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Ratings

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Bankia S.A.

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Bankia S.A.

SACP	bbb	+	Support	0	+	Additional Factors	0

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

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

Issuer Credit Rating
BBB/Watch Pos/A-2

Resolution Counterparty Rating
BBB+/Watch Pos/A-2

Major Rating Factors

Strengths:	Weaknesses:
• Large banking franchise in Spain, with more than 11% market share on a stand-alone basis. • Sufficient capital buffer to absorb the effects of the current economic shock. • High share of low-risk mortgage lending. • The potential benefit from the integration into a larger group, CaixaBank, upon completion of the announced merger.	• Heightened pressure on already weak profitability, given limited earnings--constrained by high volume of lower-yielding mortgage loans--amid the COVID-19-related economic shock. • More limited business and geographical diversification than some of its closest peers. • Higher than peers' stock of problematic assets at the onset of the current crisis, despite a substantial transfer to Spain's bad bank SAREB in 2012.

CreditWatch

We intend to resolve the CreditWatch placement once the relevant authorities approve Bankia's merger with CaixaBank and the transaction is completed. We anticipate that this could occur during the first quarter of 2021.

We placed Bankia's long-term rating on CreditWatch positive to indicate that we could raise it by one notch to match our rating on CaixaBank, if the deal is completed as announced and assuming other factors remain unchanged. The upgrade would indicate that Bankia would benefit from its integration within a stronger group and, ultimately, its merger with CaixaBank.

A positive rating action on Bankia would likely trigger a similar action on the bank's long-term RCR and hybrid instruments, as well as on our long- and short-term ratings on BFA Tenedora de Acciones S.A.U. (BFA).

If the transaction does not go through--contrary to our base case--we could resolve the CreditWatch placement by affirming the ratings on Bankia and BFA, if other factors remain unchanged.

Rationale

On a stand-alone basis, our ratings on Bankia factor in its large domestic franchise; its solvency, which we see as adequate for the risks it faces and ample enough to absorb the COVID-19 economic shock; and its low-risk, mortgage-focused, and well-seasoned portfolio, which should see lower asset quality deterioration compared to other Spanish players that have a higher exposure to companies. However, our ratings also reflect Bankia's limited business and geographical diversification compared to some of its closest peers, as well as its weak core operating profitability which is under mounting pressure in the current context. In fact, we project that its return on equity will remain positive but below 1% in 2020.

Despite a notable improvement since year-end 2017, Bankia's asset-quality metrics remained somewhat weaker than peers' at the onset of the COVID-19 pandemic, with nonperforming assets (NPAs) equaling 6.4% of gross loans at end-2019, versus an estimated 5.0% average for its closest domestic competitors on the same date, and an estimated 7.0% for the Spanish banking sector overall. 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) and other short-term funding, we note that it still has a large holding of less-liquid and low-yield SAREB bonds.

Our current CreditWatch positive on Bankia's long-term ratings reflects its announced merger with CaixaBank--expected to close in the first quarter of 2021--which will result in a national champion in Spain, with consolidated assets of around €660 billion and market shares in loans and deposits of around 25% (see Spain-Based CaixaBank Affirmed As Merger With Bankia Announced; Bankia Placed On CreditWatch Positive, published on Sept. 23, 2020). In the long term, the merger should help the entities to alleviate their structural low profitability, once economies of scale and synergies are realized. This is despite some likely business attrition and potential downside risks associated with the restructuring of both banks' branch networks and staff. We also consider that execution risks, while considerable, should prove to be manageable. If successful and approved by relevant authorities, CaixaBank will absorb Bankia, which will cease to exist as a separate entity and whose brand will disappear. In this scenario, we expect to equalize the ratings on Bankia with those on CaixaBank, before withdrawing them.

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 [SACP]: 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), Italy-based UBI Banca SpA (bbb-), and Portugal-based Banco Comercial Portugues (bb). In addition, we compare Bankia with other entities in which public authorities have a majority ownership, namely AIB Group PLC (bbb), Natwest Group (formerly Royal Bank of Scotland (bbb+)), and ABN Amro (a-).

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 economic risk as negative and the trend for industry risk as stable.

Spanish banks operate in a wealthy economy that, following the severe, double-dip recession of 2009-2013, managed to return to growth and correct previous imbalances, notably the persistent current account deficit and the previously high private sector indebtedness. The economy's external account has been in surplus since 2013, while private sector leverage is now adequately aligned to its debt capacity, after having declined by the equivalent of almost 80 percentage points of GDP over the past eight years. Although it has taken a while, the banking system has also largely completed the provisioning of nonperforming assets (NPAs) that were left after the property bubble burst and recession ensued, and note stronger capital overall. In our view, the property market no longer shows signs of imbalances.

