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PRESENTATION

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

[Interpreted] Welcome to the Bankia results presentation for the first quarter of 2020. Even though we have been in contact with most of you over the last few weeks, we hope you're still okay. Just like in previous quarters, our CEO, Pepe Sevilla, will talk to us about the main highlights and then our Financial Director will talk to us about the results, and then we'll give the floor to Q&A session.

We would like to remind you that in this occasion, the questions, you can send them to us by email in order to make it easier for all analysts to connect and also due to technical reasons we will not be taking questions from the English channel. So if you are in English channel, please send us your questions by email or you can ask the questions in the Spanish channel.

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

[Interpreted] IÃ±igo, good morning. I wish you all the best for you and your families. Things have changed a lot over the last quarter. We know that. And obviously, that has meant that we've had to adapt to a new environment, to a new environment that is complex, that entails for us at Bankia changing our way of working, giving priority to protecting the health of our employees and also trying to find solutions for our customers, for the families and businesses. And we're doing all of that basing it on the trust that we have, a very well capitalized balance sheet with high capitalization. When we go at the way in which we have worked over the last quarter, we've had to adapt in order to face 2 challenges, protect our health and working environment of our employees and also designing support plans to our customers, especially in these complicated times. Adapting our operating model, our way of working, it has entailed developing contingency plans in order to keep a minimum -- the maintenance of minimum services levels. As you can see over the last few months, we have maintained open -- at least 90% in average of our branches have been operating and over 98% of our ATMs have been available. At the same time as we did that, we worked in order to protect, as I said, the working environment and health of our employees. And we've promoted working from home. Over 95% of the central services employees are working remotely currently, and about 50% of our branch employees are also working remotely. This has entailed a great effort, obviously, especially everything that has to do with working from home from the branches that has led to the strengthening of our IT cybersecurity systems. And despite the new environment, our cybersecurity has been very appropriate. And the whole infrastructure has been supported in order to promote remote working for all our employees.

And finally, all of this has also been promoted by the digital channels. Digital channels that, on the one hand, have provided customer services remotely. As you know, we have been actively doing that with service, connect with your expert, Conecta con tu Experto, that we have streamlined over the last few weeks. And also, we have supported the bank's digital channels. All in all, this effort has led to ensure the bank's normal operation in the current environment.

And if we talk about digital channels, here is a statistic I would like to present to you that we follow every quarter assessed by an external party regarding the leadership in digital channels, in the app, online banking and business online banking. And at the 3 levels, we have been leaders in terms of ability to perform and effectiveness, and you have the data per month. And as you can see in March, which was the month of greater stress for digital channels, we have been leaders. Our digital channels have performed really well in this environment of greater demand, greater requirements from customers. The digital clients and digital customers obviously increased little by little. The digitization in this environment is gaining speed. You can see that the performance of digital customers. Digital sales are also growing significantly. I mentioned Conecta con tu Experto before, which is the availability to connect to remote managers. That is growing considerably in the business. But you also have other indicators such as the percentage of onboarding web, new customers or mobile payments, that have increased significantly. All in all, it's clear that this environment will give greater momentum to the digitization process that had already started.

The second aspect I would like to mention is the relief measures to help our customers -- retail customers and business customers. And in this sense, we are working in the world of mortgages and consumer finance with our retail customers with mortgage moratoriums decreed by the government, but also with voluntary solutions that we are implementing from Bankia for those customers that are not eligible to the legal or official moratoriums. As you can see, we have carried out over 19,000 customer requests in the mortgages and 14,000 operations for consumer finance. We have developed other measures in order to make things as easy as possible to our customers so that they can access banking services as easily as possible during the lockdown.

In the world of companies and businesses, we started offering bridge financing whilst we still were trying to define the guarantees needed for the ICO financing. And from the 6th of April, we started granting those ICO financing relief measures that have different guarantees depending on the type of customer and operation that go between 60% to 80%. Currently, we have over EUR 7 billion of operations requested, and the truth is that the granting process is evolving at a very good pace.

All of this means that in the first quarter, the performing credit stock grew again in the quarter. As you can see here, remember last year, we managed to grow quarter-on-quarter in our credit stock for the first time after many years, and that trend has kept up during the first quarter of the year. As you can see, about EUR 200 million between March and December, EUR 400 million over the last 12 months. And on the right, you can see the evolution performance by sector. And you can see drop on home mortgages as we deleverage that portfolio and growth in businesses and consumer finance.

If we go to the credit related to retail customers, mortgages and consumer finance, you can see here, new lending, both for mortgages and consumer financing. Mortgages have grown by 5.5% versus the first quarter of 2019. But with 2 different areas, January and February, we were growing at rates over 10%, and March had a clear drop of 6% when compared to March previous year. In April, logically, this downward data is accelerated. We have seen a decrease of about 60%, more or less, on new mortgages. And we expect that as the lockdown exit starts throughout June, July, new mortgages will start growing again.

And the same for consumer finance. With drops, as you can see, of new lending of 14%, very much affected by lower consumer finance lending in March of -- higher than 32%. April shows also a higher drop of about 80% versus what we had grown in a normal month. And once again here, we expect that in May, but more intensely, in June, we'll go back to new consumer lending at a more normal levels. In any case, both in mortgages and in consumer finance, we've grown market share in new lending for mortgages, but also we have grown our market share in about 40 basis points in both cases, mortgages and consumer finance.

In the world of businesses, we also have new lending growing at 10.4%. And more important than new lending basically is the stock that has grown by 9.5% between this -- between -- when compared to this March to the previous March. And contrary to what happens in the retail customers, if we've seen an acceleration in growth, acceleration in the loan demands by businesses in March, that have, in fact, intensified during April. In any case, with the latest data available, with the data for February of the Bank of Spain, our market share, both for new lending and for stock in businesses grew at about 26 to 28 basis points.

