FitchRatings

Banks
Retail & Consumer Banks
Spain

Caja Rural de Navarra, Sociedad Cooperativa de Credito

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 IDR	A-
Country Ceiling	AAA
Outlooks	
Long-Term IDR	Stable
Sovereign Long-Term Foreign- and Local-Currency IDRs	Stable

Key Rating Drivers

Strong Asset Quality and Capital: Caja Rural de Navarra, Sociedad Cooperativa de Credito's (CRN) ratings balance a geographically concentrated franchise with asset quality that has consistently been stronger than the domestic industry average, driven by a low risk appetite, stable profitability and sound capitalisation.

Concentrated Regional Franchise: CRN's business profile reflects a franchise that is geographically concentrated in its home region of Navarra, where the bank has robust market shares and some pricing power. The business model is stable and remains skewed towards traditional commercial-banking activities. Revenue diversification is higher than some other cooperative banks', especially in fee-generating activities such as asset management, but is lower than some larger domestic peers'.

Conservative Risk Profile: CRN's conservative underwriting standards are more prudent than the domestic industry practice, as underlined in its stable asset quality throughout several cycles (an average impaired loan ratio 2.9% in the past 15 years). Risk controls are adequate for CRN's size and complexity and the bank has reacted promptly to the challenges posed by the operating environment. Fitch Ratings believes the large exposure to the Spanish sovereign should be viewed in the context of CRN's excess liquidity and opportunistic use of ECB funding.

Consistently Good Asset Quality: CRN has maintained stable and stronger asset-quality indicators than peers' due to its conservative underwriting standards and its exposure to Navarra and the Autonomous Community of the Basque Country (A/Stable), regions with better economic fundamentals than the national average. At end-June 2022, its impaired loan ratio was low at 1.7%. We believe CRN's strong metrics should help it maintain asset-quality metrics consistent with a 'bbb+' score, assuming the operating environment remains resilient.

High Coverage Offer Protection: Maintenance of pandemic-related reserves support an impaired loan coverage level well above 100%, from already high levels (end-2019: 80%). This provides a sound buffer against asset quality downside risks.

Improved Profitability Prospects: Operating profit recovered to 1.5% of risk-weighted assets (RWAs) in 2021 after it was held back by pandemic-related provisions in 2020. We expect this ratio to improve to above 1.5% in 2022 and 2023, supported by higher interest rates, resilient fee income and still low loan impairment charges (LICs) despite asset-quality risks.

Capitalisation Commensurate with VR: CRN maintains sound capital buffers above regulatory requirements, supported by high earnings retention. Its common equity Tier 1 (CET1) ratio was 18.75% at end-June 2022, which compares well by international standards. We expect the bank to maintain broadly stable capitalisation levels in the medium term given its strategy to meet minimum required eligible liabilities (MREL) requirements with CET1 capital.

Stable Funding and Liquidity: CRN's funding is supported by a loyal, stable and granular customer deposit base, accounting for about 70% of total funding at end-2021. Diversification into wholesale funding sources is limited and largely in the form of covered bonds.

Applicable Criteria

Bank Rating Criteria (September 2022)

Related Research

Fitch Affirms Caja Rural de Navarra at 'BBB+'; Outlook Stable (October 2022)

Global Economic Outlook – September 2022

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Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

CRN's ratings have ample headroom at current levels. Downside rating risk could arise if CRN relaxes its approach to risk-taking, particularly towards capital, which Fitch does not currently expect.