That said, the outbreak of COVID-19, and the lockdown measures imposed to contain its spread, represent a meaningful shock for the Spanish economy. We expect GDP to fall severely in 2020, and consider it unlikely to return to pre-COVID levels until 2022. Certain sectors will be more affected than others, such as tourism, which is particularly important for the Spanish economy. In addition, unemployment will increase from already comparatively high levels, potentially reaching 17.5% in 2021, and the government's fiscal accounts will also suffer. As a result, we also expect banks' asset quality to deteriorate and credit costs to rise, despite support measures that the government and banks have put in place to help borrowers navigate this difficult period. We estimate that credit provisions will double from 2019 levels, standing at 80 basis points (bps) of average loans in both 2020 and 2021. Existing plans to continue reducing the remaining stock of legacy NPAs from the previous downturn (7.3% at end-2019 according to our estimates) will be difficult to execute, in our view.

Our assessment of industry risk reflects Spanish banks' balanced funding profiles and ample liquidity, as well as the profitability challenges ahead. Customer deposits now fund the bulk of banks' loan books, and at historically low costs. Reliance on wholesale market funding is therefore limited and markets remain open. In addition, through the TLTRO III program and the recently launched PELTRO facility, the European Central Bank will continue to ensure banks' access to funding, if needed, at attractive prices. The COVID-19 shock, however, will aggravate existing profitability challenges resulting from low rates, limited business growth, and intense competition. The prospect of banks achieving returns in line with their cost of capital was already remote, particularly for midsize banks, and much more so in the current environment. Banks' profitability will decline substantially in 2020, from the combination of weaker earnings and increased credit costs, and will only partially recover in 2021. However, we expect Spanish banks to remain fairly efficient compared to peers.

Table 1

Bankia S.A.--Key Figures

	--Fiscal year ended Dec. 31--				
(Mil. €)	**2020***	**2019**	**2018**	**2017**	**2016**
Adjusted assets	220,259	210,380	207,369	217,673	193,830
Customer loans (gross)	125,595	120,614	122,413	128,546	110,088
Adjusted common equity	10,806	10,940	10,971	11,528	10,511
Operating revenues	1,585	3,333	3,277	3,147	3,199
Noninterest expenses	983	2,123	2,175	1,969	1,795
Core earnings	38	323	406	575	608

The figures refer to BFA's consolidated financial information, and do not consider the announced merger with CaixaBank. *Refers to June 2020 data.

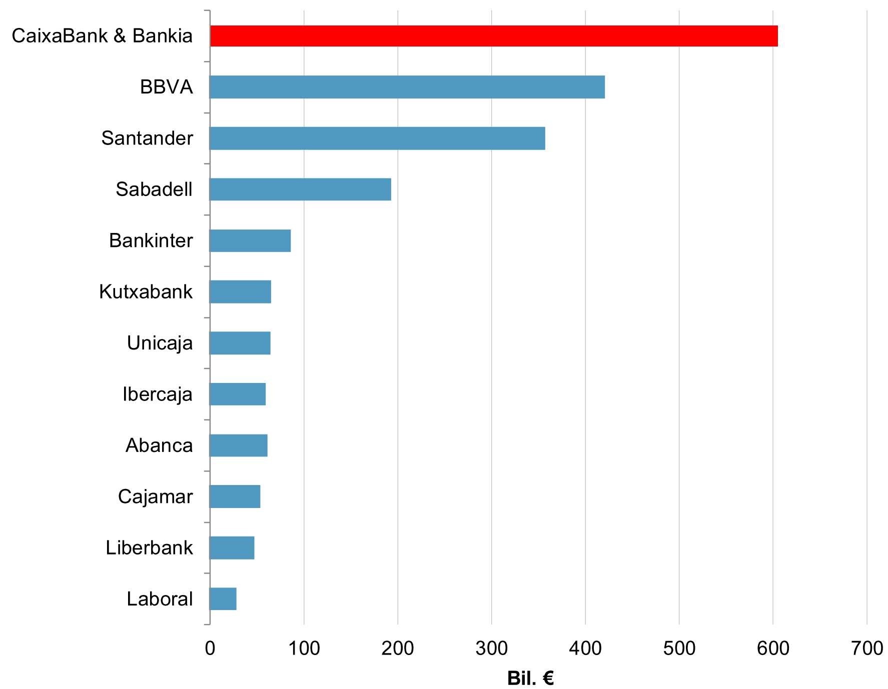
Business position: Weak profitability balanced by its large domestic franchise

Our view of Bankia's business position factors in its large domestic franchise, which is, however, more geographically concentrated and less diversified by product than that of some peers. In addition, its already weak profitability is now under mounting pressure.

With €218.5 billion in assets at end-June 2020, Bankia is the fourth-largest financial institution in Spain by total domestic assets, on a stand-alone basis, with nationwide market shares of about 12% in loans and 11% in deposits. If the announced merger between CaixaBank and Bankia is successful and approved by relevant authorities--which is our base case--it will create the largest bank in Spain with consolidated assets of around €660 million and market shares in loans and deposits of around 25%.