In terms of mutual funds, here you can see the evolution of the mutual funds over the quarter. They have had a drop of 7.5%, very much affected, as you can see, by the market effect by the devaluing of assets because the net captures have been positive, small, EUR 37 million, but positive.

In the graph on the top right, you can see the breakdown of how this net inflows have performed over this quarter with 2 very strong months in January and February in terms of new inflows of mutual funds and with March with a clear drop with negative results when some of the customers drew down their mutual funds and took them to deposits. In April, we're seeing again positive inflows. And that makes us be optimistic about the performance and development of mutual funds over the next few months.

With this performance of mutual funds over the first quarter, you can see that our market share is still growing. In fact, in the quarter, it has grown by 27 basis points and over the last 12 months, it has grown by 69 basis points.

And just to complete a review of our activity, here you have another important topic that we are -- that we started promoting last year and this year, which is payment services and insurance. On the left, you can see our market shares over the last 12 months, both for cards, but also for cards turnover and point-of-sale terminals turnover, where you can see that in all segments we are growing in market share. And on the right, you can see the performance of the new additions, new credit cards. We have grown considerably this very importantly, over EUR 0.5 million. But as you can see, this deceleration in March.

At the bottom, you can see the performance of cards turnover and also the turnover of POS terminals with important growth in January and February, but then you can see a drop in March, both in terms of cards turnover and POS terminals turnover that has to do obviously with relation, and they have fallen by about 11%. Obviously, in April, with the data that we are analyzing, we expect drops in terms of cards turnover of about 40%. And we also expect that throughout May and June, this will be inverted.

And in the world of insurance, it's more or less similar. We had growth year-on-year or month-on-month, which were quite high in January and February, but then there was a clear drop in March and something similar happened in April were therefore increased and we expect the normality will return throughout the second quarter of the year.

And obviously, this new environment is faced with the belief that we have a balance sheet with a very low-risk profile that has been strengthening with extraordinary provisions, as I'll mention in a minute, with high liquidity and with a capital situation that is quite comfortable. And all of this allows us, on the one hand, to face this environment with security in terms of our shareholders, but it also allows us to have greater flexibility in order to meet the financing needs of our customers.

Low profile risk portfolio, as you can see, and as you know. We have a mortgage portfolio that we believe is very conservative. On the right, we have the breakdown of the total of the performing mortgage loan that we have now, how much was generated over the last 5 years and how much is historic portfolio, portfolio that had a greater weight in 2007 and that has been paying for 12, 13 years, nonperforming portfolio and we -- performing, sorry, portfolio and believe that this performing portfolio, it's very well protected in the new environment.

And new granting that when you look at the loan-to-value, you can see that the data that we have for loan-to-value figures are very good. As you know, we've done a very selective policy when granting new mortgages. Over the last 5 years, has been very selective. And our market share over the last 5 years has been between 6%, 7%, which is about half of our stock. And that has led -- that is due to the selectiveness which we have applied in order to only choose customers that have a good payment track record.

And also, within the portfolio, consumer finance is lower than 5%, our customers are less than 5%, and the consumer finance that we have in Bankia is a business of consumer finance for our customers, existing customers from our database, 85% of this business is based on preapproved, customers that already have their -- have direct deposits in the bank and with whom we have a very active follow-up procedure, and we do now have a very important consumer finance for noncustomers or at point of sale.

We are doing an additional provision of EUR 125 million in order to prevent future contingencies of the COVID-19 effect for 2020. This provision of EUR 125 million, basically, what it does is it doubles the normal provisions that we had for a normal quarter are undone in an environment of great uncertainty. Uncertainty because, first, we have uncertainty regarding the macroeconomic scenario. Secondly, because we have no experience. And obviously, the models are not able to capture automatically the mitigating effects that the moratoriums can have. The ones that we're applying for mortgages and consumer finance as well as the guarantees that are being granted in order to fund new business loans. And obviously, this will change the NPLs that we would have in any way. We'll continue to update our estimates and our provisions over the next few quarters.

As for liquidity, you also know this very well. We have a situation of liquidity today that has nothing to do with the liquidity situation that we had in 2012 when we faced the previous crisis in Spain with a ratio of loan-to-deposit well below 100% with liquidity ratios that are well above the regulatory objectives. Also, we have an important balance which is over EUR 30 billion of liquid assets that go well above the wholesale funding that we have. And we also have additional financing or additional liquidity. We have EUR 9 billion of TLTRO that we can use. And we also have the capacity to issue another EUR 20 billion of covered bonds.

And finally, capital. The only thing I would like to highlight about capital is that despite the extraordinary provisions that I have just mentioned, we have generated capital organically again 7 basis points, as you can see, up to 12.92%. This means that we have a very ample buffer of over EUR 4 billion, and we still have a difference in terms of a capital ratio that is quite important and that is equivalent to EUR 1 billion of capital excess versus the ratios that our peers present.

At the same time, as you can see in the AGM that we had recently, we announced that we were going to have a maximum cautioness policy in order to choose a dividend for 2020. And we postpone any dividend decision to be charged to the results of 2020 until we see how everything is evolved after the first quarter of 2021.

And I'll let Leo go ahead with the second part of the presentation.

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

[Interpreted] Thank you very much, Pepe. Welcome, and good morning to everyone. And I hope, as IÃ±igo and Pepe have said, that you and your families are all well, and that you continue well over the next few months.