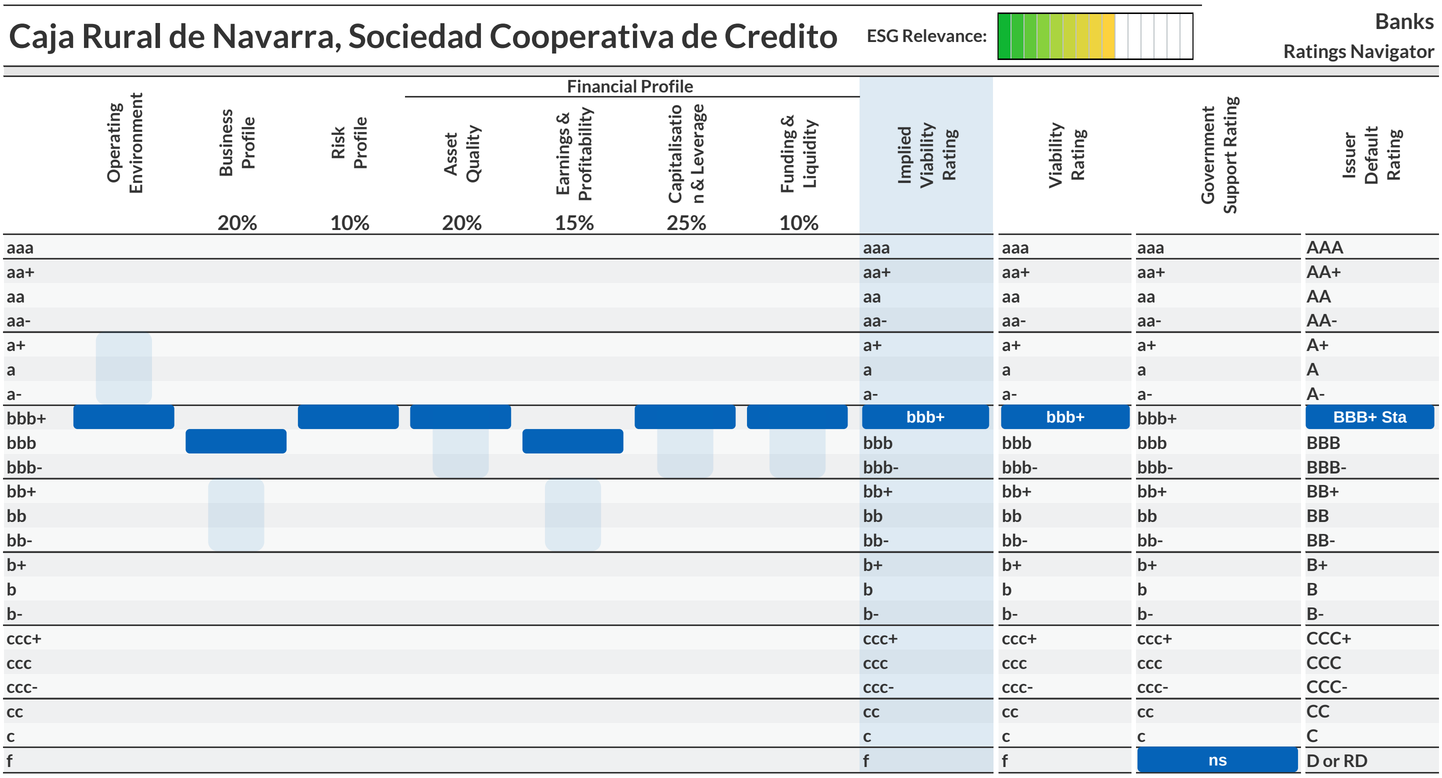
The bank's ratings could also be downgraded on structural deterioration in profitability (operating profit sustainably below 1.5% of RWAs) or on greater-than-expected asset-quality pressures. All this could erode the CET1 ratio towards 16% without credible prospects for it to be restored in a timely manner.

Rating pressure could result from an unexpected severe setback to the domestic economic outlook or from a material worsening of the market environment beyond our forecasts.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

An upgrade is currently unlikely and would be contingent on an upward revision of the operating-environment score. This would have to be accompanied by a strengthening of CRN's scale and business profile alongside an improvement of operating profitability comfortably above 2% of RWAs on a sustained basis without altering its moderate risk profile, while maintaining current sound capitalisation.

Ratings Navigator



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+' has been assigned below the 'a' category implied due to the high structural unemployment rate in Spain.

