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PRESENTATION

Iñigo Velázquez - *Bankia S.A. - Head of IR & Rating*

(technical difficulty)

(interpreted) Quarter of 2019. We'll have, first of all, our CEO, José Sevilla, who will do a presentation of the customers' highlights -- or the quarter's highlights. And then we'll go to the results of the third quarter by Leopoldo Alvear, who will look into the income statement. Then we'll have a Q&A session on the phone.

So please, without any further ado, José?

José Sevilla Álvarez - *Bankia S.A. - CEO & Executive Director*

(interpreted) Well, let's start with the presentation, and let's start to Slide #4. I would like to say that in this new interest rate environment where there are more negative, the levers that we were working during our Strategic Plan are even more important, focusing on the customer, looking at cost control and efficiency, the growth in high-value products and the reduction of nonperforming assets. And then, obviously, the organic generation of capital.

If we start with the customers. The trends that we have are very positive still. On the graph on the left, you can see that we have many quarters, and we see the performance of what we call the mystery shopping, which is an external analysis on the opinion people have of the different banks. And we have improved, and we are now at #1 amongst our peers.

On the right, you can see the customer satisfaction index we drafted with over 60,000 surveys per year, and you can see that we've also reached a new record. We've improved this quarter. We have the highest score. And also, regarding the Net Promoter Score, the NPS of branches, we have improved versus the previous quarter. So this is very positive. This means that we have more satisfied customers and we have more customers.

As you can see, we still grow on the amount of customers, and we can see that we have had for several quarters over 100,000 new customers on a 12-month evolution. And what's important is that they have direct income deposit. Their salaries are directly deposited into accounts with a 20% growth and over 100,000 annual customers.

Customers that would -- we want to have with them is to have a great amount of loyalty with those customers. And here we have a couple of indicators linked to payment methods. So the card turnover in store, that grew by 14.6% year-on-year, 9 months versus 9 months. And we can also compare this to the sector, and we can see that in sector, there's also good dynamics. So at least with this indicator, this consumer indicator, we are not seeing a slowdown of consumption in the Spanish economy. Obviously, the e-commerce turnover is also growing strongly.

And finally, the point of sale terminals, the point of view of the seller versus the buyer, we can see that we also have a POS turnover that has increased by 13.3%. So the payment methods, well, in Bankia is still very dynamic and so that has led to greater commissions.

We also have a growth in amount of digital customers. We wanted to have 65% of digital customers at the end of 2020, and the truth is that we are following that trend. We're already over 50% of our customers are digital customers, and I think that this is a trend that will continue to gain further speed. And we feel comfortable with this, the same as with digital sales. Digital sales of digital -- through digital channels, we have managed to get to 26.1% on growth versus the same period of last year.

And also, we are leaders in terms of instant transfers where we have a market share close to 33%.

We are very happy of the commercial evolution of the bank for the last 9 months and also the last quarter's performance.

If we look at mutual funds, once again here we have gained market share over the last quarter. We're close to 7% of market share, 6.94%, with a growth of 39 basis points since we started the year and 15 basis points over the last quarter. In fact, we are the bank in Spain that has a greater capturing of mutual funds, as you can see at the bottom left graph, with a market share of 21% of net contributions of those mutual funds in Spain, and we are #1 bank in terms of growth in mutual funds.

For pension plans, we also are performing properly with a growth on pension plans of 17%, contributions to the pension plans, even though the best quarter tends to be the fourth quarter of the year due to the seasonability of the contributions to pension plans.

And in the world of insurance, you can also see the comparison between this year and last year. Last year, it was affected by the integration process and the integration of services or insurance providers. And you can see how the premiums are growing at 31%, more or less. That's the cruising speed that we've had over the last few quarters with important growth in life and non-life.

And we're also happy with the performance of credit. And here we can see that we confirm our growing trend, positive growing trend in terms of performing credit stock. As you'll remember, we grew for the first time in the first quarter of the year. Then in second quarter, we dropped. And in the third quarter, we have grown even more. So we've had, for the whole of the first 9 months of 2019, EUR 0.8 billion of the total of performing credit stock.

And on the right, you can see the breakdown, and you can see the positive breakdown with the growth on consumer lending stock and also companies stock that really offset the deleveraging of the fall of the home mortgages stock.

In the world of mortgages, you can see here the annual evolution. New mortgage lending grows by 1.3%, 9 months versus 9 months. And as we said the previous quarter, this is affected by the regulatory change, by the introduction of the new mortgage law in the middle of June. That meant that in June, July and August for Bankia and for the whole of the sector, there has been a slowdown -- a slight slowdown and a decrease of the mortgage turnover in those 3 months versus the previous quarter. However, in September, it has been, in isolation, how the new mortgage lending is growing at 12%, stand-alone September, and we expect that the fourth quarter -- for the fourth quarter, go back to double digit.

You can see the average price of mortgages is quite stable versus the previous year with 48% of fixed rate mortgages and 34% of mortgages to new customers. So we are keeping the loan-to-value levels of 65%.

In terms of consumer lending and companies, those have been the most dynamic areas for loan growth. Consumer lending is growing at 12.6% year-on-year. Companies stock is growing at 7.8%. And in both cases, we are winning market share, both in terms of consumer lending by 10 basis points in terms of stock; and in companies, 33 basis points in terms of growth in market share. The new consumer lending or new credit to companies is growing, and that means that we have gained greater market share in both.

In the world of companies, you know that part of that growth is due to the end of the restrictions that we had in the restructuring plan of Bankia that is allowing us to have high growth.

