

BANKIA

BANKING SECTOR

STUDENT: PEDRO FRAGOSO

COMPANY REPORT

JANUARY 2016

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A bet on Macro

- Bankia was the institution that received the largest chunk of the international financial aid package that was granted to Spain, as it posted a EUR 19 bn net loss on 2012.
- With the implementation of the Restructuring Plan, the bank managed to boost operational efficiency, but some non-core investments still need to be disposed. There is not great expectation that this activity will yield significant cash flow for Bankia.
- Reached a time when the Balance Sheet is cleaned of all assets to be divested, Bankia's value driving component is expected to be the Net Interest Income.
- Net Interest Income is pressured by the fall in yields that is expected to continue for some more 4-5 years, as long as the ECB maintains its Quantitative Easing program.
- Bankia plans to increase the share of Corporate & SME loans in its Loan Portfolio, in a manoeuvre to capture higher interest income as a result of higher rates.
- The plan is contingent, however, to the recovery of the market of lending to Corporate & SME clients, one of the segments most hit during the financial crisis.
- Significant losses related to Sareb bonds are a risk that can materialize in the future.

Company Description

Bankia is a Spanish commercial bank operating in national territory, offering traditional banking products. In 2012 it was nationalised by the Spanish State to dodge bankruptcy.

Recommendation: Hold

Price Target FY16: 0.95 €

Price (as of 7-Jan-16) 1.01 €

Reuters: BKIA.MC, Bloomberg: BKIA.SM

52-week range (€) 0.99-1.38

Market Cap (€bn) 11.67

Outstanding Shares (bn) 11.52

Source: Bloomberg



Source: Reuters

(Values in € millions)	2014	2015E	2016F
Net interest Income	2,927	2,318	2,229
Gross Income	4,008	3,392	3,327
Net Income (Before Dividends)	771	490	952
Cost to Income	43.5%	52.2%	53.2%
NPL ratio	12.9%	12.8%	12.9%
Loans to Deposits	74.8%	79.0%	84.4%
ROE	6.5%	4.0%	7.9%
ROA	0.3%	0.2%	0.4%
EPS	0.070	0.043	0.083
P/E (recurrent)*	13.17	12.19	11.44

Source: Company Data and Analyst's Estimates

*Target Price FY2016 / Forecasted EPS 2016

THIS REPORT WAS PREPARED BY PEDRO FRAGOSO, A MASTERS IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS, EXCLUSIVELY FOR ACADEMIC PURPOSES. THIS REPORT WAS SUPERVISED BY ROSÁRIO ANDRÉ WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (SEE DISCLOSURES AND DISCLAIMERS AT END OF DOCUMENT)

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Figure 1 – Top 5 banks in Spain (as of 06/01/2016)

Bank	Mkt Cap (EUR bn)	Assets (EUR bn)
Santander	60.99	1,320.43
BBVA	41.27	746.48
CaixaBank	17.79	343.45
Bankia	11.63	217.46
Sabadell	8.75	205.14

Source: Reuters

Company Overview

Born as a result of the merger of seven *cajas de ahorros* (savings banks), Bankia now stands as a major player in the Spanish Banking sector, being the 4th largest commercial bank by market capitalization.

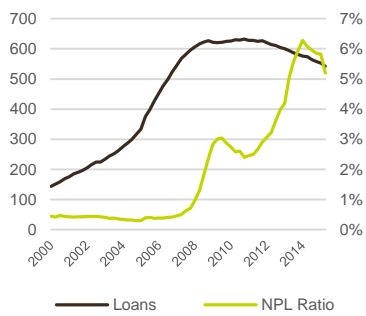
Where it all began

The year was 2010 and the Spanish ailing Real Estate market continued to deteriorate the quality of the assets of the country's banks. Since the turn of the century, Spain enjoyed a bull run on house prices, with the price per square meter increasing 136% (11.32% CAGR) up until 2008 end, to reach EUR 2,018, prompting overinvestment. Helped by the ever increasing collateral valuations, the amount of Credit destined to House Purchases soared 335% from 2000 to 2008 (a 20.19% CAGR). However, 2008 served as the turning point on the lending behaviour of banks, as non-performing loans on this segment started to be more and more expressive (sharp increase in the Non-Performing Loans – NPL – ratio from 0.71% in year end 2007 to 3.00% in mid 2009). The worldwide financial crisis started to take its toll on the Spanish economy: the unemployment rate more than doubled from 2007 to 2010 (8.80% to 20.30%), contributing to increasing non-performing loan volumes. This behaviour was also present in the Corporate & SME loan market, more specifically with Construction and Real Estate segments where total loan volumes increased at a CAGR of 28.42% in the years from 2000 to 2008 (total increase of 640%), while enjoying NPL ratios close to 1% on average. From 2008 to 2010 this loan volume contracted 8.42% and the NPL ratio increased from 5.72% in year end 2008 to 13.48% in year end 2010.

House prices suffered a contraction starting on 2008 (by 2010 year end they had decreased 9.56%), which lowered the market value of collateralized loans, pressuring banks' capital adequacy. Despite the systematic nature of the financial crisis, not all institutions were equally affected. The greatest victims of the economic turmoil were the savings banks, triggering a large round of consolidation in the sector. On the wake of this situation, the Spanish Government created in 2009 the Fondo de Reestructuración Ordenada Bancaria (FROB) as a vehicle dedicated to assist financial institutions in their capital needs.

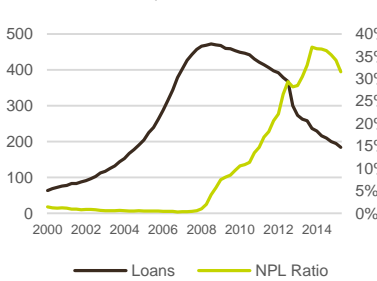
As a result of the sector's consolidation, in 2010, the *Banco Financiero y de Ahorros* (BFA) was created joining the balance sheets of 7 savings banks: Cajamadrid, Bancaja, Caja Insular, Caja de Ávila, Caja Laietana, Caja Segovia, and Caja Rioja, which would become BFA's shareholders. As part of the consolidation process, BFA issued EUR 4,465 mm worth of convertible preference