The business profile score of 'bbb' is above the 'bb' category implied score to reflect CRN's leading market position in its home region with some degree of pricing power, despite its small scale at a national level.

The earnings & profitability score of 'bbb' is above the 'bb' category implied score as the reported RWAs overstates the bank's risks in our view, considering the good evolution of asset quality through the cycles.

Company Summary and Key Qualitative Factors

Operating Environment

Resilient Operating Environment, Despite Heightened Risks

Fitch expects that Spain's GDP growth will remain resilient in 2022 (4.1%) and 2023 (1.7%), despite heightened economic risks. Spain is less directly exposed to the European energy shock but is facing a material slowdown derived from higher interest rates and inflationary pressures. CRN has regional exposure to Navarra and the Basque Country, which have better economic fundamentals than the national average, in particular in terms of GPD per capital and unemployment.

Business Profile

Regional-Focused Bank

CRN is Spain's third-largest credit cooperative, with a presence in wealthy northern Spanish regions. The bank had high market shares in its core market of Navarra of just below 30% for loans and deposits, and it benefits from long-standing client relationships and some market power. CRN has also built a meaningful presence in neighbouring autonomous communities, particularly in the Basque Country, with a market share of about 6% for loans and deposits. However, CRN's franchise is small by national standards, with market shares below 1% for loans and deposits.

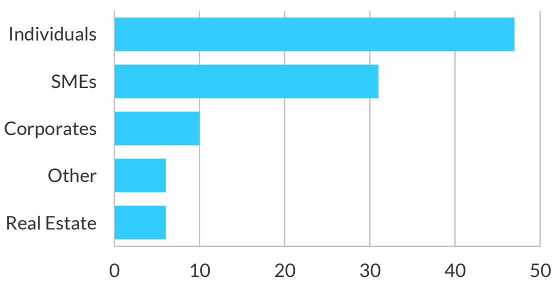
The bank's business model is stable and focused on serving households, small businesses and SMEs. In addition to traditional commercial banking products, CRN offers asset management and insurance products, whose volumes are significant considering the bank's size. Contribution from fee income is traditionally high (25% of operating income in 2018–2021) and compares well with medium-sized Spanish banks.

Part of an Institutional Protection Scheme (IPS)

CRN is a member of the Spanish rural credit cooperative association (Asociación Española de Cajas Rurales; AECR), which comprises 30 credit cooperatives that share common cooperative values. In March 2018, the AECR banks established a more cohesive cross-support mechanism under an IPS (under Article 113(7) of the CRR). The latter entails the creation of an ex-ante recovery fund to address liquidity and solvency problems within the group members. Fitch does not assign a group rating to the group as there is not yet sufficient evidence that the support mechanism is cohesive enough to substantially equalise the default risk of group members. The maturing of the mutual support mechanism could result in increased cohesion that might eventually result in group ratings being assigned to the group.

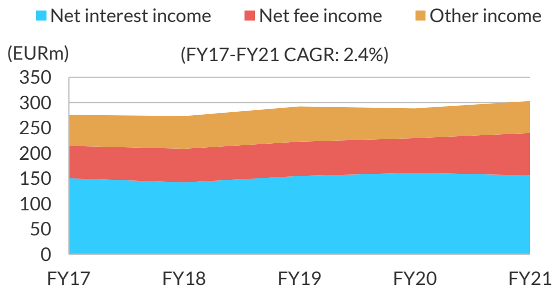
The IPS members are supervised individually but benefit from lower regulatory requirements, such as capital relief on intragroup lending, higher allowances for single-borrower exposures if these exposures are to fellow members of the group, and lower contributions to the Deposit Guarantee Fund. The IPS also led to the creation and adoption of a uniform definition of standards and methodologies for risk management. Its members also share a common digitalisation strategy and infrastructures, and similar commercial offering. However, the structure of the IPS is weaker than for comparable European peers given the lack of capital and liquidity fungibility and consolidated supervision.

