Rating Report

Bankia, S.A.

Spanish Mortgage Covered Bonds

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RATINGS

Cut off date	Mortgage book	Main cover asset type	Covered bonds*	Rating
31 March 2016	EUR 65.2bn	Spanish mortgage loans	EUR 32.3bn	**AAA/Stable**

* Cedulas Hipotecarias (CH) – Spanish mortgage covered bonds

Scope's covered bond ratings constitute an opinion on relative credit risks and reflect the expected loss associated with the payments contractually promised by an instrument on a particular payment date or by its legal maturity. See Scope's website for the Covered Bond Rating Definitions.

Covered bond rating:

Covered bond rating (long term):	AAA
Outlook:	Stable
Last rating action date:	New

Covered bond rating-uplift determination (notches):

Bankia Mortgage covered bonds	
Legal framework	**2**
Resolution regime	**4**
Fundamental factors	**6**[1]
Cover pool analysis	**9**
Covered bond credit differentiation	**N/D***

1 Basis for the additional cover pool analysis elevation.

Issuer Credit-Strength Rating (ICSR):

Long-term:	N/D*
Short-term:	N/D*
Outlook:	N/D*
Last rating action date	New
ICSR and covered bond rating:	Monitored

* N/D - Not disclosed. The issuer solicited the assigned rating and has taken part in the rating process.

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Ratings rationale

Scope's rating of AAA/ Stable for the EUR 32.3bn Cedulas Hipotecarias (Spanish mortgage covered bonds or CH's) issued by Bankia S.A. (Bankia) reflect our opinion on the credit quality of the issuer and is further enhanced by:

- the strong credit benefit from the cover pool analysis. Market risks, in particular mismatch risks, are significant but generously buffered by overcollateralisation provided by the full mortgage book which serves as collateral for the CH's. The maximum credit differentiation of up to nine notches above the issuer rating is supported even after applying severe credit and market value stresses. Asset quality of the collateral is improving but still considered weak in an international context.
- the benefits from the Spanish legal covered bond framework, as well as our credit-positive view on the benefits of the resolution regime, the products and the issuers systemic importance, translating into a six notch credit differentiation.

Scope has assigned a AAA long-term rating to Bankia's covered bonds as the covered bond analysis demonstrates a very high resilience against adverse stresses. This allows us to assign a credit differentiation that exceeds the support of the fundamental legal and resolution regime analysis. The cover pool supports the full potential credit differentiation. Risks from the Spanish economy and its institutional framework are not seen as a constraining rating factor for the mortgage covered bonds.

Scope has established a credit view on Bankia which is constantly monitored. Among the domestically oriented franchises remaining in Spain, we view Bankia as one of the best positioned. The current interest rate environment combined with Bankia's specificities produce a challenging outlook for revenues and profits, but asset quality should continue to improve, lowering the need for provisions going forward. Our credit view on the issuer does not include state support.

Spanish CH's have full recourse to the bank's mortgage book – excluding securitised or other encumbered mortgage loans. This is because, in the Spanish context, the eligibiltiy criteria for cover assets only restricts issuance volumes, while in other European countries only the eligible assets constitute the cover pool. Cover assets are originated in the normal course of business. All covered bonds issued by the bank rank pari passu, regardless of whether they are issued through standalone documentation or under an issuance programme.

Outlook: Stable

The stable outlook for Bankia's CH's reflects: i) the availability of high levels of overcollateralisation providing protection against adverse changes in the collateral asset quality and cash flow structure; ii) our view as to how likely changes in the cover pool's risk structure would affect the rating; iii) the stable credit view on the credit quality of the issuer. A negative one-notch change of the issuer's creditworthiness is unlikely to affect the covered bond rating.

The covered bond rating will be downgraded if we would change our credit view on the issuer by more than one notch, if the issuer significantly reduces the size of the mortgage book providing protection for its CH's, or if the issuer issues signifcant amounts of new CH's. We currently have no indication regarding imminent portfolio sales or securitisations which might prompt a significant reduction of the collateral provided by the mortgage book.

RATING DRIVERS AND MITIGANTS

Positive	Negative
Cover pool support: Recourse to the full mortgage book mitigates the still weak credit quality of the cover pool. Comparatively low exposure against weaker developer loans	**Cover pool support:** High asset-liability mismatch of 13.6 years requires ongoing monetisation of cover pool assets in case of an issuer insolvency.
The issuer: Stable franchise and strong market position in selected segments; credible management team. Improving asset quality remains weak internationally but better than domestic peers.	**Issuer:** Low interest rate environment provides growth and profitability challenges for a retail oriented bank; residual uncertainty around group ownership and structure.
Legal covered bond framework: Spanish covered bond law meets minimum requirements for full legal framework support.	**Legal covered bond framework:** absence of dedicated legal provisions for market and liquidity risk mitigated by high legal minimum oc requirements and recourse to full mortgage book as cover pool
Resolution regime assessment: Covered bonds are excluded from bail-in, and have strong systemic importance and stakeholder support.	
Positive rating-change drivers	**Negative rating-change drivers**
Cover pool support: Support from the cover pool allows us to provide the highest possible credit support to Bankia's CH's	**Cover pool support:** Significant deterioration of the Spanish economy or the house price index negatively impacting the credit quality of borrowers and recovery values; excessive, and currently not expected high volume and short term issuance exacerbating the maturity mismatch of the covered bond structure.
The issuer: Clarification of group and control structure; further clean-up of the balance sheet	**The issuer:** Significant deterioration of Spain's sovereign credit strength combined with a continued material high exposure. Relapsed recession putting pressure on profitability and asset quality.
Legal covered bond framework: clearly defined cover pool and asset quality definition. Improved risk factors in particular liquidity risk management guidelines and increased transparency.	**Legal covered bond framework:** Disruptive alignment of the Spanish cb framework with EBA best practices significantly depleting current CH's of available collateral

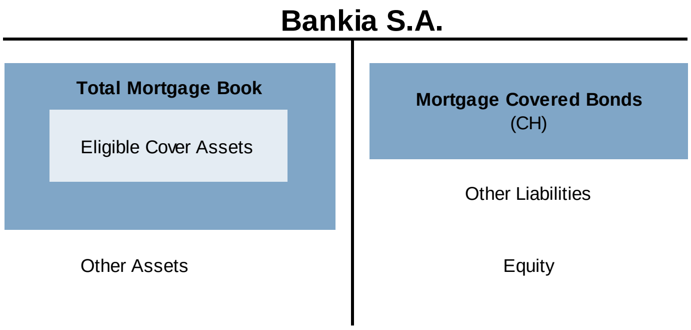
THE ISSUER

Bankia's credit quality is monitored and the basis for the covered bond rating

For details on Bankia's credit assessment see APPENDIX I

COVERED BOND STRUCTURE

Figure 1. **On balance sheet issuance structure**



On-balance sheet setup – Spanish cover pool concept differs from other European cb frameworks

The Spanish covered bond framework (See Legal Framework Analysis for further details) does not define a dedicated cover pool. Law 2/1981 from 25 March rather defines eligibility criteria for cover assets against covered bonds can be issued. Eligible mortgage assets are not registered in a cover pool which is ring-fenced upon an insolvency of the issuer. Instead, CH investors have full recourse to the bank's mortgage book – excluding securitised mortgage loans or mortgage loans that are potentially pledged in favour of other covered bond types (bonos hipotecarios). In practice, only securitised mortgage loans might reduce the available collateral as to date no Spanish bank has established a cover pool for bonos hipotecarios.

COVERED BOND RATING ANALYSIS

Covered bond rating reflects credit positive support from the cover pool

The positive credit differentiation between the bank and its covered bonds reflects the very strong credit support provided by the mortgage book. Available collateral allows for the maximum credit differentiation and supports the AAA/ stable rating of Bankia's CH's. The fundamental framework analysis currently supports a six-notch credit differentiation, effectively providing a floor for the covered bond rating at AA, assuming the issuer's credit profile remains unchanged.

COVER POOL ANALYSIS

We have analysed the cover pool and its cash flows as of March 2016, and reviewed previous cover pools in order to understand its rating stability. The recourse to the full mortgage book results in a low volatility in our credit assessment. However, covered bonds are managed dynamically, and credit and market risks in the covered bond structure and the supporting OC can change significantly, even within the limits of the legal framework.

Figure 2. **Characteristics of the cover pool and covered bond structure**

Excessive oc buffers, high mismatch risk and moderate credit risk

Reporting date	31-Mar-16
Cover pool (in EUR bn)[1]:	65.19 (48.6)
Covered bonds (in EUR bn):	32.33
Current overcollateralisation[2]:	101.6% (50.3%)
Legal Minimum OC[3]	25%
Duration/ WAM assets:	16.9y/ 20.6y
Duration/ WAM liabilities:	6.6y/ 7.02y
Duration/ WAM GAP:	10.3y/ 13.4y
Cover assets	Full mortgage book comprising mortgage secured residential, commercial loans including loans secured with land
Number of different loans	691,903
Average loan size	94,220
% share top-20 obligors:	1.90%
Geographic information	99.2% Spain; 0.8% other EU
WA DR	17.72%
WA CoV	67.96%
WA RR	41.09%

[1] CH's have recourse to the full mortgage book; in brackets – eligible mortgage book.
[2] Mortgage book vs outstanding covered bonds; in brackets – eligible mortgages vs. outstanding covered bonds
[2] Legal minimum overcollateralisation: eligible mortgage book vs outstanding covered bonds

Credit Quality

Improving asset quality which is weak in an international context – primarily reflecting wide 'cover pool' definition

The performance of Bankia's mortgage book that supports the covered bonds continues to improve. This reflects the improving macro environment, rebalancing of property markets, improved and tightened underwriting standards, improved monitoring aimed at an early identification of weakening borrowers and workout processes aimed at restructuring the mortgage loans rather than foreclosing.

Weighted Average DR of about 18% and CoV of 68% in combination with high recoveries results in a credit risk contribution of 12% of the adjusted asset

We still consider the cover pool asset quality as weak in an international context. The assessment primarily reflects the high but decreasing share of overdue and delinquent loans, but also the less defined cover pool.

Covered bond investors are in our view compensated by recourse to the full mortgage book and the significantly higher levels of minimum oc stipulated by the covered bond framework. Based on the current cover pool composition, we have calculated a credit risk contribution to the rating supporting overcollateralisation of about 12% of the performing mortgage book.

Figure 3. **Key credit segments**

Cover pool composition	31.03.2016	30.09.2015
Residential (%)	84.4%	82.0%
Commercial (%)	13.3%	15.3%
Developer and Land (%)	2.3%	2.7%
Size (in EUR bn)	65.19	69.14

Lower share of developer loans reflects 2012 clean-up of the balance sheet after the bank was nationalised

Bankia's cover pool composition reflects the strong focus on residential mortgage lending and the bank's moderate market share in commercial lending. We view as positive the low share of developer loans compared to other Spanish issuers. The low share reflects the 2012 clean-up and support received after the bank was nationalised. During the nationalisation, most of the nonperforming developer loans were transferred to Sociedad de Gestión de Activos procedentes de la Restructuración Bancaria (SAREB, the Spanish government's bad bank).

Nonperforming assets continuously decreasing – but still high for commercial mortgage loans

Bankia has significantly improved its underwriting, monitoring and workout processes. In combination with the more benign credit environment this also explains the strong reduction in the stock of non-performing loans (to Eur 12.6bn in Q1/ 2016 from Eur 20bn at year end 2013). The share of non-performing loans, however, does vary significantly between individual segments of the mortgage book.

Exposures to Developers and secured by land have not been taken into account in the analysis.

Reflecting the very weak performance during the crisis we have in the most stressful scenarios assumed them to be in default and not to provide recoveries. As a result we focus on the 'adjusted' cover pool balance in our analysis[1].

Cover pool distribution by LTV

Collateral values in the bank's LTV calculations are generally made as of the origination date. This only differs for refinanced loans, in which case the updated valuations are used. In our analysis we generally index the collateral when calculating the recovery values (see APPENDIX II).