Figure 2: Loans and NPL Ratio for House Purchase in Spain, EUR bn



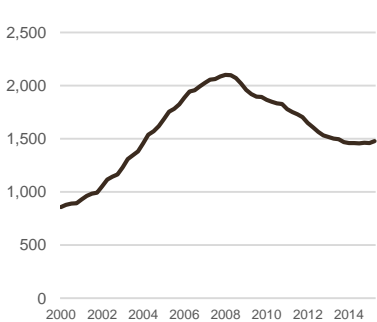
Source: Bank of Spain

Figure 3 - Loans and NPL Ratio for Construction and Real Estate sector in Spain, EUR bn



Source: Bank of Spain

Figure 4 - House prices in Spain (EUR/sqm)



Source: Bank of Spain

Figure 5 – BFA's original Shareholder Structure

Shareholder	Share
Caja Madrid	52.06%
Bancaja	37.70%
Caja Insular	2.45%
Caja de Ávila	2.33%
Caja Laietana	2.11%
Caja Segovia	2.01%
Caja Rioja	1.34%

Source: European Commission

shares subscribed by the FROB. Bankia was created as a fully owned subsidiary of BFA, to hold the greatest part (85%) of the assets and liabilities of the seven *cajas de ahorros*.

In 2011 the Bank of Spain issued a stricter set of minimum capital requirements to be complied by financial institutions. In order to comply with the “capital principal” ratio of 8%, Bankia went public on July 2011, raising EUR 3.09 bn from private investors, the value paid for 47.6% of the capital. BFA was left with the remaining 52.4%.

As the Bank of Spain revised its guidance for the provisions of non-performing real estate assets, the FROB converted its hybrid securities in BFA to capital (resulting in the FROB being the sole shareholder of BFA, and consequently having a controlling stake in Bankia). Still, the bank struggled to keep up with the increasingly demanding regulatory landscape, presenting negative earnings throughout the financial disclosures of 2012, fuelled by impairment losses in financial assets.

Figure 6 – Summary of State aid to BFA/Bankia

Description	Date	Value (EUR bn)
FROB subscribes preference shares in BFA	Jun 2010	4.465
FROB subscribes ordinary shares in BFA	Sep 2012	4.50
FROB subscribes ordinary shares in BFA	Nov 2012	13.50
Total		22.465

Source: European Commission

In July of 2012 Spain requested the European Commission for assistance in its efforts to improve the health of the Spanish financial system. The agreement led to the creation of an asset management company (Sareb) to strip the balance sheets off of the state intervened institutions of non-performing assets, serving as a “bad bank”. Also, system wide and institution specific stress tests were conducted by an independent company, the results of which confirmed Bankia's frailties: it was the analysed institution with the highest capital needs in the base scenario (EUR 13.2 bn) and also in the adverse scenario (EUR 24.7 bn).

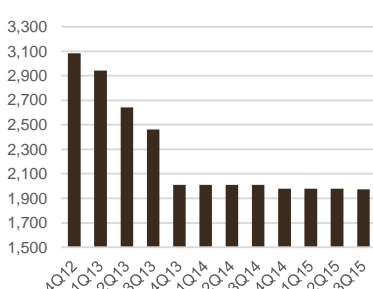
Figure 7 – State aid to other banks

Institution	Value (EUR mm)
Catalunya Banc	9,048
Nova Caixa Galicia	5,425
Banco de Valencia	4,500
Banco Mare Nostrum	730
Liberbank	124
CEISS	604
Caja3	407
Total	20,838

Source: FROB

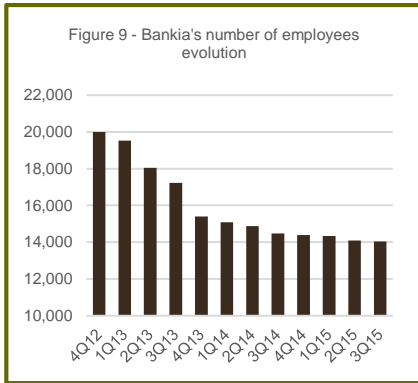
As a consequence of this result, further public assistance was conceded to Bankia. First, FROB contributed with a EUR 4.5 bn capital increase in BFA, which was transmitted to Bankia in the form of a subordinated loan, eligible as Tier II capital. Second, FROB increased its capital investment in BFA through the subscription of ordinary shares worth around EUR 13.5 bn, in exchange for bonds issued by the European Stability Mechanism (ESM). BFA transferred the ESM bonds to Bankia as an exchange for contingent convertible (CoCo) bonds issued by Bankia, eligible as “capital principal” in the regulatory framework. Also, BFA/Bankia transferred a share of its assets exposed to the real estate sector to Sareb, amounting to EUR 22.3 bn (the portion related to Bankia was EUR 19.4 bn), receiving in exchange bonds issued by the Sareb and guaranteed by the Spanish State.

Figure 8 – Bankia's branch network evolution (number of branches)

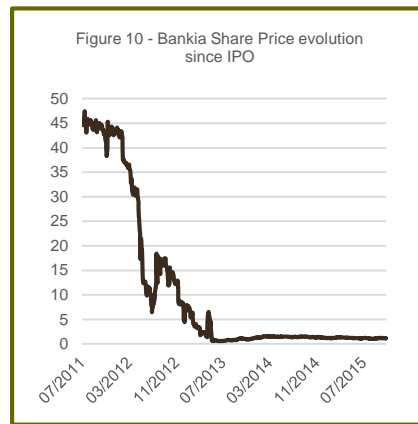


Source: Company Data

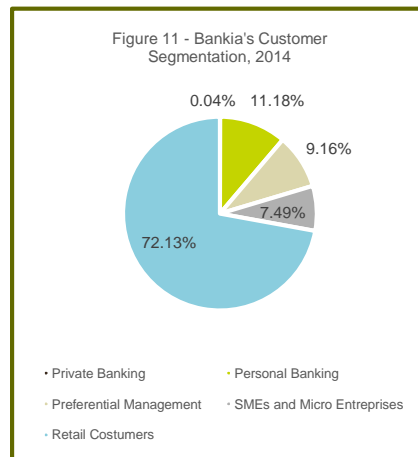
As part of the public and international aid received, BFA/Bankia was required to comply with a Restructuring Plan set out to monitor the usage of the funds awarded to the bank, and guaranteeing that Bankia is able to meet the commitments



Source: Company Data



Source: Reuters



Source: Company Data

assumed with its creditors and investors by 2017. For the period 2012-2015, a Strategic Plan was implemented in accordance with the Restructuring Plan. During this period, BFA/Bankia pursued a divestment plan, shedding non-core assets such as City National Bank of Florida sold in October 2015 (yielding a net gain of EUR 117 mm); it scaled back its operations by reducing its branch network from 3,083 in December 2012 to 1,974 in September 2015 (36% decrease, in line with what was set out in the plan); it reduced the number of employees from 20,005 in year end 2012 to 14,042 (a 29.8% decrease, also in line with the plan). The segmentation of the Loan Portfolio was also planned, with the objective of increasing the share of lending to Corporate & SME and seeking to reduce the exposure to the Real Estate sector to zero. The prevision was to generate EUR 52 bn of new loans by 2015, 84% of which to be allocated to Corporate & SME.

