

# Bankia

## Quarterly results presentation

2Q 2018

**26 July 2018**

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**2Q 2018 HIGHLIGHTS**

**2**

**2Q 2018 RESULTS**

**3**

**ASSET QUALITY AND RISK MANAGEMENT**

**4**

**LIQUIDITY AND SOLVENCY**

**5**

**CONCLUSIONS**

> 2Q 2018 Highlights

1	<b>Competitive positioning</b>	With the IT integration of BMN completed, commercial activity has regained momentum...	<b>+18.1%</b> New mortgages <b>+34.6%</b> Consumer loans <b>+35.8%</b> Loans to businesses
2	<b>Profitability</b>	...already capturing synergies and improving the cost of risk ...	Operating expenses: - <b>1.7%</b> <small>1H18 vs 1H17</small> Attrib. profit: <b>€515mn</b> <small>1H18</small>
3	<b>Asset quality</b>	...accelerating the reduction of non-performing assets on the balance sheet...	NPA reduction: <b>€1.7 bn</b> <small>in 1H18</small> NPL ratio: <b>8.1%</b> <small>JUN 18</small>
4	<b>Capital generation</b>	...generating <b>46 bps</b> of capital in the half-year	CET1 FL ratio: <b>12.41%</b> Total Capital ratio FL: <b>15.58%</b>

## > 2Q 2018 Highlights

### Integration of BMN and new recovery centres

#### Progress of the integration process

##### 1Q 2018: IT INTEGRATION

- IT systems integration
- Brand and image integration
- ATM upgrading and replacement
- Branch closures

**SYSTEMS AND NETWORK  
UNIFIED IN RECORD TIME**

##### 2Q 2018: BUSINESS INTEGRATION

- Unification of commercial management: implementation of Bankia's commercial systems in the BMN network
- Reorganisation of the servicers business
- Specialised recovery management as per Bankia model

**WORKFORCE RESTRUCTURING  
87% COMPLETED**

## > 2Q 2018 Highlights

Integration efficiency and synergies

### Synergies capture ahead of schedule

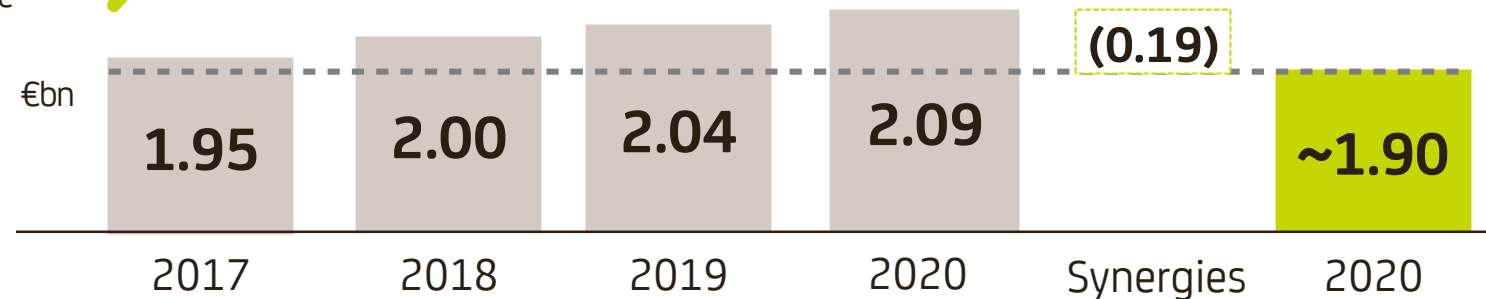
#### STRATEGIC PLAN 2018 - 2020

##### OPERATING EXPENSES <sup>(1)</sup>

Expense increase

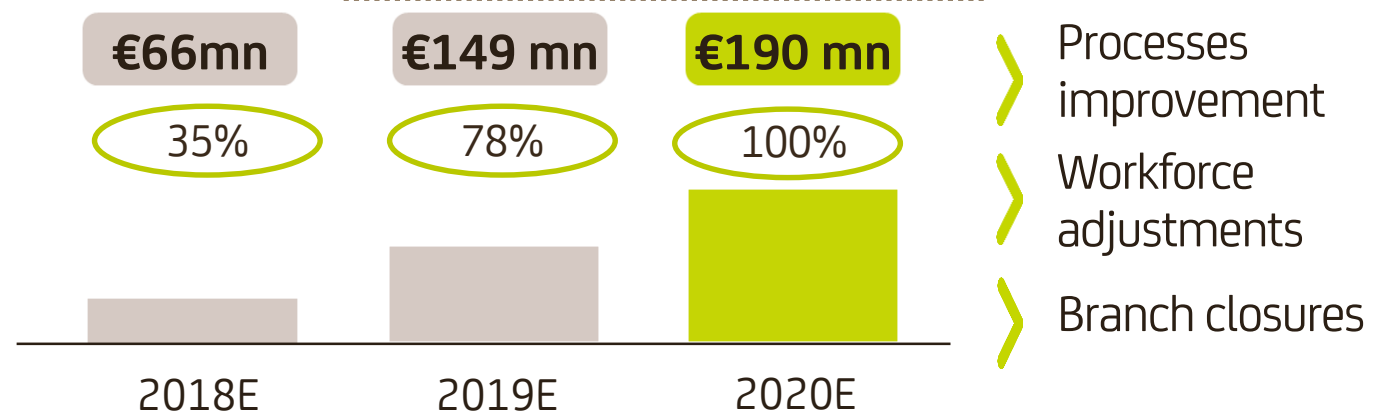


+ €0.14 bn

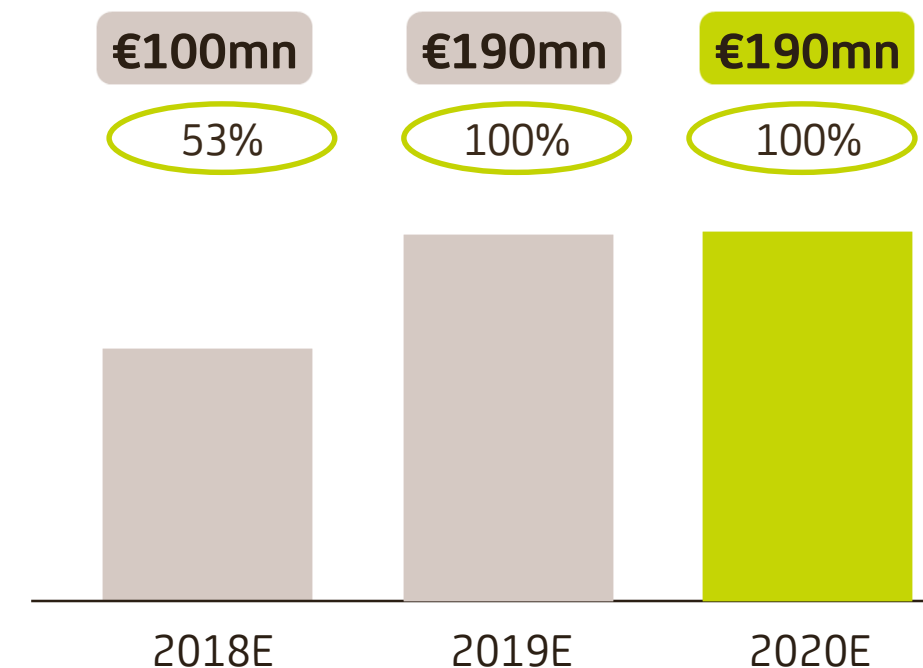


<sup>(1)</sup> Includes depreciation and amortisation

##### PREVIOUS SYNERGIES TARGET (STRATEGIC PLAN)



#### UPDATED SYNERGIES TARGET



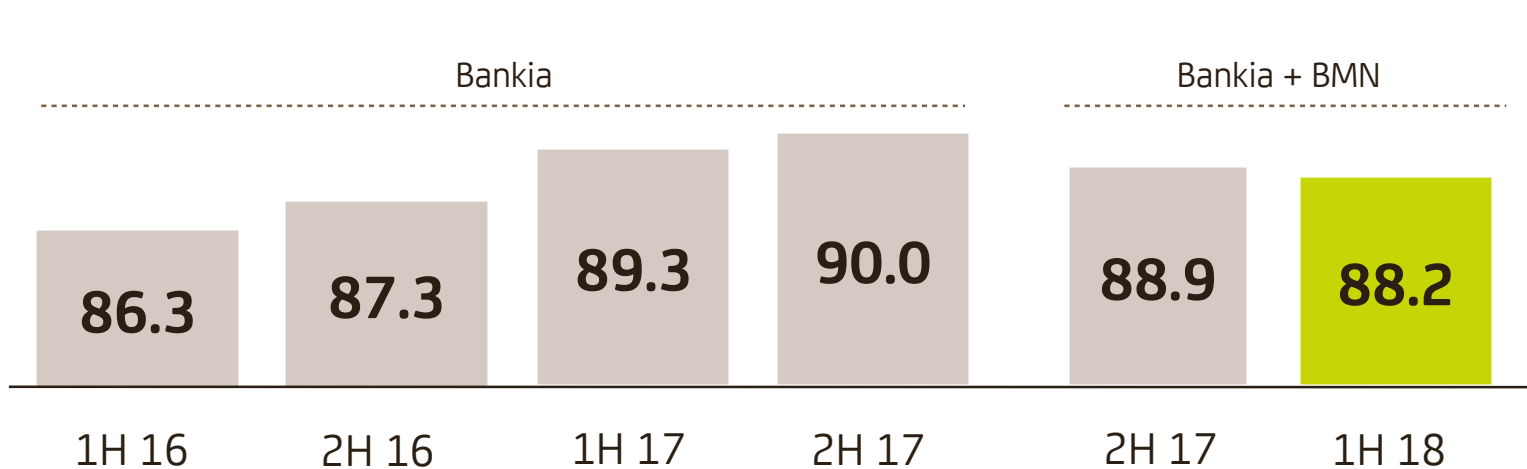
Capture of synergies accelerated due to the quickness in the adjustments process

> **2Q 2018 Highlights**

Commercial positioning | **Customer satisfaction**

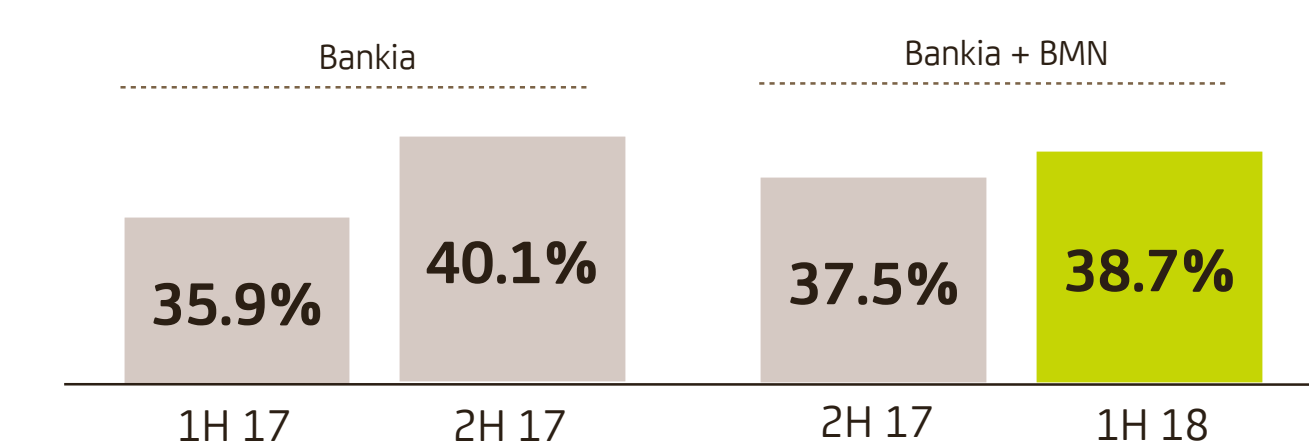
**Continuing positive trend in satisfaction and mystery shopper indicators**

**CUSTOMER SATISFACTION INDEX**



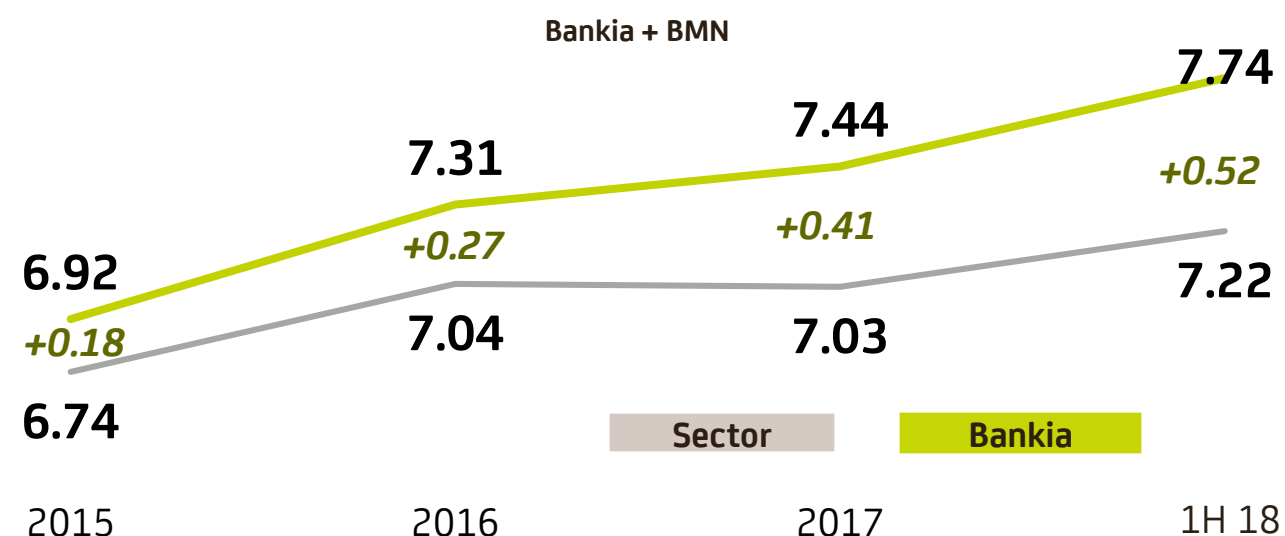
Source: Bankia

**NET PROMOTER SCORE - BRANCHES**



Source: Bankia

**MYSTERY SHOPPER**



Source: STIGA mystery shopper satisfaction study

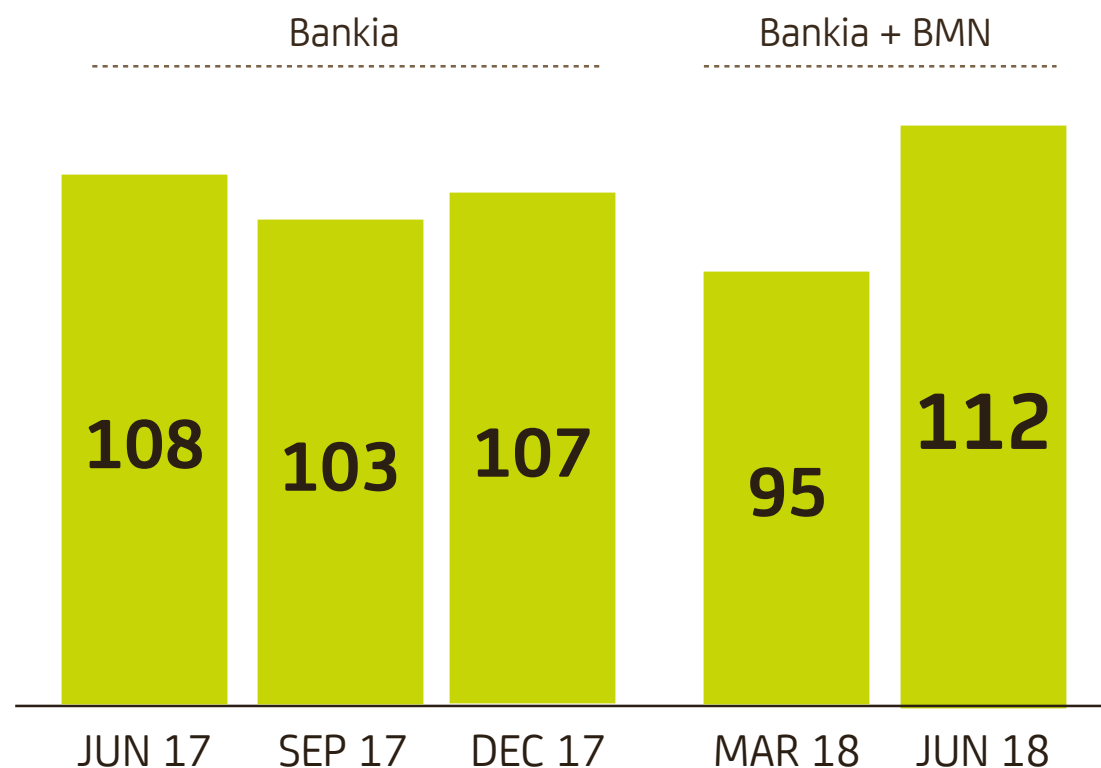
## > 2Q 2018 Highlights

Commercial positioning | Commercial activity

### New positioning continues to drive product sales

#### PAYROLL AND PENSION DEPOSITS

Change 12months (thousands)



