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PRESENTATION

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

Good morning and welcome to the presentation of results of the quarter of Bankia.

As always, José Sevilla, our CEO; and our CFO, Leopoldo Alvear, will present the results of the quarter. And then we will move on to the Q&A session with all the analysts. Thank you very much.

Pepe, I give you the floor.

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

Well, thank you very much. And good morning to everyone. Welcome to the presentation of results of the last quarter of 2020, which if nothing changes will be the last presentation of results and last individual presentation of results by Bankia.

And in this context, even if only for a brief minute, I would like to just go over the last few years. Since the restructuring process in Bankia took place in May 2012, many of you have been with us throughout the whole process. And you probably remember how at the beginning we had initial stage between 2012 and 2015 focused on the restructuring plan and the development of a common culture, a restructuring that in 2013 led us to close 1 out of every 3 branches. And there was a staff reduction of 1 out of every 4 employees at the time. After 2016, we went into a stage more focused on positioning and on customers, changing the commercial strategies and having a different approach to our customers. And the truth is that it was a stage of growth, an increase on the number of customers. And from 2018 and with the integration of BMN, we launched a new strategic plan, a 3-year strategic plan, and I would like to just briefly mention some of the milestones.

The strategic plan 2018, 2020 basically that we just finished this last quarter of last year was very much conditioned by the economic environment, the macroeconomic environment, with a reduction of the GDP very much due also to year 2020, so very different to what we had expected at the time; and also with a labor market that in 2018, 2019 was positive, even better than what we had expected. Obviously, in 2020, it had a negative effect. And as well as this economic environment conditioned by the pandemic of 2020 and the last quarter and the last year, the three of them, I would also like to talk about the interest rates and with the Euribor 12 months that is the key interest rate for our income statement and went into negative areas in 2016, at the beginning of 2016. It seemed that it was going to have a limited time. However, it was -- well, at the beginning of '18, we thought we were going to go back to positive interest rates at Euribor 12 month. However, this has become a structural phenomenon. The net -- we have structural negative interest rates. They're here to stay. And obviously the condition are net interest income and also our strategic overview of the company.

In this context, if you remember, obviously the main -- the key objectives that we had in this strategic plan. First of all, we wanted to integrate BMN. BMN's merger from an technological perspective was done in better times. In less than 3 months, we were able to carry out the IT and system integration, which was a very successful integration from a point of view of systems but also from the point of view of cultural and staff. The objective of this merger was also to capture the synergies. And those synergies, as we said at the time and as you probably remember, we surpassed them at the time. And also, during 2019 and 2020, the cost performance has meant that we have also improved our OpEx targets.

Another important axis of the strategic plan was the commercial relaunch. We had, on the one hand, the growth in companies, loans to SMEs and corporates; and also high-added-value products that had a clear impact on the fees performance. If you look at the corporates and SMEs, we had a target of 7.7%. However, we've reached a higher figure above 8%. In terms of mutual funds, we've also gained market share quarter by quarter over the 3 years of the strategic plan, and as you can see, we have gone over 110 basis points in mutual funds. And the other key element was the growth in terms of payment methods, and here we look at the cards turnover on the right. And obviously we included everything that had to do with point-of-sale terminals and the stores, and in this case you've seen how we've grown in market share in terms of cards turnover. There are -- there were other elements such as consumer loan growth, where we've also gained market share over the last 3 years, but this has been conditioned by a lower growth of market share or some loss of market share in 2020 but, as we said before, to a certain extent, very much linked to the evolution of the macroeconomic environment.

And here we can see the top part of the income statement, the core result, as we call it. And here we can see that, when we had a net interest income target of EUR 2.9 billion, we are at EUR 1.9 billion. And you know that this is due to the difference in the interest rates environment, versus the positive Euribor that we expected, to a reality of minus 0.50%. And when we look at the mortgage portfolio, the mortgage book, clearly this explains nearly this EUR 1 billion difference in terms of net interest income. In terms of fees, we'll see it later, but we see that we have met the target of growing by EUR 200 million as per the strategic plan. And we've also, as I said before, overpast our plan.

Another important asset -- axis was asset quality. We wanted to reduce NPAs. We wanted to reduce NPLs in the balance sheet. And here we can see that we've reached that objective of reducing over 50% the gross NPAs in our balance sheet. And despite the evolution of 2020 and despite the pandemic, we have still been able to be positioned better than we -- than the goal we have set ourselves. In terms of NPL coverage, it's also high. And the other key objective that we have set ourself, which was to reach an NPAs -- a net NPAs ratio of below 3%, we've also achieved that, closer than what we had expected, I have to say, due to 2020, but it's true that we are below 3% in terms of net NPAs.

And the other key element that we had set ourselves was capital generation, generation of excess capital over 12%. And you remember we defined that excess capital as the dividends that we paid according to strategic plan plus that excess capital that we had above 12%. So the target that we had set was to generate EUR 2.5 billion of excess capital. And as you can see, at the end, this figure has been over EUR 2.9 billion. And so we consider that this goal has also been met.

