Bankia

The bank successfully concludes the IT integration of BMN

Bankia obtained net attributable profit of 229 million euros in the first quarter, a decline of 24.5%

- Net interest income grew 4.4% and gross income was up 6%, buoyed by a 27.2% rise in fee and commission income

- The CET1 fully loaded ratio moved to 12.68%, gaining 22 basis points in the quarter

- Non-earning assets (non-performing loans and gross foreclosed assets) decreased by 2,142 million euros in the last 12 months and the NPL ratio dropped 90 basis points to 8.7%

- The bank continued to step up the pace of attracting new customers in the quarter, thus increasing its customer base by 163,000 customers in the last 12 months

- In the last year, the bank has signed up 95,000 net new customers with direct income deposits

- Some 12.5% of new customers come through digital channels, which now account for 14.6% of total purchases

- New mortgage loans increased 18%, while lending to businesses was up 14%

- Customer funds rose by 1,500 million euros in the last 12 months, with mutual funds and pension funds growing by 2,900 million

- Customer satisfaction again reached a record high

Madrid, 27/04/2018. Bankia obtained a net attributable profit of 229 million euros in the first quarter of 2018, 24.5% less than in the same period of the previous year. The decline is explained by the decrease in trading income, the effect of negative benchmark interest rates and the extraordinary profit booked in the first months of 2017 due to the sale of Globalvia.

Bankia chairman José Ignacio Goirigolzarri explained that "this first quarter has been marked by the merger with BMN, after all of the authorisations were obtained at the end of last year, and on 19 March the integration of the two banks' systems was completed. As a result, as from 1 April some 520,000 customers coming from BMN are no longer paying fees and commissions".

"Furthermore, in these first three months of the year, we have continued strengthening our positioning, increasing the number of customers month by month, and, most importantly, improving their level of satisfaction", he highlighted.

The bank's chief executive officer, José Sevilla, called attention to "the new advances achieved in balance sheet quality, reflected in non-performing loans and foreclosed assets having been reduced by more than 2,100 million euros in the last year, a decline in the NPL ratio and a rise in the NPL coverage ratio".

"We have at the same time continued generating capital in the quarter, bringing the solvency ratio on a fully loaded basis to 12.68%. This figure is far above the regulatory requirements and once again ranks us at the top of Spain's major banks", he added.

Results

Net interest income (NII) was 526 million euros, 4.4% higher as a result of the integration. If BMN's accounts are included in the first three months of last year, NII would decline 9.8%, depressed by the new downward repricing of the mortgage portfolio and by lower returns from the fixed-income portfolio after the sales and rotation carried out.

In the first three months of the year, active pricing management continued both in the asset and the liabilities side, allowing the bank to increase its customer margin by four basis points (in a like-for-like comparison) to 1.57%.

Fee and commission income rose 27.2% (2.4% on a constant-perimeter basis), reflecting the bank's increased activity and greater cross-selling to customers. All business areas performed well in this chapter, particularly in the sale of funds and insurance, and in payment systems and services.

Net trading income contributed 139 million euros, some 14% less, as a result of the higher sales of fixed-income instruments by the Group in the first quarter of 2017.

Gross income grows

Gross income rose to 939 million euros, a 6% gain over the previous year, although in a like-for-like comparison it would have declined 10.4%. Operating expenses were 25.6% higher due to the integration of BMN, but remained stable on a constant-perimeter basis (rising

0.8%). Thus, the efficiency ratio stands at 51.7%. The bank expects to reap the first cost synergies from the merger beginning in May.

Provisioning was 8.6% lower year-on-year and the cost of risk (volume of provisions over credit) again declined by eight basis points, at 0.23% at the end of the quarter. All this contributed to a net attributable profit of 229 million euros, some 24.5% lower.

Balance sheet quality improves

The bank's balance sheet continued improving for yet another quarter, with new declines in non-productive assets and in the NPL ratio, and an increase in the NPL coverage ratio.

Non-performing loans decreased by 486 million in the quarter to 11,631 million, allowing a 20 bp decline in the NPL in the quarter down to 8.7%. In the last twelve months, this ratio has declined 90 basis points. And the coverage ratio, in turn, ended March at 55.1%, 380 basis points better than one year ago and 430 basis points better than at the end of 2017.

At the same time, gross foreclosed assets decreased by 442 million euros in the last 12 months, down to 4,938 million, taking total non-earning assets (NPLs plus foreclosed assets) lower by 2,142 million, to 16,631 million, bringing the ratio to 11.9% some 140 basis points below one year ago.

