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DBRS Morningstar Confirms AAA Ratings on Bankia S.A. Cédulas Hipotecarias

Industry Group: Structured Finance
Sub-Industry: Covered Bonds
Region: Europe

DBRS Ratings GmbH (DBRS Morningstar) confirmed its AAA ratings on the Cédulas Hipotecarias (CH or Spanish Covered Bonds) that are outstanding and rated by DBRS Morningstar under the Bankia S.A. Covered Bonds Programme (Bankia CH or the Programme). The confirmations follow the completion of a full review of the Programme.

The ratings reflect the following analytical considerations:
-- A Covered Bonds Attachment Point (CBAP) of "A", which is Bankia´s Long-Term Critical Obligations Rating. Bankia is the Issuer and the Reference Entity (RE) for the Programme.
-- A legal and structuring framework (LSF) assessment of "Average" associated with the Programme.
-- A Cover Pool Credit Assessment (CPCA) of AAA, which is the lowest CPCA in line with the LSF-Implied Likelihood (LSF-L).
-- An LSF-L of AA.
-- A two-notch uplift for high recovery prospects.
-- A level of overcollateralisation (OC) of 148.0% to which DBRS Morningstar gives credit, which is the minimum observed OC level over the past 12 months adjusted by a scaling factor of 0.85.

DBRS Morningstar analysed the transaction with its European Covered Bonds Cash Flow tool. The main assumptions focused on the timing of defaults and recoveries of the assets, interest rate stresses, and market value spreads to calculate liquidation values on the CP.

Everything else being equal, a one-notch downgrade of the CBAP would lead to a two-notch downgrade of the LSF-L, resulting in a two-notch downgrade of the covered bonds ratings. In addition, all else unchanged, the CH ratings would be downgraded if any of the following were to occur: (1) the CPCA were downgraded below AAA; (2) the sovereign rating of the Kingdom of Spain were downgraded below A (low); (3) the LSF assessment associated with the Programme was downgraded; (4) the quality of the CP and the level of OC were no longer sufficient to support a two-notch uplift for high recovery prospects; (5) the relative amortisation profile of the CH and CP moved adversely; or (6) volatility in the financial markets were to cause the currently estimated market value spreads to increase.

There are currently EUR 23.49 billion of CH outstanding under the programme, of which DBRS Morningstar publicly rates EUR 17.54billion. As of 30 June 2020, the aggregate balance of mortgages in the CP was EUR 65.56 billion, which results in a total estimated OC of 179.1%. The eligible CP stood at EUR 52.97 billion, resulting in an estimated eligible OC of 125.5%.

Spanish covered bonds are backed by the entire mortgage book of the bank, except mortgage loans pledged to securitisations and bonos hipotecarios. As of 30 June 2020, the CP comprised 826,384 mortgage loans with a 87.4% residential, 10.4% commercial, 1.9% developers, and 0.3% land loans split and a weighted-average current unindexed loan-to-value ratio of 56.1%. It is geographically diversified, with the largest concentrations in Madrid (27.3%), Community of Valencia (15.6%), and Andalusia (13.9%). The pool was 116-months seasoned. The interest rates of the underlying loans are floating rate (90.1%) and fixed rate (9.9%). Approximately 0.2% of the pool assets were originated in a currency other than euros.

As is customary in the Spanish market, CH do not receive the benefit of any swap contract to hedge the mismatches between the interest yield by the CP (90.1% floating rate linked to different indexes and resets) and the interest due on the CH (63.9% paying fixed rate and 36.1% floating rate linked to different indexes and resets). This risk is mitigated by the available OC and has been accounted for in DBRS Morningstar's cash flow analysis.

The DBRS Morningstar-calculated WA life of the assets is approximately 12 years while that of the covered bonds is approximately 5.4 years. This generates an asset-liability mismatch that is mitigated by the available OC and has been accounted for in DBRS Morningstar's cash flow analysis.

All liabilities are denominated in euros, while 0.2% of the loans were originated in a currency other than euros. DBRS Morningstar considers this exposure to be negligible and to be mitigated by the available OC.

