

# Bankia

## **Merger with Banco Mare Nostrum**

› 27 June 2017

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## > Key Messages

### 1 ECONOMIC TERMS

- **Merger between Bankia and Banco Mare Nostrum (“BMN”)**
- c.206 <sup>(1)</sup> million of new ordinary shares of Bankia issued in exchange of 100% of share capital of BMN. Implied total consideration of €825mn for 100% of BMN (based on Bankia’s share price as of 23 June 2017 at €4.011)
- BMN receives Bankia’s shares representing 6.7% of the resulting entity

### 2 REINFORCED BANKIA’S LEADING POSITION IN SPAIN

- **Geographical complementarity:** BMN is a leading entity in Granada, the Region of Murcia and Balearic Islands
- **Bankia becomes a market leader in 6 regions<sup>(2)</sup>** that in aggregate contribute to **c.38% of Spanish GDP**

### 3 BANKIA MAINTAINS EQUITY STORY INTACT

- Bankia maintains **one of the lowest Real Estate exposures and NPA ratio of the sector**
- **PF 1Q17 CET1 Fully Loaded ratio of 11.5%**, expecting to reach a pro forma **12.0% by year end 2017**

### 4 VALUE GENERATION FOR BANKIA’S SHAREHOLDERS

- **Efficient use of Bankia’s excess capital:** Capacity to fund transaction without accessing the market
- **Estimated cost synergies of €155mn pre tax**
- **16% EPS accretion in 2020 (positive EPS from year 1 <sup>(3)</sup>) and 12% ROIC**

### 5 MERGER AT OPTIMAL CYCLE MOMENTUM

- After **successful ending of Bankia’s Restructuring Plan**
- **Positive economic environment and well positioned bank** to take advantage of a **potential interest rate increase**

(1) Exact number of shares (#) of 205,684,373

(2) Comunidades Autónomas: Comunidad Autonoma de Madrid, Comunidad Valenciana, Islas Baleares, Canarias, Región de Murcia and La Rioja

(3) Excluding extraordinary items

1

**Strategic Rationale**

2

**Asset Quality & Liquidity**

3

**Financial Impacts**

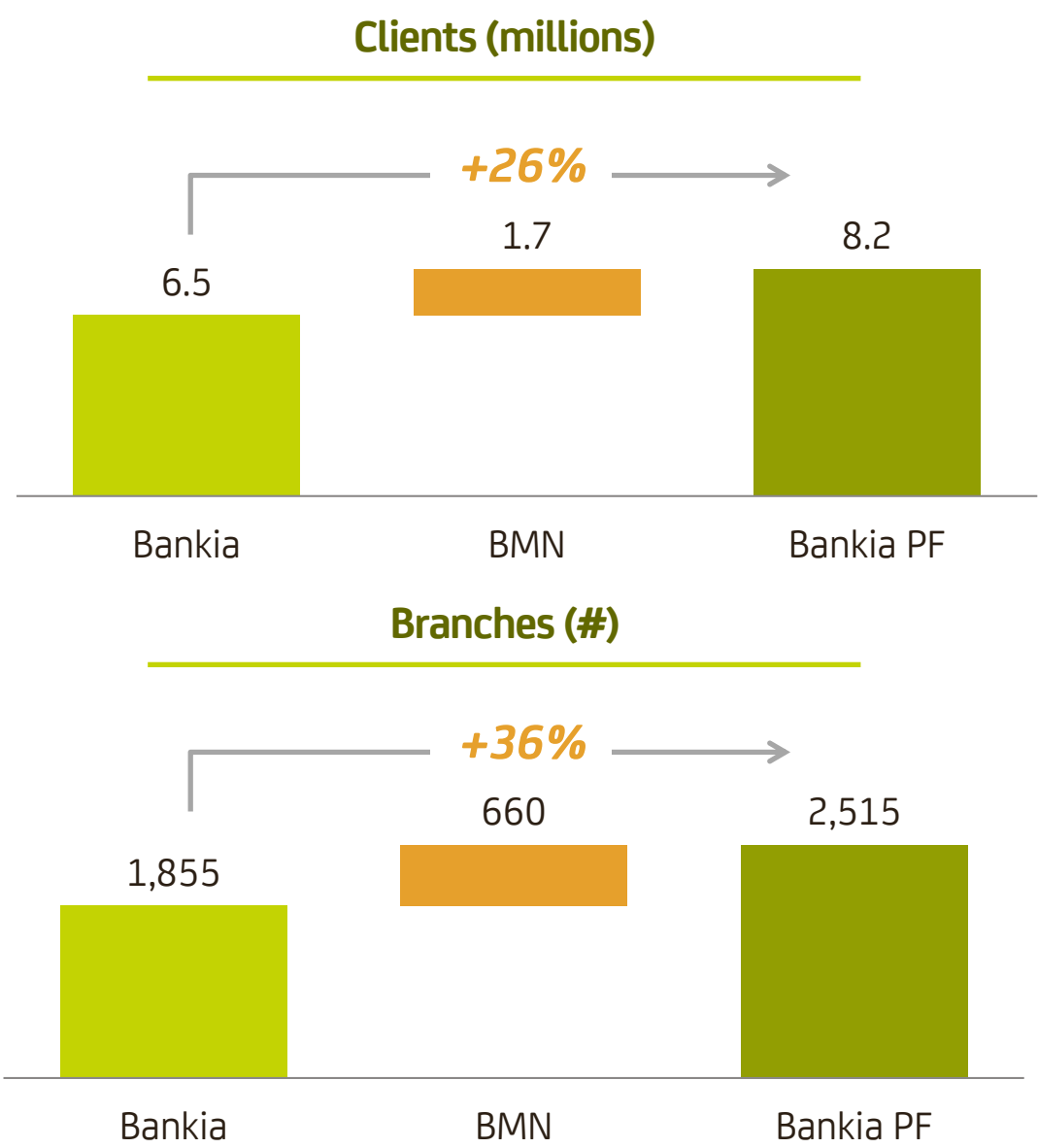
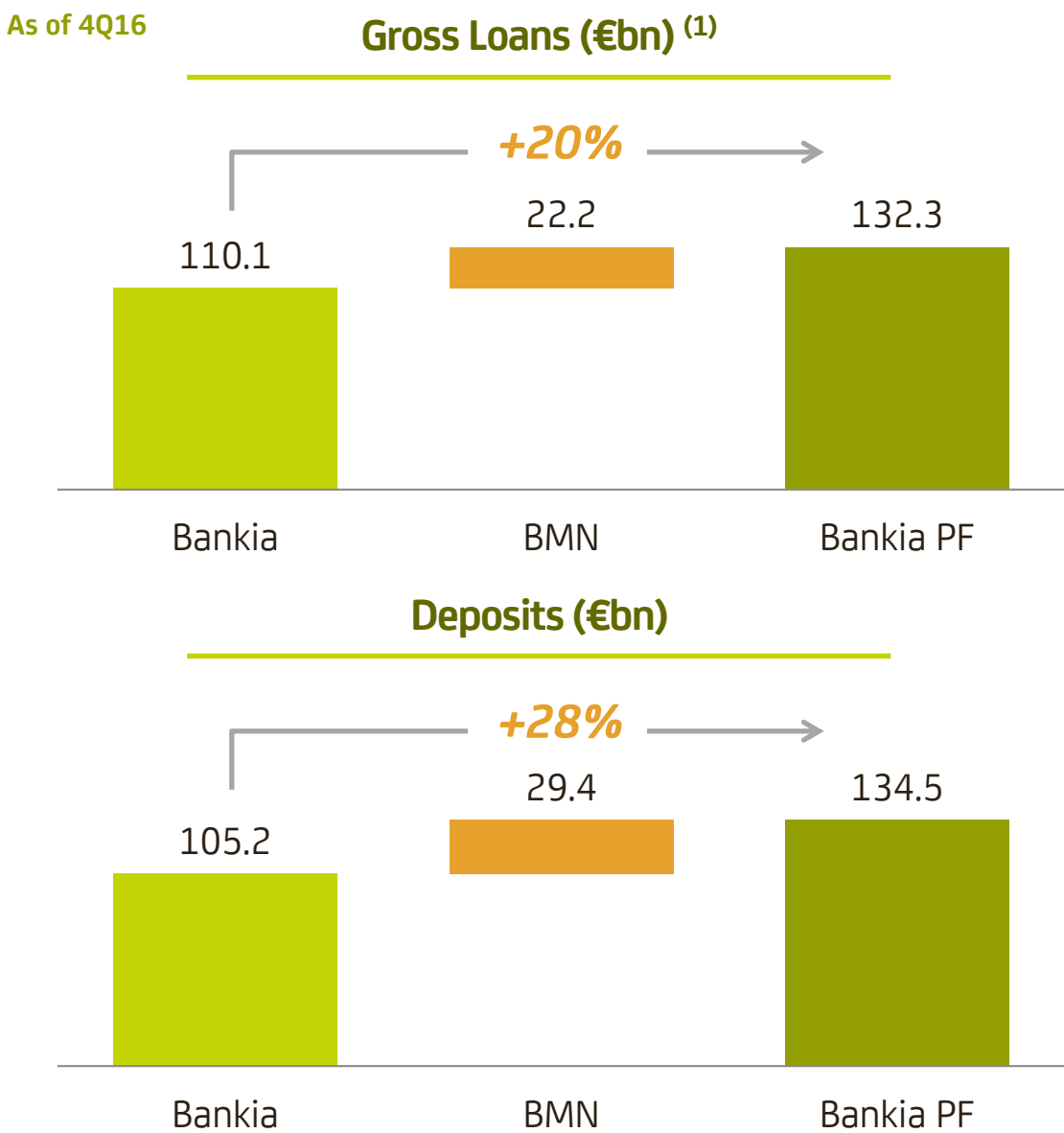
4