Chart 1

The Merger Of Bankia With CaixaBank Will Create A National Champion
Domestic assets as of June 2020



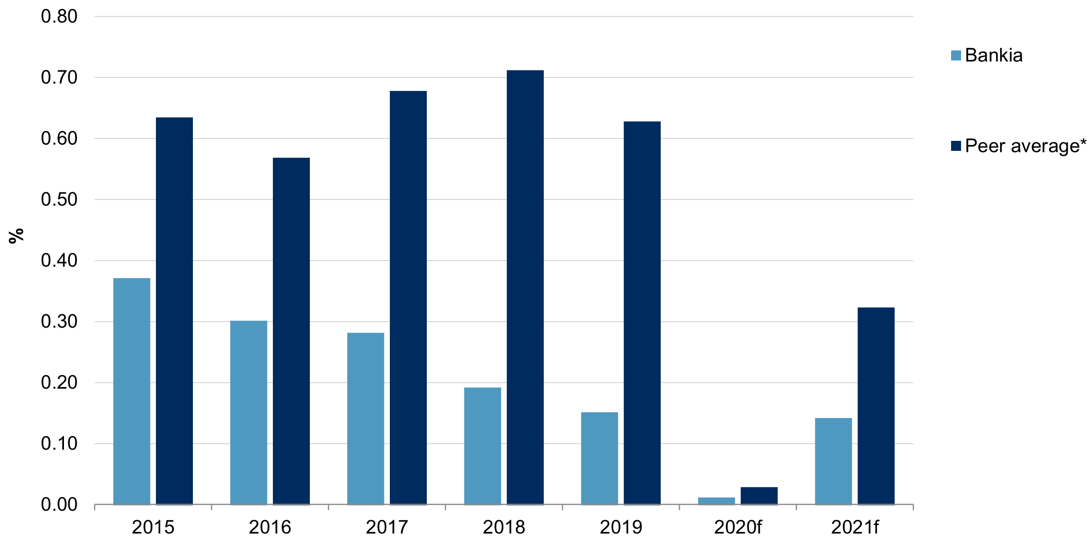
Source: Banks' financial reports, S&P Global Ratings.

On a stand-alone basis, Bankia's franchise is particularly strong in mortgage lending, where it held a market share of 12.4% at end-August 2020. It is also present in all other lending segments, although much less so, holding 8.0% market share in corporate lending and 5.9% in consumer lending, on the same date, as well as mutual funds (7.5%). Compared with larger domestic peers, however, its scale and market share are more limited, as is its business diversification. Bankia also lacks the international presence of some of its closest peers.

Until the outbreak of COVID-19, Bankia's profitability was already weak and lagging that of peers, with its operating revenue pressured by ultra-low interest rates and the significant weight of mortgages in its loan book, with a notable portion generated in the boom years, with tight spreads. In addition, bottom-line profitability was strongly supported by a cost of risk well below the sector average and below Bankia's normalized cost of risk. Bankia's revenue stream is under rising pressure on the back of ultra low interest rates and higher credit losses amid the COVID-19-related economic shock. We estimate its ROE will likely remain positive but below 1% this year. This level is below that of its closest peer group, including other government-owned banks. Positively, the merger with CaixaBank could help both banks alleviate their current profitability problems, once economies of scale and synergies are realized, and despite some likely business attrition.

Chart 2

Bankia's Core Operating Profitability Will Likely Remain Behind That of Peers'
Core earnings to average adjusted assets



f--Forecast. *Peers include Caixabank, Bankinter, Banco de Sabadell, Kutxabank, Pekao, Bank of Ireland Group PLC, AIB Group PLC, UBI Banca SpA, Banco Comercial Portugues, NatWest Group plc (formerly The Royal Bank of Scotland Group plc), and ABN Amro. Source: S&P Global Ratings.

Bankia successfully emerged in 2017 from a deep restructuring plan agreed with the European authorities when the bank was rescued by the Spanish Government. The main action pending after the bank's restructuring relates to its privatization and the exit of the Fund for Orderly Bank Restructuring (FROB), which currently holds a 61.8% stake in Bankia--and ultimately of the Spanish government--from the shareholder base. If the merger with CaixaBank successfully completes, the FROB's participation in the combined entity will dilute to around 16%, making it only a minority shareholder. This could make it easier to dispose of its remaining interest in the merged entity in the coming years.

Table 2

Bankia S.A.--Business Position

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Total revenues from business line (currency in millions)	1,882	3,997	4,099	3,713	4,221
Commercial banking/total revenues from business line	16.9	15.3	14.3	14.7	13.5
Retail banking/total revenues from business line	48.1	50.7	46.9	43.4	43.6
Commercial & retail banking/total revenues from business line	N/A	N/A	N/A	58.1	57.1
Other revenues/total revenues from business line	35.0	34.0	38.8	41.9	42.9

Table 2

Bankia S.A.--Business Position (cont.)

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Return on average common equity	0.2	1.1	2.6	3.0	0.7

The figures refer to BFA's consolidated financial information, and do not consider the announced merger with CaixaBank. *Refers to June 2020 data. N/A--Not applicable.

Capital and earnings: Ample capital buffer to absorb the COVID-19 economic shock

Bankia's solvency has improved materially in the past few years on the back of supportive economic conditions in Spain and capital-enhancing measures including disposals of noncore assets, increasing organic capital generation, and the issuance of hybrid instruments. At end-2019, its RAC ratio stood at 9.4%, up from 6.9% at end-2015.

