

# Bankia's Mortgage Covered Bond Program Ratings Raised Following Similar Action On Spain; Outlook Stable

October 4, 2019

## Overview

- On Sept. 20, 2019, we raised our unsolicited long- and short-term sovereign credit rating on Spain to 'A/A-1' from 'A-/A-2'.
- Following this upgrade and the application of our criteria, we have raised to 'AA' from 'AA-' our ratings on Bankia's mortgage covered bonds.
- Our outlook on the ratings is stable, reflecting the stable outlook on our unsolicited long-term rating on Spain.

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MADRID (S&P Global Ratings) Oct. 4, 2019--S&P Global Ratings today raised its credit ratings on Bankia S.A.'s mortgage covered bond program and related issuances ("cédulas hipotecarias").

Today's upgrades follow our Sept. 20, 2019, upgrade of Spain (see "Spain Ratings Raised To 'A/A-1' From 'A-/A-2' On Economic Resilience; Outlook Stable," published Sept. 20, 2019).

Our ratings reflect the application of our covered bonds criteria, our structured finance ratings above the sovereign (RAS) criteria (see "Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions," published Jan. 30, 2019), and the remaining criteria referenced in the related criteria section below.

Under our RAS 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 covered bond program meets these conditions and considering the current foreign currency rating on Spain (A/Stable/A-1; unsolicited), the covered bonds can achieve a maximum potential rating of 'aa+' according to our RAS criteria.

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/Stable/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 covered bonds in Spain. This could result in a potential uplift from the RRL of

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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 now 'A', the covered bonds now benefit from one notch of jurisdictional-support uplift, compared to zero before the sovereign upgrade. Therefore, we assess a jurisdiction-supported rating level (JRL) at 'a', one notch above the RRL.

The available credit enhancement in the program continues to support the four potential notches of 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 program is 'aa' according to our covered bonds criteria.

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

Consequently, we have raised to 'AA' our ratings on Bankia's mortgage covered bond program and related issuances.

The stable outlook on our ratings on the covered bonds reflects the stable outlook on our unsolicited long-term rating on Spain. This means 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.

The outlook on the ICR on Bankia does not currently impact the outlook on the covered bonds. This is because the covered bonds currently have two unused notches of jurisdictional support, which would protect the ratings on the covered bonds if we were to lower the ICR on Bankia up to two notches. At the same time, a one-notch upgrade of Bankia would also have no impact on the ratings on the covered bonds because the JRL would remain at 'a' due to the sovereign cap.

### **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
- 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
- General Criteria: Methodology: Credit Stability Criteria, May 3, 2010
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009

## **Related Research**

- Spain Ratings Raised To 'A/A-1' From 'A-/A-2' On Economic Resilience; Outlook Stable, Sept. 20, 2019
- Global Covered Bond Insights Q3 2019, Sept. 10, 2019
- Global Covered Bond Characteristics And Rating Summary Q3 2019, Sept. 10, 2019
- S&P Global Ratings' Covered Bonds Primer, June 20, 2019
- Banking Industry Country Risk Assessment: Spain, Feb. 6, 2019
- Spanish Covered Bond Market Insights, Jan. 10, 2019
- Assessments For Jurisdictional Support According To Our Covered Bonds Criteria, Oct. 16, 2018
- Assessments For Target Asset Spreads According To Our Covered Bonds Criteria, Oct. 16, 2018
- Glossary Of Covered Bond Terms, April 27, 2018

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