As always, let's focus now on the income statement for the quarter. We start by showing an income statement with all the quarters of 2019 and we focus on the variations versus the previous year. So versus the first quarter of 2019, as you can see, the net interest income has fallen. As we have said at the webcast at the end of the year, we expected the first semester to be worse than the second semester of 2019 in terms of net interest income due to the depreciation of the Euribor. But as we see, it was very much in line with what we expected. However, fees are increasing more than expected. Remember here that the guidance was an increase of double-digit for the financial year, but we expected the first year to be weaker than previous quarter, so we expect the first quarter to be weaker than other quarters because we are focusing it all just in the month of March, whereas in the other quarters, we'll do comprehensive quarters. So here, we're really surprised at our fee growth. We have a gross income base 1.1% above last year. Operating expenses are well contained as we'll see later, and we have ordinary provisions, the ones that have to do with the first quarter, that have been very much aligned to what we expected. With all of that, we reached a profit before tax of EUR 247 million, that is very much in line with what we had in average the previous 3 quarters. And then we have the extraordinary provision due to the COVID-19 that Pepe mentioned, of EUR 125 million. And that leads to a risk profit attributable to the group of EUR 94 million or 54% lower than the previous financial year. The core goes up to EUR 280 million. Obviously, compared to the first quarter of last year, it was the same as expected. The first quarter had to be lower in fees than in the rest of the year. And we expect that to be so. And so we keep our guidance that the core will be stable throughout the year.

If we look at the net interest income, as I said on the first quarter, this has been influenced by the mortgage appreciation. As you know, they appreciated with a Euribor of minus 11 basis points in average, and in this case, with minus 27 basis points in the first Q. So there's been a difference of 16 basis points negative for the net trading income. The good thing is that the seg now today is at minus 11 basis points, that is more or less 14 basis points less than what the forward curve told us when we did the budget. And so we expect to have some positive buffer in the second quarter even when compared to the budget.

Also in the first quarter, we have a lower contribution of the ALCO portfolio. This is due to the fact that the average of the first quarter is lower than the first quarter of 2019. But additionally to that, the stock has been influenced by the purchases of portfolios that we did at the end of March given greater increases in yields. And so we should also see an increase on the portfolio contribution in the second quarter. And also, we have a lower contribution from NPLs due to the reduction of the NPLs that we did in 2019. So as I said, we expect that this will be the quarter with a lower net interest income for the year. We expect it to grow over the next few years, even more so knowing that the credit book will grow versus what we had in 2019. And even though we'll have to wait to see this, we believe it will grow more than we expected when we did the budget in November. In any case, we'll have to see how the mix of the new lending performance, how we do our lending for businesses and mortgages. It seems that for businesses, obviously, stock will be higher than initially expected.

If we look now at fees, this has been a very good quarter, better than expected. We've grown 9%, very much in line with the double-digit that we wanted to achieve for the whole year, but then we knew the first quarter was going to be tougher. And you can see that clearly on the right of the slide, where you can see that we have gone from an average of EUR 90 million a month to EUR 100 million a month when we include the new commercial stance. So a growth of 12%. So it's expected that over the next few quarters, we will have a target figure of about EUR 100 million x3. So about EUR 300 million quarterly. And so we're still confident that we will achieve our double-digit goal for fees growth this year.

In operating expenses, the truth is that they have been quite contained. You can see we had a guidance of 2%. And what we can see now is that the net interest income plus fees, even though it has been the worst quarter, we're still at 2.7 reduction versus the first quarter of 2019. So given that this is the lowest figure, we expect that from now on, we'll be able to increase the net interest income plus fees when compared to the previous quarters. And so the gross margin leads us to an increase of 1.1%.

In terms of OpEx, as I was saying before, we estimate that they will increase by 2%. However, they've only increased 1.1%. And so we are at a lower range of the OpEx increase that we expected, and we expect that it will be contained throughout the year. In any case, we consider very important to remember that we have a competitive advantage versus our competitors because our operating expenses of our RWAs involve 30%, 35% less than what it does for our peers. And we consider that this is very important in the current context.

If we look at the provisions, as Pepe has said, in ordinary provisions, the ones that were accrued due to the evolution of the credit portfolio over the first quarter, they have been very much aligned with what we expected. We've had a total cost of risk of 24 basis points, in line with what we expected for the 2020 year. Remember that the first quarter of '19 was exceptionally low. And when we include extraordinary provisions due to COVID that Pepe mentioned, we have a cost of risk of 59 basis points for the quarter.

If we add provisions and others for foreclosed, we can see that is very close to what we had in the first quarter of 2019. And when we include the EUR 125 million of extraordinary provision, we have total provisions of foreclosed and credit of about 67 basis points. So as you can see, these are 2x the provisions -- COVID represents 2x the provisions of ordinary provisions.

As we can say, we have a net attributable profit that is growing. When we add ordinary provisions, we have a result before tax of EUR 247 million of PBT. And when we include the extraordinary provision for COVID, we have attributable profit of EUR 94 million. That compares with -- 54% less than the first quarter of last year.

In terms of asset quality and risk, asset quality, it's been quite a normal quarter. This year, we wanted to reduce our NPAs and foreclosed organically. We've reduced by EUR 0.2 billion the NPAs, reaching 6.3% of NPA ratio gross or 3.2% net. We can see that we are reducing the NPAs, even the coverage to about 50%. In terms of NPLs, we also see a decrease. We've decreased by nearly below 5%, and we have increased our coverage ratio of NPLs with -- by 1.3 percentage points up to 55.3%.

Finally, in terms of capital, I think this is a very good news that we've managed to increase our set 1 by 7 basis points despite the additional extraordinary provision of EUR 125 million for COVID, as Pepe mentioned. So if we hadn't had this provision, we would have increased our capital in 18 basis points this quarter. Additionally, we have a leverage ratio that is 5.4% and an MREL ratio that reaches 21.5%. And we consider that the capital performance and the difference of capital versus our peers and being able to generate capital quarter-on-quarter is also a second competitive advantage that is very important, especially important in the current context.