Amid mounting pressure on its profitability, we anticipate that Bankia's capitalization on a stand-alone basis would decline somewhat, but remain resilient overall despite the tough economic environment. We project a RAC ratio for Bankia alone at about 8.75%-9.25% in 2020. If we were to reassess our view of economic risk in Spain to '5', from '4' currently, this would translate into an additional reduction of around 110 bps from Bankia's RAC.

These forecasts assumed that Bankia's operating revenues would decline by close to 5% this year, before recovering slightly in 2021. This was mostly due to compressed margins but also lower sources of other income, and despite higher fees and commissions (reported 10.5% increase year on year for the first nine months of 2020, at the operating bank level). In terms of volumes, we anticipated higher loan growth of about 3%, with an important part explained by new loan origination to the corporate sector, taking advantage of government guarantees programs. In addition, we projected that Bankia's cost of risk would hike to about 90 bps, versus a reported 25 bps in 2019, excluding extraordinary provisions. This is relatively in line with Bankia's reported cost of risk for 9M20 results.

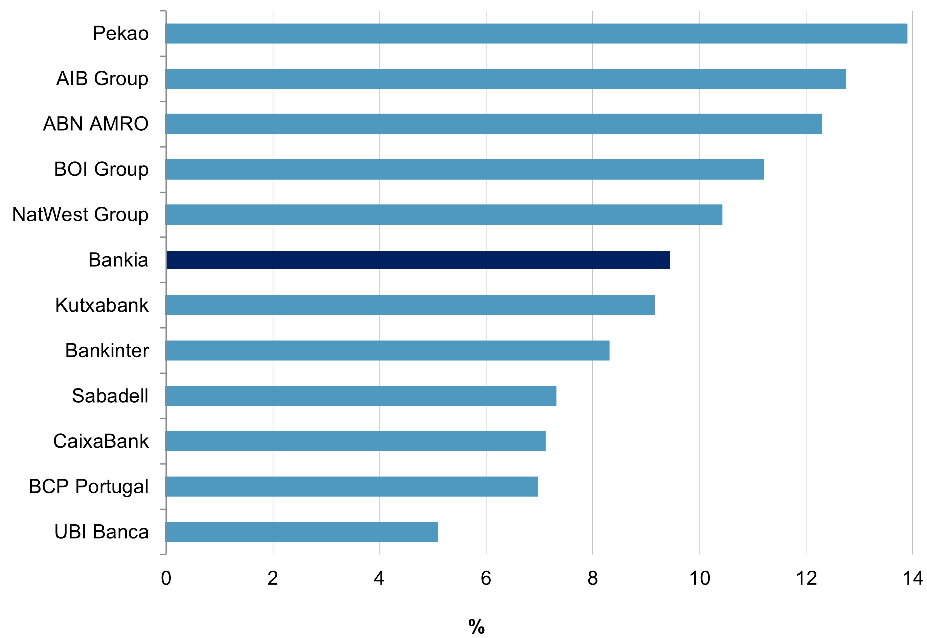
Overall, we expected Bankia's bottom-line profits to decline by about 80% in 2020 versus 2019. Our forecasts did not contemplate future contingencies related to legacy risks (such as claims against the misselling of preference shares, and removal of mortgage floors), which we believe are now contained. In addition, Spain's Supreme Court recently ruled that the mortgage-index Indice de Referencia de Prestamos Hipotecarios (IRPH) is not abusive to borrowers, limiting the risk of Bankia and its domestic peers facing significant claims against its usage. Furthermore, we assumed no dividends distribution for 2020.

Our above-mentioned forecasts refer to Bankia alone, and do not consider the benefits from the integration into the larger CaixaBank. If successful, the merger should help the entities to alleviate their structural low profitability in the long term, through increased pricing power, economies of scale, and better operational efficiency, in our view. This is despite some likely business attrition and potential downside risks associated with the restructuring of both banks' branch networks and staff. That said, profitability prospects for the Spanish banking sector remain gloomy, given the low interest rates and increased credit costs.

At Sept. 30, 2020, Bankia reported a regulatory phase-in CET1 ratio of 15.95%--well above its 8.38% supervisory review and evaluation process (SREP) requirement--or 14.79% on a fully loaded basis. This compares with management's targets of a fully loaded CET1 ratio of at least 12.0% by year-end 2020, roughly in line with that of other domestic peers. We note positively that Bankia's phase-in CET1 buffer versus its requirement is among the largest of the banks that we rate in Spain, equivalent to more than 7% at end-September 2020. If the merger with CaixaBank is successful, part of this buffer will be used to cover valuation adjustments and restructuring costs.

Chart 3

Bankia's Large Capital Buffer Should Allow It To Better Absorb The Current Economic Shock
RAC ratios as of YE2019



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) €2.6 billion of DTAs (including tax-loss carry forward). Bankia's convertible DTAs, which we don't deduct from the bank's TAC and which we risk weight at 250%, equaled a high 66% of its TAC at end-June 2020.

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-June 2020. In addition, we consider Bankia's earnings profile relatively predictable, with net interest income and fees and commissions accounting for about 90% of operating revenue over the past five years.

