

CREDIT OPINION

2 August 2024

Update

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RATINGS

Caja Rural de Navarra

Domicile	Pamplona, Spain
Long Term CRR	A3
Type	LT Counterparty Risk Rating - Dom Curr
Outlook	Not Assigned
Long Term Debt	Not Assigned
Long Term Deposit	Baa1
Type	LT Bank Deposits - Dom Curr
Outlook	Positive

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Caja Rural de Navarra

Update following rating update

Summary

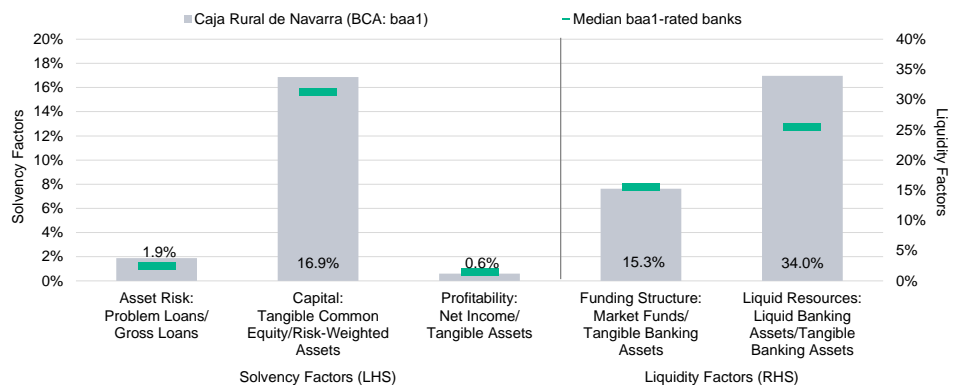
CRN's deposit ratings reflect the bank's Baseline Credit Assessment (BCA) of baa1; a high probability of affiliate support from the entities integrated into the Institutional Protection Scheme (IPS), which, nevertheless, translates into no uplift from CRN's BCA and consequently into an Adjusted BCA of baa1; and the result of our Advanced Loss Given Failure (LGF) analysis, which does not translate into any rating uplift. CRN's Counterparty Risk (CR) Assessment is A3(cr)/Prime-2(cr) and its Counterparty Risk Ratings (CRRs) are A3/Prime-2.

CRN's BCA of baa1 reflects the bank's sound financial fundamentals, namely its strong asset quality performance coupled with very high coverage levels, its sound capitalization and its improved earnings generation capacity. The affirmation of the bank's BCA also takes into consideration its comfortable funding and liquidity position underpinned by a low reliance on wholesale funding and a large and resilient deposit base.

While CRN's current creditworthiness points to a higher standalone financial profile, Moody's caps the bank's BCA at the level of the Spanish sovereign rating (Baa1) in recognition of the significant interconnectedness between the creditworthiness of the bank and that of the Spanish sovereign.

Exhibit 1

Rating Scorecard - Key financial ratios



Source: Moody's Ratings

Credit strengths

- » Stronger asset-quality indicators than the system average
- » Sound solvency levels
- » Improved profitability as a result of the high interest rate environment
- » Low reliance on market funding, most of which is secured

Credit challenges

- » Inflow of new nonperforming loans (NPLs) will moderately increase.
- » Strong profitability levels will be challenged as the repricing of floating-rate loans to higher rates gradually comes to an end and the cost of deposits and operating costs continue increasing.

Outlook

The positive outlooks on the long-term deposit rating and long-term issuer rating of Caja Rural de Navarra are driven by the positive outlook on Spain's sovereign debt rating.

Factors that could lead to an upgrade

Any upward pressure on CRN's BCA is unlikely to materialise as long as the Spanish government bond rating remains at Baa1, as a bank's BCA will not typically exceed the sovereign rating under our methodology without any factor that reduces the dependency between the creditworthiness of the bank and the sovereign.

CRN's deposit ratings could be upgraded as a result of changes in its liability structure, which indicate a lower loss given failure to be faced by deposits.

