Bankia

Extraordinary General Meeting of Shareholders

José Ignacio Goirigolzarri

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Good afternoon, ladies and gentlemen.

First of all, once again I would like to thank you for being here today, at this Extraordinary General Meeting, which has been called to analyse the merger transaction with BMN.

This is the seventh General Meeting since Bankia was formed and, as on all the previous occasions, we are meeting in Valencia, where we have our corporate headquarters.

At the Annual General Meeting held last March, I already mentioned the transaction which you, ladies and gentlemen, must decide on today.

At that meeting, I said that the merger made industrial sense and that, for it to create value, we had to structure it in such a way that it also made sense financially.

To that end, I said that we were going to carry out an in-depth analysis, guided by corporate governance best practice, in which the independent directors would take a clear leading role.

I also said that the proposed merger would have to take the interests of all the shareholders into account, paying special attention to minority shareholders.

My aim today, therefore, is to explain to you in the greatest possible detail the basis of this transaction that we are presenting for your approval today.

To do that, I will divide my presentation into four parts:

- In the first part I will analyse the industrial logic of the transaction.

- In the second, I will analyse the transaction from a financial point of view.

  I will also explain the process we have followed in defining the exchange ratio, from the perspective of our corporate governance.

- In the third part, I will present the next steps to be taken, assuming you approve this transaction.

- Lastly, I will state some conclusions.

First of all, I must point out that the quantitative information I will be using throughout my presentation is that contained in the merger plan, together with the information presented to the Board of Directors when the merger was discussed.

That is why I will be using figures from the first quarter of this year.

In relevant cases where we have more recent information, I will share it with you in the course of the presentation.

Starting with the industrial sense of the transaction, I would emphasise, first, that BMN brings a significant increase in Bankia's customer base and market presence.

This slide shows some key figures.

In terms of customers, BMN has 1.7 million customers, which is 26% of Bankia's existing customer base.

After the merger, Bankia will have more than eight million customers.

In terms of business volume, BMN's contribution is equal to 28% of Bankia's deposits and 20% of its loan portfolio.

In number of branches, BMN has 660 branches, which is 36% of the number of Bankia branches.

With these contributions, Bankia, the bank of which you are owners, consolidates its position as the fourth largest Spanish bank, as you can see in the slide.

We were already fourth largest in total assets and deposits, where we will pull further ahead from the fifth largest; and we move up one position in net loans to customers.

From the industrial point of view, however, it is also important to note that the contribution is geographically complementary.

In fact, it is worth pointing out that:

- ✓ We become clear leaders in three markets – Granada, the Balearic Islands and the Region of Murcia – in which, up to now, we have had a very sparse presence.
- ✓ The fact that only 29% of the BMN network is outside these three regions makes the geographical complementarity even clearer.

As a result of all this, as you can see in the projection, today Bankia is the leading bank in six of Spain's regions – regions that account for 38% of Spanish GDP and that, as a group, are growing faster than the average for Spain.

Also, again as regards the industrial sense of the merger, the potential synergies are very considerable.

First, in terms of revenue.

You will remember that, since the first General Meetings, I have shared with you all the scope we had in Bankia to increase our market shares in high value added products, where we had low penetration rates.

On the left-hand side of the slide you can see how in recent years we have significantly increased our market shares in mutual funds, pension plans, credit cards and consumer finance.

We must continue these increases in future years because we still have clear room for improvement.

The merger with BMN offers us clear opportunities among BMN's customers, given that, as you can see on the right-hand side of the slide, there is a significant gap in the penetration rates of high-yield products between Bankia customers and BMN customers.

This should translate into a flow of income, both net interest income and fee and commission income.

These potential revenue synergies are not included in the calculations of the profitability of the merger, which we will discuss later, but we believe there is a clear potential, which we should exploit.

What *is* included in those calculations are the cost synergies, which are shown in the slide.

Over the next three years we expect these synergies to amount to 155 million euros, 96% of which would be realised in the first two years.

These synergies are crucial for generating value and helping to pay back the aid to taxpayers.

Naturally, achieving those synergies will entail restructuring costs, estimated at 334 million euros, which have also been taken into account in the analyses of post-merger profitability and solvency.

Besides the obvious industrial logic, as is apparent from what I have said so far, I think this transaction also comes at a very appropriate time.

It is a time when the Spanish economy is growing vigorously, above the European average.

Also, the unemployment rate – which is a key variable for our business because it is so closely correlated with our volume of non-performing assets, as you can see in the slide – is clearly falling.

Accompanying these two variables. This transaction comes at a time when, although interest rates are at record low levels, the forecast is that they will start to move up some time next year.

The slide shows the market expectations for the trend in the 12-month Euribor rate.

The Euribor, ladies and gentlemen, is very important because it is the benchmark to which the bulk of our floating-rate contracts are linked.

