Bank unveils its Strategic Plan 2018-2020

Bankia plans to distribute more than €2,500 million to its shareholders in the next three years, more than twice the figure for the last four years

- It expects to pay out between 45% and 50% of its profits in ordinary cash dividends and to return capital in excess of 12% CET1 Fully Loaded
- The Bank will achieve an adjusted ROE of 10.8% by year-end 2020 and record profits of more than €1,300 million in that year, a 62% gain on the 2017 bottom line
- NPL ratio to be brought down below 4% with coverage of over 55%, and cost of risk steady at 24 basis points
- Efficiency will improve to below 47% after BMN merger synergies rise to €190 million, 22% higher than initially projected
- Improvement in balance sheet quality will be accompanied by a strong commercial drive and net growth of 400,000 retail customers and 12,500 business customers
- The plan envisages growing market shares in mortgage and business lending, consumer finance, investment funds, payment systems and insurance
- Bankia has set the goal for this 3-year period of becoming the best bank in Spain in efficiency, credit quality and profitability, as well as in customer satisfaction

Madrid, 27/2/2018. Bankia projects distributing more than €2,500 million to its shareholders in the next three years, more than twice the 1,160 million euros distributed over the last four. This figure, set out in the Strategic Plan 2018-2020 announced today, stems from its intention to boost the ordinary cash dividend pay-out to 45-50% of its profits and to return capital above 12% CET1 Fully Loaded.

The Bank is projecting profits of more than €1,300 million for the last year of the plan, some 62% higher than in 2017, and expects to raise its return on equity (ROE) to 10.8%, once adjusted to a capital level of 12%.

Bankia chairman José Ignacio Goirigolzarri underscored today that "we are beginning this new plan with great expectations because the solid balance sheet and commercial drive that mark our starting point are now being strengthened by the end of European Union restrictions and by the momentum from our merger with BMN".

“This project we are now beginning is much different from the one we embarked on five years ago, but both share two common starting points: we will continue making great efforts to achieve sound corporate governance and keep managing the Bank with our principles and values clearly in view”, he added.

“Our goal is to become, over these three years, the best bank in Spain, which means, first of all, being the most profitable, efficient and solvent bank amongst the sector majors and, secondly, having more satisfied customers, more committed personnel and greater social recognition”, he explained.

“In short, we will continue pursuing our model of strong capital generation, and this will allow us to distribute over 2,500 million euros to shareholders during the next three years”, Goirigolzarri announced, and went on to point out that this will mark “a major step forward in returning the State aid received”.

The Bank's CEO José Sevilla noted that “the plan pivots around four main themes: execution of the integration with BMN, efficiency and cost control, revenue growth through increased sales of high value products, and rapid reduction of non-performing assets”.

“In these three years we are looking to obtain 400,000 new retail customers and intensify the relationship with current customers, which will allow us to boost revenue and expand market shares in profitable products such as consumer loans, business lending, investment funds and payment systems”, Sevilla explained.

“In three years we will record profits of over 1,300 million euros and profitability of 11%”, he specified.

Profit growth driven by higher revenues and cost control

Bankia is presenting this strategic plan after having fulfilled all of the commitments of the previous plan and established itself as the fourth largest Spanish financial institution. Since 2013 the Bank has generated 635 basis points of capital (CET1 FL) and has reduced non-performing assets by 11,000 million euros.

With this new plan Bankia envisages continuing boosting its earnings with reinvigorated commercial drive, further enhancement of the quality of its balance sheet and advances in shareholder return.

Bankia estimates that its 2020 profit will come in 62% higher than the 816 million euros recorded in 2017 (a 162% gain compared to the 505 million euros obtained if the adjustments made for the BMN merger are considered). This increase will be driven by higher revenue from the growth in business volumes and by cost containment, which will improve the efficiency ratio to below 47%, versus 56% at the close of last year.

Net gain of 400,000 retail customers and 12,500 business customers

To boost its revenues, Bankia plans to expand its retail customer base by 5% (400,000 higher) and its business customers by 20% (12,500 more), and widen its market shares in mortgage origination (from 7.3% to 10.8%), in business lending (from 6.9% to 7.7%), in consumer loans (from 5.5% to 6.6%), in investment funds (from 6.4% to 7.2%) and in payment services (from 8.1% to 9% by number of credit cards), amongst other businesses.