Table 3

Bankia S.A.--Capital And Earnings

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Tier 1 capital ratio	14.5	14.8	14.0	14.2	14.9
S&P Global Ratings' RAC ratio before diversification	N/A	9.4	8.4	7.3	6.7
S&P Global Ratings' RAC ratio after diversification	N/A	8.8	7.8	6.8	6.3
Adjusted common equity/total adjusted capital	89.6	89.7	89.8	93.9	100.0
Net interest income/operating revenues	58.3	60.8	63.4	63.8	68.7
Fee income/operating revenues	36.8	32.3	31.7	27.2	25.1
Market-sensitive income/operating revenues	1.8	3.0	0.8	5.9	0.7
Cost to income ratio	62.0	63.7	66.4	62.6	56.1
Preprovision operating income/average assets	0.6	0.6	0.5	0.6	0.7
Core earnings/average managed assets	0.0	0.2	0.2	0.3	0.3

The figures refer to BFA's consolidated financial information, and do not consider the announced merger with CaixaBank. *Refers to June 2020 data. N/A--Not applicable. RAC--Risk adjusted capital.

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 Ratings RWA**	**Average S&P Global Ratings RW (%)**
Credit risk					
Government & central banks	87,805.5	9,341.0	10.6	6,830.0	7.8
Of which regional governments and local authorities	3,949.0	11.0	0.3	444.3	11.3
Institutions and CCPs	5,954.0	2,210.0	37.1	1,986.5	33.4
Corporate	37,916.0	18,987.0	50.1	34,119.0	90.0
Retail	78,901.0	27,678.0	35.1	39,265.4	49.8
Of which mortgage	61,260.0	18,665.0	30.5	22,413.7	36.6
Securitization§	487.2	275.0	56.4	1,043.6	214.2
Other assets†	19,004.0	7,358.0	38.7	34,480.4	181.4
Total credit risk	230,067.7	65,849.0	28.6	117,724.9	51.2
Credit valuation adjustment					
Total credit valuation adjustment	--	175.0	--	227.5	--
Market Risk					
Equity in the banking book	371.0	927.0	249.9	3,246.3	875.0
Trading book market risk	--	1,087.5	--	1,738.8	--
Total market risk	--	2,014.5	--	4,985.0	--
Operational risk					
Total operational risk	--	5,600.0	--	6,179.4	--
	Exposure	**Basel III RWA**	**Average Basel II RW (%)**	**S&P Global Ratings RWA**	**% of S&P Global Ratings RWA**
Diversification adjustments					
RWA before diversification	--	77,551.0	--	129,116.8	100.0

Table 4

BFA Tenedora de Acciones, S.A.U.--Risk-Adjusted Capital Framework Data (cont.)					
Total diversification/ concentration adjustments	--	--	--	9,561.7	7.4
RWA after diversification	--	77,551.0	--	138,678.5	107.4
		Tier 1 capital	**Tier 1 ratio (%)**	**Total adjusted capital**	**S&P Global Ratings RAC ratio (%)**
Capital ratio					
Capital ratio before adjustments		12,376.0	16.0	12,190.1	9.4
Capital ratio after adjustments‡		12,376.0	15.8	12,190.1	8.8

*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 2019, S&P Global Ratings.

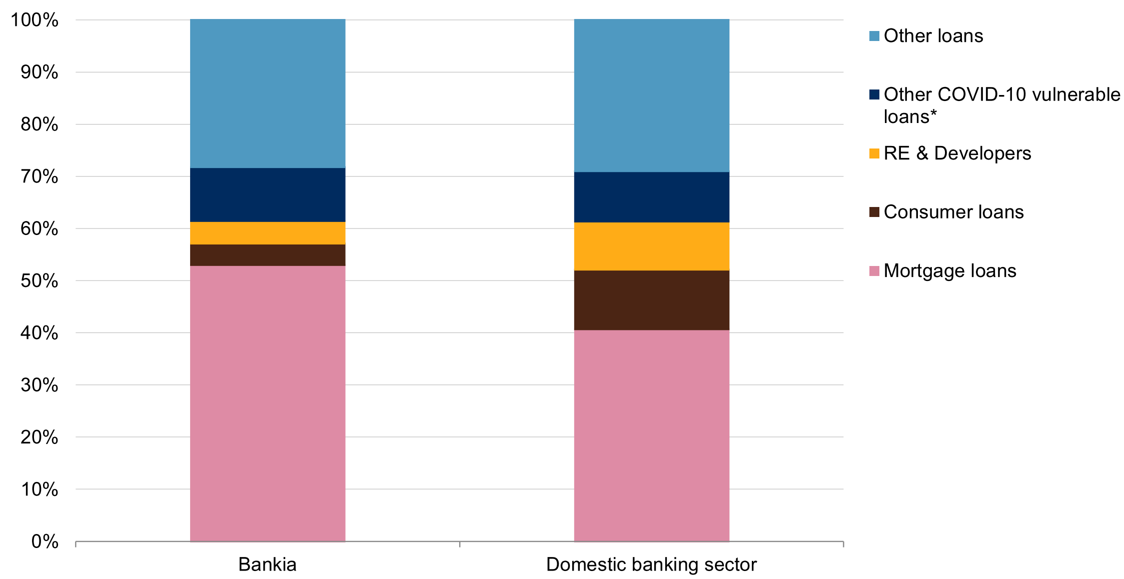
Risk position: Mortgage-focused and well-seasoned portfolio should help contain asset quality deterioration