**Conclusions**

> Merger with BMN

Strategic Rationale

BMN brings a significant increase in scale and client base



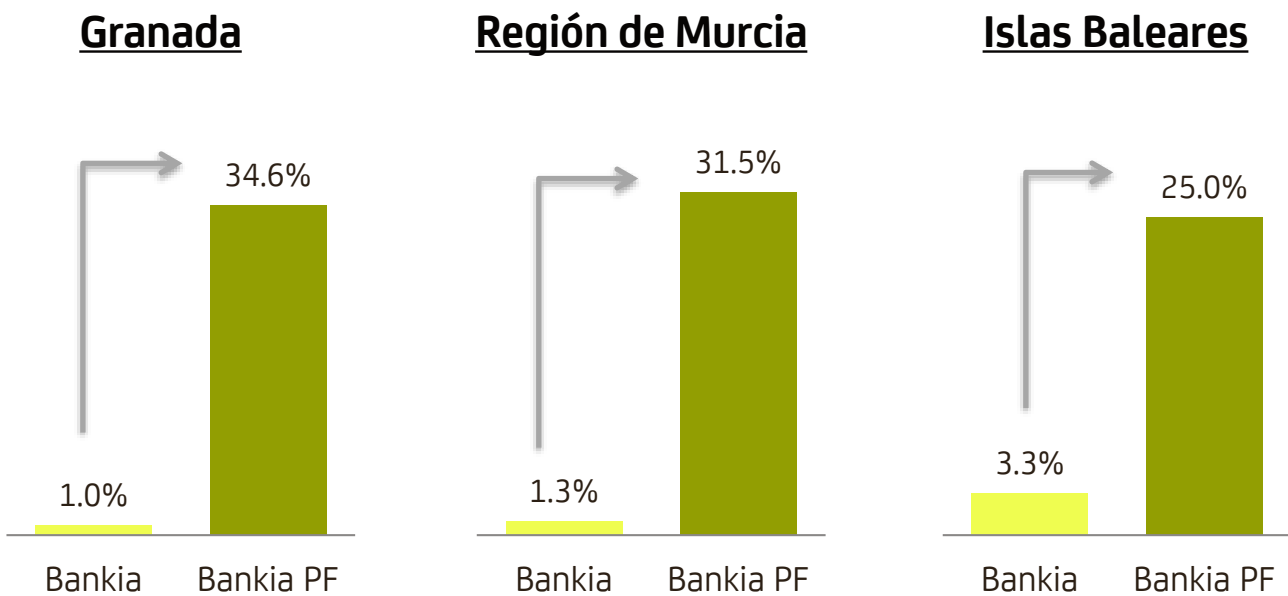
> Merger with BMN

Strategic Rationale

Geographical Complementarity: BMN is a Leading Franchise in Regions where Bankia’s presence is limited

Bankia becomes the Undisputable Leader in these Regions

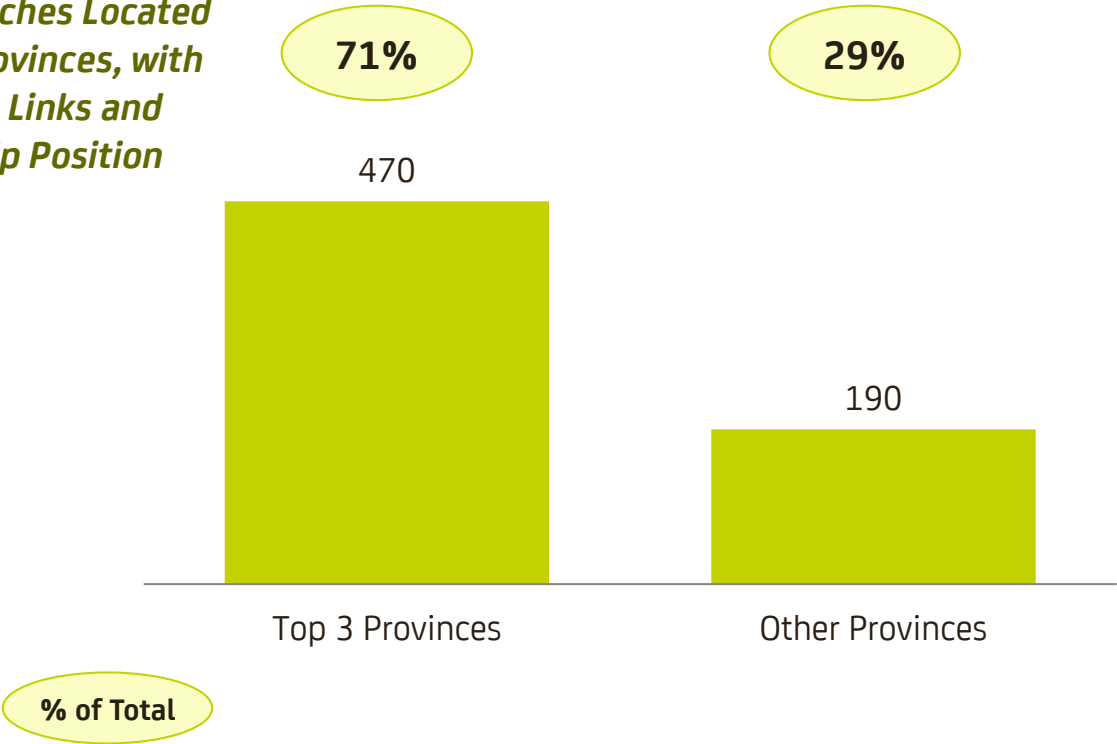
Deposits Markets Shares - as of 4Q16 (%) <sup>(1)</sup>



BMN is Focused on it’s Core Regions of Murcia, Granada and Baleares

BMN Branches Split by Provinces - as of 4Q16 (#)

71% of Branches Located in Core 3 Provinces, with Historical Links and Leadership Position



Source: Company Information, Banco de España, Instituto Nacional de Estadística  
<sup>(1)</sup> Domestic deposits

> Merger with BMN

Strategic Rationale

Bankia Strengthens its National Footprint, growing in some of most Attractive Regions

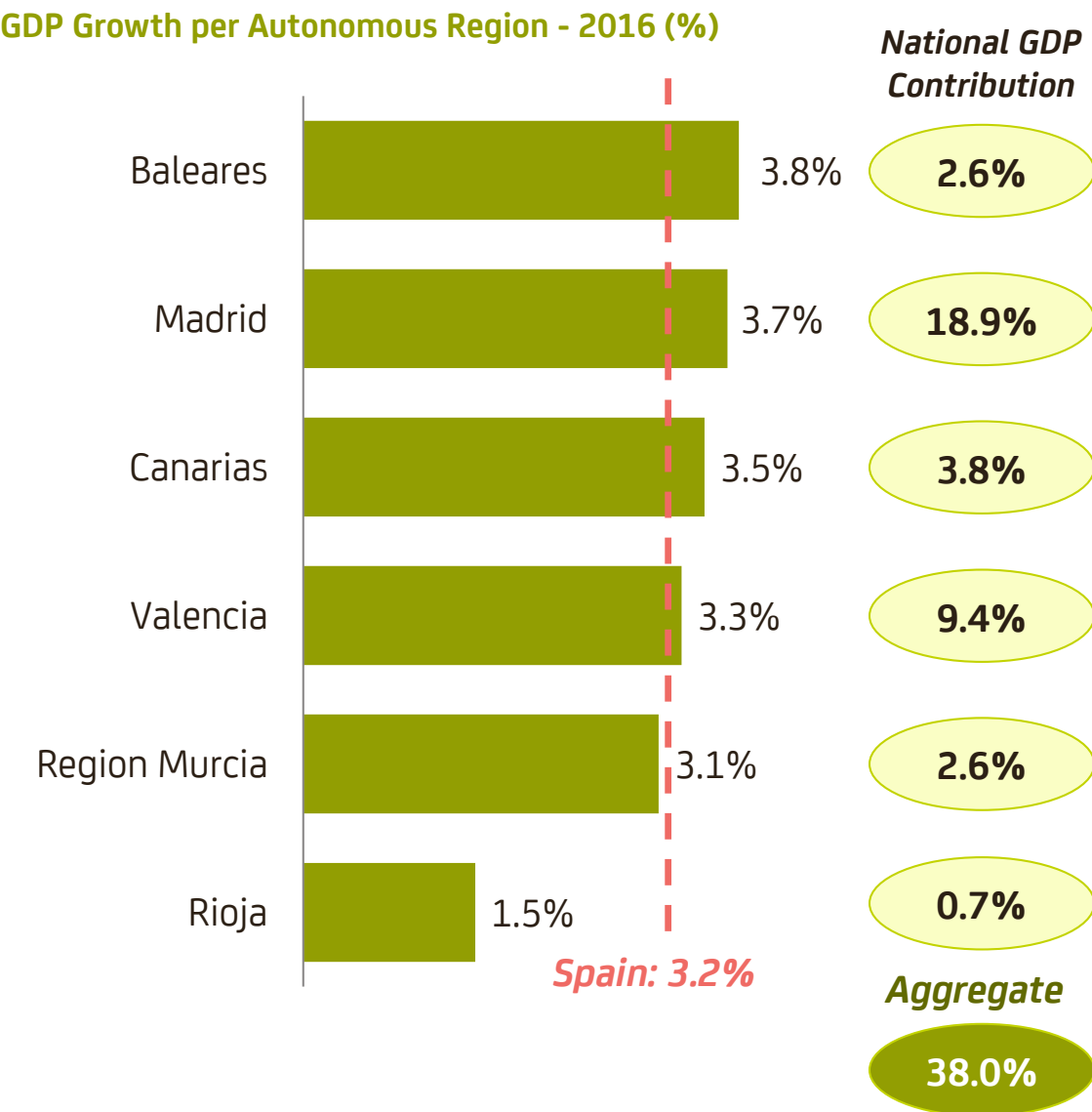
Bankia Increases its Leadership Position in Spain...

Bankia's PF Market Shares by Deposits as of 4Q16<sup>1</sup>



...With Focus on Some of the More Dynamic Regions

GDP Growth per Autonomous Region - 2016 (%)

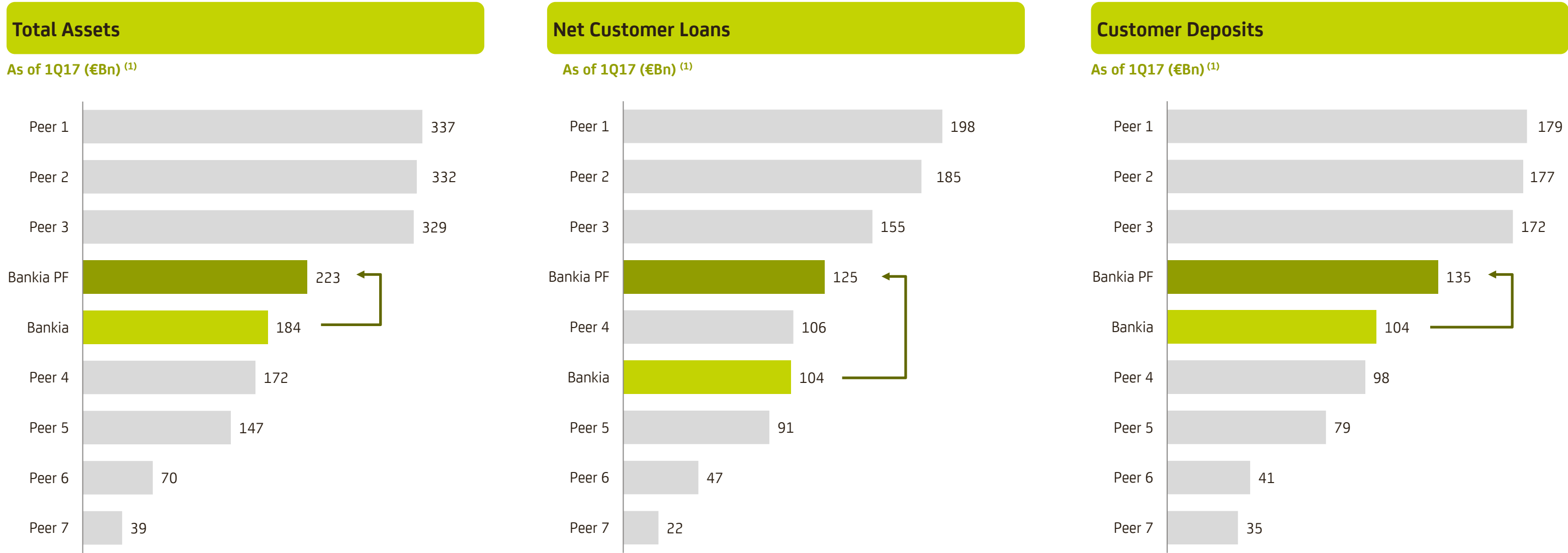


Leading entity in 6 dynamic regions that in aggregate contribute c.38% of Spanish GDP and c.41% of GDP Growth in 2016