Loan Distribution
(End-Dec 21)



Source: Fitch Ratings, CRN

Revenue Breakdown



CAGR: compound annual growth rate
Source: Fitch Ratings, CRN

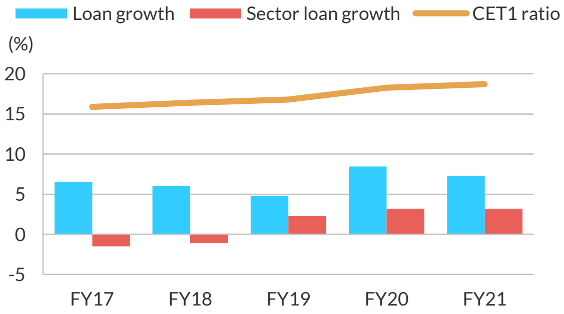
Risk Profile

CRN's low risk profile reflects the bank's cooperative nature, its focus in regions with stronger-than-national-average economic fundamentals and pervasive risk governance and controls for the complexity of the bank. CRN is primarily exposed to credit risk from its lending activities (59% of total assets at end-2021), and its debt securities portfolio (31%). The bulk of the loan book (end-2021: 90%) has been granted in Navarra and the Basque Country. Underwriting standards have generally been more stringent than those of most domestic peers, supporting sustained better asset-quality metrics than the sector average. CRN also has low exposure to legacy real estate assets.

Loan growth has been above the sector average but has been in line with cooperative peers in the past four years, benefitting from the retrenchment of larger institutions. Growth has been funded by an increase in the customer deposit base and high earnings retention, which has allowed the bank to preserve sound capitalisation levels.

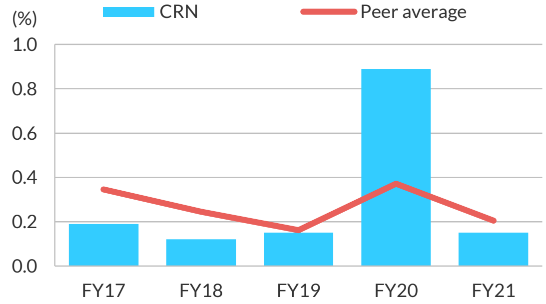
Spanish sovereign bonds (EUR3.6 billion, or 2.3x CET1 at end-2021) dominates the debt securities portfolio (EUR5 billion), which results in some counterparty risk concentration. 76% of the portfolio is classified at amortised cost, reducing volatility in equity while supporting net interest income. Interest rate risk in the banking book is contained and the bank is positioned to a potential increase in interest rates given the large share of variable rate loans (75% at end-2021) and the low cost of deposits.

Loan Growth



Source: Fitch Ratings, CRN

Loan Impairment Charges/Average Gross Loans



Source: Fitch Ratings, Fitch Solutions

Financial Profile

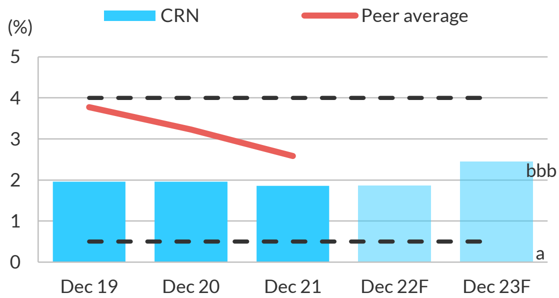
Asset Quality

CRN's asset-quality indicators are among the best in Spain. The problem asset ratio (which includes impaired loans and foreclosed assets) at end-June 2022 remained stable at 2%, while impaired loans reserve coverage substantially increased (end-June 2022: 124%; end-2019: 80%), driven by pandemic-related provisions that were built in 2020 but are still unused.