Bankia's risk management has been completely revamped since its bail-out in 2012 and its credit risk culture has strengthened throughout the organization in what was a long and complex process. For this reason, we expect Bankia's loan book will prove resilient in the challenging environment ahead, despite some deterioration. In addition, we believe that the comparatively high volume of less risky mortgages in its loan book should result in lower asset quality deterioration when compared to other Spanish players that have higher exposure to companies.

Amid the COVID-19 economic shock, we anticipate a reversal of Bankia's previously improving asset quality trend, as is the case for its peers. We forecast that its individual NPA ratio, before the combination with CaixaBank, will increase to just under 7.0% this year, from an estimated 6.4% in 2019. We note positively that mortgage loans represent the bulk of Bankia's portfolio, accounting for a reported 53% of total loans at end-June 2020, a segment that we anticipate will suffer less than corporate and consumer loans in the current environment. Bankia's exposure to sectors that we currently see as more vulnerable--such as tourism, real estate and construction, transportation, and wholesale and retail trade--is relevant, equivalent to somewhat less than 15% of its total loan book, but lower than our estimated 17% average for the domestic banking sector.

Chart 4

Bankia's Exposure To Less Risky Mortgage Loans Is Well Above The Domestic Average
Loan book by segment, as of June 2020



Source: S&P Global Ratings.

On top of the relief measures established by the government to help households and businesses during the pandemic, Bankia, like many of its peers, is offering expanded solutions. At end-September 2020, it had granted €4.5 billion payment moratoria--mostly on mortgages--equivalent to 6.8% of its mortgage loan book. In addition, it had granted €6.7 billion financing under the established government guarantee program, equivalent to 21% of its corporate loan book. In relative terms, both relief measures are somewhat higher than those of its closest domestic peers.

Despite our belief that Bankia's portfolio will experience lower asset quality deterioration than some Spanish players, we note that it is entering this crisis with a still high stock of NPAs (€8.4 billion at the operating bank level at end-2019) and asset-quality metrics that are still behind those of its closest domestic competitors. Bankia has managed to derisk its balance sheet since end-2017, reducing gross NPAs by slightly more than 50% in the last two years, but it has followed a less aggressive approach than many peers so as to preserve higher value. Even if Bankia maintains satisfactory coverage ratios, with 50% coverage of NPAs at end-June 2020, we believe it will prove more challenging to accelerate a balance-sheet clean-up in the next two years.

We consider Bankia's single-name concentration to be manageable, with its top-20 largest exposures representing about 0.9x of TAC at end-2019.

Table 5

Bankia S.A.--Risk Position

	--Fiscal year ended--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Growth in customer loans	8.3	(1.5)	(4.8)	16.8	(5.0)
Total diversification adjustment/S&P Global Ratings' RWA before diversification	N/A	7.1	7.9	7.2	6.7
Total managed assets/adjusted common equity (x)	20.4	19.3	18.9	18.9	18.5
New loan loss provisions/average customer loans	0.8	0.4	0.3	0.3	0.2
Net charge-offs/average customer loans	N.M.	1.2	2.1	(0.0)	1.6
Gross nonperforming assets/customer loans + other real estate owned	4.7	4.9	6.3	8.8	9.8
Loan loss reserves/gross nonperforming assets	55.8	54.4	54.7	51.2	55.6

The figures refer to BFA's consolidated financial information, and do not consider the announced merger with CaixaBank. *Refers to June 2020 data. N/A--Not applicable. N.M.--Not meaningful. RWA--Risk weighted assets.

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. The bank's loan-to-deposit ratio as of end-June 2020 stood at 99%, down from 160% at year-end 2011, and its stable funding ratio at 99%, up from 81%.

Retail deposits remain Bankia's main funding source, representing about 64% of total funding at end-June 2020. Other funding sources include covered bonds, interbank deposits, and ECB funding. We note that Bankia recently started issuing senior instruments that are eligible to comply with its minimum requirement for own funds and eligible liabilities (MREL) 2024 requirement. Upcoming wholesale maturities for this year and next amount to €2.3 billion, relating mostly to covered bonds, an amount that we see as manageable.