Low average LTV of 56.9% reflecting amortisations

We take comfort from the seasoning of the cover pool of about 7 years, as increasingly the stock of mortgage loans is underwritten under more prudent underwriting criteria. We also take comfort from the demonstrated ability of borrowers to service their loans even in a stressed environment. Amortizations since origination have reduced the average LTV of the residential mortgage segment down to a comfortable 56.9%. This compares favorably to the legal LTV threshold of 80% for residential mortgages.

Figure 4.**Residential segment (84.4% of total) by LTV**

Residential	31.03.2016	30.09.2015
0% - < 40%	22.6%	21.8%
40% - < 50%	14.5%	14.2%
50% - < 60%	18.1%	17.8%
60% - < 70%	21.0%	21.3%
70% - < 80%	11.2%	12.3%
80% - < 90%	4.9%	5.1%
90% - <100%	2.4%	2.4%
> 100%	5.3%	5.1%
Average LTV	56.94%	57.53%

High LTV commercial mortgages are not eligible but provide proceeds for CH's

Asset eligibility definitions for Cédulas only allow issuing against commercial mortgage loans with an LTV up to 60%. In this context it is noteworthy that the commercial segment comprises only 42% of mortgages with a current LTV of below 60%. These are the only mortgages against which CH's can be issued.

Bankia is not able to issue CH's against the 40.5% of the commercial segment which comprises commercial loans with an LTV above 100%. However, CH's have recourse to this collateral which can provide additional proceeds to service the covered bonds.

Figure 5.**Commercial segment (13.3% of total) by LTV**

Commercial	31.03.2016	30.09.2015
0% - < 40%	25.3%	21.9%
40% - < 50%	8.7%	8.5%
50% - < 60%	7.8%	6.6%
60% - < 70%	8.4%	7.3%
70% - < 80%	4.8%	4.3%
80% - < 90%	2.2%	1.8%
90% - <100%	2.2%	1.7%
> 100%	40.5%	47.9%
Average LTV	76.77%	75.49%

Cover pool distribution by loan size

The majority of the cover pool is highly granular, with only 2.6% of the residential segment exhibiting loan sizes above Eur 450,000

[1] During the most recent property crisis these exposures showed very weak performance and collateral was very illiquid. Individual loan performance could provide further information, but we did not receive loan by loan information on this segment in order to carry out a detailed analysis.

Granular residential mortgage segment reduces ideosyncratic credit risk

Figure 6. **Residential segment (84.4% of mortgage book)**

in €	31/03/2016	30/09/2015
< 60,000	15.1%	14.6%
< 90,000	15.2%	14.9%
< 450,000	67.1%	67.7%
> 450.000	2.6%	2.7%
no. of loans	650,055	659,335
Avg Loans size	84,607	86,001

The lower granularity and higher concentration of the commercial segment combined with the barbelled LTV distribution supports our relative high CoV of 60% for the segment

Figure 7. **Commercial segment (13.3% of mortgage book)**

in €	31/03/2016	30/09/2015
< 60,000	3.7%	3.1%
< 90,000	3.3%	2.8%
< 450,000	23.7%	21.0%
< 600,000	4.5%	4.0%
< 1,100,000	9.3%	8.1%
< 5,000,000	20.0%	18.3%
< 25,000,000	19.2%	18.1%
< 50,000,000	8.5%	9.5%
> 50.000.000	7.8%	15.1%
Top 20	14.2%	17.3%

Geographic distribution of the cover pool

Geographic concentration reflects business focus of predecessor institutions

Bankia's cover pool reflects its domestic retail focus, with only 0.81% of the mortgage book secured by loans in other EU countries as of March 2016. Its domestic distribution mirrors the business focus of its largest pre-merger institutions, Madrid (Caja Madrid) and Valencia (Bancaja). The geographic split in the portfolio is relevant in our credit analysis, as the region specific house price developments are used to index property values. The indexed values are also the basis for our region specific and rating distant dependent market value declines. (For further details see APPENDIX II Covered bond modelling – technical note).

Figure 8. **Geographical split in the cover pool**

Top Regions	31.03.2016	30.09.2015
Madrid	32.50%	32.83%
Valencia	16.10%	15.94%
Catalonia	15.01%	15.10%
Andalucia	9.07%	9.09%
Canary Islands	5.65%	5.53%
Castilla La Mancha	5.05%	5.00%
Others (below 5%)	16.61%	16.51%

Credit risk modelling inputs

We have used the individual asset characteristics of the cover pool to benchmark the individual segments to information available on the general performance of similar assets. Performance information for the market is regularly provided by the Bank of Spain, and we also have benchmarked against securitisation transactions rated by Scope that comprise similar asset types.

Figure 9. **Credit risk modelling input**

	Residential	Commercial	Weighted average
Segment share	86.4%	13.6%	
DR	15.0%	35.0%	17.7%
CoV	70.0%	55.0%	68.0%
D9 RR	42.6%	31.5%	41.1%

DR - lifetime default rate; CoV - Coefficient of variation;
D9 RR - Recovery rate assumption to support the max uplift

Excluding the cash flow impact, we can use the above to establish default and expected loss distributions for Bankia's mortgage book. To derive the loss distribution we also use for cash flow modelling, we blend the default distribution with tiered recovery assumptions commensurate with the sought for rating distance between the issuer and the covered bond rating. When we calculate the credit risk contribution that allows supporting the highest distance (D9) between the covered bond rating and our credit view on the issuer, an over-collateralisation of at least 12.1% of the performing balance (excluding land and developer) is needed to cover credit risk.

Cash flow characteristics

Figure 10. **Asset Liability profile as per March 2016**

Asset data	Total Assets	Net Present Value	WAM (Principal)	Duration	Fixed Assets	WAM (Principal only)	Duration	Floating Assets	WAM (Principal only)	Duration
EUR	**63,674,317,719**	**75,833,537,623**	20.64	17.64	675,123,535	20.64	15.98	62,999,194,184	20.64	17.66
Total Adjusted Assets	**63,674,317,719**	**75,833,537,623**	**20.64**	**17.64**	**675,123,535**			**62,999,194,184**		

Liability Data	Total Liabilities	Net Present Value	WAM (Principal)	Duration	Fixed CB	WAM (Principal only)	Duration	Floating CB	WAM (Principal only)	Duration
EUR	**32,307,840,135**	**34,372,364,154**	7.03	6.74	24,367,840,135	6.12	5.93	7,940,000,000	9.79	9.18
Total Liabilities	**32,307,840,135**	**34,372,364,154**	**7.03**	**6.74**	**24,367,840,135**			**7,940,000,000**		

Market risk exposure

Moderate interest and no FX risk:

Assets: 1.1% Fixed; 98.9% Float
CBs: 75.4% Fixed; 24.6% Float

The issuer manages the covered bonds' market risk only in the course of the normal bank risk management. This reflects the fact that the framework does not stipulate specific risk management requirements. Further, there are no derivatives registered in the cover pool. This means, should there be regulatory intervention, the cover pool would be exposed to both interest rate risk and, in the event the issuer would start to issue foreign currency, foreign-exchange risk.

Interest rate risk is limited, in our view, reflecting both the currently low interest rates and higher share of floating-rate assets (98.9% of cover assets) than covered bonds issued as floaters (24.6% of covered bonds).

When analysing sensitivities of the cover pool against adverse changes in interest rates, scenarios in which interest rates stay or even fall further drive our analysis on the rating supporting over-collateralisation.

Asset Liability mismatch risk

Figure 11. **Asset and liability redemption profile**

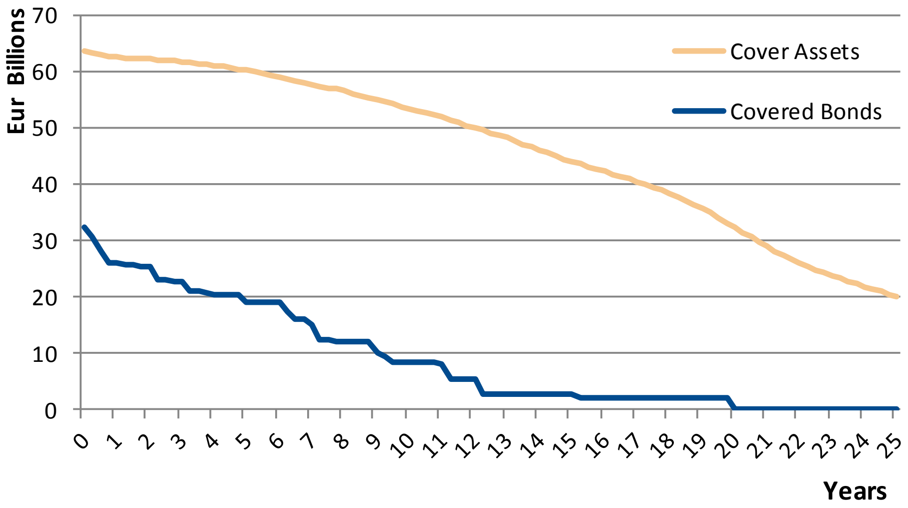
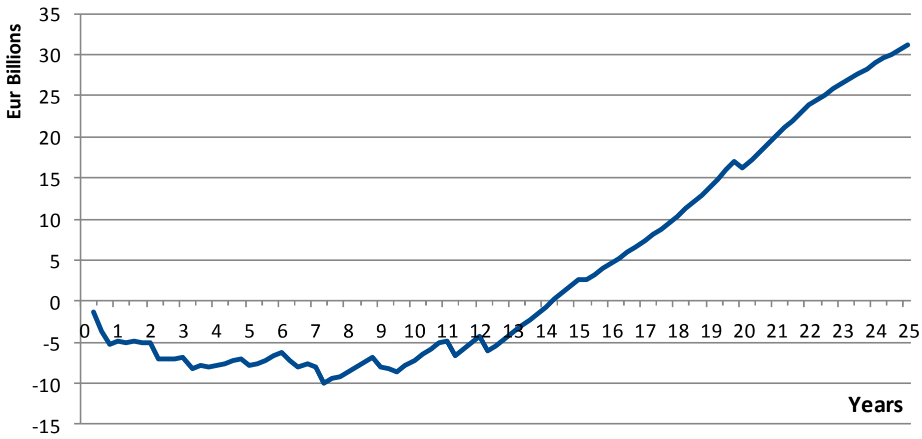


Figure 12. **Cumulative net cash flow in EUR**



High ALM mismatch of 13 years highlights refinancing risk: WAM assets: about 20.6 years WAM liabilities: about 7.0 years

Figure 11 illustrates the redemption profile of the gradual amortising mortgage book against the redemption profile of issued covered bonds. Figure 12 illustrates the cash flow profile of a 'standalone' cover pool – that is, the net proceeds per quarter from maturing assets, as well as covered bonds and interest due. Any previous quarter's balances are carried forward and added to the respective quarter's net position[2].

As common for most Spanish CH issuers scheduled asset redemptions are in a stand-alone scenario not sufficient to service maturing covered bonds. This means that if the cover pool would be the sole resource for the servicing of covered bonds, the general insolvency administrator would need to arrange for an ongoing sale of cover assets to meet payments due within the first decade of the remaining life of the cover pool structure.

Mismatch can be cured by selling cover assets – but they will likely need to be sold well below par, consuming significant amounts of oc

Figure 12 also highlights the importance of an ongoing, active management of the cover pool's cash flow profile. The legal framework requires no formal liquidity provisions as seen in more well maintained covered bond frameworks. These stipulate e.g. the provision of highly liquid collateral registered in the cover pool to cover immediate liquidity needs within the first 180 days. The Spanish framework allows to register highly liquid 'substitute' assets to bridge liquidity shortfalls. However, as is typical for the Spanish market, Bankia has not registered any substitute assets in the cover pool. The current Spanish legal framework also does not foresee maturity extensions for CH's, all of which are generally issued as 'hard' bullets.

[2] This profile does not consider any rating relevant-stresses we apply to the cash flows to reflect credit, market and refinancing risk. It neither reflects the impact of asset sales.