And we'd like to mention here 3 important aspects related to credit. First of all, we are gaining positioning -- better positioning in the world of syndicated loans, syndicated loans that include large companies but that also include medium-sized companies. And as you can see here, our relative position in the market has grown and has improved consistently also because we are entering a segment in which we were not very active in the past due to the restructuring plan.

We have also managed to have the authorization to launch the joint venture with -- in order to carry out consumer lending outside the banking sector, and we expect to start producing at the end of the year.

And also, in the world of responsible banking, we have created -- we have focused on giving loan linked to the sustainable businesses and sustainable world. We believe that in Spain, there'll be important changes in terms of generation of new business related to sustainability. We have signed the Principles for Responsible Banking of the United Nations, and they have included us in the Dow Jones Sustainability Index in Europe.

If we go to the chart of NPAs. Here you can see the performance of the last 9 months. We have reduced our NPAs by EUR 1.4 billion. You'll remember that our 3-year plan, the '18, '19 -- 2019, 2022, we wanted to reduce them by EUR 1 billion. We have already done EUR 7.3 billion, and we hope that we'll be able to reduce the remaining EUR 0.6 billion by the end of the quarter, so we'll have a total accomplished of EUR 7.3 billion. And so we'll have achieved 90% of the 3-year plan in just 2 financial years.

You can see the NPA ratios at 7.2% is very close to the 6% that we have set ourselves as the objective at the end of 2020. And the NPA ratio, net of provisions, is at 3.7%, so close to the 3% goal.

In terms of capital generation for the year, we have generated 61 basis points of capital of CET1 fully loaded. And we are now positioning this quarter for the first time since we launched the plan at 13% of capital ratio.

The management ratio, excluding the unrealized capital gains, will be 51 basis points up to 12.79%. And you can also here see the total solvency that are very much in line with the CET1.

The core result for the first 9 months of the year, as you know -- as you can see has grown by 1% up to EUR 946 million, and this has been influenced by an improvement year-on-year on the customer margin that has grown by -- from 1.54% to 1.63% due to the -- to an improvement on the yield and a lower cost of customer deposits.

The fees and commissions are flat year-on-year but are more -- gained weight in terms of medium risk-weighted assets for the financial year. And the efficiency ratio, if we exclude NTIs, have gone down to 59.6%. So the attributable profit for the first 9 months has been EUR 575 million.

And now I would like to give the floor to Leopoldo, who's going to continue with the presentation.

Leopoldo Alvear Trenor - *Bankia S.A. - Deputy General Director of Financial Management*

(interpreted) Thank you, Pepe, and good morning to everyone. Let's analyze the income statement and the balance sheet.

Looking first at the accumulated results for the first 9 months of the year compared to the first 9 months of 2018. We can see that it's very similar, the first items, despite the negative interest rates. And we more or less have a similar net interest income and a similar fees and commission income. Obviously, there is a material difference in terms of net trading income due to the high rotation of the portfolios that we did in 2018.

In terms of expenses, we are 2% below last year. We'll look at the achievement of the synergies in a minute. And we have a few more provisions than in the previous year due to acceleration of the NPA reduction that Pepe mentioned before. So we have an accumulated of -- profit of EUR 575 million. And the main different versus the 9 first months of 2018 is the difference that we have in terms of financial results that I've mentioned before.

If we look at the quarterly results, here you have the first 3 quarters of 2019. And you can see that in terms of net interest income and in fees and commission income, the figures are very similar to the first quarter. We must bear in mind the seasonability of the third quarter, especially of the month of August. That always means that these 2 variables go down a little bit versus the second quarter. And then we have a gross income that goes up to EUR 875 million. So it has improved by 2%.

OpEx are very stable quarter-on-quarter. And we have at the bottom of the income statement an increase on provisions, as I've said before, due to the acceleration on the NPAs' reduction that we'll look into this in more detail in a minute.

So we have profit attributable to the group after tax of EUR 176 million.

When we compare the net interest income with what we obtained in the same period of the previous year, so with the same seasonability, we see that it has improved by EUR 10 million or it has increased by 2%. And we have 2 different trends. On the one hand, customers -- customers are increasing the net interest income by EUR 30 million, with 3%, and this is due to, as you can see on the graph on the right, due to the potential gross customer margin that has improved 12 percentage points since the third quarter of 2018 despite the negative interest rates. And this is only thanks to the increase in production in segments such as consumer loans and credit to companies. And therefore, there is a positive impact on the increase on the credit yield since the last year.

We have a lower income contribution from portfolios, lower than in the same period last year. And we also have a slight negative impact due to the excess of liquidity that's also higher than what we had in the previous year.

In terms of fees and commissions, the annualized figures accumulated at 9 months is very similar year-on-year even though it's important to note that this year, we have 2 negative one-off impacts that we will not have in the 2020 financial years. First of all, the elimination of the account maintenance costs to BMN customers. As we have remembered in other quarters, up to May 2018, they were in force. However, this year, we haven't had these maintenance fees since the 1st of January. So basically, there is a decrease of EUR 24 million.

And the second one is due to the slowdown or the reduction of NPAs' management. So therefore, we have less fees for the management of write-offs and NPAs. So last year, we had EUR 20 million in this item. And this year, we only have EUR 1 million. As we can see next year, we will not have this negative impact.

And if we look at the other fees and commissions, so those fees and commissions that are fixed to added value products, such as funds or payment methods, have a positive performance up to EUR 40 million. And therefore, it offsets the negative impacts that I've mentioned before, and they've increased by 5.7%.