The troubled path of Bankia since its inception, being by the nature of its assets arising from institutions hit the most in the financial crisis, being by corporate governance alleged irregularities (the case of ex-executive chairman Rodrigo Rato) contributed for a bad performance in the financial markets, offering an annualized return of -56.87% since its market flotation (on adjusted terms for the 2013 reverse stock split).

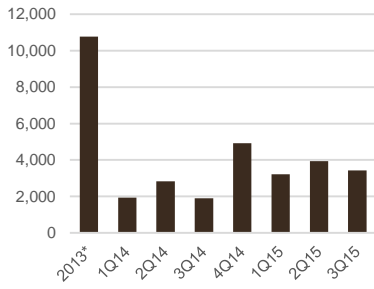
Business description

Bankia operates throughout Spain, having a strong presence in the Madrid and Valencia areas (corresponding to the former biggest shareholders, Cajamadrid and Bancaja). It follows the business model of a traditional commercial bank, offering services to both retail and business clients. On year end 2014, Bankia held a market share of 8.4% in deposits from Spanish residents (excluding the Government and Credit Institutions) and also an 8.4% market share on the total amount of gross loans in the Spanish financial system (excluding Credit Institutions).

Retail Banking

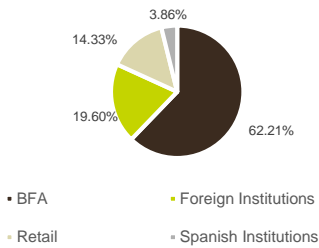
The Retail segment is the business where Bankia has the most customers (72.13% in 2014). The range of services offered to retail clients includes deposit accounts (sight deposits, term deposits and savings accounts), loans (mortgages and general consumer credit) and others including credit cards and insurance, through a partnership with Mapfre. It also offers asset management and investment advisory services to clients of high net worth.

Figure 12 - Bankia's new Business Lending (EUR mm)



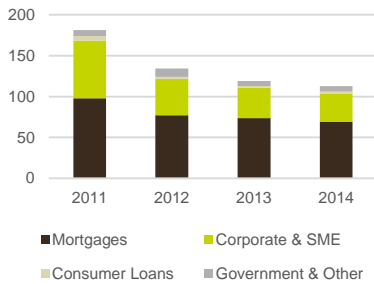
Source: Company Data
 *Bankia did not disclose the 2013 figures quarterly. The whole year of 2013 is presented

Figure 13 - Bankia's Shareholders, 2014



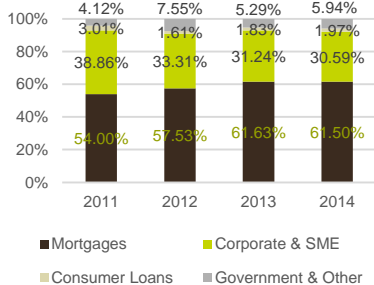
Source: Company Data

Figure 14 - Bankia's Loan Portfolio evolution, EUR bn (net loans)



Source: Company Data, Analyst's estimates

Figure 15 - Bankia's Loan Portfolio segmentation (net loans)



Source: Company Data, Analyst's estimates

Business Banking

Bankia holds a strong presence in the business segment, counting with around 20,000 customers in its client portfolio, representing about 34.8% of the total clients in the Spanish market. The Restructuring Plan sets out the objective to increase the weight of the business lending, and as such, in 2013 the bank launched a plan focused on SME lending with the objective of having EUR 43.5 bn in new loans by 2015. As of September 2015, 75.63% of this objective was met, with new loans to businesses amounting to EUR 32.9 bn since 2013.

In 2014, Bankia created a new credit line targeting SMEs with a reduced funding cost. The "Prestamo Dinamización" resulted from the cheaper funding for the bank from the ECB through a TLTRO facility, which decreased the cost of lending to the clients in about 30%. From the EUR 2.78 bn awarded to Bankia, EUR 1.39 bn were already granted to clients by year end 2014.

Shareholder structure

Bankia's majority shareholder as of 2014 end was BFA with 62.21% of the share capital. The remainder of the capital is held by private and institutional investors, traded on the stock exchanges of Madrid, Barcelona, Valencia and Bilbao.

As part of the Restructuring Plan accorded with the European Commission, BFA ceased to be a credit institution starting January 2014.

As a consequence of the conversion of the preferred convertible shares held by the FROB in the first outlay of public assistance given to BFA, BFA's capital became 100% property of the FROB, leaving the previous shareholders (the seven *cajas de ahorros*) out of the shareholder structure. As the FROB is a public mechanism, the ultimate owner of Bankia is the Spanish state.

Bankia did not distribute any dividends in the years from 2011 to 2014. However, in 2015 the governing bodies of Bankia approved a dividend distribution of EUR 201.6 mm.

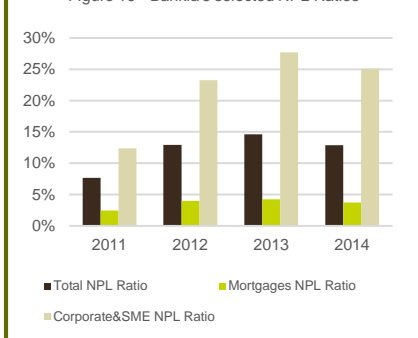
Bankia's Operations

Bankia's income sources are in their majority the Loan and the Bond Portfolios.

