

# Bankia Mortgage And Public Sector Covered Bond Programs Outlook Revised To Negative; Ratings Affirmed

September 28, 2020

## Overview

- On Sept. 18, 2020, we affirmed our unsolicited 'A/A-1' long- and short-term sovereign credit ratings on Spain and revised the outlook on the ratings to negative from stable.
- Following this action and the application of our criteria, we have revised to negative from stable our outlook on our ratings on Bankia's mortgage and public sector covered bonds.
- At the same time, we have affirmed our 'AA' ratings on Bankia's mortgage covered bonds and our 'AA-' ratings on the public sector covered bonds.
- Our outlooks on these ratings reflect the negative outlook on our unsolicited long-term rating on Spain.

MADRID (S&P Global Ratings) Sept. 28, 2020--S&P Global Ratings today revised to negative from stable its outlook on the credit ratings on Bankia S.A.'s mortgage and public sector covered bond programs and related issuances ("cédulas hipotecarias" and "cédulas territoriales"). We have also affirmed our 'AA' and 'AA-' ratings on the mortgage and public sector covered bonds, respectively.

Today's rating actions follow our Sept. 18, 2020, action on Spain (see "Spain Outlook Revised To Negative From Stable On Mounting Fiscal and Structural Challenges; Affirmed At 'A/A-1'").

Our ratings reflect the application of our covered bonds criteria, our structured finance sovereign risk criteria, and the remaining criteria referenced in the related criteria section below.

Under our covered bonds criteria, we first assess the reference rating level (RRL), which for Bankia's covered bonds is 'a-'. The two-notch uplift above the issuer credit rating (ICR) on Bankia (BBB/Watch Pos/A-2) reflects our view of the protection offered to covered bondholders by the bail-in provisions specified under the EU's Bank Recovery and Resolution Directive (BRRD) in Spain.

We then consider the likelihood for the provision of jurisdictional support, which we assess as very strong for mortgage and public sector covered bonds in Spain. This could result in a potential uplift from the RRL of up to three notches under our covered bonds criteria. The support is capped at the long-term rating on the sovereign. Given that the RRL is 'a-' and the long-term sovereign rating on Spain is 'A', the covered bonds benefit from one notch of jurisdictional-support uplift.

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Therefore, we assess a jurisdiction-supported rating level (JRL) at 'a', one notch above the RRL.

The available credit enhancement in both programs supports the four notches of potential collateral-based uplift above the JRL. However, we have deducted one notch from the potential uplift because there is no public commitment from the issuer to maintain a level of collateral that is commensurate with the current ratings on the covered bonds. As a result, the maximum potential rating on the programs is 'aa' according to our covered bonds criteria.

Under our sovereign risk criteria, mortgage covered bonds issued in a jurisdiction that is within a monetary union that do not include structural coverage of refinancing needs over a 12-month period exhibit moderate sensitivity to country risk, and as a result can be rated up to four notches above the sovereign rating. This is provided that the covered bonds have sufficient overcollateralization to withstand a sovereign default. As Bankia's mortgage covered bond program meets these conditions and considering the current foreign currency rating on Spain, the covered bonds can achieve a maximum potential rating of 'aa+' according to our sovereign risk criteria, which means that these criteria do not constrain the rating on Bankia's mortgage covered bonds.

However, these criteria constrain our ratings on Bankia's public sector covered bonds at 'AA-' given that we consider public sector assets to exhibit a high sensitivity to sovereign default risk. Therefore, the public sector covered bonds can be rated up to two notches above the sovereign rating on Spain.

Further, the ratings on the covered bonds are not constrained by counterparty, legal, and operational risks, in our view.

Consequently, we have revised the outlook to negative from stable on Bankia's mortgage and public sector covered bonds to reflect that a one-notch rating action on the sovereign would result in a similar rating action on Bankia's covered bonds, all else being equal. This is because it would result in Bankia's mortgage covered bonds receiving no notches of jurisdictional support, while the public sector covered bonds are directly constrained under our sovereign risk criteria by the foreign currency rating on Spain. We have also affirmed our 'AA' and 'AA-' ratings, respectively, on these covered bonds.

S&P Global Ratings acknowledges a high degree of uncertainty about the evolution of the coronavirus pandemic. The current consensus among health experts is that COVID-19 will remain a threat until a vaccine or effective treatment becomes widely available, which could be around mid-2021. We are using this assumption in assessing the economic and credit implications associated with the pandemic (see our research here: [www.spglobal.com/ratings](http://www.spglobal.com/ratings)). As the situation evolves, we will update our assumptions and estimates accordingly.

### Related Criteria

- Criteria | Structured Finance | General: Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019
- Criteria | Structured Finance | General: Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Criteria | Structured Finance | General: Methodology And Assumptions: Assessing Pools Of European Residential Loans, Aug. 4, 2017
- Legal Criteria: Structured Finance: Asset Isolation And Special-Purpose Entity Methodology, March 29, 2017

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- Criteria | Structured Finance | Covered Bonds: Covered Bond Ratings Framework: Methodology And Assumptions, June 30, 2015
- Criteria | Structured Finance | Covered Bonds: Methodology And Assumptions: Analyzing European Commercial Real Estate Collateral In European Covered Bonds, March 31, 2015
- Criteria | Structured Finance | Covered Bonds: Covered Bonds Criteria, Dec. 9, 2014
- Criteria | Structured Finance | Covered Bonds: Methodology And Assumptions For Assessing Portfolios Of International Public Sector And Other Debt Obligations Backing Covered Bonds And Structured Finance Securities, Dec. 9, 2014
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## **Related Research**

- Spain Outlook Revised To Negative From Stable On Mounting Fiscal and Structural Challenges; Affirmed At 'A/A-1', Sept. 18, 2020
- Global Covered Bond Insights Q3 2020, Sept. 17, 2020
- Global Covered Bond Characteristics And Rating Summary Q3 2020, Sept. 17, 2020
- S&P Global Ratings Definitions, Aug. 8, 2020
- Banking Industry Country Risk Assessment: Spain, June 18, 2020
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, March 3, 2020
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, March 3, 2020
- Spanish Covered Bond Market Insights, Jan. 29, 2020
- S&P Global Ratings' Covered Bonds Primer, June 20, 2019
- Glossary Of Covered Bond Terms, April 27, 2018

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