FITCH UPGRADES BANKIA'S MORTGAGE COVERED BONDS TO 'A+'; OUTLOOK STABLE

Fitch Ratings-Madrid/London-05 February 2019: Fitch Ratings has upgraded Bankia, S.A.'s (Bankia; BBB/Stable/bbb/F3) mortgage covered bonds (Cedulas Hipotecarias, CH) to 'A+' from 'A'. The Outlook is Stable.

KEY RATING DRIVERS
The CH upgrade is mainly driven by the upgrade of the bank's Long-Term Issuer Default Rating (IDR) to 'BBB' from 'BBB-', and the level of overcollateralisation of 115.5% that Fitch relies upon, which is greater than the 25% breakeven OC (BE OC) for the 'A+' rating (see "Fitch Upgrades Bankia to 'BBB'; Outlook Stable" dated 30 January 2019 at www.fitchratings.com).

Bankia's CH 'A+' rating is supported by an IDR uplift of two notches, a payment continuity (PCU) of zero notches and a recovery uplift of two notches. The two-notch IDR uplift reflects the bail-in exclusion of fully collateralised CHs, the agency's view that a hypothetical bank resolution will not result in the enforcement against the cover pool and that there is low risk of undercollateraliation at the point of resolution.

The zero notch PCU reflects the absence of specific liquidity protection mechanisms to bridge temporary shortfalls if the cover pool was to become the source of CH payments. Spanish CH have hard-bullet maturities while cover assets gradually amortise.

The two-notch recovery uplift reflects the credit protection in the form of over-collateralisation from the mortgage cover pool. The relied upon level of OC within Fitch analysis of 115.5% is larger than the 25% BE OC for a 'A+' rating scenario, which is unchanged and floored at the legal minimum OC in accordance with the agency's criteria.

RATING SENSITIVITIES
Bankia's CHs could be upgraded if stronger liquidity protection mechanisms were introduced allowing for a PCU greater than zero notches, as long as the relied upon OC of the programme remains above the BE OC in the corresponding rating scenario.

Given the absence of PCU, there is a direct relationship between Bankia's Long-Term IDR and the CH rating so that any upgrade or downgrade of the issuer would be reflected on the CH rating, subject to OC sufficiency.

The BE OC for the CH rating will be affected among others by the profile of the cover assets relative to outstanding covered bonds, which can change over time, even in the absence of new issuance. Therefore the BE OC to maintain the covered bond rating cannot be assumed to remain stable over time.

If the OC drops to the legal minimum of 25%, Bankia's CH rating would not change as this level of OC would continue to offset the stressed credit loss.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Bank Rating Criteria (pub. 12 Oct 2018)
https://www.fitchratings.com/site/re/10044408
Covered Bonds Rating Criteria (pub. 11 Jan 2019)
https://www.fitchratings.com/site/re/10059083
Multi-Issuer Cedulas Hipotecarias Rating Criteria (pub. 20 Dec 2018)
https://www.fitchratings.com/site/re/10056333
Structured Finance and Covered Bonds Counterparty Rating Criteria (pub. 01 Aug 2018)
https://www.fitchratings.com/site/re/10039504