And just finally, to conclude, I would like to say that in a very uncertain environment, as the one we are living in, and now we think it's very important to have as a basis, a very low-risk profile balance sheet because 57% of our loan profile is mortgage with a very low-risk profile with a loan-to-value that is very limited. We also need to bear in mind, we haven't done consumer finance at point-of-sale over the last financial years. So it's less than 5% of the consumer finance, which is less than 5% is pre-approved consumer finance loans. So we have great position versus what we had in 2012 with an ample liquidity position, and we continue to generate capital organically quarter-on-quarter as we have seen, even despite the additional provisions for COVID-19. So we think we have a competitive advantage in these extraordinary circumstances we're living in.

And with that, we'll go to the Q&A, if that's okay with you.

QUESTIONS AND ANSWERS

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

[Interpreted] Well, thank you very much, Leo and Pepe. So we were saying we have received already several questions by email. We're going to read them now. (Operator Instructions) So we have our first question by Daragh Quinn. Well, 2 questions. He asks about the guidance for 2020 coming i.e. in fees in provisions and the NPL ratio. That's one of the questions. Yes, guidance. And a second question that is new lending for ICO that was presented and the percentage of mortgages that have requested moratoriums.

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

[Interpreted] Okay. If you remember, when we talk about guidance, at the top end of the income statement for the previous quarter, what we said was that our vision for the year was to have -- the goal was to have a flat core result for 2020 with a growth of OpEx of 2% and a fees growth of double digit and for -- on the financial margin. And we expected that it would go from less to more, the net interest income would be worse the first quarter than previous quarters. And the first quarter would be more affected by everything that has been said. After everything that's happened this year and all the new changes, we've reassessed our vision for -- our view for the year, and we believe that we can keep the same objective to keep a core result -- flat core result for the year stable with more or less the same characteristics that we said before. We still think that we can be close to double-digit in terms of fees and commission, even though there's certain volatility in the world of mutual funds and other issues, such as the turnovers that we saw before for some of the products.

We also think that the growth in businesses will allow us to generate additional fees and commissions in the business area. So we can still believe that we'll reach that double-digit in fees and commissions that will lead us to be at that cruising speed of EUR 100 million a month in fees and commissions or EUR 300 million per quarter, which is our vision for the future. And then in terms of NII, what we see is the same. We see that the net interest income can go from less to -- from lower to higher throughout the year. So the Euribor will help a little bit. Let's hope it's not as negative as what we had included in our figures.

And with this and also a bit of greater contribution by the portfolios, we believe that the net interest income and what we have published on the web, the consensus of the analysts, we believe, is realistic. So we'll be a little bit higher fees and commissions than what the consensus thinks in line with the net interest income, and we believe that the core result will remain flat.

In the world of provisions and NPLs, obviously, here it's much more difficult to do forecasts, bearing in mind the uncertainty of the macro situation and also the difficulty in being able to capture the effect of these relief measures that banks are taking as well as the ICO new lending. So we believe that the cost of risk such as what we saw in the presentation, of about 60 basis points will be -- will give you an idea of the cost of risk for the whole year.

As in terms of ICO financing, well, cost of risk, including foreclosed? Yes. Yes. In terms of ICO financing, well, we've given the figures here. We have requested EUR 7 billion. That figure will continue to evolve the market share. As you can see, the ICO guarantees are distributed amongst the entities according to the market share as agreed by the Bank of Spain. Our market share is 7.5% for ICO financing. So if you can see it in the presentation, it is very close to the market share that we have in the world of businesses. We have a bit more market share in medium-to-large companies, but lower in small enterprises. And so of that EUR 100 -- EUR 100 billion, we'll have about -- will allow us to grow of about EUR 10 billion. And with the data that we have, we believe that those figures are the ones that we will see over the next few months.

The ICO financing line started working on 6th of April with the latest data published by ICO on Sunday, on the 26th, 20 days after they had already disbursed EUR 24 billion for the whole sector and -- of our market share of the first EUR 40 billion that have been awarded, we have already lent over 75%. So we expect that the ICO lending -- well, ICO will continue to release new tranches, new sections of guarantees over the next few months. And the amount of mortgage moratoriums, you have the figure of operations in the presentation, and this accounts for about 3% of the total of our mortgage portfolio.

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

[Interpreted] Okay. We have a second question also received by e-mail by Britta Schmidt from Autonomous, and asking what are the macro assumptions that we have behind the EUR 125 million for COVID provision, unemployment rate, housing cost compared to the IMF? And if we've done any sensitivities? And another question regarding the drivers that we have for the ANI drops this quarter and what we expect for the next -- for the year with the Euribor evolution? And what could be the impact of the moratorium in the ANI? And also if we can have an idea -- if we can talk about the fees in April.

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

[Interpreted] In terms of the macro environment with our businesses, we are -- the business sector we are developing our scenarios that we are devoting on the stress tests that we'll carry out. But our scenarios really are quite similar to the ones mentioned by the Bank of Spain, and in fact, I think, are very well detailed on the press release of the Bank of Spain and that it talks about 3 scenarios that goes from better to worse they list to a GDP evolution of 2020 of between 6.8% or to 12.4% decrease, which means an unemployment rate, remember that the average for last year was 13.7%, the unemployment rate will be between 18.3% and 21.7%. And for 2021, the growth of the GDP will be between 5.5% to 8.5% depending on environments on the scenarios and an unemployment rate between 17.5% and 20%. So all in all, this is what we are developing. It is also true that as the weeks go by, we'll have -- we'll give greater importance to the less benign scenario because we're looking from the more benign to less benign.

But anyway, I think the issue is not so much the specific evolution for 2020, but really the whole of 2020 and 2021. I think bringing together both scenarios, we'll really look at the GDP growth at the end of 2021. There's a large consensus on that figure. We see that the GDP at the end of 2021 would be a bit higher than what we had at the end of 2019. These scenarios of the Bank of Spain placed GDP in billions in amount below what we had in 2019. So what's important is to combine the scenarios of 2020 and 2021. And obviously, it depends on the acceleration of the -- when we come out of this. So obviously, the Bank of Spain is quite -- report is quite detailed, and I think it's good enough to work on it.

