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Bankia S.A.

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Bankia S.A.

SACP	bbb
Anchor	bbb	
Business Position	Adequate	0
Capital and Earnings	Adequate	0
Risk Position	Adequate	0
Funding	Average	0
Liquidity	Adequate	

+

Support	0
ALAC Support	0
GRE Support	0
Group Support	0
Sovereign Support	0

+

Additional Factors	0

Issuer Credit Rating
BBB/Stable/A-2
Resolution Counterparty Rating
BBB+/--/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Solid banking franchise in Spain, with more than an 11% market share. • Enhanced risk management, which will benefit future credit performance. • Balanced funding structure.	• Modest core operating profitability amid the current low interest rate environment. • Need to continue extracting revenues and enforcing efficiency from the acquired Banco Mare Nostrum (BMN). • Relatively high--although declining--stock of problematic assets, despite a substantial transfer to Spain's bad bank SAREB in 2012.

Outlook: Stable

The stable outlook reflects our view that, over the next 18-24 months, Bankia will remain focused on improving its returns amid still-muted volume growth and extremely low interest rates, and that it will maintain adequate capitalization. We anticipate that return on equity before minority interests will increase to a high-single-digit level by end-2021, with bottom-line profitability supported by low credit losses and further costs synergies and savings. We see Bankia's risk-adjusted capital (RAC) ratio improving to 9.0%-9.5% by end-2021, on the back of further earnings retention. At the same time, we expect Bankia to continue reducing nonperforming assets (NPA) to below 5% of gross loans over our outlook horizon.

Our stable outlook also assumes no changes in management or strategic direction at Bankia, which remains ultimately owned by the Spanish government through the Fund for Orderly Bank Resolution (FROB). The deadline for privatization was extended recently until the end of 2021.

At this stage we see an upgrade as unlikely. We could consider raising the ratings if, contrary to our expectations, Bankia managed to strengthen its RAC ratio sustainably above 10%, while materially improving its asset quality metrics; or if its buffer of additional loss-absorbing capacity (ALAC) were to exceed 5% of risk-weighted assets (RWAs), which is the standard threshold for a one-notch uplift.

Conversely, we could downgrade Bankia if its asset quality metrics start lagging those of its domestic and international peers, or if it engages in an overly aggressive growth strategy or in acquisitions that impair its financial profile.

The stable outlook on the holding company, BFA Tenedora de Acciones S.A.U. (BFA), mirrors that on the group's operating entity, Bankia, as we expect the ratings on both the operating and holding company to move in tandem.

Rationale

Our ratings on Bankia factor in the strength of its domestic franchise, its enhanced risk management, and its solvency, which we see as adequate for the risks it faces. At the same time, we consider that Bankia's core operating profitability remains modest overall, and that it will be difficult for the bank to enhance it significantly in the current context of ultra-low interest rates.

In past few years, Bankia has completed a restructuring process agreed with the European authorities. The disposal of the Spanish government's stake in the bank is still pending, and is now due by end-2021. The successful completion of this plan has benefited Bankia's business stability, efficiency, and risk and funding profiles. Specifically, we believe that Bankia's management has been able to enhance the bank's risk oversight significantly and accelerate the clean-up of its credit portfolio, which will benefit the bank's future credit performance. Bankia's asset quality metrics improved notably in 2018 on the back of organic reduction efforts coupled with a €2.8 billion market sale (see "Bankia Progresses In Cleaning Up Its Balance Sheet," published Dec. 17, 2018, on RatingsDirect). Still, they remain somewhat weaker than those of its closest domestic peers (Bankia's pro forma NPAs equaled 8.3% of gross loans at end-2018 versus a 5.9% average for its domestic competitors on the same date). The bank has also rebalanced its funding profile and liquidity position. However, even if Bankia has successfully reduced its reliance on European Central Bank (ECB) funding and other short-term funding, we consider that its large holding of less-liquid and low-yield SAREB bonds constrains its financial profile.

We analyze Bankia and BFA on a consolidated basis, at the highest level of supervisory and regulatory oversight, using BFA's consolidated financial information. Our assessment of the group credit profile (GCP) is 'bbb'. We consider Bankia to be the group's core operating entity and we rate it at the GCP level. We rate BFA one notch below the GCP. This is the standard downward adjustment we make for holding companies when the GCP is investment grade. It also reflects the structural subordination of BFA's creditors to those of Bankia.

We compare Bankia with domestic peers, namely Caixabank (stand-alone credit profile: bbb+), Bankinter, (bbb+), Banco de Sabadell (bbb) and Kutxabank (bbb). We also consider as peers foreign banks that operate in countries with relatively similar industry and economic risks that have broadly similar business models, such as Poland-based Pekao (bbb+), Ireland-based Bank of Ireland Group PLC (bbb) and AIB Group PLC (bbb), Italy-based UBI Banca SpA (bbb-), and Portugal-based Banco Comercial Portugues (bb).

Anchor: 'bbb' for Spanish domestic banks

The anchor for banks operating primarily in Spain is 'bbb', reflecting our economic risk assessment of '4' and our industry risk assessment of '4' (on a scale of 1-10, with '10' signifying the highest risk). We view the trend for both economic and industry risk as stable.

Our economic risk assessment reflects the economy's solid prospects. We also factor in the good progress the banking system has made in dealing with NPAs post-crisis, as well as corporates and households' stronger financial positions after years of significant deleveraging.