I would just like to mention 2 examples. Payment services has improved nearly 10% year-on-year. And the assets under management, due to the increase on the stock and mainly mutual funds, have increased by nearly 3.5% in the first 9 months of the year.

If we look at operating expenses, we are now seeing the synergies of BMN. Now we can -- we believe that we are going to go ahead of the synergies goal that we had set ourselves and that if you remember was a total of EUR 190 million. We now think that we'll probably reach EUR 210 million of synergies in this financial year. So this reduction of 2% will continue -- will be increased in the fourth quarter to reach EUR 210 million that I've just mentioned.

This cost control of operating expenses also allows us to keep in force our competitive advantage versus our peers when we look at the total of operating expenses and its impact on risk-weighted assets. As you can see, in our case, this is a -- 2.28%. So 130 basis points less than the impact that our competitors have.

With all of this, we can see that there's been a positive performance of core results. We can see that we still have a positive evolution of the core result. And what we can observe is that we've had 4 consecutive quarters in which the core result is higher than the same period of the previous year, all of that despite, as I said before, the very negative performance of the interest rates versus what we had 12 months ago.

With all of these, we can see that the core result goes up to EUR 946 million, so 1% higher than the 9 months -- the first 9 months of 2018. We hope that in the fourth quarter, this core result will continue to improve, and we hope to be very close to the 5% guidance that we gave you in terms of increase of core result for the year. That will mean that we'll achieve about EUR 1.3 billion of core result, and we hope that we'll be around those figures, EUR 10 million up or down. So with a deviation that will not reach -- not even 1% of the total expected.

If we look at the bottom part of the income statement and the cost of risk has reached 21 basis points in the first 9 months of the year, in line with the 25 basis points that we expect to achieve when we did our Strategic Plan. This quarter, we've had a bit more of provisions due to the reduction of NPAs that -- this quarter has a large amount of it -- has gone to moving loans to write-offs. So we reduced the total provisions. And therefore, given that we don't want more NTI this quarter, we have increased the provisions in order to keep the coverage constant with other quarters. Even though the quality of the assets is very positive, the gross entries are decreasing quarter by quarter, and we do not see a worsening of the quality of the assets as a whole.

If we go to the asset quality and risk management. Let's just look at the NPAs for a minute. As Pepe has said, we've decreased by EUR 1.4 billion this financial year, nearly EUR 500 million each quarter. A little bit this quarter because of seasonality. This quarter has been EUR 400 million. That has allowed us to reduce the gross NPA ratio from 8.2% to 7.2%. So 100 basis points lower. This 7.2% is not close to the 6% that we set ourselves as an objective at the end of the year of 2020. So we are going quicker than expected. The NPA coverage is constant, about 48%.

And in terms of net NPA ratio, we are now at 3.7%, 70 basis points of the ratio that we set ourselves as a goal also for 2020. We hope to finish with a reduction of EUR 8 billion by the end of the year versus the beginning of the -- our Strategic Plan, first of January 2018. And so we only have EUR 1 billion left for 2020.

In terms of reduction of NPLs, we're still following the same trend, EUR 1.3 billion, as you can see, since December 2018. The NPL ratio is now at 5.5%. We hope to reduce NPAs [in] extra EUR 300 million this fourth quarter and so the NPL ratio will be below 5% at the end of 2019. And all of this maintaining a stable NPL coverage ratio, like I said before, around 54%.

If we look at the liquidity and solvency. In terms of liquidity, the loan-to-deposit ratio is at 89.9%. This is due to the financing structures. You can see on the left, 70% -- nearly 70% of it is from customers' deposits, whereas the ECB only accounts for 7.5%.

In terms of regulatory ratio, the LCR is more or less at 107% for the end of the quarter.

And if we look at the disintermediation ratio, this still increases due to an increase on the stock of mutual funds and is now at 12.3%.

In terms of ECB requests, as you know, we have 3 -- EUR 13.9 billion of TLTRO II that are similar to the excess liquidity, which is at EUR 14.7 billion. We're the same. We will not need to any -- to request anything from the TLTRO III. We will be able to receive the full amount of the TLTRO II.

In the case of tiering, as you know, in mid-September, it was mentioned and it will come into force on the 30th of this month, and it goes 6x the cash coefficient. In this case -- in our case, this is about EUR 7 billion that -- for 50 basis points, which we will stop paying to the ECB. And that means that in 2020, we'll have a lower cost. It'll be around EUR 37 million.

Finally, in terms of liquidity and solvency. We've seen the organic growth in the last 18 months. We've generated 100 basis points. So about 33 basis points per semester. And this quarter, we have achieved 16 basis points after reducing the 50% of the profit due to the fact that we have debt payout that we expect to carry out in cash versus the results of 2019. So going from 12.63% in June to 12.79% in management ratios basically, excluding the unrealized of sovereign portfolios. And when we include them, it goes up to 13%, which is comparable to our peers.

The MREL ratio is 20.7%. Remember, our target is 23.76% to be measured from the first of July 2021. And so we still have nearly 2 years to increase this from 20.7% to 23.6%. And the leverage ratio is at 5.6% in September of 2019.

As we've shown you in previous quarters, our goals and our commitment with the market is to generate EUR 2.5 billion throughout the Strategic Plan. Now we have already generated EUR 1.28 billion, distributed EUR 354 million for the dividend distribution that we've already carried out this year against 2018 results, EUR 634 million that would be the 79 basis points of capital over the excess of 12%, so excess capital over 12% and the EUR 292 million would be the dividend that we have already reserved from the profit of the first 9 months of 2019. So all of that takes us to the EUR 1.28 billion that I mentioned before or 51.2% of the EUR 2.5 billion target that we set ourselves for the end of 2020.