We take comfort from the provisions in the legal framework, which require that the insolvency administrator has first recourse to the proceeds from the mortgage book and is required to ensure sufficient liquidity to meet covered bond payments due. The availability of a highly granular cover pool comprised mainly from residential mortgage loans should facilitate a relatively swift sale of cover pool assets – even if they have to be sold at high discounts to their par value.

Overcollateralisation (OC)

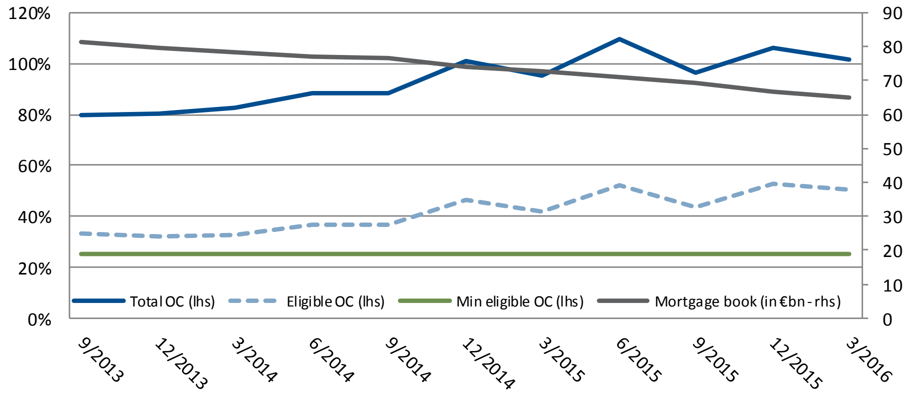
As of 31 March 2016, Bankia's covered bonds had recourse to an overcollateralisation of 101.6%. We have calculated a rating supporting overcollateralisation of about 35%[3].

40% OC is needed to support the maximum credit differentiation. About 70% is needed to cover for market risk

In the event we would change our credit view of the issuer by one notch, and assuming an unchanged cash flow profile of the covered bond program, the rating supporting oc would increase to about 40% to support the maximum achievable uplift.

About 70% of the supporting overcollateralisation is needed to mitigate the significant asset liability mismatch risk of the program.

Figure 13. **Development of mortgage book and supporting OC**



When assessing the cover pool's ability to support a covered bond rating above the level suggested by the legal framework and resolution regime analysis, we reflect the issuer's ability and willingness to provide overcollateralisation above the legal minimum.

Current credit quality of Bankia allows to give benefit to available overcollateralisation

We are currently not aware of any plans of the issuer that would significantly reduce the mortgage book which could result in overcollateralisation levels that would no longer support the currently assigned ratings. We have monitored the development of available overcollateralisation and discussed overcollateralisation management and issuance strategy with the issuer. As the CH's have recourse not just to a dedicated cover pool but to the full mortgage book, the most significant change to the volume of available cover assets can either come from the sale of cover assets or the issuance of mortgage securitisations. Overcollateralisation could also be significantly reduced by new CH issuance activity.

Our current credit view of Bankia allows us to fully take into account available over-collateralisation[4]. Upon a negative change of our credit view on Bankia we would seek to identify whether the issuer engages in sufficiently robust capital market communication on the levels of overcollateralisation it intends to provide. In the absence of such a communication, we will establish a sustainable level of overcollateralisation against which we would compare the rating supporting overcollateralisation to identify whether we can maintain the ratings.

Counterparty Risk

Covered bonds have significant counterparty exposure to Bankia, which is reflected in the link to the issuer

The covered bonds are significantly exposed to Bankia as originator, servicer, bank account provider and paying agent.

[3] Defined as "adjusted cover pool assets" over outstanding covered bonds; for the adjusted cover pool balance we have not given benefit to the segment comprising mortgage loans granted to developers secured by land.

[4] See footnote 3 for the analytical adjustment

Before a regulatory intervention we believe that the strong alignment of interest between the bank and CH holders ensures that potential bank accounts would replace mitigating bank account risks early on. Further, the legal covered bond framework establishes that covered bond holders have preferential rights to the mortgage books cash flows upon an issuer insolvency, largely mitigating bank account risk. However, bank accounts relevant for the covered bonds do not benefit from structural mitigation that ensures an account bank is replaced if its credit quality deteriorates.

We expect a potential regulatory intervention on Bankia to result in maintaining the issuer using available resolution tools. Despite the significant exposure to Bankia as key agent, Scope does not expect active management and servicing of the mortgage book to be severely impacted.

FUNDAMENTAL CREDIT SUPPORT FACTORS

The Spanish covered bond framework and our credit-positive view on the beneficial resolution regime allows us to assign a positive credit differentiation of six notches.

LEGAL FRAMEWORK ANALYSIS

Generally, we believe that the current Cédulas framework meets the rating relevant provisions, allowing the maximum two notches of rating differentiation.

We have analysed the current Spanish covered bond framework, which builds on individual acts that provide a legal basis for the issuance of covered bonds and their insolvency remoteness[5]. We focus our analysis on aspects that are relevant for the abiltiy of the covered bonds to meet contractual payments in time and full.

The Spanish covered bond framework does not anticipate a segregation of the cover pool upon insolvency. Rather CH's have a preferential right on the proceeds of the full mortgage book (not only the eligible cover assets).

Ability to continue to make payments after issuer insolvency

In addition to the preferential rights to the cash flows of the whole mortgage book, the law also allows for registration of substitute assets to facilitate ongoing payments after a regulatory intervention – which remains a theoretical benefit as neither Bankia nor other Spanish issuers maintain substitute assets as a permanent support for their covered bonds. The framework also clearly establishes that there is no acceleration of the covered bonds upon insolvency of the issuer. Derivatives registered in favour of covered bonds would also not accelerate; we are not aware that any Spanish issuer has registered derivatives in favour of the cb holders to date.

Remain programme enhancements available

CH's benefit from a generous mandatory legal overcollateralisation of 25% - measured against the eligible assets (see further below for the eligibility definition). The available overcollateralisation for CH's is effectively much larger, as the eligible book only provides for an issuance limit and covered bonds have full recourse to the unencumbered mortgage loan book of the issuer. As there is no cover pool concept nor SPV involved for Spanish CH's, there is no claw back or recharacterisation risk on the available cover assets.

Covered bond oversight

The Bank of Spain generally supervises issuance of covered bonds and the compliance with established limits and remedies. The Comisión Nacional del Mercado de Valores (CNMV) monitors the issuers' compliance, with a specific focus on ensuring that all conditions are met at issuance of a new covered bond. In contrast to other countries, there is no independent trustee ensuring compliance with the criteria. Upon insolvency there is

[5] Main legal provisions are found in Ley 2/1981 (Mortgage market law) and the complementing secondary regulation (Decree 716/2009). Further relevant laws are the insolvency laws (ley 26/1988 – Discipline and Intervention on credit institutions, ley 22/2003 – Spanish Insolvency act, ley 6/2005 – Reorganisation and winding up of credit institutions and ley 9/ 2012 . the restructuring and resolution of credit institutions)

no special administrator to manage the cover pool, but the general insolvency administrator also manages the covered bonds.

Other legal framework considerations

Generous levels of overcollateralisation in the past have protected investors and overcompensated for those aspects that are no longer best practice in a European covered bond context. Also, the slump in the Spanish mortgage market has put some of its shortcomings under the spotlight. These include missing updates of LTV's for cover pool assets or the less pronounced active cover pool risk management.

We view as positive the publication of a consultation on possible changes by the Spanish Treasury in 2014, an acknowledgement that there is a need to further improve the framework. They aim to align the current framework with EBA's best practice guidelines. Generally we believe that the proposed changes are credit positive, as they will introduce more transparency for investors and require issuers to actively manage their cover pools in order to maintain sound credit quality. We also find it positive that cover pools may become better defined, and that issuers will be required to have a more pronounced liquidity and risk management more in line with other European covered bond frameworks. The consultation has not yet resulted in a draft of a new covered bond law, and we do not expect a new framework consultation to be introduced before the new parliament has been constituted in late 2016.

Definition of eligible assets

Mortgage loan-eligibility criteria

Eligible cover assets comprise first lien mortgage residential or commercial mortgage loans within the EEA, provided the security is equivalent to Law 2/ 1981.

The law provides for eligibility definitions for assets against which covered bonds can be issued. For residential mortgages the collateral needs to comply with an 80% LTV (higher LTV possible provided an additional guarantee or security is provided) and for commercial mortgage assets a maximum 60% LTV. The assets need to have been fully appraised at origination.

Covered bond investors have a preferential claim on covered assets – also on recovery proceeds in case the mortgage loan exceeds the LTV.

Substitute collateral

Substitute collateral possible – but not present

The law allows for substitution assets of up to 5% of the outstanding mortgage covered bonds.

RESOLUTION REGIME ANALYSIS

Resolution regime analysis supports maximum credit elevation

Bankia's covered bonds can benefit from extra credit differentiation of four notches, based on our positive assessment of the resolution regime and the bank and the product's systemic importance. The differentiation primarily reflects the preferential treatment of covered bonds when a regulator intervenes with the issuer, our analysis of the resolvability of the issuer and the high systemic importance of covered bonds in Spain. These factors would, in our view, mobilise stakeholders to actively deal with the negative credit implications of a covered bond once its issuer is in distress.

Preferential treatment of covered bonds upon regulatory intervention

BRRD translation affirms covered bonds are unaffected in a bail-in

Since 20 June 2015 the BRRD is effective in Spain[6], and the preferential status of covered bonds upon insolvency is confirmed. The existing resolution and restructuring framework applicable to Spanish banks, introduced in 2012, already featured most provisions and resolution tools stipulated in the BRRD. It allowed use of all available resolution options during the significant restructuring of the Spanish banking sector during the crisis. We note that current practice did not impact holders of covered bonds, demonstrating the systemic importance of this product.

[6] Spanish law Ley 11/2015 de recuperación y resolución de entidades de crédito y empresas de servicios de inversión is the local translation of the directive

Resolvability of the issuer

Equally important to the products preferential treatment is whether the covered bond is more likely to remain with a going concern institution or whether covered bond investors would, in the event of a regulatory intervention, be faced with a (systematic) wind-down of the program and its issuer. The latter case could in our view have negative repercussions on the ability of the cover pool to be sustained at its current quality.

The need to replenish the cover pool for regular asset redemptions would be severely impacted in the event that the issuer is wound down, and in a situation where no new mortgage loans could be underwritten. We are of the opinion that the nationalisation and successful restructuring of Bankia has created a bank with a viable business model which regulators will likely maintain. We believe that the issuer has a sound refinancing structure and sufficient levels of bailinable debt, which would allow the regulators to restructure the bank without impacting the abiltiy to maintain covered bonds as a going concern.

Systemic importance of covered bonds

Covered bonds are actively used by the majority of Spanish banks to fund mortgage lending. The volume of outstanding mortgage covered bonds regularly ranks among the top five countries worldwide. At the end of 2015, EUR 281bn of covered bonds were outstanding and annual issuance has increased to more that Eur 40bn from EUR 25bn in 2014. The share of covered bonds as a percentage of GDP is a significant 30%. Spanish covered bonds are widely represented in investor portfolios.

In particular during the crisis, new covered bond issuance was used intensely to generate liquidity for banks. Compared to the EUR 41bn of issuance in 2015, 2011 and 2012 saw mostly retained issuance volumes of roughly EUR 100bn in each year. The ability to use covered bonds with the ECB at times when public debt markets were reluctant to accept new issuance from Spanish issuers highlights some of their strategic importance.

Domestic stakeholder support

We believe Spanish stakeholders are highly incentivised to maintain covered bond funding as a refinancing option, and existing practices during the restructuring of the Spanish banking market show that resolving or restructuring the issuer is unlikely to impact their covered bonds. Even though the Spanish covered bond framework has not benefitted from various improvements, we see efforts to align existing frameworks with best practices as positive. We also see positive evidence of an active stakeholder community in the recent update of the securitisation law that introduced the ability to establish more defined ‘structured’ covered bonds. The amendments to existing covered bond law and transition to new structures will take time, but we see this as proof of a proactive stakeholder community.