The economy has rebounded well and has become more open. We forecast Spain's real GDP to grow 2.1% and 1.9% this year and next, outperforming the eurozone average, supported by domestic demand. After years of fiscal consolidation, the reduced fiscal deficit is now more manageable and the government has gained policy flexibility as a result. The banking sector, in turn, has not only largely completed provisioning for the legacy NPAs left after the property bubble burst and the recession hit, but has also accelerated divestments, easing the NPA burden on balance sheets. This process should continue, leading to an NPA ratio of about 4.5% of loans by 2021. Finally, the nonfinancial private sector has very strongly deleveraged such that its indebtedness now aligns with that of developed European peers.

Several issues are yet to be tackled, including still-high unemployment (15.3% at end-2018), the duality of the labor market, and the high social security deficit. If not addressed, these issues could weigh on longer term growth prospects. However, given Spain's political fragmentation, the yet-to-be-formed government's ability to undertake reforms could be limited. Spain's high public sector and external debt (87% and 81% of GDP at end-2018) will remain structural weaknesses for some time.

Our industry risk assessment reflects Spanish banks' currently more-balanced funding profiles. Customer deposits now fund the bulk of banks' loan books, funding costs are at historical lows, and external funding markets remain wide open. Banks have also accumulated significant liquidity and are in a comfortable position to meet the repayment of the European Central Bank's (ECB's) Targeted Longer-Term Refinancing Operations (TLTRO) II in 2020-2021. We still expect, however, that Spanish banks will rely more than peers on external funding. Our industry risk assessment also assumes the operating environment in Spain will remain competitive, and therefore banks, primarily midsize ones, will find it challenging to achieve returns in line with their cost of capital. Although the deleveraging phase has nearly ended, we do not expect banks' business volumes to grow enough over the next few years to compensate for the negative effect of prevailing low interest rates on earnings. Therefore, we see a risk that heightened competition to attract new business could potentially threaten sensible pricing.

Table 1

BFA Tenedora de Acciones, S.A.U. Key Figures

	--Year-ended Dec. 31--				
(Mil. €)	**2018**	**2017**	**2016**	**2015**	**2014**
Adjusted assets	207,369.4	217,672.5	193,829.8	213,495.7	242,275.3
Customer loans (gross)	122,413.5	128,546.1	110,087.7	115,930.4	121,872.8
Adjusted common equity	10,970.9	11,527.6	10,511.5	10,453.7	9,645.1
Operating revenues	3,277.0	3,147.4	3,199.0	3,731.0	4,385.3
Noninterest expenses	2,174.8	1,969.3	1,795.2	1,970.7	2,065.3
Core earnings	406.4	575.3	608.3	851.6	599.0

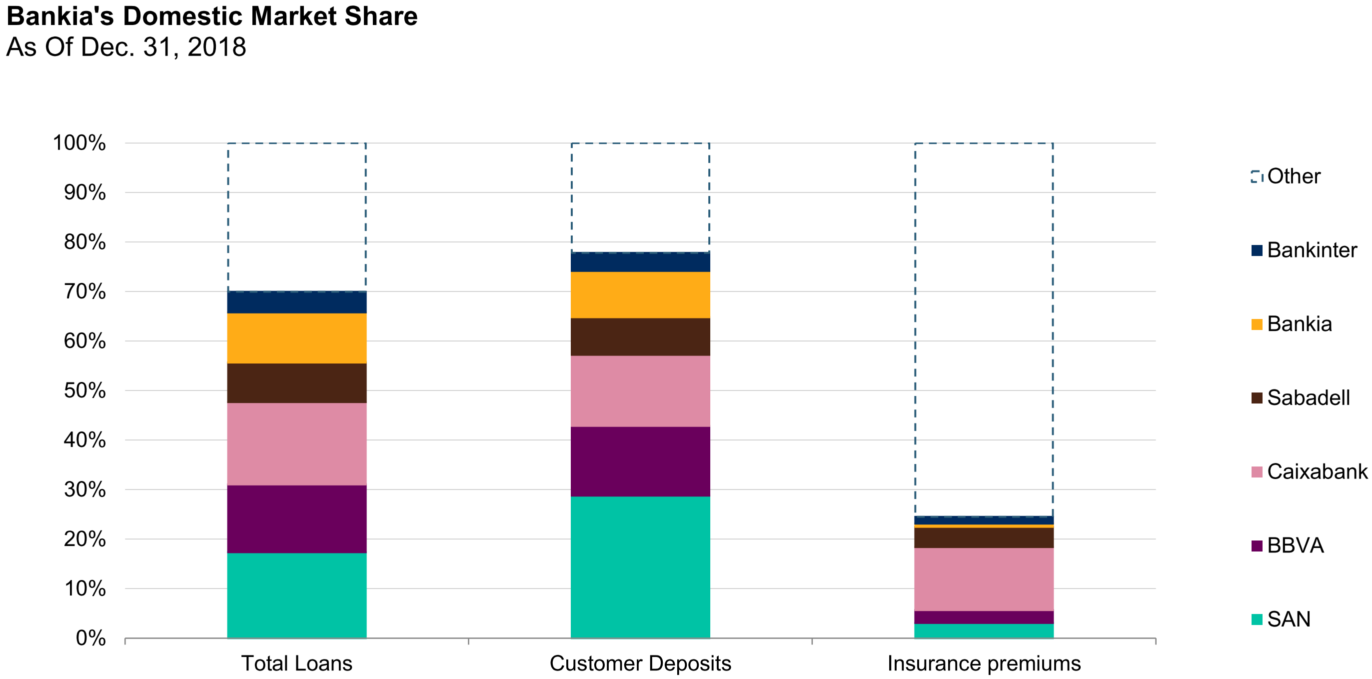
Business position: Strengthened domestic franchise following BMN's integration

Our view of Bankia's business position factors in its reinforced market position in the Spanish market following its merger with BMN, its rebuilt customer franchise under the leadership of a solid management team, and the still low core operating profitability.