> Merger with BMN

Strategic Rationale

Transaction Reinforces Bankia’s Position as 4<sup>th</sup> bank in Spain



Source: Company information  
<sup>(1)</sup> Peers include BBVA Spain (Incl. RE Unit), Bankinter (Ex Portugal where disclosed), CaixaBank (Ex BPI where disclosed), Liberbank, Popular, Sabadell (Ex TSB where disclosed) and Santander Spain (Incl. RE Unit)



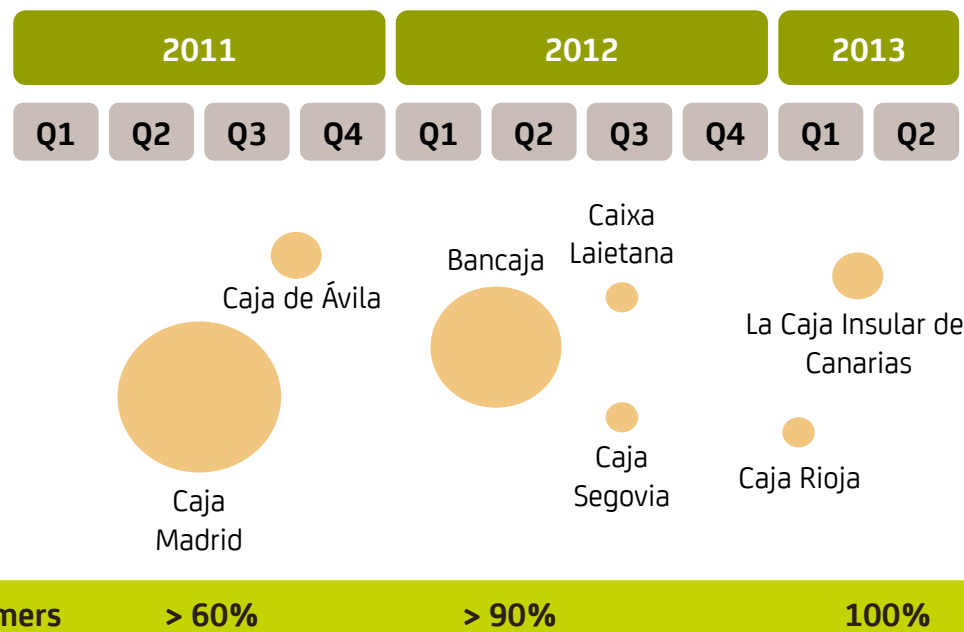
## > Merger with BMN

### Strategic Rationale

## Bankia's Integration Track Record Significantly Mitigates Execution Risks

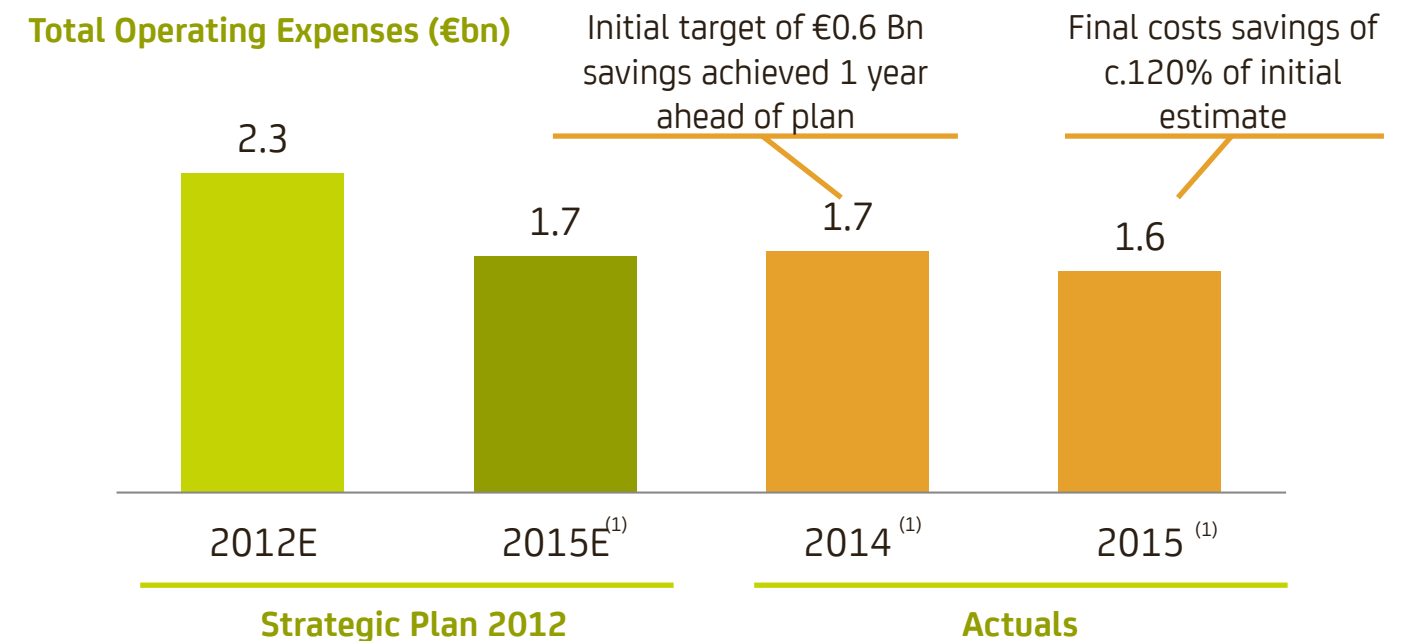
### Bankia Integration 2011-2013

- Successful **integration completed within a record time**
- Bankia's technological capabilities allowed the integration of 7 entities in one platform in less than 24 months



### Bankia Restructuring Plan 2012

- Bankia was able to outperform its targets announced in the Strategic Plan in 2012**
- Branch closures completed 2 years ahead of schedule with no material impact in commercial activity. 1,100 Branches closed in 9 months
- Final costs savings at c.120% of initial estimate

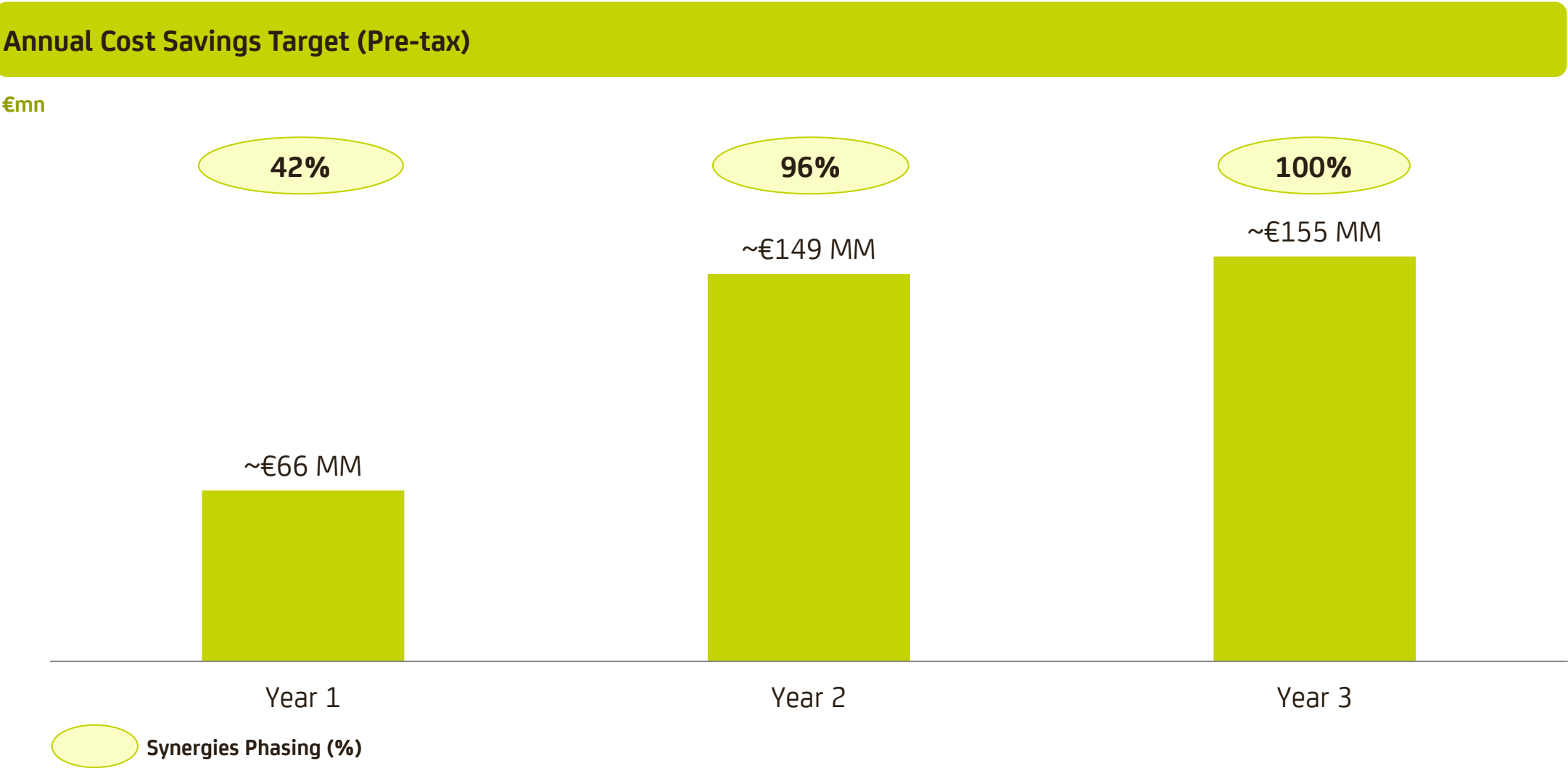


### BMN integration expected for 1H18

> Merger with BMN

Strategic Rationale

Expected €155 MM of Pre-tax Cost Synergies



- **€155mn reduction in recurrent costs** (pre-tax) expected by year 3
- **€334 MM of restructuring costs** associated (pre tax)

Synergies represent 40% of BMN 2016 cost base - Restructuring costs as 2.15x of synergies run rate

