

Bankia

Merger with Banco Mare Nostrum

> 27 June 2017

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> BMN Merger

Strategic fit

The Restructuring Plan that started five years ago is about to end

2012: STRATEGIC/RESTRUCTURING PLAN. NEW CORPORATE GOVERNANCE ✓

2013: TURNING POINT

2014: DEVELOPMENT OF THE COMERCIAL MODEL ✓

2015: STRATEGIC PLAN COMPLETED

2016: NEW POSITIONING ✓

2017: RESTRUCTURING PLAN COMPLETED

STRATEGIC PLAN
2012-2015

> BMN Merger

Strategic fit

Bankia's transformation

Bankia has change from being a story
about restructuring...

...to being a story about growth

Our growth strategy will be based on

Organic growth

Non-organic growth

Our growth strategy will be based on

Organic growth

Non-organic growth

> Industrial logic

> Financial logic

1

Strategic rationale

2

Financial impacts

3

Timetable and conclusions

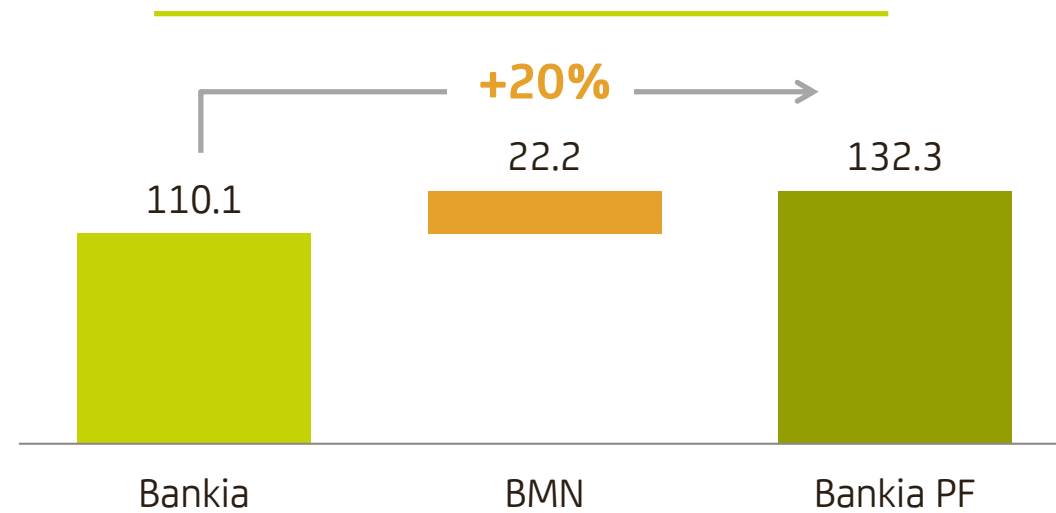
> Merger with BMN

Strategic rationale: industrial logic

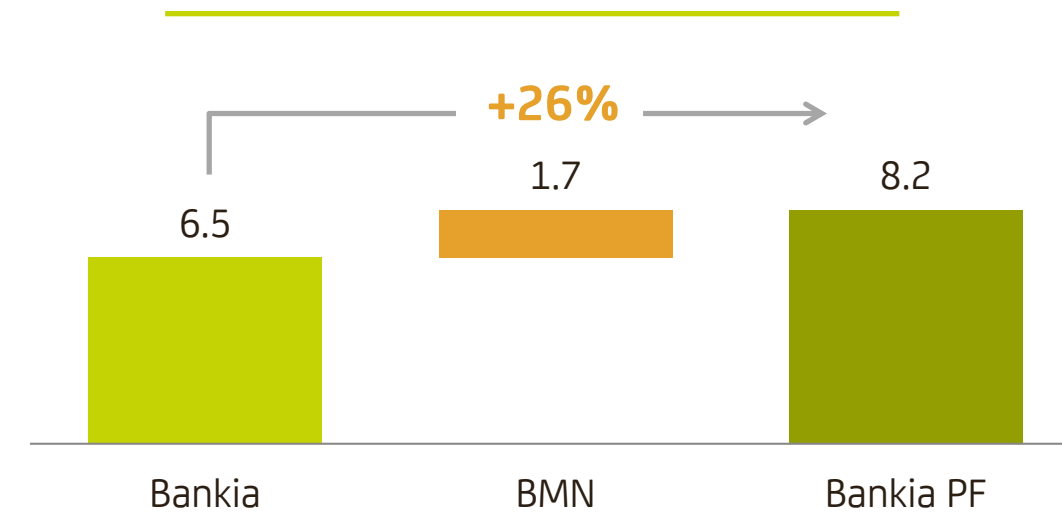
BMN brings a significant increase in scale and client base

As of 4Q16

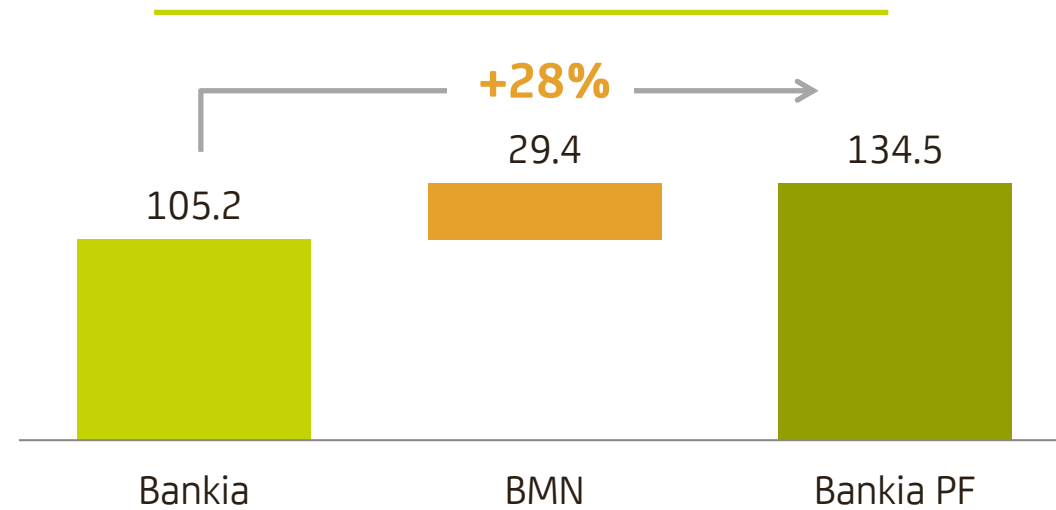
Gross Loans (€bn) ⁽¹⁾



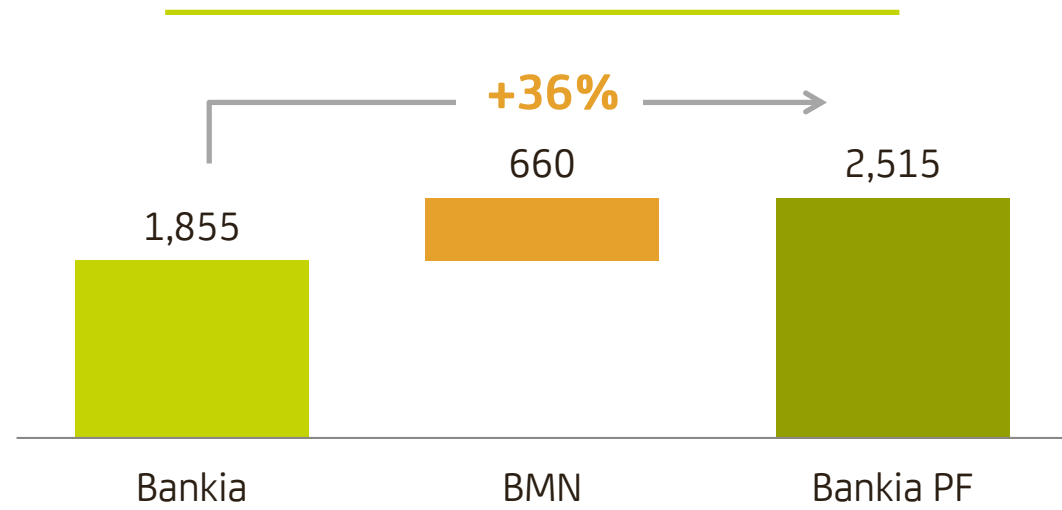
Clients (millions)



Deposits (€bn)



Branches (#)



