Rating Report

Bankia S.A. Covered Bonds (Cédulas Hipotecarias – Mortgages)

Insight beyond the rating.

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Rating

Issuer	Debt	Rating
Bankia S.A.	Bankia S.A. Covered Bonds	AA (high)

Rating Rationale

On September 23, 2016, DBRS Ratings Limited (DBRS) confirmed its rating of AA (high) on Bankia S.A. (Bankia or the Issuer) Covered Bonds (Cédulas Hipotecarias, CH, the Spanish mortgage covered bonds).

The ratings are based on the following analytical considerations:

- A Covered Bonds Attachment Point (CBAP) of "A," being the Long-Term Critical Obligations Rating (LT COR) of Bankia. Bankia is the Issuer and Reference Entity for the programme.
- A Legal and Structuring Framework (LSF) assessment of Average associated with Bankia CH.
- A Cover Pool Credit Assessment (CPCA) of A (low), being the lowest CPCA in line with the LSF-Implied Likelihood (LSF-L).
- An LSF-L of AA (low).
- A two-notch uplift for high recovery prospects.
- A level of overcollateralisation (OC) of 82% to which DBRS gives credit, being the minimum observed OC level during the past 12 months adjusted by a scaling factor of 0.85 times.

Bankia S.A. is a commercial bank largely focused on retail business for individuals, small- and medium-sized businesses (SMEs) and corporates. Its headquarters is in Madrid, Spain, with reported total assets of EUR 204 billion at end of March 2016. The bank maintains solid national market shares of 12% for retail mortgage loans and 9% for customer deposits. DBRS rates Bankia at BBB (high) with a Stable trend and has assigned a long-term Critical Obligation Rating of "A" with a Stable trend.

Bankia Covered Bonds are issued under Spanish mortgage law. The issuer is required to pay interest and principal on the covered bonds and, in the case of issuer default, the entire mortgage book of the bank (except those backing securitisations or bonos hipotecarios), including residential and commercial mortgages, is available to repay principal and interest of the covered bonds. The CH are directly issued by Bankia, with the cover pool remaining on Bankia's balance sheet. The total outstanding amount of CH is EUR 31.12 billion, while the aggregate balance of the mortgages in the cover pool is EUR 63.60 billion (as of June 2016). DBRS's rating of the CH takes into account the economic value of recoveries from the cover pool following an assumed missed timely payment on the covered bonds, and therefore addresses the expected loss on principal distributions.

DBRS has assessed the programme's Legal and Structuring Framework (LSF) as Average, according to its rating methodology. Based on the set of data provided by the issuer and the Average LSF matrix, a CBAP of "A" and the CPCA of A (low) allow for the CH to reach an LSF-implied likelihood of AA (low) and a covered bond rating of AA (high). This is an uplift of two notches from the LSF-implied likelihood, based on high recovery prospects.

Sensitivity Analysis

Everything else being equal, a downgrade of the CBAP by one notch would lead to a downgrade of the LSF-L by two notches, resulting in a downgrade of the covered bonds' rating by two notches. In addition, everything else being equal, the CH ratings would be downgraded if any of the following were to occur: (1) the CPCA were downgraded below A (low); (2) the sovereign rating of the Kingdom of Spain were downgraded below A (low); (3) the LSF assessment associated with the programme were

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downgraded; (4) the quality and consistency of the CP were no longer sufficient to support a two-notch uplift for high recovery prospects; (5) the relative amortisation profile of the CH and CP were to move adversely; or (6) volatility in the financial markets were to cause the currently estimated market value spreads to increase.

Notable Features

The total outstanding amount of CH is EUR 31.12 billion, while the aggregate balance of the mortgages in the cover pool is EUR 63.60 billion (as at June 2016), resulting in a total OC of 104%. The eligible cover pool stands at EUR 47.75 billion, resulting in an eligible OC of 53%. All else being equal, Bankia has a remaining issuing capacity of roughly EUR 7.1 billion CH.

As of June 2016, the cover pool comprises 686,145 mortgage loans with an 85% residential versus 15% non-residential split and a weighted-average current unindexed loan-to-value ratio of 59%. It is geographically diversified, with higher concentrations in Madrid (32.5%), Community of Valencia (16.1%) and Catalonia (14.9%). Approximately 0.69% of the pool assets were originated in a currency other than euros. The pool is 87 months seasoned.

As customary in the Spanish market, the CH holders do not receive the benefit of any swap contract to hedge the mismatches between the interest yield by the cover pool (99% floating rate linked to different indexes and resets) and the interest due on the CH (75% paying fixed and 25% floating rate linked to different indexes and resets). All covered bonds are denominated in euros, while 0.69% of the loans were originated in a foreign currency. This residual exposure is mitigated by the OC available and accounted for in the Pass-OC.