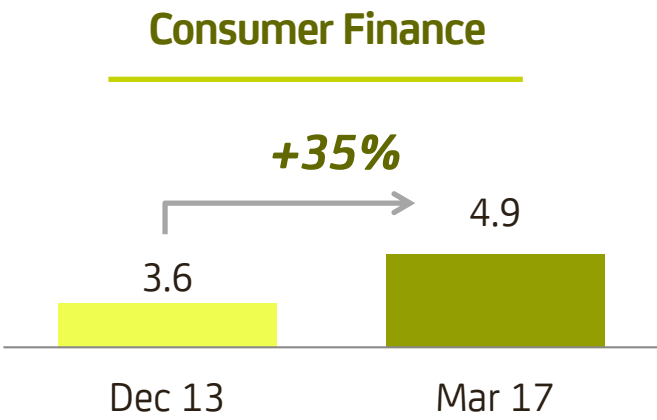
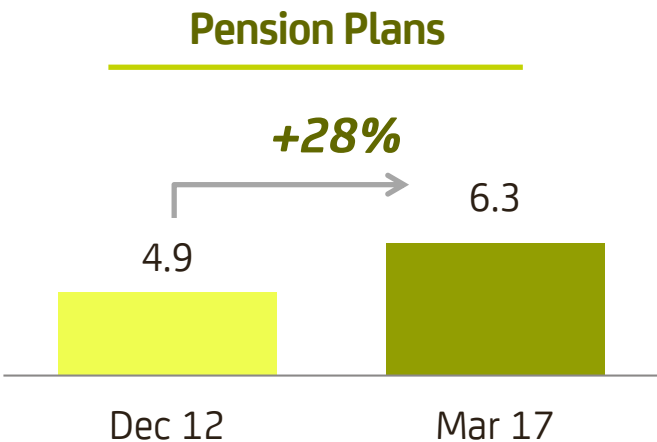
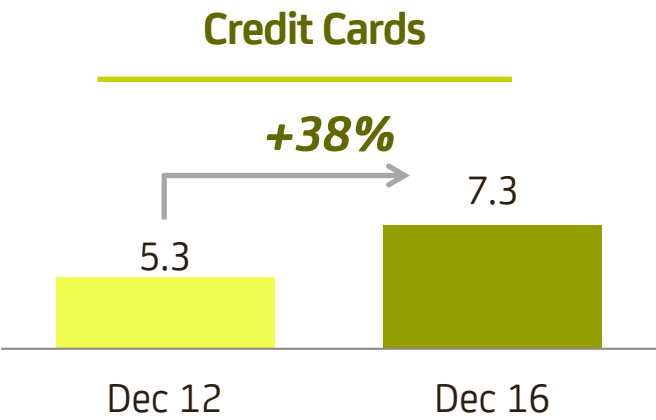
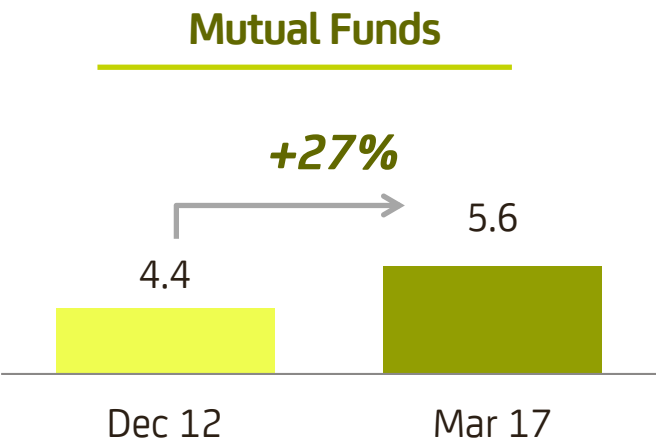
> Merger with BMN

Strategic Rationale

Opportunity to generate revenue synergies (not factored-in in the estimates)

Bankia: significant increase in market shares...

Market Shares (%)



...that could be replicated on BMN's client base

Client Penetration as of December 2016




Product	Client Penetration
Mutual Funds	<ul style="list-style-type: none"><li>c.200% higher for Bankia</li></ul>
Credit Card	<ul style="list-style-type: none"><li>&gt;40% higher for Bankia</li></ul>
Payroll and Pensions	<ul style="list-style-type: none"><li>&gt;35% higher for Bankia</li></ul>

Significant client penetration gap between Bankia and BMN on higher yielding products

> Merger with BMN

Strategic Rationale

The Group will benefit from a better and more diversified rating

			
<u>Bankia</u>	BBB-/ F3 (Stable)	BBB- / A-3 (Positive)	BBBH / R-1L (Stable)
<u>BMN</u>	BB+/ B+ (n.a.)	n.a.	n.a.

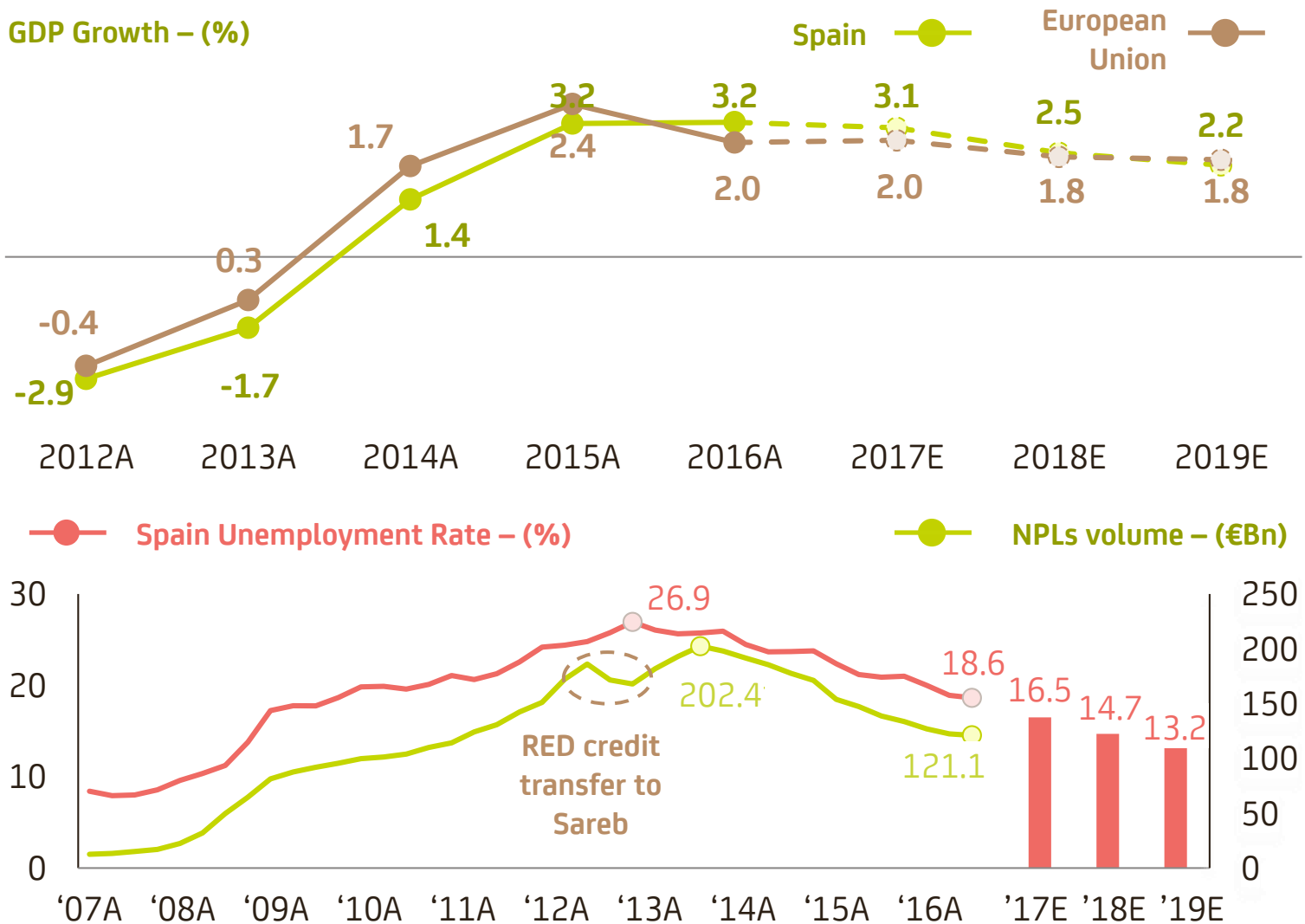
Bankia has an Investment Grade rating from the three agencies that cover us