And if we go quickly into 2020 and if we look at the key elements of the year. From a business perspective, I would like to highlight corporate and SMEs loans. You've seen they've grown by 17%, with a market share gain of 37 basis points, 8.11%, as you can see there. And also, our granting of ICO-guaranteed loans, our allocation versus the initial allocation that we had [according] to the state, which was 7.1%: The one that we have actually granted, the amount of loans that we have given and our market share has actually been 9.4% instead of that 7.1%.

A year that, despite the economic environment, was very positive in terms of net new mortgage lending. So if we look at new mortgages, we've managed to increase turnover by 14%. And we have mentioned this before, the performance of the mortgage sector, residential mortgage sector. The truth is that it's been better for the whole of the system than what we had expected when the pandemic started. And in this context, and you can see at the bottom, we've won new mortgage market share. We had -- we've gone from 6.8% till about 7.8%, and so we have accelerated the new mortgage portfolio. And therefore, you can see then, in the fourth quarter, we've been very strong. It has been the record quarter in terms of granting of mortgages and over the 3 years of the strategic plan, surpassing the EUR 1 billion of turnover. So therefore, we are very happy with the performance of Bankia's mortgage lending and what we have achieved this year.

In terms of consumer loans and consumer finance, here you can see that they have been reduced by 50%. At the right, you can see the amount of granting of new consumer loans quarter-on-quarter. And you can see how they dropped significantly between March, April and May, but they have recovered subsequently. And the last quarter once again has been the highest of the whole financial year, but it's true that we are still levels of about 50% below what we had before the pandemic.

We mentioned it at the time. When we -- when the pandemic came, one of the measures we took was to change our policies on consumer finance because we thought that one of the segments that could have higher risk in this context was in fact consumer finance. And so we have followed quite a restrictive or conservative policy in an uncertain context of revenue generation by our customers. And we've also mentioned this before: One thing is consumer finance; and something else is consumer itself, basically families' expenditure. One way of seeing the households expenditure is through the use of cards, debit cards and credit cards together. And you can see this on the right. And in this graph, and we've seen -- shown this quarter-on-quarter, you can see how after the pandemic the turnover -- or the amount of purchases done via card from individuals in Spain went into negative rates. However, after June, we started seeing a recovery. And as you can see, the last quarter, there's been a slight slowdown in the growth of the use of cards by families. It's also due to the evolution of the pandemic after the summer months. Having said that, we can see that, month-on-month, Bankia's cards and Bankia's customers have had -- and expenditure pro forma has been better than the average of the sector. And as you can see on the bottom left, we have increased our market share in terms of cards turnover. As I said before, payment services have been one of the key strategic segments that we have followed over the last few years.

The other, which is mutual funds that I've mentioned before. Here you can see the performance throughout the year. So you can see the mutual funds have grown by just above 7%, as you can see on the graph on the left. And the new inflows, the net inflows of mutual funds that we have generated over the year, you can see it on the right top, per quarter, also the first quarter affected by the market. Clearly, I think customers had a more conservative attitude in terms of mutual funds, but it has grown quarter-by-quarter to reach EUR 1.3 billion, but then if we only look at the Spanish domestic agencies, we can see that more or less is the same of the net inflows of Spanish agencies as a whole. So as you can see, the bottom, the mutual funds market share has grown by 46 basis points during 2020.

Pension plans. They've also had a more modest performance but also with positive growth of nearly 2%. And I would also like to highlight on the right the insurance new production. So here you can see a graph on a basis of 100. If we put everything in base 100 and we look at the average of the quarters as we've also shown in some previous presentation, there was an important slower -- slowdown of insurance new production after the pandemic, but this recovered in the third quarter. And look at the fourth quarter, and we are back to be 19% above the quarterly average of 2019. And if we compare the last quarter of 2020 with 2019, which was also higher, you can see that the growth is 6.5% quarter-on-quarter. So you can see that this is an important message because we are back -- or we have only surpassed the [processing speed] that we had in the previous year.

The digitalization process of our customer as well. It continues to grow, as you can see here. This has also been promoted by the pandemic due -- in 2020. You can see both in the number of digital customers. Those that actively use our digital channels have grown by over 7 percentage points throughout the year. And digital sales have also increased considerably. In terms of asset quality, we've already spoken about this, the NPAs performance. Well, they closed the year at EUR 8.3 billion, slightly below how we started in this financial year. With coverage of NPAs, that has also grown from 48.7% to 51.7%, 300 basis points. And NPA ratio net, they're slightly below 3%, as we said before.

During the year, we have carried out extraordinary provisions linked to COVID that aimed to anticipate future provisions that may be needed due to the pandemic evolution -- or the evolution of the pandemic. And the main headlines, we could say, are here. And if we look at the bottom part of the income statement, we see the total provisions of EUR 1 billion: EUR 500 million due to ordinary provisions and another EUR 500 million down to extraordinary COVID-19 provisions. So multiplying by 2 the level of net provisions in our income statement.