And I'll give Pepe the floor so that he can carry out some closing remarks.

José Sevilla Álvarez - *Bankia S.A. - CEO & Executive Director*

(interpreted) Well, thank you very much.

Very much in line with what we were saying before, I think that the first 9 months and especially this quarter have shown a good commercial evolution, good commercial performance in terms of mutual funds, insurance and also credit stock that has grown again this quarter, both in terms of consumer loans and in companies. The stability of the business in terms of the core result grows at 1% year-on-year, a reduction of EUR 1.4 billion of NPA reduction, and we want to decrease it by EUR 2 billion over the year. And a new generation of capital ratio -- organic capital ratio with a growth of 61 basis points, reaching 13%.

And if that's okay with you, we can now move to the Q&A session.

QUESTIONS AND ANSWERS

Iñigo Velázquez - *Bankia S.A. - Head of IR & Rating*

(interpreted) Thank you very much to both of you. As Pepe was saying, now we're going to go to the Q&A session. (Operator Instructions)

Operator

(interpreted) (Operator Instructions) The first question comes from Ignacio Cerezo from UBS.

Ignacio Cerezo Olmos - *UBS Investment Bank, Research Division - Executive Director & Equity Research Analyst*

(interpreted) I have a couple of questions. The first one, if you could tell us a little bit about the main 2 provisions item, loan losses and preapproved assets, that are a little bit higher than expected. The credit, you have explained it, is due to the write-offs, but if you could just give us some nuances in order to know what to expect for the future.

And the second question is about consumer, local consumer franchise. Could you tell us what percentage of portfolio is approved versus new customer and how many of them are still on the customer buying -- on your customer base, please?

Leopoldo Alvear Trenor - *Bankia S.A. - Deputy General Director of Financial Management*

(interpreted) Okay. In the first question, loan losses, as we've said, what we have done is making the most of our net trading income this quarter. We have provided a little bit more because we have moved some loans to write-offs. And therefore, they leave 100% and the total of the provision falls a little bit. We wanted to keep them around 54%.

Also, as I've mentioned, we are accelerating our NPA reduction, and we expect to have a fourth quarter that is also very active along those lines. We have some portfolios that are about to be marketed, and we hope we can execute it in the fourth quarter. We hope to reduce by EUR 600 million or EUR 700 million our NPAs. And so the cost of risk for the fourth quarter will be reasonable -- similar to this third quarter because of what I mentioned before.

And in terms of the foreclosed, in this case what we normally do is we try to make the most of the capital gains that we obtain from the sale of the foreclosed in order to sell assets that are a bit more difficult to sell because they are in geographies that are not as liquid or they are not of good quality or not as good quality. So that moves depending on the sales that we carry out. So we do an overall snapshot measuring the fourth quarters to -- and we compare one to the other. What we've had is a quarter that, given the seasonability that I've mentioned before on top and also regarding NPAs, has had a bit lower sales than in the past.

José Sevilla Álvarez - *Bankia S.A. - CEO & Executive Director*

(interpreted) In terms of consumer credit, we have EUR 2.5 million of preapproved lines in the bank. And the percentage of turnover with the preapproved loans is quite stable, between 80% and 85% every quarter. For the first 9 months, 82% of the consumer turnover has been down to preapproved. And in this case, we have room to grow. We are trying to look into the BMN customers first or customer base that they had -- they have. It was a base of customers for which they had no pre-authorized or preapproved loans. So that may give us growth in 2019 and 2020.

And also, due to the growth of direct deposits and salaries that are directly deposited into our accounts growing at 126 or -- we have about 126,000, 125,000 salaries deposit, and obviously that helps us grow in terms of preapproved. We are quite happy with the business. This is a business that has a level of risk that we consider to be low, and we can manage it with a lot of dynamism month-on-month.

Operator

(interpreted) The next question comes from Marta Sánchez from Bank of America Merrill Lynch.

Marta Sánchez Romero - *BofA Merrill Lynch, Research Division - Director and Analyst*

(interpreted) I have a couple of follow-ups -- follow-up questions on asset quality and provisions. The cost of risk this quarter includes some recalibration of the IFRS 9 model?

And the second question is related to write-offs. We've seen an additional effort this year. Do you think that will continue to be the case? Has it been more difficult now? Or do you think write-offs will be increasingly important on NPL reduction?

And thank you for the guidance for the fourth quarter. As you can see, the cost of risk for next year, you've looked at it. Do you think you have enough coverage or hedging in order to keep the NPA ratio to a more reasonable, lower value? And what's the target? You've said 7.4%, including some foreclosed assets. So where would you like to be at the end of 2020?

José Sevilla Álvarez - *Bankia S.A. - CEO & Executive Director*

(interpreted) Thank you. First I'll start like -- and if you'd like to add anything, just please feel free. In terms of recalibration of the IFRS 9 this quarter, we haven't had anything along those lines. And maybe what I would say is that the IFRS recalibration would be more positive than negative in the future because the average quality of the portfolio is improving. But there has been no effect in terms of IFRS 9 recalibration.

In terms of write-offs this quarter, we've had a higher amount, EUR 306 million. But the idea is that for the whole of the year, we'll have a similar amount as last year. I think last year, we did EUR 440 million, EUR 450 million write-offs. And the idea will be to have a similar figure at the end of the year. So the fourth quarter will be low in terms of write-offs. And in that sense, it should be quite similar to the previous year.