The weighted-average life (WAL) of the assets is roughly twelve years, while that of the covered bonds is roughly seven years. Bankia covered bonds do not benefit from any maturity extension or pre-funding mechanism; this is a common feature among CH. This generates an asset-liability mismatch that is partly mitigated by the available OC.

The Spanish CH law allows for the possibility of setting aside liquid assets up to 5% of each CH (this 5% liquid assets could only be used to support the CH to which they refer); however, as is customary in the Spanish market, this is not put in place. The assets and liabilities mismatch is reflected in the Average LSF assessment of Bankia's Covered Bonds programme and can only be partially mitigated by the OC available in the programme, therefore leaving a risk of interruption of payments on the CH in a post issuer-insolvency scenario.

LSF Assessment

DBRS has associated an LSF Assessment of Average to Bankia CH, which is in line with the LSF Assessment of other Spanish CH programmes. The Average LSF Assessment associated with the CH programme reflects DBRS's view of:

- The satisfactory level of segregation provided by the CH legal framework and the CH holders' first-priority right on the entire mortgage book of the Issuer, in combination with a residual commingling risk that DBRS considers to be limited;
- The absence of specific provisions and the uncertainty surrounding the timely liquidation of the CP to meet maturing CH in an assumed insolvency of the Issuer, as well as the lack of any short-term liquidity support, balanced by DBRS's expectation of forthcoming regulator support and an ability to support the CB instrument in line with a Host Sovereign rated A (low) with a Stable trend; and
- The role of the Bank of Spain in the supervision of the Spanish CH, which oversees the banking business and the CH business of the Issuer as a sole entity, combined with the absence of contingency plans specific to the continuation of the CH, high penetration of the CH as a funding tool for Spanish banks and a history of regulatory intervention in the re-arrestment of financial institutions in recent years which, in DBRS's view, benefit CH holders because of the structural nature of Spanish CH.

Transaction Summary

Bankia CH are issued under Spanish mortgage law. The issuer is required to pay interest and pay principal on the covered bonds and, in case of an issuer default, the entire mortgage book (except those loans backing securitisations or bonos hipotecarios) is available to repay principal and interest on the covered bonds.

Bankia has maintained comfortable OC levels during the last two years. The total outstanding amount of CH is EUR 31.2 billion, while the aggregate balance of the mortgages in the cover pool is EUR 63.60 billion (as at June 2016), resulting in a total OC of 104%.

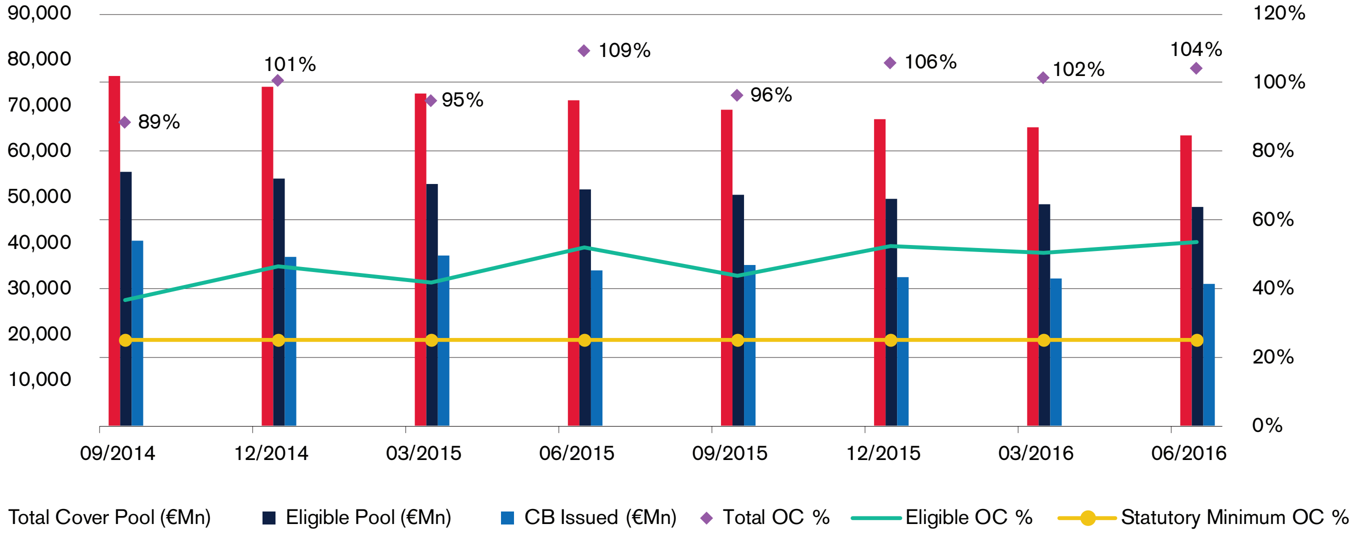
Strengths

- Bankia's capabilities with respect to origination of the cover assets and servicing of the cover pool.
- Spanish CH legislation gives covered bond holders a preferential claim to the cover pool assets upon the insolvency of the issuer. DBRS also recognises the uniqueness of the CH holders claim to all Issuer mortgages versus other jurisdictions.