This progress in shedding foreclosed assets is explained by the sale of 3,311 properties in the first quarter, 73% more than in the same period of the preceding year, and the equivalent of 6% of the total stock at year-end 2017. These sales generated proceeds of 168 million.

More customers, more lending and more funds managed

The bank continues picking up the pace of its activity quarter by quarter. In the last 12 months the customer base has increased by 163,000 net new clients and the number of customers with direct income deposits has increase by 95,000.

The heightened business activity is reflected, amongst other areas, in the payment systems and services segment. Purchases with Bankia credit cards in merchants rose 13.6%, while sales at the bank's point-of-sale (POS) terminals climbed some 16%.

In lending, new mortgage loans grew at a pace of 18%, to reach 635 million, and lending to businesses was up 14% to 3,178 million. Notable in this segment was the 79% rise in foreign trade operations and 408 million in new operations that were previously banned by the Restructuring Plan. The stock of consumer finance grew 10.1%.

The amount of retail customer funds rose 1,500 million euros to reach 146,900 million, with brisk activity in mutual funds and pension funds, which gained 2,900 million and now stand in aggregate at 27,600 million.

Of note in the first quarter's commercial activity were the numerous initiatives developed to enter new businesses. These include the agreement signed with Crédit Agricole to set up a joint venture for consumer finance at point of sale; the vehicle rental arrangement with Alphabet and the deal with PayPal to become the first entity in Spain to allow its customers to open an account with Paypal from the bank's channels.

Moreover, the bank has started the reorganisation of its bancassurance business and is finishing the reorganisation of the property servicers to whom it had assigned the management of real estate assets.

Customers ever more satisfied, and increasingly digital

This heightened activity of the bank is accompanied by ever more satisfied customers, as this indicator continued trending upward.

The percentage of satisfied customers rose to 89.3% from the 88.9% recorded in the second half of 2017, while the mystery shopper exercise returned a score of 7.64, versus 7.44 in 2017 and 7.19 for the sector as a whole.

This gain in customer satisfaction is influenced by the advances in digital channels, which are seeing ever greater demand. Some 38.9% of the Group's customers are now digital and 14.6% of the bank's sales are now done digitally.

Further proof of the digital transformation underway is that 12.5% of the net new customers signed up in the last 12 months came via digital channels.

A total of 604,000 customers were serviced at the end of March by an online personal advisor, 72.6% more than one year ago, through the 'Connect with your expert' service, which manages a business volume of 22,100 million euros.

Solvency continues improving

In terms of solvency, Bankia closed the quarter with a common equity tier 1 (CET1) fully loaded ratio (i.e., implementing in full, ahead of time, the Basel III requirements that will apply in 2019) of 12.68%, 22 basis points above the year-end 2017 level. Without including unrealised sovereign gains from the available-for-sale (AFS) portfolio, this ratio would have come in at 12.08%, 13 basis points higher.

Using the phase-in metric (i.e., applying current regulatory requirements) and including the unrealised gains in the AFS portfolio, the CET1 ratio is 13.89%. The capital surplus above the SREP regulatory requirements for 2018 is 533 basis points.

In terms of liquidity, the bank ended the quarter with a loan-to-deposit ratio of 92.7% (93.9% at year-end 2017) and had liquid assets of 33,636 million euros.

In step with the improvement in the credit profile, in April S&P Global Ratings upgraded the bank's long-term rating from ‘BBB-‘to ‘BBB’.

Integration with BMN successfully concluded in one quarter

The integration of BMN's systems was successfully completed within just two and a half months after the merger was approved. After this process, which involved installing more than 22,000 new devices and substituting or adapting more than 1,000 ATMs, all BMN customers now benefit from Bankia products and conditions. For example, as from 1 April more than 520,000 customers have been exempted from paying fees and commissions for the most frequent operations.

As of today,all the planned post-merger branch closures have been completed, leaving the network at 2,282 branches (5% less than in December), all of them operating under the Bankia brand. In addition, the labour agreement was signed with the unions.

Significant events of the first quarter

On 8 January 2018, Bankia and BMN culminated their legal integration with the registration of the public deed of merger in the commercial registry.

On 11 January, BMN shareholders received Bankia shares at a rate of one ordinary Bankia share, with a nominal value of one euro, for every 7.82987 ordinary shares of BMN, also with a nominal value of one euro each. To carry out the exchange, Bankia issued 205,630,814 new shares with a nominal value of one euro each (7.142% of the pre-merger share capital of the acquiring company).

On 12 January, the newly issued shares of Bankia were admitted to trading on the Madrid, Barcelona, Valencia and Bilbao Stock Exchanges.

On 19 January, the CNMV approved the processing of the changes that affect the funds included in Bankia Fondos that had been previously marketed by BMN.

