

## DBRS Morningstar Confirms Caja Rural de Granada at BBB (low); Trend Revised to Stable from Positive

### BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Caja Rural de Granada, Sociedad Cooperativa de Crédito (CRG or the Bank), including the Long-Term Issuer Rating of BBB (low) and the Short-Term Issuer Rating of R-2 (middle). The trend on the Group's long-term and short-term ratings has been revised to Stable from Positive. DBRS Morningstar has also maintained the Intrinsic Assessment (IA) of the Bank at BBB (low) and the Support Assessment at SA3. See a full list of ratings at the end of this press release.

### KEY RATING CONSIDERATIONS

The change of the Trend to Stable reflects our view that the wide and evolving scale of economic and market disruption resulting from the coronavirus (Covid-19) pandemic will have a negative effect on the operating environment for banks in Spain, including for CRG. This is likely to reverse some of the positive developments seen in recent years, and we expect CRG's revenues, asset quality and cost of risk to be negatively affected. The impact will likely emerge in the coming quarters, whilst the implications for the medium to long-term will depend on the evolution of the outbreak. Downward rating pressure would intensify should the crisis be prolonged.

DBRS Morningstar notes that the change of the Trend to Stable takes into account that the Bank will now face a more challenging environment in the coming years. As of end-September 2019, the Bank's ratio of NPAs, albeit reducing, was still high and above other domestic peers at 9.3%. Moreover, the Bank's relatively high exposure to SMEs could mean the Bank is more vulnerable to deterioration in sectors that are likely to be severely affected in this environment. We will continue to monitor the performance of the Bank's asset quality, as well as all measures to support the franchise and customer base, including the implementation of the debt moratoriums. We also expect that profitability will be negatively impacted, most notably due to weaker lending growth, lower fees and commissions, and higher loan loss provisions.

The confirmation of CRG's Long-Term Issuer Rating at BBB (low) takes into account the Bank's consistent fundamentals, underpinned by a stable funding and liquidity profile, combined with an ample capital cushion. The ratings also reflect the Bank's membership of the newly created Institution Protection Scheme (IPS) between the members of the Asociación Española de Cajas Rurales (AECR), the largest cooperative group in Spain. In addition, the confirmation reflects the significant de-risking of CRG's balance sheet in recent years and a material improvement in coverage levels, which has led to an improvement in the Bank's risk profile. DBRS Morningstar also expects the unprecedented support measures announced by the Spanish government, as well as several other international authorities and central banks to help to mitigate the economic impact.

### RATING DRIVERS

Given the current situation and the implications from the global pandemic, an upgrade is unlikely in the short-term. An upgrade would require further progress in reducing NPAs whilst maintaining solid earnings and capital levels.

A downgrade could result from a material weakening of the loan book, particularly across the SME sector. A downgrade could also

arise from a prolonged material deterioration in the Bank's earnings.

## ESG CONSIDERATIONS

A description of how DBRS Morningstar considers ESG factors within the DBRS Morningstar analytical framework and its methodologies can be found at: <https://www.dbrsmorningstar.com/research/357792>.

The Grid Summary Grades for Caja Rural de Granada, Sociedad Cooperativa de Crédito are as follows: Franchise Strength – Good/Moderate; Earnings – Moderate; Risk Profile – Moderate; Funding & Liquidity – Good/Moderate; Capitalisation – Good/Moderate.

### Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (11 June 2019) <https://www.dbrsmorningstar.com/research/346375/global-methodology-for-rating-banks-and-banking-organisations>.

For more information regarding rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: <https://www.dbrsmorningstar.com/research/357883>

The sources of information used for this rating include CR Granada - Annual Reports (2015-2018), European Banking Authority (EBA) Transparency Exercise 2019, 2018 EBA-wide stress test, Confidential Company Documents, Bank of Spain Statistical Bulletin and S&P Global Market Intelligence. 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 12-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>.

The sensitivity analysis of the relevant key rating assumptions can be found at: <https://www.dbrsmorningstar.com/research/359648>

Ratings assigned by DBRS Ratings GmbH, are subject to EU and U.S. regulations only.

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Initial Rating Date: December 3, 2013

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For more information on this credit or on this industry, visit [www.dbrsmorningstar.com](http://www.dbrsmorningstar.com).

## Ratings

### Caja Rural de Granada, Sociedad Cooperativa de Crédito

Date Issued	Debt Rated	Action	Rating	Trend	Issued
15-Apr-20	Long-Term Issuer Rating	Trend Change	BBB (low)	Stb	
15-Apr-20	Short-Term Issuer Rating	Trend Change	R-2 (middle)	Stb	
15-Apr-20	Long-Term Senior Debt	Trend Change	BBB (low)	Stb	
15-Apr-20	Short-Term Debt	Trend Change	R-2 (middle)	Stb	
15-Apr-20	Short-Term Deposits	Trend Change	R-2 (middle)	Stb	
15-Apr-20	Long-Term Deposits	Trend Change	BBB (low)	Stb	

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