Source: Company information
(1) Excluding temporary asset acquisition

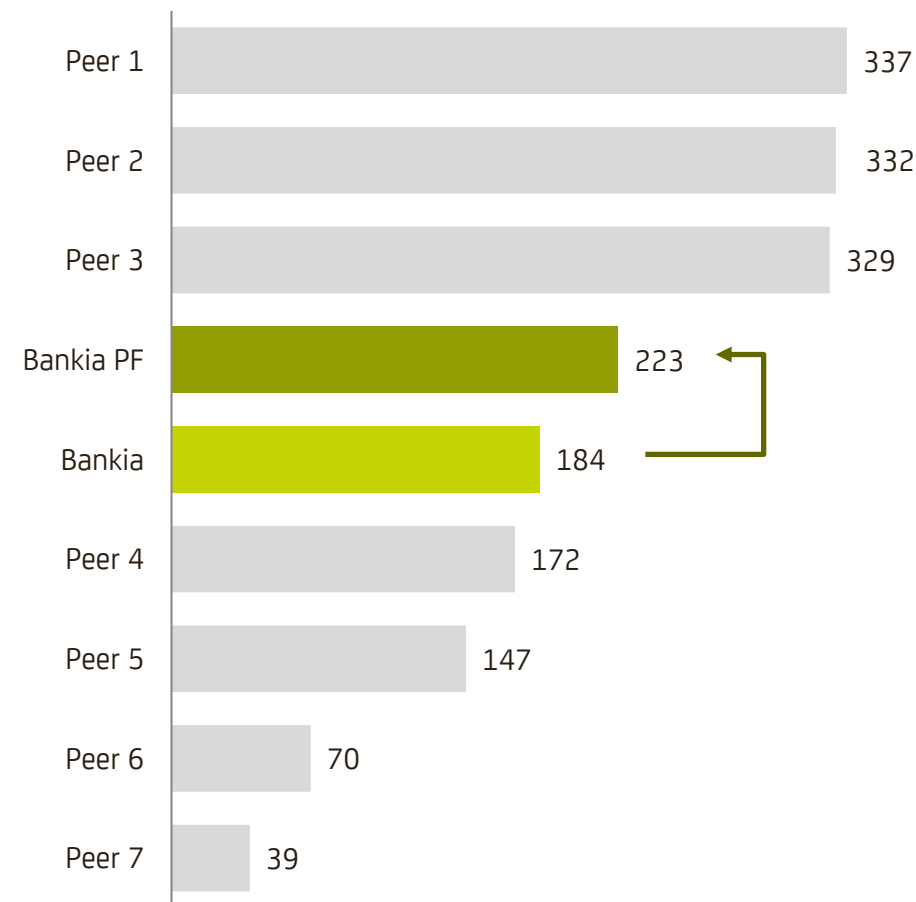
> Merger with BMN

Strategic rationale: industrial logic

Transaction Reinforces Bankia's Position as 4th bank in Spain

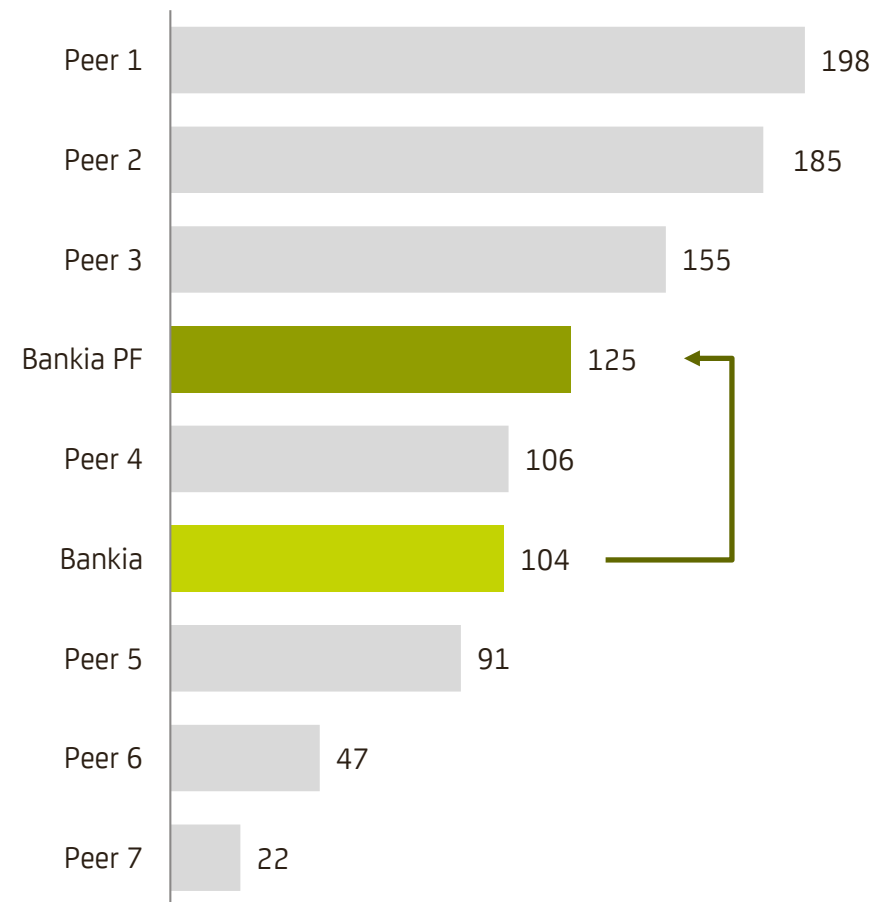
Total Assets

As of 1Q17 (€Bn) ⁽¹⁾



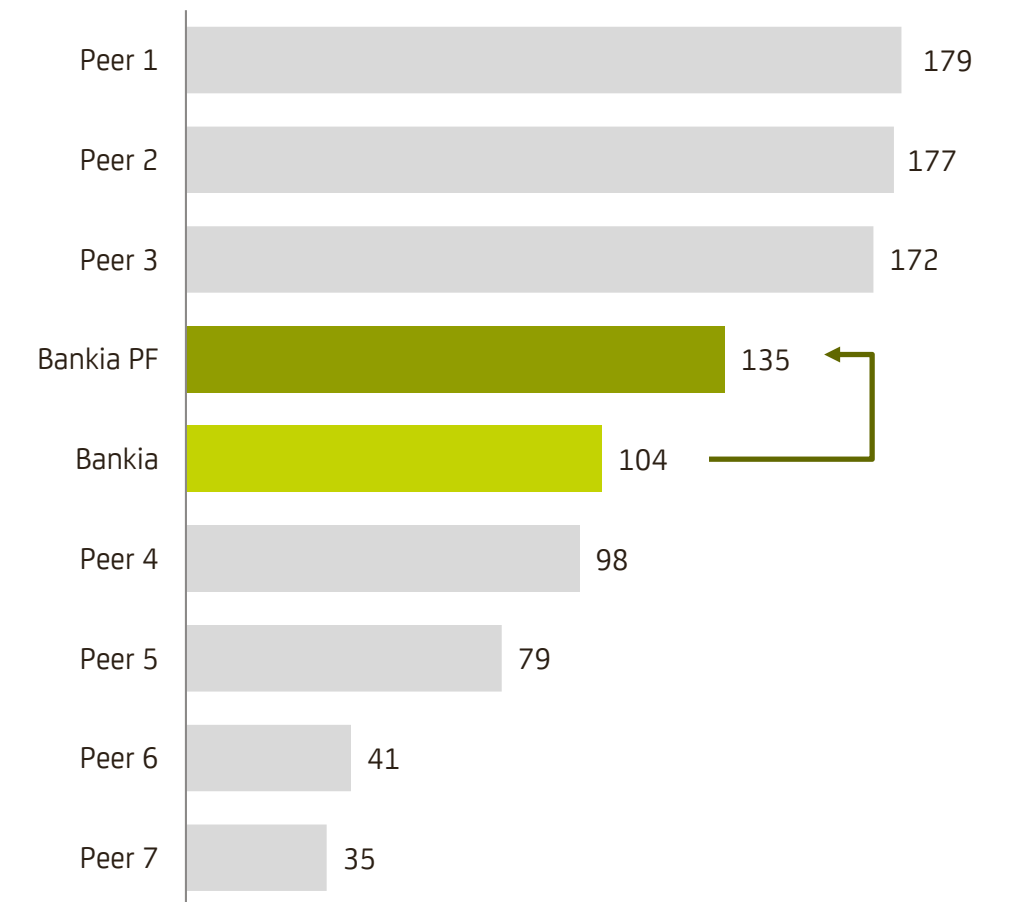
Net Customer Loans

As of 1Q17 (€Bn) ⁽¹⁾



Customer Deposits

As of 1Q17 (€Bn) ⁽¹⁾



Source: Company information

⁽¹⁾ 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)

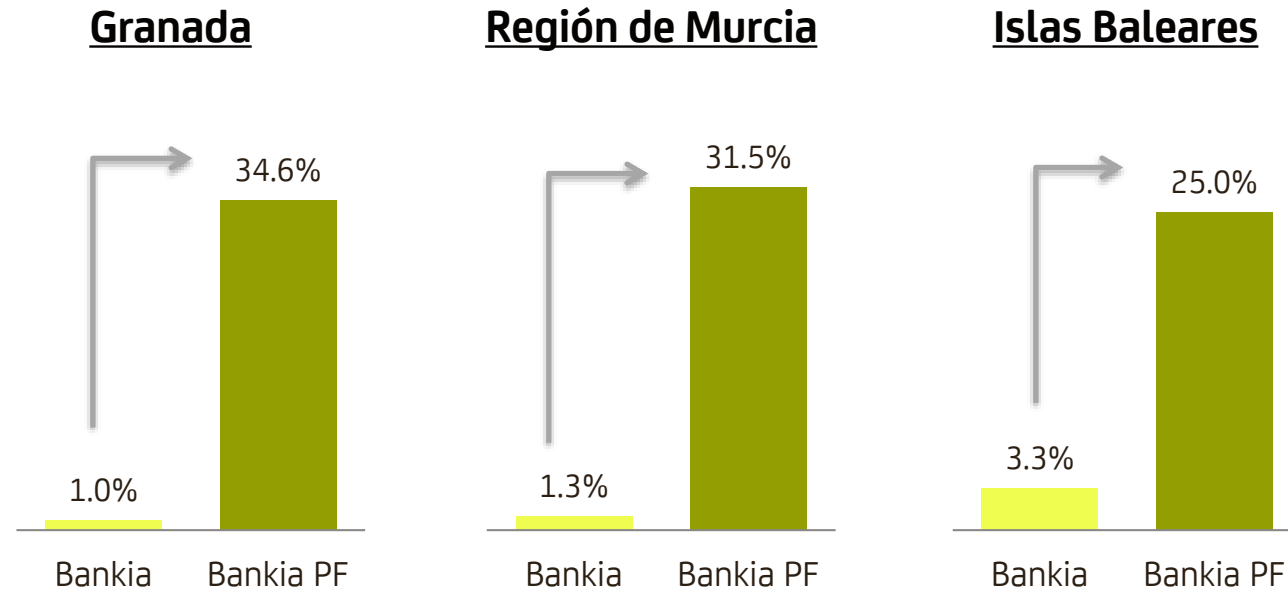
> Merger with BMN

Strategic rationale: industrial logic

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

Bankia becomes the Undisputable Leader in these Regions

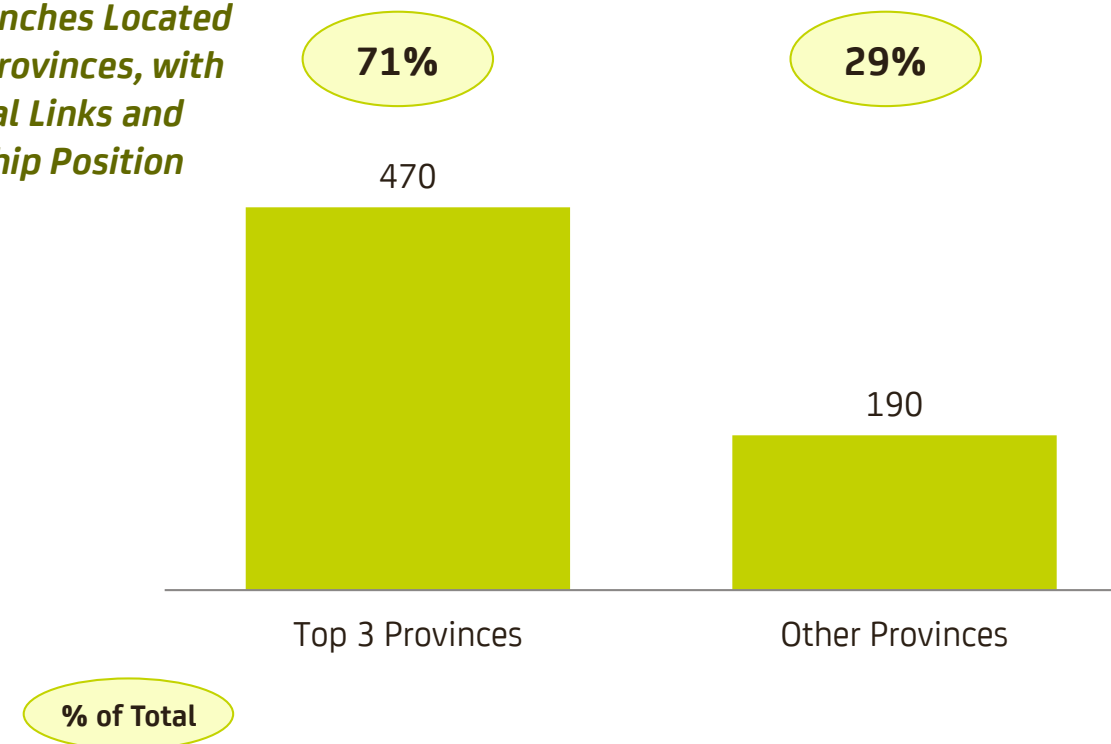
Deposits Markets Shares - as of 4Q16 (%) ⁽¹⁾