> Merger with BMN

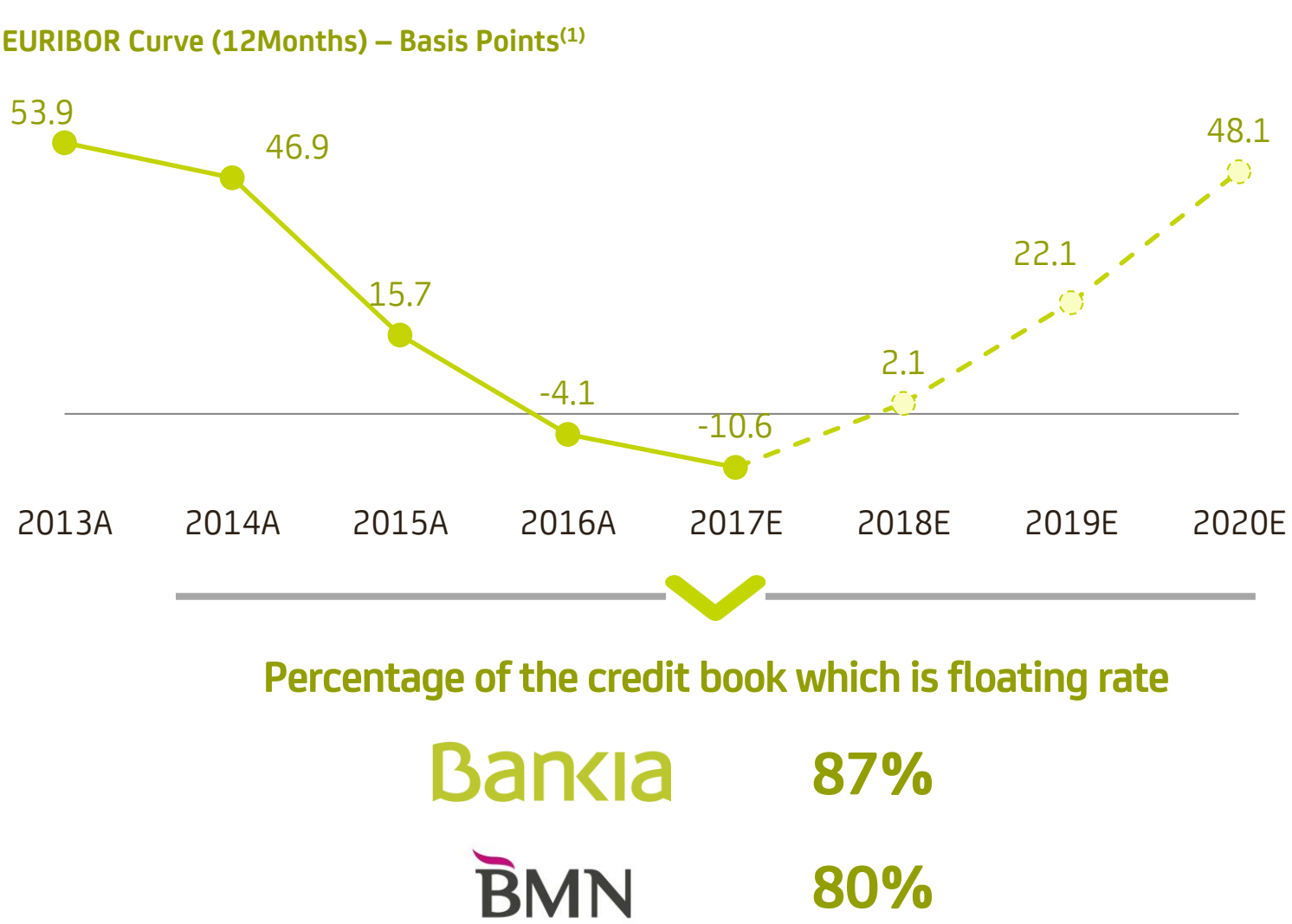
Strategic Rationale

Acquisition at Right Point In Cycle

Improvement in Macroeconomic Trends



Sensitivity of BMN's Balance Sheet to Rates



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Strategic Rationale

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Asset Quality & Liquidity

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Financial Impacts

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Conclusions

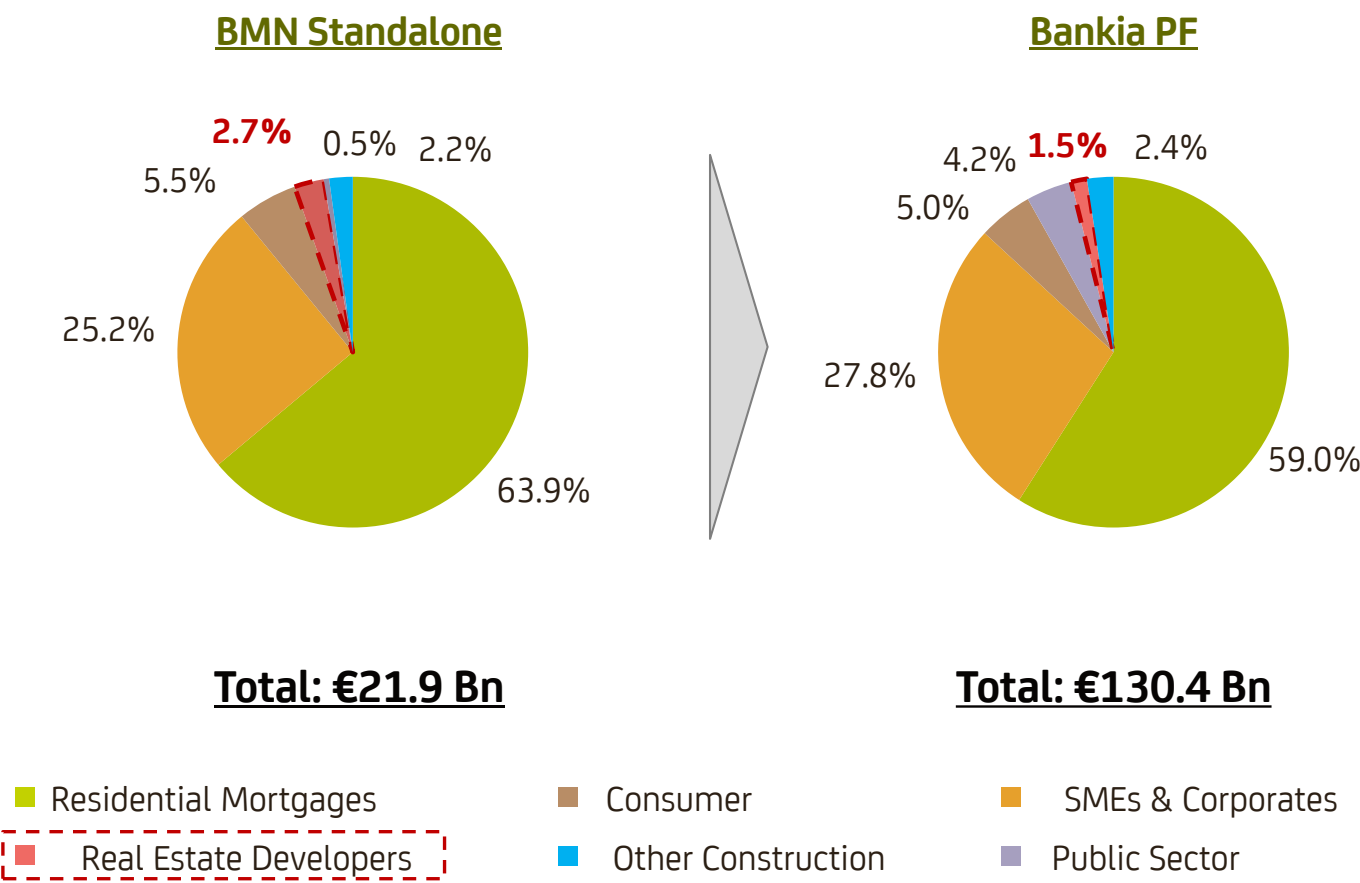
> Merger with BMN

Asset Quality & Liquidity

Bankia will remain being the Entity with Lowest Exposure to Real Estate Developers....

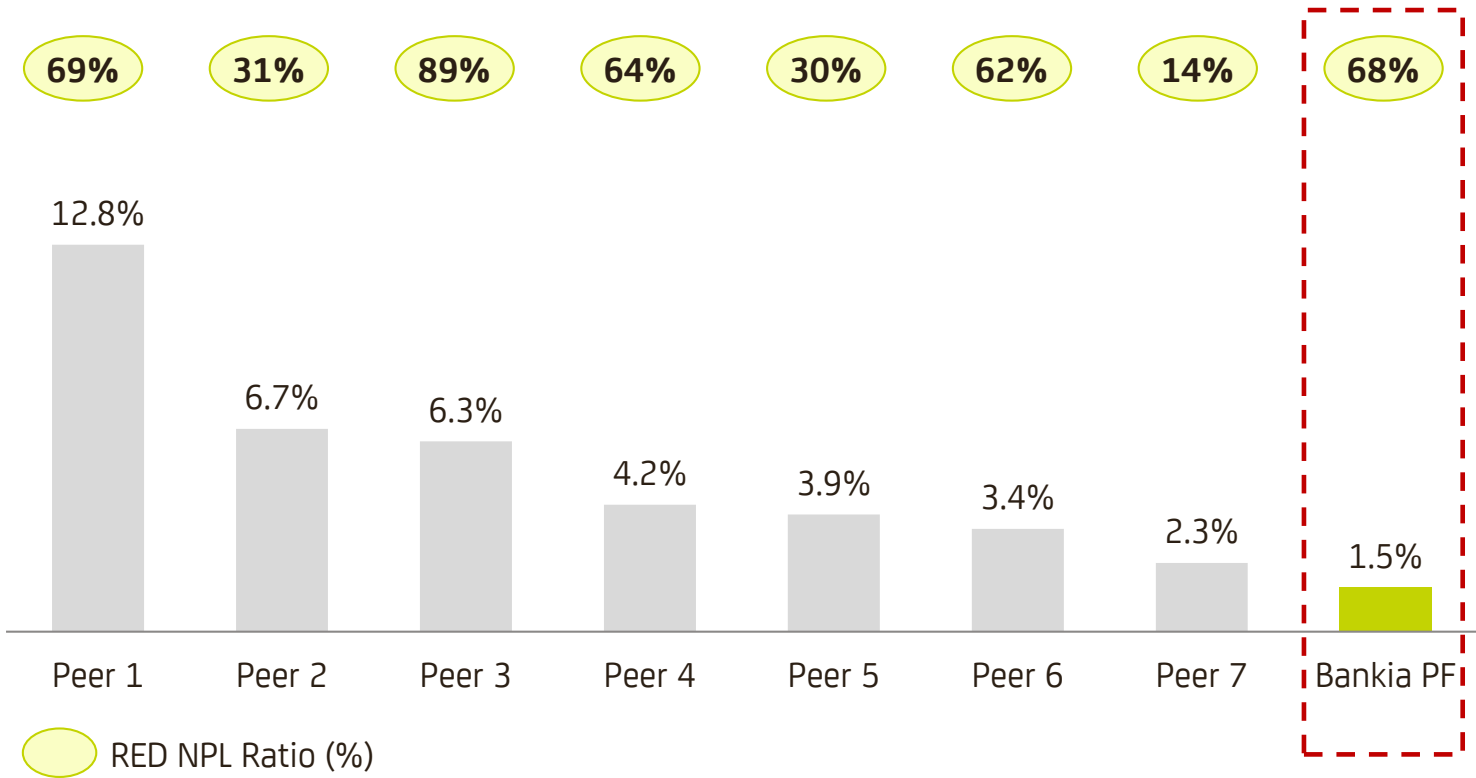
Loans to Real Estate Developers 1.5% of Bankia’s PF loan book

Gross Loans as of 1Q17 (%)



Tha bank with lowest RED Exposure

Bankia PF as of 1Q17 and Peers as of 4Q16 (%) – RED Loans as % Gross Loans <sup>(1)</sup>