With €205 billion in assets at end-2018, Bankia is the fourth-largest financial institution in Spain by total domestic assets, with nationwide market shares of about 12% in loans and 11% in deposits. The acquisition of BMN in 2017 enabled Bankia to increase its presence in some South-Eastern regions of the country, with limited geographical overlap and business attrition. In particular, BMN added €22 billion of loans (20% of Bankia's stand-alone loan book) and €29 billion of deposits (28% of Bankia's deposits) to the group.

Bankia's franchise is particularly strong in mortgage lending, where it held a market share of around 13.6% at end-2018. It is also present in all other lending segments (holding a 7.3% market share in corporate lending on the same date), as well as mutual funds (6.6%) and pension plans (6.3%). Compared with larger domestic peers, however, its scale and market share are more limited, as is its business diversification. In addition, Bankia lacks the international presence of some of its closest peers.

Chart 1



Source: Banks' Financial Reports, S&P Global Ratings.

The current management team appointed in mid-2012 has been successful in completing the five-year restructuring plan agreed with the European authorities. In our view, this plan has benefited Bankia's business stability, efficiency, and risk and funding profiles. The bank downsized its network ahead of schedule by closing about 1,100 branches (or 37% of the branch network as of 2012) and reduced its employee count by 6,900 (34% reduction). The restructuring plan also involved the transfer of most of Bankia's real estate exposures to Spain's bad bank and the divestment of its equity holdings. Following the merger with BMN, Bankia has already closed an additional 147 branches and reduced its workforce by 2,000 employees.

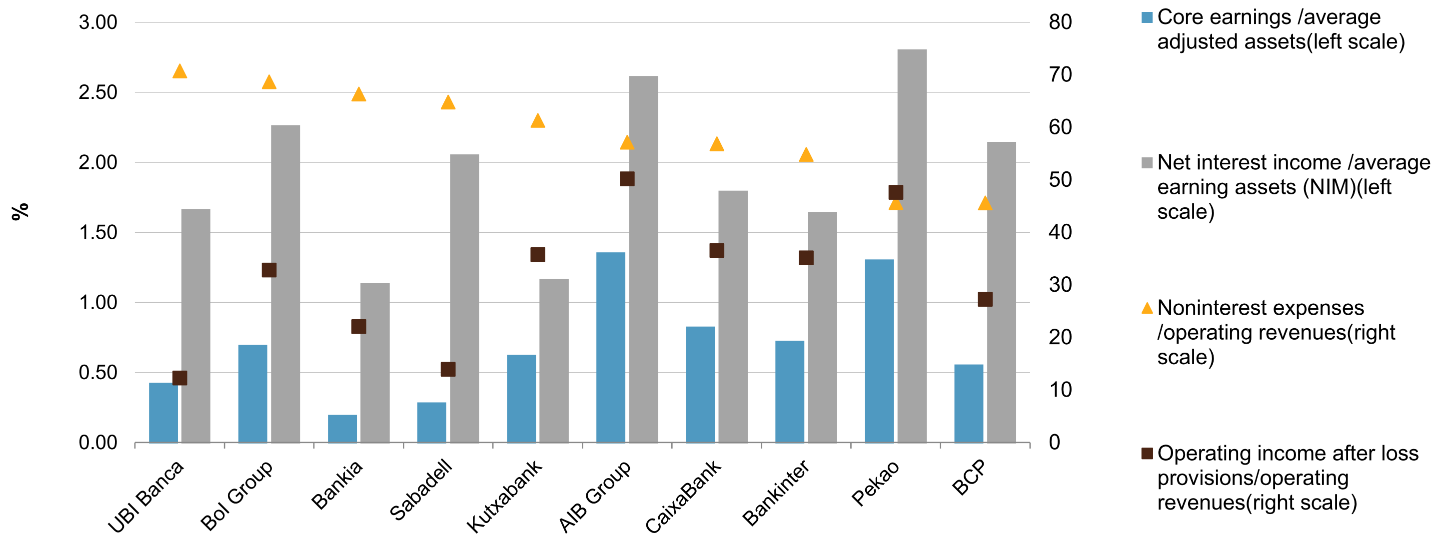
The main pending action after the bank's restructuring relates to its privatization and the exit of the Fund for Orderly Bank Restructuring (FROB)--and ultimately of the Spanish government--from the shareholder base, which is now due by 2021. We expect that this exit will not lead to significant changes at Bankia, as the bank has always been managed independently. In December 2017, the FROB sold a 7% stake in Bankia for €818.3 million, reducing its stake to 60.6%.