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
⁽¹⁾ Domestic deposits

> Merger with BMN

Strategic rationale: industrial logic

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

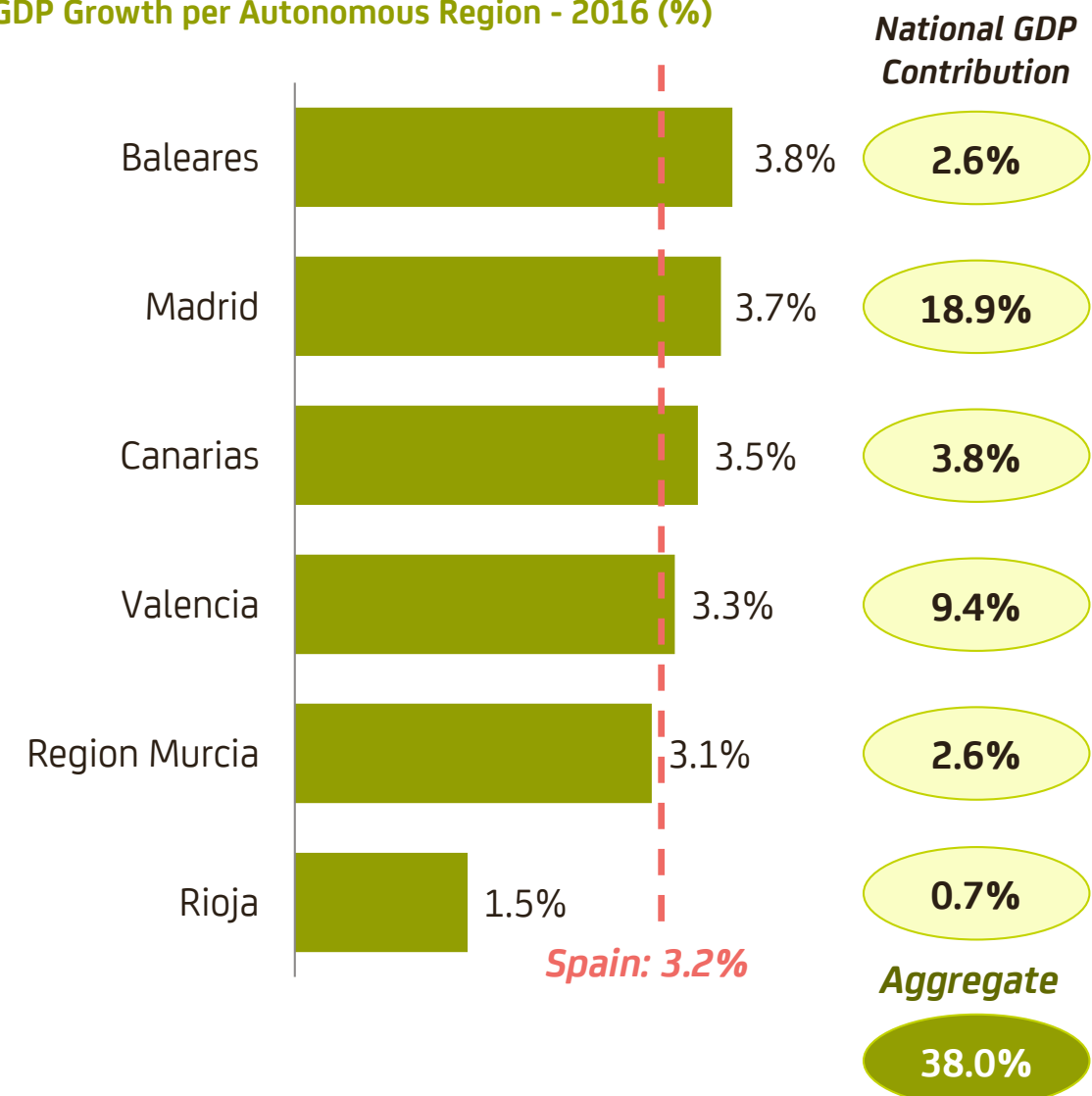
Bankia Increases its Leadership Position in Spain...

Bankia's PF Market Shares by Deposits as of 4Q16¹



...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

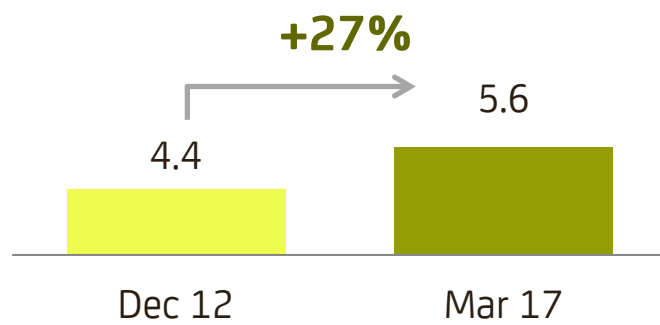
Strategic Rationale

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

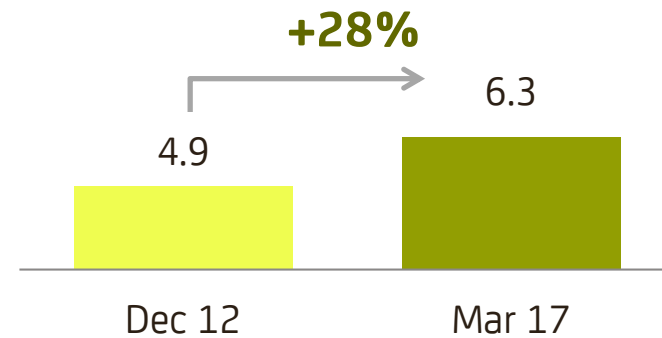
Bankia: significant increase in market shares...

Market Shares (%)

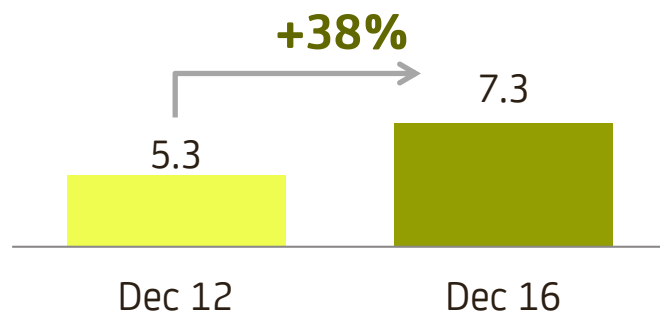
Mutual Funds



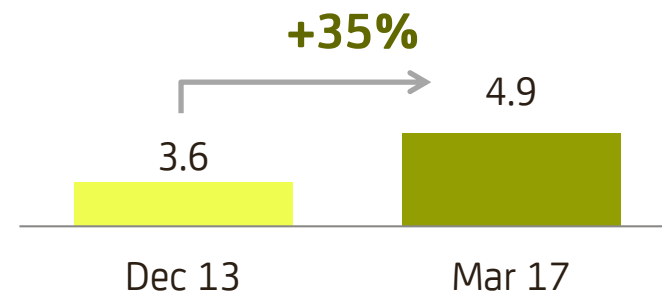
Pension Plans



Credit Cards



Consumer Finance



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

Client Penetration as of December 2016

Product	Client Penetration	
	Bankia	BMN
Mutual Funds	6.4%	2.2%
Credit Card	27.3%	19.1%
Payroll and Pensions	28.2%	17.1%