CRN's loan moratoriums accounted for less than 1% of loans at end-2021, well below the sector average. The moratoriums have already expired, with good performance (only a marginal share classified as non-performing), indicating a relatively good repayment capacity in the bank's mortgage client base. The use of loan guarantees by the state and the regional government have been significant (12% of gross loans at end-2021) reflecting the bank's exposure to SME lending. The performance of such loans has been good to date (1.6% of these exposures were classified in Stage 3 and 2.4% in Stage 2 at end-2021), although most of these borrowers benefitted from grace periods until 2Q22.

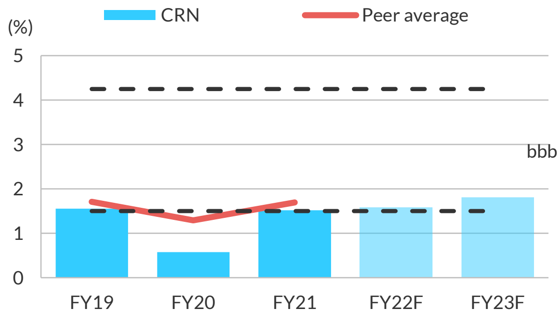
We expect some asset-quality deterioration in 2H22 and in 2023 as rising interest rates and high inflation will affect borrowers' affordability capacity, in particular for some SMEs. However, we expect the extent of deterioration to be moderate, with CRN's impaired loan ratio being maintained below 2.5% in the next two years.

Impaired Loans/Gross Loans



Source: Fitch Ratings, Fitch Solutions

Operating Profit/Risk-Weighted Assets



Source: Fitch Ratings, Fitch Solutions

Earnings and Profitability

Improved Profitability

CRN's operating profit ratio has remained stable over the business cycles in Spain due to lower-than-sector-average LICs. The bank has also maintained adequate cost-to-income ratios (below 60% on average in 2018–2021) as the contribution of fee income and cost control have partially offset revenue pressures from low interest rates.

The bank's operating profit/RWAs ratio increased to 1.8% in 1H22 (2021: 1.5%) driven by loan and fee growth, and controlled costs and LICs. We expect operating profit to improve further in 2023 as higher interest rates should offset asset quality deterioration, subdued fee-income generation and moderate growth in expenses. In our projections, we assume CRN will conservatively book LICs at above normalised levels in 2023 due to the current economic risks and despite its already high impaired loan coverage.

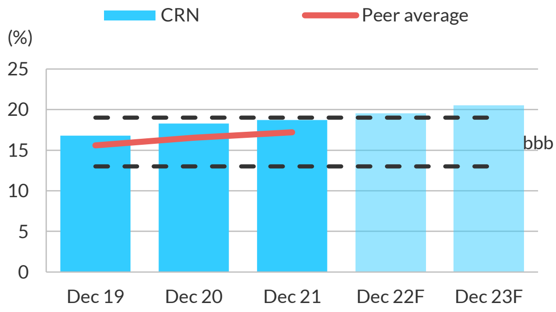
Capital and Leverage

Solid Capital Buffers Provide Headroom

CRN's sound capitalisation levels are supported by the bank's historically low pay-out ratios derived from its cooperative structure, good internal capital generation, and inexistent capital encumbrance from unreserved problem assets. The regulatory CET1 ratio increased to 18.75% at end-June 2022 (including results of the year; end-2020: 18.3%) due to earnings retention. Capital ratios compare well by international standards and remain comfortably above the bank's 2022 regulatory requirements of 7.63% for CET1 and of 11.63% for total capital, which are the lowest among the Spanish entities covered by Fitch. The Basel leverage ratio was also strong at 8.8% at end-2021.

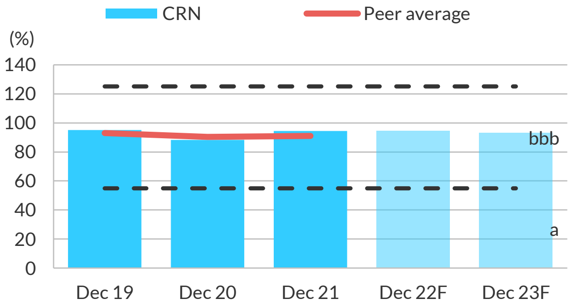
We expect the CET1 ratio to be maintained broadly stable in the medium term as the bank will likely meet the entirety or the bulk of its MREL requirements (17.69% of RWAs, including the combined buffers requirement) with CET1 capital.