The Loan Portfolio

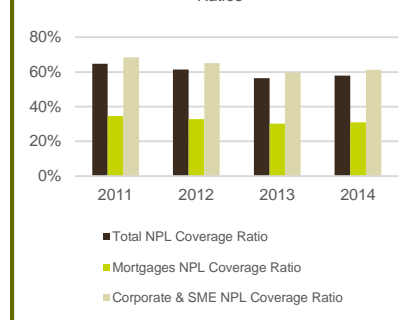
It is possible to segment the loan offer (to non-financial counterparts) of Bankia into 4 different types of lines: House Purchase (referenced interchangeably as Mortgages), Corporate & SME, Consumer Loans and Government & Other. At its inception, Bankia had the greatest share of loans in the Mortgage segment, at 54%

Figure 16 - Bankia's selected NPL Ratios



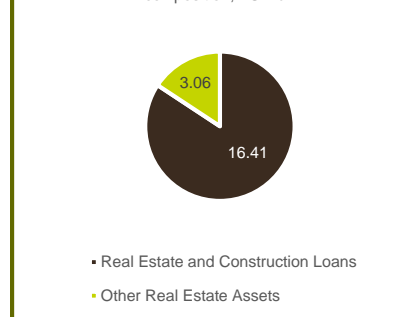
Source: Company Data, Analyst's estimates

Figure 17 - Bankia's selected NPL Coverage Ratios



Source: Company Data, Analyst's estimates

Figure 18 - Sareb asset transfer composition, EUR bn



Source: Company Data

of its EUR 181.1¹ bn of Loan Portfolio carrying value, followed by Corporate & SME with a share of 38.86%.

The line of Consumer Loans is the one that bears the highest NPL ratios (estimated² 63.89% in 2014 year-end). Bankia has been decreasing its exposure to these assets, from a carrying amount of EUR 5.46 bn in 2011 to EUR 2.22 bn in 2014 (a 59.34% contraction). The decrease in the balance sheet amount of this item should benefit the bank, and a future increase is not expected, as Bankia shifts its lending activities efforts to target the Corporate & SME clients.

Although the guidance from the company (since 2012) is to shift the weight of the Loan Portfolio to the Corporate & SME segment, Bankia is having difficulties in the attainment of this objective, with the share of Corporate & SME lowering to 30.59% in 2014, from 33.31% in 2012.

First the Spanish credit market for Corporate & SME behaved very differently from the House Purchasing credit market one in the period 2012-2014. The latter contracted from EUR 605 bn in 2012 to EUR 558 bn in year end 2014 (a 7.78% contraction) while the former stood at EUR 830 bn in year end 2012 contrasting with the value of EUR 674 bn for December 2014 (an 18.76% contraction). So, the evolution of the Spanish credit market saw the Corporate & SME segment shrink at a faster rate than the credit volumes destined to House Purchase by households, negatively impacting Bankia's ability to increase its business credit portfolio, as it would need to significantly improve its market share in this segment in order to meet its credit refocusing strategy (the market share of Bankia in the Corporate & SME, in a gross loan basis, gravitated around 6% in the years between 2012 and 2014).

Second, for each 100 euros of loans conceded by Bankia for Corporate & SME that were still in the bank's books by 2014 end, an estimated 15.37 euros were provisioned for impairment losses. In contrast, the House Purchase segment has an impairment provision to gross loans ratio of 1.16%. This is mainly the consequence of a consistently significantly higher NPL and NPL coverage ratios for the Corporate & SME segment in comparison with the House Purchase segment.

Also, when in 2012 the transfer of eligible real estate assets to Sareb was completed, the Corporate & SME loan book suffered the biggest decline out of all the segments, some 46.10% corresponding to a loss of carrying value of an estimated EUR 38.2 bn, while the Mortgage segment only fell by 9.50%,

¹ Disclosed value is EUR 182.6 bn, but an approximation is used so as to segment in the mentioned lines.

² NPL ratios for the various segments are not disclosed, they are estimated based on the Credit Market in Spain.

representing EUR 8.1 bn. This fall explains the biggest loss of Corporate & SME share in the total Loan Portfolio, contracting from 2011 to 2012 (38.86% to 33.31%).

In comparison with the whole Spanish market, Bankia's doubtful assets related to the Loan Portfolio are higher in value in relative terms, being the Corporate & SME line the most relevant example, for its weight in Bankia's credit assets.

Figure 19 - Comparison of Bankia's and Spain's NPL Ratios

NPL Ratio	2011		2012		2013		2014	
	Bankia	Spain	Bankia	Spain	Bankia	Spain	Bankia	Spain
Mortgages	2.47%	2.90%	4.00%	3.97%	4.25%	5.96%	3.73%	5.85%
Corporate & SME	12.36%	11.32%	23.24%	15.48%	27.72%	20.31%	25.07%	18.49%
Consumer Loans	33.35%	6.97%	68.71%	9.55%	71.94%	11.97%	63.89%	11.39%
Government & Other	2.01%	0.52%	1.91%	0.51%	3.09%	0.93%	2.41%	0.82%

Source: Company Data, Bank of Spain, Analyst's estimates

The Bond Portfolio

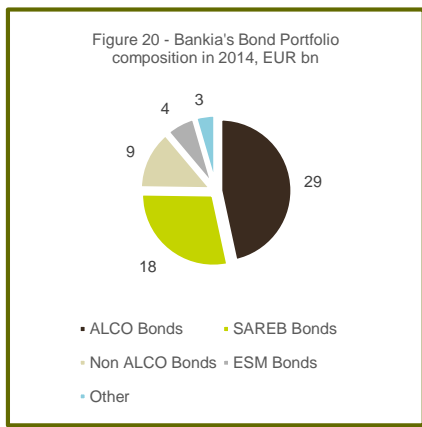
Besides its lending activity to households and businesses, Bankia also holds a portfolio of bonds that constitute a major source of interest income (around 45% in 2014). The Bond Portfolio in 2014 amounted to EUR 63 bn (27% of assets) and can be segmented in 4 different bond types³.

ALCO Bonds

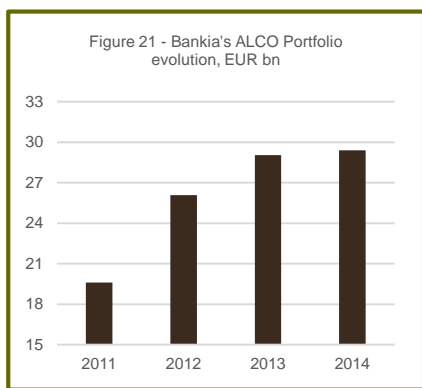
The ALCO Bonds represent the biggest share of the portfolio (46.6% in 2014). The purpose of these bonds is to manage Asset-Liability discrepancies in maturities and interest rates. The portfolio is composed in its majority by European sovereign debt, majorly Spanish. These bonds, being actively traded securities positively contribute to Bankia's liquidity position. A major setback on these securities is, however, the consistent fall in yields of European government debt, raising reinvestment risk and pressuring Net Interest Income.