In our view, Bankia is finding it difficult to consistently improve its profitability, including the activities acquired from BMN. Although its performance has continued improving since the financial crisis in 2012, Bankia's operating revenues remain pressured by low interest rates, the significant weight of mortgages in its loan book, and ongoing deleveraging phase. In addition, profitability is strongly supported by a cost of risk well below the sector average and what we consider Bankia's normalized cost of risk. This is the result of the upfront recognition of provisions at the height of the financial crisis.

Chart 2

Bankia's Core Operating Profitability Remains Low

Data as of Dec. 31, 2018



NIM--Net interest margins. Source: Bank financial disclosures, S&P Global Ratings.

Under its 2018-2020 strategic plan, Bankia aims to rebalance its loan book from mortgages (currently representing 60% of its loan book) to corporate and consumer loans. Among others, Bankia's targets are to:

- Achieve a return on equity (ROE) of 10.8% by end-2020. We view this as the most ambitious target in the context of the highly competitive environment and still-low interest rates. We expect ROE before minority interests to be in the high-single-digit category by end-2020.
- Improve efficiency and achieve a cost-to-income ratio below 47%. This will be driven by cost containment and synergies related to BMN, as well as by higher revenue generation on the back of the increased sale of value-added products.
- Reduce the stock of NPAs by €2.9 billion per year, in order to reach an NPA ratio below 6% by 2020. Following the balance sheet clean up effort accomplished in 2018, we consider this target achievable by end-2019.
- Pay out a cash dividend of around 45%-50% and return all excess capital above a 12% common equity Tier 1 (CET1) fully loaded ratio, with expected total aggregate remuneration of more than €2.5 billion.

Table 2

BFA Tenedora de Acciones, S.A.U. Business Position					
	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Total revenues from business line (mil.€)	4,098.9	3,713.4	4,221.2	6,657.6	6,524.0
Commercial banking/total revenues from business line	14.3	14.7	13.5	8.4	10.3
Retail banking/total revenues from business line	46.9	43.4	43.6	35.8	46.2
Commercial & retail banking/total revenues from business line	61.2	58.1	57.1	44.2	56.6
Other revenues/total revenues from business line	38.8	41.9	42.9	55.8	43.4
Return on average common equity	2.6	3.0	0.7	12.6	1.3

Capital and earnings: Earnings retention will continue supporting capital

Bankia's solvency has improved materially in the past few years on the back of easing economic conditions in Spain and capital enhancing measures, including disposals of noncore assets, growing organic capital generation and the issuance of hybrid instruments. We forecast that its RAC ratio will stand at around 9.0%-9.5% by end-2021, compared with 8.4% at end-2018, or 9.4% pro forma our recently revised assessment of Spain's economic risk, compared with 6.9% at end-2015.

Bankia has carried out the capital strengthening of recent years despite the material extraordinary provisions booked to cover potential contingency costs from retail investors (that is, legal claims against the bank's 2011 initial public share offer, misselling of preference shares, and removal of mortgage floors). We consider that future contingencies related to legacy risks are now contained.

We anticipate that Bankia will continue to further retain earnings, with the group's ROE before minority interests remaining in the high-single-digit category by end-2021. In particular, we anticipate that the revenue base will remain under pressure on the back of still-weak net interest income and a lower contribution than in the past from the securities portfolio--€20.4 billion SAREB bonds that currently yield around 0%. However, higher fee income, further cost containment, and a low cost of risk below 30 bps should partly offset this.

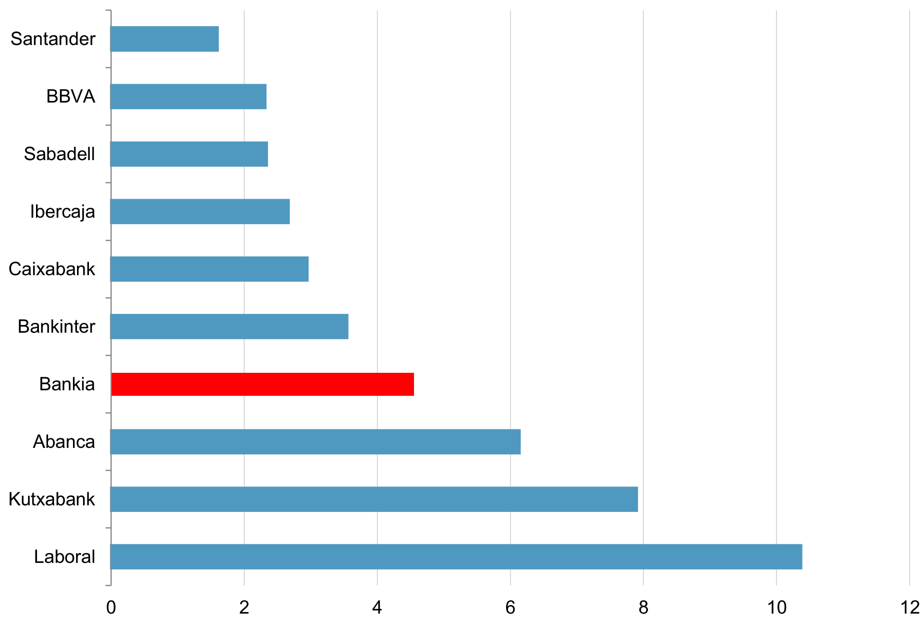
In terms of volumes, we forecast a slight deleveraging at the group level in 2019, as the number of new mortgages is not sufficient to drive a net expansion of the outstanding credit portfolio. We expect that Bankia will partially compensate for this trend with growth in targeted corporate and consumer segments. In this respect, in 2018 it announced an agreement with Credit Agricole Consumer Finance to create a joint venture to develop consumer credit service at points of sale, which should be fully operating by mid-2019.