We believe that the ongoing systemic importance of covered bond funding for Spanish banks supports a proactive regulatory oversight with the view to maintain the issuers as a going concern. We do not expect the use of resolution tools to negatively impact covered bonds.

RATING STABILITY

Changes to the issuer assessment:

Strength of the cover pool allows a buffer for a change in our credit assessment of the issuer

Based on our fundamental assessment of the Spanish covered bond framework, Bankia’s cover pool is, in principle, able to support a credit differentiation for the covered bonds of up to nine notches to our credit view on Bankia (see section overcollateralisation above). Available OC and the current composition of the cover pool means that upon a one-notch deterioration of our credit view on Bankia the issuer would still be able to maintain current CH ratings.

Changes to the over-collateralisation:

The recourse to the full mortgage book means that significant negative changes to the oc are only likely if the issuer were to securitise or sell larger portfolios of mortgages or issue significant amounts of covered bonds.

Reduction of oc to legal minimum will result in a max two notch downgrade – as determined by our fundamental assessment

We currently have no indication that such managed portfolio changes are likely, nor that the issuance plans comprise larger covered bond issuances to be used for central bank refinancing operations.

An OC reduction to the legal minimum would result in a negative two notch rating migration of the covered bonds. We would expect a reduction to the legal minimum OC of 25% between the eligible mortgages and the outstanding covered bonds to result in a minimum effective available OC for covered bond investors of about 33% (assuming the proportion between the total and the eligible mortgage book remains constant). With the current cash flow structure, such a low OC would only allow a cover pool analysis based support of six notches. This is the same level of support provided by our fundamental assessment of the legal and resolution frameworks – effectively translating into a current support base of AA for Bankia's CH's.

Changes to the legal or resolution framework could potentially make us reassess our current classification of CH's. The 2014 proposals on changes to the Cedulas framework have not seen progress to date, which reflects the current political standstill. Given the importance of Cedulas for the refinancing of Spanish banks, we do not expect changes to the legal framework to be disruptive. We expect that any evolution which could negatively impact the credit protection of existing covered bonds to be accompanied by sufficient grace periods for the transition to avoid a disruption of the market, making a negative reassessment currently unlikely

SOVEREIGN RISK

Risk of institutional meltdown, legal insecurity or currency problems not material

Sovereign risk does not limit the ratings of Bankia's CH's. The risks of an institutional framework meltdown, legal insecurity or currency-convertibility problems (due to a hypothetical exit of Spain from the Eurozone), are currently not material for the rating of Bankia's CH's.

Despite Spain's current positive GDP-growth trend, the credit performance of both the issuer and the Cedulas will ultimately depend on the effective solution of fundamental imbalances over the longer term. These imbalances are the high level of public and private debt, the still-large budget deficit, the negative net-investment position and, above all, the very high unemployment.

Crystallisation of political risk, while more remote after the 26 June 2016 elections, could have material consequences for the default and recovery performance of this portfolio. Hypothetical populist policies seeking to protect distressed borrowers would increase the default rates and reduce the recovery rates of this portfolio.

DATA ADEQUACY

Cover pool data only available on a stratified basis – sufficient for Bankia's highly granular cover pool

We consider the data quality as adequate in light of the high granularity of the cover pool. In the event that detailed information on some credit aspects was not available, we have benchmarked the bank's information with market information and made conservative assumptions to compensate. We ensured as far as possible that sources were reliable before drawing upon them, but did not verify each item of information independently.

Bankia provided Scope with public and confidential information on the cover pool composition, mortgage asset performance and relevant cash flow details. Scope received aggregated cover pool information, including detailed stratification tables for relevant credit characteristics, and split into the relevant segments on a quarterly basis. Information provided on the issuer specific development of delinquency status and recovery by segment is complemented by us with public information from the Bank of Spain for the relevant asset segments.

For the cash flow analysis, we have generated the asset redemption profiles based on the stratification tables. Relevant information on the outstanding CH's allowed us to create the corresponding liability cash flows.

Scope analysts have visited Bankia and conducted interviews with key personnel to understand the bank's origination, monitoring and workout processes. We also discussed key trends relevant for the development of the cash flow profile, including issuance plans.

MONITORING

Ratings regularly monitored

Scope will monitor this transaction using information regularly provided by the issuer. The ratings will be monitored and reviewed at least once a year, or earlier if warranted by events.

APPLIED METHODOLOGY

To analyse Bankia's CH's, Scope has applied the "Covered Bond Rating Methodology" published July 2015 and the Rating Methodology for Counterparty Risk in Structured Finance Transactions, dated 10 August 2015. We also applied the principles as per our General Structured Finance Rating Methodology, dated 28 August 2015 for the asset and cash flow analysis. Our rating methodologies are available on the agency's website www.scoperatings.com

APPENDIX I. BANKIA SA CREDIT ASSESSMENT

Among the domestically oriented franchises remaining in Spain, we view Bankia as one of the best positioned, having significantly restructured over the past few years. Having successfully delivered an ambitious plan in 2012-2015, the bank is in our view well placed to sustainably deliver high single digit returns without taking on excessive risk.

The current interest rate environment combines with Bankia's specificities (interest sensitive loan book and large bond portfolio) to produce a challenging outlook for revenues and profits, but asset quality should continue to improve lowering the need for new provisions going forward.

Despite being ultimately controlled by the Spanish government, we believe the Spanish government's has limited flexibility to support Bankia, if needed, without external financial inputs from within the EU. In addition, we expect BFA to progressively divest its stake in Bankia, marginalising such potential support further.

Important credit factors (Summary)

The credit factors, in decreasing order of importance are:
Focused and stabilized franchise with strong market position in selected segments.
Credible management team which has delivered on its restructuring business plan.
Challenging environment for revenue growth and profitability.
Residual uncertainty around group ownership and structure
Asset quality is weak in an international context but better than domestic peers

Drivers for changes to our credit assessment

↓	**Significant deterioration in Spain's sovereign credit strength.** Given the material exposure to Spanish sovereign risk, further deterioration in Spain's sovereign credit strength would be negative for Bankia.
↑	**Clarification in group structure and control.** The ultimate goal of the Spanish government is to divest from Bankia and recover part of the money it spent in the bailout, and BFA already sold a stake (7.5%) in 2014. We expect BFA to continue to divest and Bankia to eventually become an independent entity, which on balance we would see as a positive, especially against a background of volatile politics in Spain.
↓	**Renewed weakness in Spain's economic conditions.** A relapse into recession would put new pressures on Bankia's fundamentals, including profitability and asset quality, which would be difficult to offset given the difficult outlook for revenues and the limited room for further cost efficiencies.
↑	**Further material cleanup of the balance sheet.** While declining, the NPL ratio remains very high in comparison to international peers. With the economy on a strong foothold and unemployment declining, Bankia asset quality should benefit through i) an organic decline in NPLs and ii) a faster divestment from SAREB bonds to the extent that the recovery accelerates SAREB's asset disposals. While the credit risk on SAREB bonds is very limited thanks to the government guarantee, they represent a drag to the banks' financial performance in the current low rate environment.

Recent Events

Q1 2016 results

Q1 results showed a substantial continuation of the trends in recent quarters: revenues declined 14% yoy amidst falling market interest rates and driven by lower yields on the fixed income portfolio. Part of the decline was due to the deconsolidation of CNB, which had contributed EUR 34m to NII in Q1 2015. Excluding CNB impact, Revenues declined 10.6%. The decline in revenues was largely offset by lower costs (-7% yoy) and financial impairments (-56% YoY). Overall, net profit of EUR 237m was just 3% lower than in Q1 2015, with CNB profit accounting for the decline. Ex CNB deconsolidation effect, net profit was 2.1% higher YoY.

Capital formation was very strong, with phase in CET1 ratio at 14.1% from 13.9%. Fully loaded CET1 ratio stood at 12.5% (13.35% including AFS gains on Sovereign portfolio).

The NPL ratio fell further to 10.5% from 10.7% in Q4 2015 with coverage at 60.5% (60% in Q4)

Full year 2015 results

For 2015, Bankia reported very strong operating results despite the difficult environment. Net profit of EUR 1.04bn was a 39% YoY improvement on 2014 results and a ROE of 9% (10.6% excluding the one off IPO contingency provision - see below).

Revenues fell 5% yoy, driven by a 6% NII decline. This reflected partly a decline in loan volumes as new loan production was not sufficient to offset backbook amortizations. However, it also reflected the impact of the low interest environment on asset margins. The yield on the debt securities portfolio fell 2.54% to 1.99% while the average yield on loans declined from 2.4% to 2.1%. Such declines were not offset by the equally significant declines in the cost of customer deposits (1.15% to 0.7%) and securities (0.95% to 0.63%). Expenses also fell 5%, with the cost/income ratio standing at 44% for the year. The 5% in pre-provision profit did not flow all the way to the bottom line, thanks to the material decline in impairments (-39%).

In the year, CET1 capital continued to build up, from a 12.3% to 13.9% on a transitional basis (12.3% on a fully loaded basis), which is strong both compared to domestic peers and to Bankia's 2016 own SREP capital requirement of 10.25% (including conservation buffer).

Asset quality also improved, with the NPL ratio falling to 10.7% (12.9% in December 2014).

IPO lawsuit contingency provisions

In February 2015, Bankia agreed with BFA on the distribution for the contingencies arising from the lawsuits related to the IPO, assuming responsibility for the first 40% of the contingency, estimated at that time at EUR 0.78bn. As of December 2015, Bankia has booked provisions for EUR 424m on top of the EUR 312m already recognized in 2014. Contextually, BFA booked additional provisions for EUR 636m (on top of EUR 468m booked previously) which covers the total estimated potential liability for the group at EUR 1.84bn. In January 2016 the Spanish High Court ruled against Bankia's appeals to two of the cases. Following the ruling, Bankia updated its litigation strategy to include more settlements and less court battles – with no material impact on the total estimated cost.

Credit Factors (Details)

Focused, efficient and stable franchise with strong market position in selected segments.

Bankia S.A. originates from the merger under duress of seven Spanish savings institutions, or Cajas de Ahorro, who formed an institutional protection scheme (IPS) in 2010. The two largest pre-merger entities were Caja Madrid and Bancaja, with a strong presence in the Madrid and Valencia regions, together accounting for almost 90% of the Bankia group at the time of its formation. The central entity of the IPS was Banco Financiero de Ahorro (BFA), who subsequently transferred most of its assets to Bankia.

Bankia was listed in July 2011 on the Madrid stock exchange, but subsequently nationalized following the emergence of larger than anticipated losses (partly due to the introduction of mandatory real estate provisions in early 2012). and amid significant outflows of deposits. In this context, the Spanish government injected EUR 19bn of capital into Bankia/BFA group via the *Fondo de restructuracion ordenada bancaria* (Fund for orderly banking restructuring, or FROB). As of year end 2015, the Bankia group has booked provisions of EUR 1.84bn to compensate retail investors who lost money in the IPO, which corresponds to the bank's estimate of the contingent exposure.

Despite a significant reduction in capacity since the merger (-39% since 2012), Bankia's distribution capacity remains substantial, with close to 2,000 branches, the sixth largest branch network in Spain. Significantly, the reduction in the branch network did not result in a loss of customer deposits (Bankia had suffered severe deposit flows in 2012). Bankia's effort in minimize the disruption to its retail customer base from the restructuring of the branch network was substantial, and included, for example, the introduction of the Ofibus – basically a coach acting as branch and serving several small municipalities where branch closures would leave customers without any banking access.

Following the sale of City National Bank of Florida in October 2015, Bankia is now entirely focused on its domestic market.

Due to its origins, Bankia's business model is rooted in retail and commercial banking. The largest segment is retail, which caters to mass market individuals and small businesses with revenues of EUR 6m or less. Larger companies are served by the business banking network. Bankia also offers Private Banking, Asset Management and Bancassurance products, as well as capital markets solutions, but these remain more marginal compared to the traditional commercial retail bank.