Factors that could lead to a downgrade

CRN's BCA could be downgraded if the bank's asset quality and profitability worsen significantly beyond our current expectations. Negative pressure on the bank's BCA could also result from a downgrade of the Spanish sovereign rating.

Any change in the BCA would also likely affect the deposit ratings because they are linked to the standalone BCA. CRN's deposit ratings could also change as a result of alterations to the bank's liability structure, which would indicate a higher loss given failure to be faced by deposits.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Caja Rural de Navarra (Consolidated Financials) [1]

	12-23 ²	12-22 ²	12-21 ²	12-20 ²	12-19 ²	CAGR/Avg. ³
Total Assets (EUR Million)	16,315.3	16,097.1	16,333.1	15,849.8	13,133.1	5.6 ⁴
Total Assets (USD Million)	18,022.8	17,179.6	18,507.2	19,393.1	14,741.9	5.2 ⁴
Tangible Common Equity (EUR Million)	1,791.4	1,557.1	1,399.3	1,303.1	1,212.0	10.3 ⁴
Tangible Common Equity (USD Million)	1,978.9	1,661.8	1,585.5	1,594.4	1,360.4	9.8 ⁴
Problem Loans / Gross Loans (%)	2.0	1.8	1.9	2.0	2.0	1.9 ⁵
Tangible Common Equity / Risk Weighted Assets (%)	20.1	16.9	15.1	15.0	14.2	16.3 ⁶
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	9.3	10.0	11.1	11.7	12.1	10.8 ⁵
Net Interest Margin (%)	1.7	1.0	0.9	1.0	1.2	1.1 ⁵
PPI / Average RWA (%)	2.7	1.6	1.4	1.4	1.5	1.7 ⁶
Net Income / Tangible Assets (%)	1.3	0.7	0.6	0.5	0.8	0.8 ⁵
Cost / Income Ratio (%)	38.1	57.0	57.4	58.3	57.4	53.6 ⁵
Market Funds / Tangible Banking Assets (%)	7.3	15.3	21.2	20.3	15.7	15.9 ⁵
Liquid Banking Assets / Tangible Banking Assets (%)	35.4	34.0	36.0	37.9	29.6	34.6 ⁵
Gross Loans / Due to Customers (%)	78.0	88.8	94.1	88.1	95.1	88.8 ⁵

[1] All figures and ratios are adjusted using Moody's standard adjustments. [2] Basel III - fully loaded or transitional phase-in; IFRS. [3] May include rounding differences because of the scale of reported amounts. [4] Compound annual growth rate (%) based on the periods for the latest accounting regime. [5] Simple average of periods for the latest accounting regime. [6] Simple average of Basel III periods.

Sources: Moody's Ratings and company filings

Profile

With total assets of €16.3 billion as of year-end 2023, Caja Rural de Navarra (CRN) is the second-largest rural cooperative bank in Spain and the first of the Spanish Rural Cooperatives Association (Asociacion Espanola de Cajas Rurales, AECR), composed of CRN and 29 other rural cooperatives.

CRN is primarily based in Navarre. The bank also operates as the only rural credit cooperative in the neighbouring regions of the Basque Country and La Rioja. With a reported market shares of 28.0% in lending and 32.1% in deposits as of the end of December 2023, the bank is ranked second in Navarre, behind [CaixaBank, S.A.](#) (CaixaBank, A2/A3 stable, baa2)¹. Despite its small size, CRN has a strong brand recognition and market position in its home region.

In March 2018, CRN integrated into an IPS, together with the 28 other Spanish rural cooperatives under the AECR and Banco Cooperativo Español, S.A. This IPS is a contractual scheme that ensures support through recourse to a private-sector fund, to which members have to contribute according to the terms and conditions established by a contractual agreement. This private fund will be an effective resource to assist IPS members in times of difficulty and before any resolution or liquidation, with the objective of preserving the financial stability of the IPS members and improving their risk profile.

Members of the IPS, including CRN, continue to be regulated on an individual basis, although they are required to publish consolidated accounts for the group.