We anticipate that the dividend payout at the operating bank level will be around 40% over our outlook horizon. However, our RAC forecasts do not incorporate the potential extraordinary upstreaming of capital from BFA to the state, in the form of the repayment of some of the capital support that the group received during the financial crisis (€22.5 billion). At this stage, even if this repayment were to happen, we assume that it would not alter our current assessment of the capital position of either the group or Bankia.

At end-March 2019, Bankia reported a regulatory phase-in CET1 ratio of 13.78%--well above its 9.25% supervisory review and evaluation process (SREP) requirement--or 12.61% on a fully loaded basis. This compares with management's targets of a fully loaded CET1 ratio of at least 12.0% by end-2020, roughly in line with that of other domestic peers. We note positively that, based on year-end 2018 data, Bankia's CET1 buffer versus its requirement is the fourth largest among the banks that we rate in Spain.

Chart 3

Bankia's Buffer Over Its CET1 SREP Requirement Remains Comfortable (%)



Source: S&P Global Ratings.

The difference between the reported regulatory ratios and our capital measures relates mainly to the higher risk weightings we assign to asset classes in Spain and our more conservative treatment of deferred tax assets (DTAs). In particular, we deduct from Bankia's total adjusted capital (TAC) a total amount of €2.6 billion DTAs (including tax loss carryforward). Bankia's convertible DTAs (which we don't deduct from the bank's TAC and which we risk weight at 250%) equaled a high 67% of its TAC at end-2018.

In our view, and despite the stock of DTAs accumulated, the quality of Bankia's capital is satisfactory and consistent with most domestic and international peers, with additional tier 1 (AT1) representing 10% of our TAC at end-2018. In addition, we consider Bankia's earnings profile is relatively predictable, with net interest income and fees and commissions accounting for more than 90% of operating revenues over the past five years.

Table 3

BFA Tenedora de Acciones, S.A.U. Capital And Earnings

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Tier 1 capital ratio	14.0	14.2	14.9	14.6	13.3
S&P Global Ratings' RAC ratio before diversification	8.4	7.3	6.7	6.9	N/A
S&P Global Ratings' RAC ratio after diversification	7.8	6.8	6.3	7.4	N/A
Adjusted common equity/total adjusted capital	89.8	93.9	100.0	100.0	100.0
Net interest income/operating revenues	63.4	63.8	68.7	75.3	68.8
Fee income/operating revenues	31.7	27.2	25.1	23.4	21.0
Market-sensitive income/operating revenues	0.8	5.9	0.7	(1.6)	4.4
Noninterest expenses/operating revenues	66.4	62.6	56.1	52.8	47.1
Preprovision operating income/average assets	0.5	0.6	0.7	0.8	0.9
Core earnings/average managed assets	0.2	0.3	0.3	0.4	0.2

N/A--Not applicable.

Table 4

BFA Tenedora de Acciones, S.A.U. Risk-Adjusted Capital Framework Data

(Mil. €)	**Exposure***	**Basel III RWA**	**Average Basel III RW(%)**	**S&P Global RWA**	**Average S&P Global RW (%)**
Credit risk					
Government & central banks	75,842	13,932	18	9,827	13
Of which regional governments and local authorities	3,895	12	0	708	18
Institutions and CCPs	6,052	2,234	37	2,020	33
Corporate	33,288	17,006	51	34,977	105
Retail	81,883	31,459	38	49,555	61
Of which mortgage	63,969	22,041	34	29,802	47
Securitization§	574	416	72	1,037	181
Other assets†	17,856	5,344	30	35,251	197
Total credit risk	215,495	70,391	33	132,666	62
Credit valuation adjustment					
Total credit valuation adjustment	--	225	--	293	--
Market Risk					
Equity in the banking book	485	1,068	220	4,112	848
Trading book market risk	--	1,575	--	2,610	--
Total market risk	--	2,643	--	6,722	--
Operational risk					
Total operational risk	--	6,025	--	6,144	--
(Mil. €)	**Exposure**	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global RWA**	**% of S&P Global RWA**
Diversification adjustments					
RWA before diversification	--	83,759	--	145,825	100
Total Diversification/ Concentration Adjustments	--	--	--	11,539	8

Table 4

BFA Tenedora de Acciones, S.A.U. Risk-Adjusted Capital Framework Data (cont.)					
RWA after diversification	--	83,759	--	157,364	108
(Mil. €)		**Tier 1 capital**	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		11,654	14	12,221	8.4
Capital ratio after adjustments‡		11,654	14	12,221	7.8

*Exposure at default. §Securitization exposure includes the securitization tranches deducted from capital in the regulatory framework. †Exposure and S&P Global Ratings' risk-weighted assets for equity in the banking book include minority equity holdings in financial institutions. ‡Adjustments to Tier 1 ratio are additional regulatory requirements (e.g. transitional floor or Pillar 2 add-ons). RWA--Risk-weighted assets. RW--Risk weight. RAC--Risk-adjusted capital. Sources: Company data as of Dec. 31, 2018, S&P Global Ratings.