Regarding the net interest income for the rest of the year, we've already mentioned it. We think it will be in line with the consensus of what we published on our website, and that would include -- well, the moratorium impact. The moratorium impact on the net interest income will be very small for the year. On data of fees for April, we still do not have data for April. In April, we want to be a little bit below because probably April will be the worst month of the year in terms of new business lending and new household lending, but we think we'll be at that cruising speed of EUR 100 million per month.

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

[Interpreted] If you allow me, Pepe, just to talk about the moratorium, please remember that the moratorium is only for 3 months. It only covers -- the royal decree only covers 3 months, both for principal and interest. So the impact of -- in the mortgages will not be very relevant, and we do not expect it to be either for consumer finance.

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

[Interpreted] Thank you very much. We have the next section, Benjie Creelan from Jefferies. Of the ones that we haven't answered yet, he is asking about the forecast for fees for the rest of the year, what impact they could have in this perspective. Also, the relief measures that we have provided to our customers with the POR SER TÃš program, I guess. And also, he's asking if we are doing the dividend accrual 66% as we did last year on the capital or whether we are not doing it? And what are the metrics that we will use in order to decide the dividend for 2020?

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

[Interpreted] Okay. In terms of fees and commissions, the guidance that we are giving already includes those relief measures. As we're saying, there are going to be some effects that go against the fees and commissions plan that we had for the year, obviously, due to the less turnover or less retail business. But as we've said, too, we are seeing a growth in business loans. So all the fees and commissions that have to do with new business lending will be higher. And we believe that as a whole, we'll be able to reach that growth of around double-digit for the whole year. With regard to the dividends, Leo?

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

[Interpreted] Yes, regarding the accrual, in line with what we published as a relevant fact. After the AGM, we're going to be very cautious in terms of a potential dividend distribution in 2020. So we are not doing accrual of any kind for the dividend for this year, just like the other banks, I believe.

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

[Interpreted] Thank you very much. We also have a question from Domenico Santoro from HSBC, and some of them haven't been answered. He's asking what is the strategy we're going to have in June for the TLTRO? And if we are going to increase or if we're thinking about new issuance? And also what are the perspectives of RWA growth over the rest of the year and also the mortgage model. The same question as other analysts.

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

[Interpreted] Okay. In terms of the TLTRO, as we explained in the presentation, we have the possibility of taking up to EUR 9 billion more. For now, we have been doing roll-on going from TLTRO II to TLTRO III, and the decision will be made in July, and it will be mainly a financial decision because as we've said, now we have a very ample liquidity. It's true that the take on -- of the TLTRO could lead to a peak of yield, but as you know, the TLTRO III, if we comply with the benchmark, which will still remain flat in terms of simplifying consumer finance and businesses will be 0.75. And so it's possible that we'll go into that auction in July in order to get this pickup of yield. In terms of portfolio, bond portfolio, we've decided in -- at the end of March to take on a little bit of portfolio and also in April with yield picks to take on some new portfolio. But it's not going to be a very significant volume, and it will not be higher than the volumes that we had at the beginning of the 2019.

Regarding risk-weighted assets, we are seeing flat RWAs. Even though there may be a slight decrease throughout the year, remember that the spot of our portfolios are still on standard model. And what's on advanced models? Well, the sensitivity that they will have in terms of RWAs will be very limited. Please remember that for capital, we use expected losses and nonperformance and also cycle measures, et cetera. And the recalibration that we will have of parameters this year will include this information of 2019. And so we should not have any special effect in that area.

And regarding the mortgage model, the mortgage model, we continue with the calendar that we mentioned. At the time, we have confirmed that with the ECB, we expect that over the second quarter of the next few months, between May and June, we'll have some confirmation from the ECB regarding the model approval and in which conditions. So if that takes place as we expected, then that will lead to a reduction -- an additional reduction of the bank's risk weight assets.

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

[Interpreted] Okay. We'll now give floor to the questions by phone. (Operator Instructions) And the first question comes from the line of Ignacio Ulargui from Exane BNP Paribas.

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

[Interpreted] 2 questions I have. On the one hand, the issue of NPLs in the second quarter. There's a EUR 50 million drop in credit to customers. Could -- what is that due to? Is it due to Euribor or NPL accrual? And how do you expect that will perform in 2020?

And regarding the fees, when you talk about EUR 100 million per month in the second quarter, how is that going to fit with a huge drop of activity in retail in the different businesses, as you mentioned before, Pepe.

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

[Interpreted] Okay. In terms of customer credit, the fall was on the -- from the fourth quarter to the first quarter is mainly due to the Euribor, as I said, because we have repreciated a portfolio that was at minus 11 basis points -- Euribor minus 11 basis points and have gone at minus 27 basis points. We also have a concentration of mortgage prices in the first quarter and in the fourth quarter.

The second thing is that, obviously, we have less NPL contribution because we have less stock of NPL compared to what we had last year with the portfolio drops, with the sales of the portfolio and the NPL reductions that we did in 2019.

And thirdly, we've also had a different mix in terms of new lending due to the drops in March in new lending, for instance, for consumer finance, even though we've seen an increase on the credit book because we have more new lending to businesses. We have had a drop in the average of the front book of the price, at which, we are introducing new lending in the front book because we have decreased our consumer finance activity.