Another good news this quarter has been the evolution of the core result. You know that core result is net interest income plus fees, minus OpEx. And in this sense, you can see the year-on-year performance. We spoke about having a core level or reaching a core -- a flat core result in the year despite the context, and as you can see, it's even grown by nearly 4% year-on-year with a quarterly performance that has been very positive, with a core result in the last quarter of EUR 378 million. And this has been the quarter of the whole strategic plan that has had the highest result in terms of core results. And on the right, you can see the year-on-year performance of the net interest income, fees and OpEx that explain that core result of 4% growth.

As for the profit, you can see here it's been EUR 230 million, very much conditioned by provisions, the EUR 500 million extraordinary provisions for COVID that we mentioned before. If we look at the profit before tax, the profit before tax excluding those extraordinary provisions of EUR 505 million, the performance would have been a growth of 8% to EUR 816 million versus EUR 756 million of the previous year. And to summarize: The performance of this PBT would be mainly explained due to the growth on the core result that we saw before by EUR 49 million. And the other effects are higher provisions, extraordinary, net, et cetera. As a whole, others would have a contribution nearly flat, only EUR 11 million, to the profit and loss account.

And finally, the capital ratio. Here you can see the capital ratio, the CET1 fully loaded, that closes the year at 15.48% with growth, as you can see here, of 246 basis points. We'll talk later about the fourth quarter, but as a whole in the year, we've generated 72 bps of organic capital generation. And on top of that, we've had some effects, regulatory effects, that you know very well. We've applied the quick fix in terms of software in the last quarter. That has meant a higher capital ratio of 28 basis points. Also the behavioral model of Bankia, 129 bps; and other impacts, regulatory impacts, that you have here, so with -- accounting for 17 bps. So we're very happy with the evolution. It's gone better than expected this year.

And finally, just to finish this first part, I would like to remind you what we know. We are now in the merger process with CaixaBank, and we are following the calendar as announced. The AGMs have approved this merger in December. And we expect to have a legal closing of the merger in the first quarter of 2021, some point in March, in fact. And the IT integration, the technological integration should be concluded before the end of the year.

Leo, I give you the floor.

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

Thank you very much, Pepe. Good morning, everyone.

Let's start by looking at the income statement and the main ratios. Let's look at the annual evolution.

We are very happy of having beat the 3 guidance elements that we had given the market. If you remember, our vision for the year 2020 was to try and have a core result, so net interest incomes plus fees, minus OpEx, that was flat versus 2019. We wanted to repeat the figures of 2019. And the truth is that, thanks to the good performance of fees that have grown by 12% -- remember that our guidance for the year was to try and get to double-digit growth, and so we have been able to surpass that. Expenses are at 2% less than the previous year, in line with what we expected. And the net interest income has gone down by 5.9% but probably less than what we expected. So that means that our core result has grown by 3.8%, as Pepe mentioned, which is much higher than the 0%, the flat result, that we were expecting.

If we take out the other great impact of our income statement for 2020, which are obviously the extraordinary COVID-19 provisions which were EUR 500 million that we had to provision throughout the 4 quarters -- before we reach these provisions, remember that the profit before tax excluded this provision, and that -- also higher by 8% than 2019. So the total provisions that we have given are around EUR 1 billion, as we -- Pepe mentioned. And so we reached an attributable profit to the group of EUR 230 million.

If we look at the quarterly results instead of the annual results. The truth is that we believe that this has been a good quarter, thanks to the very good commercial activity that Pepe mentioned before. We can see that in the main lines. We can see important increases. We even see a better performance in net interest income despite the interest rates. And fees, we've had a really good quarter of EUR 333 million. Remember our flat -- our target was to be at EUR 300 million. So this has been a quarter that we are very happy about. And if we look at the gross income bearing in mind that we had that extra guaranteed fund, if we had left outside that extraordinary income, we would continue to grow. In terms of OpEx, the second half of the year was very similar to the first half, as we expected. And in terms of provisions, despite the good performance of the asset quality, we've continued to add provisions to the quarter, making the most of some positive extraordinary results that we had.

And so all in all, we've had a fourth quarter that has given us EUR 50 million in profit attributable to the group, after tax.

If now we look at net interest income. The truth is that the trend has been positive throughout the year. Every quarter has been better than the previous one. And we've been able to keep a ratio very stable around 1.55%, this when the Euribor performed worse than expected. Remember that the 12-month Euribor in April was at minus 5 basis points. Now it's minus 50 basis points, and that is a key reason that means that we have a net interest income that decreases versus 2019. So the main variation is due to the Euribor curve; and the production mix due to the reduction, the voluntary reduction, that we did in terms of a reduction on consumer finance, as Pepe explained before.

In terms of fees, as we said before, we're very happy. We've grown by 12.2% in fees. Quarter-on-quarter, we've managed to beat the fees that we had done in 2019. And we had set ourselves a figure of EUR 300 million per quarter, EUR 100 million per month. And we've consolidated that. This -- in this quarter, it's been EUR 333 million. In the fourth quarter, there's always some fees that are more seasonal. And in this quarter, for instance, we've had the mutual fund success fees that have been included here. Even excluding, however, that seasonal fee, if we compare it to other quarters, we believe that the quarter has been very good in this item.