#### PAYMENT SERVICES

##### CARDS



Turnover - Retailers

**+12.0%** 1H18 vs 1H17

Turnover - E-commerce

**+25.1%** 1H18 vs 1H17

Market share of cards turnover\*

**11.80 %** MAR 18

+39 bps vs MAR 17

##### Point of Sale terminals



Point of Sale terminals

turnover

**+14.9%** 1H18 vs 1H17

Market share Point of Sale terminals turnover\*

**12.63 %** MAR 18

+79 bps vs MAR 17

\* Source: BoS. Latest market share available



## > 2Q 2018 Highlights

### Commercial positioning | **Multichannel**

## Increased use of digital tools by our customers



### USE OF DIGITAL TOOLS

**417,000** mortgage simulations (1H 2018)  
(+39% vs 1H 2017)

**529,000** home appraisals (1H 2018) (+62% vs  
1H 2017)

Making progress in  
digitalisation related  
agreements

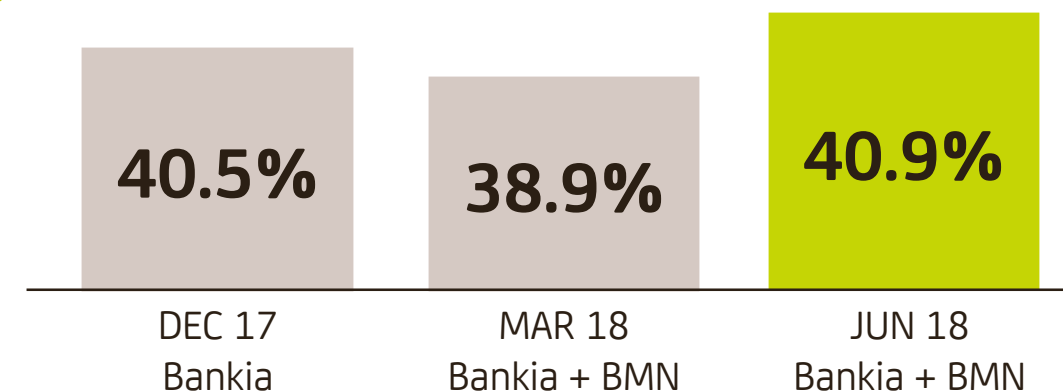


First steps in “Open Business”



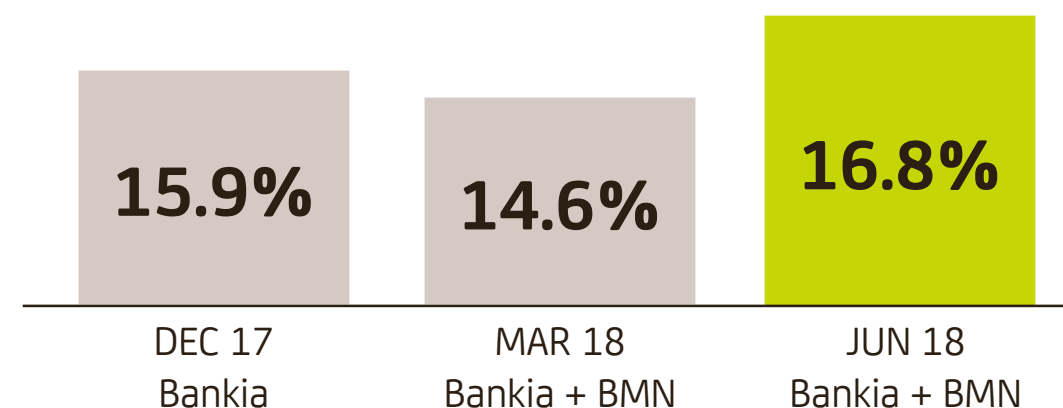
### DIGITAL CUSTOMERS

Digital customers as % total Bankia customers



### DIGITAL SALES

Digital sales as % total Bankia sales



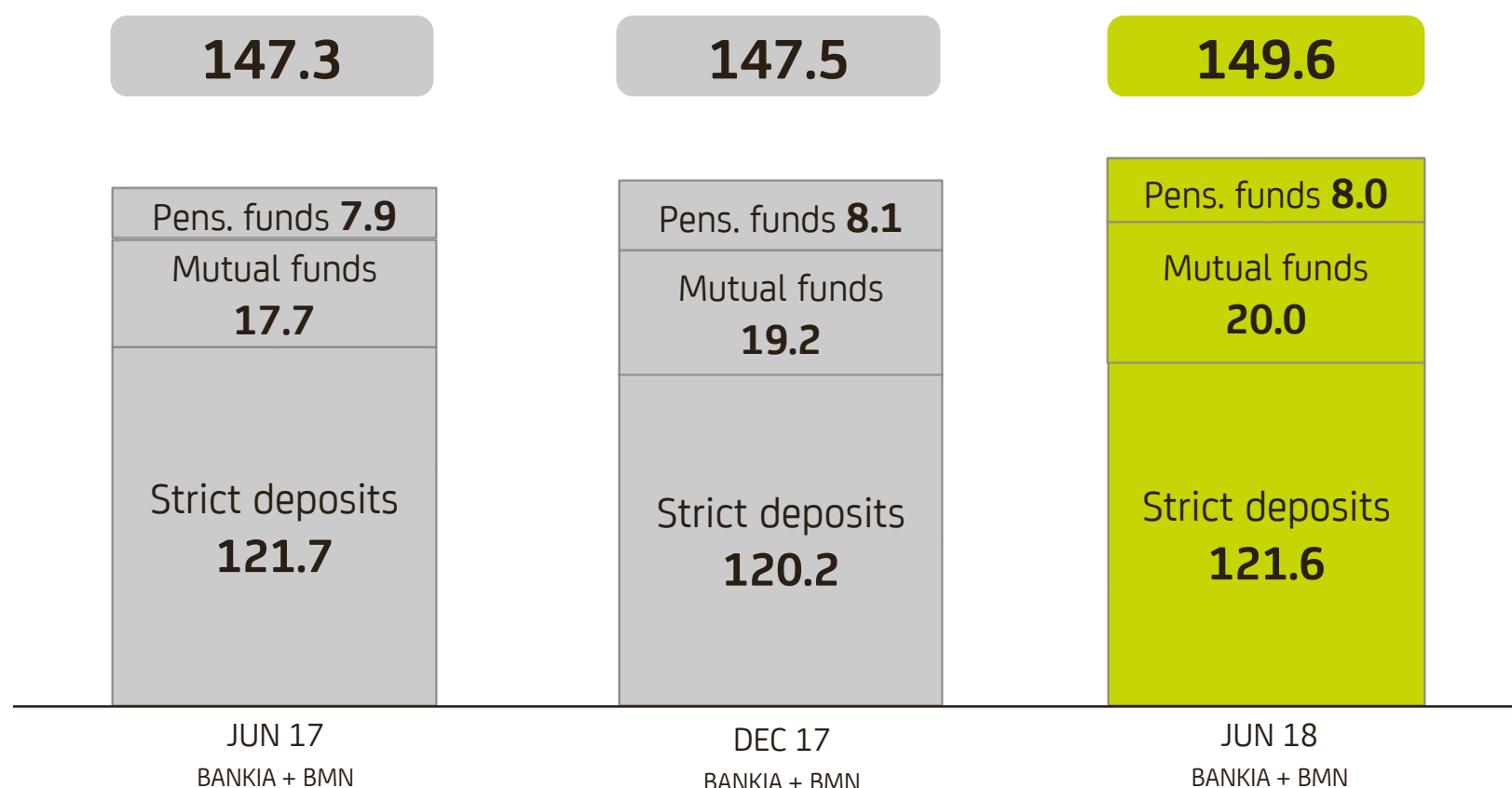
- Digital Customer: customer aged over 18 who in the last 12 months has made at least one inquiry, transaction or purchase via an online channel (App or Bankia Online). The denominator for the percentage is the number of customers aged over 18.
- Digital sale: sale of a product in a digital channel. The denominator is total sales for the same period.

## > 2Q 2018 Highlights

Commercial positioning | Customer funds and new production

### Growth of customer funds

€bn  
STRICT CUSTOMER DEPOSITS + MUTUAL FUNDS <sup>(1)</sup> + PENSION FUNDS



(1) Range of mutual funds, including international funds managed by third parties

**Retail deposits as % of total deposits: 85%**  
(vs. sector average of 76%)

LOANS TO DEPOSITS

94.1%

JUN 17  
BANKIA + BMN

93.9%

DEC 17  
BANKIA + BMN

(1.7 p.p.)

92.2%

JUN 18  
BANKIA + BMN

MUTUAL FUNDS MARKET SHARE

Source: Inverco

6.22%

JUN 17  
BANKIA + BMN

6.38%

DEC 17  
BANKIA + BMN

+4 bps

6.42%

JUN 18  
BANKIA + BMN

Share of net new cash flow to MFs 1H18: **8.12%**

(Source: Inverco)

DISINTER-MEDIATION RATIO MF / DEPOSITS + MF

10.33%

JUN 17  
BANKIA + BMN

11.20%

DEC 17  
BANKIA + BMN

+75 bps

11.95%

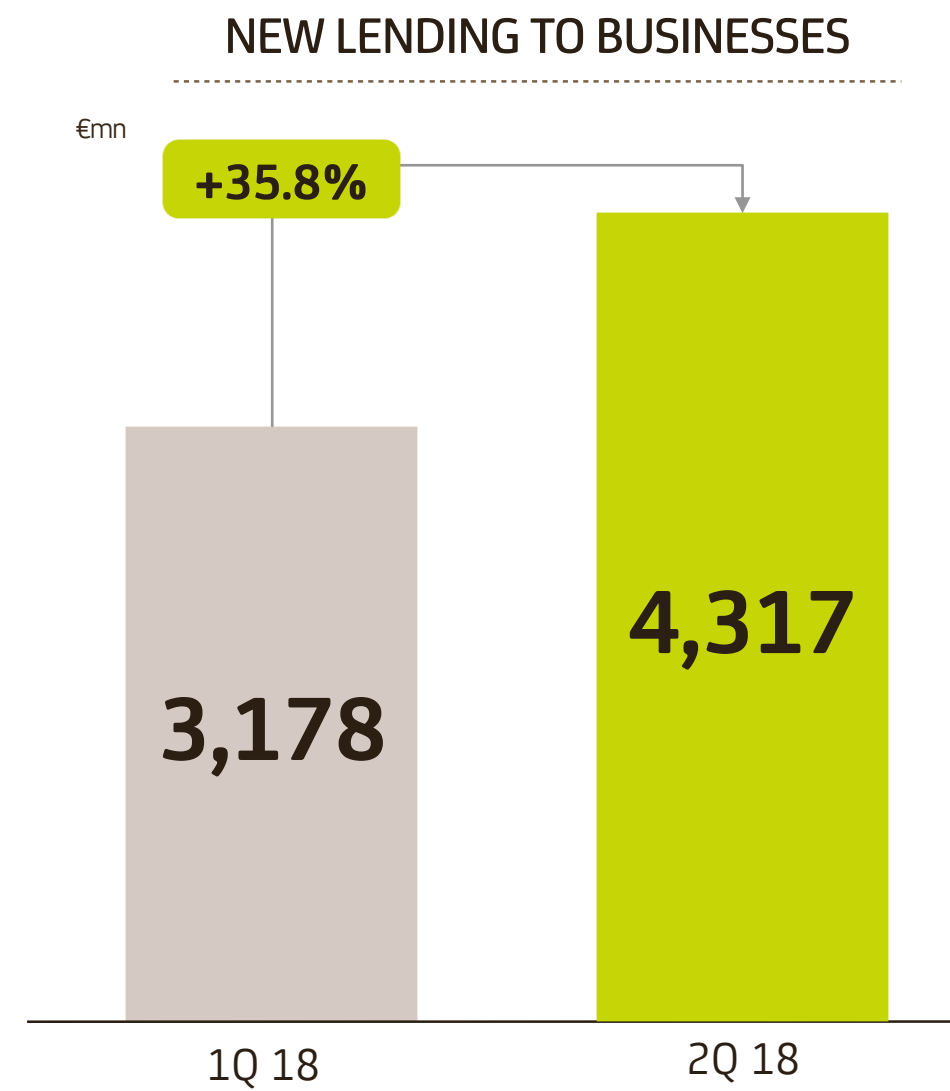
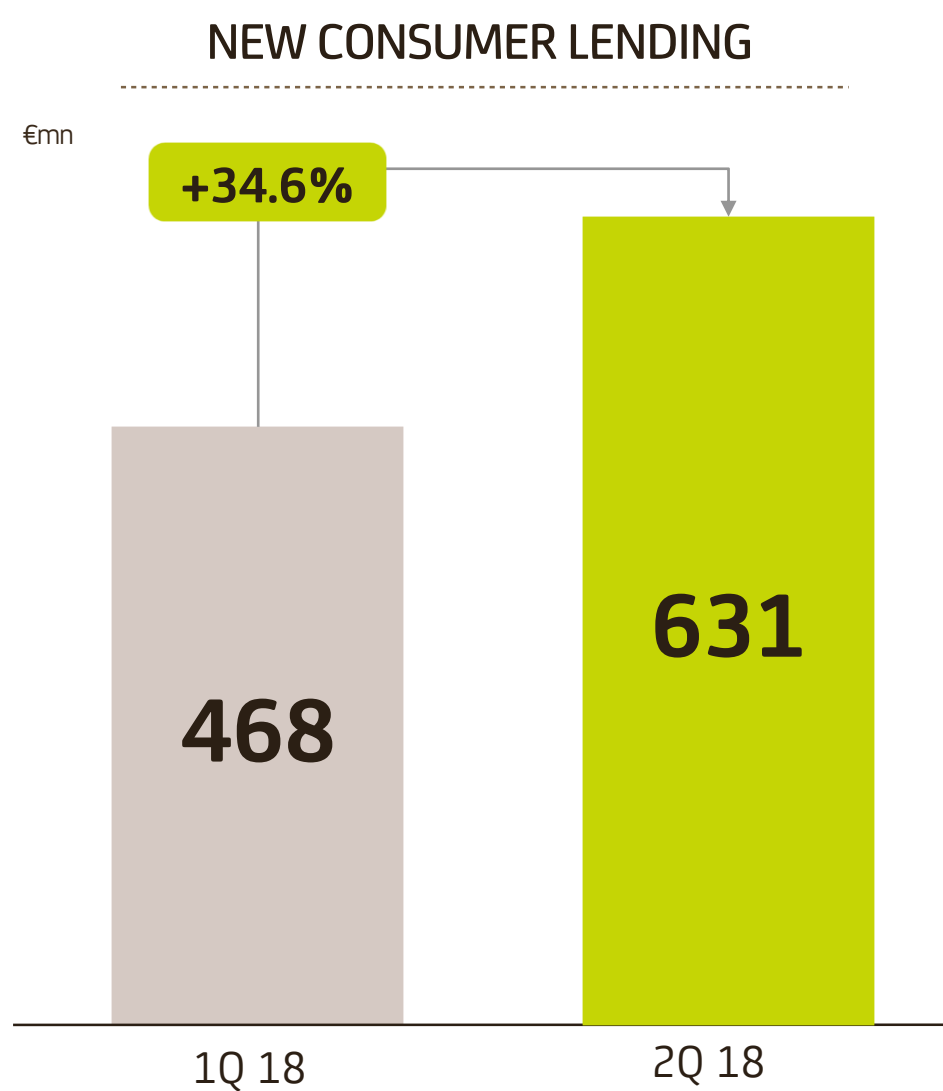
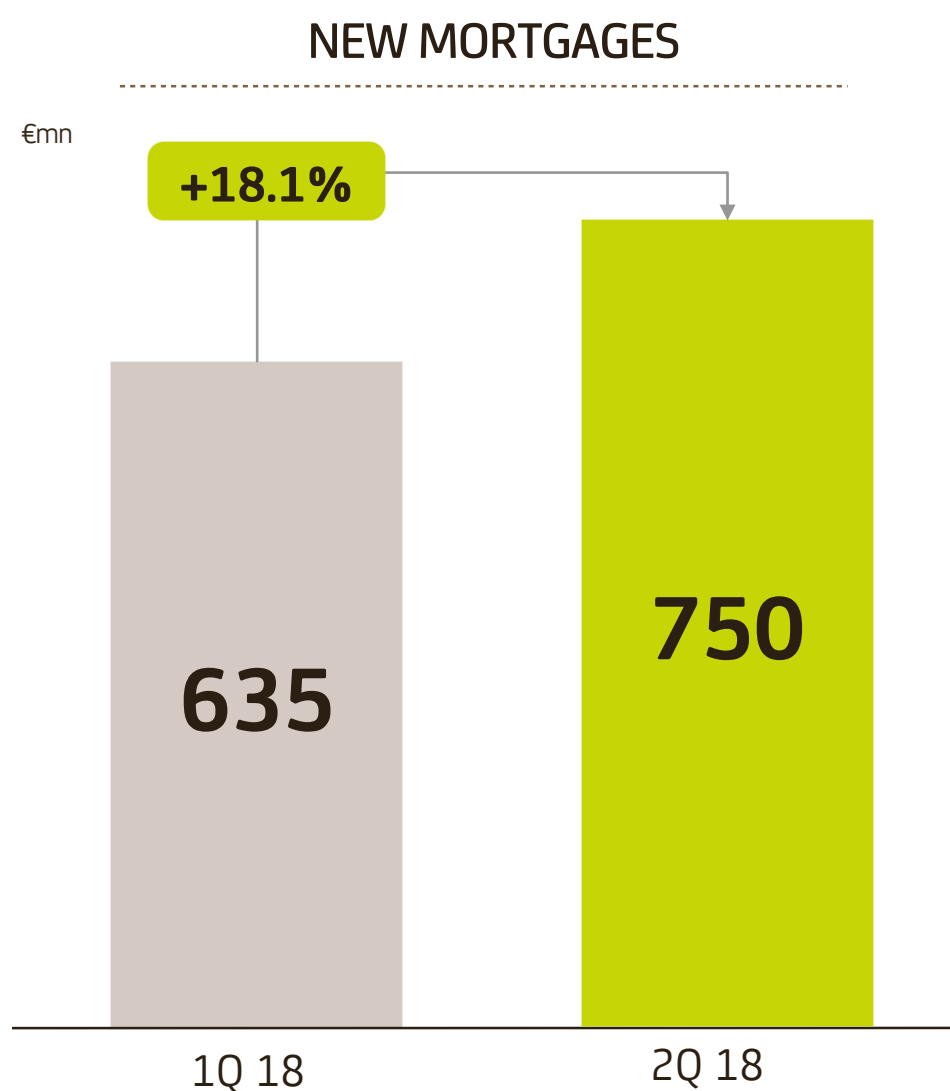
JUN 18  
BANKIA + BMN