Challenges

- Spanish macroeconomic conditions have gradually improved since 2015 and, at a national level, property values have shown moderate signs of improvement. However, the economy has to still prove how the long-term structural reforms and potential political transition risks will influence future growth. This is mitigated by DBRS market value decline assumptions taken under DBRS analysis and Pass-OC.
- CH are exposed to material issuer risk as Bankia is the originator and servicer of the mortgages, which is a common characteristic in the Spanish market. This is mitigated by the supervision by the Bank of Spain (BoS).
- Liquidity gap between the bullet payments of the CH and the amortisation profile of the cover pool assets. Maturity mismatches between the principal bullet payments of the covered bonds and the amortisation profile of the loans. Moreover, Spanish CH do not benefit from any maturity extension or pre-funding mechanism. This is mitigated by the OC available and accounted for in the "Average" LSF Assessment associated with the programme.
- CH do not benefit from hedging agreements to cover the mismatch between the interests paid by the cover pool (99% floating rate) and the interest paid to the covered bond holders (75% fixed rates). This risk is mitigated by the OC available and has been accounted for in DBRS's cash flow modelling.
- All liabilities are denominated in euros, while 0.69% of the loans were originated in a currency other than euros. This residual exposure is mitigated by the OC available and accounted for the Pass-OC.
- A small portion of the pool is formed by developers (1.9%) and land (0.3%). The volume of non-residential assets is 14.8%, being 12.6% pure small and medium size enterprises, which is below the average observed in other Spanish cover pools. The volume of non-residential assets dropped after the transfer of assets to SAREB, in December 2012.

Bankia Covered Bonds: Transaction Summary



Source: Bankia and DBRS.

Sovereign Assessment

DBRS confirmed the Long-Term rating on the Kingdom of Spain at A (low) and the short-term foreign and local currency issuer ratings at R-1 (low), maintaining the Stable trend on the ratings. The rating action took place on 7 October 2016.

The confirmation of the Stable trend reflects DBRS's view that the robust economic recovery and gradual correction of Spain's macroeconomic imbalances are offsetting the risks arising from higher uncertainty and a slower fiscal consolidation path. The forceful policy response to the crisis, lower energy prices and the European Central Bank's (ECB) easing monetary policy have resulted in a job-rich economic recovery and higher confidence. These benign economic conditions have underpinned the rebalancing process and moderated the vulnerabilities stemming from the still-high public and external debt ratios. The recovery is expected to continue at a strong, albeit slower, pace. The political stalemate in Spain and the inability of its political parties to form a new government have increased uncertainty over the future course of economic policy. Although this has not dented growth materially so far, a protracted period of political deadlock could delay the implementation of additional measures to continue with the structural reforms and fiscal consolidation process.

For more information, please refer to the most recent published press release by DBRS regarding the Kingdom of Spain.

Spanish Legislation Overview

Covered bonds in the form of CH are regulated by (1) Law 2/1981, dated on March 25, regulating the mortgage market (Law 2/1981) and (2) Royal Decree 716/2009, of 24 April, which develops certain aspects of Law 2/1981 (Royal Decree 716/2009 and, collectively, the CH Regulation). These set forth, among other things, the types of issuers of covered bonds and eligible cover assets, as well as the CH holders' preferential right and maximum issuance ratio.

DBRS understands that the Spanish legislation currently in place gives CH holders a preferential right to the cash flows derived from the mortgage credits and loans (except those backing securitisations or bonos hipotecarios), as well as those cash flows deriving from replacement assets and hedging instruments that are specifically flagged for this purpose. In DBRS's view, this provides the CH holders strong protection; however, there is a risk that the rights backing the CH may not ensure timely payments on the CH immediately following the insolvency of the issuer (please see LSF Assessment section for more details).

There is no requirement in the CH Regulation for a minimum liquidity buffer or any equivalent regulatory or contractual mitigant to cover temporary liquidity constraints. No contingency plans are set out in the CH Regulation that allow the appointment of an alternative manager ahead of an issuer's insolvency. Liquidation of the cover pool assets may be implemented after the appointment of an insolvency administrator, who would at the same time look after the contrasting interest of both CH holders and unsecured creditors.

No independent cover pool monitor is required by the CH Regulation. Rather, the issuer is responsible to abide by the CH Regulation requirements, under the general oversight of the Bank of Spain. However, the vast majority of the mortgage assets of the issuing entity are (by operation of law) pledged in priority to CH holders. For further information on DBRS's understanding of the set of rules applicable to Spanish Covered Bonds, please refer to the commentary *Spanish Mortgage Covered Bonds: Legal and Structuring Framework Review*, which can be found on www.dbrs.com.