With regards to operating expenses. We gave a guidance in June. We expected the second half of the year to be more -- very similar to the first half of the year, and the truth is that we've more or less had the same figures. So that means for the total of the year we have been able -- due to the control of expenses that we've executed year-on-year, we've managed to reduce this figure by 2% versus the figures that we had in 2019. And this means that we are able to maintain the competitive advantage that we measure in terms of operating expenses over RWAs, and we fare better than our peers.

Here we have the core result just quickly. As Pepe said, the good news is that, versus the estimate that we have of having a flat core versus 2019, we've been able to grow by 3.8% mainly due to the good performance of fees and OpEx and to the less-than-expected fall on the NIIs.

And here, on the left, in terms of the ordinary cost of risk, you can see the effort. We've had EUR 1 billion of provisions. More than half, EUR 505 million, are extraordinary provisions due to the current context, basically COVID. And on the right, you can see the semester evolution. We also said in June that we expected that both semesters would be quite similar in terms of fees, one that was more marked by extraordinary provisions due to COVID; and a second quarter -- second semester, sorry, that has been -- where we have seen more recurrent provisions. We've done more than in the first half of the year. And when we look, for instance, at extraordinary provisions, we can see that in the first semester we had EUR 503 million; in the second, EUR 578 million, mainly also due to the extraordinary provisions that you can see in the line of total ordinary provisions and others. And it also has to do with the sale that we announced at the beginning of the year and that took place in the fourth quarter. With all of this, we've managed to be within the guidance that we gave in terms of cost of risk which was 80 basis points. We have 77 basis points. On the cost of risk for all NPAs, we wanted to be around 19 basis points, and we finished the year at 86 basis points.

If we look now asset quality. Well, I think in the current context we've had a very good performance of the key asset quality ratios. We've managed to decrease them by EUR 300 million, including our NPL coverage up to 58.2% and reducing the NPL ratio to 4.7%. And as we've shown before, we can -- we don't see a huge growth of NPL inflow. At the bottom right, you can see the gross NPL inflow which is very similar to we had in any of the financial year just as 2019, i.e., and substantially lower than what we had in 2018. I think this demonstrates that the levers that were set at our disposal in terms of guarantees, for ICO guarantees, and in terms of moratoriums, in fact, have worked and have had a good effect.

And if we look at NPAs quickly. As Pepe mentioned, we've been able to also reduce the total ratio of NPAs. We have increased the NPA gross coverage by 3 percentage points. And we've also managed to get the NPA ratio net below the 3% that we had set ourself as a target in the strategic plan.

And I'd also like to talk about the evolution of the 2 main portfolios or books that have had an impact in this context, in the context of COVID: first, the portfolio coming from corporates, where the ICO guarantees have been very important. As we've said throughout the year, we wanted to be very active in the granting and transference of all these flows so they got to the real economy. We started with a share of about 7%, and in the end of quarter and due to the good performance, finally it has been higher. And this means it's been a share of 9.06% with a quota of EUR 8.4 billion, which we have given total guarantees of EUR 8.1 billion, divided into 2 tranches, tranche A where we had the SMEs and self-employed that is translated into the figures that we can see here, EUR 6.7 billion of ICO amount granted. And the tranche B of large corporates, it's -- it accounts to EUR 4.2 billion. So in fact, we've given ICO guarantees for a total of EUR 11 billion.

So if we look at the figures that we had, this, well, EUR 10.8 billion, nearly EUR 11 billion, would account for 26% of the total book for corporate. And then we thought it was also very important to tell you that, when we exclude corporate banking that obviously has had less ICO guarantees due to a lower need, the ICO guarantees that we have granted account for 40% of the total of the corporate portfolio excluding corporate banking.

The other lever that we had this year has focused on retail business and mainly mortgages and consumer finance. As we have shown you in other quarters, here you can see the performance of outstanding transactions. Obviously, there are many mortgages that came in, in October. The current ones that we have are 4 -- or EUR 4.261 billion, and that accounts for 7% of Bankia's total performing mortgage book. In terms of consumer finance, and what we saw in the previous quarter was a decrease, that has accelerated this quarter because, if you remember, the mortgages moratorium was 12 months, whereas consumer finance was also 6 months. So here we've also seen an important amortization on the portfolio that we had granted. And we can see here a total of EUR 79 million. That only accounts for 2%. What we have seen is that the nonperforming ratios are very low, in fact. In this -- over the quarters, we've seen that it doesn't even reach 8%. So really it has worked, and we can see that there are no many -- not many changes in terms of net inflows.

If we go to liquidity and solvency quickly. The ratios that we presented are quite solid, with positive evolution. We have loan-to-deposit ratio that is 91.3%, below 100%; very high, the regulatory liquidity ratios in terms of LCR but also NSFR. We haven't moved our position. It's quite flat, is with the same amount for TLTRO. And we have liquid assets that are much greater than the wholesale.

And in terms of the MREL ratio phase-in, which is nearly 23 -- nearly 26%. So on December 2020, we've covered the requirement that had -- that will be compulsory from 2024 onwards. And in terms of regulatory buffers, we've also CET1. We've also got a phase-in of 17.35%. That means that we have a buffer of over EUR 6 billion or nearly 9 percentage points over the requirement of 8.38%.