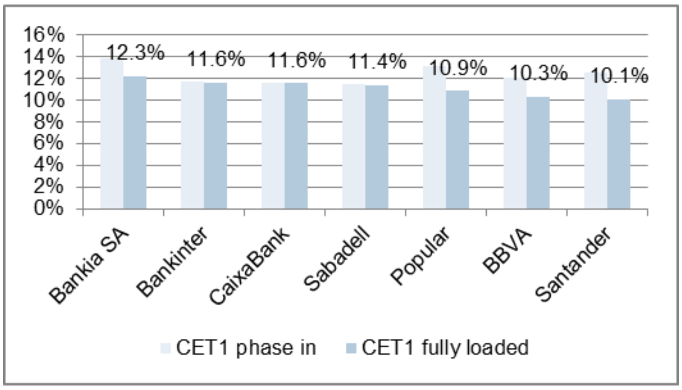
As of December 2015, Bankia held a domestic market share of 8.5% in loans and 9% in deposits.

Credible management team which has delivered on its restructuring business plan.

Both the Executive Chairman Goirigolzarri and CEO Sevilla are former senior executives of the BBVA group. Since they took helm of the bank in 2012, they completed an ambitious turnaround plan, significantly delevering and derisking the balance sheet, increasing the bank's capitalisation and improving efficiency and profitability, while increasing market shares in segments where the banks was historically weaker, both in personal and business banking.

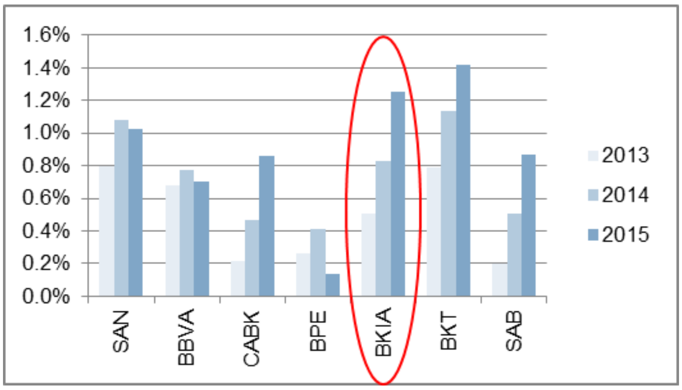
Over a 3 years period, the cost income ratio went from 55.7% to 43.6%, NPLs declined from EUR 20bn to EUR 13bn and the fully loaded CET1 ratio went from 6.82% to 12.26%. From making a loss in 2012, Bankia delivered an ROE of 10.6% in 2015. In other words, over a relatively short period of time, Bankia went from being a bank close to the brink of resolution to being a viable bank on its own merits.

Figure 1: Capital now ahead of peers



Source: SNL Financial, Scope Ratings

Figure 2: Steep recovery in risk adjusted asset profitability (RoRWA)



Source: SNL Financial, Scope Ratings

Reliance on ECB funding declined from EUR 71.5bn in 2012 to EUR 19.5bn in 2015. The decrease in ECB reliance was achieved in large part through deleveraging of the balance sheet (total assets declined from EUR 288bn in 2012 to EUR 207bn in 2015), although the bank was active in issuance markets (including EUR2.25bn in covered bonds, EUR1.28bn in senior finance and EUR1bn in subordinated debt in the period). Customer deposits were stable in the period.

Going forward, we would expect Bankia to continue to target selected segments where its market shares remain below the bank's natural distribution capacity. We are aware of the inherent risk of growing aggressively into new areas where competitors have a more entrenched franchise, but we note that the bank is doing this at the right point in the credit cycle – ie after a significant financial crisis – and that the credit cycle in Spain will remain benign for several years allowing Bankia's to build up more customer expertise in time.

Additional challenges to the bank's profit model should stem from the low interest environment, to which the bank is more exposed to than other peers.

Challenging environment for revenue growth and profitability

Achieving a recurrent ROE of 10.6%[7] in 2015 was very remarkable in our view. In fact, we note this is well above the average profitability of the Spanish bank peer group (6% for 2015).

Nevertheless, Bankia faces, for 2016 and beyond, a difficult outlook for profits. Revenue pressure will likely intensify in a "lower-for-longer" interest rate environment. In fact, we believe Bankia is more exposed than peers to NII pressure, for three reasons:

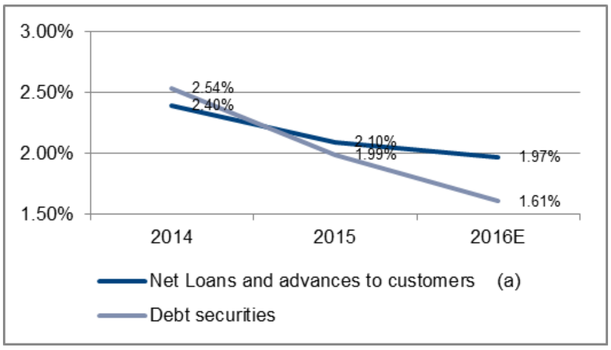
Its loan book is tilted towards residential mortgages. Mortgages in Spain are generally variable rate and long duration, meaning that banks have limited room to offset the decline in market rates (Euribor) by raising spreads. The strategy to aggressively target higher margin business segments (credit cards, SMEs) will help at the margin, but is less likely, in the short term, to offset the pressure on mortgage backbook margins.

Bankia holds a EUR 29bn ALCO portfolio, primarily invested in Spanish sovereign debt and EUR 17bn in SAREB bonds, which it obtained in exchange of the bad real estate assets it transferred to the Spanish "bad bank" in 2012. As SAREB bonds mature, they are automatically rolled, and Bankia is obliged to buy them. The yield on both SAREB and sovereign bonds has been steadily falling, which will put further pressure to NII.

[7] Excludes IPO contingency provision

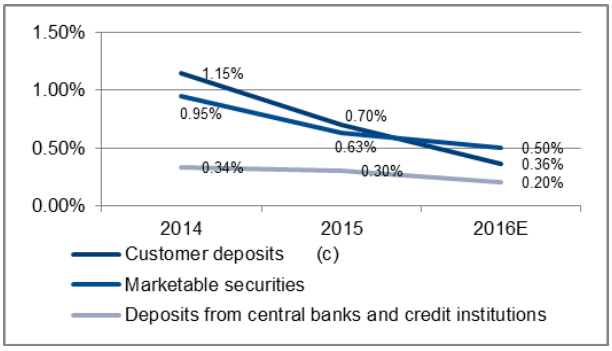
Most of the balance sheet is funded through already inexpensive sources of finance: repos, retail deposits and ECB LTRO. While there remains some room to reduce funding costs further, any reduction is unlikely to offset the lower interest income from loans and securities.

Figure 3: Assets yield dynamics



Source: Bankia, Scope Ratings

Figure 4: Liabilities yield dynamics



Source: Bankia, Scope Ratings

We also note that following the material restructuring of the franchise, further material cost efficiencies seem more difficult to achieve. We forecast 15% decline in revenues and 23% decline in pre-provision profit in 2016, although we expect the latter to start rebounding from 2017 (when most of the impacts from mortgage repricing and security portfolio rollover should be included in income). Some relief to the bottom line should come from a further decline in the cost of risk, to 45bps of loans from 52bps in 2015.

Overall, we expect Bankia's ROE to be in the high single digit range for the foreseeable future.

Residual uncertainty around group ownership and structure going forward

Bankia S.A. is at once the parent company of the Bankia group and the main subsidiary of the BFA group. Fully owned by the Spanish Government's Fondo para Restructuracion Ordenada Bancaria (FROB) BFA owns 64.22% of Bankia, with the balance held by third-party investors as of December 2015.

We see Bankia as a viable standalone business, but note that ongoing political uncertainty in Spain may create a hurdle to Bankia's route to privatisation. The latest elections in 2015 failed to deliver a governing coalition but crystallisation of political risk, seems more remote after the 26 June 2016 elections..

The restructuring plan mandated BFA to either merge into Bankia or convert into a holding company by the end of 2013. BFA chose the latter, forfeiting its banking license and ceasing to be a bank. Aside from its stake in Bankia, BFA holds Spanish sovereign bonds, SAREB bonds, and other assets, largely funding through repos. At present, BFA remains the supervised entity of the group.

The route to the re-privatization of Bankia seems to entail sales of the Bankia stake by BFA. BFA already disposed of a 7.5% stake in 2014. This leaves uncertainty with respect to two points:

1) What will happen to BFA once it loses control of Bankia?
2) When will the regulatory focus shift to Bankia itself?

Our expectation is that BFA will eventually be liquidated, having fulfilled its purpose, with the regulatory focus switching to Bankia S.A. In fact this could happen early on, given that Bankia is the deposit taking institution of the group, as well as the only issuer of traded debt. Our credit view reflects Bankia S.A. and its guaranteed subsidiaries, but not to BFA which in any case does not issue debt.

Bankia has a EUR 2bn credit exposure to BFA, including EUR 0.9bn in reverse repo and EUR 1.1bn collection rights related to the IPO contingency provision. Given the balance sheet structure of BFA, we believe there is a contingent risk that Bankia's exposure to BFA may increase at times of stress. In fact, while the Bankia stake is largely funded via equity, BFA also holds some other investments, primarily bonds, funded through repos with financial institutions. As such, it is exposed to fluctuations in the value of the bonds it uses as collateral, and may require funding assistance from Bankia – which it controls. Partly mitigating this contingency is the fact that the agreement governing relationships between BFA and Bankia mandates that any intragroup funding be carried at market conditions.

Asset quality is weak in an international context but well covered

Bankia's asset quality has been improving in past few years. From EUR 20bn in Q4 2013, gross NPL stood at EUR13bn in Q4 2015, for an NPL ratio of 10.7%. At 60%, the coverage ratio is high compared to peers. The low level of NPLs compared to peers is partly explained by the fact that in 2012 Bankia transferred to SAREB a large part of its most problematic assets:

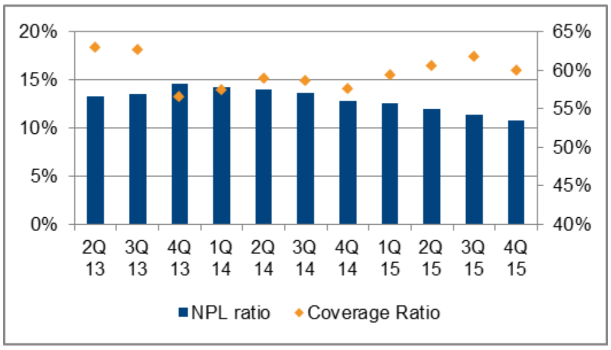
- Foreclosed assets with a net accounting value of over EUR 100.000
- Loans to real estate developers (REDs) with a net accounting value of over EUR 250.000
- Shares in real estate development companies

Foreclosed assets amount to EUR 3.64bn, with a coverage of c. 31%. While coverage may seem low compared to peers, it is worth highlighting that coverage of foreclosed assets is not discretionary and is mandated by the 2012 Royal Decrees. 81% of the foreclosed assets are finished residential homes, while only 2% is land. A further EUR 2.5bn in loans are classified as substandard, while performing forborne exposures stand at EUR 12.7bn.

Including NPLs, substandard loans and foreclosed assets, total non-performing assets stand at c. EUR 17bn. The weak asset quality metrics are certainly a concern, especially when compared to international peers. However, we see them as a legacy of the past which we believe will become less important to the credit risk of Bankia going forward.