Legal and Structuring Framework Assessment

The LSF assessment is the largest of the four pillars and involves the evaluation of the level of delinkage that exists between the issuer and the CBs. The LSF Assessment expresses DBRS's view on the likelihood that payment obligations under the Covered Bonds (CBs) could be smoothly and efficiently transferred from a troubled bank to another bank, or the Cover Pool (CP), administered by a third party. Each LSF assessment is programme-specific and reflects the legal and structural features of each CB programme, DBRS notes that all CH programmes it rates in Spain follow the same template and do not manifest any specific additional feature.

DBRS has assigned an LSF Assessment of Average to Bankia's Covered Bond Programme, which is in line with the LSF Assessment of other Spanish CH programmes. The Average LSF Assessment associated with the programme reflects DBRS's view of:

- The satisfactory level of segregation provided by the CH legal framework and the CH holders' first-priority right on the entire mortgage book of the Issuer, in combination with a residual commingling risk that DBRS considers to be limited;
- The absence of specific provisions and the uncertainty surrounding the timely liquidation of the CP to meet maturing CH in an assumed insolvency of the Issuer, as well as the lack of any short-term liquidity support, balanced by DBRS's expectation of forthcoming regulator support and an ability to support the CB instrument in line with a Host Sovereign rated A (low) with a Stable trend;
- The role of the Bank of Spain in the supervision of the Spanish CH, which oversees the banking business and the CH business of the Issuer as a sole entity, combined with the absence of contingency plans specific to the continuation of the CH, high penetration of the CH as a funding tool for Spanish banks and a history of regulatory intervention in the re-arrestment of financial institutions in recent years which, in DBRS's view, benefit CH holders because of the structural nature of Spanish CH.

A potential downgrade of the sovereign rating of the Kingdom of Spain below A (low) may cause the LSF Assessment to be reduced to the Modest category.

For more information, please refer to the DBRS commentary *Spanish Mortgage Covered Bonds: Legal and Structuring Framework Review.*

Transaction Parties

Transaction Parties		LT Rating	LT Rating date	LT COR	LT COR Date
Issuer	Bankia S.A.	BBB (high)	8 July 2016	A	8 July 2016
Originator	Bankia S.A.	BBB (high)	8 July 2016	A	8 July 2016
Servicer	Bankia S.A.	BBB (high)	8 July 2016	A	8 July 2016
Paying Agent	Bankia S.A.	BBB (high)	8 July 2016	A	8 July 2016

Bankia is the only counterparty in this transaction and acts as issuer, originator, servicer and paying agent. Bankia is the Reference Entity for the programme.

Issuer

Bankia S.A is a Spanish commercial bank largely focused on retail business for individuals, small- and medium-sized businesses (SMEs) and corporates. With total assets of EUR 204 billion at end of June 2016, the Bank maintains solid national market shares of 12% for retail mortgage loans and 9% for customer deposits. Bankia S.A. was assigned a Long-Term Senior Unsecured and Deposit rating of BBB (high) and a Long-Term COR rating of "A."

Group Bankia was created in 2011 as a the result of the integration of seven independent Spanish savings banks: Caja Madrid, Bancaja, Caja Insular de Canarias, Caja Avila, Caja Segovia, Caixa Laietana and Caja Rioja ("the Cajas"), most of which had been operating in Spain for over a century.

On June 14, 2010, the respective board of directors approved the execution of an integration protocol determining the terms for the formation of a contractual group to be articulated as an Institutional Protection System (Sistema Institucional de Protección, or SIP), which contemplated the creation of a central company, and the application to the Fund for Orderly Restructuring (FROB) of €4,465 million. On December 2010, the central company was incorporated as Banco Financiero y de Ahorros, S.A. ("BFA") and joined the Institutional Protection System.

On May 16 2011, the Cajas contributed the assets and liabilities of their respective banking and banking-related businesses to BFA, except for those corresponding to their pawnshops (Monte de Piedad) and social welfare (Obra Social), and subsequently on the same date. BFA transferred to Bankia (100% owned subsidiary at that time) the assets and liabilities received from the Cajas, with certain exceptions.

On July 2011, BFA reduced its participation to nearly 52% once Bankia started trading on the Spanish stock exchange, becoming the fourth-largest Spanish financial institution by market capitalization, however this has subsequently increased to 64.2% as of December 2015. On 9 May 2012, Banco Financiero y de Ahorros, S.A. (BFA) applied to the FROB for the conversion of the convertible preferred participating securities subscribed by the FROB, in the amount of EUR 4,465 million, into shares of BFA.