And if we look at solvency. It's been very positive. We can see how we've got -- we've gained 69 basis points, to reach CET1 fully loaded of 15.48%. This has been also affected by the software, the quick fix of the software, that had an effect of 28 basis points; and also the organic generation of capital that has given us 41 basis points of greater capital. If we increase the quick fix of IFRS 9 this -- to this 15.48%, we have to add 69 basis points and we get to 16.17%.

Another important figure that we think is important to tell you is that, according to the expectations that we currently have, the CET1 fully loaded without IFRS 9, that would be equivalent to 15.8 -- 15.48%, at the maturity of the first quarter of 2021 should be higher than 60 basis points in terms of RWAs of Bankia, higher than what we expected and higher than what we said, we presented the operation with Bankia. If we translate then 60 basis points to the RWAs of the combined entity, we can tell you that currently our forecast is that the ratio that we presented to the operation in the first quarter of '21 should be higher by 15 basis points for the combined entity, as we mentioned. So this, I believe, is also very good news for the transaction.

And with this, Pepe, I give you the floor again.

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

Well, thank you very much.

Just some brief conclusions because we are running out of time probably due to my -- it's my fault.

So in a complex year -- you know that -- 2020 has been a complex year but for us has been a year that's gone from worst to better. With an improvement in the dynamics in retail, in the retail business, it has been an excellent year for SMEs and corporates. And that has translated into an acceleration, as we said before, of the core result that has ended with a result that has been very positive. And we are specific -- especially satisfied about it with a good asset quality, with a capital generation that has been better than expected. And all of this means that, well, the core result and the greater capital generation means that we go into the merger with CaixaBank with a better starting point than what we said when we announced the operation. I would also like to highlight that this performance of the last quarter, I think, has been very important and very important because, when we announce a merger in any -- by any entity, obviously there is uncertainty in the teams. And I think Bankia's team this last quarter has shown great maturity by carrying out a record quarter in many of the items of our commercial activity despite the announcement of this merger. And I think that we need to recognize our teams, and I wanted to say it here before all of you. I think we have to congratulate our team.

And that is all. We can go to the questions.

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

Well, operator, we're going to start with the questions. (Operator Instructions)

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from the line of Francisco Riquel from Alantra Equities.

Francisco Riquel - *Alantra Equities Sociedad de Valores, S.A., Research Division - Head of Research*

Just 2 questions. First, about the growth of credit, if you could share with us your growth expectations for the year in general; and more specifically, if you hope to meet the lending benchmark of TLTRO for consumer finance and corporate; and how you're going to reach those figures. And then the second question is about the yield of credit that has had a positive impact. It has increased by 3 basis points when interest rates are lower, so could you give us more nuances on this loan yield? And then how sustainable is this loan yield? The [Euribor care] thinks that this is probably going to be negative by 20 basis points this year. So I don't know if you can update the effect that we could expect due to lower interest rates, outlook on the year and levers to offset any impacts.

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

Well, thank you very much, Paco. Well, you spoke about the performance of credit for next year. And also, well, that includes the net interest income. Well, unfortunately, we won't be able to give you much guidance for Bankia for 2021 because obviously the loan evolution will depend on the commercial policies applied by the new combined entity. This obviously will affect the performance of the net interest income, OpEx; will also be affected by the new integration structure; fees; provisions; et cetera. So we cannot give guidance on Bankia standalone for 2021 because it makes -- we don't think it makes much sense. I think that, when the legal closing takes place, and we expect it to take place, as we said before, in March, we will be able to use this legal closing to give an overview of the new combined entity. Having said that, loan credit -- well, credit growth, you linked it to lending, and I think that's more or less right. I -- we're doing well there, right, Leo?

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

Yes. We do not expect to see any problems. We are going quite long in terms of TLTRO II. And in terms of TLTRO III, we have quite a good buffer too, so we don't expect to have any problems at all.

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

With regard to the credit yield, loan yield, in the last quarter, it's true that it has improved versus the third quarter. We do not have many extraordinary things to mention then, but there is some seasonality. We could say, the third quarter, the revenues from NPLs was quite low. And that happens obviously in every third quarter, but it happened even more in this third quarter. And there was some recovery or growth in the interest, recovery from NPLs in the fourth quarter. And this maybe affects a little bit the comparison between both quarters. That would have been more flat if we were to distribute the effect amongst the 2 quarters, but there was nothing special about it. We ask, for the future, how sustainable is this loan yield? Obviously the loan yield of our book will be affected by the Euribor performance. I don't know if we want to say anything else about this.

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

Unfortunately, I think this is one of the few figures that we'll be able -- few data that we can share with you because this is very mathematical. If we look at the curve, expected curve for the year 2021, which is quite flat, as you all know, and that is a level very similar to what we are suffering -- I was going to say having, but we are suffering. So if we apply that to our mortgage portfolio and to the [repricing timings], it will have a negative impact of just below EUR 70 million.

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

Okay, well, thank you very much.

Operator

Okay, the next question is from the line of Alvaro Serrano from Morgan Stanley.