This semester, we wanted to accelerate write-offs also, bearing in mind that the organic recovery of this quarter is lower because of the holidays, court cases, et cetera. I mean there's a lower level of activity in courts, et cetera, and so the recovery in the fourth quarter will be more based on organic and on the sale of portfolios, as we've mentioned before.

As for 2020, it's still a bit early to give you guidance. We're working on the budget for 2020 currently, and we are being very cautious and detailed about it.

And in terms of cost of risks, we'll see where we can place ourselves. But we don't think we'll have to increase on the current cost of risk values.

And where do we feel comfortable in terms of NPA as well? We felt comfortable at 6%, that was the ratio that we had set ourselves at the beginning of the Strategic Plan. It is also true that in order to reach that figure, we'll have to decrease only EUR 1 billion our NPAs, and it is possible that in the budget exercise that we'll carry out for next year, maybe we will be a little bit more ambitious in terms of reducing the NPA ratios a little bit more and going beyond our 6%. But we'll have to see that with the final figures of the budget.

Operator

(interpreted) Next question is from Andrea Unzueta from Crédit Suisse.

Andrea Unzueta - *Crédit Suisse AG, Research Division - VP*

(interpreted) I would just like to clarify the issue of the impairments, because I was not clear, the message. The loan loss provisions this quarter have been at EUR 130 million. That's what's expected for the next quarter, too?

And the next question, could you give us an update on those great assets of mortgages? And the losses that we've experienced, what has led to the losses that we've experienced this quarter?

Leopoldo Alvear Trenor - *Bankia S.A. - Deputy General Director of Financial Management*

(interpreted) Yes, okay. So as I said before, even though in the fourth quarter, we do not expect any substantial increase on write-offs, as Pepe said, because it's true that the figure that we expect for the whole of 2019 is going to be very similar to that of 2018. But we do expect to execute some sales of portfolios. So in total, the total provisions of the bottom area of the income statement, including loan loss provisions and the cost of foreclosed assets, will be similar for the fourth quarter.

We also need to bear in mind that this provision allocation that we're doing in order to keep the coverage ratios is based on the fact that we're doing more net trading income than what we expected before due to the interest rate evolution that has had a negative impact on the net interest income but allows us to crystallize certain capital gains. And we believe that in the fourth quarter, we'll also be able to do a little bit of net trading income. So in general, we think that we'll offset one line one item with the other.

José Sevilla Álvarez - *Bankia S.A. - CEO & Executive Director*

(interpreted) Perfect. In terms of the risk-weighted assets for mortgages, I imagine the question had to do with the internal models. And there what I can tell you is that we've mentioned this quarter-on-quarter. We are following the line of the -- of our plan. The inspection team carried out its on-site work. Two weeks ago they finished, and now we are waiting to receive a draft of their conclusions that will take a little bit of time. But it will have then from now until the end of the year, we'll have our first conclusions.

But in any case, the work has evolved normally and we are reasonably positive in terms of this performance. And in any case, we will not expect a final conclusion until the first half of 2020 that we will be able to start applying with a new mortgage model.

In terms of the decrease of risk-weighted assets in the third quarter, these losses is due to the deconsolidation of the green portfolio, right?

Leopoldo Alvear Trenor - *Bankia S.A. - Deputy General Director of Financial Management*

(interpreted) Yes, that's the main -- is the fact is mainly due to that.

Operator

(interpreted) The next question comes from the line of Alvaro Serrano from Morgan Stanley.

Alvaro Serrano Saenz de Tejada - *Morgan Stanley, Research Division - Lead Analyst*

(interpreted) Two quick questions. One's on margin. Do you have a growth guidance? I don't think you've mentioned it. In order to reach that growth you need in the fourth quarter quite a lot of growth, I'm not sure whether you can explain a little bit. What are your expectations? And if the EUR 500 million is the run rate, we should add to that tiering to those EUR 500 million, EUR 502 million. Do we need add to tiering to that so we can get an idea on 2020? So that's the first question.

Second question is in terms of capital distribution. The capital accumulation is clear that it's been better-than-expected, and that's the model for the first half of the next year. But the -- when we look at the share value, this is not reflecting that. So would you distribute more? I guess the share buyback without the larger shareholder buying is difficult -- selling is difficult. But I don't know whether you are thinking in order to do any extraordinary operations or whether we should forget about that before the end of the year. Are you debating that on the Board of Directors' meetings?

José Sevilla Álvarez - *Bankia S.A. - CEO & Executive Director*

(interpreted) Well, in terms of the net interest income, I think that we have given the net interest income was flat for the year, for the whole of 2019. And in that sense, well, I think bearing in mind that we expect that the fourth quarter will be better than the third quarter. There's also the seasonality in the second and fourth quarter, in our case, in terms of, well, of the net interest revenue.

I think the net interest revenue last year -- how much was the net interest income? EUR 2.4 billion? I can't remember the figure. So we may be EUR 2.049 billion. Well, it will be EUR 10 million or EUR 15 million below that maybe. And so it'll be more or less flat, just slightly below. And obviously this is the result that on the second half of the year we're going to have an Euribor rate that is lower, worse than expected, worse than the models we had when we spoke about net interest income being flat.

And then when we look for -- when we look towards 2020, we'll be able to give you more guidance when we finish creating our budget. It will depend obviously on the curve and on the interest rate. The Euribor 2 weeks ago, 3 weeks ago was at minus 0.40. The 1-year Euribor now is minus 0.28, 0.29. So this has certain sensitivities for us. But as we've said, and as you've said, we have a negative effect because we'll have an average interest rate lower next year. This year, the average Euribor will be minus 20 basis points, more or less. And next year, it will be at minus 30 basis points, more or less.