This IPS entails some regulatory privileges for these entities, in particular capital relief on cross-sector lending and stakeholdings; higher permissible single-borrower exposures, if these exposures are to fellow members of the group; and lower contributions to the Deposit Guarantee Fund.

Detailed credit considerations

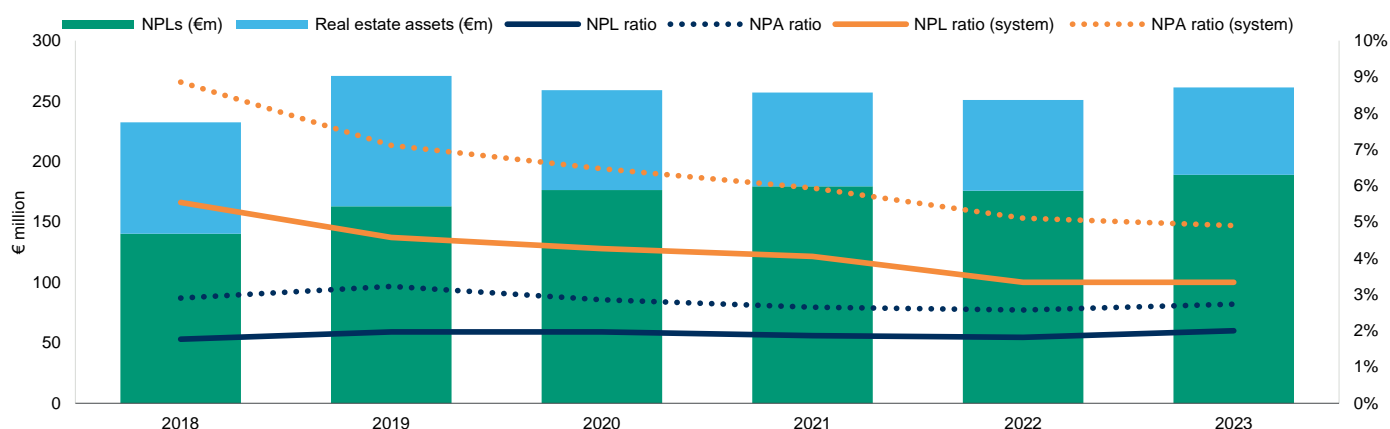
Asset-quality will modestly deteriorate but will remain stronger than the system average

CRN's assigned Asset Risk score of a3 incorporates the bank's very low level of nonperforming assets (NPA; defined as nonperforming loans (NPLs) plus real estate assets) relative to the banking system, as well as our expectation that asset quality will deteriorate moderately as rising interest rates have made loans more costly, which combined with the elevated cost of living have undermined the repayment capacity of domestic businesses and households.

CRN's asset-quality indicators have historically performed better than the Spanish banking system average because of the bank's more prudent risk management, with a relatively low exposure to the real estate sector and its activities being limited to its home territories. As of year-end 2023, the bank reported an NPL ratio of 2.0%, slightly higher than 1.8% reported a year earlier, while the ratio for the banking system was 3.3%² as of the same date. In addition to NPLs, CRN has a low amount of real estate assets repossessed. If these assets are added to the bank's NPLs, the NPA ratio would be 2.6% as of year-end 2023, in line with the 2.6% reported a year earlier and still comparing very favorably with the 4.1%³ average for its domestic peers as of the same date.

Exhibit 3

CRN's asset-risk indicators have historically outperformed system average



Source: CRN and Moody's Ratings

CRN booked loan-loss provisions amounting to €28 million in 2023. As a result, the bank's cost of risk stood at 30 basis points (bps). This resulted in an increase of the bank's coverage ratio (measured as loan-loss reserves as a percentage of NPLs) to 129% as of the end of December 2023, up from 119% a year earlier and well above the system average of 71% for the same period.