In addition, on 25 May 2012 BFA notified Bank of Spain and the Ministry of Economy and Competitiveness of its intention to apply to the FROB for a capital contribution in the amount of EUR 19,000 million in order to meet the new capital requirements arising from RDL 2/2012 and RDL 18/2012. BFA announced that, once the contribution was received, it would carry out a capital increase in Bankia, with pre-emptive rights, in the necessary amount, which would be underwritten in its entirety by BFA.

On 27 June 2012, permission having been granted by the European Commission, the conversion took place and the FROB became the sole shareholder of BFA and indirectly, through BFA, the holder of a 62% interest in Bankia.

For more information on Bankia, please see the most recent rating report and press release available on DBRS's website at www.dbrs.com.

Covered Bond Attachment Point

Bankia is the Issuer and Reference Entity for the programme. Bankia is currently rated BBB (high) with a Stable trend and has an LT COR of "A." The CBAP is set at "A," equal to Bankia's LT COR rating.

DBRS considers CH to be an important funding instrument in Spain (see commentary, *DBRS Assessment of European Jurisdictions for Which Covered Bonds are Systemically Important,* September 8, 2015).

Origination and Servicing

DBRS conducted an updated operational review of Bankia's Covered Bond operations in September 2016. DBRS considers the originations and servicing practices of Bankia to be consistent with those observed among other Spanish lenders.

Origination & Underwriting

Origination

All loans are sourced entirely through Bankia's branches and financial agents, which incorporate specialised teams to assess proposals from large companies and franchises for new projects. The network has approximately 1,900 offices across Spain.

Bankia offers the standard products common in the Spanish market, including secured loans backed by mortgages and unsecured loans and facilities. Unsecured products are generally short terms, typically less than 18 months. Secured loans such as mortgages have a maximum term of 30 years, although an additional five years can be added following review by credit risk and management approval. Variable and fixed rates are available as well as monthly, quarterly and semi-annual payment options.

Underwriting

The origination process is generally performed at the branch level and the review includes an analysis of financial statements, historical analysis of the debtor's exposure to Bankia and the wider Spanish banking system and valuations for secured loans.

As consistent with the overall Spanish market, full income verification is conducted on all customers, including collection of last two years' audited financial statements, tax returns and lists of outstanding loans.

Within the approval process, each applicant, whether consumer or mortgage loan, is given a credit score, and this is obtained using income and employment data received from the applicant together with internal and external data, the former being particularly important for existing bank clients and helps determine the subsequent behavioural score. This data is very granular and Bankia has significant amounts of data to use.

Each credit score is a back-up for assessing risk and is not the driver for accepting or declining a loan. The experience of the analyst assessing all the data provided determines the acceptability of the loan. All branches have different limits of authority, depending on the size of the branch, volume and experience.

Bankia uses internal models for its borrowers: scoring models for individuals, self-employed borrowers and micro companies; and, rating models for commercial borrowers (SME and corporates above EUR 1 million). All models and parameters are validated by Bankia's internal validation department as well as by the bank's internal audit department. The models have been approved by the central bank and are subject to ongoing supervision. Models to be reviewed are selected annually by the validation department and are triggered by changes in economic cycle, policy changes and/or the model's age, regardless of the predictive capacity of the model. Credit risk parameters are recalibrated annually and must be validated internally and by Bank of Spain.

Valuations

The assets backing Bankia's cover pool mortgages are appraised by valuation services, as described in the Spanish Mortgage Law and reflected in Bankia guidelines. Bankia's mortgage assets are appraised by external real estate valuers registered within the Bank of Spain. Additionally, Bankia has an internal appraisal department responsible for delegating valuations to approved agencies managing external valuers and reviewing all valuations conducted by external appraisers.

The property values are monitored following Bank of Spain guidelines, commercial assets a minimum of once every year and residential assets once every three years, although values are checked more frequently using statistical models. Currently, re-valuations are not mandatory in Spain, values are reassessed when there is a drop in the market value or performance deterioration arises.

Servicing

The operational loan management department, centralised in Madrid, is responsible for all loan management and servicing activities. Primary borrower contact is managed at the branch level, including early arrears management activities.

Like most Spanish banks, payments are primarily made through direct debit, although borrowers can submit payments via bank transfer or pay directly at the branch. The majority of loans are on monthly payment schedules, although quarterly, semi-annual and annual schedules are available. This is in line with the Spanish market.

The bank follows standard collections and arrears management strategies, including compliance with regulatory guidelines surrounding delinquency, watchlist and default definitions. Automated, standard letters and telephone contacts are generated through the servicing system and sent to the borrower from seven days past due. Early arrears management has become an important pillar during the last few years and Bankia has outsourced part of the recovery process to external agents.