**Funds under *Expert Management* represent 9% of the total balance of mutual funds**

## > 2Q 2018 Highlights

### Commercial positioning | New lending

## Positive trend in new lending...

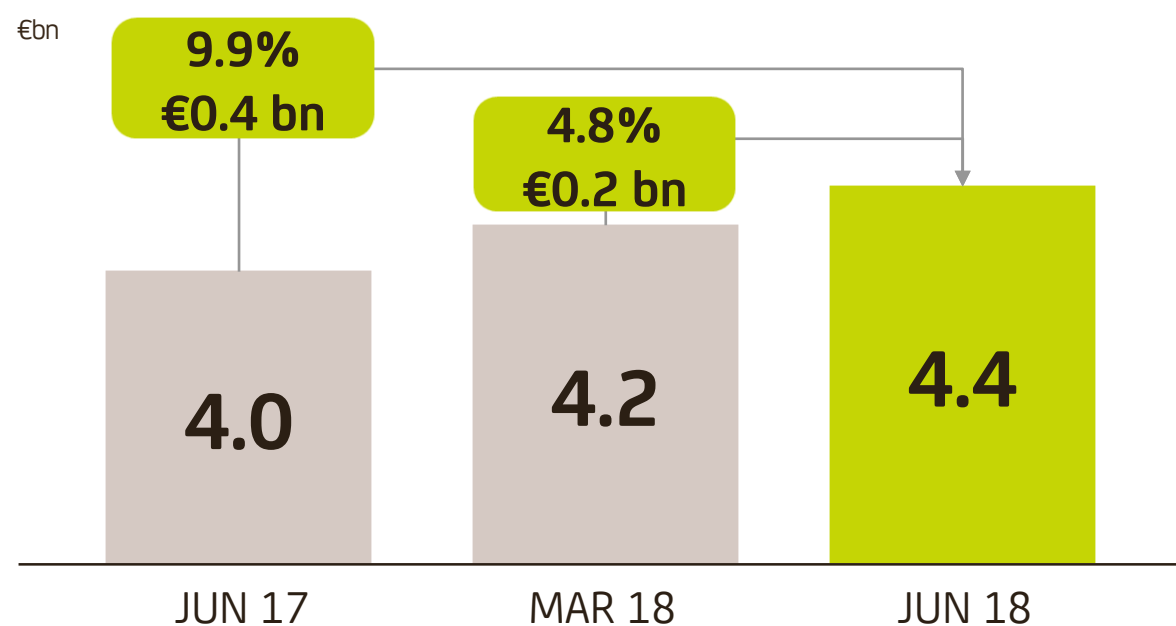


## > 2Q 2018 Highlights

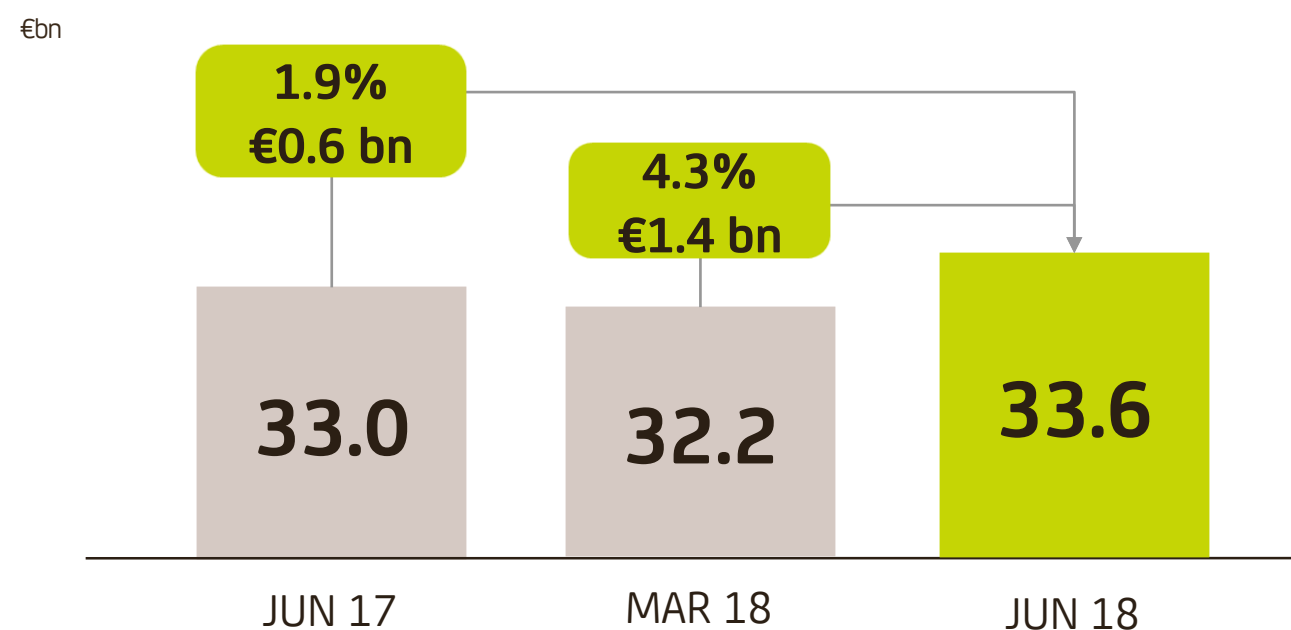
### Commercial positioning | Credit stock

...which translates into increased credit stock on the balance sheet in target segments

GROSS CREDIT STOCK | CONSUMERS



GROSS STOCK CREDIT | BUSINESSES, EX NPLS



SHARE OF CONSUMER FINANCE OUTSTANDING BALANCE

Source: BoS



\* Latest share available

SHARE OF BUSINESSES

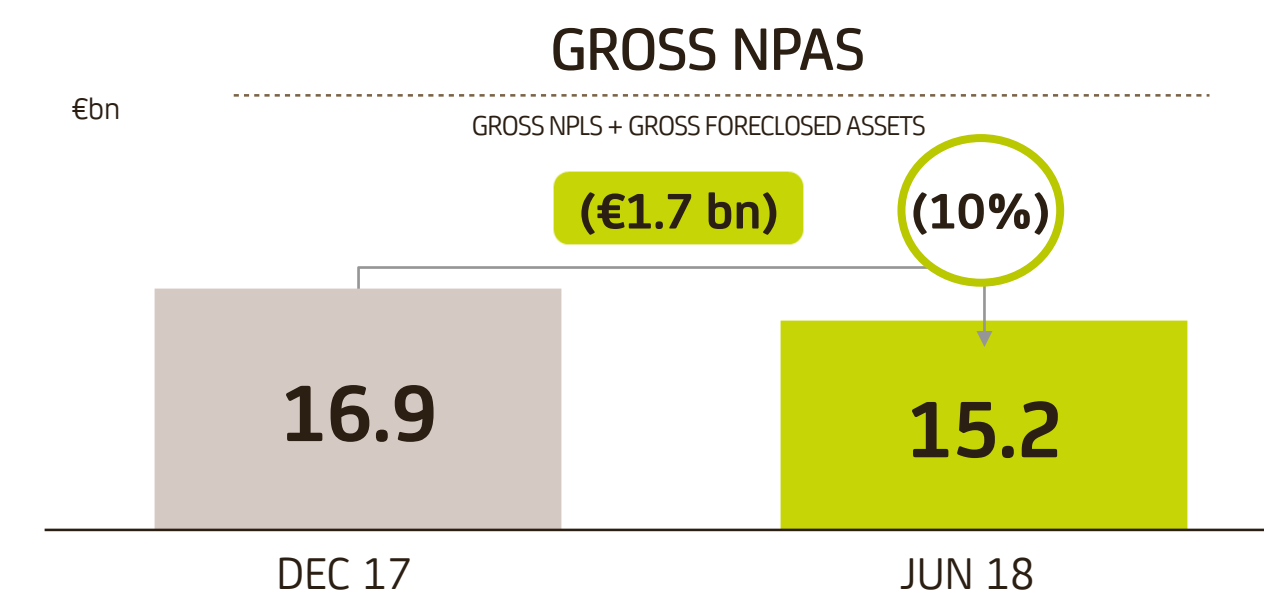
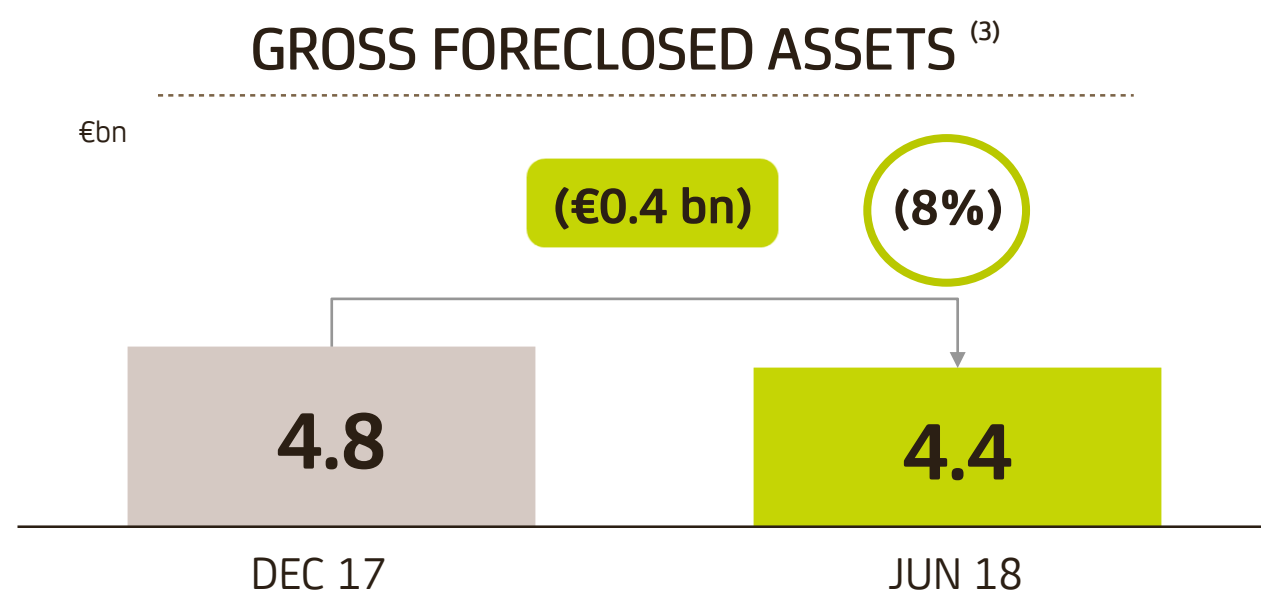
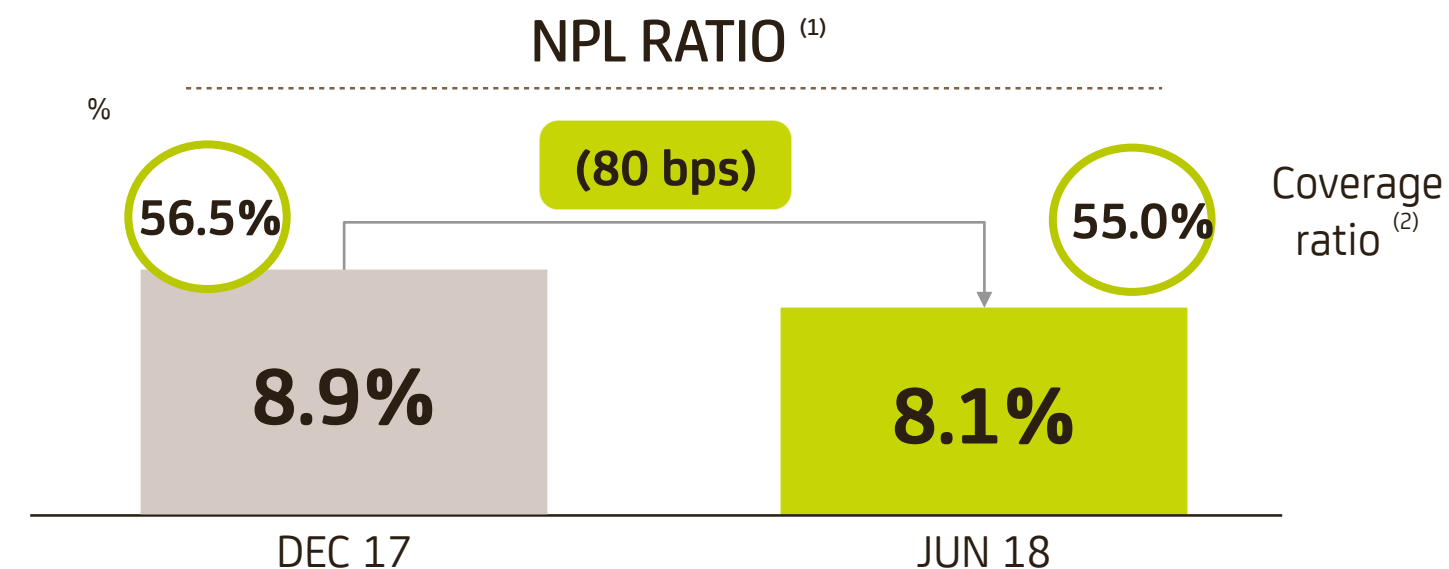
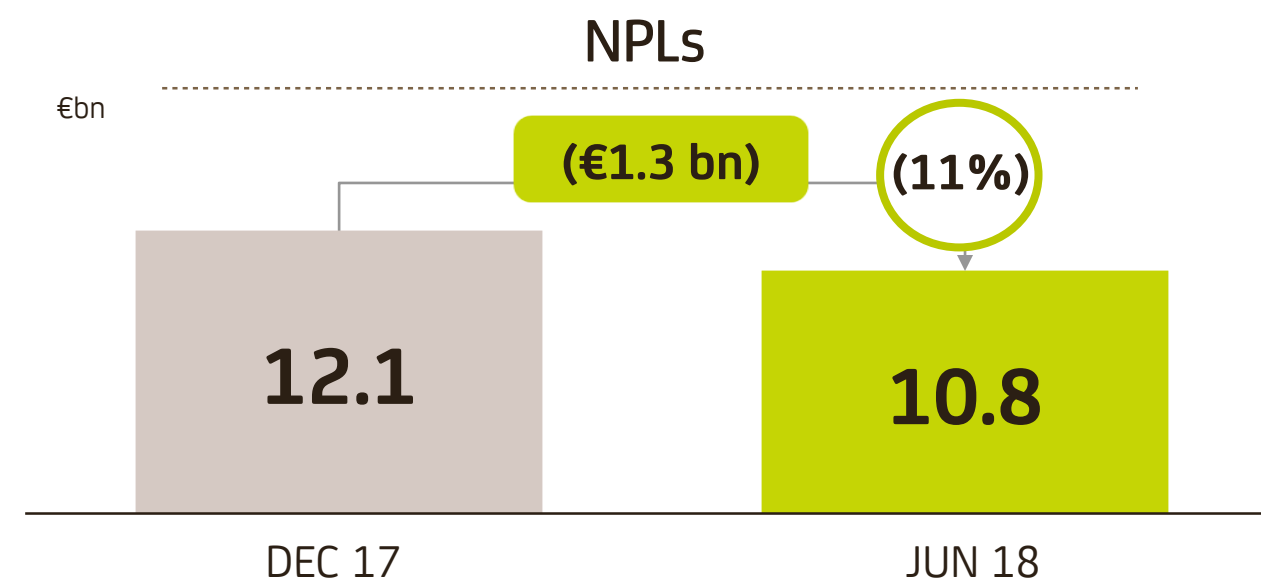
Source: BoS, Businesses ORS