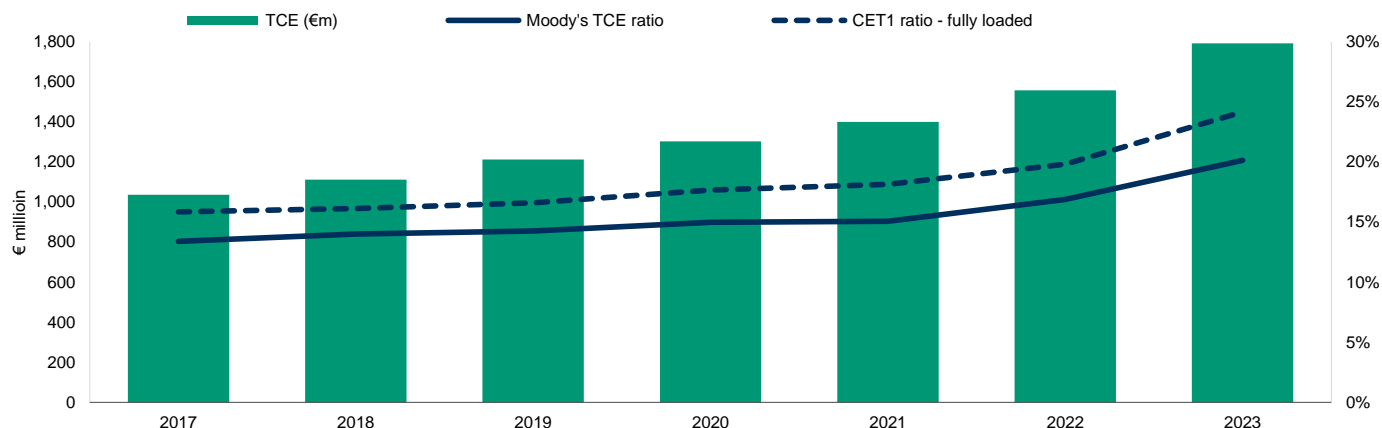
CRN displays sound solvency levels

CRN's assigned Capital score of aa2 reflects our assessment that capitalisation is a relative strength for the bank. As of year-end 2023, CRN's tangible common equity/risk-weighted assets was 20.1%, up from 16.9% a year earlier. The increase in the bank's TCE ratio is due to an increase in capital while risk-weighted assets remained stable.

CRN's capital is mainly composed of retained earnings and contributions from cooperative members on which it pays dividends. In line with the Spanish legislation, CRN allocates a part of its net profit to a welfare fund, although it retains most of the profit to support capital generation and fund future growth, which translates into the bank's higher-than-average capital ratios.

In terms of regulatory capital ratios, CRN reported a phase-in Common Equity Tier 1 capital ratio of 24.2% as of year-end 2023, compared to 20.3% a year earlier and above the European Union (EU) average of 16.0%⁴ as of the end of December 2023. Our more conservative capital assessment relative to regulators' capital ratios is primarily explained by the more conservative risk weighting that we apply to the sovereign exposures (at 50% for Spain's sovereign bonds) compared with regulators' risk weighting of 0%.⁵

Exhibit 4
CRN's capital levels have improved over recent years from already very high levels