Sareb Bonds

In 2012 Bankia transferred to Sareb its eligible Real Estate non-performing assets as part of the Restructuring Plan. In exchange, Sareb issued 3 bonds with maturities of one, two and three years, with a roll over option (exercisable by Sareb) at the end of the maturities, for a total amount of EUR 19.47 bn. The bonds yield interest on a variable basis, being composed by the 3 month Euribor and a spread for each different maturity. On 2013, Sareb redeemed an estimated EUR



Source: Company Data



Source: Company Data, Analyst's estimates

³ Bankia does not directly disclose the composition of the Bond Portfolio in the used segmentation. The values for each of the types are estimations based on the company's disclosures.

882 mm of these bonds in cash, conducting another cash redemption on 2014, worth EUR 528 mm.

Cash redemptions accounted for only 8.84% of the nominal amount of bonds that matured up to 2014. Sareb paid the rest of the amount using the roll over options, by issuing new bonds with the same maturities as the bonds that are being rolled over.

Whenever a roll over option is exercised, the spreads can be renegotiated. In an environment of low interest rates, this renegotiation poses a threat to Bankia, as it incurs the risk of receiving new bonds yielding lower interest income. In fact, as figure 23 shows, the spreads on the rolled over securities have been significantly cut corresponding to losses in interest income of around EUR 105 mm in the bonds with maturity of one year and EUR 178 mm in the bonds with two year maturity.

Given Sareb's activity being the disposal of non-performing assets, it is expected that its cash generating capabilities are not sufficient to level up the cash redemptions of these bonds, leaving Bankia with increasingly pressured Net Interest Income in the low rates environment. If the trend materializes in 2015, the renegotiation of the spread of the three year bond will carry more losses in these bonds.

Figure 22 – Sareb cash redemptions to Bankia, EUR mm

Bond	2013	2014
Sareb 1y	265	20
Sareb 2y	397	30
Sareb 3y	221	479
Total	882	528

Source: Company Data, Analyst's estimates

Figure 23 - Sareb Bonds' Amounts and Spreads breakdown

Bond	2012			2013			2014		
	Amount (EUR 000's)	Spread	Spain Yield (same maturity)	Amount (EUR 000's)	Spread	Spain Yield (same maturity)	Amount (EUR 000's)	Spread	Spain Yield (same maturity)
Sareb 1y	5,840,100	2.19%	2.86%	5,575,500	0.69%	1.26%	5,555,800	0.30%	0.45%
Sareb 2y	8,760,300	2.56%	3.51%	8,363,300	2.56%	1.86%	8,333,800	0.43%	0.64%
Sareb 3y	4,866,800	2.96%	4.11%	4,646,300	2.96%	2.49%	4,167,300	2.96%	0.93%

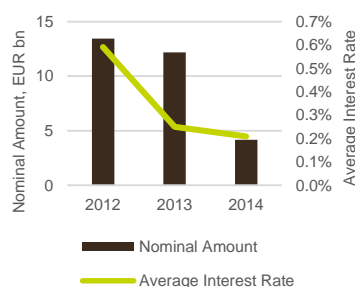
Source: Company Data

ESM Bonds

Bankia received bonds from the European Stability Mechanism as payment for the capital increase the FROB subscribed in BFA. The bonds correspond to 4 out of the 5 different credit lines as set out by the ESM for the financial aid of the Spanish banking system⁴.

Each bond carries a different maturity and interest rate. As of 2014, Bankia had EUR 4.17 bn worth of these bonds in its balance sheet in comparison with the EUR 13.5 bn it was awarded in 2012 (the remaining bond matures in December 2015, the other 3 matured during 2013 and 2014). The maturity of the EUR 4.17 bn of the remaining active bond in year end 2015 will not result in a loss of interest income, as the interest rate on this bond is calculated as the 6 month Euribor (-

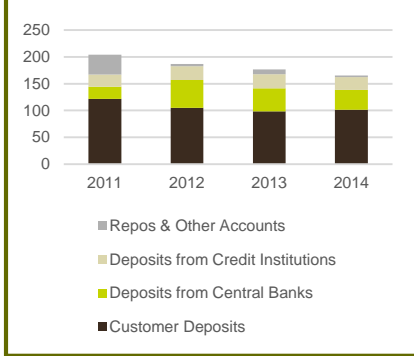
Figure 24 - Bankia's ESM Bonds and interest rate evolution



Source: Company Data, Analyst's estimates

⁴ ESM release No 03/2012 of 5 December 2012

Figure 25 - Bankia's composition of Deposits, EUR bn



Source: Company Data

0.024% as of 20/11/2015) minus a spread of 6 basis points. As such, the maturity of this bond comes as good news, as it would yield negative interest.

Non-ALCO Bonds and other

The remaining components of the Bond Portfolio are legacy securities registered as “Held to Maturity Investments”. It comprises both resident and non-resident government debt securities (the greatest share) and also credit institutions securities.

Funding

Deposits

Deposits are the main funding source for Bankia’s operations, representing 71.59% of total assets in 2014. The composition of the Deposits, however, has not been constant throughout Bankia’s lifetime: repo transactions that are registered under deposits suffered a great decline from year end 2011 to 2012, cutting Bankia’s funding by EUR 33.4 bn, heightening the difficulties in Bankia’s ability to show its assets quality, as the repo slowdown suggests counterparties’ rejection of Bankia’s collateral for the funding. Also, the combined variations of current accounts, savings accounts and term deposits (that represented the majority source of funds in 2012 in the Deposits’ segment, with a 56.62% share) suffered a decrease of EUR 19.1 bn. To compensate the funding shortage, the Bank of Spain increased its deposits in Bankia by EUR 29.5 bn (a 131.6% increase) in 2012. Despite the contribution for the Bank of Spain, the almost shutdown of the repo transactions combined with the bank run on deposits resulted in a decrease of the total amount of Deposits to EUR 188.9 bn in 2012 from EUR 206.2 bn in 2011 (an 8.39% contraction).