Borrower contact is managed through the local branch up to 90 days past due. The bank's internal credit scoring systems are used to monitor the loan, including updates to the rating, and helps to set the appropriate workout strategy. After the initial 90-day period, the loan is transferred to dedicated recovery sites across the country, with an option to outsource to the litigation process to a third party once legal proceedings are initiated, generally after a loan is officially classified as a default and all previous attempts at an out-of-court resolution have been exhausted. Bankia has actively managed its mortgage portfolio, reducing the volume of non-performing assets through portfolio sales.

Timelines and recovery rates are consistent with Bankia's peers, discounting the contact after day one.

Summary Strengths

- Standard Spanish servicing practices.
- Timelines and recovery rates are consistent with peers.
- Standard lending policy across all regions and centralised decision-making authority.

Summary Weaknesses

- Overrides to credit policy were allowed.

  Mitigants: Clear separation of authorisation process exists with the risk management division responsible for the override process, and centralised credit division approval for all overrides.

Collateral Analysis Details

Data Quality

The sources of information used for this rating include cover pool stratification tables and performance data provided by Bankia that allowed DBRS to further assess the portfolio. DBRS does not rely upon third-party due diligence in order to conduct its analysis; DBRS was not supplied with third-party assessments. However, this did not impact the rating analysis.

DBRS considers the information available to it for the purposes of providing this rating to be of satisfactory quality. DBRS 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.

Collateral Analysis

As of June 2016, the CP comprises 686,145 mortgage loans with an 85% residential versus 15% non-residential split and a weighted-average current unindexed loan-to-value ratio of 59%. It is geographically diversified, with higher concentrations in Madrid (32.5%), Community of Valencia (16.1%) and Catalonia (14.9%). The pool is 87 months seasoned. Approximately 0.69% of the pool assets were originated in a currency other than euros, DBRS considers this a negligible exposure and has not applied any additional stress in its analysis.

The residential sub-pool is composed of 645,466 mortgages with a weighted-average unindexed current loan-to-value ratio (WACLTV) of 57.1%. Currently, 12.5% of the loans are above 80% LTV. The remaining term to maturity is 22 years and the WA seasoning is 91 months. Almost all the loans are amortising mortgages (93.4%) with monthly instalments (99.8%). 98.1% of the outstanding balance are first lien loans.

On May 17, 2016, DBRS published its *European RMBS Insight Methodology and European RMBS Insight – Spanish Addendum*, which superseded its *Master European Residential Mortgage-Backed Securities Methodology* and *Jurisdictional Addenda,* published in January 2016 for DBRS ratings assigned to Spanish RMBS and Spanish covered bonds. This methodology introduces a new proprietary default model (European RMBS Insight Model) to forecast the expected default and losses of portfolios of European residential mortgages. The European RMBS Insight Model combines a loan scoring approach and dynamic delinquency migration matrices to calculate loan-level defaults and losses. Loan scoring models and dynamic delinquency migration matrices are developed using jurisdictional specific data on loan, borrowers and collateral types. In addition, the European RMBS Insight Model uses a home price model to generate Market Value Declines (MVD).

For the residential sub-pool, DBRS has run the European RMBS Insight Default Model and built proxy rep-lines based on aggregated information on Bankia's mortgage book received from the issuer for the purpose of obtaining rating-specific portfolio expected loss rates in accordance with DBRS's *European RMBS Insight Methodology and European RMBS Insight – Spanish Addendum*.

The non-residential sub-pool is composed of 40,558 mortgages and represents 14.76% of the total cover pool. The commercial sub-pool amounts to EUR 8 billion, the developers amounts to EUR 1.19 billion and land sub-pool amounts to EUR 199 million. The WA CLTV is 70.4%, with a remaining time to maturity of 12.6 years and a seasoning of 62 months.

On July 19, 2016, DBRS published its *Rating CLOs Backed by Loans to European SME*. This methodology introduces two changes to the proprietary model (DBRS Diversity Model) used to derive the lifetime default rates of a portfolio composed of loans to SMEs and new market value decline (MVD) assumptions for loans secured by commercial properties. Under the new approach, the simulation of defaults in the portfolio take into account a loan-by-loan amortization plan and the outstanding balance of the loan at the time of default. The decrease in the exposure at default balance outweighs the variation in the loan tenor and is deemed to have a positive impact on the lifetime default rates of the portfolio.

For the non-residential sub-pool, DBRS applied its SME Diversity Model to determine a lifetime default rate at the target rating level based on the characteristics of the non-residential cover pool. DBRS has used a base case one-year PD assumption of 9% and built rep-lines based on this portion of the cover pool for the purpose of obtaining an expected loss assumption for Bankia's non-residential mortgage pool, in accordance with DBRS's *Rating CLOs Backed by Loans to European SME* methodology.

The combined expected loss assumption for the entire cover pool in the base scenario is 28.7%.