Risk position: Enhanced risk management to support sound credit performance in the future

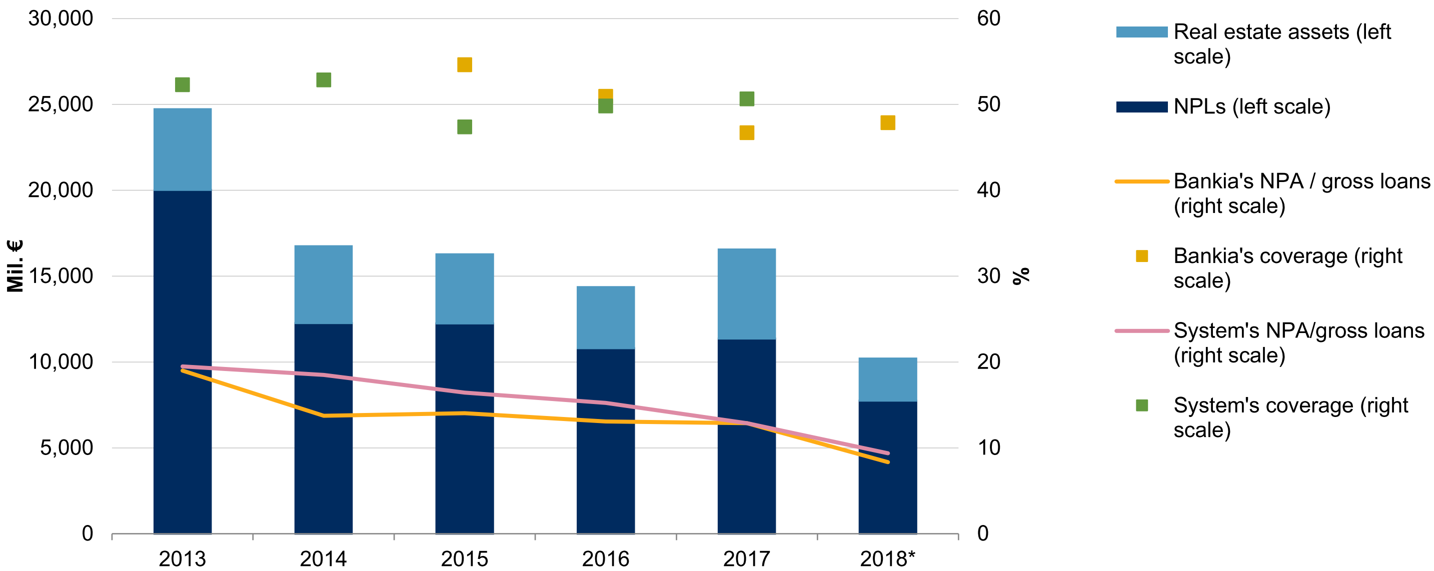
We believe that Bankia's management has been able to enhance the bank's risk management significantly since its appointment in 2012. We know that establishing effective governance and a strong credit risk culture has been a long and complex process; that said, we think that it should help Bankia to avoid most of its previous mistakes.

Throughout 2018, Bankia managed to derisk its balance sheet notably, reducing gross NPAs by €6.0 billion at the operating bank level, down by 35% year on year. This was based both on organic efforts as well as on a major market sale for a total €2.8 billion, bringing pro forma NPAs down to 8.3% of gross loans, compared with 12.9% at end-2017. That said, at €10.4 billion (as reported at end-March 2019 at the operating bank level), the stock of NPAs that Bankia has on its balance sheet remains high, and its asset quality metrics are still behind those of its closest domestic competitors.

We anticipate that Bankia will remain focused on downsizing its portfolio of NPAs in the next couple of years, aided by the still benign domestic environment. We forecast an NPL ratio below 3% by end-2021, and an NPA ratio of around 4% of gross loans, driven by further organic reduction. We note positively that, of Bankia's total stock of foreclosed real estate assets, finished properties represent close to 70%, while land accounts for around 7%. At the same time, Bankia maintains satisfactory coverage ratios, with a 48% coverage of NPAs at end-2018, compared with 50% of its peers.

Chart 4

Bankia's Notable Balance Sheet Clean Up Through 2018



*Pro forma portfolio sale. NPLs--Nonperforming loans. Source: S&P Global Ratings.

Bankia's exposure to the real estate sector is low, largely due to the bank transferring its exposure to SAREB at the peak of the financial crisis. With the end of the restructuring plan, the restrictions that the authorities imposed on certain types of lending have disappeared, such as that on real estate developers, project finance companies, and syndications. We do not expect Bankia's risk appetite for these segments to increase significantly, but we will closely monitor the quality of its underwriting.

Table 5

BFA Tenedora de Acciones, S.A.U. Risk Position

	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Growth in customer loans	(4.8)	16.8	(5.0)	(4.9)	(6.3)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	7.9	7.2	6.7	(6.0)	N/A
Total managed assets/adjusted common equity (x)	18.9	18.9	18.5	20.4	25.1
New loan loss provisions/average customer loans	0.3	0.3	0.2	0.4	0.7
Net charge-offs/average customer loans	2.1	(0.0)	1.6	2.0	2.2
Gross nonperforming assets/customer loans + other real estate owned	6.3	8.8	9.8	10.7	12.9
Loan loss reserves/gross nonperforming assets	54.7	51.2	55.6	61.1	58.5

N/A--Not applicable.