And I'll repeat over the next few quarters what we expect is for this to go up. First of all, because we'll have a better contribution due to the Euribor repreciation. It's at minus 11 basis points, Euribor today, so it should not have an impact on the second quarter. And if it does, it should be a positive impact. And if it's kept in these terms, then we'll have a positive impact in the second half of the year because remember that the average in the second semester of 2019 was about 30 basis points negative. Additionally, we expect that the portfolio contribution will increase because of what I said before. And so we expect that the net interest income over the next few quarters will grow quarter-on-quarter versus what we had in the first quarter of the year.

With regard to the fees on commissions, as I was saying to Britta, we still do not have data for April, and April will probably be the most stressed month in terms of fees and commissions because of what we said before, huge drops on payment services due to less turnover in cards as a whole in the sector and in Bankia, and that will go against us. But for the quarter, I mean, the quarter has 3 months, and we expect -- we hope that in May and June, it will recover and will go back to the turnover levels that we had before. In terms of mutual funds, March was the worst. In April, we are seeing that the market effect, mutual funds are growing, and they are having growth in the balance sheet, and that is -- that should help us. And then as I said before, in terms of new business lending, we expect greater contribution from those. But we'll see that. I mean, when I have figures, I'll talk about them. I hope I'm -- if I'm wrong, EUR 1 million up, EUR 1 million down, I hope that you forgive me for that.

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

[Interpreted] The next question is by Ignacio Cerezo of UBS.

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

[Interpreted] I have 2 or 3 quick questions. First, if you could talk about -- give us information about exposure to more problematic sectors: tourism, hospitality, airlines, oil business, things that could be more affected by the virus?

A follow-up of what you were saying about the yield. I mean, the average of the loan yield of the year should go downwards. That will be your base case, more volume but less yield, especially once we incorporate the ICO lending guarantees. And also, if you have any idea about the timing for the recognition of NPLs? Are we talking about the Q3? Or will you be talking about the Q4 in order to acknowledge the NPL?

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

[Interpreted] Okay. In terms of loan yield, the loan yield, it's difficult to give you guidance on this, really about the loan yield evolution. We think that it should increase a little bit versus the levels that we currently have for the first quarter. But it's true that it will be very much depending on the mix that we carry out. If we go segment by segment, the front is above the back and is even ahead of the front that we had in previous quarters, both in terms of mortgages but also in terms of consumer finance and businesses. So the yield that we are receiving for the lending that we did in the first quarter, both for mortgages, consumer finance and business are highly up -- slightly above what we had in the fourth quarter. But it's also true that the mix because we've done less consumer finance because of the drop on consumer in March. That means that the loan yield will be lower than what we had achieved in previous quarters. Evolution for the future, well, it will depend on whether we are able to get back onto production and consumer for the future because, obviously, the business production, the business in the lending is going better than expected with better prices than what we expected. And so in that area, we see less uncertainties. But it will obviously depend on how able we are to obtain new lending in -- new production in consumer. Obviously, what we see is that the loan yield should be stable or growing slightly over the next few quarters.

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

[Interpreted] With regards to the most troubled sectors, it's very difficult to analyze this. I mean, we're working on this. Obviously, you talked about airlines and the oil business. In those segments, our positions are nearly 0. We have not credit with the top 20 of our credits. We do not have any airlines or oil industry and any marginal exposure that we could have is very limited. In the world of tourism and hospitality, well, what we are doing is comparing our position with the average position of the sector. We believe we are slightly below in tourism and hospitality in terms of -- when compared to the sector. But in percentage points, we could be talking about 6% of the credit portfolio. More or less, I think. And default acknowledgment, obviously, that will be done over the next few months. I don't know if the key will be the third or fourth quarter. I think we have several quarters where the default rates will grow. We will see. Well, thanks to the moratoriums and these relief measures and the ICO lending, this will be somehow mitigated. But obviously, it will grow in 2020 and partly in 2021.

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

Next question is by Francisco Riquel from Alantra Equities.

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

[Interpreted] I have 2 questions on asset quality in those sectors that are now more vulnerable. First, the consumer financial. You have a limited exposure of 5% of your book, but your book has grown a lot over the last few years. And most of them are with existing customers and preapproved, yes. But the default has grown in this segment for a while now, even before the crisis. So could you talk to us a little bit more? Could you tell us a little bit more about how you see the cost of risk and default in this segment and the percentage of customers in moratorium? How much that represents in the book?

And also for businesses follow-up on Ignacio's question and risk questions per sect. Instead per sectors, I would like to know large companies versus SMEs and self-employed. And also the cost of risk of this segment. I guess the default will grow naturally. But the cost of risk, do you think it will also increase? But are you taking into account the ICO relief measures or not? How much have you included there?

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

[Interpreted] They are very specific questions. Well, as you have said, this is consumer finance with our own customers that already have direct deposits with that. So that's -- allows us to anticipate any movement. We know the customers, and we have, you could say, an early warning system so that we can manage properly the consumer finance world. In this sense, it's true that we have grown. It's true that we have grown considerably over the last few years in consumer finance, but we were also saying that the consumer finance growth has come because we started from a very low level, obviously. So we had the possibility to grow with our customers -- with customers, our own customers with whom we waited and offered these products. Remember that with the merger with BMN in 2018, we had another 0.5 million customers, more or less, that had direct deposits, that didn't have any consumer finance products. And so we did -- I mean, increase in consumer finance in our figures. It's not because we have been less selective, not at all. It's because we have been able to grow with our own growth, with our own customers, with direct deposits. We grew organically by over 300,000 payroll deposits over the last few years. So this is consumer finance of our own customers that we can manage well. And in fact, we never wanted to do consumer finance for noncustomers because we thought we didn't have the capacity, the skills to develop that business properly. And that's why we have reached an agreement with CrÃ©dit Agricole to do -- to carry out -- to create a consumer association. That was created in January, and that will obviously be delayed in its business performance. Obviously, with regards to the cost of risk of consumer finance, it's been quite stable over the last 2 or 3 years. It hasn't reached 200 basis points. So that is the cost of risk of our consumer finance portfolio, 200 basis points. That are part of the 24 basis points of the cost -- total cost of risk that we have, or 59 basis points that we have if we include the extraordinary provision for the COVID.

