from the small loan book and fixed income portfolio. However, since 2018, the consolidated Group includes notable insurance revenues from Grupo Seguros RGA, its insurance arm. In 2018 insurance revenues represented around 37% of the consolidated Group ´s net income. BCE ´s individual net income (excluding Grupo Seguros RGA) was EUR 22 million in 9M19, down 19.5% Year-on-Year (YoY), with the Bank's net interest income still being impacted by the low interest rate environment (-7.3% YoY). Trading gains and net fees & commissions also dragged on profits in 9M19. Nevertheless, the Bank still posted a resilient ROAE of around 5.5% (as calculated by DBRS Morningstar) in 9M19.

DBRS Morningstar considers BCE to have a generally low risk profile, driven by its low-risk business mix and specialised franchise. At end-2018, the consolidated Group has a material exposure to financial securities, mainly Sovereign bonds (54% of total assets) due to its business model as part of its intermediary role for the AEER CRs, and its fixed income portfolio related to its insurance business. At end-2018, the consolidated Group's sovereign debt portfolio totalled EUR 5.8 billion, 85% of which related to Spain and 13% to Italy. Around 38% of the total exposure is related to investments made by its insurance arm. Apart from its securities portfolio, the consolidated Group's main exposures are lending to financial institutions (around 18% of total assets) and direct client lending (5% of total assets and an NPL ratio at 0.4% at end-2018).

BCE's funding and liquidity position is underpinned by a large and stable deposit base from credit institutions representing most of total funding at end-2018, a large part of which is backed by the members of the AEER, who deposit their excess liquidity at BCE in the form of bank deposits. At end-2018, the consolidated Group had a solid liquidity position with strong LCR and NSFR ratios of 282% and 307% respectively. Overall, DBRS Morningstar considers BCE's liquidity position as solid, although the diversification of funding sources is limited.

DBRS Morningstar views BCE as having solid 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 Common Equity Tier 1 (CET1) phased-in ratio was 37.8% at end-2018 or 30.50% on an individual basis. This compares to a minimum Overall Capital Requirement (OCR) for total capital of 11.89% in 2019 according to the Supervisory Review and Evaluation Process (SREP). 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.

The Grid Summary Grades for Banco Cooperativo Español are as follows: Franchise Strength – Good/ Moderate; Earnings – Good/ Moderate; Risk Profile – Good; Funding & Liquidity – Good; Capitalisation – Moderate.

Notes:

All figures are in EUR unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (June 2019). This can be found at: <http://www.dbrs.com/about/methodologies>

The sources of information used for this rating include S&P Global Market Intelligence, company disclosures, Bank of Spain, and the European Banking Authority (EBA). 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 twelve-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>.

Ratings assigned by DBRS Ratings GmbH are subject to EU and US regulations only.

Lead Analyst: Pablo Manzano - Vice President - Global FIG

Rating Committee Chair: Elisabeth Rudman - Managing Director, Head of European FIG - Global FIG

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DBRS Ratings GmbH, Sucursal en España

Calle del Pinar, 5

28006 Madrid

Spain

DBRS Ratings GmbH

Neue Mainzer Straße 7560311 Frankfurt am Main Deutschland

Geschäftsführer: Detlef Scholz

Amtsgericht Frankfurt am Main, HRB 110259

Information regarding DBRS ratings, including definitions, policies and methodologies, is available on [www.dbrs.com](http://www.dbrs.com).

## Ratings

### Banco Cooperativo Español S.A.

Date Issued	Debt Rated	Action	Rating	Trend	Issued
13-Nov-19	Long-Term Issuer Rating	Upgraded	BBB (high)	Stb	
13-Nov-19	Short-Term Issuer Rating	Upgraded	R-1 (low)	Stb	

Date Issued	Debt Rated	Action	Rating	Trend	Issued
13-Nov-19	Long-Term Senior Debt	Upgraded	BBB (high)	Stb	<b>EU</b>
13-Nov-19	Short-Term Debt	Upgraded	R-1 (low)	Stb	<b>EU</b>
13-Nov-19	Short-Term Deposits	Upgraded	R-1 (low)	Stb	<b>EU</b>
13-Nov-19	Long-Term Deposits	Upgraded	BBB (high)	Stb	<b>EU</b>

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## Contacts

### **Pablo Manzano, CFA**

*Vice President - Global FIG*

+34 91903 6502

[pmanzano@dbrs.com](mailto:pmanzano@dbrs.com)

### **Elisabeth Rudman**

*Managing Director, Head of European FIG - Global FIG*

+44 20 7855 6655

[erudman@dbrs.com](mailto:erudman@dbrs.com)

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