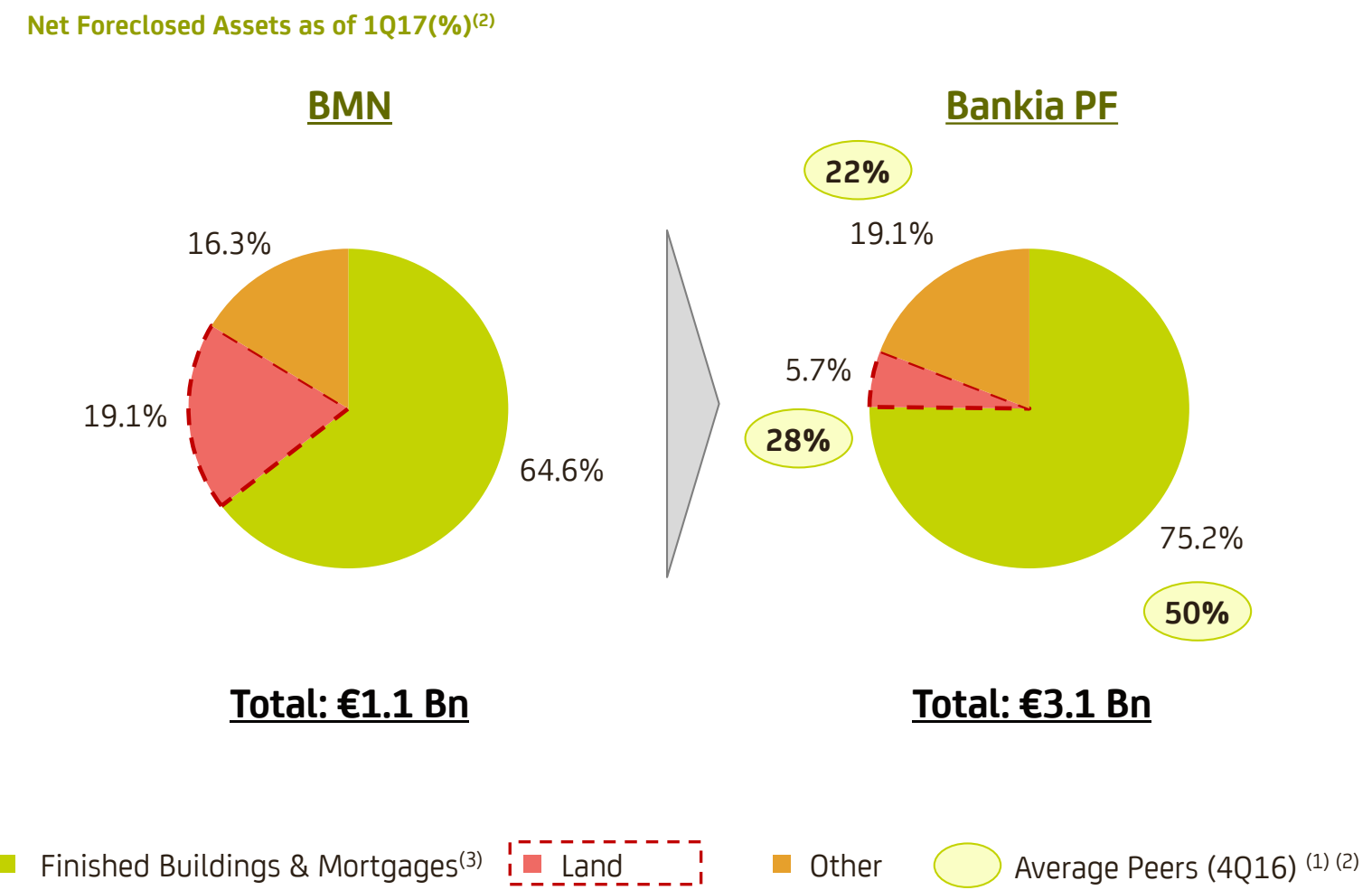
**Lowest RED Exposure combined with one of the highest NPL recognition**

> Merger with BMN

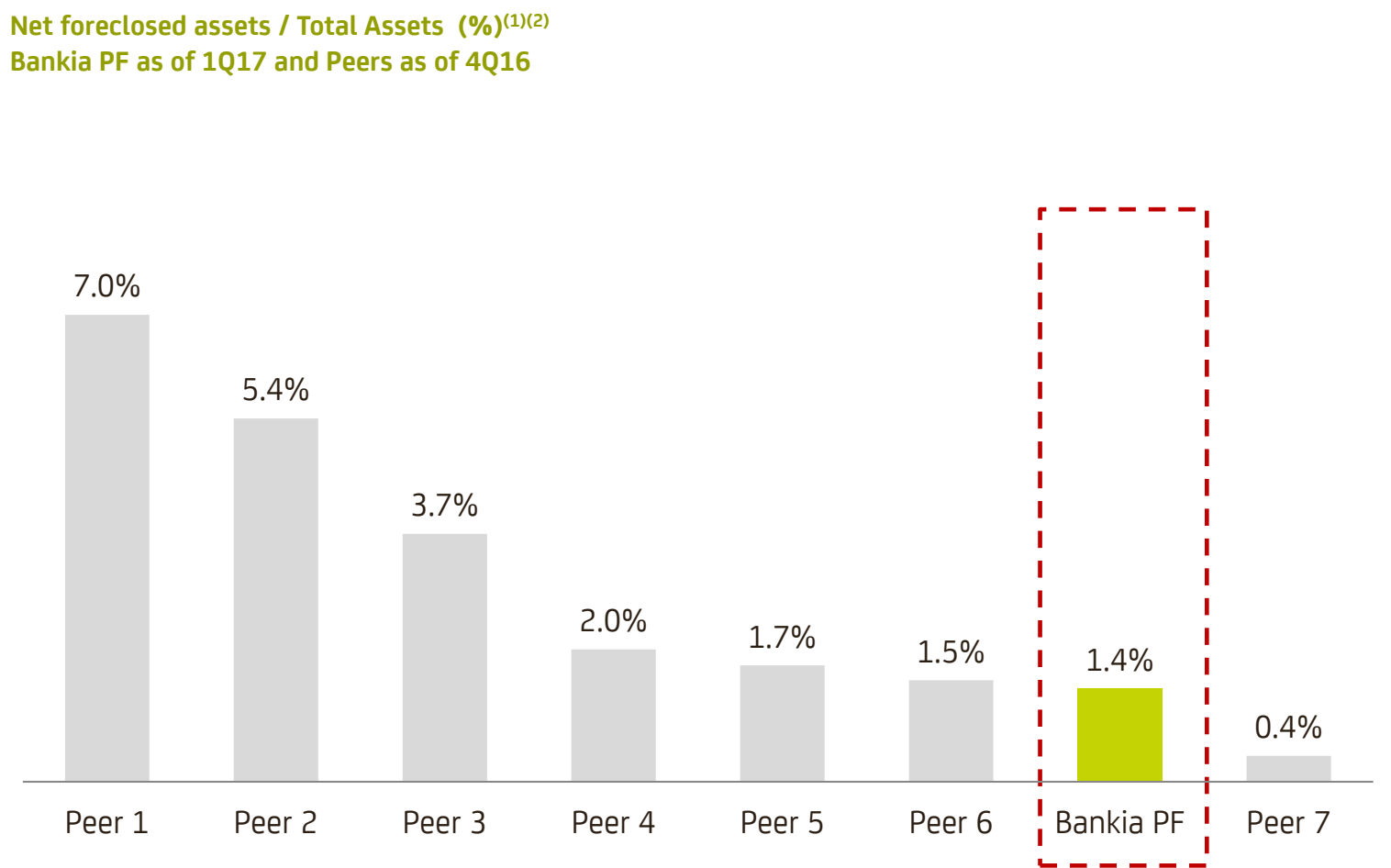
Asset Quality & Liquidity

... And One of the Lowest Exposures to Foreclosed Assets ...

Bankia will continue to have a reduced exposure to Land



One of the Lowest Net Foreclosed Real Estate Assets Exposure as % Total Assets



Source: Company Information  
<sup>(1)</sup> Peers include BBVA Spain (Incl. RE Unit), Bankinter (Ex Portugal where disclosed), CaixaBank (Ex BPI where disclosed), Liberbank, Popular, Sabadell (Ex TSB where disclosed) and Santander Spain (Incl. RE Unit)  
<sup>(2)</sup> Including equity instruments of entities holding property assets foreclosed or received in settlement of debt  
<sup>(3)</sup> Including finished buildings from loans to construction and real estate developers and real estate assets from mortgage lending to households



> Merger with BMN

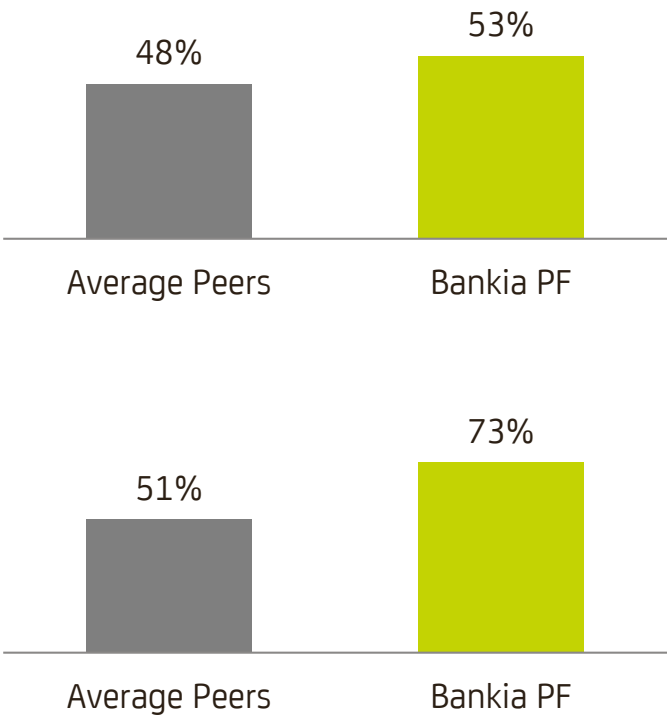
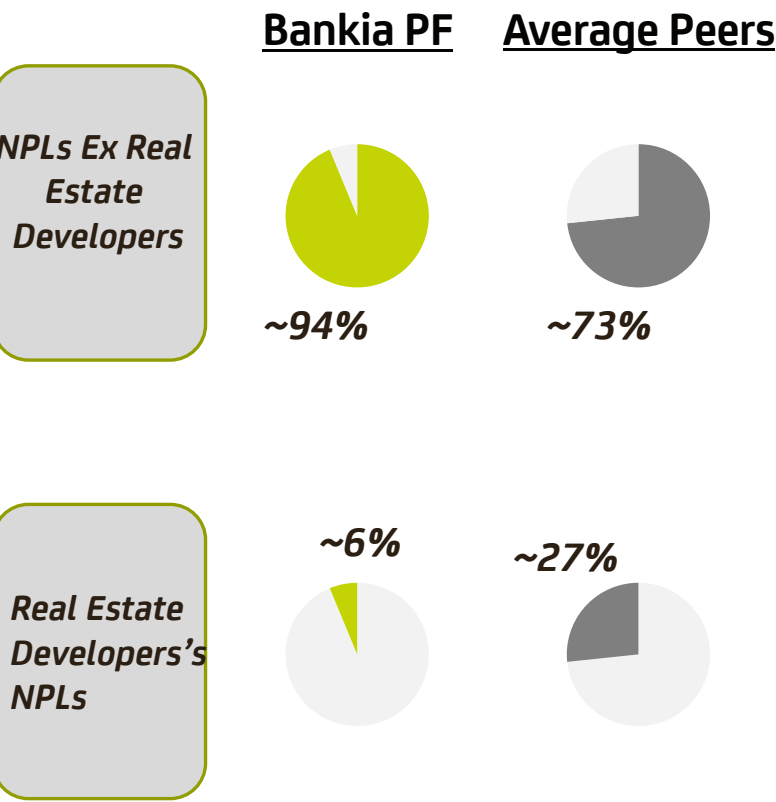
Asset Quality & Liquidity