That makes it crucial for our revenue stream, as 87% of our loan portfolio – and 80% in the case of BMN – consists of floating-rate contracts.

So, as I indicated to you a few months ago, we are talking about a transaction that strengthens and diversifies our franchise, that generates very significant potential synergies and that is also excellently timed in terms of macroeconomic growth and foreseeable interest rate trends.

If that is the case, the next step is to examine the financial sense of the transaction.

As I said at the beginning, in defining the financial characteristics, we have followed corporate governance best practice.

So you will forgive me if I start this second part of my presentation with a brief account of the most important milestones.

Once the FROB Steering Committee announced its decision to consider a merger of its investees Bankia and BMN, which was on 15 March, the Bankia Board of Directors agreed to set up a Committee of Independent Directors to oversee the whole process, from start to finish.

The Committee is chaired by Mr. Joaquín Ayuso, who as you know is our Lead Director, and includes the chairmen of the Board committees: Ms. Eva Castillo, Mr. Francisco Javier Campo and Mr. Antonio Greño.

This committee was tasked with preparing a proposal for the Board regarding the selection of external advisers, which was approved by the Board of Directors at its meeting on 24 March.

The chosen advisers were:

- ✓ E&Y for due diligence
- ✓ Morgan Stanley as investment bank
- ✓ Garrigues as legal advisers.
- ✓ Also, two fairness opinions were issued by Morgan Stanley and Banco Rothschild.

On 26 June, after due deliberation by the Committee and the Board, the Board of Directors approved the merger terms, which I will discuss later.

As we had announced at the start of the process, I and the two other executive directors abstained in that vote, so as to avoid any potential conflicts of interest.

On 3 July, once the merger terms had been approved by the two Boards of Directors, an application was submitted to the Valencia Mercantile Register for the appointment of an independent expert to issue a report on the merger plan.

The register appointed the firm KPMG as expert.

On 21 July, having received the favourable report of the independent expert on 14 July, the Bankia Board and the BMN Board each called an Extraordinary General Meeting for today.

In compliance with article 39.3 of the Law on Structural Changes in Companies (*Ley sobre Modificaciones Estructurales de las Sociedades Mercantiles*), I inform you that since 26 June, when the merger plan was approved, there have been no material changes in Bankia's assets and liabilities.

I also inform you that there have been no material changes in the assets and liabilities of BMN in that period, according to the information provided by BMN.

All the above has given rise to the following agreements on the definition of the exchange ratio, which are the agreements submitted for your approval:

- ✓ BMN was valued at 825 million euros, which represents 41% of its book value.

- ✓ The valuation of Bankia used for the calculation of the exchange ratio was the closing price on 23 June. The share price was 4.011 euros per share, representing a capitalisation of 11,549 million euros.

- ✓ Consequently, the exchange ratio that was set was one Bankia share for every 7.82987 shares of BMN.

- ✓ Therefore, Bankia must issue a total of 205,684,363 new shares.

One of the agreements under the merger plan that this Board presents for your approval today is the election of Mr. Carlos Egea Krauel as a new director, in the category of “other non-executive director”.

Mr. Carlos Egea is currently chairman of BMN and, as is well known, is a highly respected professional with a long career in the industry.

Consequently, we propose to you that the number of directors be increased from 11 to 12.

With that overview of the process we have followed and having defined the merger exchange ratio, we must now analyse the impact of the merger in terms of profitability and solvency.

Starting with profitability, the slide you see now shows a projection of the most significant indices.

Our merger forecasts for the year 2020 are as follows:

- The merger will bring an additional 245 million euros of profit, in addition to the profit Bankia will generate without the merger.
- As a result, earnings per share, which is the key variable for a shareholder, will increase by 16%.
- Return on equity will increase by 120 basis points.
- And the return on invested capital is 12%.

As you can see, these are very good results and there is no doubt that they signify a clear capacity to generate value for all of you, ladies and gentlemen.

And that, as you will remember, was the commitment we made to you all at the General Meeting on 24 March earlier this year.

As regards the impact on solvency, first of all I would like to look back for a few seconds and analyse our solvency performance in recent years.

As we have said at various General Meetings, one of the key goals of our strategy has been to develop a model that will enable us to generate capital organically, so as to finance our growth, pay dividends and increase our capital base.

And that is what we have done.

In fact, our “fully loaded” core capital ratio has gone from 8.60% in 2013 to 13.37% in the first quarter of this year.

It is certainly remarkable that in this period the bank of which you are the owners has proven capable of generating 477 basis points of capital – because, of all the large European banks, Bankia is the one that has generated the most capital organically in this period.

Thanks to this progress, we have gone from being the least solvent of the large Spanish banks (given that the state aid was provided in order meet the regulatory minimums) to being, at present, the bank with the highest level of core capital.