## > 2Q 2018 Highlights

### Asset quality | Main metrics

## Steep reduction in NPAs in last 6 months



(1) Non-performing loans and advances to customers and contingent risks / Total loans and advances to customers and contingent risks

(2) Coverage ratio including the provisions for IFRS 9. If the IFRS 9 provisions were excluded, the ratio would be 50.8%

(3) For the purpose of calculating the NPAs, foreclosed assets exclude the Social Housing Pool and leased assets with a return on NBV above 3% (€0.4bn)

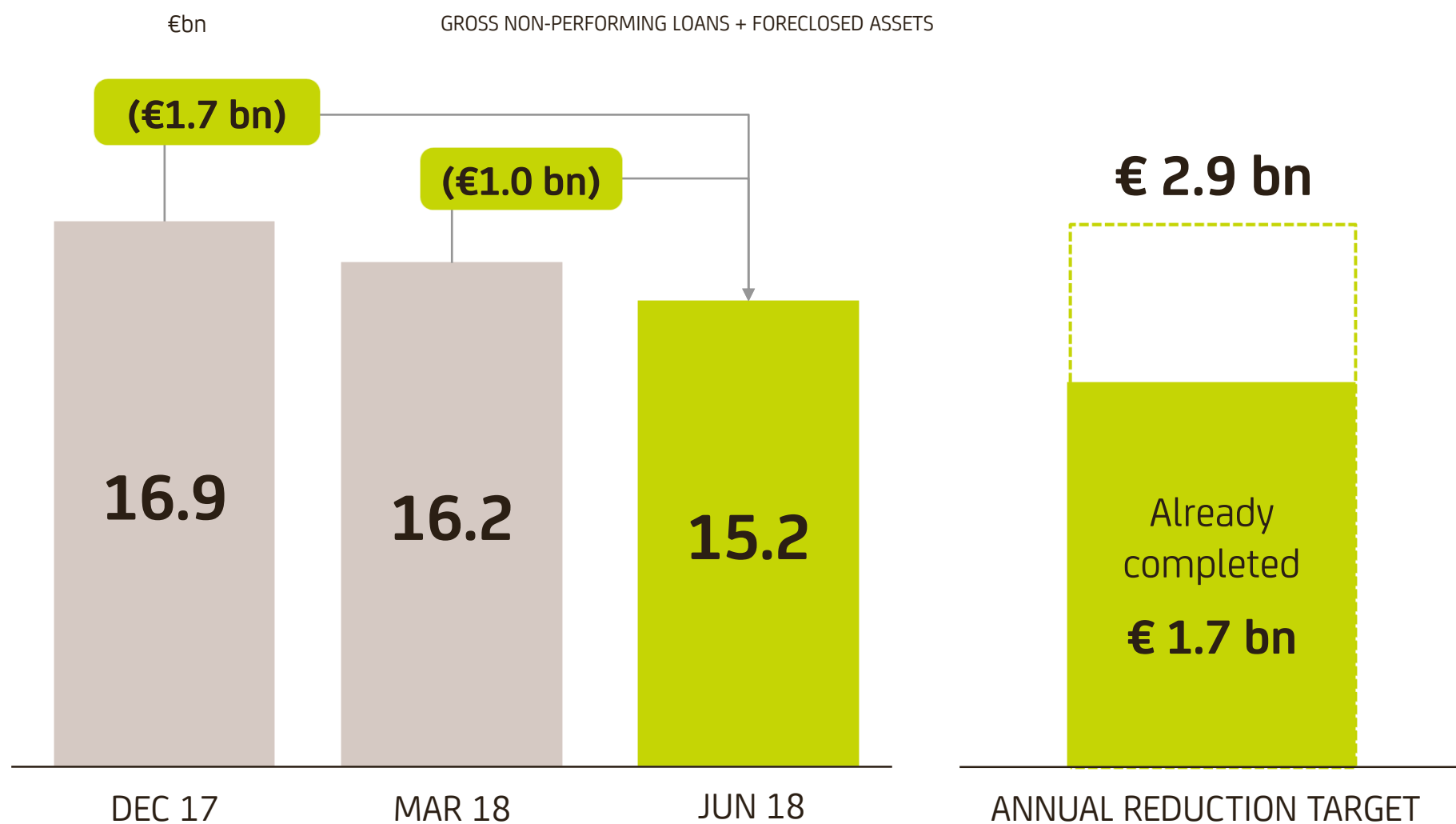
## > 2Q 2018 Highlights

### Asset quality | NPA Reduction

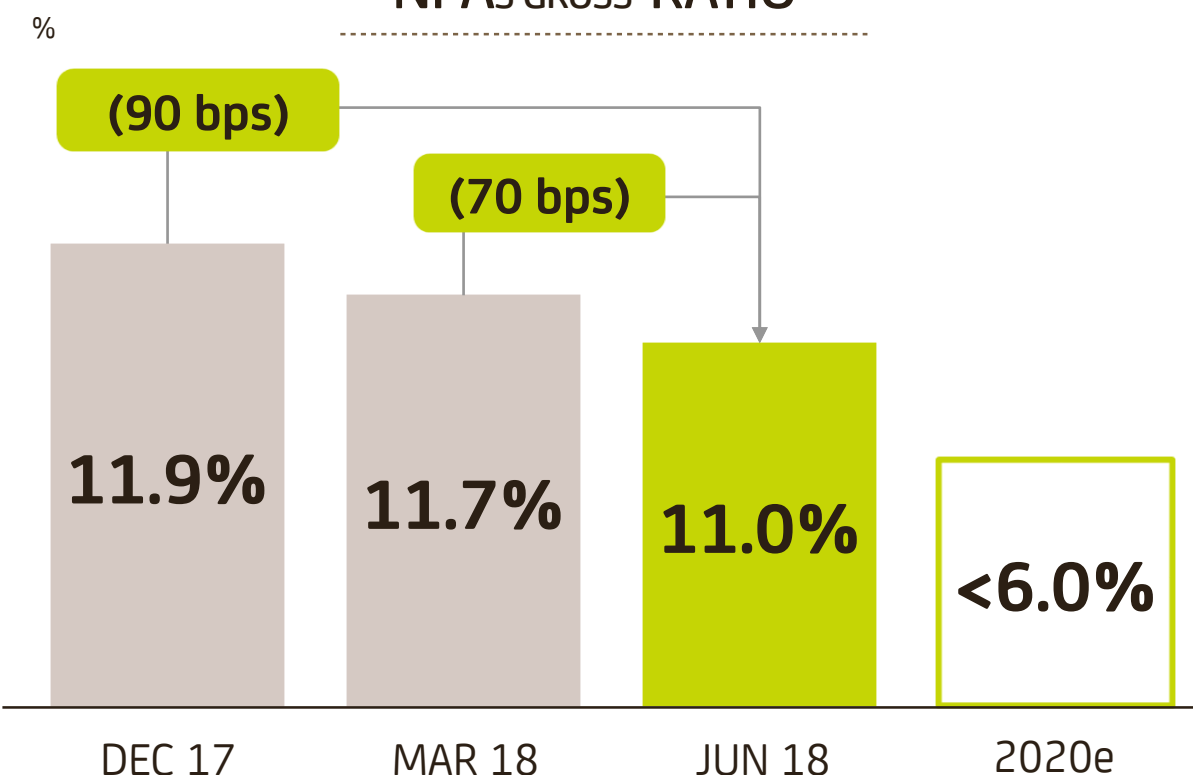
**€1.7 bn reduction in NPAs in the first half, of which €1 bn in 2Q 2018**

#### NON-PERFORMING ASSET PERFORMANCE

GROSS NON-PERFORMING LOANS + FORECLOSED ASSETS



#### NPAs GROSS RATIO



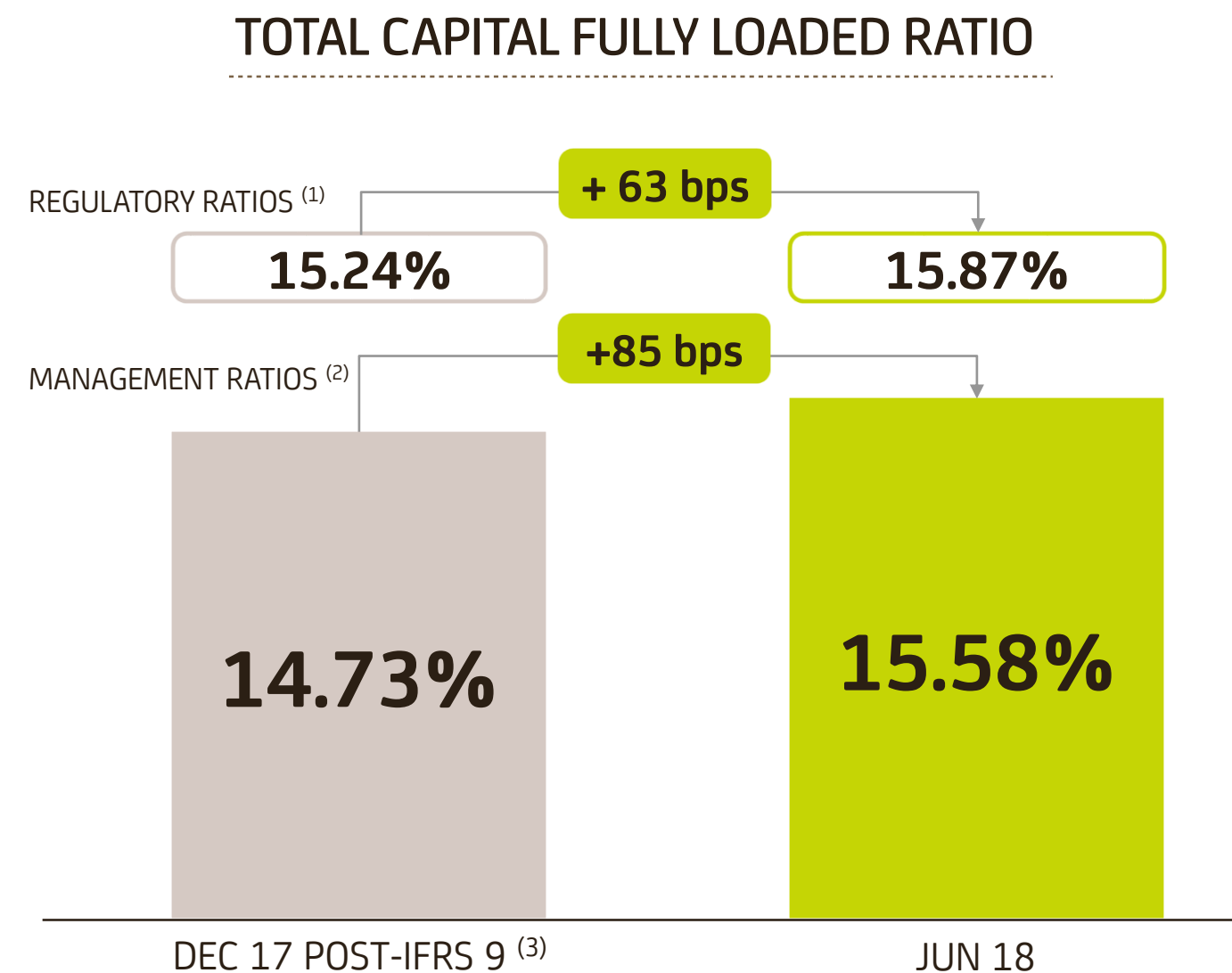
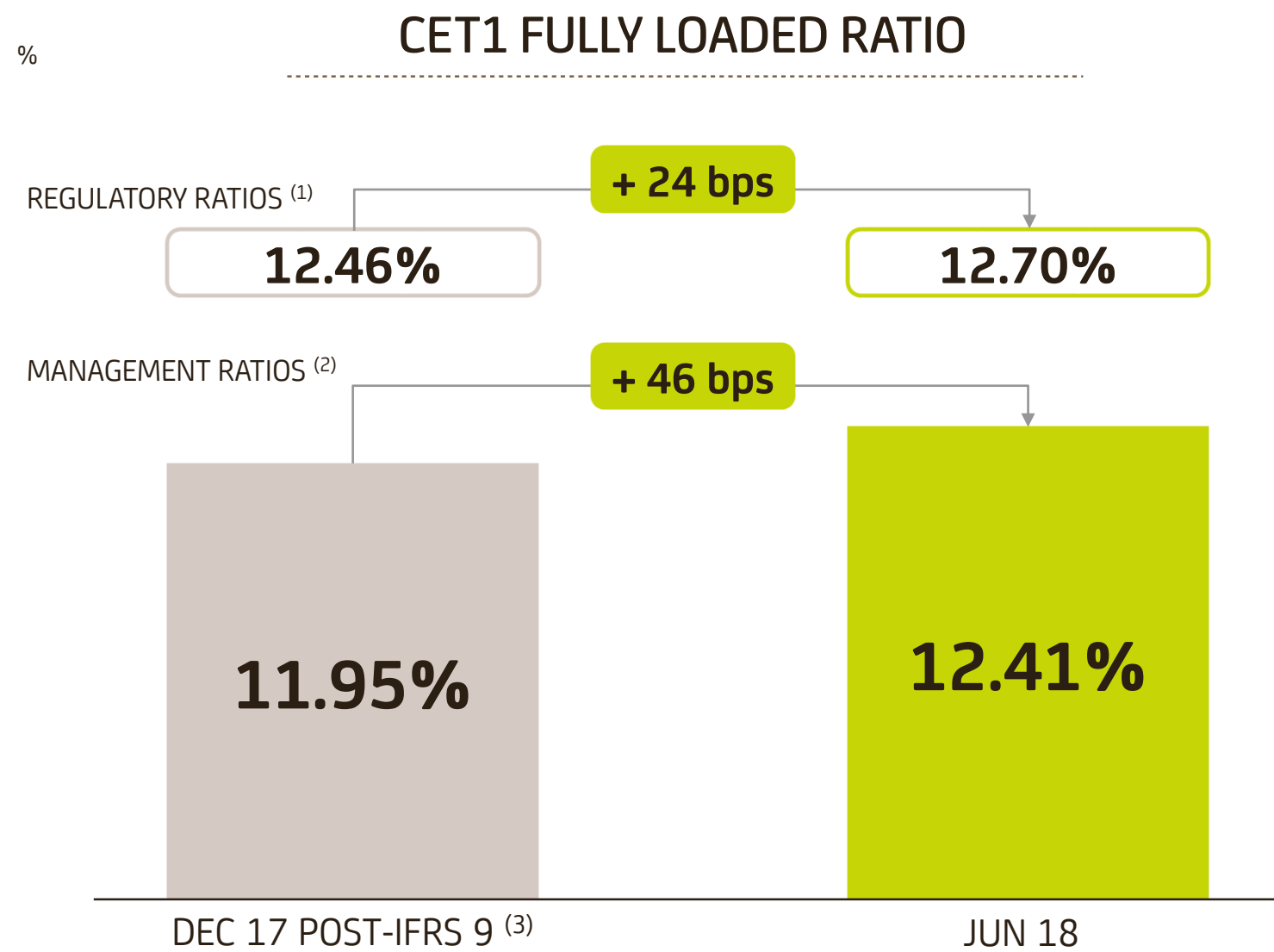
#### NET NPA RATIO



## > 2Q 2018 Highlights

### Capital generation | Capital levels

# 46 bps of CET1 capital generated in the half-year



The solvency ratios include the profit attributable to the Group and discount the regulatory adjustment for the planned dividend

(1) Ratios including unrealised gains on sovereign portfolio.