And that negative effect, what we have is levers to offset that. We'll have to see whether totally or partially through the tiering that we've mentioned, whether that would imply, which is EUR 37 million, also with the fact that we're being more demanding when increasing the amount of customers to which we give negative interest rates for their deposits. And outside the net interest revenue with fees and commissions, et cetera. So we'll have to look into the budget and we'll be able to give you greater guidance when we finished, finalize it.

Leopoldo Alvear Trenor - *Bankia S.A. - Deputy General Director of Financial Management*

(interpreted) And I think the other guidance that we had given, if you remember at the beginning of the year, was to have a core, so basically net interest income plus fees, minus OpEx, with a growth of 5% versus 2018. And that means that we'll have a core of EUR 1.3 billion. With expectation that we have for the fourth quarter, we think we'll be very close to that. Maybe there'll be a slight deviation, as Pepe said, of EUR 10 million, so less than 1% deviation versus the target that we were planning. But with the growth of the core result, that is probably between 4% and 5%.

José Sevilla Álvarez - *Bankia S.A. - CEO & Executive Director*

(interpreted) Regarding capital, disappointed to know what the market is saying. I mean it's quite complicated for me to follow the market, I'm sure for you too, to listen what the market tells us. But in fact, our commitment is with the generation of that EUR 2.5 billion and the destination of those EUR 2.5 billion is to distribute it to the shareholders. We've said that the board obviously wants to have a greater level of security on that amount because of, I don't know, one-off events, for instance, the IRPH could gradually be more clear. And so I think in general, everything is aligned, so that we think that in 2020, we'll be able to have capital distribution through buybacks or we'll have to see how. But I would not expect anything before the end of this financial year.

Operator

(interpreted) The next question comes from the line of Carlos Cobo from Societe Generale.

Carlos Cobo Catena - *Societe Generale Cross Asset Research - Equity Analyst*

(interpreted) Just a couple of questions, one on capital and one of trading income. I would like to understand the negative effects we've had on capital this quarter in order to kind of match the different items without going into detail. I calculate that there will be in the tune of impairment 8 positive for the reduction of the portfolio. The credit loss could explain about 12. And then maybe you have lost some retainers of 9. There's still 12 negative that needs to be accounted for in order to get us at 1 of 9, 10. So I would like to know if there have been any other one-offs or it's just the 4 of the unrealized gains could have been greater than I expected due to trading or whatever.

The other question I would like to understand is the trading income. What's the outlook that we can expect? Are you accelerating the recognition of capital gains for provisions this year? And next year, will they be more normal in terms of cost of risk on trading income? Or have you already done the provisions and will have an increase of provisions also next year? And is this the end of the unrealized gains? I would like to know how you're applying with the 2 levers in order to understand how this may evolve in the future.

José Sevilla Álvarez - *Bankia S.A. - CEO & Executive Director*

(interpreted) Would you like to say it? I can say it if you want.

Leopoldo Alvear Trenor - *Bankia S.A. - Deputy General Director of Financial Management*

(interpreted) Okay. I would like to go into detail in capital, but we have gone into detail. I think there are multiple impacts, as you've mentioned, one of them is obviously the performance of the underlying -- of the unrealized and the recognition of those unrealized in the P&L. So recognizing those unrealized brings -- has an impact on the tax liabilities. And that tax liabilities have an impact on the capital ratio because what we are discounting from the ratio is the net of tax assets. And so in this quarter, it's had a slight impact. Apart from that, we have the usual ones, the Tier 1 coupon, et cetera. But we haven't seen any other impacts that are extraordinary impacts or one-offs apart from the one I mentioned, the unrealized.

And in the case of trading income, basically what we are doing is trying to be opportunistic and trying to make the most of the market's evolution. In August, the rates had a negative performance. That meant that we had, had a positive effect on unrealized and we carried out some sales that have given us a trading income this quarter and that will give us trading income also in the 4Q. And this is helping us to accelerate the NPA reduction that we mentioned before whilst maintaining the coverage ratio stable.

In terms of a guidance for next year, it's very difficult to give you that right now. In fact, regarding the guidance that we gave this year, we're well ahead of it, the interest rate evolution where we're now planning. So until the end of the year, we will not have a clear idea on that.

And in terms of the cost of risk, well, the evolution this year is set by the acceleration of NPA reductions because we can fund it with the excess of trading income, in inverted commas, with what we have in -- of the net trading income of the budget. I guess for next year, we're looking at our targets for next year, there'll be just EUR 1 billion left of NPAs to reduce. So we shouldn't be able to have -- we shouldn't have to have a very important impact on the cost of risk.

Operator

(interpreted) The next question comes from Carlos Peixoto from Caixabank.

Carlos Peixoto - *Caixabank - Analyst*

(interpreted) Many of the things that I ask have already been answered, but I would like to focus regarding -- on fees and commissions. What I see for the core revenues, I think there'll be an increase on fees and commissions of about 1% for the total of the year. I would like to know if that is a trend that you can see, that 1%.

And also in fees and commissions, too, even though the stocks of assets under management are still increasing, really the fees related to assets under management seem to be under pressure. So do you think these results -- is there a lot of competitive pressure? Or are there some products that are not as profitable? Could you tell us about that?

And finally, the last question on risk. I would like to know if you have any figures, any guidance that could help us regarding the impact of an economic slowdown on your provisioning, especially bearing in mind the new provisioned regulations.