It is precisely this capital strength that has enabled us to take on this merger without having to go to the market.

In fact, this merger gives us the opportunity to make optimum use of our capital while continuing to maintain a capital ratio above that of our competitors, as you can see in the slide.

As I said earlier, our core capital ratio in the first quarter was 13.37%.

The capital required for the merger brings the bank's resulting pro forma ratio to 11.50%.

Considering the capacity to generate capital organically we have shown in the second half of this year, our best estimate is that we will end the year, in the new post-merger Bankia, with a core capital ratio of 12%, which, after the transaction, is above that of our competitors.

I can assure you we are on track to achieve these results, given that in the second quarter we generated 45 basis points of core capital.

With that, I move on to the third part of my presentation.

First, I must point out that our bank's shareholding structure hardly changes, as can be seen in the slide.

The FROB, which currently holds 67.14% of Bankia, will have a very similar holding (67%) after the merger, given that, as I told you last March, its percent holding in each of the two institutions is similar.

If you approve this merger, we will start the process of obtaining the necessary approvals and our best estimate is that the merger will be completed in December.

After that, the process of integrating the two institutions will begin.

One very important milestone in that process with be the IT integration.

Our forecast is that that will be completed in the second quarter of next year.

This is a really very ambitious objective if you compare it with the usual integration periods our competitors have had in similar transactions.

But for us it is a key objective because it is the way to ensure that all our customers benefit from the merger as quickly as possible and it is also a necessary condition for all our teams to be able to work on the basis of common practices and procedures.

I can assure you, ladies and gentlemen, that we will put all our effort into making it happen.

Which brings me to the last part of my presentation.

I believe that in the course of this presentation it has become clear that the transaction we submit for your consideration today has great potential for value creation.

First, because it strengthens our franchise.

This merger consolidates our position as the fourth largest bank in Spain and grows our customer base by 25%.

And it does it in a geographically complementary way, allowing Bankia to achieve leadership positions in fast-growing markets in which we currently have only a very limited presence.

Second, because it offers excellent profitability, with 16% growth in earnings per share over three years and an increase of 120 basis points in return on equity, compared to today's market consensus.

Third, because it makes the best use of our financial strength.

Thanks to recent years' strong capital generation, we can face this merger without recourse to the market and complete it with solvency ratios above the average of our competitors.

The merger we are proposing to you also comes at a very favourable stage in the cycle from the point of view of GDP growth and employment in Spain.

All this is coupled with a projected rise in interest rates that will have a major positive impact on our results.

I will not hide the fact that it is a matter of satisfaction to this Board to submit this transaction to your consideration.

First, because it has great potential to generate value for all of you, ladies and gentlemen.

Consequently, it will also help to repay the state aid.

But also because, seen from the perspective of that first Bankia General Meeting we had, back in June 2012, in this same hall, we can appreciate the radical change that has taken place since then in the bank of which you are owners.

Behind that enormous change lies the effort, commitment and professionalism of the whole of the Bankia team, to whom today, on my own behalf and on behalf of the whole of the Bankia Board, I want to once again publicly express our recognition and gratitude for their tremendous work.

The team will have to continue to give their best in this new phase and I am sure they will.

Because I do not want to hide from you the fact, ladies and gentlemen, that a merger and integration process is always a complex matter.

It forces us all to adapt our ways of doing things.

It demands constant effort and personal sacrifice.

It needs to be guided, as we intend it to be, on a strictly meritocratic basis, through permanent contact and dialogue, as in the past, with the employees' representatives.

And it will involve the BMN team, with whom we will form a single team.

The BMN team has shown its professionalism and will doubtlessly respond excellently.

All this, ladies and gentlemen, is a vital part of the merger process, beyond the technical analyses, which are a necessary but not a sufficient condition.

For an integration and merger process to succeed, you first need a clear definition of principles and values.

We have that. That has always been a top priority for this Board and I promise you it will continue to be a priority in the future.

In particular, I can share with you our commitment to continue to adhere to best practice in corporate governance, as we are doing in this merger with BMN.

For that reason, it was a great satisfaction to us when it was announced last week that Bankia had earned a place in the Dow Jones sustainability index for the second year running. To us this is a very important external recognition that we are on the right track.

To succeed, an integration process also demands great professionalism in the teams, which must translate into an enormous capacity to assimilate and adapt, as well as a great effort to overcome limitations in the face of the major challenges it poses.

I am convinced that we have that professionalism. As I have said to you many times before, I have great faith in this team and am proud to belong to it.

So, fully aware of all the challenges, I believe we are facing an important transaction.

A transaction that will create value for all of you, ladies and gentlemen. A transaction that will create great professional opportunities for our teams – for the existing teams of Bankia and BMN.

That is why the Board proposes that you give it your approval.

Thank you for listening.