Source: CRN and Moody's Ratings

Improved profitability will be broadly stable

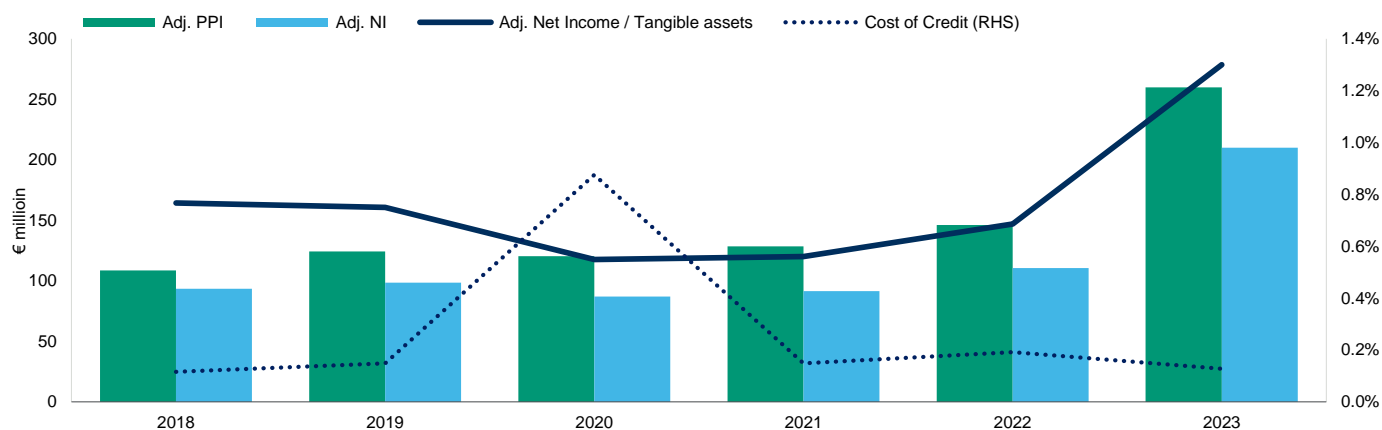
We assign a Profitability score of baa2 to CRN. This reflects our assessment of CRN's strong profitability metrics following the continued repricing of its loan book (the bulk of it at variable rates) to the ECB's higher interest rates, as well as our expectation that profitability will remain broadly stable over the outlook period.

CRN's loan book will continue to reprice into 2024. However, since reference rates have retreated from their Q3 2023 peak, it will do so at lower rates in the second half of the year, limiting profitability gains. CRN's continued strong earnings will help absorb a moderate increase in operating expenses as well as marginally higher provisioning costs.

CRN reported a net income of €210 million at end-December 2023, up from €110 million a year earlier and equivalent to a net income/tangible assets ratio of 1.3% (0.7% in 2022). This increase was mainly the result of a 19% increase in operating income, driven by the very significant increase in net interest income of 65%.

As a result of the significant increase in operating income, CRN's cost-to-income ratio decreased to 36% at end-December 2023, well below the 57% reported a year earlier and below the system average of 47%⁶ at end-December 2023.

Exhibit 5
CRN's top-line earnings have been fairly resilient over recent years



2023 figures are shown as reported.
Source: CRN and Moody's Ratings

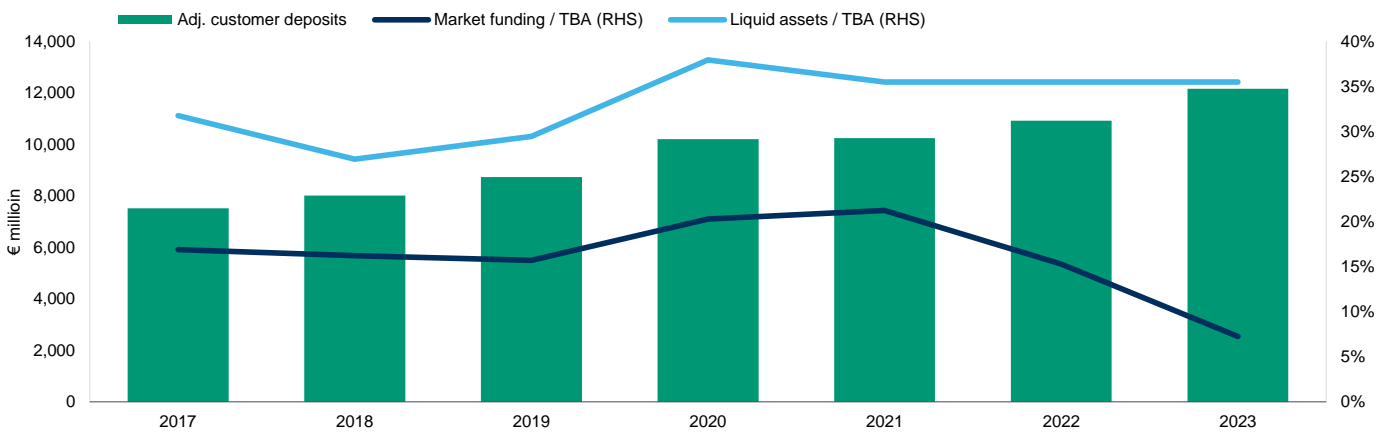
Low reliance on market funding, most of which is secured

CRN's market funds ratio stood at 7.3% as of the end of December 2023. We assess CRN's Funding structure score at baa1 to reflect a normalised level of wholesale funding reliance for the bank of around 15%.