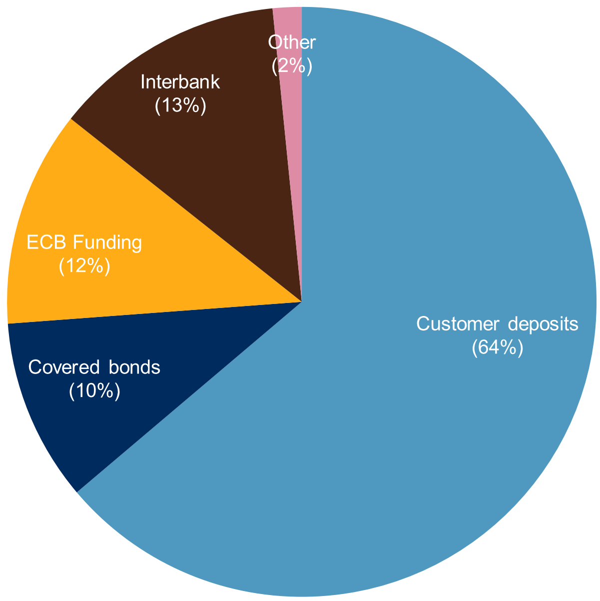
The bank's reliance on ECB funding amounted to €22.9 billion as of end-September 2020, representing 10.5% of total assets. Like many peers, Bankia has made full use of its maximum allowance for this funding source, given its attractive terms. In addition, it has the capacity to issue a further €20 billion covered bonds, if needed.

Bankia's reliance on short-term funding has declined sharply in recent years, benefiting from a reducing commercial gap, enhanced access to longer-term financing sources, and the disposal of legacy noncore assets. That said, it still holds €18.4 billion portfolio of SAREB bonds (8% of assets). 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 calculate Bankia's liquidity coverage ratio to be 1.2x, as of end-June 2020.

Chart 5

Retail Deposits Are Bankia's Main Funding Source
As of June 2020



Source: S&P Global Ratings.

Table 6

Bankia S.A.--Funding And Liquidity

	--Fiscal year ended Dec. 31--				
(%)	**2020***	**2019**	**2018**	**2017**	**2016**
Core deposits/funding base	63.8	65.1	66.6	63.5	56.4
Customer loans (net)/customer deposits	99.1	98.3	98.5	102.1	110.8
Long-term funding ratio	86.4	86.7	89.7	86.8	86.5
Stable funding ratio	98.5	99.1	99.1	113.1	116.3
Short-term wholesale funding/funding base	14.6	14.5	11.2	14.3	14.6
Broad liquid assets/short-term wholesale funding (x)	1.1	1.1	1.2	1.9	2.0
Net broad liquid assets/short-term customer deposits	1.5	2.2	3.4	21.7	27.4
Short-term wholesale funding/total wholesale funding	39.7	40.6	32.9	38.8	33.4
Narrow liquid assets/3-month wholesale funding (x)	4.7	5.0	3.3	7.1	9.4

The figures refer to BFA's consolidated financial information, and do not consider the announced merger with CaixaBank. *Refers to June 2020 data.

Environmental, Social, And Governance (ESG)

We view Bankia's exposure to ESG risks and opportunities as broadly in line with those of the industry and Spanish peers. Management has largely rebuilt the bank's franchise and financial strength, both of which were hurt by its severe financial difficulties earlier in the decade and its subsequent nationalization. Like several banks in Europe and the U.S., Bankia has not been immune to governance problems. Its former CEO and several other directors and executives were accused of fraudulent activities by Spain's High Court. Some have received jail terms. We note that the entire board and management team were renewed in 2012 and therefore no longer affect Bankia's creditworthiness.

The bank's governance and risk controls are now in line with the domestic peers. Although ultimately majority-owned by the Spanish government, the bank has always been managed independently. With its large retail franchise, Bankia is exposed to conduct risks. Some legacy events and legal cases have financially and reputationally affected the bank in the recent past, such as the misselling to retail customers of preference shares and subordinated debt, as well as equity shares at the time of the bank's IPO, and the inclusion of interest rate floors in some of its mortgages. Overall, we believe those cases reflect increasing consumer awareness and activism, but we do not consider Bankia to be more exposed to those risks than domestic peers' from a credit perspective. We believe the bank's exposure to environmental risk, essentially transition risks in the lending and investing activities, is manageable and in line with industry peers.

Support: No notches of uplift to the SACP.

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 consider that Bankia's ALAC ratio is likely to hover around 4.0% by year-end 2020, on a stand-alone basis. In our calculation, we include common equity above the amount already incorporated in the SACP, outstanding ALAC-eligible hybrids, and other bail-inable instruments that the bank is likely to complete in the coming years to comply with MREL regulation. We believe these issues have the capacity to absorb losses without triggering a default on senior obligations. As of end-September 2020, Bankia reported a 24.32% MREL ratio, above its required 23.66% of regulatory RWAs to be fulfilled by 2024.