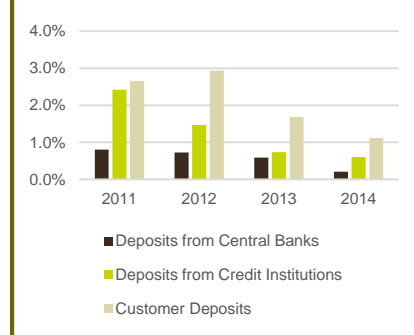
Also, Deposits from Credit Institutions mark a stable presence in the balance sheet of Bankia, with the total amount of funding captured by Bankia from these agents not varying considerably in the years spanning 2011-2014.

As of December 2014, Bankia’s Deposits structure was still composed at its majority by Customer Deposits (63.8%) and the Deposits from Central Banks have been experiencing a reduction, with their value on the first half of 2015 being EUR 26.7 bn, a reduction of 48.7% since the year end 2012 value.

Debt

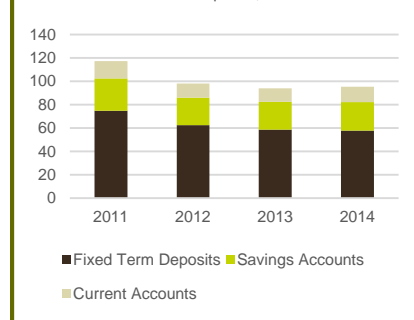
Bankia’s Debt Securities are arranged into “Marketable Debt Securities” and “Subordinated Liabilities”.

Figure 26 - Bankia's Deposit Costs



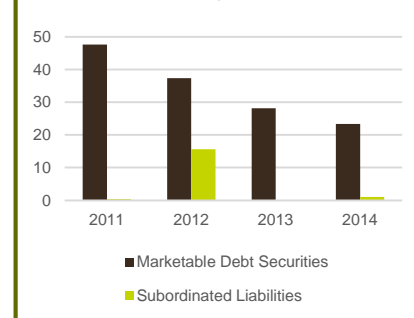
Source: Company Data, Analyst's estimates

Figure 27 - Bankia's composition of Customer Deposits, EUR bn

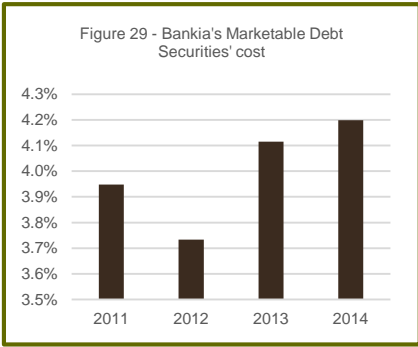


Source: Company Data

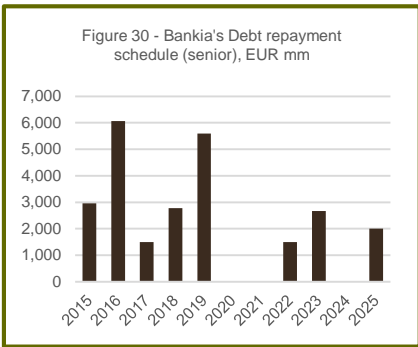
Figure 28 - Bankia's Debt composition, EUR bn



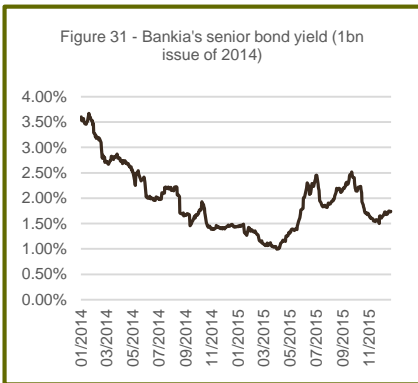
Source: Company Data



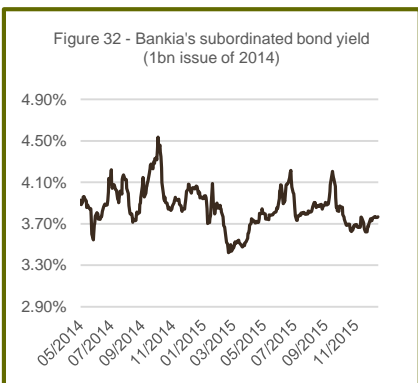
Source: Company Data, Analyst's estimates



Source: Company Data



Source: Bloomberg



Source: Bloomberg

Marketable Debt Securities are debt issuances that transited from the seven founding *cajas* own balance sheets, comprising regular senior debt and mortgage backed securities. On December 2011, when these securities were first registered in the annual consolidated accounts of Bankia, the gross amount in issue was EUR 63.3 bn (out of which EUR 39.1 bn were mortgage backed securities), which corresponded to a carrying amount of EUR 47.6 bn after adjusting for debt repurchases (Bankia is following a plan to repurchase certain mortgage covered issuances to optimize its funding structure) and other adjustments.

2014 was the year that Bankia returned to the capital markets, issuing in January EUR 1 bn worth of senior unsecured bonds, yielding an annual coupon of 3.5% and maturing in 2019. Throughout 2014 Bankia was able to tap the capital markets to raise more debt, the case of 20 new bonds (Bankia ICO Bonds) totalling EUR 194.58 mm variable rate bonds (average spread of 2% over the six month Euribor) with maturities spanning from 2 years to 6 years. Also in 2014 Bankia issued EUR 7.5 bn of mortgage covered debt.

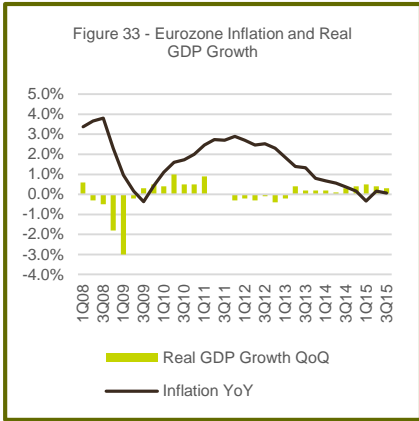
As for 2015 year to date, Bankia issued EUR 2.25 bn of mortgage covered bonds. Regarding senior unsecured debt, Bankia raised on October 2015 a EUR 125.3 mm bond maturing in 2017 and paying an interest of 1.5%.