CRN is predominantly retail funded. As of year-end 2023, deposits accounted for around 86% of the bank's total funding, representing 76% of its gross loans. The bank's regional identity adds a component of stability to its retail funding base, which has consistently grown over the years.

Most of CRN's wholesale funding is composed of covered bonds (€1.7 billion), a secured funding source. CRN has tapped wholesale markets through a number of sustainable financing instruments, which form part of its sustainability framework (four €500 million sustainable mortgage covered bonds [November 2016, May 2018, February 2022, January 2023] and a €100 million senior sustainable bond in June 2017).

Exhibit 6
Growing deposit base and low reliance on wholesale funding



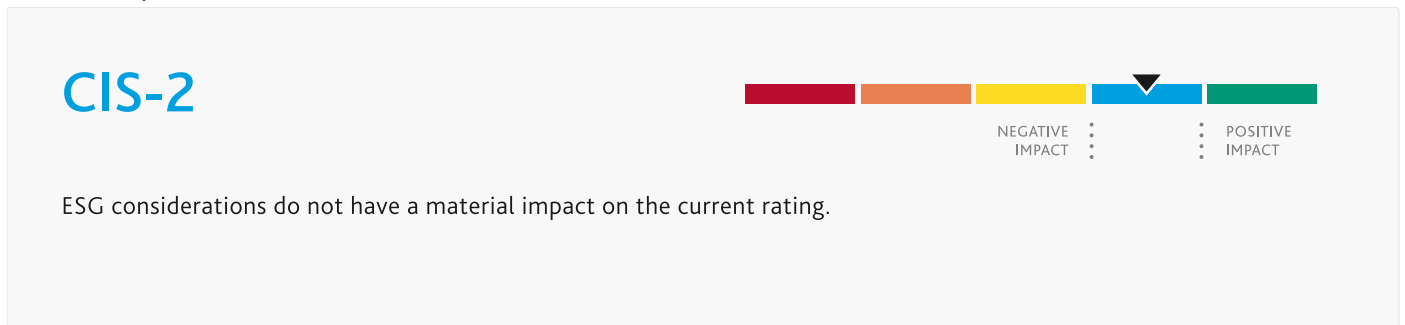
2023 figures are shown as reported.
 Source: CRN and Moody's Ratings

CRN's liquid banking assets accounted for 35% of its tangible banking assets as of year-end 2023. We assign a Liquid Resources score of baa1 to the bank, one notch below its Macro-Adjusted score, to reflect our expectation that the bank's normalized ratio of unencumbered liquid assets will stay in the range of 25-30%.

ESG considerations

Caja Rural de Navarra's ESG credit impact score is CIS-2

Exhibit 7
ESG credit impact score

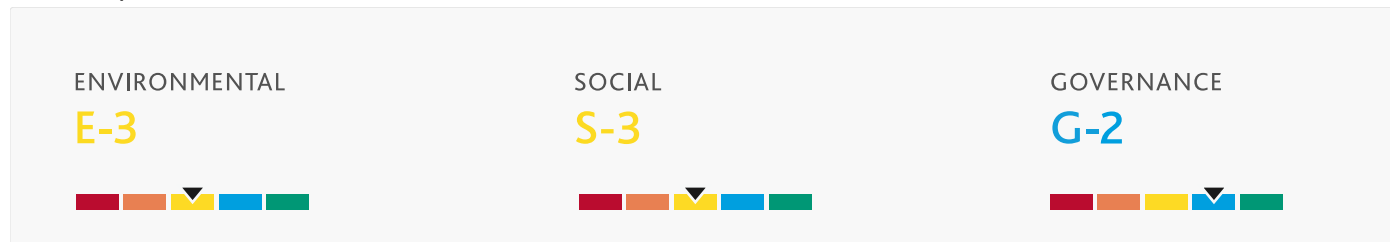


Source: Moody's Ratings

Caja Rural de Navarra's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting the limited credit impact of environmental and social factors on the rating to date, and neutral-to-low governance risks.