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

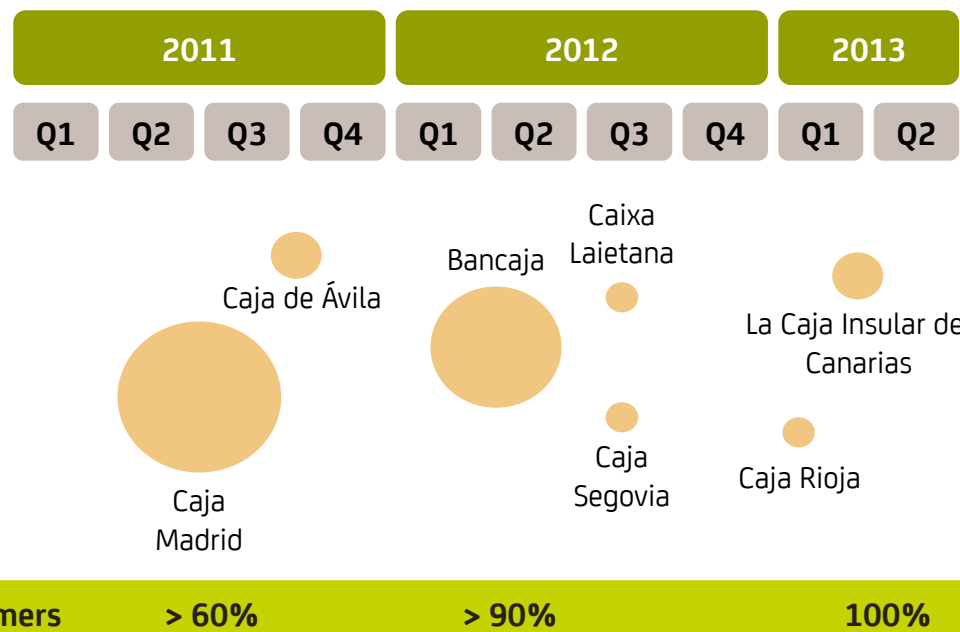
> Merger with BMN

Strategic rationale: industrial logic

Bankia's Integration Track Record Significantly Mitigates Execution Risks

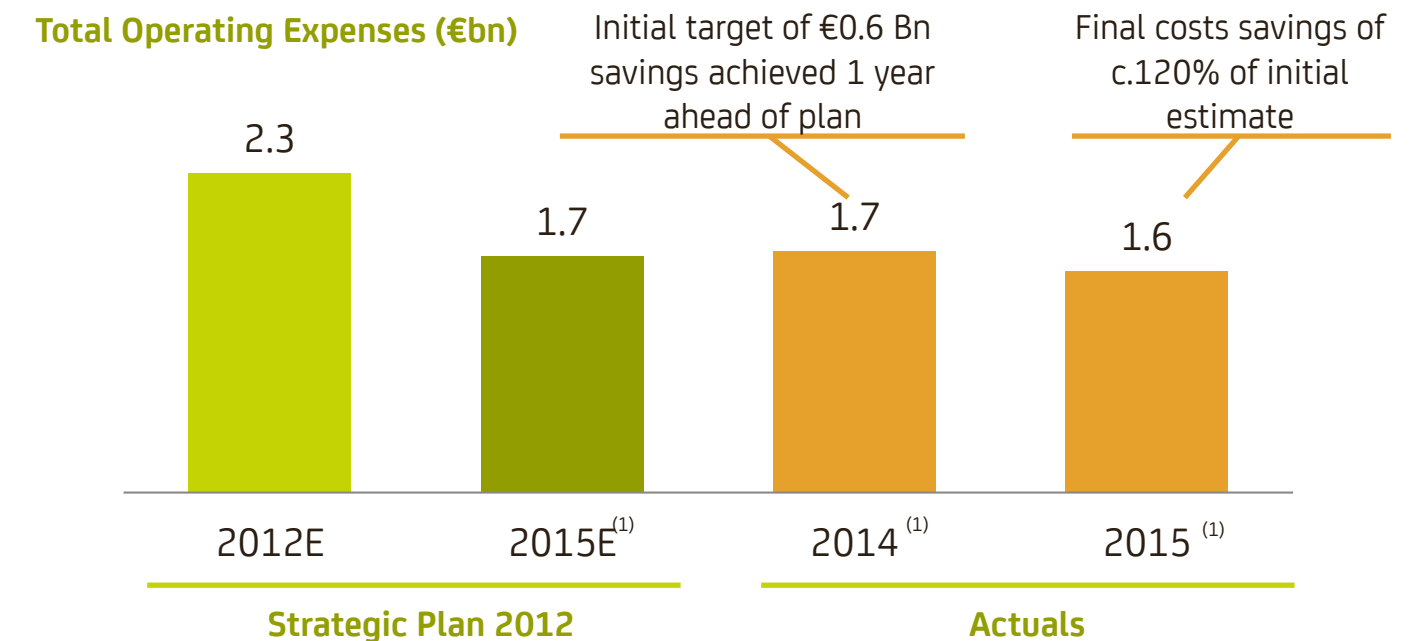
Bankia Integration 2011-2013

- 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

> BMN Merger

Strategic rational: financial logic

Characteristics of the transaction

- 1 Decision process in Bankia: Corporate Governance
- 2 BMN valuation: €825mn
- 3 The exchange ratio has been set at 1 share of Bankia for every 7.82 shares of BMN
- 4 BMN's current shareholders receive 6.67% of the new Bankia
- 5 Inclusion of a new director from BMN

The merger is positive from Year 1, contributing €245mn of net profit and increases EPS by 16% from 2020

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Strategic rationale

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Financial impacts

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Timetable and conclusions

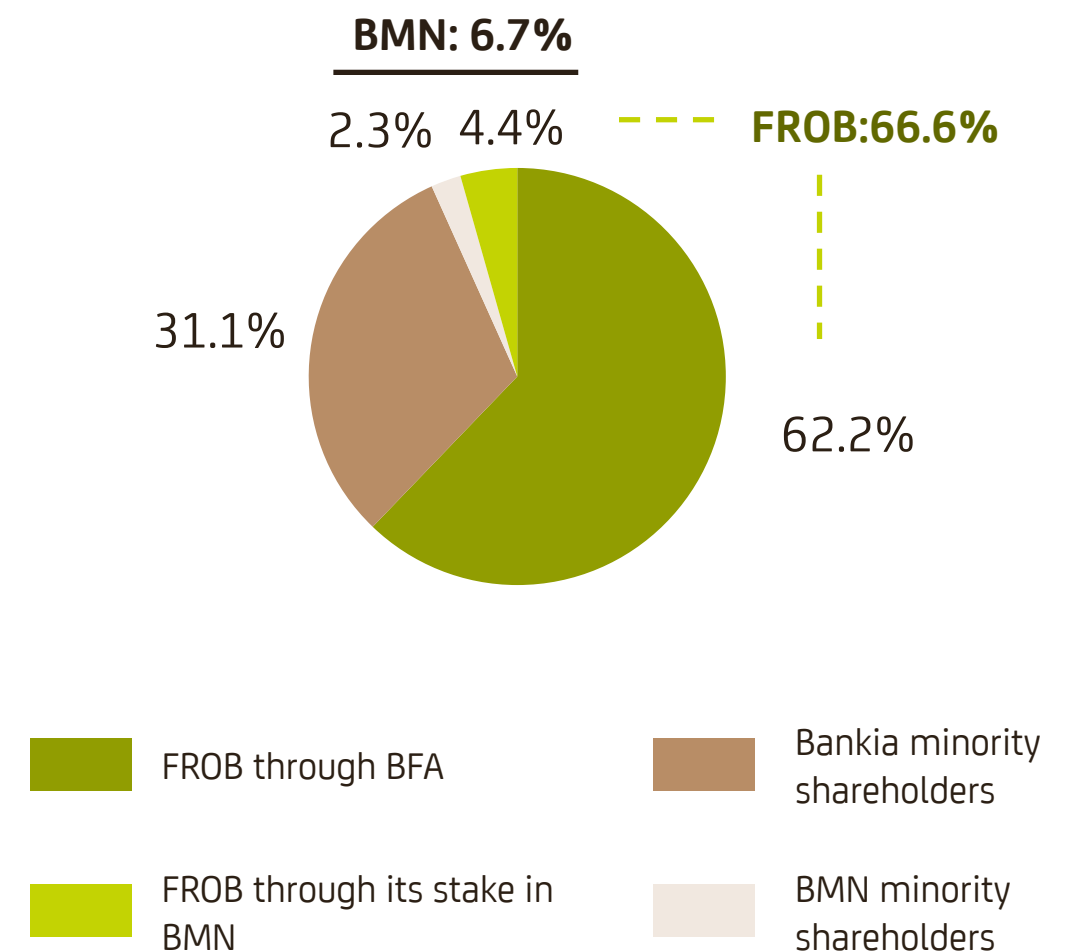
> Merger with BMN

Financial Impacts

Transaction Terms

- Shares Exchange: c. 206⁽¹⁾ 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

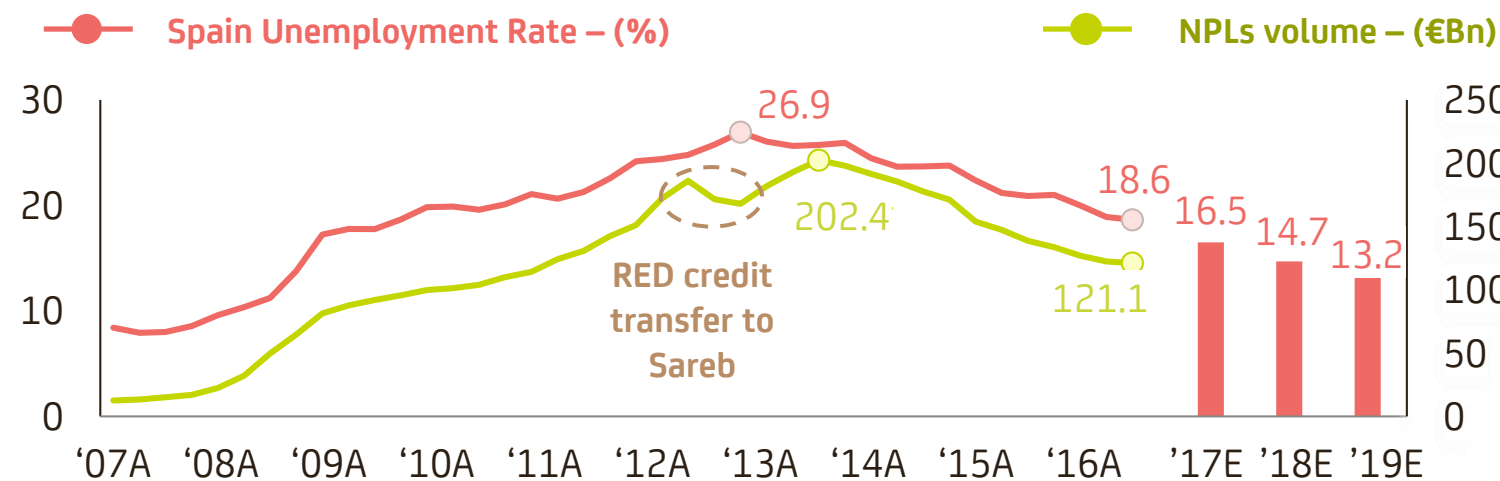
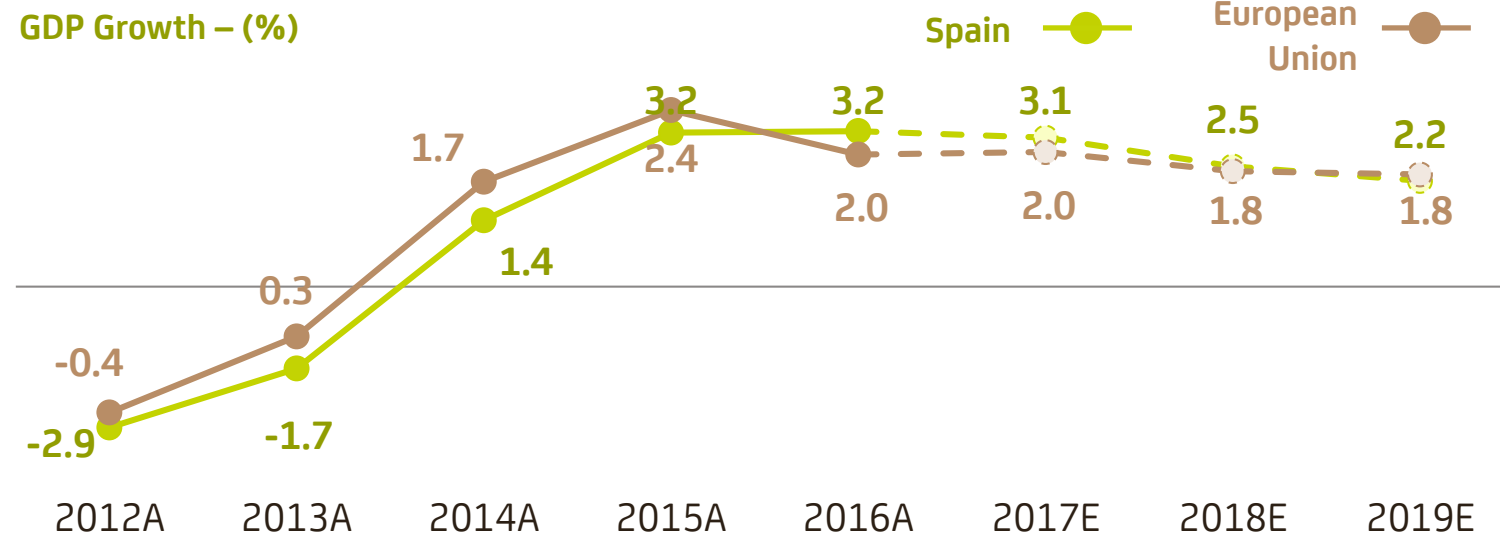