Moratoriums, of those who have asked us for moratorium in consumer finance, what do they account for? Well, they account for less than 2%. Obviously, we expect it to grow. And that's for consumer finance, and that's how we see it.

In business. Well, we have a business portfolio that is focused more on medium-to-large companies. When we look at the ICO financing, it has been provided based on requirements of the Bank of Spain. And on the medium-to-large companies, we have a market share of 8%. Whereas in the Section A, which is small-to-medium companies, we have a market share of 6.7%. So the mix when we blend this, it's about 7.5% in total. So that shows us that we have a portfolio, and this is something that we knew that it has a bias towards large -- medium-to-large companies rather than small-to-medium sized companies or micro companies.

Do we think the cost of risk will increase for businesses? We expect so. Obviously, the businesses, I mean, it will contribute like to all portfolios and the business portfolio will also contribute, but each of them within their proportion. We believe that the cost of risk that we had in the mortgage portfolio over the last few years was 10 basis points, and that will increase in proportion, the 200 basis points of consumer increase and so will the business portfolio. And all of that is what gives us that figure that we saw before that we said it could be our guidance for 2020.

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

[Interpreted] The next question is by Carlos Cobo from Societe Generale.

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

[Interpreted] Carlos Cobo. Thank you very much for the presentation, and I hope you're all in good health and the whole team. Just a couple of questions. Something that we mentioned before, but that maybe we mentioned with greater nuance. When there is pressure on yield, especially in provisions, the fact that regulators are treating the sector as a whole in the same minor, they are controlling the dividends, how do you expect that you can give value to that capital excess, given that it's difficult now to think about payouts to the shareholders? Are you thinking of a more aggressive efficiency plan in order to improve on the underlying capital level in the long-term, which maybe -- could be the biggest problem in the model or thinking about a crisis? That will be the first question. And also, I would like to link that to OpEx. If you keep that 2% growth of OpEx for the year despite the new provisions, I guess you're not reviewing that figure. And about the state guaranteed loans, could you tell us about how much you are guaranteeing and what you expect to get from this new segment?

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

[Interpreted] Perfect. Regarding whether we want to use the capital excess for efficiency plans, I think it's still too early to talk about that. What we are doing now is we are focusing, obviously, on managing the bank in this complex environment. What -- we are -- is -- very happy on how digitization is performing, not just in digital channels, but also working from home remotely. The managers have adapted really well to this new channel and to this new way of working. And the truth is that working from home or this remote management is gaining strength and will lead to greater efficiency in the future. But I insist it's too early to talk about that.

As for the OpEx, 2%. I told you this was due to the inflation. We are trying to scrap something from that 2%. But if there are any improvements, it will be very small on that 2%. In million euros, there could be some EUR 1 million up or down, but it won't be a large change. And for ICO lending, I've already spoken about EUR 10 billion of credit lending between now and December, even though it will be probably more between now and September, really. And the yield of this production, well, the pricing policy that we have is very much to maintain the prices that we had before there's no pricing policy changes for this new lending. It is true that calculating the ROE, or the risk adjusted return, has its complications because even though it's true that the guarantee mitigates capital consumption and reduced expected loss. On the other hand, it's also true that the risk premium of many of these customers has increased. So it's very difficult to make specific calculations on this. We believe that this is a business that, in general, will be positive. But let's think that we do not just do ICO lending because it could give a feeling that we are not -- that we are only giving ICO lending. Now in April, this last month, we've been very much focused on ICO lending, and this will be the case also in April -- April, May and June, but it will decrease after that. But in April, for every EUR 100 of ICO lending that we've granted, we've also given EUR 45 of non-ICO lending. So please bear in mind that there's life beyond ICO lending in the world of banking sector.

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

[Interpreted] The next question is by Andrea Filtri from Mediobanca.

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

[Interpreted] I was following up from the previous question and what sort of CTAs are you charging on government guaranteed loans? And also, the second question is what is the lowest level you are prepared to let -- do you see your duration go to in support of lines? And how much of a relief do you see from the latest regulatory and policy changes to the ratio? And if I understood correctly from your previous comments, we can expect that assets will fall in 2020.

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

[Interpreted] Thank you very much. Would you like to talk about the release and the ratio on the risk-weighted assets?

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

[Interpreted] The yield of new production due to the ICO lending to the guarantees is basically maintaining the prices -- the enterprises for each category of customer. The ICO is asking us to keep the prices or to give advantages in terms of combining price and time line for the customer so that it will be a better loan than if they went to any normal loan. So the loans that we are providing are 5 years with a 1 year -- 1 gap year so that they can extend the duration for many customers, especially small- and medium-sized customers. And we are keeping those -- the entry prices that we had before.

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

[Interpreted] Okay. In terms of capital, our forecast is that the year, except for the positive impact for the change of models, we should keep at 13%. Because as we said, even in a quarter and we have accounted double the amount of provisions that what was normally -- was normal due to EUR 125 million COVID, we have generated capital, and we expect that to be the case for the whole year. So we expect to keep those levels. In terms of regulatory measures for the capital, we have the [104 A] that gives us a greater buffer than what we have compared to [NDMA]. So we are up of 560 basis points. It's true that there are potential measures for the IFRS9. Remember that our capital ratios include the impact of the IFRS9 in terms of fully loaded. We are not facing it. So if needed, we could have a buffer there. But as I've said, we are not including that in our ratio when we are comparing -- when you compare our ratios to the others, you should bear that in mind. And we also have some relief because the regulator right now would be allowing to go below the P2G levels in terms of capital. But as I said, our capital buffer is very large, 560 basis points of buffer versus NDMA . And so we do not expect to have to use that, also bearing in mind that we expect to maintain them at 13.