(2) Ratios not including unrealised gains on sovereign portfolio.

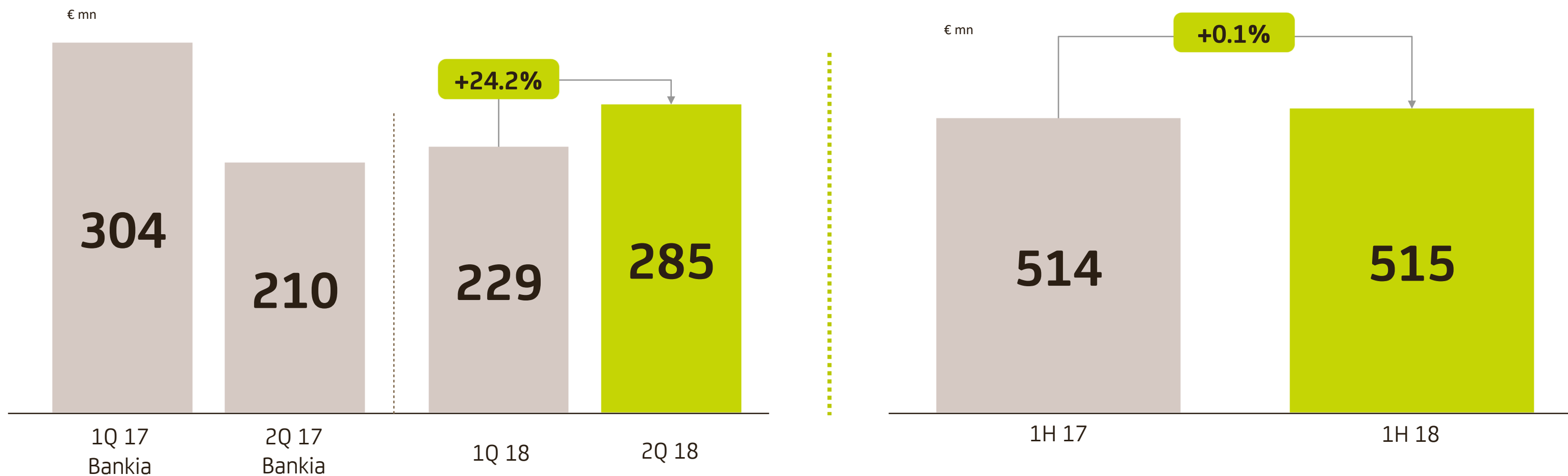
(3) The ratios at December 2017 are post-BMN merger and post-IFRS 9 total impact.

## > 2Q 2018 Highlights

### Profitability | Profit performance

**Profit stable in half year compared to the previous year**

#### ATTRIBUTABLE PROFIT PERFORMANCE



**ROE of 8.3% in 1H 2018**



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**CONCLUSIONS**

## > 2Q 2018 Results

### Income statement – Bankia Group and BMN: Half year

	1H 17 Bankia	1H 18	Diff. %	1H 17 Bankia + BMN	1H 18	Diff. %
Net interest income	995	1,047	5.3%	1,161	1,047	(9.8%)
Net fee and commission income	425	534	25.6%	527	534	1.4%
Net trading income	262	291	11.0%	311	291	(6.4%)
Other revenue	(34)	(31)	(8.8%)	(8)	(31)	--
<b>Gross income</b>	<b>1,648</b>	<b>1,841</b>	<b>11.8%</b>	<b>1,991</b>	<b>1,841</b>	<b>(7.5%)</b>
Operating expenses	(764)	(944)	23.6%	(960)	(944)	(1.7%)
<b>Pre-provision profit</b>	<b>884</b>	<b>897</b>	<b>1.5%</b>	<b>1,031</b>	<b>897</b>	<b>(13.0%)</b>
Provisions for loans	(181)	(180)	(0.6%)			
Provisions for foreclosed assets	(58)	(50)	(13.8%)			
Taxes, minority interests and other items	(131)	(152)	16.0%			
<b>Profit attributable to the Group</b>	<b>514</b>	<b>515</b>	<b>0.1%</b>			

## > 2Q 2018 Results

### Income statement – Bankia Group and BMN: Quarterly

	1Q 18	2Q 18	Diff. %
Net interest income	526	521	(1.0%)
Net fee and commission income	264	270	2.5%
Net trading income	139	152	9.8%
Other revenue	10	(40)	--
<b>Gross income</b>	<b>939</b>	<b>903</b>	<b>(3.8%)</b>
Operating expenses	(485)	(459)	(5.4%)
<b>Pre-provision profit</b>	<b>453</b>	<b>444</b>	<b>(2.1%)</b>
Provisions for loans	(107)	(73)	(32.5%)
Provisions for foreclosed assets	(27)	(23)	(15.6%)
Taxes, minority interests and other items	(89)	(64)	(29.2%)
<b>Profit attributable to the Group</b>	<b>229</b>	<b>285</b>	<b>24.2%</b>

> **2Q 2018 Results**

Net interest income

## Active management of fixed-income portfolios

### FIXED INCOME PORTFOLIO PERFORMANCE (ALCO)

€bn

	31 Dec 17 POST IFRS 9	Jun 18
<b>Fair value portfolio not covered</b>	<b>13.3</b>	<b>10.0</b>
<b>Average duration FV not covered (years)</b>	<b>4.1</b>	<b>2.8</b>
<b>Other ALCO portfolio</b>	<b>16.1</b>	<b>18.5</b>
Fair value portfolio covered	6.8	5.4
Of which at amortized cost	9.3	13.1
<b>ALCO fixed-income portfolio</b>	<b>29.4</b>	<b>28.5</b>

### PORTFOLIO ROTATION STRATEGY

#### Risk management

- 25% reduction of fair value portfolio not covered (vs Dec 17 post IFRS 9)
- Lower duration of the fair value portfolio not covered by 1.3 years (vs Dec 17 post IFRS 9)

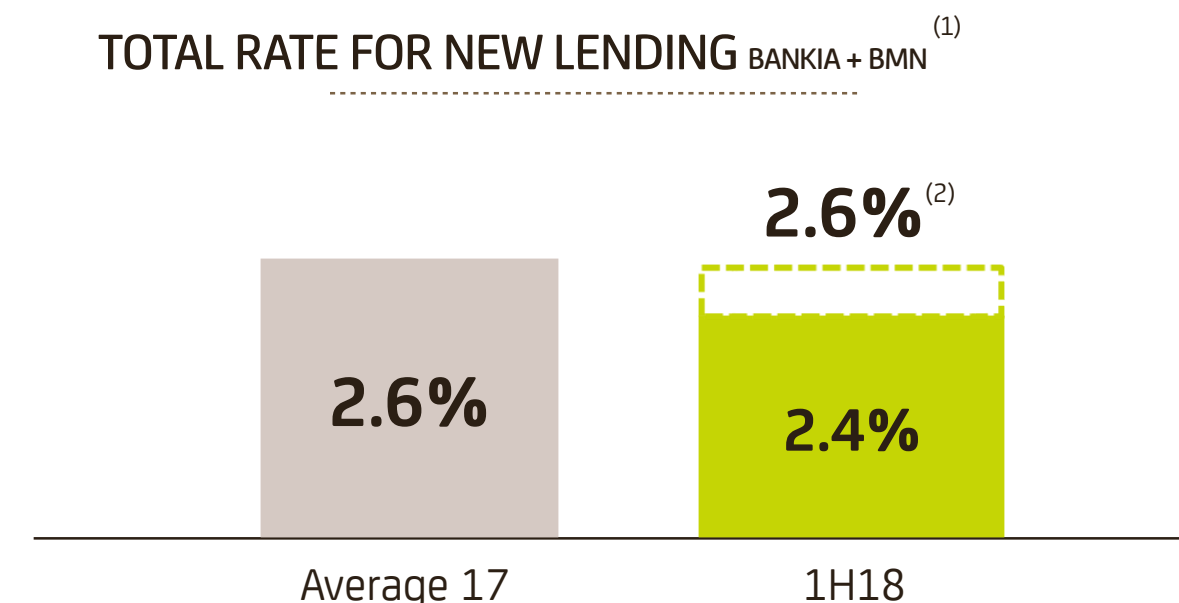
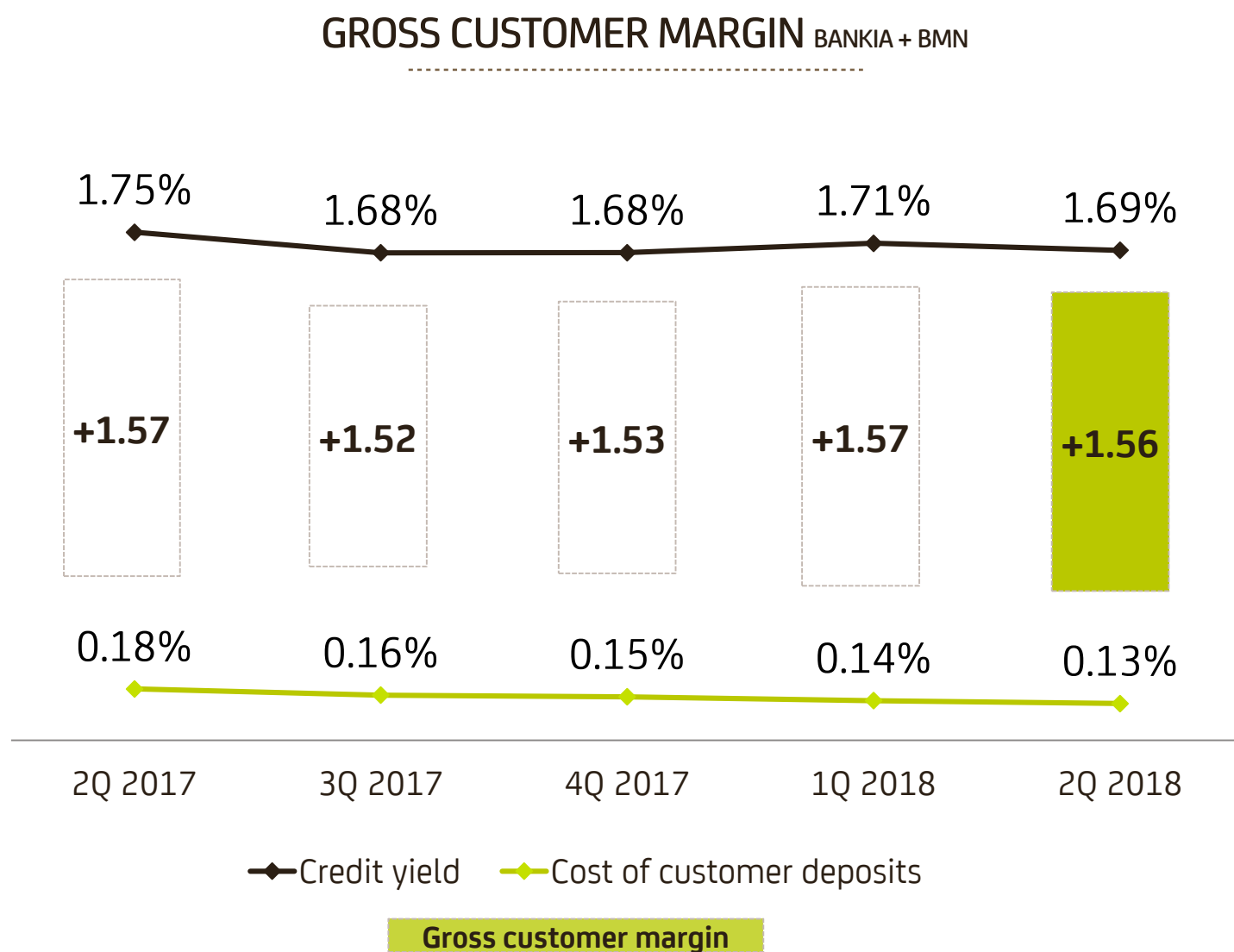
#### Financial impact

- €255mn in Net Trading Income generated in 1H18
- Lower contribution in NII due to portfolio sales: €33mn annually (NTI = 7.7x NII)

> **2Q 2018 Results**

Net interest income

**Gross customer margin remains stable**



(1) Frontbook excludes public sector  
 (2) Excluding single name transaction

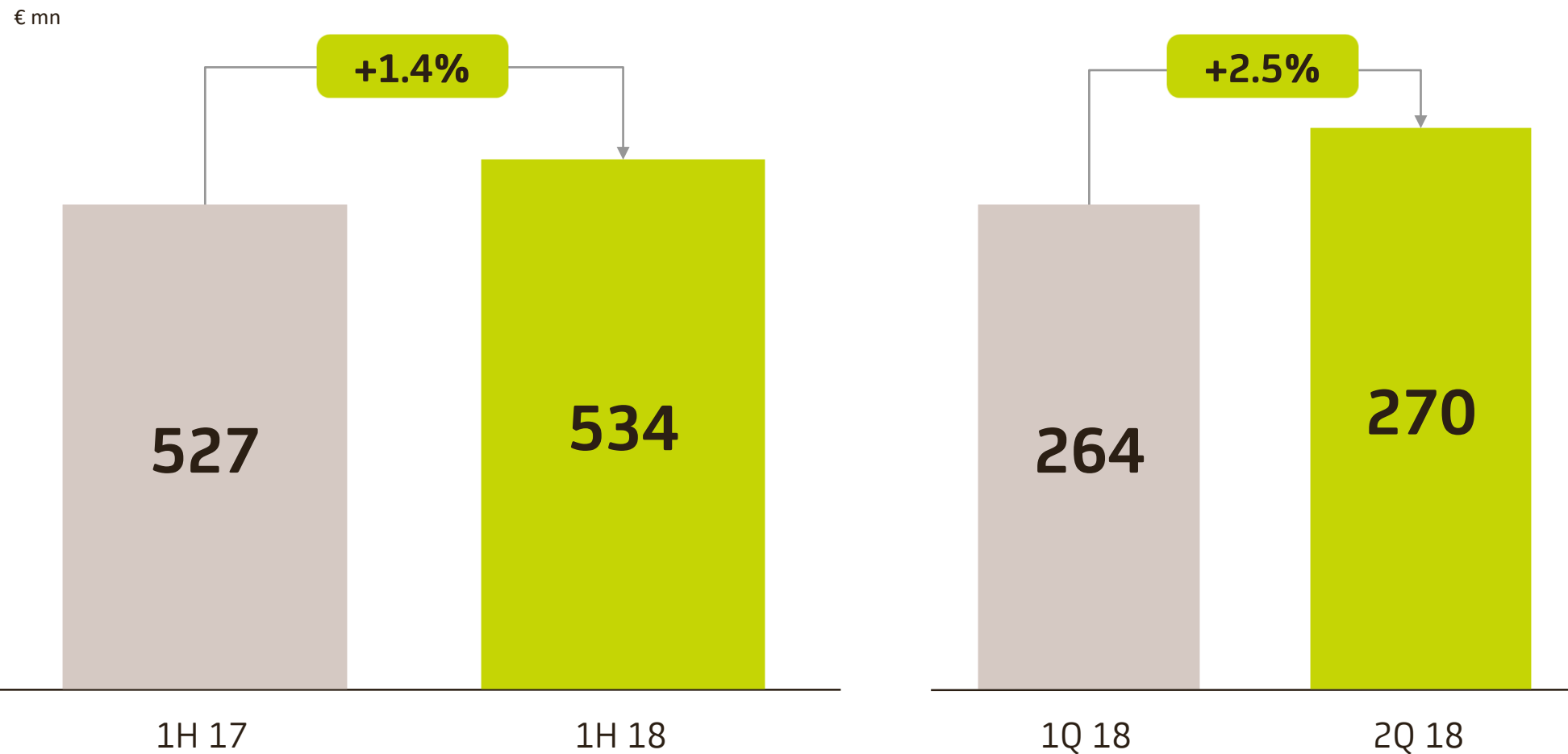
- Increased proportion of mortgages in new lending
- Average rate for new loans stands at 2.6%