Cash Flow Analysis

The transaction was modelled with the DBRS European Cash Flow Model. The main assumptions focused on timing of defaults, recoveries of the assets and interest rate stresses, as per DBRS's *Rating European Covered Bonds methodology*. DBRS has analysed Bankia CH clawback, commingling and set-off risks in line with the commentary Spanish Covered bonds: Legal and Structuring Framework Review, which can be found on www.dbrs.com.

Probability of Default, Loss Given Default and Expected Loss
The lifetime PD, loss given default and expected loss estimated for Bankia CB assets in various rating scenarios were used for the cash flow analysis of the Programme structure.

Default Timing
DBRS has used default curves that take into account the seasoning of the cover assets to test the cash flows of the CB.

Timing of Recoveries
DBRS assumed that the typical time span necessary to take possession of, sell and realise the cash from the sale of property in Spain is 48 months from the point of first arrears, which is in line with the Spanish foreclosure assumptions described in DBRS's *European RMBS Insight Methodology* and *European RMBS Insight – Spanish Addendum*.

Interest Rate Exposure
DBRS uses interest rate stresses as per its *Unified Interest Rate Model for European Securitisations.*

Market Value Spreads
Bankia CB cover pool is formed by assets that are standard in its market. According to its methodology, DBRS has used Tier 2 market value spreads for the purpose of calculating the liquidation value of the CP.

Currency Exposure
All liabilities are denominated in euros, while 0.69% of the pool assets were originated in a different currency; this residual exposure is mitigated by the OC available and accounted for in the Pass-OC.

Cover Pool Credit Assessment
The CPCA is A (low), being the lowest CPCA in line with the covered bonds rating.

OC DBRS gives Credit to
As customary in the Spanish CB, there is no OC commitment in place. According to DBRS's methodology, a scaling factor equal to 0.85 has been applied to the lowest OC level observed during the last 12 months. The OC level DBRS gives credit to is 82%, which is the minimum OC observed during the last 12 months (96%) with a 15% haircut.

High Recovery Prospects
DBRS ran a wind-down cash flow simulation aimed at covering the cost of funding and payment of principal under a AA (high) stress scenario and granted a two-notch uplift on top of the LSF-Implied likelihood after testing that the cover pool would provide substantial support following the default of the CBs.

Methodologies Applied

The rating methodologies and criteria used in the analysis of this transaction can be found at www.dbrs.com under Methodologies.

- *Rating European Covered Bonds*
- *Rating European Covered Bonds Addendum: Market Value Spreads Range (Midpoints)*
- *Critical Obligations Rating Criteria*
- *Global Methodology for Rating Banks and Banking Organisations*
- *DBRS Criteria: Support Assessments for Banks and Banking Organisations*
- *Legal Criteria for European Structured Finance Transactions*
- *Derivative Criteria for European Structured Finance Transactions*
- *Unified Interest Rate Model for European Securitisations*
- *European RMBS Insight Methodology*
- *European RMBS Insight: Spanish Addendum*
- *Operational Risk Assessment for European Structured Finance Originators*
- *Operational Risk Assessment for European Structured Finance Servicers*
- *Rating CLOs and CDOs of Large Corporate Credit*
- *Rating CLOs Backed by Loans to European SMEs*
- *The Effect of Sovereign Risk on Securitisations in the Euro Area*
- *Sovereign Ratings Provide a Benchmark for other DBRS Credit Ratings*

A description of how DBRS methodologies are collectively applied can be found at: http://www.dbrs.com/research/278375.

Monitoring and Surveillance

The transaction will be monitored in accordance with the *Rating European Covered Bonds* methodology, available at www.dbrs.com.

Appendix A – Collateral Summary

All tables describe the characteristics of the cover pool during the last year and are based on the stratification tables provided to DBRS by the Issuer. All data are expressed as a percentage of the outstanding balance.