> Merger with BMN

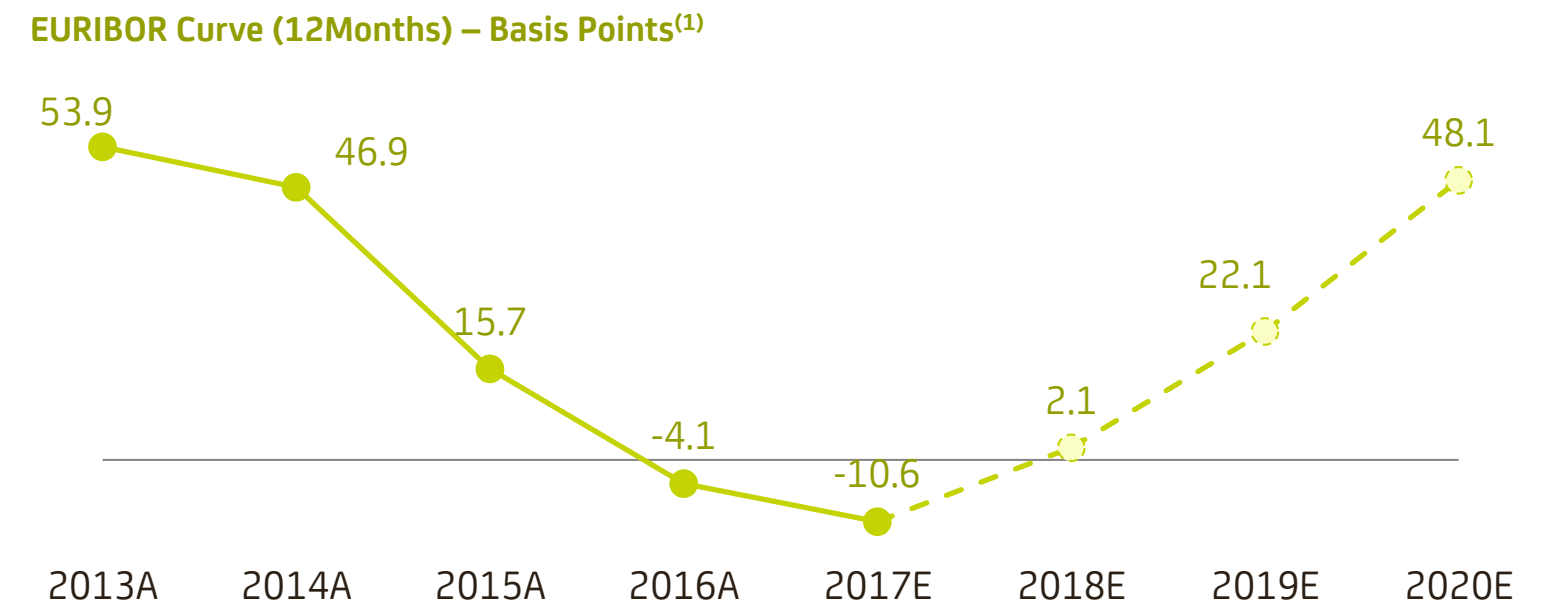
Financial Impacts

Acquisition at Right Point In Cycle

Improvement in Macroeconomic Trends



Sensitivity of BMN's Balance Sheet to Rates



Percentage of the credit book which is floating rate

Bankia	87%
BMN	80%

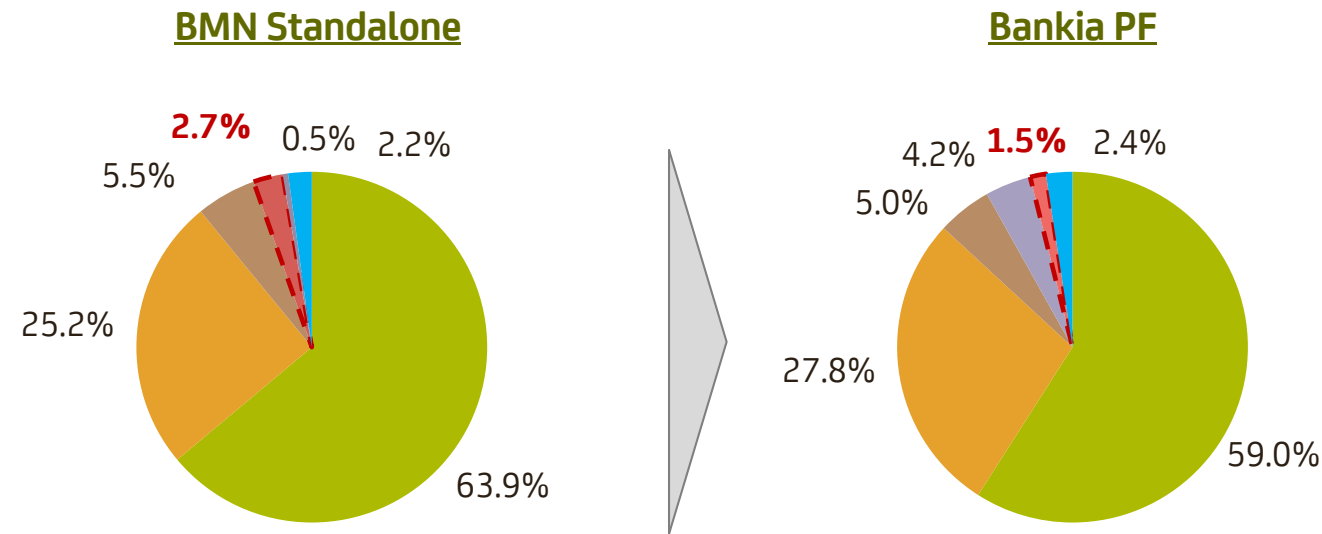
> Merger with BMN

Financial Impacts

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 (%)



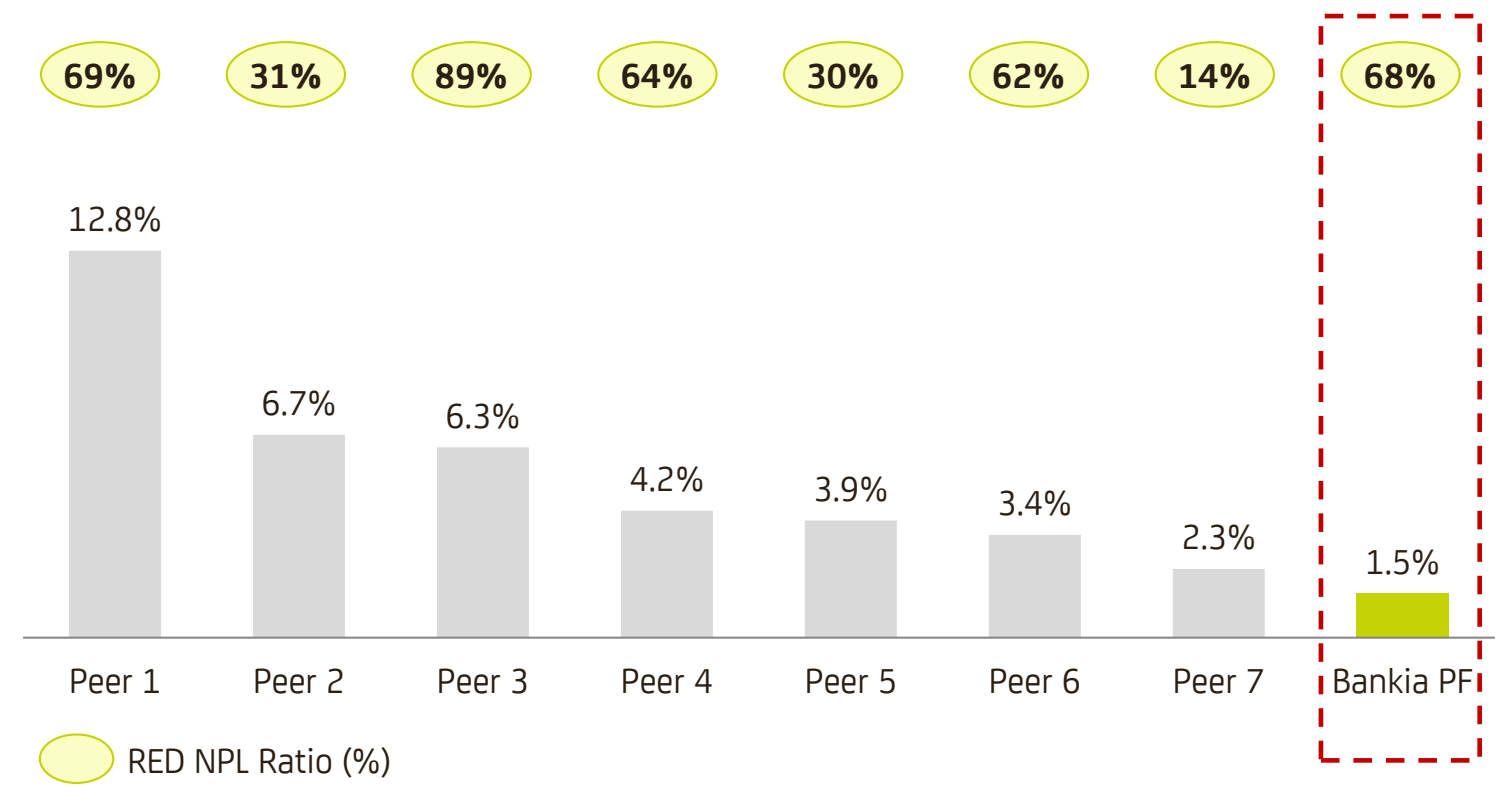
Total: €21.9 Bn

Total: €130.4 Bn

- Residential Mortgages
- Consumer
- SMEs & Corporates
- Real Estate Developers
- Other Construction
- Public Sector

