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DBRS Confirms Bankia's Long-Term Issuer Rating at BBB (high), Trend Revised to Positive

Industry: Fin.Svc.--Banks & Trusts

DBRS Ratings GmbH (DBRS) confirmed Bankia SA's (Bankia or the Bank) ratings including, the Long-Term Issuer Rating at BBB (high), and the Short-Term Issuer Rating at R-1 (low). The Trend on the long-term ratings has been changed to Positive from Stable and the Trend on the Short-Term ratings remains Stable. The Bank's Intrinsic Assessment (IA) was confirmed at BBB (high) and the Support Assessment remains SA3. See the full list of ratings at the end of this press release.

KEY RATING CONSIDERATIONS

The confirmation of the ratings and the change of Trend to Positive reflects the Group's strong improvement in asset quality. This is evidenced by a material reduction of problematic exposures organically over the past few years, but also through the sale agreement reached with Lone Star in December 2018 to dispose of a large stock of non-performing assets (NPAs). DBRS estimates that when the sale is completed, the group will have reached levels of NPAs closer to domestic and international peers. The change in Trend also reflects the resiliency of the Group's franchise in Spain, reinforced by the integration of Banco Mare Nostrum (BMN), which DBRS considers as a key element to further support core revenue growth. The ratings also reflect the solid capital position, with large buffers over regulatory requirements, that the Bank has reinforced through organic capital generation and access to the capital markets.

RATING DRIVERS

Further positive rating pressure on the Long-Term Issuer rating would likely require a continued reduction of the stock of NPAs and demonstration of improved recurrent profitability.

Negative rating pressure could occur from a material deterioration in Bankia's franchise or a material weakening of the Group's capital position.

RATING RATIONALE

Bankia's ratings are underpinned by its well-established franchise as the fourth largest bank by assets

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in Spain, and this was reinforced in 2018 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 completed the IT integration of BMN and has already realised, at end-2018, much of the targeted cost synergies.

DBRS considers Bankia's current profitability is below its franchise potential, partly affected by the low interest rate environment which continues to put pressure on net interest revenue. Nevertheless, the Bank is partly compensating for this pressure through increasing fees and commissions from the growth in off balance-sheet products. The Positive trend takes into account that Bankia has demonstrated a good track record of recurrent results and internal capital generation in recent years, and that DBRS expects this trend to continue, supported by the BMN integration. In addition, DBRS notes that underlying operating expenses were down in 2018 as synergies from the merger with BMN were captured faster than previously envisaged, mainly due to the reduction in the number of employees. This trend continued in 1Q19. Excluding the provisions booked in 4Q18 for the Lone Star transaction, provisions continued to decrease in 2018 and 1Q19, thanks to a decline in non-performing loans, and this should continue to support earnings.

Bankia's asset quality has continued to improve significantly in 2018 and 1Q19, reaching levels closer to domestic and international peers. At end-March 2019, the Bank reported an NPA ratio of 7.8% (as calculated by DBRS and pro-forma for the transaction with Lone Star) from 12.9% at end-2017. At end-March 2019, the Bank's NPL ratio stood at 5.9% compared to 9.4% at end-2017 (as calculated by DBRS). Excluding the transaction with Lone Star, DBRS estimates that Bankia reduced NPAs by EUR 3.0 billion in 2018, almost doubling the reduction rate observed in the last two years, and a further EUR 434 million in 1Q19. Including the transaction with Lone Star, the NPA reduction amounted to EUR 7.5 billion between end-2017 and end-March 2019 according to DBRS's estimates.

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.

Bankia 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. DBRS considers that the Bank should be well placed to meet its recently announced Minimum Requirement for Own Funds and Eligible Liabilities (MREL) of 23.66% of risk-weighted assets (RWAs). The Bank reported a fully loaded common equity tier 1 (CET1) ratio of 12.6% at end-March 2019, compared to 12.4% at end-2018 and 12.7% at end-2017. The Bank also reported a total capital ratio of 16.3% under the fully loaded criteria, reinforced with the issuance of Tier 2 debt and AT1

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instruments in 2018 and 2019.

The Grid Summary Grades for Bankia SA are as follows: Franchise Strength – Strong / Good; Earnings Power – Good; Risk Profile – Good; Funding & Liquidity – Good; Capitalisation – Good.

Notes:

All figures are in Euros unless otherwise noted.

The principal applicable methodology is the Global Methodology for Rating Banks and Banking Organisations (June 2019). This can be found at: <http://www.dbrs.com/about/methodologies>

The sources of information used for this rating include Company Documents, Bank of Spain, the European Banking Authority (EBA) and S&P Global Market Intelligence. 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.

Generally, the conditions that lead to the assignment of a Negative or Positive Trend are resolved within a twelve month period. DBRS's outlooks and ratings are under regular surveillance.

For further information on DBRS 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>.

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

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Initial Rating Date: July 8, 2016

Most Recent Rating Update: July 4, 2018

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Issuer	Debt Rated	Rating Action	Rating	Trend	Latest Event
Bankia SA	Long-Term Issuer Rating	Trend Change	BBB (high)	Pos	Jul 2, 2019
Bankia SA	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	Jul 2, 2019
Bankia SA	Long-Term Senior Debt	Trend Change	BBB (high)	Pos	Jul 2, 2019
Bankia SA	Short-Term Debt	Confirmed	R-1 (low)	Stb	Jul 2, 2019
Bankia SA	Long-Term Deposits	Trend Change	BBB (high)	Pos	Jul 2, 2019
Bankia SA	Short-Term Deposits	Confirmed	R-1 (low)	Stb	Jul 2, 2019
Bankia SA	Long Term Critical Obligations Rating	Trend Change	A	Pos	Jul 2, 2019
Bankia SA	Short Term Critical Obligations Rating	Trend Change	R-1 (low)	Pos	Jul 2, 2019
Bankia SA	Senior Non-Preferred Debt	Trend Change	BBB	Pos	Jul 2, 2019
Bankia SA	Additional Tier 1 Instruments	Trend Change	BB (low)	Pos	Jul 2, 2019
Bankia SA	Subordinated Debt	Trend Change	BBB (low)	Pos	Jul 2, 2019

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