On 26 January, the Bankia Board of Directors named Carlos Egea as executive director and proposed to the General Meeting of Shareholders a dividend distribution of 340 million euros, 7% more than the previous year, the equivalent of 11.024 cents per share.

On 6 February, Bankia and Aon signed an agreement to advise large companies in the contracting of specialised insurance products.

On 6 February, Fitch improved the outlook for Bankia from stable to positive and affirmed its 'BBB-' rating.

On 15 February, Bankia signed an agreement on redundancies with union representatives.

On 23 February, Bankia agreed to acquire 50% of Caja Granada Vida, held by Ahorro Andaluz (holding of Aviva and Unicaja), and Cajamurcia Vida y Pensiones, owned by Aviva, thus starting the reorganisation of its bancassurance business after the merger with BMN.

On 27 February, Bankia presented its Strategic Plan 2018-2020, with which it is seeking to become "the best bank in Spain" in efficiency, capital adequacy and profitability, as well as in customer satisfaction. The bank announced that it expects to distribute more than 2,500 million euros to its shareholders over the next three years, more than twice the 1,160 million paid out in the last four years.

On 7 March, Bankia and Crédit Agricole agreed to begin exclusive negotiations to set up a consumer finance joint venture

On 13 March, Bankia announced it was waiving fees and commissions, as from 1 April, to more than 520,000 customers coming from BMN with direct income deposits.

On 19 March, Bankia concluded the IT integration after its merger with BMN.

El 22 March, Bankia and PayPal partnered to improve their customers' payment experience in Spain.

On 26 March, Bankia announced the appointment of Elena Bernal as Data Protection and Privacy officer to reinforce the security of its customers' data.

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KEY DATA

	Mar-18	Dec-17	Change
Balance sheet (€ million)			
Total assets	209.043	213.932	(2,3%)
Loans and advances to customers (net)[1]	120.410	123.025	(2,1%)
Loans and advances to customers (gross)[1]	126.400	128.782	(1,8%)
On-balance-sheet customer funds	146.567	150.181	(2,4%)
Customer deposits and clearing houses	127.010	130.396	(2,6%)
Borrowings, marketable securities	17.048	17.274	(1,3%)
Subordinated liabilities	2.508	2.511	(0,1%)
Total managed customer funds	174.227	177.467	(1,8%)
Equity	12.960	13.222	(2,0%)
Common Equity Tier I - BIS III Phase In	11.917	12.173	(2,1%)
Solvency (%)			
Common Equity Tier I - BIS III Phase In	13,89%	14,15%	-0,26 p.p.
Total capital ratio - BIS III Phase In	16,88%	16,84%	+0,04 p.p.
Ratio CET1 BIS III Fully Loaded	12,68%	12,66%	+0,02 p.p.
Risk management (€ million and %)			
Total risk	134.258	136.353	(1,5%)
Non performing loans	11.631	12.117	(4,0%)
NPL provisions[2]	6.412	6.151	4,2%
NPL ratio	8,7%	8,9%	-0,2 p.p.
NPL coverage ratio[2]	55,1%	50,8%	+4,3 p.p.

	Mar-18	Mar-17 [3]	Change yoy
Results (€ million)			
Net interest income	526	504	4,4%
Gross income	939	886	6,0%
Pre-provision profit	453	500	(9,3%)
Profit/(loss) attributable to the Group	229	304	(24,5%)
Key ratios (%)(5)			
Cost to Income ratio (Operating expenses / Gross income)	51,7%	43,6%	+8,1 p.p.
R.O.A. (Profit after tax / Average total assets) [4]	0,4%	0,7%	-0,3 p.p.
RORWA (Profit after tax / RWA) [5]	1,1%	1,6%	-0,5 p.p.
ROE (Profit attributable to the group / Equity) [6]	7,5%	10,2%	-2,7 p.p.
ROTE (Profit attributable to the group / Average tangible equity) [7]	7,7%	10,4%	-2,7 p.p.