The bank with lowest RED Exposure

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



Lowest RED Exposure combined with one of the highest NPL recognition

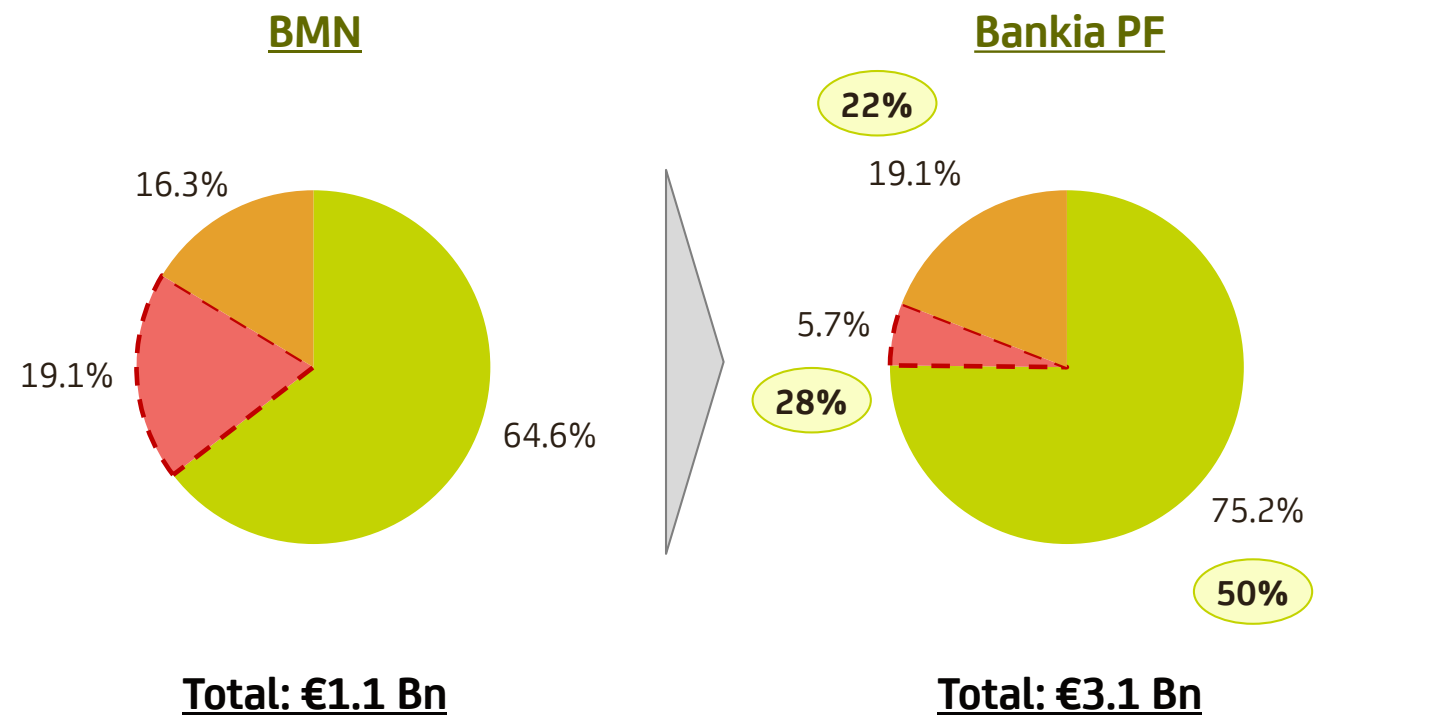
> Merger with BMN

Financial Impacts

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

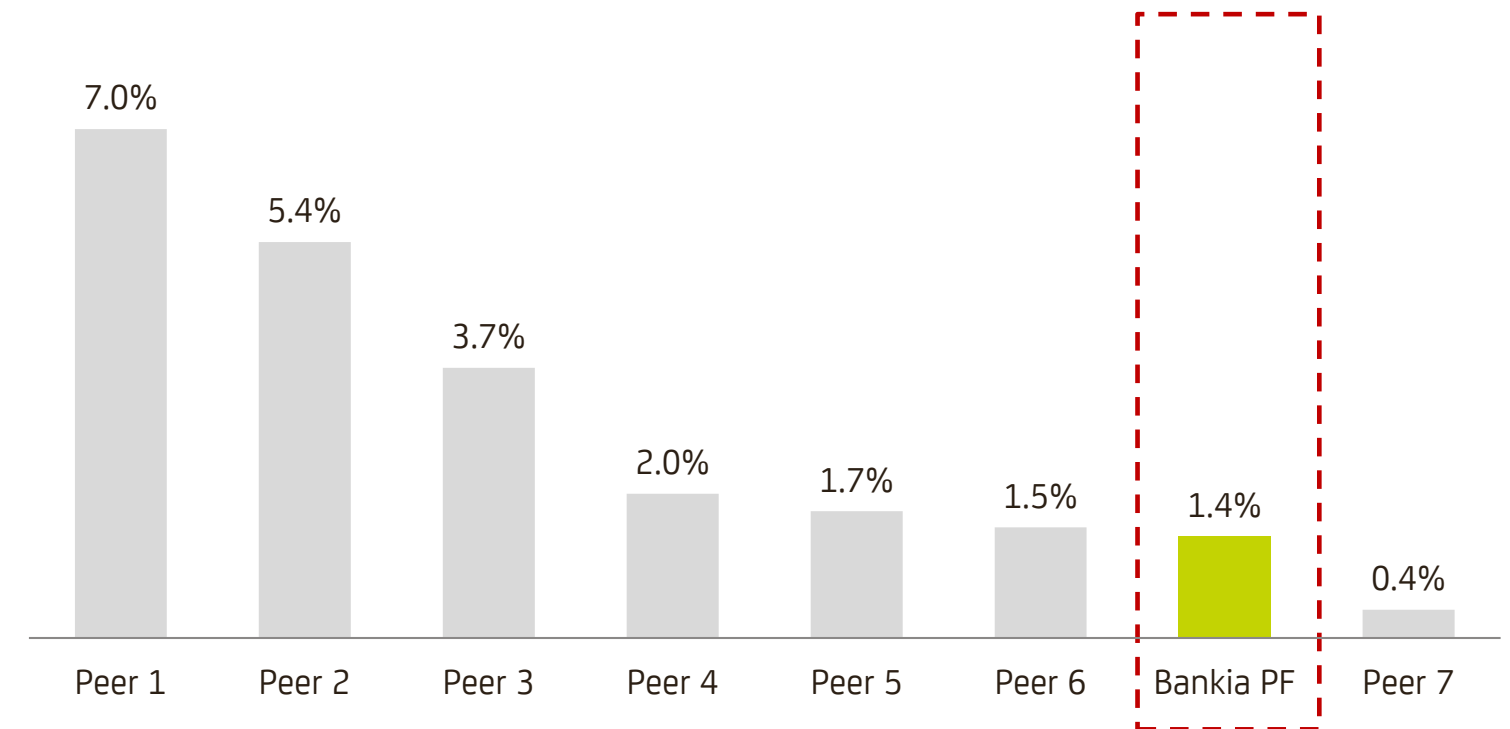
Bankia will continue to have a reduced exposure to Land

Net Foreclosed Assets as of 1Q17(%)(2)



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

Net foreclosed assets / Total Assets (%)⁽¹⁾⁽²⁾
Bankia PF as of 1Q17 and Peers as of 4Q16



■ Finished Buildings & Mortgages⁽³⁾ ■ Land ■ Other ○ Average Peers (4Q16) ^{(1) (2)}

Source: Company Information

⁽¹⁾ 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)

⁽²⁾ Including equity instruments of entities holding property assets foreclosed or received in settlement of debt

⁽³⁾ Including finished buildings from loans to construction and real estate developers and real estate assets from mortgage lending to households