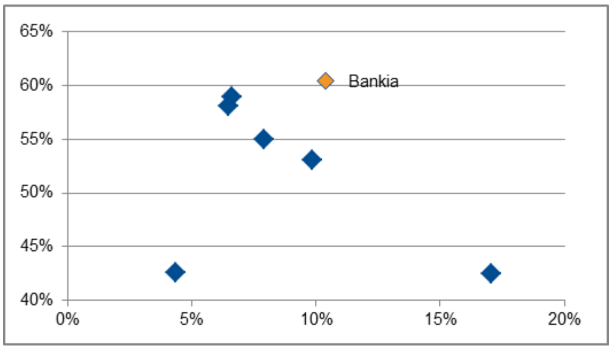
Indeed we note that the high coverage, together with the improving macroeconomic environment, are likely to facilitate the process of selling down bad assets and complete the cleanup process initiated with the SAREB transfers. In 2015, Bankia sold EUR 1.9bn in NPLs (EUR 1.6bn in 2014) and has been looking at further opportunities for disposing of its assets through wholesale deals.

Figure 5: NPL and coverage (%)



Source: Bankia, Scope Ratings
Note: calculated on total risks, including advances and contingent exposures

Figure 6: Asset quality vs domestic peers



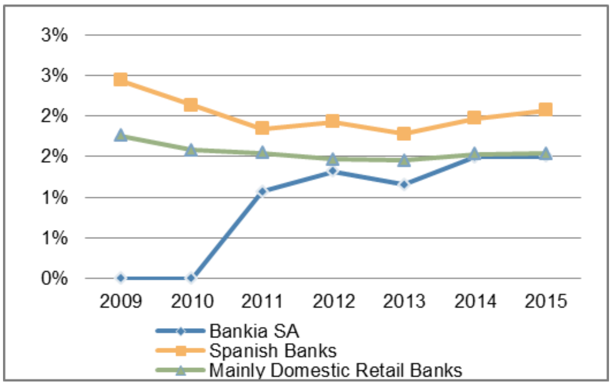
Source: SNL Financial, Scope Ratings, banks' data
Peers include Banco Popular, Banco Sabadell (ex TSB), BBVA Spain, Santander Spain, Caixabank, Bankinter

Bankia also has a large portfolio of restructured loans of EUR 23bn as of the end of December 2015, more than half of which is classified as performing. The trend here is positive, with the balance reducing in recent years and many of the restructurings moving back to performing status from NPLs and substandard.

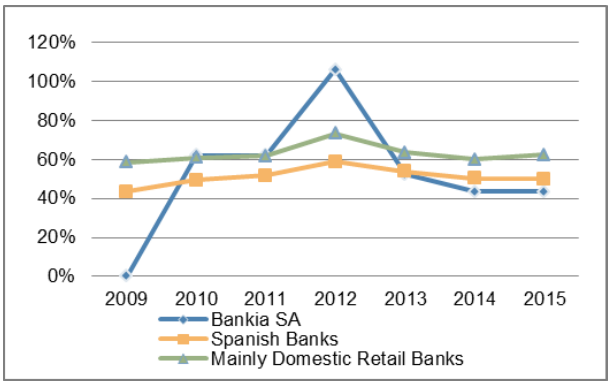
(In EURm as of)	Dec-13	Dec-14	Dec-15
Total amount	24,879	25,067	23,191
of which:			
Performing	36%	46%	55%
Substandard	16%	14%	10%
Doubtful	48%	40%	35%
Coverage	22%	21%	20%

Peer comparison

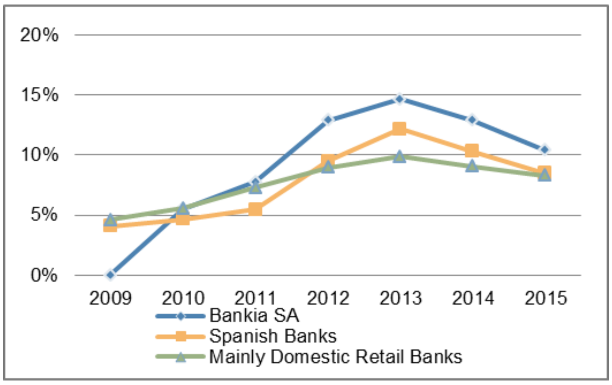
Net interest Margin (%)



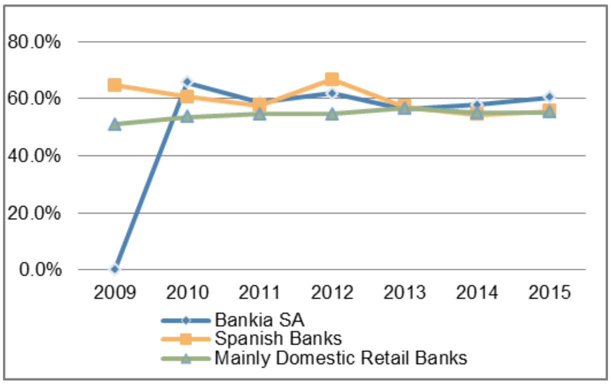
Cost-to-Income Ratio (%)



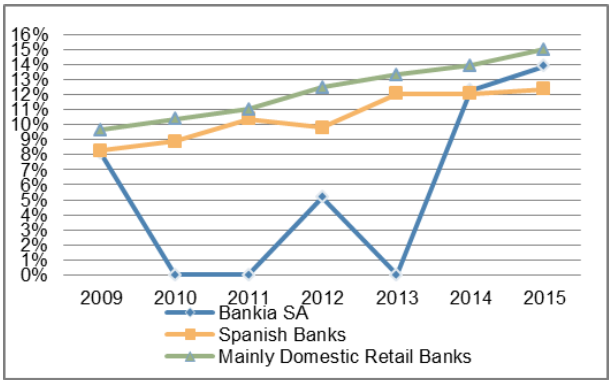
NPL Ratio (%)



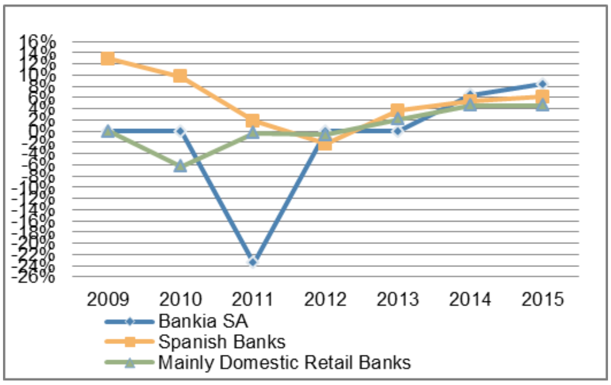
NPL Coverage (%)



CET 1 transitional Ratio (%)



ROAE (%)



Source: SNL, Scope Ratings

* Spanish peers:Santander, BBVA, Bankia, Sabadell, Popular, Caixabank, Bankinter.

** Cross-border peers based on business model: Credit Agricole, RBS, BPCE, Lloyds, Rabobank, Credit Mutuel, Intesa, Commerzbank, Danske, DZ Bank, ABN AMRO, Caixabank, Handelsbanken, DNB, SEB

Selected Financial Information – Bankia

	2012	2013	2014	2015	2016E	2017E	2018E
Balance Sheet summary (EUR billion)							
Assets							
Cash and Interbank Assets	12.6	12.7	13.9	9.4	9.5	9.5	9.5
Total Securities	71.4	67.7	61.4	54.8	53.0	51.0	49.0
Derivatives	41.6	26.5	24.1	16.3	16.0	16.0	16.0
Net Loans to Customers	134.2	119.1	112.7	110.6	112.8	116.2	119.6
Other Assets	22.6	25.5	21.5	15.9	16.5	16.5	16.5
Total assets	**282.3**	**251.5**	**233.6**	**207.0**	**207.8**	**209.2**	**210.6**
Liabilities							
Interbank liabilities	78.0	26.3	24.0	23.2	23.2	23.2	23.2
Senior Debt	37.3	28.1	23.3	22.9	22.9	22.9	22.9
Derivatives	36.4	22.1	20.6	13.4	13.4	13.4	13.4
Deposits from Customers	110.9	108.5	106.8	108.7	108.7	108.7	108.7
Subordinated Debt + Non Equity Hybrids	15.6	0.0	1.0	1.0	1.0	1.0	1.0
Other Liabilities	10.0	54.8	45.3	25.0	25.2	25.9	26.6
Total Liabilities	**288.4**	**239.9**	**221.1**	**194.3**	**194.5**	**195.1**	**195.9**
Ordinary Equity	-6.0	11.6	12.5	12.6	13.3	14.0	14.7
Equity Hybrids	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Minority Interests	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Total Liabilities and Equity	**282.3**	**251.5**	**233.6**	**207.0**	**207.8**	**209.2**	**210.6**
Core Tier 1 /Common Equity Capital	5.4			11.3	11.9	12.6	13.4
Income Statement summary (EUR billion)							
Net Interest Income	3.1	2.4	2.9	2.7	2.3	2.3	2.4
Net Fee & Commission Income	1.0	0.9	0.9	0.9	0.9	0.9	1.0
Net Trading Income	0.4	0.4	0.2	0.3	0.1	0.1	0.1
Other income	-0.6	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1
Operating Income	**3.9**	**3.6**	**4.0**	**3.8**	**3.3**	**3.3**	**3.5**
Operating Expense	4.1	1.9	1.7	1.7	1.6	1.6	1.6
Pre-provision Income	**-0.2**	**1.7**	**2.3**	**2.1**	**1.7**	**1.7**	**1.9**
Loan Loss Provision charges	18.9	1.2	0.9	0.6	0.5	0.5	0.5
Other Impairments	3.0	0.2	0.2	0.2	0.0	0.0	0.0
Non-recurring items	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pre-tax Profit	**-22.2**	**0.3**	**0.9**	**1.5**	**1.2**	**1.3**	**1.4**
Discontinued Operations	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Income Tax Expense	-3.0	-0.1	0.2	0.4	0.3	0.3	0.3
Net Profit Attributable to Minority Interests	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit Attributable to Parent	**-19.1**	**0.5**	**0.8**	**1.1**	**0.9**	**1.0**	**1.0**

Source: SNL Financial and Scope Ratings estimates. Scope's forecasts are based on publicly available information and were last updated in May 2016

Ratios – Bankia

	2012	2013	2014	2015	2016E	2017E	2018E
Funding/Liquidity							
Gross loans % Total deposits	131.5%	119.6%	114.0%	108.5%	109.3%	111.3%	113.4%
Total deposits % Total funds	45.8%	66.6%	68.8%	69.7%	69.7%	69.7%	69.7%
Wholesale funds % Total funds	54.2%	33.4%	31.2%	30.3%	30.3%	30.3%	30.3%
Liquidity coverage ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net stable funding ratio (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Asset Mix, Quality and Growth							
Gross loans % Funded assets	59.3%	56.6%	57.2%	60.9%	61.1%	61.8%	62.5%
Impaired loans % Gross loans	12.9%	14.6%	12.9%	10.4%	8.4%	6.6%	4.9%
Loan loss reserves % Impaired loans	61.8%	56.3%	57.8%	60.5%	60.0%	60.0%	60.0%
Gross loan growth (%)	-24.4%	-11.0%	-6.2%	-3.1%	0.7%	1.8%	1.9%
Impaired loan growth (%)	26.0%	1.0%	-17.4%	-21.9%	-18.4%	-20.0%	-25.0%
Funded assets growth (%)	-10.4%	-6.7%	-7.1%	-9.1%	0.4%	0.7%	0.8%
Earnings							
Net interest income % Revenues	79.4%	66.8%	73.0%	72.0%	70.7%	70.4%	70.8%
Fees & commissions % Revenues	25.5%	25.8%	23.6%	24.6%	28.2%	28.6%	28.2%
Trading income % Revenues	9.9%	12.0%	5.6%	8.2%	3.1%	3.0%	2.9%
Other income % Revenues	-14.8%	-4.5%	-2.3%	-4.8%	-2.0%	-2.0%	-1.9%
Net interest margin (%)	1.3%	1.4%	2.3%	2.2%	1.9%	1.9%	1.9%
Pre-provision Income % Risk-weighted assets (RWAs)		1.7%	2.4%	2.5%	2.0%	2.1%	2.3%
Loan loss provision charges % Pre-provision income	-8172.7%	72.4%	41.9%	27.1%	30.4%	26.3%	25.4%
Loan loss provision charges % Gross loans (cost of risk)	11.2%	0.9%	0.8%	0.5%	0.4%	0.4%	0.4%
Cost income ratio (%)	106.0%	52.5%	43.5%	43.6%	49.2%	47.4%	46.3%
Net Interest Income / Loan loss charges (x)	0.2	1.9	3.1	4.7	4.6	5.1	5.2
Return on average equity (ROAE) (%)			6.4%	8.4%	6.7%	7.1%	7.3%
Return on average funded assets (%)	-7.3%	0.2%	0.3%	0.5%	0.4%	0.5%	0.5%
Retained earnings % Prior year's book equity	-154.1%	-8.5%	6.4%	5.9%	5.0%	5.3%	5.5%
Pre-tax return on common equity tier 1 capital	-242.3%	3.6%	8.6%	13.1%	9.9%	10.5%	10.6%
Capital and Risk Protection							
Common equity tier 1 ratio (%, Fully loaded)			10.6%	12.3%	13.0%	13.8%	14.6%
Common equity tier 1 ratio (%, Transitional)	5.2%	10.5%	12.3%	13.9%	14.6%	15.4%	16.2%
Tier 1 capital ratio (%, Transitional)	5.0%	10.5%	12.3%	13.9%	14.6%	15.4%	16.2%
Total capital ratio (%, Transitional)	9.8%	10.8%	13.8%	15.2%	15.9%	16.6%	17.4%
Tier 1 leverage ratio (%)				5.7%	6.0%	6.3%	6.6%
Total loss coverage (CET1 + loan loss provisions) % RWAs	16.3%	21.3%	22.5%	23.0%	22.0%	21.2%	20.5%
Non-senior MREL estimate (%)	3.9%	5.1%	6.4%	7.1%	7.4%	7.7%	8.0%
Asset risk intensity (RWAs % total assets)	36.9%	39.1%	37.9%	39.3%	39.3%	39.3%	39.3%