Bankia Maintains its Prudent Coverage Levels Post Merger

Non Performing Loans – PF Coverage 55%

Net NPLs  
Bankia PF as of 1Q17 and Peers as of 4Q16

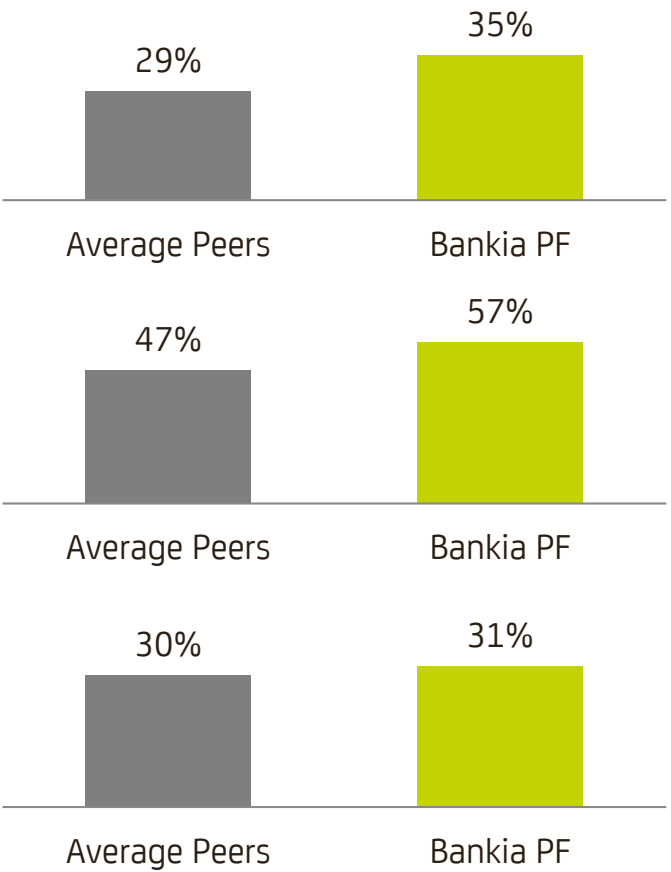
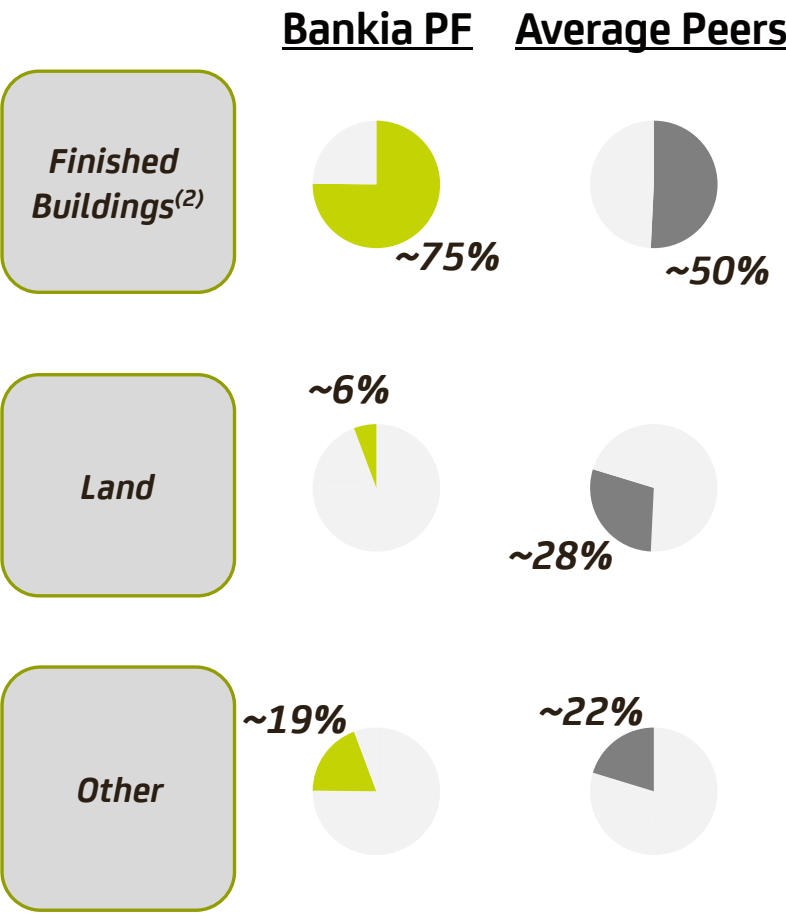
Coverage vs Peers <sup>(1) (5)</sup>  
Bankia PF as of 1Q17 and Peers as of 4Q16



Foreclosed Real Estate Assets – PF Coverage 36%

Net Foreclosed Assets  
Bankia PF as of 1Q17 and Peers as of 4Q16

Coverage vs Peers <sup>(1)(3)(4)</sup>  
Bankia PF as of 1Q17 and Peers as of 4Q16



Source: Company Information

<sup>(1)</sup> Peers include BBVA Spain (Incl. RE Unit), Bankinter (Ex Portugal where disclosed), CaixaBank (Ex BPI where disclosed), Liberbank, Popular, Sabadell (Ex TSB where disclosed) and Santander Spain (Incl. RE Unit)

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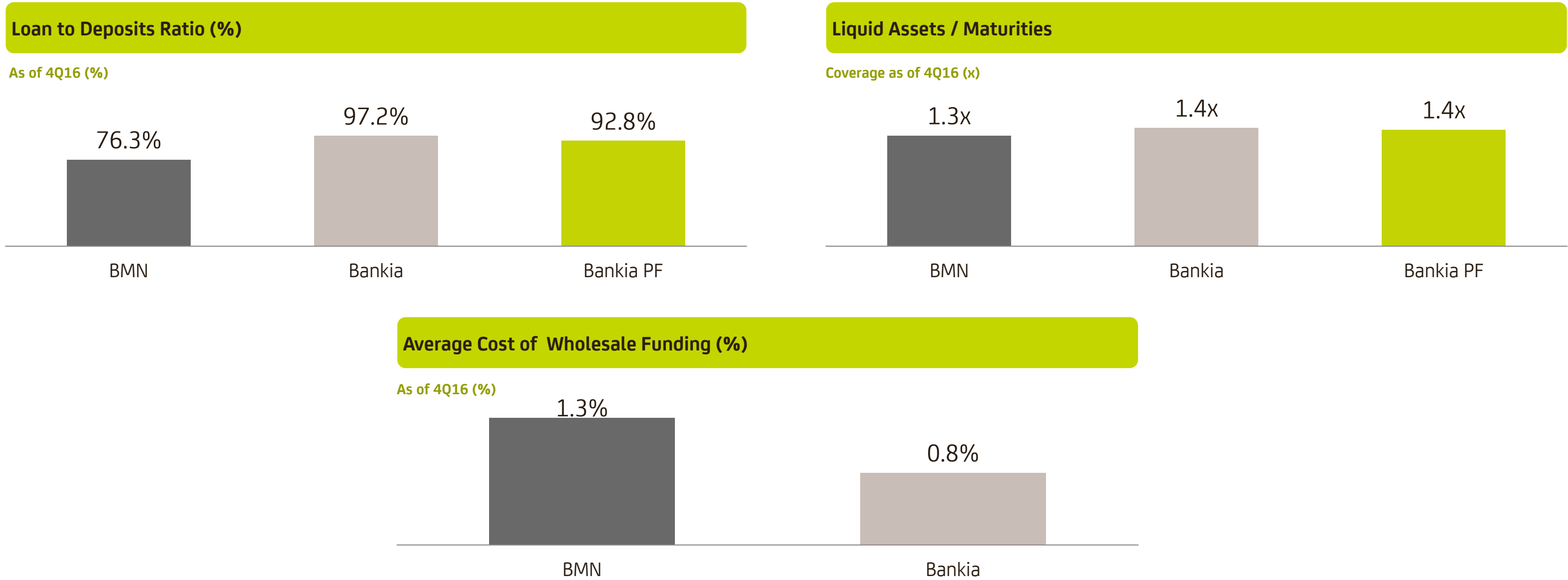
<sup>(4)</sup> Allowances for foreclosed assets from foreclosing (where not disclosed, total reported provisions are considered)

<sup>(5)</sup> Excluding mortgage floors provisions from credit book provisions

> Merger with BMN

Asset Quality & Liquidity

Comfortable Liquidity Position



Source: Company Information

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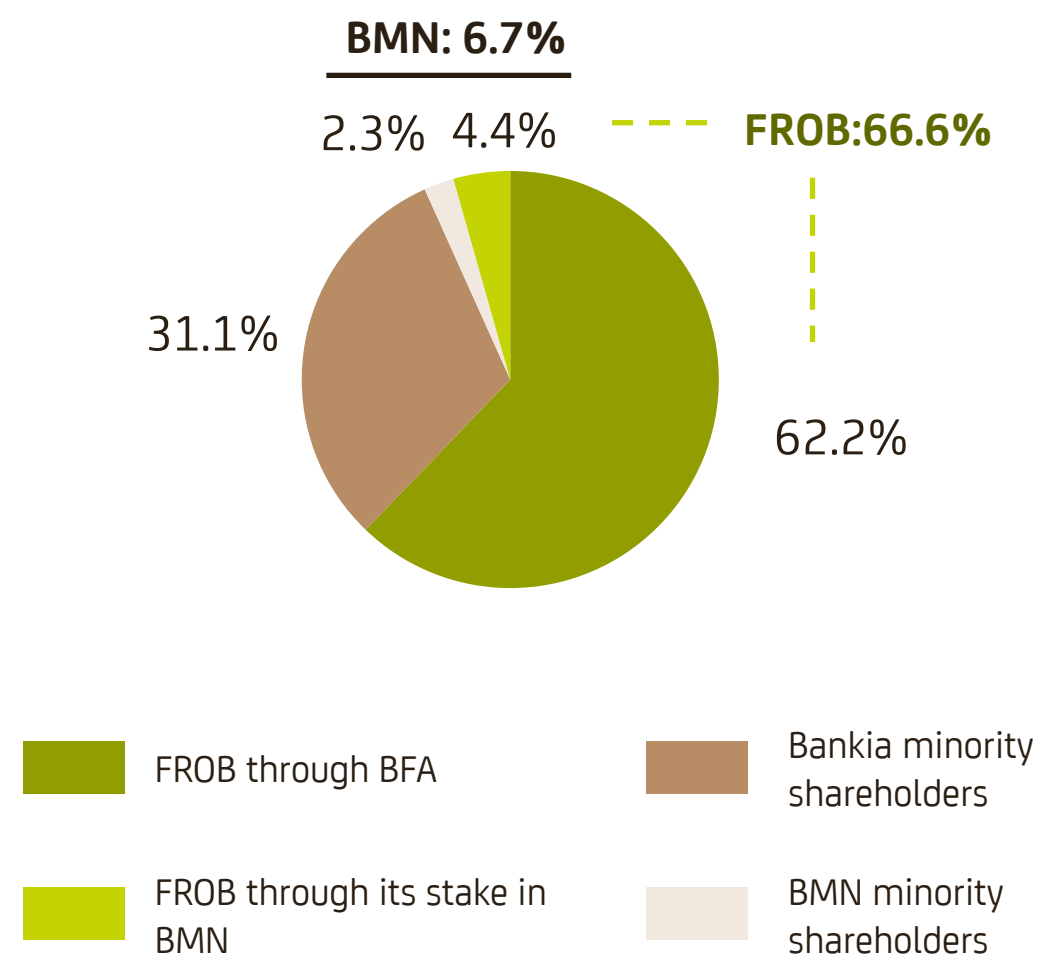
## > Merger with BMN