DBRS Morningstar has assessed the LSF related to the Programme as "Average" according to its "Rating and Monitoring Covered Bonds" methodology. For more information, please refer to DBRS Morningstar's commentaries, "DBRS Assigns Legal and Structuring Framework Assessment to Spanish Mortgage Covered Bonds Programmes" and "Spanish Mortgage Covered Bonds: Legal and Structuring Framework Review", both available at www.dbrsmorningstar.com.

For further information on the Programme, please refer to the rating report at www.dbrsmorningstar.com.

The Coronavirus Disease (COVID-19) and the resulting isolation measures have caused an economic contraction, leading to sharp increases in unemployment rates and income reductions for many borrowers. DBRS Morningstar anticipates that payment holidays and delinquencies may arise in the coming months for many cover pools, some meaningfully. The ratings are based on additional analysis and adjustments to expected performance as a result of the global efforts to contain the spread of the coronavirus. In the cover pool analysis of this programme, DBRS Morningstar assumed a moderate decline in residential property prices.

On 16 April 2020, the DBRS Morningstar Sovereign group released a set of macroeconomic scenarios for the 2020-22 period in select economies. These scenarios were last updated on 10 September 2020. For details, see the following commentaries: https://www.dbrsmorningstar.com/research/366542/global-macroeconomic-scenarios-september-update and https://www.dbrsmorningstar.com/research/359903/global-macroeconomic-scenarios-application-to-credit-ratings. The DBRS Morningstar analysis considered impacts consistent with the moderate scenario in the referenced reports.

On 24 April 2020, DBRS Morningstar published a commentary outlining how the coronavirus crisis is likely to affect the DBRS Morningstar-rated Covered Bonds in Europe. For more details please see https://www.dbrsmorningstar.com/research/359987/covid-19-the-impact-on-european-covered-bonds and https://www.dbrsmorningstar.com/research/362712/european-structured-finance-covid-19-credit-risk-exposure-roadmap.

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.

For more information regarding structured finance rating methodologies and Coronavirus Disease (COVID-19), please see the following DBRS Morningstar press release: https://www.dbrsmorningstar.com/research/358308.

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.

Notes:
All figures are in euros unless otherwise noted.

The principal methodology applicable to the ratings is: "Rating and Monitoring Covered Bonds" (27 April 2020).

DBRS Morningstar has applied the principal methodology consistently and conducted a review of the transaction in accordance with the principal methodology.

A review of the transaction legal documents was not conducted as the documents have remained unchanged since the most recent rating action.

Other methodologies referenced in this transaction are listed at the end of this press release.

These may be found at: https://www.dbrsmorningstar.com/about/methodologies.

For a more detailed discussion of the sovereign risk impact on Structured Finance ratings, please refer to "Appendix C: The Impact of Sovereign Ratings on Other DBRS Morningstar Credit Ratings" of the "Global Methodology for Rating Sovereign Governments" at: https://www.dbrsmorningstar.com/research/364527/global-methodology-for-rating-sovereign-governments.

The sources of data and information used for these ratings include CP stratification tables as at 30 June 2020 and static pool default and recovery data on Bankia mortgage book from Q3 2010 to Q2 2020, split into residential and nonresidential, provided by the Issuer.

DBRS Morningstar did not rely upon third-party due diligence in order to conduct its analysis.

At the time the of the initial ratings, DBRS Morningstar was not supplied with third-party assessments. However, this did not impact the rating analysis.

DBRS Morningstar considers the data and information available to it for the purposes of providing these ratings to be of satisfactory quality.

DBRS Morningstar does not audit or independently verify the data or information it receives in connection with the rating process.

The last rating action on this transaction took place on 20 September 2019, when DBRS Morningstar confirmed its ratings on the outstanding DBRS Morningstar-rated Bankia CH.

Information regarding DBRS Morningstar ratings, including definitions, policies, and methodologies, is available on www.dbrsmorningstar.com.

For further information on DBRS Morningstar historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml.

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

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The rating methodologies used in the analysis of this transaction can be found at: https://www.dbrsmorningstar.com/about/methodologies.