10. Key Metrics Summary	30/09/2015	31/12/2015	31/03/2016	30/06/2016
Total Mortgage Pool (€)	69,142,774,749.08	66,879,330,819.02	65,191,422,294.24	63,603,376,631.81
Eligible Mortgage Pool (€)	50,563,634,900.42	49,501,335,891.46	48,595,893,164.01	47,749,750,541.20
Oustanding Covered Bonds (€)	35,191,062,357.00	32,460,062,357.00	32,332,840,135.00	31,118,340,135.00
Nominal OC %	**96.5%**	**106.0%**	**101.6%**	**104.4%**
Eligible OC %	43.7%	52.5%	50.3%	53.4%
Residential %	82.0%	83.4%	84.4%	85.2%
Commercial %	15.3%	14.2%	13.3%	12.6%
Developers %	2.4%	2.1%	2.0%	1.9%
Land %	0.4%	0.3%	0.3%	0.3%
Others %	0.0%	0.0%	0.0%	0.0%
Total - WA Seasoning (Mon)	81	83	85	87
Total - WA RTM (Mon)	245	246	246	246
Total - WA CLTV %	61.0%	60.0%	60.0%	59.0%
Fixed Rate %	1.1%	1.0%	1.0%	1.1%
Floating Rate %	98.9%	99.0%	99.0%	98.9%
Total - Fixed Coupon	3.39%	3.67%	3.59%	3.47%
Total - Floating Coupon	1.43%	1.36%	1.28%	1.19%
Total - Weighted Avg Margin	1.02%	1.01%	0.99%	0.98%
Performance				
Total Portfolio - DQ >90 Days %	6.8%	6.2%	6.3%	6.0%
Resi - DQ > 90 Days %	4.6%	4.3%	4.3%	4.1%
Comm - DQ > 90 Days %	14.7%	13.6%	15.0%	14.6%
Loan to Value Distribution %				
0 to 40	21.8%	22.5%	23.0%	23.4%
40 to 50	13.3%	13.5%	13.7%	13.9%
50 to 60	16.0%	16.4%	16.7%	17.0%
60 to 70	19.1%	19.1%	19.3%	19.2%
70 to 80	11.1%	10.6%	10.4%	10.1%
Greater than 80	18.7%	17.8%	16.9%	16.3%

10. Key Metrics Summary	30/09/2015	31/12/2015	31/03/2016	30/06/2016
Geographical Distribution %				
Andalucia	9.1%	9.1%	9.1%	9.1%
Aragon	0.8%	0.8%	0.8%	0.8%
Asturias	0.8%	0.8%	0.8%	0.8%
Baleares	2.4%	2.4%	2.4%	2.4%
Islas Canarias	5.5%	5.5%	5.7%	5.7%
Cantabria	0.9%	0.9%	0.9%	0.9%
Castilla la Mancha	5.0%	5.0%	5.1%	5.1%
Castilla Leon	4.5%	4.5%	4.5%	4.5%
Cataluna	15.1%	15.2%	15.0%	14.9%
Valencia	15.9%	15.9%	16.1%	16.1%
Extremadura	0.9%	0.9%	0.8%	0.9%
Galicia	1.6%	1.6%	1.6%	1.6%
La Rioja	1.3%	1.3%	1.3%	1.3%
Madrid	32.8%	32.6%	32.5%	32.5%
Murcia	1.3%	1.3%	1.3%	1.3%
Navarra	0.2%	0.2%	0.2%	0.2%
Pais Vasco	0.9%	0.9%	0.9%	0.9%
Ceuta y Melilla	0.3%	0.3%	0.3%	0.3%
Others	0.7%	0.8%	0.8%	0.8%

Appendix B – Outstanding Covered Bonds Rated by DBRS

Debt Rated	ISIN CODE	Outstanding Amount	Crncy	Maturity Date
Cedulas Hipotecarias - ES0414950776	ES0414950776	1,750,000,000	Eur	05/10/2016
Cedulas Hipotecarias - ES0414950651	ES0414950651	2,060,000,000	Eur	25/05/2018
Cedulas Hipotecarias - ES0414950693	ES0414950693	1,600,000,000	Eur	28/06/2019
Cedulas Hipotecarias - ES0414950685	ES0414950685	1,500,000,000	Eur	26/04/2022
Cedulas Hipotecarias - ES0414950628	ES0414950628	2,000,000,000	Eur	03/02/2025
Cedulas Hipotecarias - ES0414950644	ES0414950644	2,000,000,000	Eur	24/03/2036
Cedulas Hipotecarias - ES0413307069	ES0413307069	2,500,000,000	Eur	26/05/2023
Cedulas Hipotecarias - ES0413307077	ES0413307077	2,500,000,000	Eur	26/05/2027
Cedulas Hipotecarias - ES0413307085	ES0413307085	2,500,000,000	Eur	26/05/2028
Cedulas Hipotecarias - ES0413307093	ES0413307093	1,000,000,000	Eur	25/09/2025
Cedulas Hipotecarias - ES0413307101	ES0413307101	1,250,000,000	Eur	05/08/2022
Cedulas Hipotecarias - ES0413307119	ES0413307119	1,000,000,000	Eur	21/01/2021
Cedulas Hipotecarias - ES0413307127	ES0413307127	1,000,000,000	Eur	14/03/2023
Cedulas Hipotecarias - Tap ES0413307093	Tap ES0413307093	285,500,000	Eur	25/09/2025

Note: All figures are in euros unless otherwise noted. CH as of June 2016.
For further information on Bankia CB, please refer to the previous press releases, surveillance reports and the rating report available at www.dbrs.com.

Notes:
All figures are euros unless otherwise noted.

This report is based on information as of 8 November 2016, unless otherwise noted. Subsequent information may result in material changes to the rating assigned herein and/or the contents of this report.