> **2Q 2018 Results**

Net fee and commission income

**Good volume of fee and commission income in the second quarter**

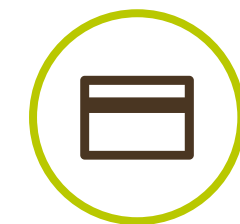
NET FEE AND COMMISSION INCOME PERFORMANCE BANKIA + BMN



**MUTUAL FUNDS**

Marketing and management gross fees

**+15.0%** 1H18 vs 1H17



**PAYMENT SERVICES**

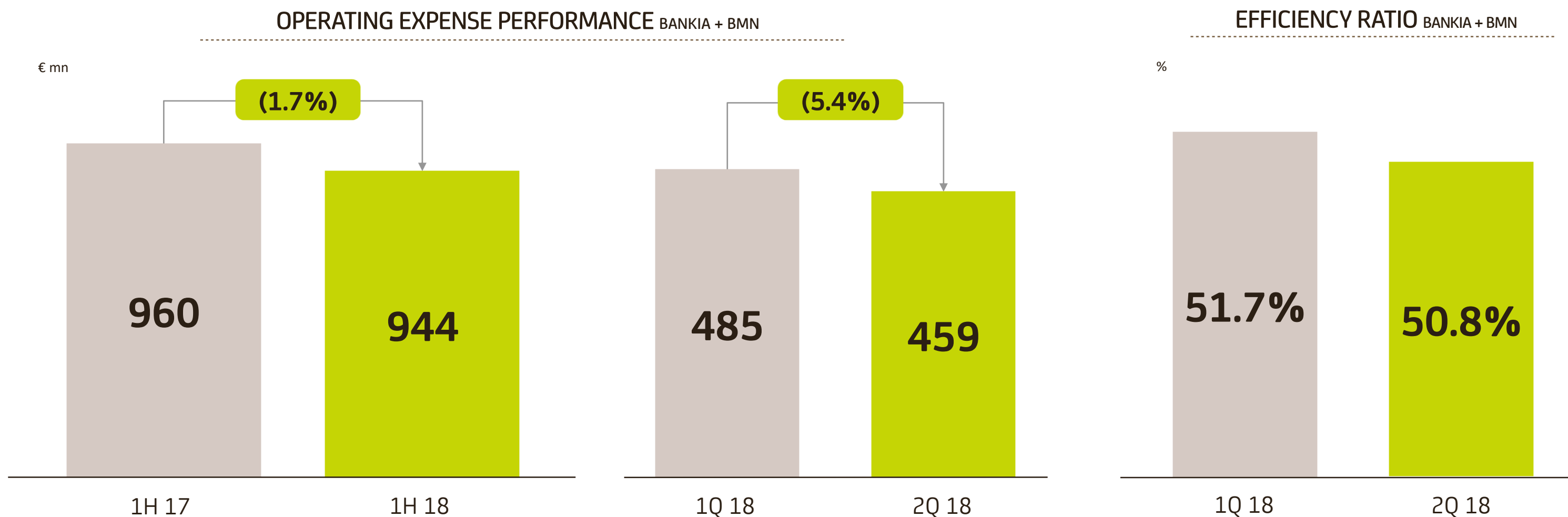
Gross fees from credit cards, Point of Sale terminals, ATMs...

**+12.1%** 1H18 vs 1H17

> **2Q 2018 Results**

Operating expenses

**Expenses are down 5.4% compared to the previous quarter**

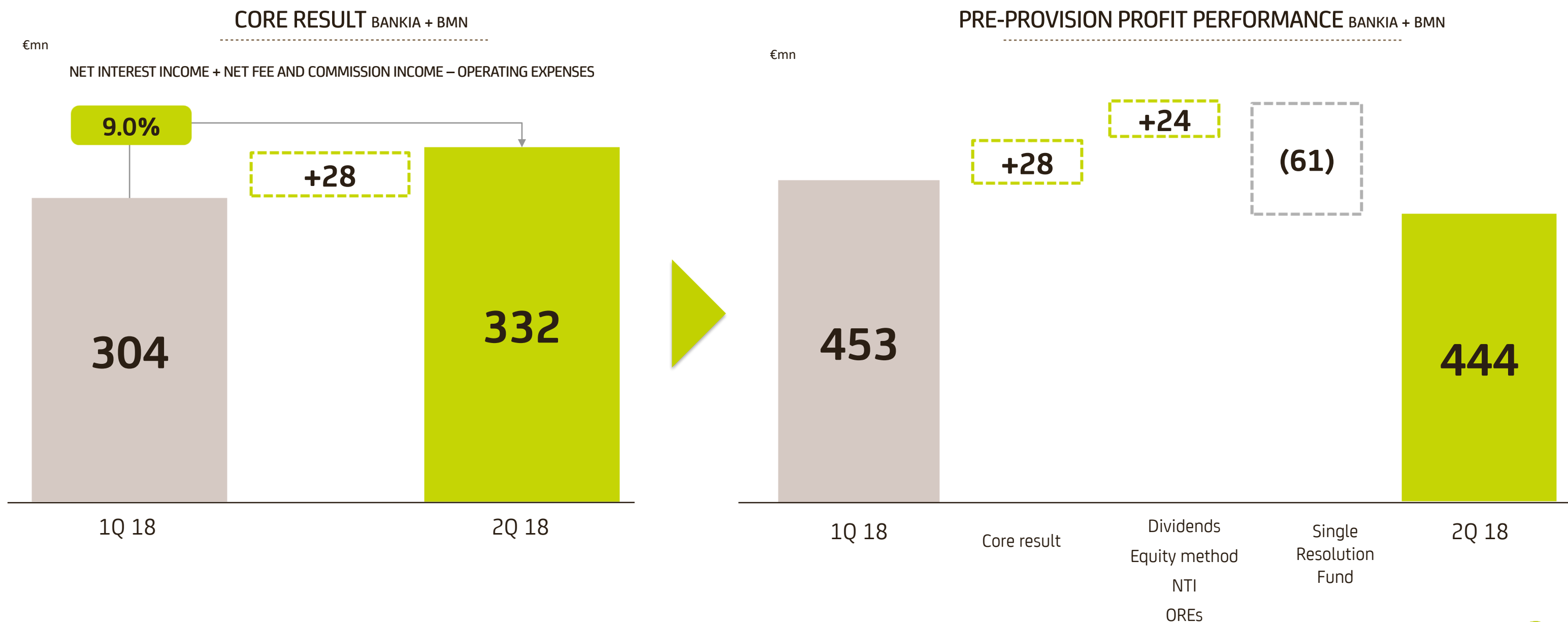


**Positive effect of restructuring on expense performance**

> **2Q 2018 Results**

Pre-provision profit

**Improvement in core banking business and cost reduction drive core results**

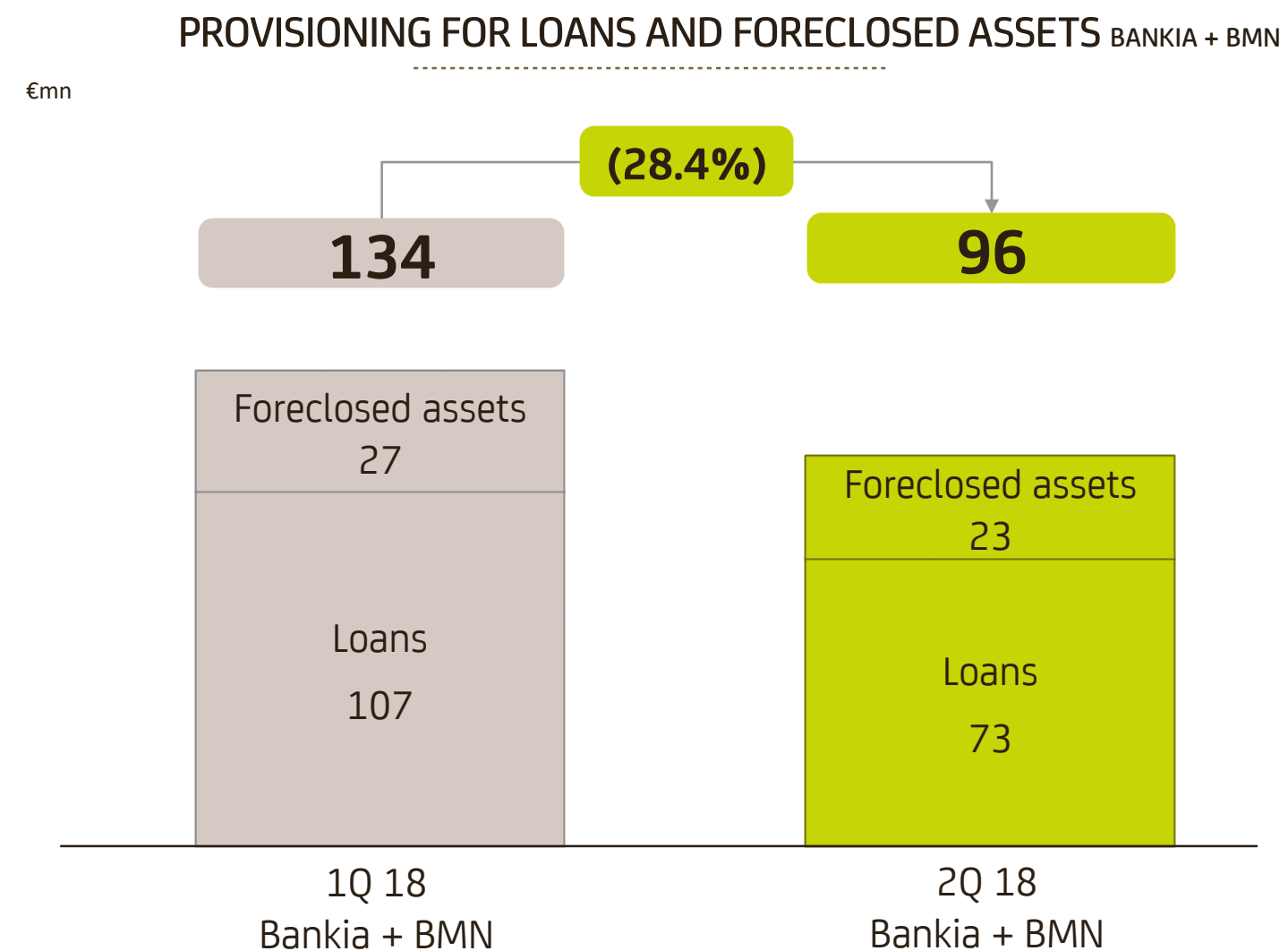
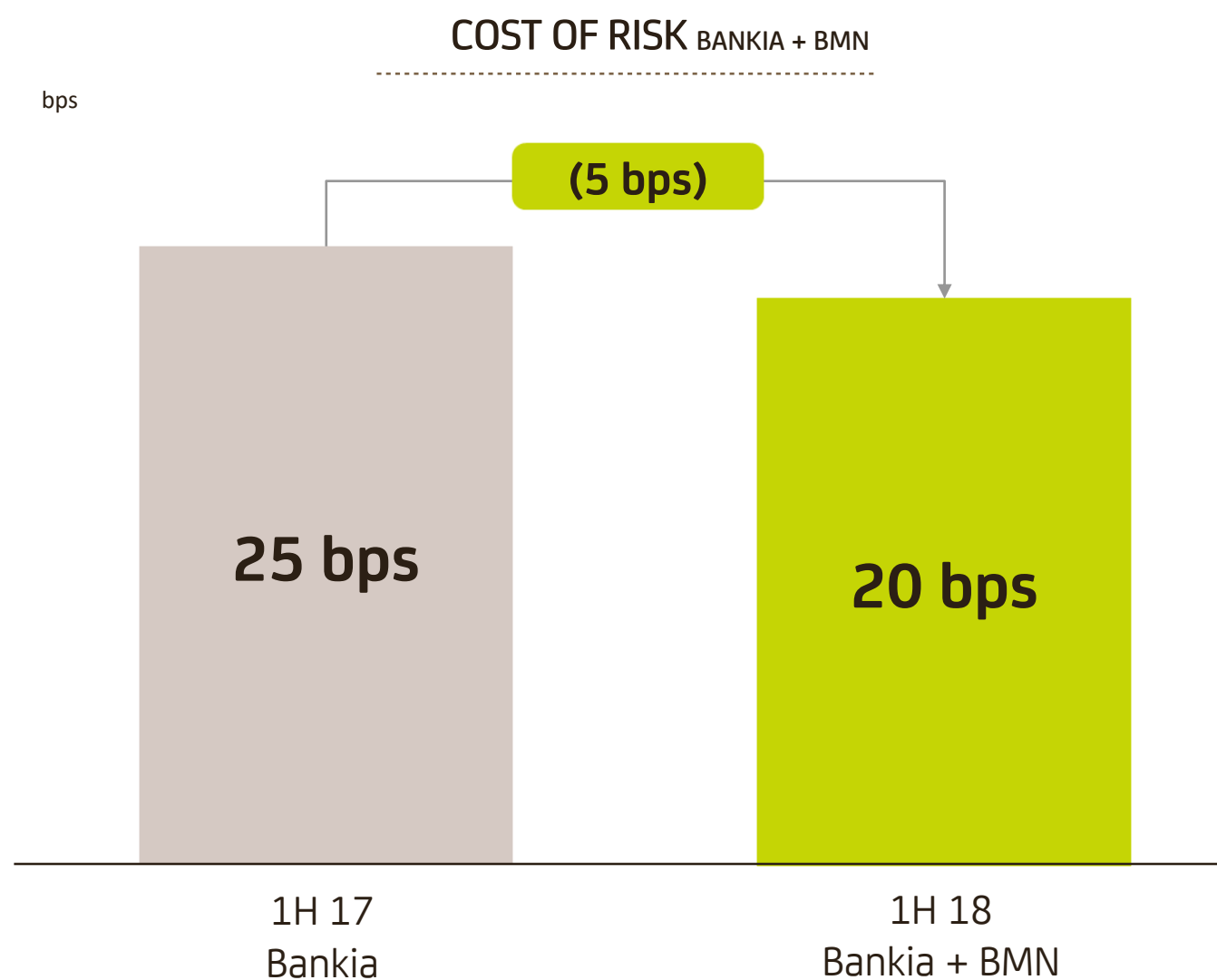