Funding and liquidity: Reduced reliance on short-term funding

Bankia benefits from an average funding profile like its domestic peers. In the past few years, the bank has successfully rebalanced its funding profile, mainly by deleveraging sharply and significantly reducing its commercial gap. The bank's loan-to-deposit ratio as of end-2018 stood at 98%, down from 160% at end-2011, and its stable funding ratio at 99%, from 81% at end-2011.

Retail deposits remain Bankia's main funding source, representing about 67% of total funding at end-2018. Other funding sources mainly include covered bonds, interbank deposits, and repurchase agreements. We note that Bankia has recently started issuing senior instruments that are eligible for Minimum Requirement for own funds and Eligible Liabilities (MREL to comply with its 2021 requirement. That said, we anticipate that Bankia's reliance on wholesale funding will remain within manageable levels. In particular, Bankia plans to issue around €5.0 billion of additional eligible MREL-compliant liabilities over the next two years.

Upcoming wholesale maturities for the remaining of this year and next amount to €2.7 billion, relating to covered bonds. This represents 1.3% of total assets, which we view as manageable. We note that from 2014, Bankia regained regular access to the capital markets, taking advantage of renewed investor confidence to diversify its funding sources. In 2017, the bank issued a €500 million Tier 2 instrument and a €750 million AT1 instrument, in 2018 it issued another €500 million AT1 instrument--fully covering its 1.5% regulatory bucket--and in 2019 it has issued a €1 billion Tier 2 instrument, €500 million senior unsecured debt, and its first senior nonpreferred instrument for a total €500 million.

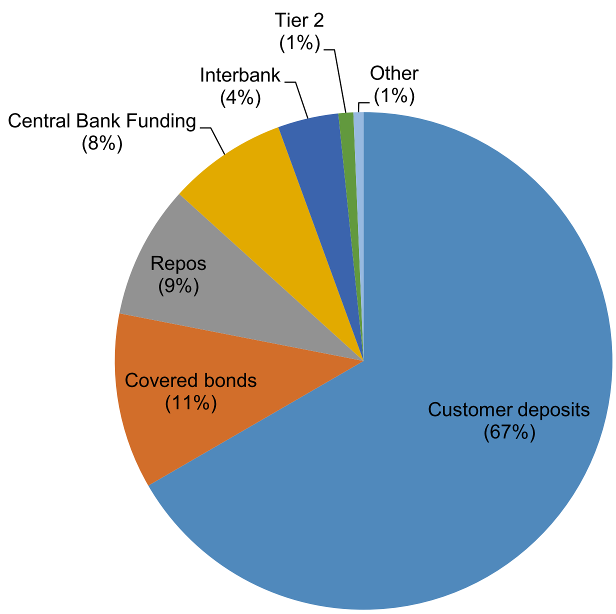
The bank's reliance on ECB funding amounted to €13.9 billion as of end-March 2019, representing around 6.7% of total assets. Like its peers, Bankia has made use of this funding source for opportunistic purposes.

Bankia's reliance on short-term funding has declined sharply over recent years, benefiting from a reducing commercial gap, enhanced access to longer-term financing sources, and the disposal of legacy noncore assets. That said, we expect Bankia to continue financing the €19.2 billion portfolio of SAREB bonds mostly with short-term sources. These bonds cannot be sold to third parties and have one-to-three year maturities, but can be rolled over at SAREB's discretion until 2027.

We consider the level of short-term financing to be manageable, particularly as liquid assets more than fully cover potential short-term financing risks. We estimate Bankia's liquidity coverage ratio to be 1.2x, according to our own calculations, as of end-2018.

Chart 5

Funding Breakdown
As Of December 2018



Source: S&P Global Ratings.

Table 6

BFA Tenedora de Acciones, S.A.U. Funding And Liquidity					
	--Year-ended Dec. 31--				
(%)	**2018**	**2017**	**2016**	**2015**	**2014**
Core deposits/funding base	66.6	63.5	56.4	50.6	48.9
Customer loans (net)/customer deposits	98.5	102.1	110.8	119.2	116.4
Long-term funding ratio	89.7	86.8	86.5	71.0	70.3
Stable funding ratio	99.1	113.1	116.3	97.3	95.4
Short-term wholesale funding/funding base	11.2	14.3	14.6	31.3	31.8
Broad liquid assets/short-term wholesale funding (x)	1.2	1.9	2.0	1.0	1.0
Net broad liquid assets/short-term customer deposits	3.4	21.7	27.4	2.4	2.2
Short-term wholesale funding/total wholesale funding	32.9	38.8	33.4	63.4	62.2
Narrow liquid assets/3-month wholesale funding (x)	3.3	7.1	9.4	1.8	1.3

Support: No notches of uplift to the stand-alone credit profile

We do not include notches in the long-term rating on Bankia under our ALAC criteria because we believe that its ALAC ratio is unlikely to exceed our 5% threshold over our projection period. We calculate that Bankia's ALAC was about 1.8% of S&P Global Ratings-adjusted RWA at Dec. 31, 2018. We consider that the ALAC ratio is likely to hover around 4.5% by end-2021, including common equity above the amount already incorporated in the stand-alone credit profile, outstanding ALAC-eligible hybrids, and other bail-in-able instruments that the bank is likely to complete in coming years to comply with MREL regulatory requirements. In particular, in May 2019, Bankia announced an MREL requirement of 23.66% of its regulatory RWAs, based on the December 2017 consolidated financials, to be fulfilled by July 1, 2021. We believe these issues have the capacity to absorb losses without triggering a default on senior obligations.