	Mar-18	Dec-17	Change
Bankia share			
Number of shareholders	192.141	192.055	0,04%
Number of shares in issue (million)	3.085	3.085	-
Closing price (end of period, €)[8]	3,64	3,99	(8,7%)
Market capitalisation (€ million)	11.226	12.300	(8,7%)
Earnings per share[9] (€)	0,30	0,26	14,1%
Tangible book value per share[10] (€)	4,30	4,34	(0,8%)
PER (Last price [8] / Earnings per share	12,06	15,07	(20,0%)
PTBV (Last price [8] / Tangible book value per share)	0,85	0,92	(8,0%)
Additional information			
Number of branches	2.282	2.402	(5,0%)
Number of employees	17.842	17.757	0,5%

(1) Includes transactions with BFA (Mar-18 €110mn; Dec-17 €47mn)
(2) Group coverage at Dec-17 including additional provisions due to the IFRS 9 application would have been 56,5%
(3) 1Q 2017 Group data before merger between Bankia and BMN, which accounting effect took place on 1st December 2017
(4) Profit after tax divided by average total assets
(5) Profit after tax divided by risk weighted assets at year end
(6) Attributable profit divided by the previous 12 months equity average excluding the expected dividend payment
(7) Attributable profit divided by the previous 12 months tangible equity average excluding the expected dividend payment
(8) Using the last price on 29th March 2018 and 29th December 2017
(9) Attributable profit divided by the number of shares in issue. Integrating BMN costs are excluded in 2017 figures
(10) Total Equity less intangible assets divided by the number of shares in issue

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YEARLY P&L

(€ million)	1Q 2018	1Q 2017 (1)	Change yoy Amount	Change yoy %
Net interest income	**526**	**504**	**22**	**4,4%**
Dividends	1	6	(5)	(83,0%)
Share of profit/(loss) of companies accounted for using the equity meth	12	9	3	35,7%
Total net fees and commissions	264	207	56	27,2%
Gains/(losses) on financial assets and liabilities	139	161	(23)	(14,0%)
Exchange differences	1	2	(1)	(57,9%)
Other operating income/(expense)	(3)	(3)	(0)	2,7%
Gross income	**939**	**886**	**53**	**6,0%**
Administrative expenses	(437)	(345)	(92)	26,7%
Staff costs	(305)	(235)	(70)	29,8%
General expenses	(132)	(110)	(22)	20,1%
Depreciation and amortisation	(48)	(41)	(7)	18,3%
Pre-provision profit	**453**	**500**	**(46)**	**(9,3%)**
Provisions	(103)	(99)	(4)	4,3%
Provisions (net)	13	8	5	63,3%
Impairment losses on financial assets (net)	(116)	(107)	(9)	8,6%
Operating profit/(loss)	**350**	**401**	**(51)**	**(12,7%)**
Impairment losses on non-financial assets	(4)	(9)	4	(52,3%)
Other gains and other losses	(49)	12	(61)	(508,5%)
Profit/(loss) before tax	**297**	**404**	**(107)**	**(26,5%)**
Corporate income tax	(67)	(100)	33	(33,0%)
Profit/(loss) after tax	**230**	**304**	**(74)**	**(24,4%)**
Profit/(Loss) attributable to minority interests	0,3	0,2	0	51,4%
Profit/(loss) attributable to the Group	**229**	**304**	**(74)**	**(24,5%)**
Cost to Income ratio (2)	**51,7%**	**43,6%**	**+8,1 p.p.**	**18,7%**
Recurring Cost to Income ratio (3)	**60,7%**	**53,4%**	**+7,3 p.p.**	**13,7%**

(1) 1Q 2017 Group data before merger between Bankia and BMN, which accounting effect took place on 1st December 2017
(2) Operating expenses / Gross income
(3) Operating expenses / Gross income (excluding gains/losses on financial assets and liabilities and exchange differences)

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QUATERLY P&L

(€ million)	1Q 2018	4Q 2017 (1)	3Q 2017 (1)	2Q 2017 (1)	1Q 2017 (1)
Net interest income	**526**	**501**	**472**	**491**	**504**
Dividends	1	2	0	2	6
Share of profit/(loss) of companies accounted for using the equity method	12	9	12	10	9
Total net fees and commissions	264	229	210	218	207
Gains/(losses) on financial assets and liabilities	139	54	51	101	161
Exchange differences	1	3	3	2	2
Other operating income/(expense)	(3)	(132)	2	(61)	(3)
Gross income	**939**	**666**	**751**	**762**	**886**
Administrative expenses	(437)	(383)	(344)	(336)	(345)
Staff costs	(305)	(255)	(229)	(226)	(235)
General expenses	(132)	(128)	(114)	(110)	(110)
Depreciation and amortisation	(48)	(47)	(44)	(42)	(41)
Pre-provision profit	**453**	**236**	**364**	**384**	**500**
Provisions	(103)	(50)	(73)	(72)	(99)
Provisions (net)	13	38	(6)	(5)	8
Impairment losses on financial assets (net)	(116)	(88)	(66)	(67)	(107)
Operating profit/(loss)	**350**	**186**	**291**	**312**	**401**
Impairment losses on non-financial assets	(4)	(2)	(2)	(1)	(9)
Other gains and other losses	(49)	(67)	(29)	(22)	12
Profit/(loss) before tax	**297**	**117**	**260**	**289**	**404**
Corporate income tax	(67)	(51)	(34)	(78)	(100)
Profit/(loss) after tax	**230**	**65**	**226**	**210**	**304**
Profit/(Loss) attributable to minority interests	0,3	(11,8)	0,7	0,4	0,2
Profit/(loss) attributable to the Group	**229**	**77**	**225**	**210**	**304**
Net integration costs (2)	-	(312)	-	-	-
Profit/(loss) attributable to the Group as reported	**229**	**(235)**	**225**	**210**	**304**
Cost to Income ratio (3)	**51,7%**	**64,6%**	**51,6%**	**49,6%**	**43,6%**
Recurring Cost to Income ratio (4)	**60,7%**	**70,6%**	**55,6%**	**57,4%**	**53,4%**