-- Rating and Monitoring Covered Bonds (27 April 2020), https://www.dbrsmorningstar.com/research/360260/rating-and-monitoring-covered-bonds.
-- Rating and Monitoring Covered Bonds Addendum: Market Value Spreads (27 April 2020), https://www.dbrsmorningstar.com/research/360263/rating-and-monitoring-covered-bonds-addendum-market-value-spreads.
-- Global Methodology for Rating Banks and Banking Organisations (8 June 2020), https://www.dbrsmorningstar.com/research/362170/global-methodology-for-rating-banks-and-banking-organisations.
-- Legal Criteria for European Structured Finance Transactions (11 September 2019), https://www.dbrsmorningstar.com/research/350234/legal-criteria-for-european-structured-finance-transactions.
-- European RMBS Insight Methodology (2 April 2020) and European RMBS Insight Model v4.3.1.0, https://www.dbrsmorningstar.com/research/359192/european-rmbs-insight-methodology.
-- European RMBS Insight: Spanish Addendum (26 August 2020), https://www.dbrsmorningstar.com/research/366107/european-rmbs-insight-spanish-addendum
-- Operational Risk Assessment for European Structured Finance Originators (28 February 2020), https://www.dbrsmorningstar.com/research/357430/operational-risk-assessment-for-european-structured-finance-originators.
-- Operational Risk Assessment for European Structured Finance Servicers (28 February 2020), https://www.dbrsmorningstar.com/research/357429/operational-risk-assessment-for-european-structured-finance-servicers.
-- Rating CLOs and CDOs of Large Corporate Credit (21 July 2020), https://www.dbrsmorningstar.com/research/364310/rating-clos-and-cdos-of-large-corporate-credit
-- Rating CLOs Backed by Loans to European SMEs (8 July 2019) and DBRS Diversity Model v2.4.1.0, https://www.dbrsmorningstar.com/research/347780/rating-clos-backed-by-loans-to-european-smes.
-- Interest Rate Stresses for European Structured Finance Transactions (10 October 2019), https://www.dbrsmorningstar.com/research/351557/interest-rate-stresses-for-european-structured-finance-transactions.
-- Global Methodology for Rating Sovereign Governments (27 July 2020), https://www.dbrsmorningstar.com/research/364527/global-methodology-for-rating-sovereign-governments.
-- Currency Stresses for Global Structured Finance Transactions (15 April 2020), https://www.dbrsmorningstar.com/research/359639/currency-stresses-for-global-structured-finance-transactions.

A description of how DBRS Morningstar analyses structured finance transactions and how the methodologies are collectively applied can be found at: https://www.dbrsmorningstar.com/research/278375.

For more information on this credit or on this industry, visit www.dbrsmorningstar.com or contact us at info@dbrsmorningstar.com.

Issuer	Debt Rated	Rating Action	Rating
Bankia S.A. Covered Bonds (Cédulas Hipotecarias - Mortgages)	Cedulas Hipotecarias – ES0413307127	Confirmed	AAA
Bankia S.A. Covered Bonds (Cédulas Hipotecarias - Mortgages)	Cedulas Hipotecarias - ES0414950685	Confirmed	AAA
Bankia S.A. Covered Bonds (Cédulas Hipotecarias - Mortgages)	Cedulas Hipotecarias - ES0414950628	Confirmed	AAA
Bankia S.A. Covered Bonds (Cédulas Hipotecarias - Mortgages)	Cedulas Hipotecarias - ES0414950644	Confirmed	AAA
Bankia S.A. Covered Bonds (Cédulas Hipotecarias - Mortgages)	Cedulas Hipotecarias - ES0413307069	Confirmed	AAA
Bankia S.A. Covered Bonds (Cédulas Hipotecarias - Mortgages)	Cedulas Hipotecarias - ES0413307077	Confirmed	AAA
Bankia S.A. Covered Bonds (Cédulas Hipotecarias - Mortgages)	Cedulas Hipotecarias - ES0413307085	Confirmed	AAA
Bankia S.A. Covered Bonds (Cédulas Hipotecarias - Mortgages)	Cedulas Hipotecarias - ES0413307093	Confirmed	AAA
Bankia S.A. Covered Bonds (Cédulas Hipotecarias - Mortgages)	Cedulas Hipotecarias - ES0413307101	Confirmed	AAA
Bankia S.A. Covered Bonds (Cédulas Hipotecarias - Mortgages)	Cedulas Hipotecarias - ES0413307119	Confirmed	AAA
Bankia S.A. Covered Bonds (Cédulas Hipotecarias - Mortgages)	Cedulas Hipotecarias – Tap ES0413307093	Confirmed	AAA

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