The Bank will thus reverse the trend in its interest margin and increase it by 29%, with fee and commission income rising at an annual pace of 7%.

The Bank will at the same time continue its cost control policy of recent years and trim costs by a further 2.5%, allowing it to raise the synergies projected from the merger with BMN to 190 million euros, compared with the 155 million euros announced last June.

All of this will send its profit figure up to over 1,300 million euros in 2020, return on equity (ROE) to 10.8% and return on tangible equity (ROTE) to 11%, once adjusted to capital of 12%. Should the rate curve accelerate slightly compared with the base scenario of the plan, profits would move up to over 1,500 million euros, ROE to 12.2% and ROTE to above 12.5%.

Given that during this period between 45% and 50% of profits will be paid out in ordinary cash dividends, the 2020 earnings per share (EPS) will be around 0.43 euros versus 0.26 euros in 2017. If profits of 1,500 million euros, then EPS ratio would rise to 0.51 euros.

Sounder balance sheet

In relation to its balance sheet, the Bank foresees increasing the balance of customer funds managed in deposits as well as in investment funds, pension plans and insurance products, and its gross loans and advances, while continuing to reduce non-performing and foreclosed assets and raising the NPL coverage ratio.

The biggest growth in lending will come in the loans to businesses segment, where the balance is forecast to rise 7.9% per year to reach 41,500 million euros in 2020 (without counting non-performing loans), due, amongst other factors, to the disappearance of restrictions on lending to businesses with market access and to real estate developers.

In consumer finance, Bankia is projecting average annual growth of 16.2% in these balances to reach 6,800 million euros in 2020, and in the mortgage market the Bank expects to gain weight in new lending, although the overall balance will decline by an average annual rate of 2.2% as loan repayments continue to outstrip new lending.

With these numbers, Bankia will advance in changing the mix of its loan portfolio, with business loans expanding to 34% while mortgage loans contract to 54%.

Projected annual reduction of 2,900 million euros in troubled assets

The higher lending volume will be accompanied by further trimming of 8,800 million in troubled assets (NPLs and foreclosed assets) to leave the overall balance at 8,400 million euros. The troubled assets ratio will thus be brought down to below 6% (12.5% in 2017) gross and below 3% net, while the NPL ratio will stand at 3.9%, with a coverage ratio of 56% and cost of risk (provisions for credit risk) of 24 basis points.

With this plan, Bankia will continue with its model of high organic generation of capital, so its solvency will at all times stay above 12% CET1 FL. The Bank aims to return all capital in excess of that level to shareholders. This sum, together with the projected dividends, will allow a distribution of more than 2,500 million euros to shareholders in three years.

The strategic plan calculations have been made with a scenario of Spanish GDP growth of above 2% during the three years, the Euribor rate rising to an average of 0.73% in 2020 and a gradual recovery in lending.

€1,000 million capex in technology

In addition to the financial parameters, Bankia has also targeted gains in customer satisfaction, in the commitment of its employees and in enhanced social recognition.

A pivotal factor the Bank will focus on to improve the quality delivered to its customers will be to make advances in the distribution model so that it remains highly flexible in adapting to customer demands, which will gradually be increasingly more digital in nature. The plan foresees that by 2020 some 35% of purchases will be done via digital channels. Approximately 65% of the customers will be digital by that time (two million more than at present).

Bankia plans to prepare itself for these changes by budgeting capital expenditure of 1,000 million euros in technology, more than half of which will be dedicated to transform the model.

The Bank is also looking to forge strategic alliances in the payments segment to ensure a preeminent position in the market (it currently controls close to 12% of payments and collections) and to put all of the payment systems available in the market at the service of its customers.

With respect to human resource commitments, one of the objectives Bankia has charted for 2020 is that 40% of management positions be held by women.

To make gains in its social recognition, the Bank will focus on what it regards as the main challenges facing society at present: education and employment (with the Fundación FP Dual for vocational education and internships, primarily), the environment (with an eco-efficiency and climate change plan) and responsible digitisation (with advances in cybersecurity and in customer data privacy, including the appointment of a Data Protection and Privacy Officer).