And in terms of MREL, we're also doing quite well, also knowing that the calendar at least will go to January 2024 if there are no further delays. So what this has meant is that, for instance, the issuance plan that we had for the 2020 financial year will probably not be carried out because we do not need liquidity and we do not need to continue increasing our capital ratios because, as I've said, we have nearly 4 years until we have to fulfill those MREL ratios.

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

[Interpreted] The next question comes from the line of Marta SÃ¡nchez of Bank of America.

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

[Interpreted] I have a follow-up for capital. Thank you very much for the guidance that you expect capital to be flat this year. I imagine, before the paying out of dividends because you haven't spoken about dividend payout. But does it make sense to use the capital excess? I mean, capital is not a problem, but maybe that they clash in the acknowledgment or recognition of the quality or clean (inaudible) of the balance sheet that has led us to low yields for many years. What's the cost of risk that you expect for 2021? And after the changes announced by the European Commission and software for regulatory capital, do you expect to carry out investments on this? How much will it cost on P&L, the digital transformation?

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

[Interpreted] Thank you, Marta. With regards to the capital, and if we can use -- well, I guess the question is we can use this capital for more provisions or for cleaning up or restructuring our balance sheet further. Well, once again, today, we have nothing on the table. With this uncertainty context, really, I think that answering those questions would be very difficult. And any comment I could make, I would be at risk of regretting ever saying it in a quarter's time. Bear in mind how much the world has changed in the last few weeks. We have to see this week on week. We have to see how lockdown exit takes place in the Spanish society. We'll have to see what happens in autumn with the pandemic evolution. So there are other factors. And so it's quite difficult to answer those questions. And I find it difficult to give you guidance on provisions for 2021. I think that the idea that we have for 2020 is what we've said. And in 2021, we'll fine-tune it as we see how all of this evolves.

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

[Interpreted] The European commission measures, well, I think we'll have to study them in-depth to really know what effect it could have in our ratios. In any case, we are not now thinking about a reduction of the investment program that we had expected. And so the investment program will contain -- investment plan will be maintained as expected, especially now we're giving more importance to digital channels.

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

[Interpreted] Next question is by JosÃ© Abad from Goldman Sachs.

José Maria Abad Hernandez - *Goldman Sachs Group Inc., Research Division - Executive Director*

I think most of my questions have been answered. Maybe 1, top down, which has to do with -- if we assume -- what's the intensity of the credit for the cycle? And my question is, when I look at your guidance, it seems that the cost is normalized. It's not a stressed out cost. If we assume that we didn't have the guarantee program, and I know it's a lot to imagine, is there any scenarios -- looking into the GDP decrease, is labor market that this cycle may be the worst cycle we've ever seen, if we didn't have the government guaranteed loans?

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

[Interpreted] Well, thank you for your question and thank you for saying that we've answered most of your questions. I feel very satisfied with our presentation. With regard to the credit cycle, I mean, if the cost -- you asked whether the cost of risk is normal and not stressed out. Well, I do not share that. I think that the cost of risk really depends on the portfolio mix that you have.

And as we were saying before, the cost -- the normalized cost of risk of our portfolio is 10 basis points. It's in line with the expected loss for the cycle, could be just above 15 basis points. But 57% of our credit portfolio is on that environment of risk premium. And so when you have a mix with that expected loss is different to when you have an expected loss of 30%, just to say a figure. Also, the cost of risk of consumer finance has kept quite stable. And as you can -- you know, this only accounts for 4.7% of our portfolio. So I don't think the cost of risk that I mentioned was normalized. I don't think -- I think it's under stressed conditions.

We could say whether the stress applied is high enough or not, and there'll be different opinions, and we are all uncertain because we'll have to see how the cycle evolves. And about the cycle evolution itself, well, we are very dubious about it. This is a crisis that, I think, will have quite a quick recovery, but we don't know how quick the recovery will be. We have certain relief or mitigating measures that are taking place that will have an impact. But we have no model that explains to us that we can make this compared to the previous crisis because, obviously, it was a different crisis. As I've said, I think the key is a combination of the GDP evolution in 2020, 2021, bringing together both, yes, because I think that really, to a large extent, the measures that we are applying are to just freeze the situation for a while to see what happens at the end of the 2-year period. So there, we have the same certainty as you may have regarding the cycle -- evolution of this economic cycle. And we'll have to see it over the next few quarters.

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

[Interpreted] I'm really sorry, but we have to finish here. We had questions from Mario from Fidentiis, (inaudible), from Barclays, Sabadell, also Carlos Peixoto from Caixabank and JosÃ© Coll.

So if you may -- just to synthesize -- if you don't mind, just to synthesize or summarize those questions, use of excess capital right now, if there's any possibilities, M&A and cost reductions?

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

[Interpreted] Well, I think that in the current environment, it's very difficult, as I've said, to answer that question. We'll have to see over the next quarter. We are in an environment that we have the slight face of huge uncertainty. And in the context of huge uncertainty, our priorities are focused on the normal operation of the bank on the management of the company's risk profile over the next few quarters. And therefore, we currently do not have an answer -- a specific answer to the use of excess capital.

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

[Interpreted] Okay. Well, thank you very much, Pepe. Thank you, Leo. Thank you all for your attendance, and we hope that you continue to be in good health. And we expect to see you in the second quarter results presentation that will take place on the 28th of July. As you know, the answers that haven't been answered, even though most of the topics have been mentioned, you know that the Investor Relations team is at your availability in order to answer any questions you may have. Thank you very much. Thank you.

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

[Interpreted] Thank you, and goodbye.

[Portions of this transcript that are marked Interpreted were spoken by an interpreter present on the live call.]