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

I wanted to ask a question following on what Paco was saying and then another on risk. In terms of corporate loan demand, I don't know if you can talk about the fourth quarter. Because if we look at -- I think you've talked about year-on-year, but I haven't seen the comparison, the -- on the quarter and how the new inflows of corporate loan was performing. And also, as a whole, I guess you don't want to give guidance. I understand, but to what extent do you think the ICO guarantees have had an impact on demand? Or could that lead to a greater corporate loan demand in the future? And your risk indicators: NPA has gone down. It's flat, more or less, but I don't know if you can share with us whether there will be any other anticipated indicator in terms of the use of credit lines or how you see the [cash] of your corporate customers. Anything that you can share with us that can give us confidence about the quality of the risk and whether we can see quick formalization of provisions quickly?

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

Well, thank you, Alvaro. Corporate loan demand, I guess, I mean, corporates and SMEs in general and how ICO has affected the demand, the ICO guarantees, well, I think there are several ideas here. Clearly there has been an anticipation of loan demand due to the ICO guarantees. In fact, in Spain -- if we compare it to the European context, Spain has been one of the most dynamic countries where there has been more demand and granting of ICO state-funded guarantees. It's true that part of this credit growth is still embedded in deposits, in liquidity; and so it has not been used. And I'm sure that will condition the demand or the demand performance for corporates and SMEs in 2021. Obviously it will depend on the sector, as you can probably understand. It's not the same, the world of tourism or the world of food. Having said that, I think, in terms of loan demand in 2021, it's going to be very much affected by the next-generation funds and to what extent those funds that are going to be promoted. I mean, yesterday, the government announced the digitization plans for this coming year. And I think that this could lead to reactivation of the business sector and a greater loan demand, but in terms the loan growth that we have seen in 2020, it can probably not be repeated in 2021.

And with regard to the NPLs and corporate NPLs, well, we can tell you what we've done in terms of our analysis of our portfolio. In terms of corporate and SMEs portfolio in the last part of the year, we've been working on this. And I will separate different worlds, the world of NPLs. The ones that were already nonperforming in March, remember that those are still being followed up because we -- the loans could only be used for companies that were not nonperforming. So there were some companies before then, before the ICO guarantees, that have their own evolution. It's their own world. There are some other companies that have been given ICO guarantees and would be a set of companies that have greater vulnerability or that could be more affected by the COVID-19. And then there are other, another segment, a third world, that were not so heavily affected. And their equity hasn't been affected, so they didn't ask for any ICO guarantee. In this pocket of companies that have requested ICO guarantees, we can see that the part guaranteed by ICO, so EUR 8.1 billion, we've given -- well, the loans given have been just above EUR 10 billion, but we've done a greater analysis looking into the prior debt that those companies had with us. And that leads to that EUR 8 billion. That leads, that EUR 8 billion, to -- takes it to about EUR 16 billion, that obviously including ICO loans plus all the loans that they previously had. So we've done an analysis based on vulnerability criteria and financial criteria, looking at the financial position of those companies. And you can see it in the annexes of the presentation. And we have EUR 4.2 billion of that portfolio of EUR 16 billion that are under specific surveillance in what we call stage 2. And that specific portfolio book is the one that needs to be followed up. We are on it and we'll continue to see the performance, but it's already been classified as stage 2. It accounts for about 25% of the larger pocket of companies that have asked for loans. And we think that, therefore, we are anticipating the requirements of the supervisor to try and anticipate potential accountancy impacts. So we'll have to see how these companies evolve in 2021. And that evolution will depend on different factors, vaccination and implementation of the Spanish restructuring and resilience plan, et cetera.

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

Well, thank you very much.

Operator

The next question is by Ignacio Ulargui from Exane.

Ignacio Ulargui - *Exane BNP Paribas, Research Division - Analyst*

I have 2 questions. 1 related to capital, if you could please break down the 41 basis points of organic generation of capital. And secondly, to confirm whether the BMN models or the BMN -- or the migration of the mortgages in March had affected. And then the fees. The assets under management fees is included, but are there any other one-offs? Or will this be recurrent for 2021, this growth in fees?

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

Well, thank you very much for your questions. I'll start with the last one. Okay, so in terms of what we said before, the EUR 333 million fees over the last quarter as well as the fees related with the success of mutual funds -- which are not extraordinary. I will say they are just seasonal. Apart from those mutual funds fees, there's no any other one-off. What there is, is certain seasonality. As I said, in the last quarter, in terms of fees, it tends to be higher. We've grown significantly in everything that has to do with the generation of loan asset operations, but there is no one-off. The truth is that we are very happy with the performance. Last quarter, I said that we were unhappy to be just below those EUR 300 million, as we have set ourselves, per quarter. And now I'm saying that we are very happy because the fees generation has been better than expected. And so this shows that there is a new starting speed, we could say, for fees in 2021 that will be very positive.