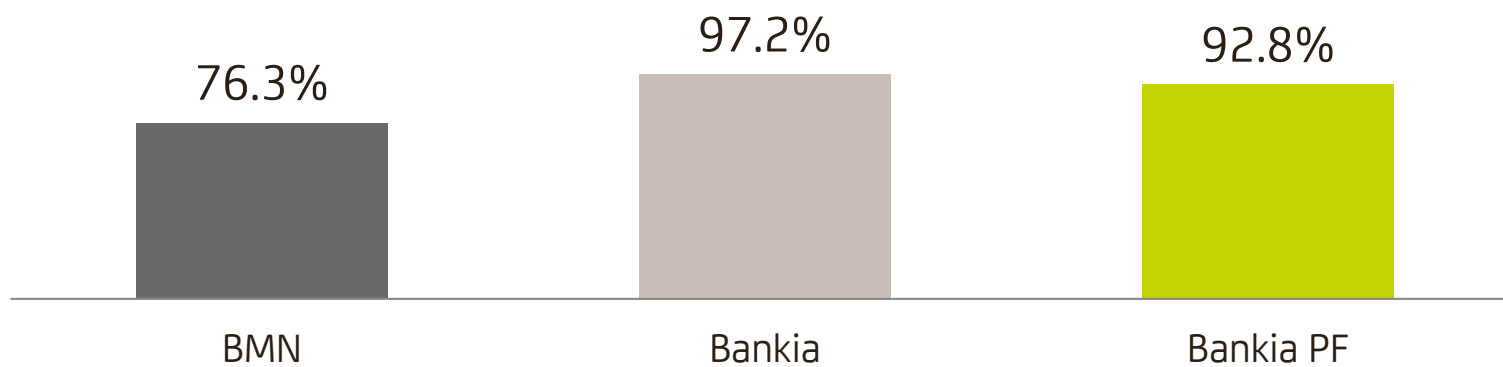
> Merger with BMN

Financial Impacts

Comfortable Liquidity Position

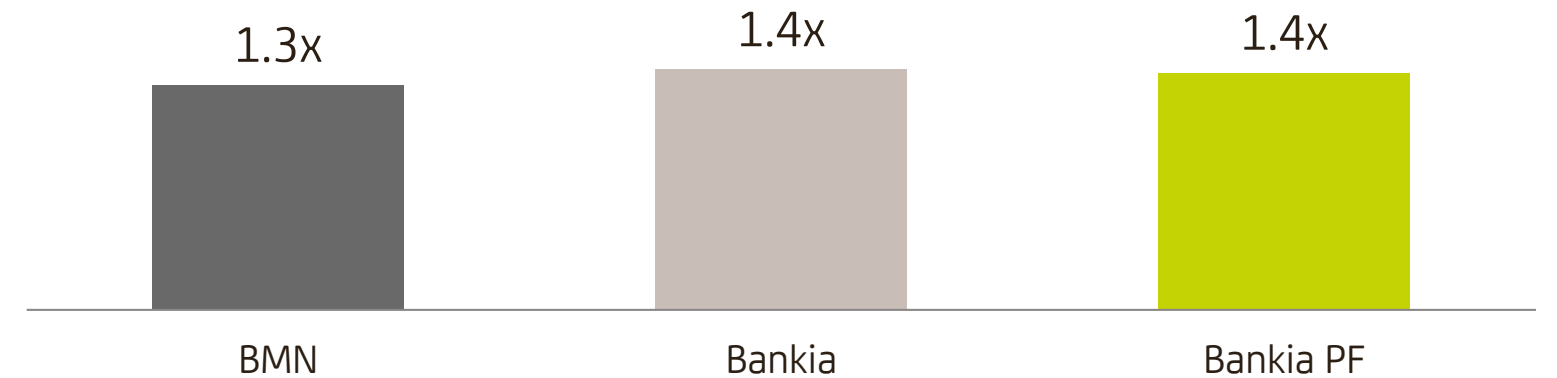
Loan to Deposits Ratio (%)

As of 4Q16 (%)



Liquid Assets / Maturities

Coverage as of 4Q16 (x)



Average Cost of Wholesale Funding (%)




As of 4Q16 (%)



> Merger with BMN

Strategic Rationale

The Group will benefit from a better and more diversified rating

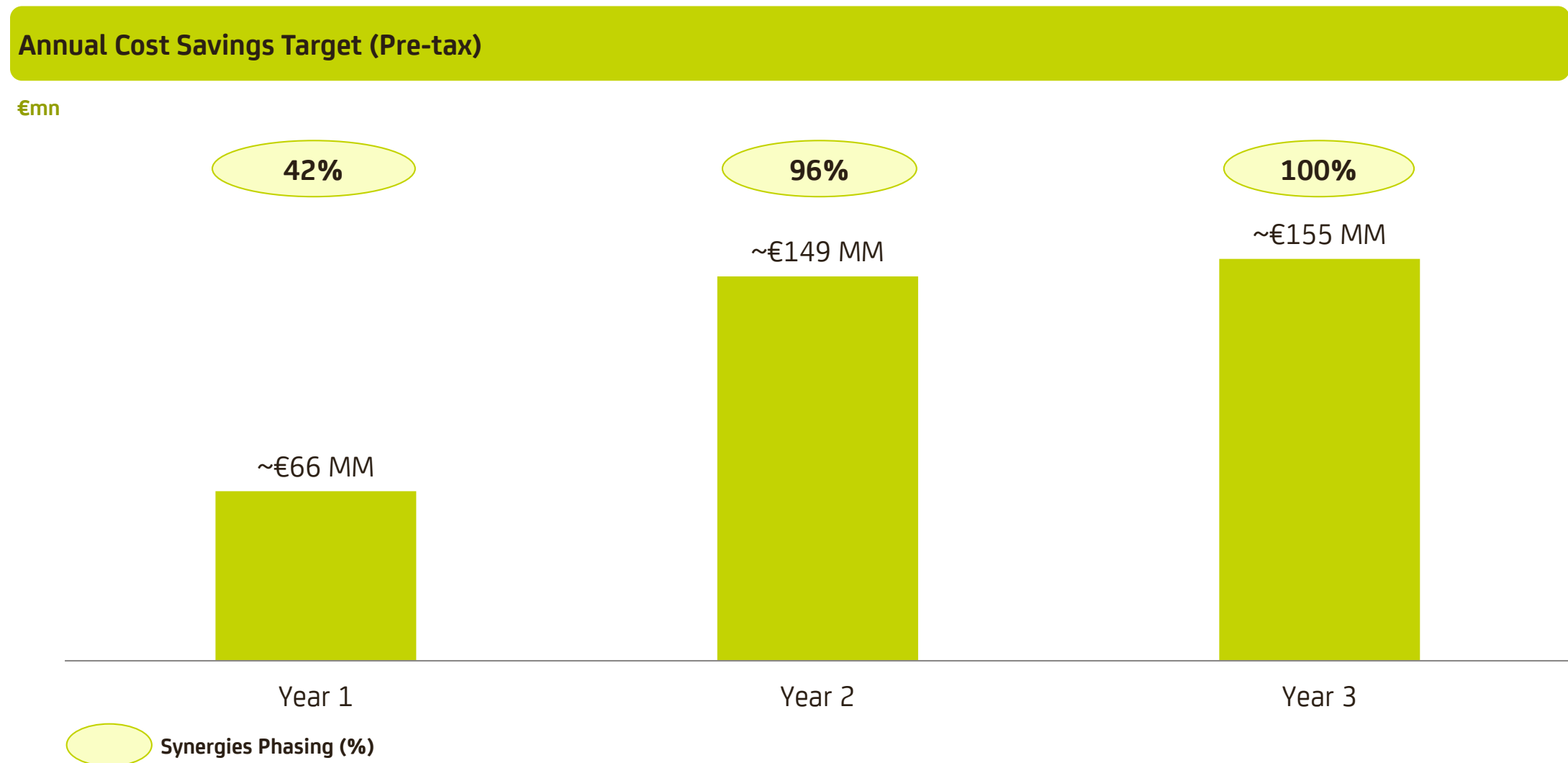
			
<u>Bankia</u>	<i>BBB- / F3 (Stable)</i>	<i>BBB- / A-3 (Positive)</i>	<i>BBBH / R-1L (Stable)</i>
<u>BMN</u>	<i>BB+ / B+ (n.a.)</i>	<i>n.a.</i>	<i>n.a.</i>

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

> Merger with BMN

Financial Impacts

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

Financial Impacts

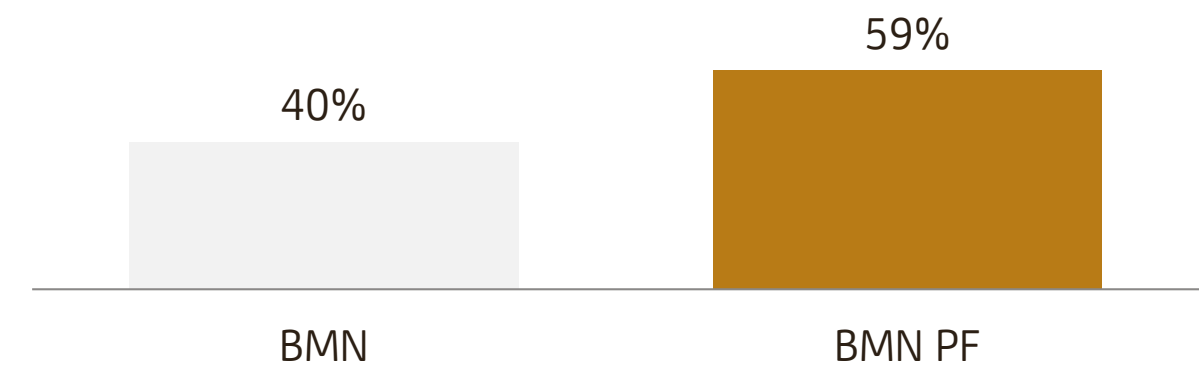
Prudent Provisioning of BMN after Due Diligence Process, to Meet Bankia's Standards

Adjustments

LOAN BOOK PROVISIONS	€0.5bn	A
FORECLOSED ASSETS PROVISIONS	€0.2bn	B
OTHER IMPACTS ⁽¹⁾	€0.3bn	
ADJUSTMENTS CAPITAL IMPACT	€1.0bn	

A NPL Coverage

As of 1Q17 (%)



B Foreclosed Assets Coverage

As of 1Q17 (%)