Exhibit 8

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Caja Rural de Navarra faces moderate environmental risks primarily because of its portfolio exposure to carbon transition risk as a diversified bank. In line with its peers, the bank is exposed to mounting business risks and stakeholder pressure to meet broader carbon transition goals. In response, Caja Rural de Navarra is developing its climate risk and portfolio management capabilities and is actively transitioning its lending portfolios to achieve carbon neutrality targets.

Social

Caja Rural de Navarra faces moderate social risks mainly related to customer relations as well as to demographic and societal trends. The bank's developed policies and procedures mitigate conduct risk associated with the distribution of financial products such as regulatory and reputational risks, as well as exposure to litigation. Continued investments in technology and the bank's long track record of handling sensitive customer data, as well as appropriate culture and governance that ensure adherence to regulatory standards, help to manage high cyber and personal data risks. Caja Rural de Navarra operates mainly in Spain, which faces challenges from adverse demographic trends affecting long-term economic growth prospects and impacting the demand for certain banking products. Product diversity as well as an ability to adapt to consumer preferences, regulatory changes and societal trends such as digitization are key to address these risks.

Governance

Caja Rural de Navarra faces neutral-to-low governance risks, with a corporate governance framework in line with industry best practices. The bank applies conservative financial policies and has a strong track record of achieving its strategic and financial targets, supported by an outstanding risk management function. As a rural cooperative, the bank's capital is composed of retained earnings and contributions from customers which show no concentration.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Affiliate support

Our cross-sector support assessment is based on CRN's integration into the IPS, which includes the 30 rural cooperatives associated under the AECR and BCE, and results in a contractually binding support arrangement among member banks. Cross-sector support materially reduces default risk, as it would be available to stabilize a distressed member bank, and not just compensate for losses in resolution/liquidation.

We consider the readiness of the group to support its members to be high. Under our methodology, this high support translates into no uplift from CRN's BCA of baa1.

Loss Given Failure (LGF) analysis

CRN is subject to the EU Bank Recovery and Resolution Directive, which we consider an operational resolution regime. Accordingly, we apply most of its standard assumptions. These assumptions include a residual tangible common equity of 3%, post-failure losses

of 8% of tangible banking assets, a 25% runoff in junior wholesale deposits and a 5% runoff in preferred deposits, and assign a 25% probability to deposits being preferred over senior unsecured debt. Because we assume that CRN's deposit base is essentially retail in nature, we consider a proportion of 10% of junior deposits, below the estimated EU-wide average of 26%.

For CRN's deposits, our LGF analysis takes into consideration the likely impact on loss given failure of the combination of its own volume and subordination. Our LGF analysis indicates a moderate loss given failure for deposits, which leads us to position the bank's Preliminary Rating Assessment at the same level as its Adjusted BCA. Please refer to the Loss Given Failure and Government Support table at the bottom of the scorecard.

Government support

We assign a low probability of government support for CRN's deposits, which does not translate into any uplift. Likewise, the CR Assessment does not benefit from any rating uplift from government support.

Methodology and scorecard

About Moody's Bank Scorecard

Our scorecard is designed to capture, express and explain in summary form our rating committee's judgement. When read in conjunction with our research, a fulsome presentation of our judgement is expressed. As a result, the output of our scorecard may materially differ from that suggested by raw data alone (though it has been calibrated to avoid the frequent need for strong divergence). The scorecard output and the individual scores are discussed in rating committees and may be adjusted up or down to reflect conditions specific to each rated entity.