With regard to the BMN models. Regarding the approval by the supervisor of the advanced capital model for mortgage -- for the mortgage book that comes from BMN, we are still in discussions with the supervisor. The approach that the supervisor has given us lately, and this is something that is not closed yet, is that in general any approval of pending models in Bankia -- we have this one, but we also had, pending the approval of the large companies, large corporations model, BMN reduced RWAs, but for large companies, they required greater risk-weight assets when looking at 2021. And all of these elements, when they migrate it to CaixaBank, they will be a -- put at the time of the migration. So this estimate of 60 basis points that we mentioned before, above what we said, it's not included. That does not mean that we will not capture those effects. Those effects will be captured slightly delayed in time as the models are migrated after the technological integration to the CaixaBank models. And then the organic generation of capital.

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

Yes. For the fourth quarter, the 41 basis points maybe, I think 10 basis points come from the numerator due to the fact that we had a better result than expected. And the rest, above 30 basis points, just above, is due to the denominator. And the denominator, well, we have 3 impacts. First, finally, all the add-ons of the famous market risk model were removed. We had been dragging it for 2 or 3 years. And this is a reduction of [400] RWAs. Then the operational risk, this is mathematical, calculated in December based on the results, if the results are lower than the previous year, then -- well, this is an average of 3 years, so in this case this is reduced by EUR 200 million. And the other, the rest, is just the normal performance of the portfolio reduction due to the recalibration of models, due to better ratings of the companies, et cetera, et cetera. So there hasn't been anything extraordinary there. I would just like to highlight what Pepe said, that in the 15 basis points, additional basis points, that we are thinking we could incorporate into the combined entity, so translating these 60 basis points in terms of RWA of CaixaBank plus Bankia, they have not been in -- we haven't included the impacts of the models that Pepe mentioned before. So we could say that those 15 basis points, additional basis points, are basically due to organic generation of capital additionally to what we had forecasted when we gave the guidance in September.

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

Thank you very much.

Operator

Next question is by Marta Sánchez from Bank of America.

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

How do you see the size of the mortgage market in Spain in 2021? Do you think we can extrapolate this impact we saw in 2020? And do you think the new production prices will continue to go down? And then what are the capital gains in the amortized bond portfolio at the closing of the year today? And how they were when you announced the merger with Caixa. And if you could give us more nuances on the stage loans, which has been over 3 million -- EUR 3 billion, sorry. And we haven't seen anything similar in other banks.

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

Well, I'll talk about the mortgage then stage 2. Okay, mortgage segment for 2021. Well, 2020 was better than expected. The aggregated of the sector for the whole of Spain, the turnover year-on-year is falling by 1.2%. I think, at the closing of December, we'll be in a flat turnover 2020 versus 2019. In our case, we've seen a growth of 14%. And this has surprised us favorably because we expected for the system but also for us a performance that was going to be more negative in terms of new mortgages due to the pandemic. I think what we are seeing is, on the one hand, an increase on the savings rates of households. Income is remaining more stable. Thank you to the temporary layoffs and the government's plans guaranteeing income to the employees. And therefore, what we have seen and given that consumer has gone down, it means that the savings has gone up. If we look at the stability of this, in some cases this is leading to greater mortgage demand, to an improvement in homes. And I think the pandemic and the lockdown also generated certain dynamics that led to changing homes. And how sustainable is this for 2021? I don't know. What I can tell you is that we had a 2020 estimate that was worse, and it's been better. And we think that in 2021, the mortgage segment, we don't expect huge growth, but I wouldn't expect huge drops either. I think it will be quite stable.

As for the mortgage prices, it's true that there is pressure, competitive pressure, yes, especially in an environment of fixed interest rates that are linked to the curve and that have obviously dropped. There has also been a competitive pressure in 2020, as I said, but I think that long part of the bond curve will explain to a greater extent the price of mortgages. Competition will continue to be where it is, but I don't see great changes in one direction or the other.

And about stage 2, and we mentioned this before. The increase of the growth of loans in stage 2 responds to the policy that we've implemented, which was to review and analyze in the last quarter all the ICO guarantee portfolio as a whole. And what we thought was appropriate. And following on the recommendations from the supervisor, we decided to identify as a prevention a part of that portfolio as stage 2, but they're all paying. There is no default currently at all, but we've seen our vulnerability criteria and sector criteria. We've classified part of those companies, those EUR 4.2 billion that we've accounted as stage 2, in order to anticipate or predict and follow up more closely this, the potential cliff effect. And that has also been reflected in our provision policy for the last quarter. So in that sense, we have a -- quite a comfortable closing. I'm really sorry that I'm dedicating a lot of time to these, but I would like to say that in the mortgage and consumer loan books this classification to stage 2 had already been done more automatically. For instance, if we have a mortgage and our customer loses income or loses revenue, there is an alert. And it's automatically classified into stage 2 or stage 3, depending. And so in the mortgage portfolio, that analysis has been done, but there haven't been any important changes. And there we have some vulnerable mortgage, part of a vulnerable -- [pocket] of our mortgage portfolio is vulnerable, and it's already identified as stage 2, but it's done automatically. So I don't know what other banks have done. I don't think they have published this. And in terms of capital gains...