Source: SNL Financial and Scope Ratings for historical figures. Scope's forecasts are based on publicly available information and were last updated in May 2016

APPENDIX II. COVERED BOND MODELLING – TECHNICAL NOTE

Credit risk modelling

Lifetime default rate and coefficient of variation

We use issuer specific performance information of the relevant sub portfolios to calibrate our country specific lifetime default rate assumptions and coefficient of variation[8] for similar asset types. Available dynamic delinquency rates for residential mortgage and corporate loans published by the bank of Spain allow to build "synthetic vintage" default data, i.e. default data that captures market asset performance, grouped by year of origination of the asset, by year or quarter.

While synthetic vintages describe average performance of specific assets from the market, the dynamic delinquency information represents the entire market. The construction of synthetic vintages makes it possible to compare relative average performance over different time periods in an economic cycle.

We have compared the delinquency data for the market to Bankia's 90 days past due and delinquent loan information which the bank reports on a quarterly basis. With the data available we establish a dynamic relation which we use to adjust the available market data.

Rating distance conditional market value declines

Scope calculates the recovery rates on secured exposures, such as mortgages, by analysing the value of the dedicated security. In this analysis, the security value is the stressed value of the underlying residential real-estate properties. The recovery analysis considers the distance to a long-run or sustainable price level of the underlying properties, as well as fire-sale discounts during a foreclosure process. Consequently, the market value-decline assumptions we consider depend on the region where the collateral is located, as well as on market conditions.

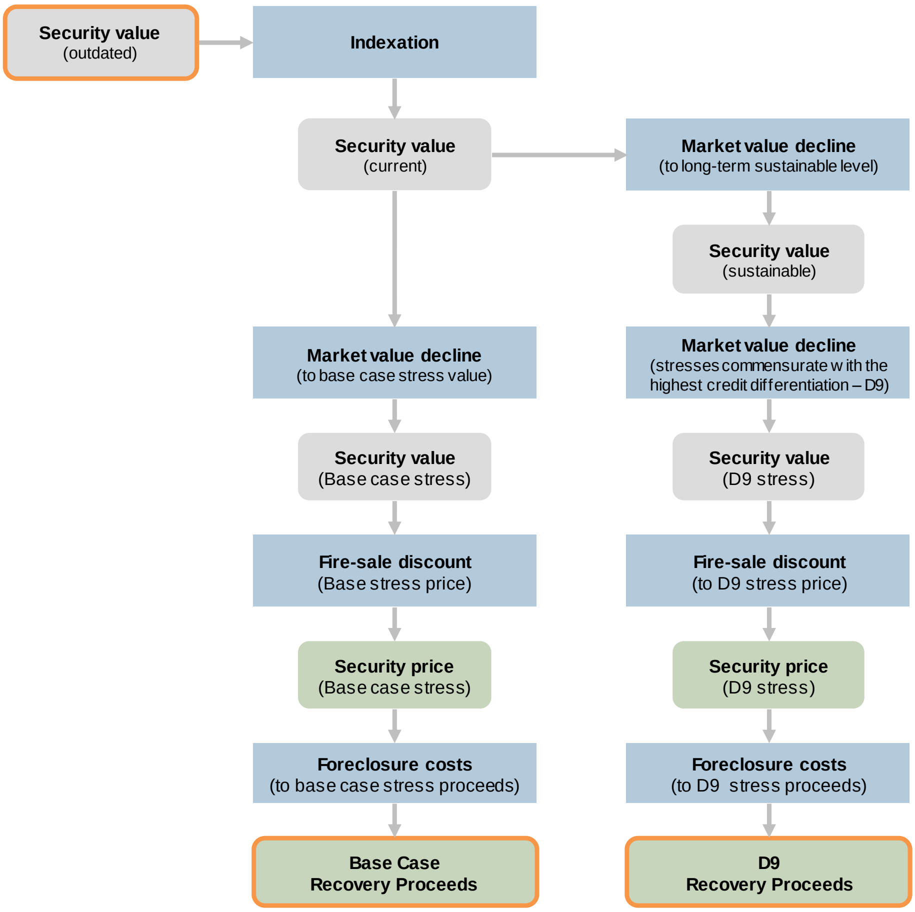
Scope's framework for fundamental recovery analysis involves: i) estimating the current value of the property (typically by indexation); ii) estimating the distance from estimated price to long-term sustainable values; iii) haircutting the current value of the property by applying a rating-conditional market-value decline and a constant fire-sale discount; and iv) deducting foreclosure costs from the estimated, gross recovery proceeds. Steps 'ii)' and 'iii)' are embedded in the total market-value-decline assumptions as calculated in the below section 'Spanish market-value-decline analysis'.

The recovery rates considered in the analysis reflect the outstanding notional of the loan as of closing. These recovery rates are thus conservative because deleveraging reduces the loan-to-value ratio and increases the expected recovery rates as time passes.

Figure 1 shows the analytical framework applied to estimate the proceeds recovered from the enforcement of the security. The framework includes the adjustment of the security value to a long-term, sustainable value to estimate the recovery proceeds under the highest rating stress.

[8] The coefficient of variation is defined as the standard deviation divided by the mean

Figure 1.**Fundamental recovery analysis for base case and highest credit differentiation**



We reduce the current house price index to sustainable values adding an additional stress of 10% to determine the market value declines commensurate with the highest credit differentiation between the issuer and the covered bonds

They also include the effect of a fire-sale discount whereas our base case market-value declines take our forward-looking view on the current market conditions and values. Scope creates rating-conditional recovery differentiation by tiering the market indexation according to the rating distance it needs to support.

Spanish Market value decline analysis

Scope analysed the current situation of the Spanish property market to derive market-value decline (MVD) assumptions specific to the different regions. This analysis is possible because the portfolio provides a good representation of the properties in a region: a distribution over cities and towns, which is similar to that over the entire regional market represented by the ministry data.

We have analysed home prices for the different Spanish regions for the period Jan 1987 to Dec 2015, as provided by the Spanish ministry of development. The MVDs calculated by Scope for the highest stress scenarios seek to eliminate any overpricing realised over our estimation of the 'sustainable' long-term value of a property[9] (including an extra 10% stress) with the additional application of a fire-sale discount. The MVD also considers the inflation rates when calculating the 'sustainable' values. The Base case MVDs reflect only the fire-sale discount.

Figure 2 shows the total MVD assumptions calculated by Scope for the different regions as a function of the rating-conditional stress. The MVDs reflect regional differences in relation to property-price growth rates and the regional market's ability to correct inflated prices. These total MVD values apply to indexed property values according to the indexation curves from the ministry of development. Hence our analysis also considers any price corrections to date.

We have also applied a floor of 50% to ensure a minimum level of stress, irrespective of the price correction in the region. This adds additional protection against market-value volatility in some regions for which prices are currently close to our estimated sustainable price level. For example, Figure 3 shows that the haircut from sustainable prices for Madrid is larger than for Andalucia because we believe the more dynamic market and stronger economy in Madrid supports sustainable

[9] We have derived the sustainable price levels by analysing market prices over a healthy period between 1987 and 1999.

prices which also grow faster than in Andalucia. But the higher level of sustainable prices in Madrid comes with the risk of unforeseen corrections which is covered by the floor assumption applied.

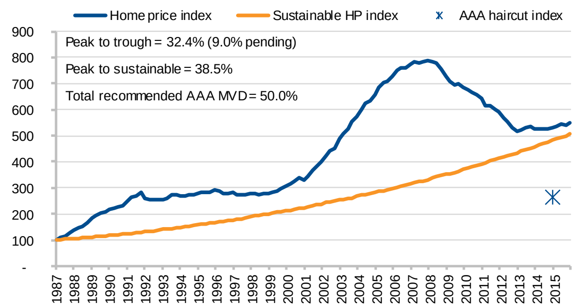
Figure 2. **Total MVD assumptions and haircuts**

	D9	Base case
Andalucia	68.5%	30.0%
Aragon	53.7%	30.0%
Asturias	52.6%	30.0%
Baleares	63.9%	30.0%
Canarias	58.0%	30.0%
Cantabria	60.5%	30.0%
Castilla La Mancha	50.0%	30.0%
Castilla Leon	50.0%	30.0%
Cataluna	50.9%	30.0%
Valencia	50.0%	30.0%
Extremadura	67.1%	30.0%
Galicia	57.9%	30.0%
La Rioja	50.0%	30.0%
Madrid	50.0%	30.0%
Murcia	63.3%	30.0%
Navarra	50.0%	30.0%
Pais Vasco	50.9%	30.0%
Ceuta	50.0%	30.0%
Melilla	50.0%	30.0%

Figure 3 shows the recommended total MVDs in the context of market prices for the four most relevant regions in the portfolio. The figures illustrate that the dynamism of Madrid has allowed it to almost close the value gap with respect to the sustainable price level (only 9% of the peak-to-sustainable correction is pending), as opposed to Andalucia which is far from converging to the sustainable levels (almost 47% of the peak-to-sustainable correction is pending).

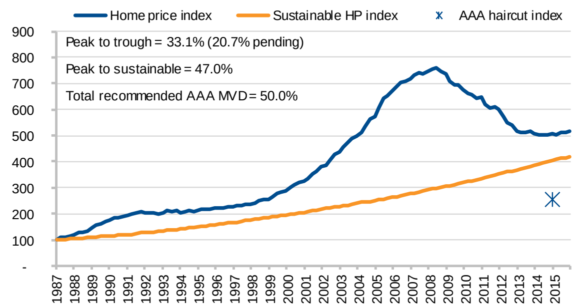
Figure 3. **Total market-value-decline assumptions for the four most relevant regions in the portfolio**

House Prices 'Madrid' (32.5% of total balance)



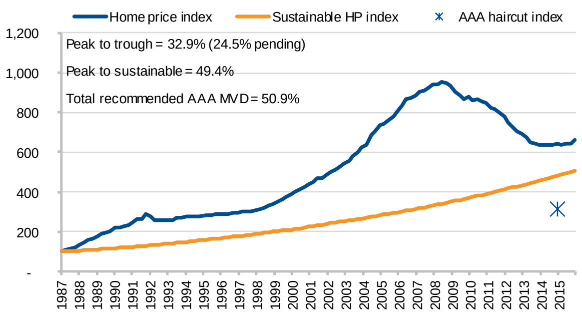
Source: Spanish Ministery of Development and Scope.