José Sevilla Álvarez - *Bankia S.A. - CEO & Executive Director*

(interpreted) Thank you very much. Well, apart fees and commissions, if you would like to add, Leo, just add any time. Yes, we think that this last quarter the fees and commissions will be higher. In the last quarter, we are in a powerful -- it's a strong quarter. So the accumulated of 9 months, which is now is at minus 0-point something, it is slightly negative or nearly flat will grow for the year. So the last quarter, there'll be a growth of fees and commissions versus the figures that we had. And we'll have a growth for the whole of the year.

You talked about mutual funds fees and commissions and they are growing less. Well, when we compare 9 months versus 9 months, you have to remember that the last quarter of last year was very bad in terms of mutual fund stock. There was a drop in the markets. And so the last quarter's isolated, stand-alone, the last quarter with effect of the market were reduced. And so then they started increasing and the reduction of the average volumes and the fees and commissions have to take that into account. That's one of the reasons why we expect that the fourth quarter of the year versus the fourth quarter of last year, we'll see a growth in terms of fees and commissions and also for mutual funds commissions.

It's also a true that the new interest on mutual funds, they're going to meet the funds with commissions and fees that are more updated, we could say. And marginal fee of the entry is lower than the average that we have for mutual funds. That's also true. Having said that, I think that the effect of the volume is more important. And we'll see a fourth quarter versus a fourth quarter from last year, that we'll see an important growth.

And then in terms of the cost of risk and the slowdown on the potential effect that that could have on provisions, the truth is that, obviously, it's difficult to give you an exact figure and exact number for this. What we are seeing on the one hand is that, well, we have not seen a deterioration on the credit quality, we've said that because it's true.

Also, we believe that the cost of risk and the quality of credit in general in the Spanish banks portfolio, so at least in Bankia's portfolio, is very much related to employment evolution. And employment, we believe, at the time of slowdown, we'll continue to see job creation this year. In 2019, Spain will have created over 400,000 jobs. And we believe that next year in -- at the time of slowdown, will be above 200,000 jobs being created in Spain. Whilst that is the environment, we think that the credit quality will continue to be positive.

Obviously, I cannot give you a specific figure. We do our stress test exercises very frequently and we'll update it at the beginning of next year with very negative scenarios, also bearing in mind the EBA criteria, and obviously, what we try to see the resistance of the capital with those stress tests. So I cannot give you a figure, but I what I believe is that in this scenario where we currently have of a slowdown of the Spanish economy, the credit quality is not worsening or it will not have an impact on our provisioning models.

Operator

(interpreted) Next question comes from the line of Andrea Filtri from Mediobanca.

Andrea Filtri - *Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst*

(interpreted) It has to do with net interest income. If you could please summarize for us what sort of funding tailwind from TLTRO in terms of funding costs do you foresee in the forthcoming quarters and for 2020?

And the next question is on capital return. You have reached 50% of the target capital for the plan -- Strategic Plan. So what additional hurdles do you foresee for whatever is left from TRIM, the adoption of new rules like calendar provisioning, stock? And could you move your target CET1 on which you calculate asset capital if the ECB was to reduce the threat? And do you expect this to have any impact on your provisioning?

José Sevilla Álvarez - *Bankia S.A. - CEO & Executive Director*

(interpreted) Well, thank you very much. Would you like to talk about net interest income?

Leopoldo Alvear Trenor - *Bankia S.A. - Deputy General Director of Financial Management*

(interpreted) Yes. In terms of funding, as we were saying, this year we've already done -- basically, we have met the funding plan that we had expected for the year. Obviously, if we see opportunities in the last quarter of the year, we may do some prefunding for next year. You know that all the funding that we're carrying out is related to MREL because, as we were saying before, we have an excess of liquidity.

In any case, all the issuances that we have carried out this year, we have been well below the budgetary hypothesis. To reach the MREL of 23.66% in June 2021, we still have EUR 3 billion to issue. And I was just looking at the maturities that we have over the next 2.5 years, and they are about

EUR 3.5 billion. And the cost of funding of these issuances, which is about 2% in average, will not be very different to -- we will have to issue for MREL or it may be a bit lower.

So I think that we may have some opportunities there. Even though it's also true that of the 3-point-something billion to mature in 2021. So maybe there'll be an impact in 2020, because in 2020, only EUR 500 million amortized. But in general, I don't think there should be a material impact. And if any, it should be positive at least with the current interest rates.

José Sevilla Álvarez - *Bankia S.A. - CEO & Executive Director*

(interpreted) In terms of capital. In fact, of the EUR 2.5 billion that we said at the presentation that we had generated, we have already generated over 50%. And here, the cruising speed of capital, we believe, is reasonably stable. We were saying not that long ago that the 18 first months of the plan, we had generated 100 basis points of capital. And we believe that 100 basis points speed, that would account for about 33 every 6 months is a cruising speed that we can maintain for the future. Obviously, that would mean doing 33 basis points in the second half of 2019, and we think we'll reach that. I think we've done about 16 and we'll do another 16 basis points in the second half of the year. And for 2020, we're seeing something similar to that.

There's so much more to say here, really. As I was saying before, the average asset quality of our credit is improving. The changes that we carried out, I mean credits that we have now, the quality is better than in the past, and that also has an effect. The same for ratings in the world of companies. I mean the underlying average quality of the stock is improving. We believe in the world of mortgages, the new mortgage a lot better captures that improvement of the mortgage portfolio, and we'll go to a model that is not just based on originations as the model that we had before.