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

Well, in terms of capital gains, what I can tell you is that, at the end of the year, in December, we are about EUR 2 billion of positive unrealized. I was looking -- well, I can't remember the transaction. At 30th of June, we were at [900], if I'm not wrong, but in any case, I would like to remind you that there is a combination of businesses we have to put at fair value the financial assets and liabilities. And in the balance sheet, we also have some old covered bonds that had a negative impact when we included them. So when we published the impacts of the transaction in September resulting from putting at fair value the assets and liabilities, they were more -- it was more or less neutral. And that's why the evolution of the unrealized has taken place due to the evolution of the curves but also affects the other side of the balance sheet. So no, I don't expect important changes versus what we expected.

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

Okay, Marta, thank you very much.

Operator

The next question is by Ignacio Cerezo from UBS.

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

Yes, just a couple of questions. If you could explain the increase of foreclosed assets for the quarter. It's something that we've seen also in the other banks. I would like to know if there's reclassification of NPLs in foreclosed assets. And a question about fees: I understand the issue of the performance, but fees in the market have grown by [20 million] in the market. And I think that the average fees have increased considerably. So I don't know if there's a change of mix or there are any other impact that we're not understanding properly.

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

Okay, thank you very much. With regard to foreclosed, you have this in the quarterly report. You have it explained in the performance of foreclosed assets for the quarter, but basically the increase that you've seen is due to -- well, it's EUR 190 million. I was looking for the figure, but I think it's EUR 190 million, Page 15, yes, EUR 190 million of portfolios that we had on sale that were reclassified as noncurrent assets for sale. Due to the pandemic, the sale did not take place of those portfolios we were wondering. And at the end of the year, we decided that those portfolios will not be sold and will be included once again in our -- as assets for sale in the new combined entity in 2021. So there's a total of EUR 190 million into foreclosed assets. So anything that we had open for sale is -- gone back to its place, is back in foreclosed. And that is the main effect. If we remove that effect, the foreclosed asset balance will be -- would have dropped a little bit, which is more or less in line with what we had this year. So a reduction, a small reduction but a reduction nevertheless. And in terms of fees and assets under management fees, there's nothing to mention really. I didn't give the specific figures, but the fees policies that we are having for assets under management has been always the same. So apart from that effect that we mentioned before due to success fees, there haven't been any other changes. So they respond to an average fee on mutual funds balances that have grown also due to the market and due to the performance of those mutual funds.

Operator

The 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*

All of my questions have been answered, except for one. How are you [accruing] TLTRO III? And how is this going to change in 2021, also given the latest change in instructions from the ECB?

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

Well, thank you very much, Andrea. Would you like to answer, Leo?

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

Well, we are accruing. I can't think of the word in Spanish. Yes, accruing 1% of revenues. Obviously then we'll have to see what we'll do with that money. And if we have, we'll have to look at ECB. And then maybe the net revenue would be half -- 50 basis points, but we're accruing at 1%. And we think this will not change next year. We are still thinking about whether we're going to go to the additional auction. You know that it's been increased by going from 50% to 55% of base balance. And it's possible that we'll go to that auction, and that will be [2.3, 2.4] extra that we could take in the March auction.

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

Okay, if you forgive us -- I know there's more people on the line, but due to time constraints, we cannot answer those questions live. And also, the questions that had come by e-mail to the IR from [Rita], JPMorgan, (inaudible) Jefferies and (inaudible) from JB Capital, from the IR team, we will answer those questions to you. Because I think, in terms of content, most of them have been answered. Without further ado...

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

Yes, I know we don't have a lot of time but bearing in mind that this is the last presentation by Bankia, as we said before, just some very brief words to conclude.

We have closed a fourth quarter that's been very strong with a clear acceleration in our commercial policies; in -- good results in assets, NPAs, core results and capital generation. And as I said before, this is due to the work of a very mature and professional team that we have at Bankia. After the announcement of -- beginning of September of the merger, the truth is that they worked really hard, and I think we are all very proud of this quarter. And during these years, we've worked, wanting to make of Bankia a profitable and solvent project. And the truth is that this has been complicated due to the interest rates environment. As we said in the presentation, structurally the interest rates were in negative, were negative, and that obviously affects especially our income statement. And this is one of dynamics why we think that in this environment of negative interest rates we believe that a merger with CaixaBank would be a great operation, a great operation that we believe needs to be magnificent, formidable for shareholders. And that has been our focus of the -- our work in Bankia for 9 years. And it has to be also formidable for our customers, and we've wanted to put customers at the core of our business. We want all our employees to work thinking about the customer because, when you think about the customer, when you put customers at the center, that will be very positive to the profitability of the bank and profitable to our shareholders.

I would like to thank you. Thank you on behalf of the whole Bankia team, us here that you can see but also our investor relations team that -- well, you work closely with them; and to the other 15,900 employees, Bankia employees, that have worked in 2020 to improve to make sure that Bankia is a better company. And I would like to thank you for your comments over the last few years. Some of you have followed us since May 2012.

Comments that have always been constructive and respectful, and we've always thanked those comments and valued them. We've tried to work in a transparent manner. We've tried to give you information that was also as transparent as possible, trying to show you how we saw things.

So that's all. Thank you all very much.

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

Thank you.

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

Thank you.

[Statements in English on this transcript were spoken by an interpreter present on the live call.]