CET1 Ratio



Source: Fitch Ratings, Fitch Solutions

Gross Loans/Customer Deposits



Source: Fitch Ratings, Fitch Solutions

Funding and Liquidity

Stable Funding and Liquidity

CRN's funding and liquidity is adequate as the bank fully funds its loan portfolio with retail, granular customer deposits (accounting for about 70% of total funding at end-2021). The loans/deposits ratio has been progressively reduced over recent years to about 94% at end-2021 and compares well with the average of the Spanish sector, although it is higher than the bank's domestic cooperative peers.

Wholesale funding amounted to EUR3.8 billion at end-2021 and was mainly in the form of covered bonds (EUR1.6 billion) and ECB funding (EUR2.1 billion). Part of the covered bonds is used to finance long-term loans denominated at fixed rates, thus hedging the bank's exposure to changes in interest rates.

CRN has a comfortable liquidity position as wholesale debt maturities are manageable and refer largely to secured debt issues, which free up collateral upon maturity. The end-June 2022 regulatory liquidity coverage (289%) and net stable funding (135%) ratios were solid.

About Fitch Forecasts

The forecasts in the charts in this section reflect Fitch's forward view on the bank's core financial metrics under 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 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.

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+), Eurocaja Rural, Sociedad Cooperativa De Credito (bbb), Kutxabank, S.A. (bbb+), Credito Emiliano S.p.A. (bbb), Credit du Nord S.A. (a-) and Banco di Desio e della Brianza S.p.A. (bb+).

Financials

Financial Statements

	31 Dec 21		31 Dec 20	31 Dec 19	31 Dec 18
	Year end	Year end	Year end	Year end	Year end
	(USDm)	(EURm)	(EURm)	(EURm)	(EURm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Summary income statement					
Net interest and dividend income	177	156.2	160.8	154.6	142.0
Net fees and commissions	94	83.4	68.8	68.3	66.8
Other operating income	76	67.2	59.2	71.0	68.0
Total operating income	347	306.8	288.8	293.9	276.8
Operating costs	196	173.2	168.0	167.3	165.7
Pre-impairment operating profit	151	133.6	120.8	126.6	111.1
Loan and other impairment charges	20	18.0	79.0	13.1	8.5
Operating profit	131	115.6	41.8	113.5	102.6
Other non-operating items (net)	-15	-13.7	57.3	-4.5	3.4
Tax	12	10.5	12.2	10.6	12.5
Net income	103	91.4	86.9	98.4	93.5
Other comprehensive income	18	16.0	-3.3	29.7	-32.5
Fitch comprehensive income	121	107.4	83.6	128.1	61.0
Summary balance sheet					
Assets					
Gross loans	10,920	9,655.1	8,999.4	8,298.3	7,923.0
- Of which impaired	203	179.5	176.5	162.8	140.1
Loan loss allowances	241	212.7	204.2	129.6	144.2
Net loans	10,679	9,442.4	8,795.2	8,168.7	7,778.8
Interbank	164	145.3	124.0	108.4	100.0
Derivatives	11	9.9	17.0	13.5	7.4
Other securities and earning assets	5,848	5,170.4	5,226.9	4,021.1	3,544.4
Total earning assets	16,703	14,768.0	14,163.1	12,311.7	11,430.6
Cash and due from banks	1,288	1,138.7	1,282.1	412.4	351.4
Other assets	482	426.4	404.6	409.0	420.8
Total assets	18,473	16,333.1	15,849.8	13,133.1	12,202.8
Liabilities					
Customer deposits	11,573	10,232.7	10,195.5	8,720.9	8,011.9
Interbank and other short-term funding	354	313.0	325.1	232.9	155.4
Other long-term funding	4,418	3,906.5	3,709.0	2,598.0	2,581.8
Trading liabilities and derivatives	77	68.0	1.8	0.9	1.0
Total funding and derivatives	16,422	14,520.2	14,231.4	11,552.7	10,750.1
Other liabilities	401	354.4	271.6	320.9	323.6
Preference shares and hybrid capital	n.a.	n.a.	n.a.	n.a.	n.a.
Total equity	1,650	1,458.5	1,346.8	1,259.5	1,129.1
Total liabilities and equity	18,473	16,333.1	15,849.8	13,133.1	12,202.8
Exchange rate		USD1 = EUR0.884173	USD1 = EUR0.821963	USD1 = EUR0.89015	USD1 = EUR0.873057