Rating methodology and scorecard factors

Exhibit 9

Rating Factors

Macro Factors						
Weighted Macro Profile	Strong	100%				
Factor	Historic Ratio	Initial Score	Expected Trend	Assigned Score	Key driver #1	Key driver #2
Solvency						
Asset Risk						
Problem Loans / Gross Loans	2.0%	a3	↔	a3	Expected trend	
Capital						
Tangible Common Equity / Risk Weighted Assets (Basel III - transitional phase-in)	20.1%	aa2	↔	aa2	Expected trend	
Profitability						
Net Income / Tangible Assets	0.8%	baa2	↔	baa2	Expected trend	
Combined Solvency Score		a2		a2		
Liquidity						
Funding Structure						
Market Funds / Tangible Banking Assets	7.3%	a1	↓↓	baa1	Expected trend	
Liquid Resources						
Liquid Banking Assets / Tangible Banking Assets	35.4%	a2	↓↓	baa1	Expected trend	
Combined Liquidity Score		a1		baa1		
Financial Profile				a3		
Qualitative Adjustments				Adjustment		
Business Diversification				0		
Opacity and Complexity				0		
Corporate Behavior				0		
Total Qualitative Adjustments				0		
Sovereign or Affiliate constraint				Baa1		
BCA Scorecard-indicated Outcome - Range				a3 - baa2		
Assigned BCA				baa1		
Affiliate Support notching				0		
Adjusted BCA				baa1		
Balance Sheet						
		in-scope (EUR Million)	% in-scope	at-failure (EUR Million)	% at-failure	
Other liabilities		2,815	17.3%	3,726	22.8%	
Deposits		13,011	79.7%	12,100	74.2%	
Preferred deposits		11,710	71.8%	11,124	68.2%	
Junior deposits		1,301	8.0%	976	6.0%	
Equity		489	3.0%	489	3.0%	
Total Tangible Banking Assets		16,315	100.0%	16,315	100.0%	

Debt Class	De Jure waterfall		De Facto waterfall		Notching		LGF	Assigned LGF	Additional Notching	Preliminary Rating Assessment
	Instrument volume + subordination	Sub-ordination	Instrument volume + subordination	Sub-ordination	De Jure	De Facto				
Counterparty Risk Rating	9.0%	9.0%	9.0%	9.0%	1	1	1	1	0	a3
Counterparty Risk Assessment	9.0%	9.0%	9.0%	9.0%	2	2	2	2	0	a3 (cr)
Deposits	9.0%	3.0%	9.0%	3.0%	0	0	0	0	0	baa1

Instrument Class	Loss Given Failure notching	Additional notching	Preliminary Rating Assessment	Government Support notching	Local Currency Rating	Foreign Currency Rating
Counterparty Risk Rating	1	0	a3	0	A3	
Counterparty Risk Assessment	2	0	a3 (cr)	0	A3(cr)	
Deposits	0	0	baa1	0	Baa1	

[1] Where dashes are shown for a particular factor (or sub-factor), the score is based on non-public information.

Source: Moody's Ratings

Ratings

Exhibit 10

Category	Moody's Rating
CAJA RURAL DE NAVARRA	
Outlook	Positive
Counterparty Risk Rating -Dom Curr	A3/P-2
Bank Deposits -Dom Curr	Baa1/P-2
Baseline Credit Assessment	baa1
Adjusted Baseline Credit Assessment	baa1
Counterparty Risk Assessment	A3(cr)/P-2(cr)

Source: Moody's Ratings

Endnotes

- 1 The ratings shown in this report are deposits ratings, senior long-term debt ratings when available and BCA.
- 2 Moody's calculations
- 3 Moody's estimated
- 4 As per the European Banking Authority (EBA) risk dashboard
- 5 See Moody's Adjustment to Increase the Risk Weightings of Sovereign Debt Securities in the Analysis of Banks: Frequently Asked Questions.
- 6 According to data disclosed by EBA

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