House Prices 'Valencia' (16.1% of total balance)



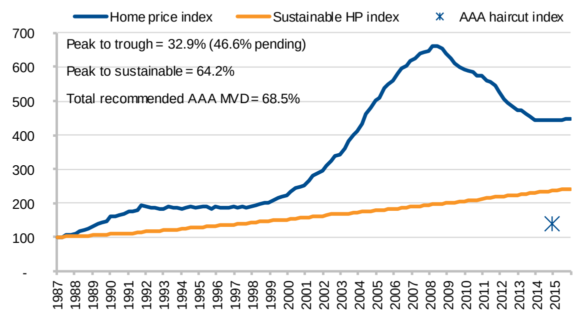
Source: Spanish Ministery of Development and Scope.

House Prices 'Cataluna' (15.0% of total balance)



Source: Spanish Ministery of Development and Scope.

House Prices 'Andalucia' (9.1% of total balance)



Source: Spanish Ministery of Development and Scope.

The analysis of recovery rates from collateral values in mortgages of commercial real estate is also based on an update of the indexed property values. Commercial mortgage loans for which we receive line by line information on the properties we align the recovery rate determination with the analysis of market value declines of residential properties. We believe that the dynamism of the economy of the underlying reason is a significant factor to determine the liquidity of commercial properties.

We use residential market value declines to adjust the value of commercial properties, as these region-specific value haircuts already consider the dynamism of the economy. We then apply an additional value haircut to reflect the lower liquidity of commercial assets when compared to residential assets. The additional haircut is in the form of an additional quick sale discount applied to the moneys expected from the property as calculated for residential properties:

$$Available\ money = [Appraisal \times (1 - MVD) \times (1 - QSD)] \times (1 - Additional\ QSD)$$

Property type	Additional Quick sale discount
Commercial real estate	21%
Land and Developers	40%

For less granular cover pool data, common for most Spanish covered bond issuers including the reporting received by Bankia, we apply an additional element of conservatism in the analysis of commercial mortgage exposures. This reflects the lower granularity on property specific details. We therefore apply fixed haircuts as per below table. On average these fixed MVD's translate into Quick sale discounts that are more than twice the adjustment we typically apply when we have access to detailed information on the obligors and the commercial properties securing the loan.

Property type	Max MVD applied to indexed collateral values
Commercial real estate	80%
Land and Developers	100%

Cash flow modelling

The results of the portfolio credit risk modelling of the cover pool feeds into a stressing of future cash flows in the structure. The main inputs of the simulation are the credit-related characteristic parameters of the pool (e.g. amortisation profile, default distribution, default timings, recoveries) and market-scenario parameters (e.g. interest rate term structures, FX rates). Scope analysed the default pattern of the asset portfolio using an inverse Gaussian probability distribution and the CF tool to calculate the probability-weighted (i.e. expected) loss of each of the segments, using rating-distance-conditional recovery-rate assumptions. The modelling of the covered bonds' cash flow waterfall assumes that asset sales can cover any liquidity shortfalls. Proceeds for asset sales are determined by calculating a present value by discounting of all future expected cash flows, and adding a cover-pool-specific liquidity premium.

The simulation for different default rates, together with the already determined default distribution, allows us to calculate the expected loss and expected average life of the structure. Along with Scope's idealised expected loss curves, this allows us to determine the covered bond's rating under the given scenario. Scope applies a set of increasing stress scenarios specific to the covered bond programme to the input parameters and tests the cover pool's ability to service the covered bonds. The stress scenarios are rating-dependent changes in recovery rates, market parameters and liquidity premiums. We also tested the cover pool against different assumptions for prepayment rates (CPR). The structure has 'passed' a certain rating level when the calculated rating is greater than or equal to the rating scenario.

The covered bond rating is anchored at our view of the credit quality of the issuer, the ICSR. Scope's methodology reflects this by considering stress scenarios which are rating-distance-dependent. The base case scenario is anchored at the ICSR, i.e. we allow the issuer to cover for rating scenarios up to its rating. The cover pool therefore only needs to support scenarios above this threshold. We translate the stresses commensurate with the potential uplift into a potential quantitative covered bond rating (e.g. issuer rating: A; cover pool uplift test +5; cover pool rating benchmark: AAA).

Key modelling parameters

Based on the composition of the cover pool we apply segment specific recovery rates. We also base the relevant average liquidity premium on the cover pool's composition. The highest stress assumptions only apply in the scenario which, if passed, allows us to assign the maximum credit differentiation between the issuer and its covered bonds.[10]

[10] The maximum credit differentiation between the rating of the issuer and its covered bond is typically determined by our fundamental assessment of the legal and resolution framework. Our methodology sets out that the maximum credit differentiation can only be three notches higher than this fundamental uplift. For Bankia, we have determined a fundamental support of six notches. According to our methodology, the maximum achievable uplift is nine notches (6+3).

Liquidity premium: We determine the blended liquidity premiums specific to the cover pool by applying stressed country-specific spreads. For the residential segment of the cover pool we have analysed the development of trading spreads for CH's as reference point and applied a mean of 250bps as additional liquidity premium for the discounting. For the commercial segment we applied a mean liquidity premium of 320 bps for which we have informed us by taking into account spreads for the highest rated tranches of Spanish SME transactions.

Market risk stresses: We assumed deterministic interest rate and FX stresses in our cash flow modelling. We apply a common framework to establish the stresses, but tailor this to individual cover pools by identifying which market rate developments the cover pool is most sensitive to. The analysis allows us to establish stresses that equate to the maximum achievable rating uplift.

Interest rate modelling: We use the current development of forward rates as the central scenario in our modelling. We further complement the analysis with increasing and further decreasing rate scenarios. For a rising interest rate scenario we identified that the German hyperinflation in the 1920s to be one of the most stressfull upward interest rate scenarios. Based on this scenario we have established an upward interest rate scenario that starts at the current rates and continuously increases up to 15%. We also assumed a spike of up to 20% for a relatively short period of time, after which rates decrease back to about 5% in the long term. Even though the current interest rates leave little room for further lowering we also test the cover pool against negative rates of up to minus 50bps. We decrease over four years from current rates to the low of minus 50bps which persists for a period of 2 years. After this low, rates increase slightly but remain at a low of positive 50bps for another 12years to revert to a mean of 5 % for the remainder.

Foreign-exchange risk modelling: Not relevant for Bankia's cover pool as all assets and liabilities are denominated in Eur.

Prepayment rate assumption: We tested for several CPR assumptions. For the rating determination we only tested against a very conservative 0% CPR assumption. Higher prepayment assumptions would benefit the cover pool analysis as it increases cash accumulation inter alia reducing the need to monetise parts of the cover pool.

Servicing fee: We apply country and asset type specific servicing fees the cover pool has to pay on an annual basis. For testing the highest stress scenario we apply for Spanish CH's a 25bps to the residential segment and 50bps for the servicing of the commercial segment (including developers and land)

APPENDIX III. SUMMARY OF COVERED BOND CHARACTERISTICS

Reporting date	31 March 2016
Issuer name:	Bankia S.A.
Country	Spain
Cover pool type	Mortgage
ICSR	N/D[1]
Current covered bond rating:	AAA/Stable
Fundamental cover pool support (notches):	6
Max. achievable covered bond uplift (notches):	9
Covered bond rating buffer:	1

Cover pool (in EUR bn)[2]:	65.19 (48.6)
Covered bonds (in EUR bn):	32.33
Current overcollateralisation[3]:	101.6% (50.3%)
Legal Minimum OC[4]	25%
OC to support current uplift	35%
OC to support max cover pool uplift	40%

Credit risk contribution:	12.1%
Market risk contribution	27.9%
OC to support maximum covered bond rating uplift[4]	40.0%

Duration/ WAM assets:	16.9y/ 20.6y
Duration/ WAM liabilities:	6.6y/ 7.02y
Duration/ WAM GAP:	10.3y/ 13.4y

Number of different loans	691,903
Average loan size	94,220
% share top-20 obligors:	1.90%

Default measure:	inverse Gaussian
WA DR	17.70%
WA CoV	67.90%
WA recovery assumption (BC/ D9):	68.5% / 41.1%

IR stresses (max./min.; CCY dependent):	0% to 20%
FX stresses (max./min.; CCY dependent)[4]:	N/ A
mean liquidity premium:	260 bps
Servicing fee	28.9 bps

[1] N/D – not disclosed
[2] Mortgage Book (Eligible Assets)
[3] OC based on Mortgage book (eligible cover assets)
[4] Legal minimum oc based on 'eligible' assets

APPENDIX IV. REGULATORY AND LEGAL DISCLOSURES

Important information

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings AG, Berlin, District Court for Berlin (Charlottenburg) HRB 161306 B, Executive Board: Torsten Hinrichs (CEO), Dr. Stefan Bund and Dr. Sven Janssen.

The covered bond rating analysis has been prepared by Karlo Fuchs, Lead Analyst

Responsible for approving the covered bond rating: Guillaume Jolivet, Committee Chair

Rating history of mortgage covered bonds (CH) issued by Bankia S.A.

Date	Rating action	Seniority	Rating/ Outlook
08.07.2016	First assignment	senior secured mortgage covered bond	AAA/ Stable

The rating concerns a debt type of issuer which was evaluated for the first time by Scope Ratings AG. Scope had already assigned private ratings for the rated instruments in accordance with Regulation (EC) No 1060/2009 on rating agencies, as amended by Regulations (EU) No 513/2011 and (EU) No 462/2013.

Information on interests and conflicts of interest

The rating was prepared independently by Scope Ratings but with a mandate by Bankia S.A. (solicited)

As at the time of the analysis, neither Scope Ratings AG nor companies affiliated with it hold any interests in the rated entity or in companies directly or indirectly affiliated to it. Likewise, neither the rated entity nor companies directly or indirectly affiliated with it hold any interests in Scope Ratings AG or any companies affiliated to it. Neither the rating agency, the rating analysts who participated in this rating, nor any other persons who participated in the provision of the rating and/or its approval hold, either directly or indirectly, any shares in the rated entity or in third parties affiliated to it. Notwithstanding this, it is permitted for the above-mentioned persons to hold interests through shares in diversified undertakings for collective investment, including managed funds such as pension funds or life insurance companies, pursuant to EU Rating Regulation (EC) No 1060/2009. Neither Scope Ratings nor companies affiliated with it are involved in the brokering or distribution of capital investment products. In principle, there is a possibility that family relationships may exist between the personnel of Scope Ratings and that of the rated entity. However, no persons for whom a conflict of interests could exist due to family relationships or other close relationships will participate in the preparation or approval of a rating.

Key sources of Information for the rating

Website of the rated entity/issuer, Annual reports/quarterly reports of the rated entity/issuer as well as other public covered bond specific reports, Program documentation and terms and conditions of the covered bonds issued, Current performance information as well as confidential information on the composition of the cover pool composition and related cash flow structures, Data provided by external data providers, Interview with the rated entity, Press reports, official publications and data series by the central bank and research from reputable market participants.

Scope Ratings considers the quality of the available information on the evaluated entity to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

Examination of the rating by the rated entity prior to publication

Prior to publication, the rated entity was given the opportunity to examine the rating and the rating drivers, including the principal grounds on which the credit rating or rating outlook is based. The rated entity was subsequently provided with at least one full working day, to point out any factual errors, or to appeal the rating decision and deliver additional material information. Following that examination, the rating was not modified.

Methodology

The main methodologies applicable for the covered bond rating are: “Covered Bond Rating Methodology”, published July 2015, ‘Rating Methodology for Counterparty Risk in Structured Finance Transactions’ published 10 August 2015, “General Structured Finance Rating Methodology”, published 28 August 2015.

The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

Conditions of use / exclusion of liability

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