(1) 1Q 2017, 2Q 2017 and 3Q 2017 Group data provides figures before merger between Bankia and BMN. 4Q 2017 includes one month of BMN P&L, which accounting effect took place on 1st December 2(

(2) Non recurrent integration costs due to the merger between Bankia and BMN, net of taxes

(3) Operating expenses / Gross income. Non recurrent integration staff costs are excluded for the 4Q 2017 calculation, detailed separately according to note 2

(4) Operating expenses / Gross income (excluding gains/losses on financial assets and liabilities and exchange differences). Non recurrent integration staff costs are excluded for the 4Q 2017 calculation,

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BALANCE SHEET

(millones de euros)	Mar-18 (1)	Dec-17 (1)	Change yoy Amount	Change yoy %
Cash, cash balances at central banks and other demand deposits	4.151	4.504	(353)	(7,8%)
Financial assets held for trading	6.451	6.773	(322)	(4,8%)
Derivatives	6.328	6.698	(370)	(5,5%)
Debt securities	120	2	118	5889,4%
Equity instruments	4	74	(70)	(95,2%)
Financial assets not held for trading designated at fair value through profit or loss	9	-	-	-
Loans and advances to customers	9	-	-	-
Financial assets designated at fair value through equity	19.009	22.745	(3.736)	(16,4%)
Debt securities	18.939	22.674	(3.735)	(16,5%)
Equity instruments	70	71	(1)	(1,5%)
Financial assets measured at amortised cost	158.385	158.711	(325)	(0,2%)
Debt securities	34.485	32.658		
Loans and advances to credit institutions	3.498	3.028	470	15,5%
Loans and advances to customers	120.402	123.025	(2.623)	(2,1%)
Derivatives - Hedge accounting	2.913	3.067	(154)	(5,0%)
Investments in joint ventures and associates	329	321	9	2,7%
Tangible and intangible assets	2.638	2.661	(23)	(0,9%)
Non-current assets and disposal groups classified as held for sale	3.169	3.271	(102)	(3,1%)
Other assets	11.988	11.879	109	0,9%
TOTAL ASSETS	**209.042**	**213.932**	**(4.890)**	**(2,3%)**
Financial liabilities held for trading	7.120	7.421	(301)	(4,1%)
Derivatives	6.815	7.078	(263)	(3,7%)
Short positions	306	343	(38)	(11,0%)
Financial liabilities measured at amortised cost	184.378	188.898	(4.520)	(2,4%)
Deposits from central banks	15.356	15.356	-	-
Deposits form credit institutions	21.201	22.294	(1.092)	(4,9%)
Customer deposits	127.010	130.396	(3.386)	(2,6%)
Debt securities issued	19.557	19.785	(228)	(1,2%)
Other financial liabilities	1.254	1.067	187	17,5%
Derivatives - Hedge accounting	389	378	10	2,7%
Provisions	2.019	2.035	(15)	(0,8%)
Other liabilities	1.620	1.587	33	2,1%
TOTAL LIABILITIES	**195.526**	**200.319**	**(4.792)**	**(2,4%)**
Minority interests (Non-controlling interests)	25	25	-	-
Acumulated other comprehensive income	531	366	166	45,3%
Own funds	12.960	13.222	(262)	(2,0%)
TOTAL EQUITY	**13.516**	**13.613**	**(97)**	**(0,7%)**
TOTAL EQUITY AND TOTAL LIABILITIES	**209.043**	**213.932**	**(4.889)**	**(2,3%)**

(1) For comparison purposes, the information on assets and liabilities of the Group shown at 31 December 2017 and 31 December 2016 is adapted to IRFS 9 criteria, which according to European Union rules, is mandatory since 1 January 2018