

PRESS RELEASE

JULY 02, 2020

# DBRS Morningstar Confirms Bankia at BBB (high)/R-1 (low); Trend Remains Stable

## BANKING ORGANIZATIONS

DBRS Ratings GmbH (DBRS Morningstar) confirmed the ratings of Bankia SA (Bankia or the Bank), including the Long-Term Issuer Rating of BBB (high) and the Short-Term Issuer Rating of R-1 (low) following an annual review of the Bank's credit profile. The trend on all ratings remains Stable. DBRS Morningstar has also maintained the Bank's Intrinsic Assessment at BBB (high) and support assessment at SA3. A full list of rating actions is included at the end of this press release.

## KEY RATING CONSIDERATIONS

The confirmation of Bankia's Long-Term Issuer Rating at BBB (high) reflects its well-established franchise as the fourth largest bank by assets in Spain. Nevertheless, Bankia's profitability remains modest, reflecting the focus on mortgage lending and the low interest rate environment, which has negatively affected net interest income on which the Bank is very reliant. In confirming the ratings with a Stable trend, we note the progress made in improving asset quality in recent years and the Bank's relatively low exposure to SMEs, which could mean the Bank is less vulnerable to deterioration in sectors that are likely to be severely affected by the pandemic such as tourism, and transport. The ratings continue to be underpinned by the Bank's sound capital position, with solid cushions over regulatory requirements. These, combined with the flexibility provided by the regulator on capital buffers, should help the Bank mitigate the expected rise in risk-weighted assets (RWAs) driven by a deterioration in the loan book. Finally, we continue to view Bankia as benefitting from a solid funding and liquidity profile, backed by high levels of liquid assets and regular access to wholesale markets for funding.

Nevertheless, DBRS Morningstar also notes that Bankia's earnings generation and risk profile are likely to be adversely affected by the major economic slowdown, driven by the coronavirus (COVID-19) pandemic. In particular, the asset quality of the Group's retail exposures are likely to be adversely affected by the rise in unemployment in Spain. However, we expect the effects of the economic downturn to be partly offset by some of the fiscal and monetary support measures introduced in response to COVID-19. DBRS Morningstar considers that the impact of the COVID-19 outbreak on the Group over the medium to long-term will depend on the depth of the economic crisis and we will continue to monitor the developing situation and its impact on Bankia's overall credit profile.

## RATING DRIVERS

Any upgrade is unlikely in the short-term given the Stable trend. However, an upgrade could occur should the Bank manage to improve recurrent profitability despite the global COVID-19 pandemic and if the asset quality impact is limited.

The ratings could be downgraded if the Bank experiences a material decline in profitability as a result of the COVID-19 pandemic. A downgrade could also occur if the progress in asset quality made by the bank so far were to be reversed and the capacity to absorb credit losses deteriorate substantially.

## RATING RATIONALE

Bankia's ratings are underpinned by its well-established franchise as the fourth largest bank by assets in Spain, reinforced in recent years through the acquisition of BMN. This acquisition complemented Bankia's business mix and has reinforced the Bank's presence in the Mediterranean coast of Spain. Bankia still remains owned by Spain's FROB following its restructuring plan completed in December 2015.

DBRS Morningstar considers Bankia's profitability is modest and below its franchise potential, partly affected by the low interest rate environment which continues to put pressure on net interest income (NII). Bankia was able to partly, but not fully, offset this pressure by increasing commissions from asset management and payment services. In DBRS Morningstar's view, the wide and growing scale of economic and market disruption resulting from the COVID-19 pandemic creates additional risks for the Bank's revenues, loan loss provisions and profitability. In Q1 2020, Bankia reported EUR 94 million of net attributable income, down 54% year-on-year (YoY). Results included EUR 239 million of provisions for credit losses, of which EUR 125 million were extraordinary provisions to cover the expected deterioration in economic conditions as a result of COVID-19. Excluding the latter, underlying profit before tax would have stood at EUR 247 million, down 8.2% YoY, showing similar trends to previous quarters.