Source: Fitch Ratings, Fitch Solutions, CRN

Key Ratios

	31 Dec 21	31 Dec 20	31 Dec 19	31 Dec 18
Ratios (annualised as appropriate)				
Profitability				
Operating profit/risk-weighted assets	1.5	0.6	1.6	1.5
Net interest income/average earning assets	1.1	1.2	1.3	1.3
Non-interest expense/gross revenue	57.1	58.2	57.2	60.6
Net income/average equity	6.5	6.7	8.3	8.5
Asset quality				
Impaired loans ratio	1.9	2.0	2.0	1.8
Problem asset ratio	2.2	2.4	2.5	2.4
Growth in gross loans	7.3	8.5	4.7	6.0
Loan loss allowances/impaired loans	118.5	115.7	79.6	102.9
Loan impairment charges/average gross loans	0.2	0.9	0.2	0.1
Capitalisation				
Common equity Tier 1 ratio	18.7	18.3	16.8	16.4
Fully loaded common equity Tier 1 ratio	18.1	17.7	16.6	16.4
Basel leverage ratio	8.9	7.9	8.8	8.8
Net impaired loans/common equity Tier 1	-2.3	-2.1	2.7	-0.4
Funding and liquidity				
Gross loans/customer deposits	94.4	88.3	95.2	98.9
Liquidity coverage ratio	366.8	391.1	370.0	510.0
Customer deposits/total non-equity funding	70.8	71.7	75.5	74.5
Net stable funding ratio	134.4	148.2	153.0	153.4

Source: Fitch Ratings, Fitch Solutions, CRN

Support Assessment

Commercial Banks: Government Support	
Typical D-SIB GSR for sovereign's rating level (assuming high propensity)	
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

CRN's GSR of 'ns' reflects Fitch's belief that senior creditors can no longer rely on receiving full extraordinary support from the sovereign if CRN 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.

Environmental, Social and Governance Considerations

Overall ESG

5	
4	
3	
2	
1	

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

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.
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.
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.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Environmental (E)

General Issues	Score	Impact	Sector-Specific Issues	Reference
GHG Emissions & Air Quality	1		n.a.	n.a.
Energy Management	1		n.a.	n.a.
Water & Wastewater Management	1		n.a.	n.a.
Waste & Hazardous Materials Management; Ecological Impacts	1		n.a.	n.a.
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

E Scale

5
4
3
2
1

Social (S)

General Issues	Score	Impact	Sector-Specific Issues	Reference
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
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
Labor Relations & Practices	2		Impact of labor negotiations, including board/employee compensation and composition	Business Profile (incl. Management & governance)
Employee Wellbeing	1		n.a.	n.a.
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

S Scale

5
4
3
2
1

Governance (G)

General Issues	Score	Impact	Sector-Specific Issues	Reference
Management Strategy	3		Operational implementation of strategy	Business Profile (incl. Management & governance)
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
Group Structure	3		Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile (incl. Management & governance)
Financial Transparency	3		Quality and frequency of financial reporting and auditing processes	Business Profile (incl. Management & governance)

G Scale

5
4
3
2
1

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.