> **2Q 2018 Results**

Cost of risk

**Contained cost of risk**

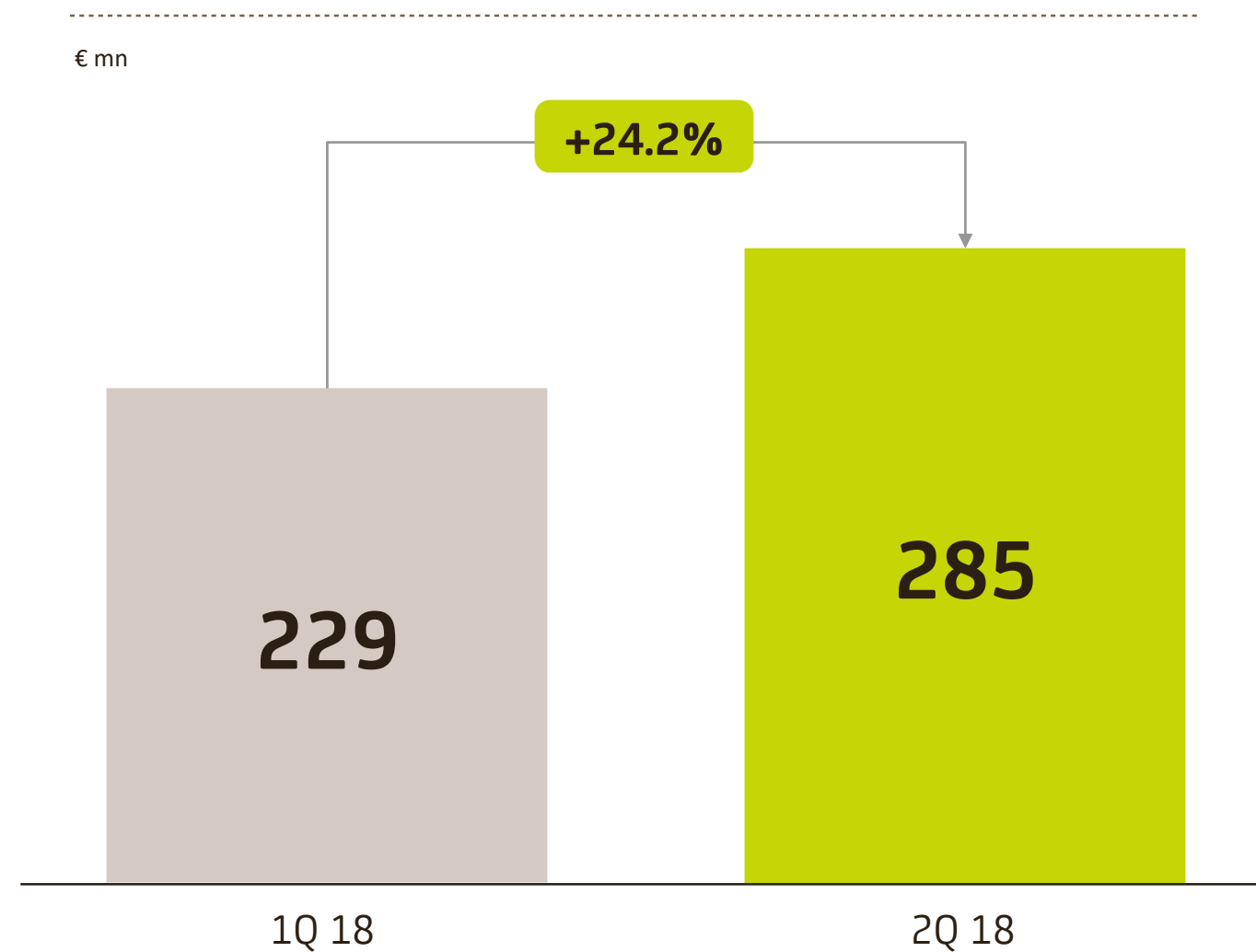


## > 2Q 2018 Results

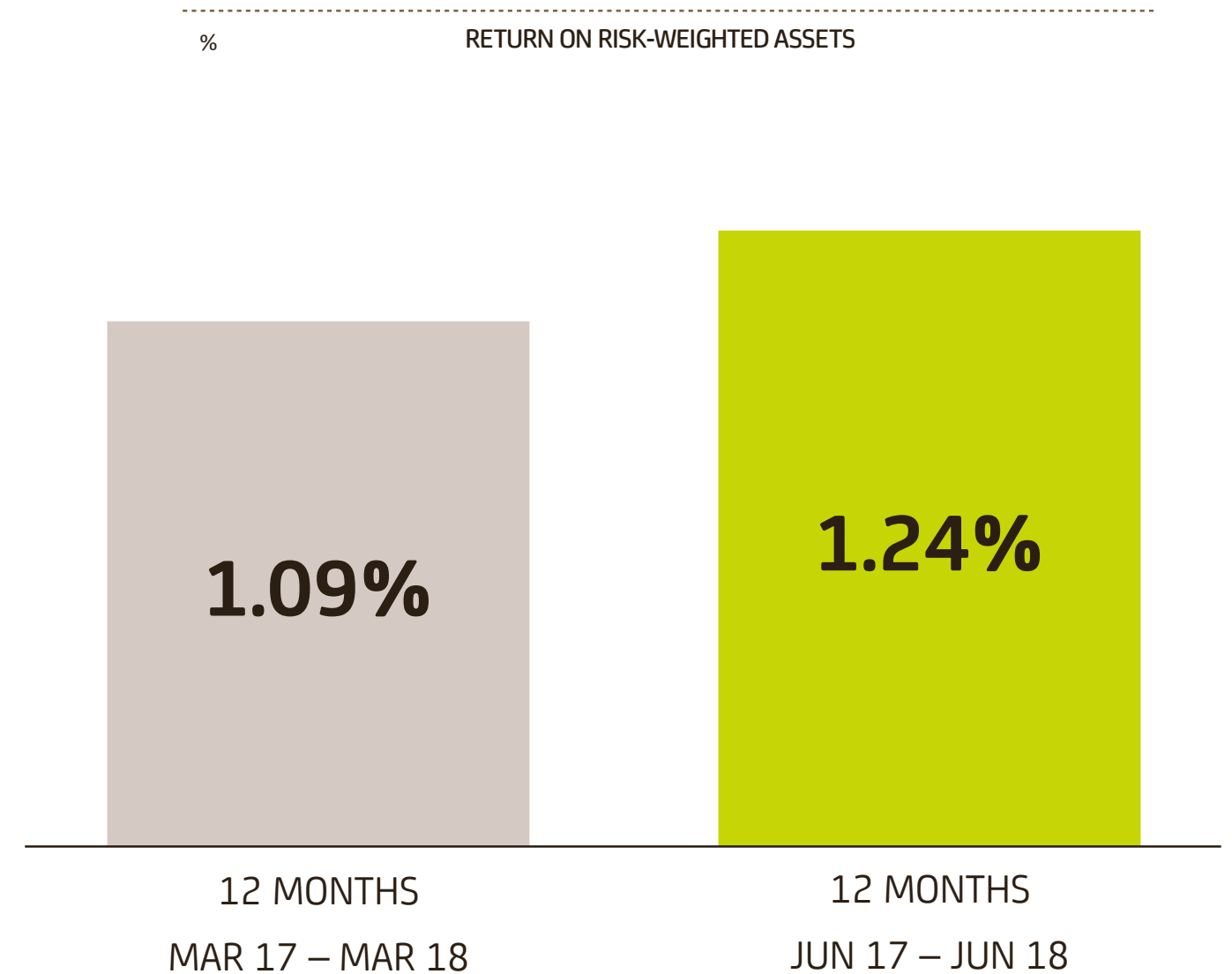
### Attributable profit

**Attributable profit is up 24.2% on the previous quarter**

ATTRIBUTABLE PROFIT PERFORMANCE BANKIA + BMN



RORWA BANKIA + BMN



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**CONCLUSIONS**

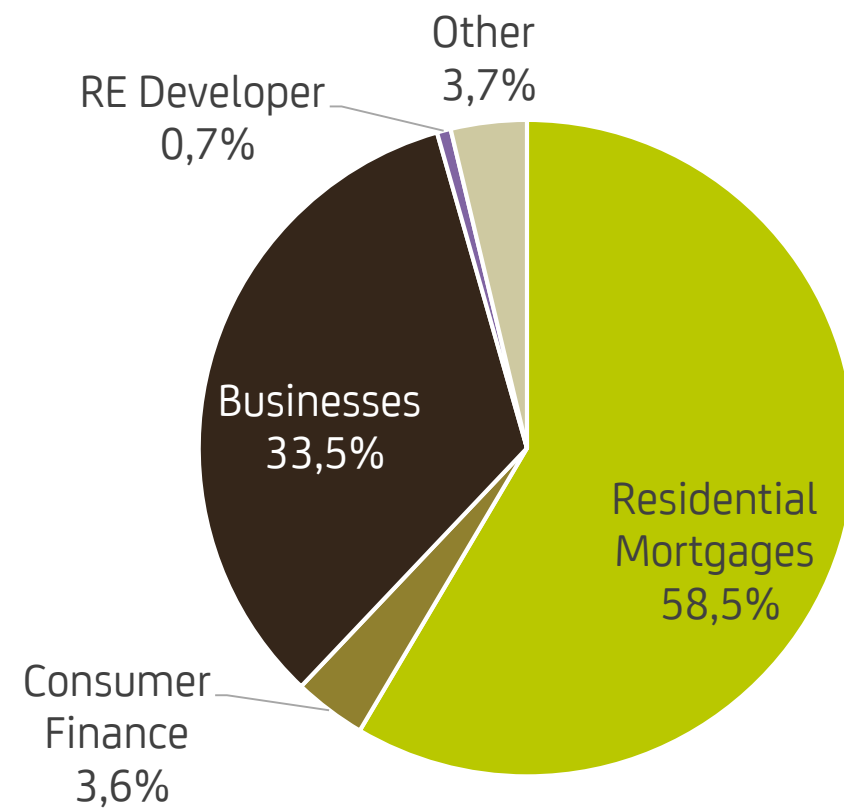
> **Asset quality and risk management**

Credit quality

**Composition of loans portfolios and foreclosed assets**

NET LOANS – JUN 2018

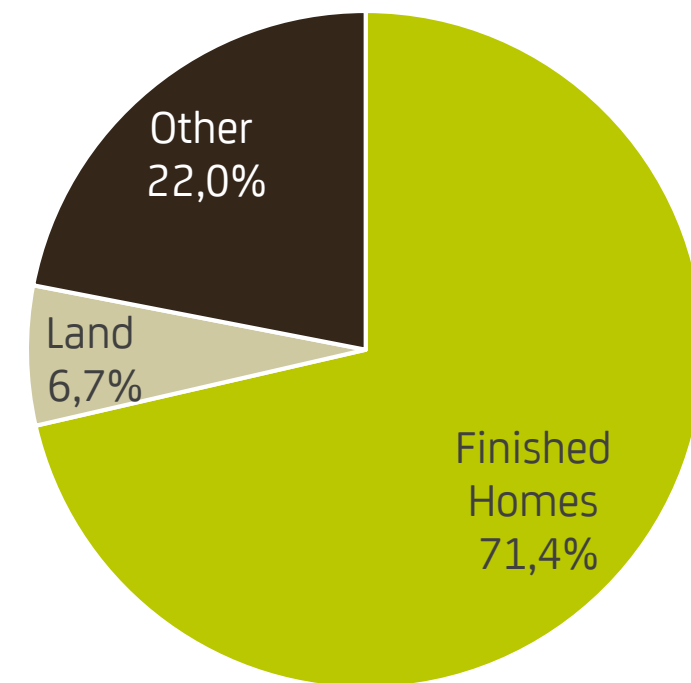
Net developer loans represent only **0.7%** of the total loan book



NET LOANS BREAKDOWN: €121.5bn

NET FORECLOSED ASSETS – JUN 2018

**71%** of total foreclosed assets consist of finished homes



NET FORECLOSED ASSETS BREAKDOWN: €2.7bn

% Total Assets: **1.3%**

# Asset quality and risk management

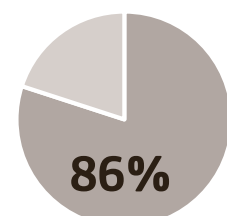
## Credit quality

### Coverage of loan portfolios and foreclosed assets

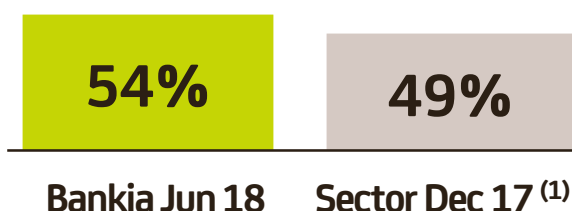
#### MIX AND COVERAGE, NON-PERFORMING LOANS

#### TOTAL COVERAGE BANKIA NPLs: 55.0%

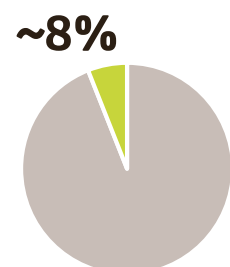
NPLs EX R.E. DEVELOPERS AS % OF NPLs



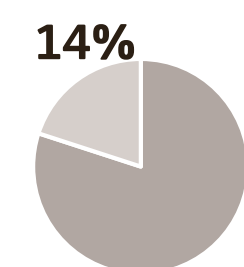
NPL COVERAGE EX R.E. DEVELOPERS



NPLs R.E. DEVELOPERS AS % OF NPLs

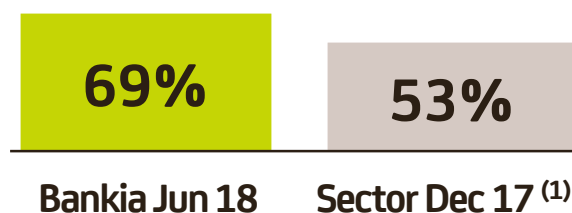


**BANKIA**  
JUN 18



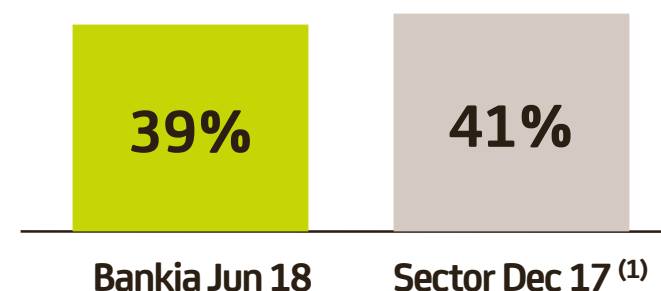
**PEERS**  
DEC 17

NPL COVERAGE R.E. DEVELOPERS

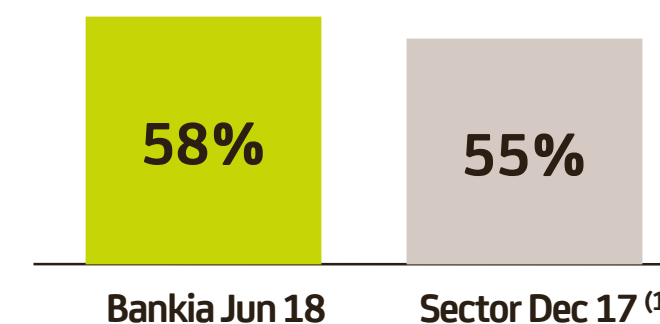


#### COVERAGE OF FORECLOSED ASSETS

##### COVERAGE SINCE FORECLOSURE



##### COVERAGE SINCE ORIGINAL DEBT



Finished homes  
Land  
Rest of foreclosed assets

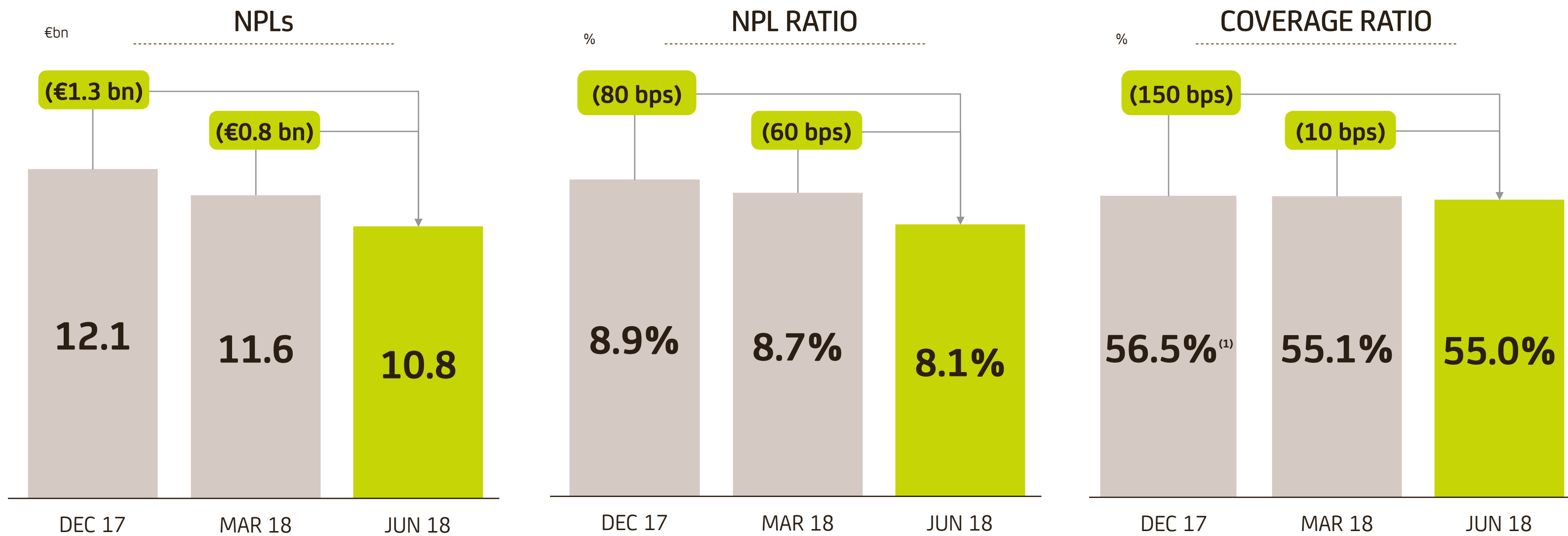
	As % of total		Coverage	
	Bankia	Sector	Bankia	Sector
Finished homes	71%	57%	60%	47%
Land	7%	25%	65%	68%
Rest of foreclosed assets	22%	18%	50%	49%