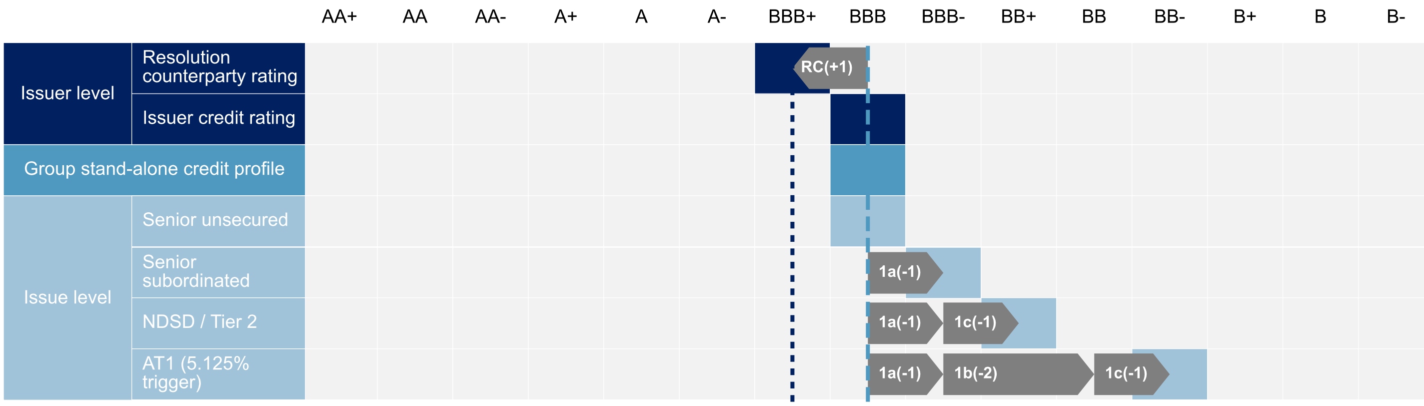
If the announced merger is successful and approved by relevant authorities, CaixaBank will absorb Bankia, which will cease to exist as a separate entity. In this scenario, we expect to equalize the ratings on Bankia with those on CaixaBank.

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' SACP 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 the AT1 instrument to reflect the ability to defer coupon payments and its Tier 1 regulatory capital status.
- No notches for the Tier 2 subordinated instruments because coupon payments are nondeferrable.
- One notch for the AT1 instrument because it contains a contractual common equity conversion clause, and one notch for the Tier 2 instrument, given that it is a regulatory capital instrument and we believe that authorities could force its write down to absorb losses before the institution reaches the point of nonviability.

Bankia S.A: Notching



Key to notching

-----	Group stand-alone credit profile
------	Issuer credit rating
RC	Resolution counterpartyliabilities (senior secured debt)
1a	Contractual subordination
1b	Discretionary or mandatory nonpayment clause and whether the regulator classifies it as regulatory capital
1c	Mandatory contingent capital clause or equivalent

Note: The number-letter labels in the table above are in reference to the notching steps we apply to hybrid capital instruments, as detailed in table 3 of our “Hybrid Capital: Methodology And Assumptions” criteria, published on July 1, 2019.
AT1--Additional Tier 1. NDSD--Non-deferrable subordinated debt.

Resolution counterparty rating (RCR)

We set the resolution counterparty ratings (RCRs) on Bankia at 'BBB+/A-2', one notch above our long-term issuer credit rating 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

- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- 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: 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

- Economic Research: The Eurozone Can Still Rebound In 2021 After Lighter Lockdowns, Dec. 1, 2020
- Bulletin: Extending Depositor Preference To All Depositors Would Not Trigger Rating Changes On Spanish Banks, Nov. 25, 2020
- Global Banks 2021 Outlook, Nov. 17, 2020
- Banking Risk Indicators: October 2020 Update, Oct. 28, 2020
- Managing Through The Crisis, Europe's Banks Look To The Future, Sept. 28, 2020
- European Bank Asset Quality: Half-Year Results Tell Only Half The Story, Sept. 28, 2020
- The Resolution Story For Europe's Banks: More Flexibility For Now, More Resilience Eventually, Sept. 28, 2020
- Spain-Based CaixaBank Affirmed As Merger With Bankia Announced; Bankia Placed On CreditWatch Positive, Sept. 23, 2020
- Our Negative Outlook Revision On Spain Does Not Trigger Immediate Rating Actions On Spanish Banks, Sept. 21, 2020
- Spain Outlook Revised To Negative From Stable On Mounting Fiscal and Structural Challenges; Affirmed At 'A/A-1', Sept. 18, 2020
- CaixaBank And Bankia's Potential Merger Could Kick Off A New Wave Of Consolidation, Sept. 4, 2020
- Spanish Banks: COVID-19 Changes Everything, July 24, 2020
- Banking Industry Country Risk Assessment: Spain, June 18, 2020

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 December 11, 2020)*

Bankia S.A.	
Issuer Credit Rating	BBB/Watch Pos/A-2
Resolution Counterparty Rating	BBB+/Watch Pos/A-2
Commercial Paper	A-2
Preferred Stock	BB-/Watch Pos
Senior Secured	AA-/Negative
Senior Secured	AA/Negative
Senior Subordinated	BBB-/Watch Pos
Senior Unsecured	A-2
Short-Term Debt	A-2
Subordinated	BB+/Watch Pos
Issuer Credit Ratings History	
23-Sep-2020	BBB/Watch Pos/A-2
06-Apr-2018	BBB/Stable/A-2
09-Feb-2017	BBB-/Positive/A-3
05-Apr-2016	BB+/Positive/B
Sovereign Rating	
Spain	A/Negative/A-1
Related Entities	
BFA Tenedora de Acciones, S.A.U.	
Issuer Credit Rating	BBB-/Watch Pos/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.