As for the Subordinated Liabilities, also a residual amount of liabilities were transferred from the *cajas*. The drastic increase from EUR 318 mm in 2011 to EUR 15.6 bn is due to the subordinated loan subscribed by BFA as part of the recapitalization of BFA dating September 2012 (EUR 4.5 bn) and to the CoCo bonds subscribed by BFA (EUR 10.7 bn). As the subordinated loan was fully repaid and the CoCo bonds converted to capital, by 2013 there were no Subordinated Liabilities in Bankia's balance sheet. Only in 2014 Bankia issued EUR 1 bn worth of subordinated notes, at a fixed rate of 4%.

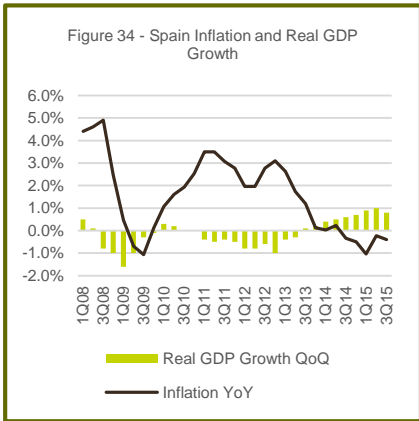
Bankia's newfound ability to finance itself in the capital markets in 2014 provides good sentiment on the ability to fulfil its liabilities, which suggests that any liquidity shortage for debt repayment or other urgent purpose can be countered, while rolling over debt at lower rates (assuming the low yield environment is maintained).

The Banking Sector

After a period of economic hardship followed by the global financial crisis that struck in 2008, the Eurozone starts to show signs of recovery. Real GDP has been growing at a modest pace in 2015 (average QoQ growth rates for the first three quarters is 0.4%) with domestic consumption improvement being one of the main drivers for growth. Despite this mild recovery, inflation rates stubbornly insist to be



Source: Reuters, OCDE



Source: Reuters, OCDE



Source: Reuters

close to zero, way out of the ECB's around 2% target. As a response to these levels of inflation, the ECB started its own Quantitative Easing (QE) program in October 2014. It has since established the objective of buying a monthly amount worth EUR 60 bn of eligible debt securities in an attempt to improve financial liquidity that can be channelled to the real economy.

This situation in Europe contrasts with the USA that ended its QE program and raised reference rates in December 2015 for the first time since 2009. The differences in policy are expected to strengthen the USD, as investment flows to American securities.

On November 2015, the European Banking Authority (EBA) disclosed the results of its European Union wide transparency tests. The observed landscape was of a better capitalized financial system, with the system's Common Equity Tier 1 (CET 1) ratio clocking at 12.6%, representing a 5.6% margin over the to be fully implemented minimum requirements of Basel 3 (in 2019). The remaining capital ratios are also above the regulatory minima. This stronger capital position is due to retained earnings and new capital issuances.

European banks profitability measured on a ROE basis is slowly progressing, averaging 3.6% in 2014 (up from 2.7% in 2013), still far from what insiders consider to be a long term sustainable level⁵ (range from 10% to 12%). European banks estimated cost of equity⁶ has considerably declined to an average of 9.5% in comparison with the levels from 2011 (14.6%), reflecting the lower interest rate framework.

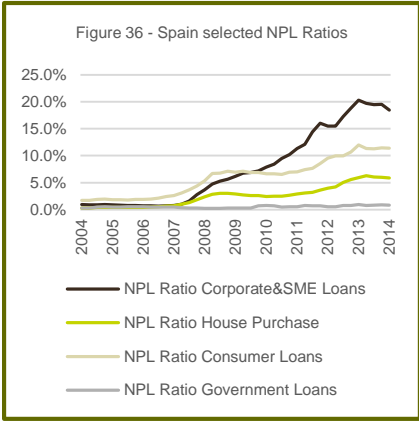
The Spanish Case

Spain was not one of the top losers of the financial crisis on a GDP basis, seeing its output shrink 3.9% in 2009, when the Eurozone contracted by 4.6%. It was, though, one among the 5 European countries that needed a bailout in order to stabilize the domestic economy. Yields on Spanish bonds reached a peak in 2012 (7.3%), the height of the banking crisis in the country.

In the course of the years preceding the credit crunch, total credit outstanding increased at a steady 17.09% CAGR, meaning that from 2004 to 2008, the credit market in Spain almost doubled in gross terms, with the Corporate & SME segment leading the expansion with a 20.49% CAGR. After 2008 the landscape changed considerably, with the trend reverting. Gross loan amounts in 2014 contracted some 24.77% in relation to their 2008 value, representing a CAGR of

⁵ EBA Risk Assessment Report, June 2015

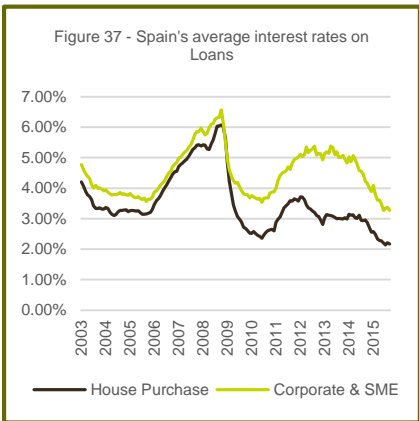
⁶ EBA Risk Assessment Report, June 2015



Source: Bank of Spain

-4.63%. All loan segments saw their value reduced, with the biggest loser being Credit Institutions (-8.43% CAGR) followed by Corporate & SME (-6.64% CAGR). The Government segment was an exception to this generalized decrease, with an expansion of gross loan value at an 11.43% CAGR pace.

The contraction in loan amounts coincided with the aggravation of NPL ratios: the contraction in Spain's GDP, the increase in the unemployment rate and the crash in the real estate prices led to a surge in underperforming loans. The most dramatic case was observed in the Corporate & SME segment, which evolved from an NPL ratio in 2007 of 0.74% to 18.9% in 2014 (year high in 2013 with 20.13%), being the Construction and Real Estate segments the most hit (0.72% in 2007 against 32.62% in 2014 and 0.53% in 2007 against 36.21% in 2014, respectively). The House Purchasing segment also suffered a blow, with an NPL ratio of 5.85% in 2014 compared with 0.71% in 2007.



Source: Bank of Spain

Interest rates on House Purchase loans and Corporate & SME loans showed a similar behaviour throughout the last decade, with an accentuated fall from 2008 to 2011, with a recuperation up until 2013, only to fall yet again. This behaviour is closely tied to the one of the Euribor rates, which comes as a consequence of the efforts of monetary policy makers to improve the liquidity in the financial markets when banks were dealing with the setbacks of the credit crunch, and as such, were holding lending activity back.