Source: Company Information

⁽¹⁾ 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

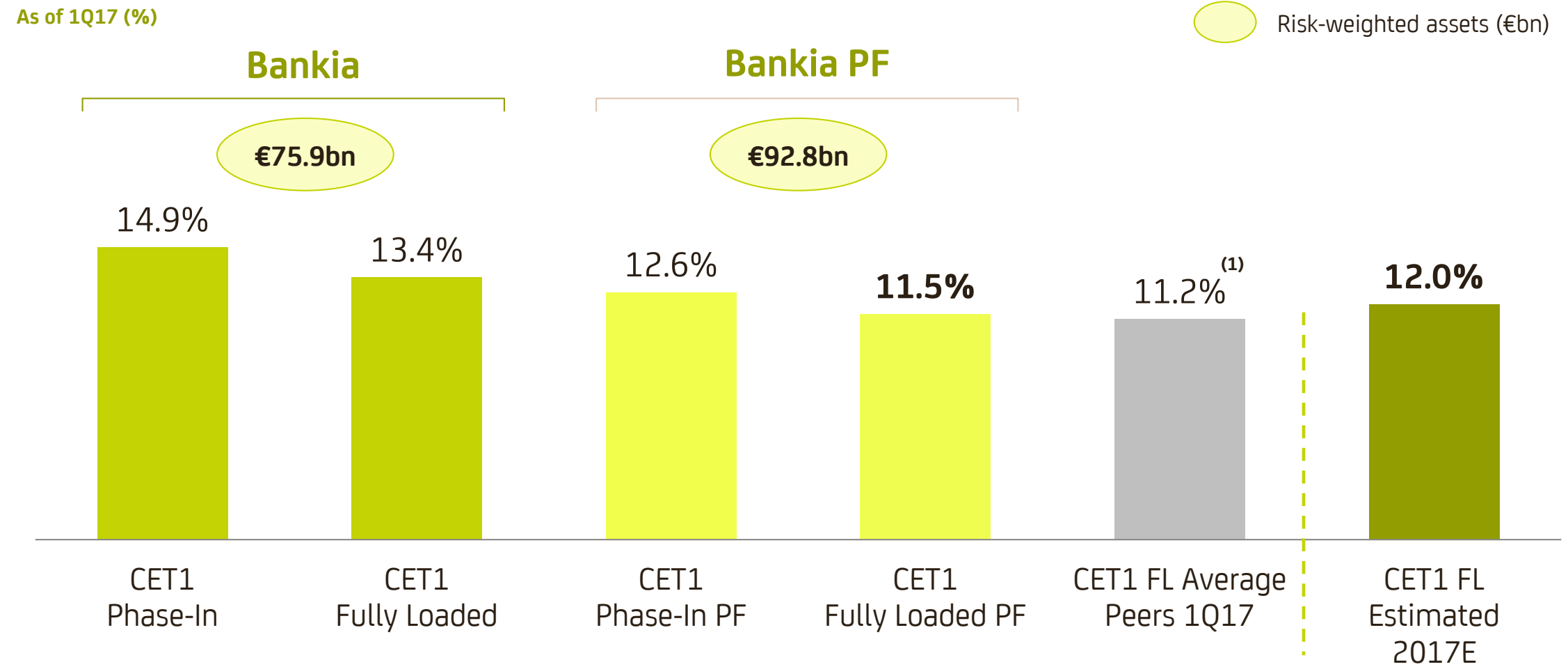
> Merger with BMN

Financial Impacts

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

Sound Capital Position

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



Source: Company Information

⁽¹⁾ Peers are BBVA, Bankinter, CaixaBank, Liberbank, Sabadell and Santander

> Merger with BMN

Financial Impacts

Attractive Transaction For Bankia Shareholders

Impacts of BMN Merger

Invested capital considered for ROIC calculation

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

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

€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

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Timetable and conclusions

> Merger with BMN

Timetable

Next steps



> 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

Annex

> Merger with BMN

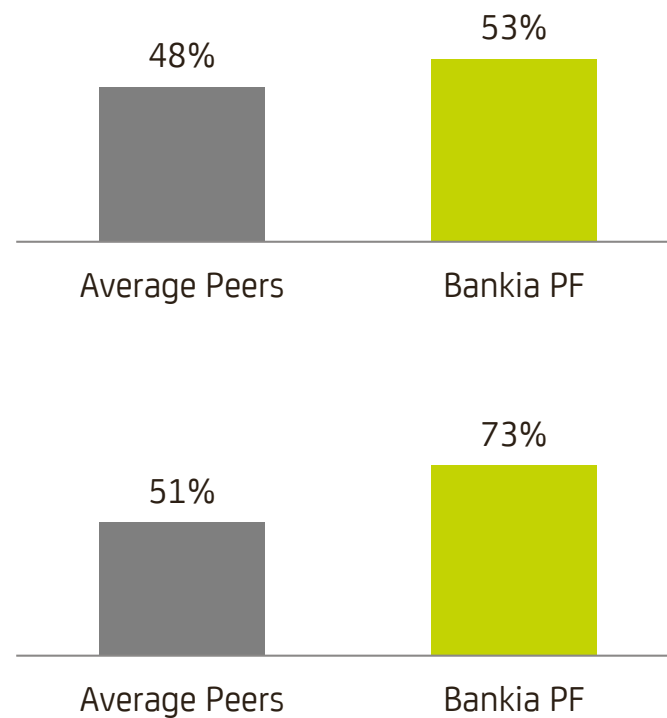
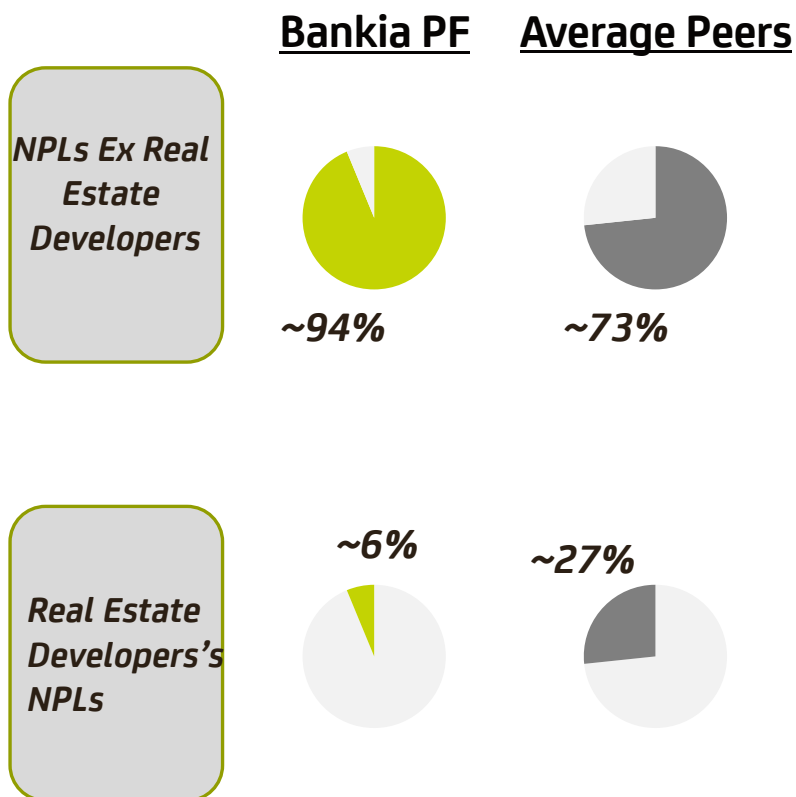
Financial Impacts

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

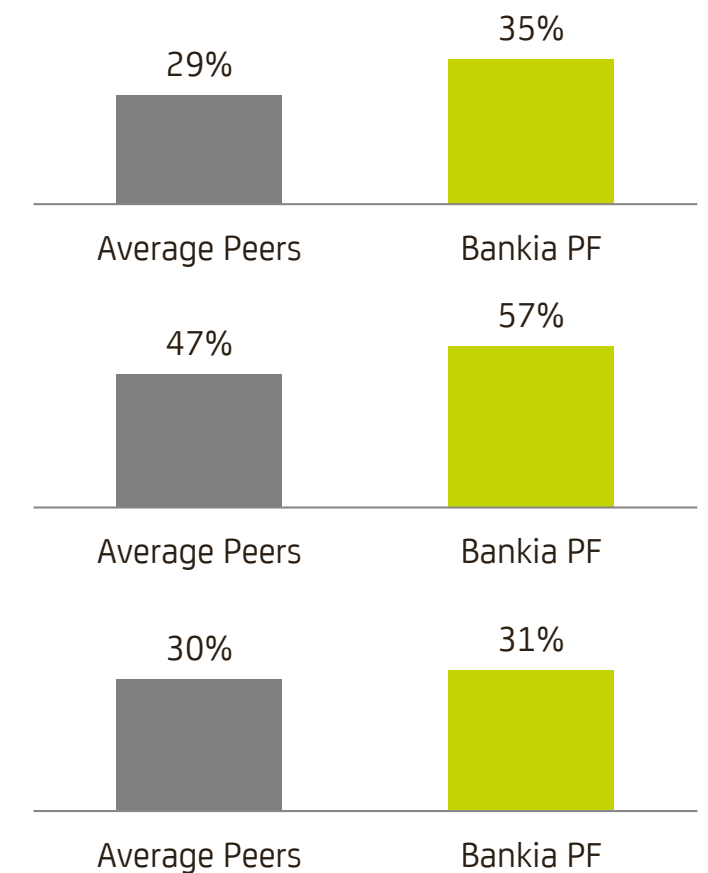
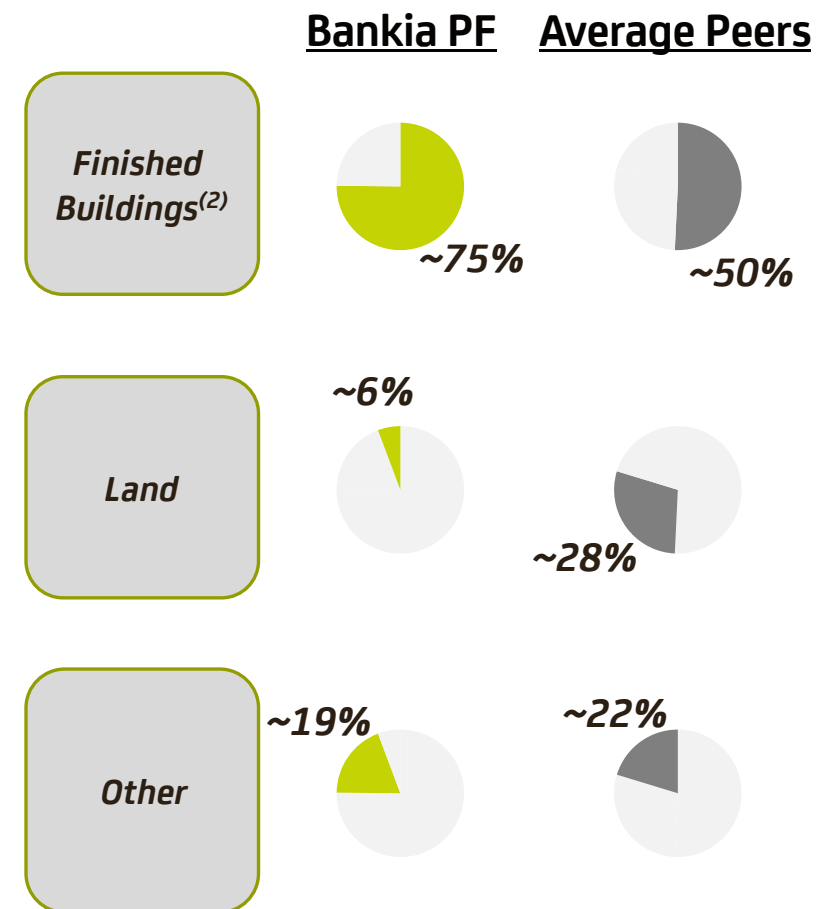
Coverage vs Peers ^{(1) (5)}
Bankia PF as of 1Q17 and Peers as of 4Q16



Foreclosed Real Estate Assets – PF Coverage 36%

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

Coverage vs Peers ⁽¹⁾⁽³⁾⁽⁴⁾
Bankia PF as of 1Q17 and Peers as of 4Q16



Source: Company Information

⁽¹⁾ 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)

⁽²⁾ Including finished buildings from loans to construction and real estate developers and real estate assets from mortgage lending to households

⁽³⁾ Including equity instruments of entities holding property assets foreclosed or received in settlement of debt

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

⁽⁵⁾ Excluding mortgage floors provisions from credit book provisions

Bankia

LET'S KEEP WORKING