

# **FITCH AFFIRMS EUROCAJA RURAL AT 'BBB'; OUTLOOK STABLE**

Fitch Ratings-Barcelona/London-26 July 2018: Fitch Ratings has affirmed Eurocaja Rural, Sociedad Cooperativa de Credito's (Eurocaja) Long-Term Issuer Default Rating (IDR) at 'BBB', with Stable Outlook. Fitch has also affirmed Eurocaja's Viability Rating (VR) at 'bbb'. A full list of rating actions is at the end of this rating action commentary.

The rating actions are part of a periodic review of Spanish credit cooperatives rated by Fitch.

## **KEY RATING DRIVERS**

### **IDRS AND VR**

Eurocaja's ratings are supported by its significantly better-than-sector average asset quality metrics supported by conservative underwriting standards, satisfactory capital position, and sound funding and liquidity. The ratings also factor in the bank's subdued profitability, exposure to Spain's sovereign debt above its peers, which results in counterparty risk concentration and market risk, its sound provincial but geographically concentrated franchise and small equity size.

Eurocaja's asset quality metrics benefit from its prudent stance towards credit risk throughout the cycle, as reflected in its exceptionally good performing residential mortgage loan portfolio and its low exposure to real-estate developers. The metrics are also supported by selected high-quality loan portfolio acquisitions in 2013 and 2014 from retrenching competitors.

At end-2017, Eurocaja's problem assets ratio (which includes non-performing loans (NPL) foreclosed assets) was 3.3%, well below the sector average. NPLs were fully covered by reserves. As a result, capital at risk from unreserved problem assets was very low at 3%, which mitigates risks from asset quality shocks and the small size of the bank's equity. Risk-weighted capital ratios are sound and well above minimum requirements. At end-2017, the phased-in common equity Tier 1 and the Fitch Core Capital ratios stood at 17.0% and 17.6%, respectively.

Eurocaja's securities portfolio is larger than peers and largely concentrated in Spanish sovereign debt. This enables the bank to generate revenues and compensate for its low-margin residential mortgage business, but it exposes the bank to market risk. We expect Eurocaja to continue holding a large securities portfolio to support revenues and compensate for its subdued banking profitability amid its high share of low risk/low yield retail mortgage portfolio and low interest rates. However, banking profitability should benefit from increased commission income and some lending growth in higher yielding segments.

Eurocaja has an ample and granular retail deposit base, which fully funds its loan book. The bank also makes extensive use of wholesale funding (about 30% of funding at end-2017) mostly in the form of repos, covered bonds and ECB funding to fund carry-trade activities. The bank's liquidity position is comfortable with a sizeable stock of unencumbered ECB-eligible liquid assets.

## **SUPPORT RATING AND SUPPORT RATING FLOOR**

Eurocaja's Support Rating (SR) of '5' and Support Rating Floor (SRF) of 'No Floor' reflect Fitch's belief that senior creditors can no longer rely on receiving full extraordinary support from the sovereign if it becomes non-viable. The EU's Bank Recovery and Resolution Directive and the Single Resolution Mechanism for eurozone banks provide a framework for resolving banks that is likely to require senior creditors to participate in losses, instead of, or ahead of, a bank receiving sovereign support.

## RATING SENSITIVITIES

### IDRS, NATIONAL RATINGS AND SENIOR DEBT

An upgrade would be contingent on meaningful and sustained improvement of core banking profitability combined with reduced risk concentration from the bank's securities portfolio. In the long term, a strengthening of the bank's franchise and business model could be rating positive.

While not expected by Fitch, a downgrade could be triggered by an unexpected deterioration in asset quality, increased market risk appetite as a measure to offset low margins or a deterioration of the bank's capitalisation.

### SUPPORT RATING AND SUPPORT RATING FLOOR

An upgrade of the SR and upward revision of the SRF would be contingent on a positive change in the sovereign's propensity to support its banks. While not impossible, this is highly unlikely, in Fitch's view.

The rating actions are as follows:

Long-Term IDR: affirmed at 'BBB', Outlook Stable

Short-Term IDR: affirmed at 'F3'

Viability Rating: affirmed at 'bbb'

Support Rating: affirmed at '5'

Support Rating Floor: affirmed at 'No Floor'

Contact:

Primary Analyst

Cristina Torrella

Senior Director

+34 93 323 8405

Fitch Ratings Espana, S.A.U.

Av. Diagonal, 601, 2nd Floor

08028 Barcelona

Secondary Analyst

Fernando Sanchez

Associate Director

+44 20 3530 1221

Committee Chairperson

Bjorn Norrman

Senior Director

+44 20 3530 1330

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email: [peter.fitzpatrick@fitchratings.com](mailto:peter.fitzpatrick@fitchratings.com).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

Applicable Criteria

Bank Rating Criteria (pub. 22 Jun 2018)

<https://www.fitchratings.com/site/re/10034713>

ALL 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](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). 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](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2018 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. 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.