Hybrid issue ratings

Our 'BB-' rating on Bankia's AT1 instruments and our 'BB+' rating on its Tier 2 subordinated instruments stand four and two notches below our 'bbb' stand-alone credit profile on the entity, respectively. We derive these gaps as follows:

- One notch for contractual subordination for both instruments, since Bankia is an investment-grade issuer;
- Two notches for Tier 1 regulatory capital status for the AT1 instrument;
- No notches for the Tier 2 subordinated instruments because they are nondeferrable; and
- One notch for both the AT1 and Tier 2 instruments because they contain a contractual common equity conversion clause.

We expect that the bank's CET1 ratio will remain significantly higher than the 5.125% contractual trigger that would lead to common equity conversion. In particular, Bankia's fully loaded CET1 ratio stood at 12.61% as of end-March 2019, comfortably above its 9.25% SREP requirement for 2019. Since we see the 5.125% as a nonviability trigger, we make no further downward adjustments to our ratings on the AT1 and Tier 2 subordinated instruments.

Resolution counterparty rating (RCR)

We set the resolution counterparty ratings (RCRs) on Bankia at 'BBB+/A-2', one notch above our long-term ICR on the entity. The RCR also reflects our jurisdiction assessment for Spain.

An RCR is a forward-looking opinion of the relative default risk of certain senior liabilities that may be protected from default through an effective bail-in resolution process for the issuing financial institutions. RCRs apply to issuers in jurisdictions where we assess the resolution regime to be effective and we consider the issuer likely to be subject to a resolution that entails a bail-in if it reaches nonviability.

Related Criteria

- Criteria - Financial Institutions - General: Methodology For Assigning Financial Institution Resolution Counterparty Ratings, April 19, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | Banks: Bank Rating Methodology And Assumptions: Additional Loss-Absorbing Capacity, April 27, 2015
- Criteria | Financial Institutions | Banks: Bank Hybrid Capital And Nondeferrable Subordinated Debt Methodology And Assumptions, Jan. 29, 2015

- General Criteria: Group Rating Methodology, Nov. 19, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- Criteria | Financial Institutions | Banks: Commercial Paper I: Banks, March 23, 2004

Related Research

- Banking Industry Country Risk Assessment Update: June 2019, June 27, 2019
- Ratings on Two Spanish Banks Raised, Most Affirmed On Receding Economic Risks, May 31, 2019
- Spain 'A-/A-2' Ratings Affirmed; Outlook Positive, March 22, 2019
- Spanish Banks 2019 Outlook: On A Firmer Footing, March. 8, 2019
- Banking Industry Country Risk Assessment: Spain, Feb. 6, 2019
- Spain-Based Bankia 'BBB/A-2' Ratings Affirmed; Outlook Stable, Feb. 6, 2019
- Banking Risk Indicators: December 2018 Update, Jan. 3, 2019

Anchor Matrix

Industry Risk	Economic Risk									
	1	2	3	**4**	5	6	7	8	9	10
1	a	a	a-	bbb+	bbb+	bbb	-	-	-	-
2	a	a-	a-	bbb+	bbb	bbb	bbb-	-	-	-
3	a-	a-	bbb+	bbb+	bbb	bbb-	bbb-	bb+	-	-
4	bbb+	bbb+	bbb+	**bbb**	bbb	bbb-	bb+	bb	bb	-
5	bbb+	bbb	bbb	bbb	bbb-	bbb-	bb+	bb	bb-	b+
6	bbb	bbb	bbb-	bbb-	bbb-	bb+	bb	bb	bb-	b+
7	-	bbb-	bbb-	bb+	bb+	bb	bb	bb-	b+	b+
8	-	-	bb+	bb	bb	bb	bb-	bb-	b+	b
9	-	-	-	bb	bb-	bb-	b+	b+	b+	b
10	-	-	-	-	b+	b+	b+	b	b	b-

Ratings Detail (As Of July 3, 2019)*	
Bankia S.A.	
Issuer Credit Rating	BBB/Stable/A-2
Resolution Counterparty Rating	BBB+/--/A-2

Ratings Detail (As Of July 3, 2019)*(cont.)	
Commercial Paper	A-2
Preferred Stock	BB-
Senior Secured	AA-/Positive
Senior Subordinated	BBB-
Senior Unsecured	A-2
Short-Term Debt	A-2
Subordinated	BB+
Issuer Credit Ratings History	
06-Apr-2018	BBB/Stable/A-2
09-Feb-2017	BBB-/Positive/A-3
05-Apr-2016	BB+/Positive/B
02-Dec-2015	BB/Positive/B
22-Apr-2015	BB/Stable/B
27-Nov-2014	BB/Negative/B
Sovereign Rating	
Spain	A-/Positive/A-2
Related Entities	
BFA Tenedora de Acciones, S.A.U.	
Issuer Credit Rating	BBB-/Stable/A-3

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.