And also you mentioned whether you can move the capital to time when the ECB, if the ECB reduce the capital requirements. The -- that [Petoir], the famous Petoir. Well, this is linked to the regulatory requirements. Obviously what we want to have is a buffer of the management base above the legal requirements. We think that 12% responds properly to that management buffer in terms of the capital. And obviously, if there is a decrease, then we'll -- may reconsider and we will maybe bring it down a little bit. I don't know if there's any additional questions or anything else.

Operator

(interpreted) Now we move to the questions from the English line. The next question is by Britta Schmidt.

Britta Schmidt - *Autonomous Research LLP - Non-Designated Member*

Two questions, please. One on the trading income expectations for Q4 and the impact on net interest income. This quarter, we've seen bonds have a negative EUR 8 million impact in your net interest income. Assuming that the trading income will be generated by more bond shares, should we assume something similar in Q4?

And the second question is related to the discussion on capital. Have you had any preliminary debate with regulators as to whether capital savings from the IRB models could potentially be distributed to shareholders and dividends or buybacks?

José Sevilla Álvarez - *Bankia S.A. - CEO & Executive Director*

(interpreted) I'll answer the first -- regarding the first question, we cannot give you a guidance, but I think the trading income will be lower than the third quarter, but it will still be positive. And I don't think it'll have a great impact on the quarter in terms of net interest income. As we say in the net interest income for the fourth quarter should be higher than what we obtained in the third quarter.

With regard to capital, the regulators and the IRB models, you know we like to separate these things. We -- having good models to manage our portfolios and to measure the implicit risk of those portfolios is very important. That's why we work to have model-based -- a behavioral model and that's why we are in line with the ECB. I think that's one area of the discussion.

The other area is the position that the regulatory body could have regarding capital excess. And the truth is that in this issue, I do see a position that is a bit different versus -- from the regulatory body, from the ECB in this case. Last week, we had Andrea with us, who was remembering that not long ago, they approved a buyback for an Austrian bank, if I'm not wrong. And he mentioned it as a slight change on the position of the ECB versus capital excess. And the discussion that we're having with Andrea had to do with that, with how -- we can give certainty on legal requirements around capital because it will be very important for the managing of the banks and for the capital policy of the management but also be very important for investors. And I do perceive somehow a change in the approach from the supervisory body, showing that the capital really needs certain capital policies, clarity in terms of capital and also that the capital policy is very important, and that's why the buyback was mentioned. But we'll have to see, I think this is a dialogue that we're having for the -- that we will have in 2020, but I am optimistic.

We have time for one last question. Please go ahead.

Operator

(interpreted) The next question comes from the line of Sofie Peterzens.

Sofie Caroline Elisabet Peterzens - *JP Morgan Chase & Co, Research Division - Analyst*

Here is Sofie from JP Morgan. Just a follow-up on the capital question. Have you -- have any of you spoken to each of the ECB -- have they kind of given you the green light that you can pay over 100% of your profit to shareholders? Because some other European banks have issues staying above 100%. That would be my first question.

My second question would be if you could just focus around your views on potential M&A, what opportunities do you see inside and outside of Spain? And is this something that you're looking at?

And very quickly, could you also give a comment on your view on your negative -- introducing negative deposit rates? Is this something that you are considering?

Leopoldo Alvear Trenor - *Bankia S.A. - Deputy General Director of Financial Management*

(interpreted) Thank you. Regarding the first question, as Pepe was saying before, we haven't established, we haven't set that kind of communication with ECB in terms of percentage of payout. What we want is to be clear about the capital position so that we can demonstrate that we can feel comfortable with the capital that we have and that the capital excess can be used and can be returned in whatever mean we consider reasonable. And that's why I was saying even though we've had no debate direct discussion on our situation, I do believe that the fact that the ECB has approved operations of share buybacks. Somehow it goes along those lines of separating the generation of ordinary dividend and extraordinary payout of capital. And I think that, therefore, there has been a change of approach in the ECB.

In terms of M&A opportunities, well, the truth is that there are always a lot of press releases talking about different mergers with national players, maybe with some nonnational players, a recent one that popped up. The truth is that currently we are in no conversations with anyone in terms of M&A. In fact, we said that last year, what we have done is an integration. The integration that we carried out just over 12 months ago with BMN is one of the few operations of consolidation that have been carried out with net -- with -- bear in mind the interest rates that we have. And our objective was to have cost synergies to make the most of the customer base. And that's why we had a 3-year plan. And in those 3 years, our objective was the excess capital, to use that excess capital to return it to shareholders and we were not thinking of carrying out any of that M&A operations. And we still think the same. We still think the same that we did 18 months ago.

And in terms of negative deposit rates, we have done that. We had charged negative rates to corporates, to big companies, to multinational companies, to those companies that were more closely related to the financial world, companies -- asset management companies, insurance companies. And where we will start doing, we've started 1, 2 months ago, is also to start charging negative deposit rates in excess capital for companies in general. So those companies that have little loyalty with us in terms of credit to whom we are charging negative deposit rates. And we believe that this is also a response that -- and the facility of discount has gone down by 10 basis points.

Iñigo Velázquez - *Bankia S.A. - Head of IR & Rating*

(interpreted) Well, thank you, Pepe. Thank you, Leo. Thank you all very much. Thank you to everyone who was -- who attended the presentation of results. The IR team is available to answer any questions that was -- were not answered during the Q& A. And you can also -- we'll have, in January, a presentation of the last quarter's results. Thank you very much.

Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.