Bankia data at Jun 18 / Sector data at Dec 17  
Coverage since original debt

> **Asset quality and risk management**

Credit quality

**NPLs down €0.8bn in the quarter while maintaining coverage**

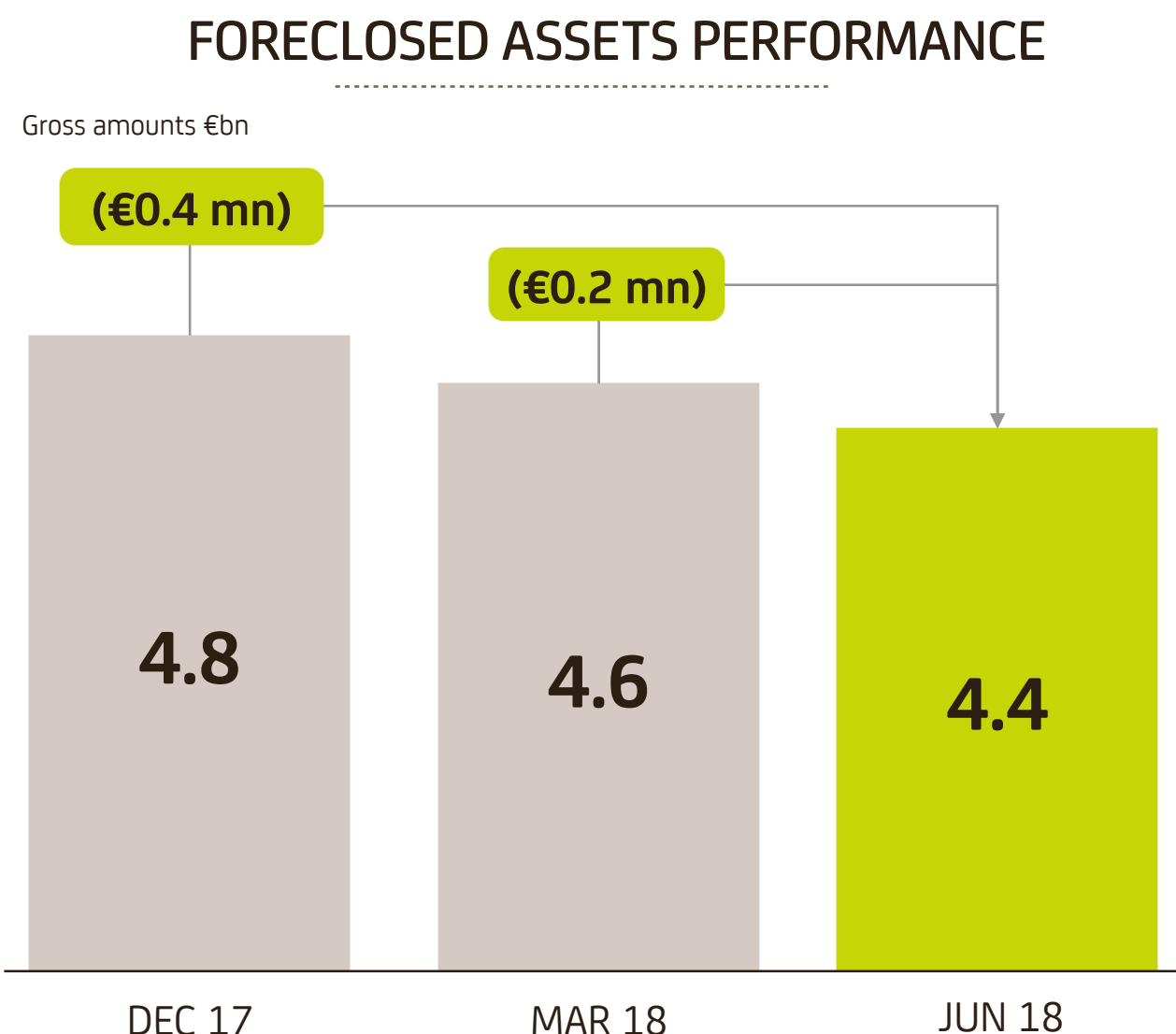


(1) Coverage ratio including the provisions for IFRS 9. If the IFRS 9 provisions were excluded, the ratio would be 50.8%

> **Asset quality and risk management**

Credit quality

**Continued good pace of sales and run-off of foreclosed assets**



> Foreclosed assets sales totalling **€309mn** in **1H 2018**. (+1.4% vs. 1H 2017)

> Sales during the first six months of the year represent **10% of the total stock**, a rate of reduction in line with previous years (20%)

1

**2Q 2018 HIGHLIGHTS**

2

**2Q 2018 RESULTS**

3

**ASSET QUALITY AND RISK MANAGEMENT**

4

**LIQUIDITY AND SOLVENCY**

5

**CONCLUSIONS**



> Liquidity and solvency

Liquidity and rating

Liquidity metrics, maturities and rating performance

LTD ratio

**92.2%**

Jun 2018

LCR

**155.3%**

Jun 2018

Commercial gap

**(€3.6 bn)**

Jun 2018

NSFR

**>100%**

Jun 2018

**Bankia**

Dec 17

**Bankia**

Jun 18

S&P Global Ratings

**BBB-**

Positive outlook



**BBB**

Stable outlook

FitchRatings

**BBB-**

Stable outlook



**BBB-**

Positive outlook



**BBB (HIGH)**

Stable outlook



**BBB (HIGH)**

Stable outlook

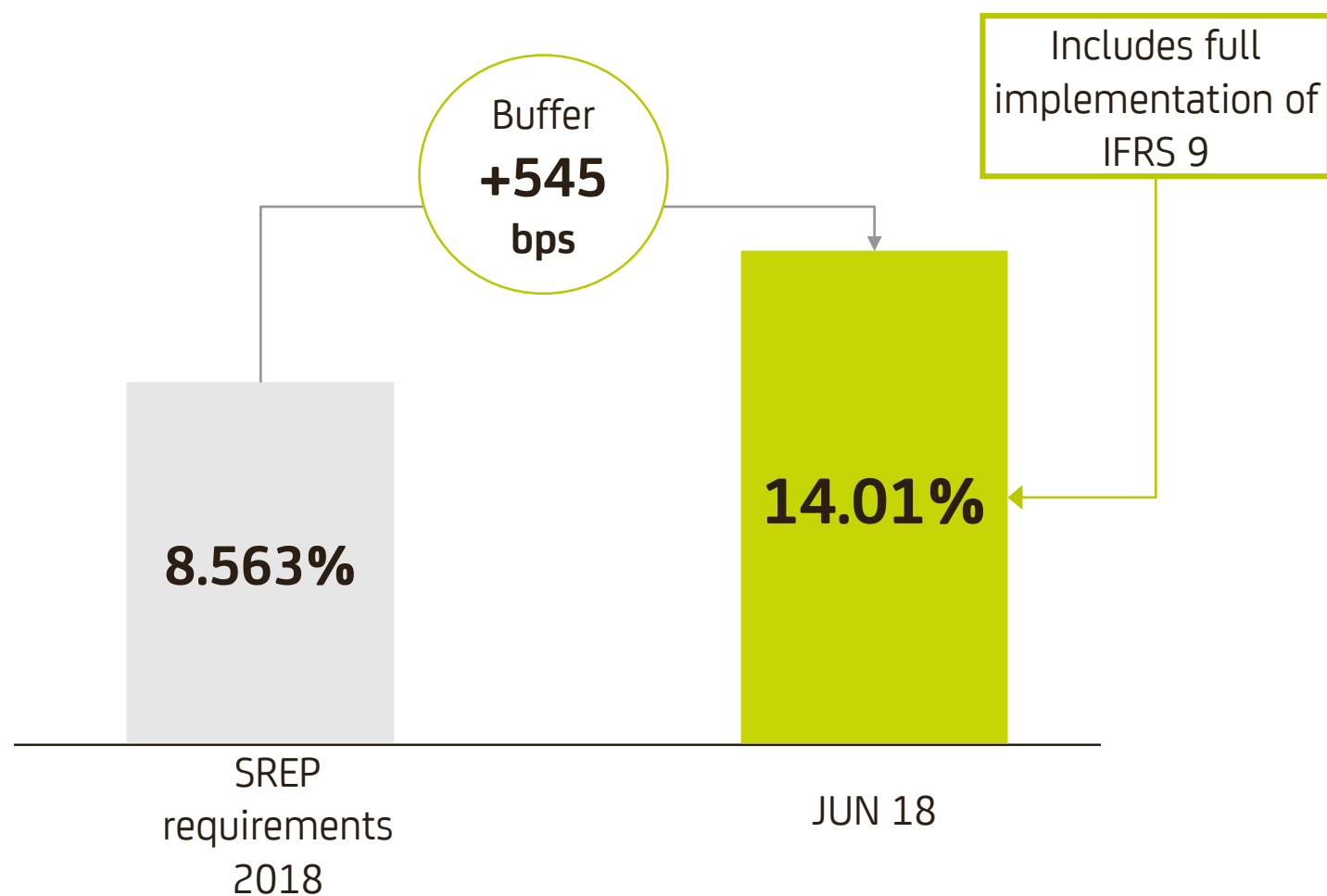
€1.5bn of TLTRO I funds repaid in the quarter, bringing the total balance (TLTRO II) to €13.8bn

> Liquidity and **solvency**

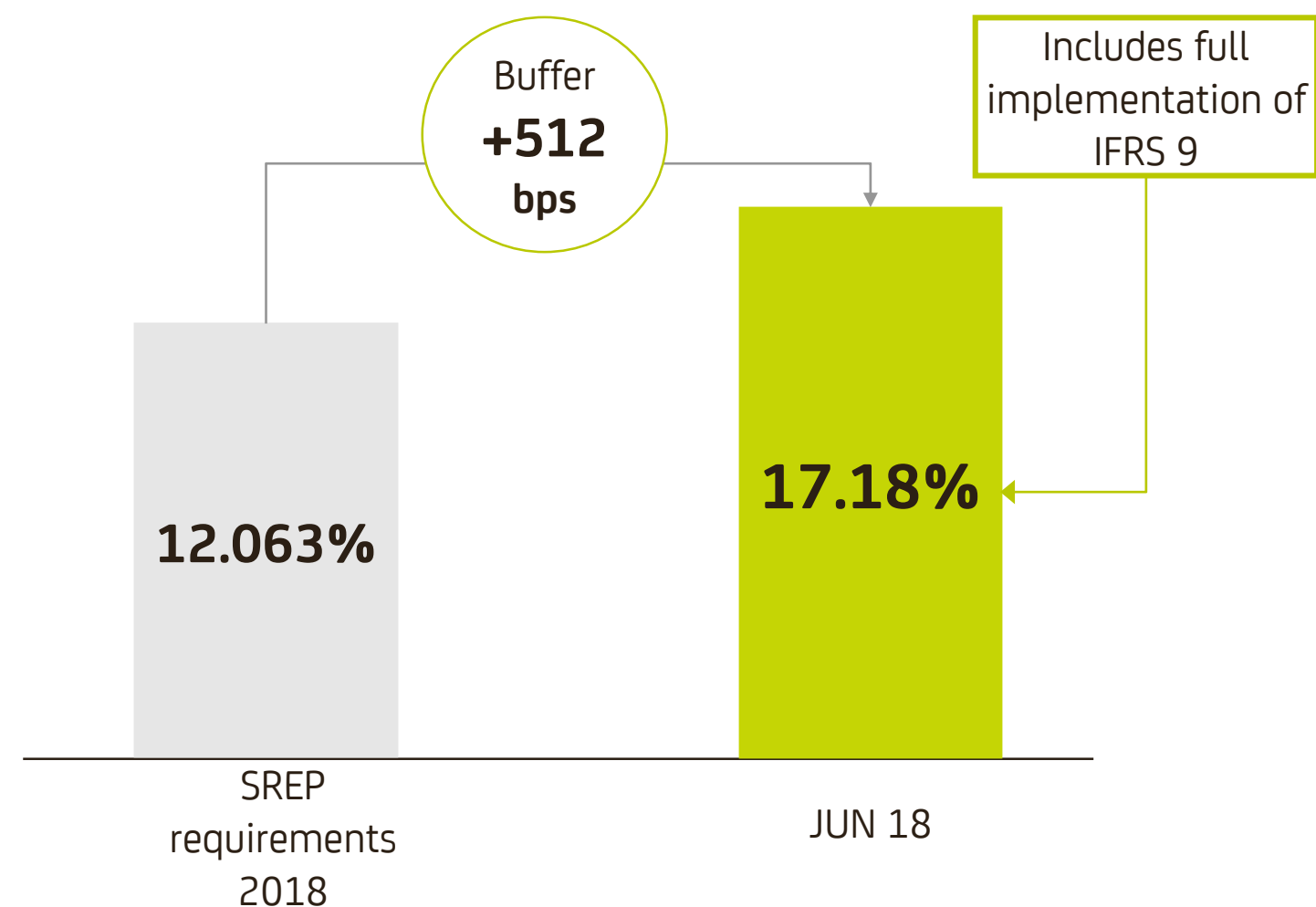
Solvency ratios – Phase-in

**Ample capital buffers above the regulatory minimums**

**CET1 PHASE-IN RATIO**



**TOTAL CAPITAL PHASE-IN RATIO**

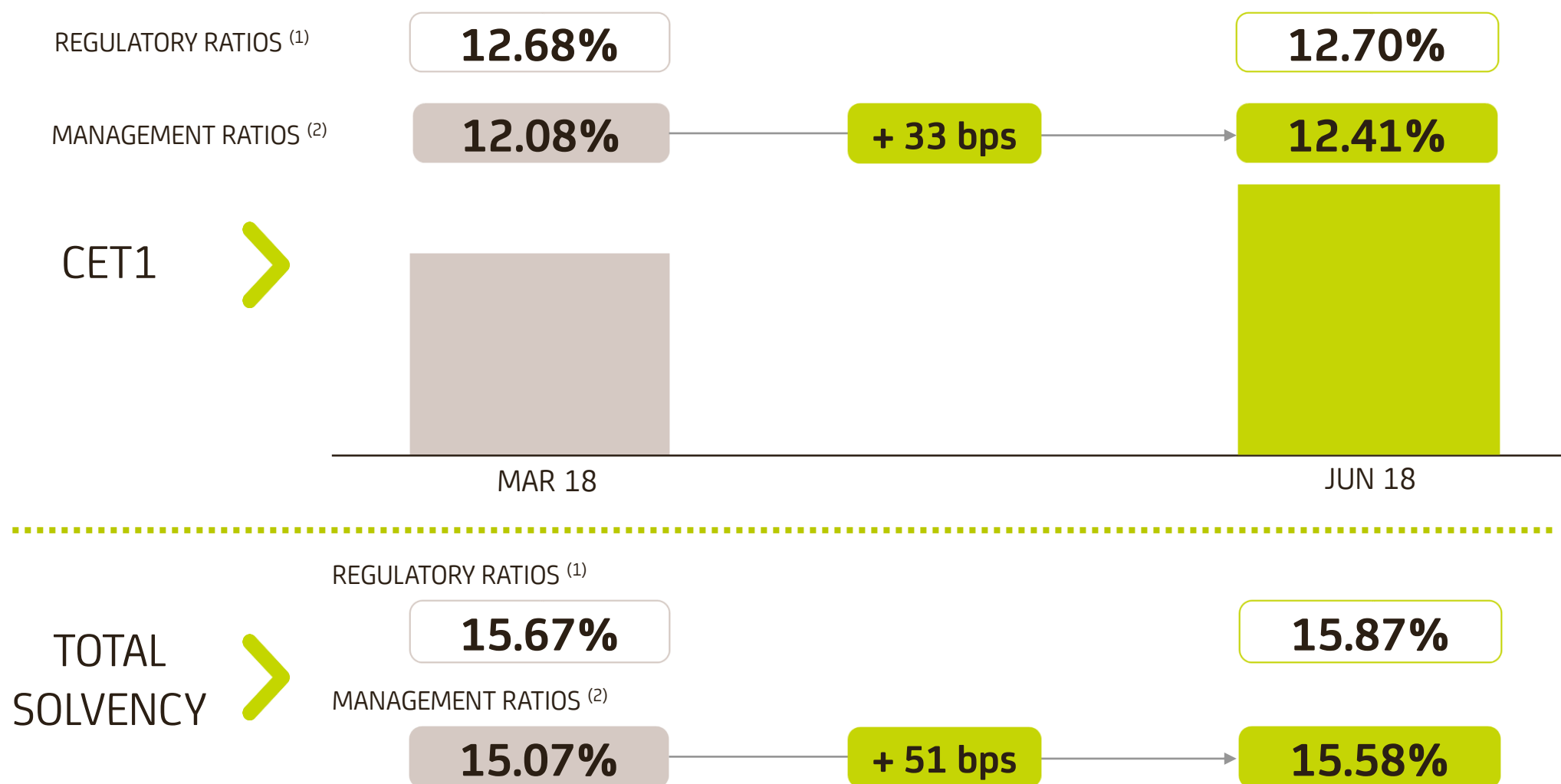


> Liquidity and **solvency**

Capital ratios – Fully Loaded ratio performance

**33 bps of capital generated in the half-year**

CET1 FULLY LOADED RATIO PERFORMANCE



The solvency ratios include the profit attributable to the Group and discount the regulatory adjustment for the planned dividend.

(1) Ratios including unrealized gains on sovereign portfolio. Total impact of IFRS 9 already recorded.

(2) Ratios not including unrealized gains on sovereign portfolio. Total impact of IFRS 9 already recorded.

1

**2Q 2018 HIGHLIGHTS**

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**CONCLUSIONS**

## > Conclusions

> With the BMN integration completed, commercial momentum speeds up, as reflected in stronger growth in new lending

> First synergies from the merger and we speed up the capture of cost savings

> Our non-performing asset management model has enabled us to reduce NPAs by €1.7bn (-10% of the total) in the half-year

> Capital generation: +46bps of CET1 FL capital in the half year (€343mn of excess capital above 12% CET1 FL)

# Bankia

LET'S KEEP WORKING

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