### Financial Impacts

#### Transaction Terms

- Shares Exchange: c. 206<sup>(1)</sup> million of Bankia's new shares in exchange for 100% of BMN's share capital, with no additional cash payment
  - **Implicit valuation of €825mn** for 100% of BMN (based on Bankia's share price as of 23 June 2017 at 4.011 euros)
  - **Implicit 0.41x BMN TBV** 2016 pre adjustments
- **BMN receives Bankia shares representing 6.7%** of the resulting entity
  - FROB maintains a 66.6% equity stake pro forma

#### PF Shareholder Structure

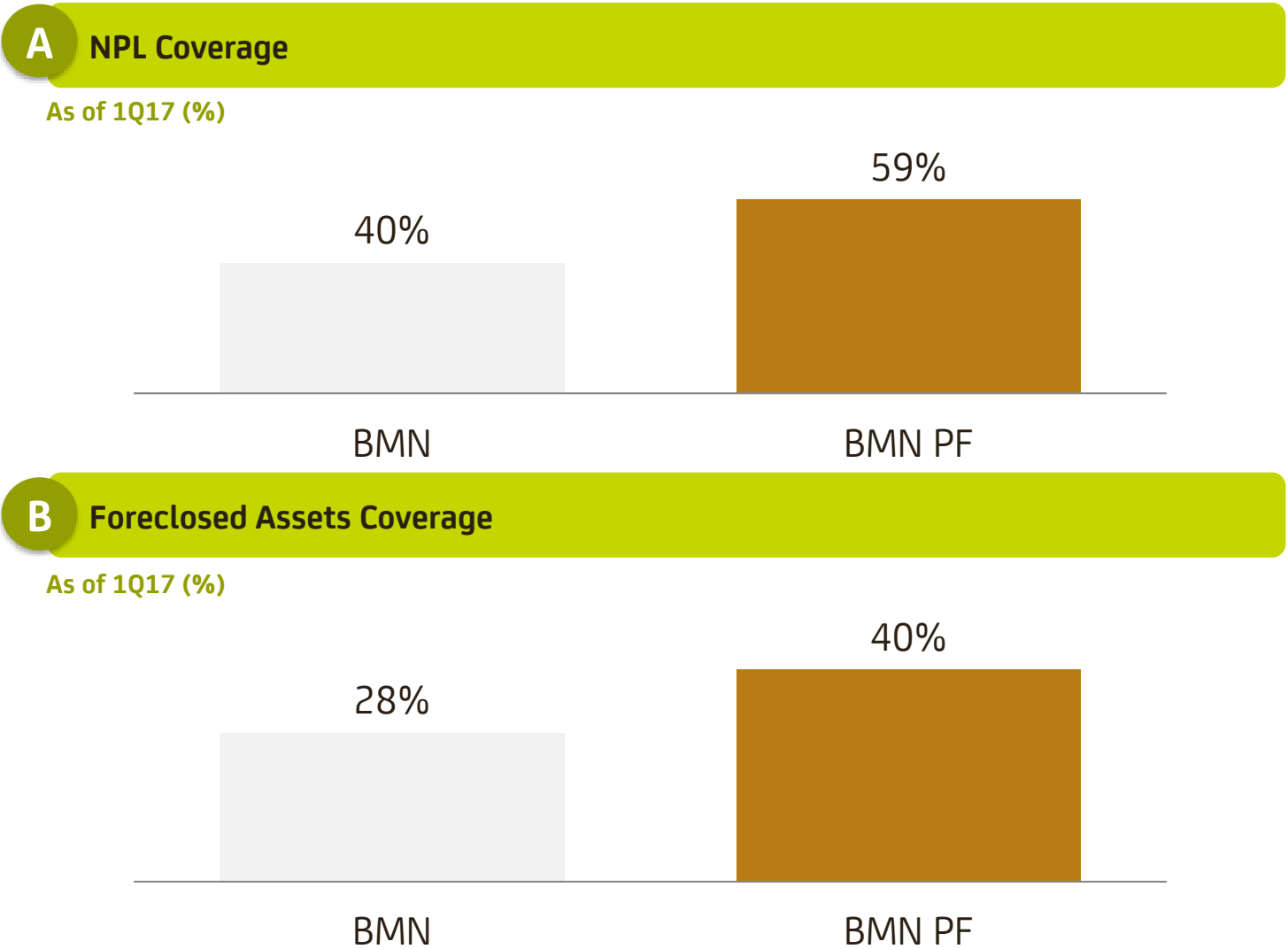


> Merger with BMN

Financial Impacts

Prudent Provisioning of BMN after Due Diligence Process, to Meet Bankia’s Standards

Adjustments	
LOAN BOOK PROVISIONS	€0.5bn <b>A</b>
FORECLOSED ASSETS PROVISIONS	€0.2bn <b>B</b>
OTHER IMPACTS <sup>(1)</sup>	€0.3bn
ADJUSTMENTS CAPITAL IMPACT	€1.0bn



Source: Company Information  
<sup>(1)</sup> Other Adjustments include equity stakes, restructuring of JVs, intangible assets and other contingencies. Additionally includes the fiscal impact and the RWA reduction of the adjustments

## > Merger with BMN

### Financial Impacts

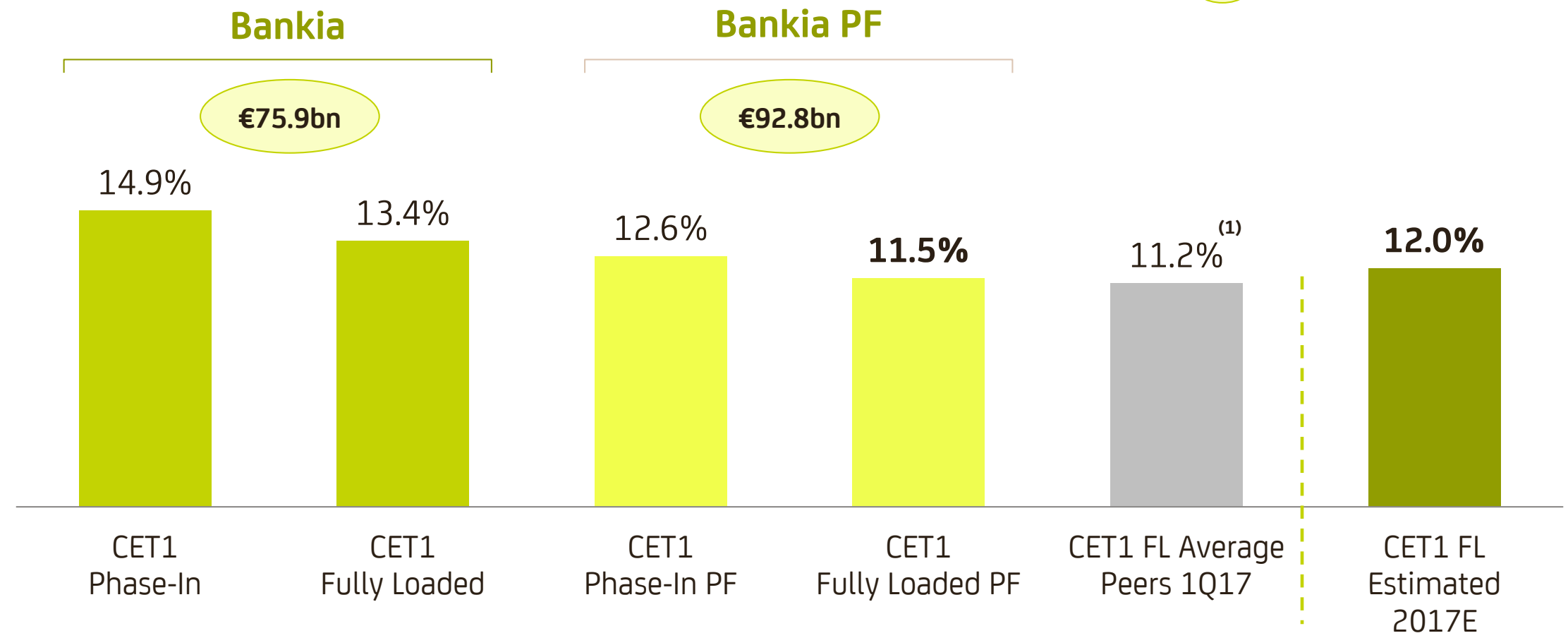
#### PF CET1 Fully Loaded Ratio at 12% expected at Dec.17

- CET1 FL Ratio PF at 11.5% as of March 2017, above sector average

#### Sound Capital Position

As of 1Q17 (%)

○ Risk-weighted assets (€bn)



Source: Company Information

<sup>(1)</sup> Peers are BBVA, Bankinter, CaixaBank, Liberbank, Sabadell and Santander

> Merger with BMN

Financial Impacts

Attractive Transaction For Bankia Shareholders

Impacts of BMN Merger

NET INCOME INCREASE	€245mn BY YEAR 3
EPS INCREASE (%) <sup>(1)</sup>	16% BY YEAR 3 POSITIVE FROM YEAR 1 <sup>(3)</sup>
ROIC (%)	12% IN YEAR 3
ROTE UPLIFT (%) <sup>(1)</sup>	~120 bps IN YEAR 3

Invested capital considered for ROIC calculation

- €0.8bn – Bankia’s new shares
- €1.0bn – DD impact on capital
- €0.3bn – Restructuring costs
- (€0.1bn) – PPP BMN 2017E net<sup>(2)</sup>

€2.0bn – Invested capital



Value Creation with Low Execution Risk



Optimal Use of Bankia’s Excess Capital

Source: Company Information, analyst consensus as of 23 of June 2017  
(1) EPS increase calculation and improvement in ROTE based on 2020 analyst consensus for Bankia  
(2) BMN PPP as of 2017, net of capital deficit standalone at 11.5% CET1 FL  
(3) Excluding extraordinary items

1

**Strategic Rationale**

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**Asset Quality & Liquidity**

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**Financial Impacts**

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**Conclusions**



## > Merger with BMN

### Conclusions

#### Conclusions

##### Industrial logic

- 1 Increase in client base above 25%
- 2 Geographic complementarity with leading positioning in key regions
- 3 Clean balance sheet and high coverage levels
- 4 Right moment of the cycle

##### Financial logic

- 1 16% increase in EPS, positive from year 1
- 2 ~120 bps improvement in ROTE
- 3 12% ROIC
- 4 12% CET1 FL Dec.2017

**Bankia**  
LET'S KEEP WORKING