As the COVID-19 crisis unfolds, DBRS Morningstar expects the Bank's asset quality to deteriorate. Despite ongoing improvements in asset quality and a focus on lower-risk mortgage lending, the Bank still enters the crisis with legacy non-performing assets from the last crisis. At end-March 2020, Bankia reported EUR 8.2 billion of NPAs, leading to an NPA ratio of 6.8% (down from 8.9% at end-2018) and an NPL ratio of 5.3% at end-Q1 2020.

Bankia's funding and liquidity position is sound, with a strong net loan to deposit ratio, good levels of liquid assets and regular access to wholesale markets for funding. Bankia's main source of funding is retail deposits, underpinned by its domestic franchise. DBRS Morningstar expects relatively limited short-term downside risk to the Bank's funding profile as a result of the COVID-19 outbreak given the ECB's assistance.

Bankia's capitalisation continues to demonstrate solid cushions over its capital requirements, supported by the Bank's ability to reinforce capital levels through retained earnings and the issuance of capital instruments. With an MREL ratio of 21.5% of RWAs at end-March 2020, DBRS Morningstar considers that the Bank should be well placed to meet its Minimum Requirement for Own Funds and Eligible Liabilities (MREL) of 23.66% of risk-weighted assets (RWAs). At end-March 2020, Bankia reported a fully loaded Common Equity Tier 1 (CET 1) ratio of 12.95%, fairly stable from end-2019. The fully loaded total capital ratio stood at 16.70% at end-March 2020. This continues to provide the Group with a comfortable buffer over the Overall Capital Requirement (OCR) for CET1 (phased-in) ratio which was lowered to 8.38% from 9.25% following the Pillar 2 Requirement (P2R) tiering measures announced by the ECB.

## 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 Bankia SA are as follows: Franchise Strength – Strong / Good; Earnings Power – Good / Moderate; Risk Profile – Good / Moderate; Funding & Liquidity – Good; Capitalisation – Good.

### Notes:

All figures are in EUR unless otherwise noted.

The principal methodology is the Global Methodology for Rating Banks and Banking Organisations (8 June 2020) <https://>

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 Company Documents, Bankia 2019 and Q1 2020 Presentations, Bankia 2019 and Q1 2020 Financial Data, Bankia 2019 and Q1 2020 Reports, 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/363365>.

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

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Initial Rating Date: July 8, 2016

Last Rating Date: April 15, 2020

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

## Ratings

### Bankia SA

Date Issued	Debt Rated	Action	Rating	Trend	Issued
02-Jul-20	Long-Term Issuer Rating	Confirmed	BBB (high)	Stb	
02-Jul-20	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	

Date Issued	Debt Rated	Action	Rating	Trend	Issued
02-Jul-20	Senior Non-Preferred Debt	Confirmed	BBB	Stb	<b>EU</b>
02-Jul-20	Short-Term Debt	Confirmed	R-1 (low)	Stb	<b>EU</b>
02-Jul-20	Short-Term Deposits	Confirmed	R-1 (low)	Stb	<b>EU</b>
02-Jul-20	Long Term Critical Obligations Rating	Confirmed	A	Stb	<b>EU</b>
02-Jul-20	Short Term Critical Obligations Rating	Confirmed	R-1 (low)	Stb	<b>EU</b>
02-Jul-20	Long-Term Senior Debt	Confirmed	BBB (high)	Stb	<b>EU</b>
02-Jul-20	Long-Term Deposits	Confirmed	BBB (high)	Stb	<b>EU</b>
02-Jul-20	Subordinated Debt	Confirmed	BBB (low)	Stb	<b>EU</b>
02-Jul-20	Additional Tier 1 Instruments	Confirmed	BB (low)	Stb	<b>EU</b>

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