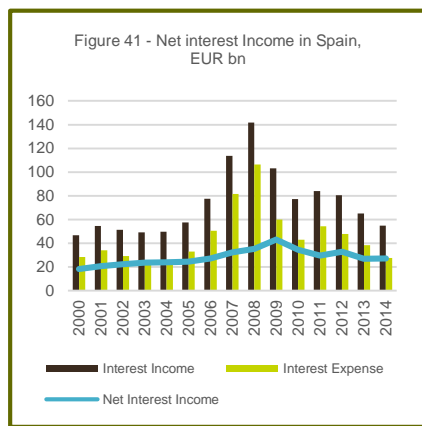
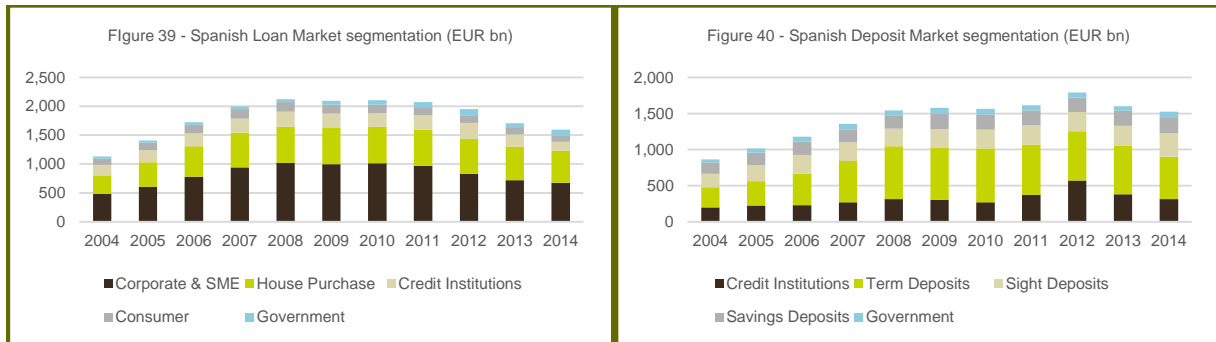


Source: Bank of Spain

Deposits followed a different trend than loans. There was not a clear contraction on the amount of deposits in the Spanish market. From 2004 to 2008, total deposits grew at a CAGR of 15.59%, being Term Deposits the segment that most contributed to the growth, with a CAGR of 27.29%. In the years following the inception of the crisis however, the Deposit value was kept rather constant, around the EUR 1.5 tn mark. One way to explain the difference in after-2008 behaviour of loans and deposits is, although banks can choose to scale back their credit activities on the wake of a wave of a distressed loan book, households (the majority of deposit holders, with a share of about 75% in 2014) will not, with a good degree of certainty, store their savings under the mattress or channel their deposits to international institutions. Bank runs can happen when some institution is perceived to be financially damaged in a way that might not guarantee the deposits, but the money is just transferred to other bank, being kept in the system.

Interest rates on Term Deposits also followed the same trend of Euribor rates, reaching a peak in 2008 of 5%, subsequently dropping to 2% in 2010. After a small recovery in 2010-2013, current Term Deposits yield almost close to nothing.

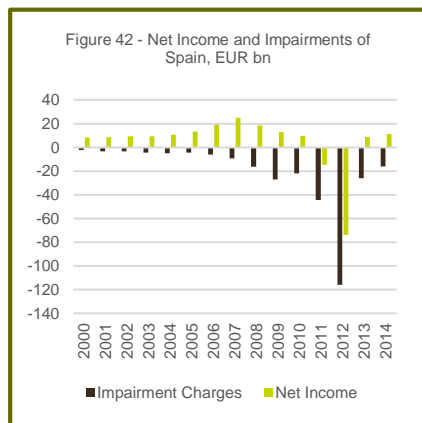
Figures 39 and 40 below compare the evolution of the stock of loans and deposits in Spain throughout the last decade.



Source: Bank of Spain

As a consequence of the loans and deposits' dynamics, the operating performance of credit institutions suffered significant changes when comparing the years before the crisis and the ones after the storm had settled.

Global Interest Income of deposit taking institutions in Spain from 2004 to 2008 enjoyed a 29.90% CAGR reaching a high of EUR 147.1 bn in 2008, fuelled by a CAGR of 31.8% in interest income related to Credit Transactions. Securities' Portfolios related income also contributed to the increase, with a CAGR of 13.14% in this period. From 2008 to 2014 the situation reversed completely, with deposit taking institutions receiving less interest income at a pace of a -14.66% CAGR reaching a low in 2014 of EUR 54.7 bn, as despite the performance of 1.6% CAGR from interest generated by Securities' Portfolios, the -17.43% CAGR on Credit Transactions proved to be more relevant in setting the final results for the whole of the interest income. These results reveal the consequences of the contraction in the credit market and the big plunge in interest rates on 2008. The segmentation of interest income between Credit Transactions, Securities' Portfolios and Other has been relatively constant throughout the years leading to 2008 (on average, Credit Transactions having an 82.8% share, Securities' Portfolios 16.2% and Other sources a residual 1%). Only after 2008 the share of Credit Transactions and Securities' Portfolio diverged, with the former obtaining an increasing weight up until 2009 (89.34%) when the latter stood at 9.03%.

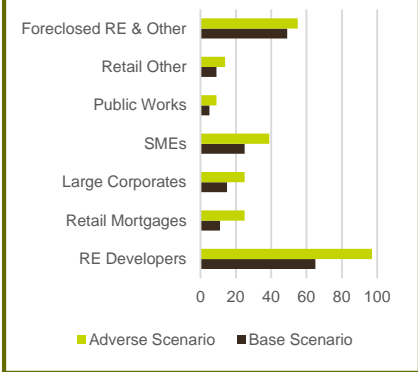


Source: Bank of Spain

Regarding the overall Interest Expense for the Spanish deposit taking institutions, it followed the same behaviour as interest income, only with higher relative swings (pre 2008 it presented a CAGR of 43.36% and after a CAGR of -20.14%).

All in all, Net Interest Income in 2014 stood at EUR 27.1 bn, the same level as in 2006. In the past 10 years, deposit taking institutions have been able to post profits up until 2011, when an increase of 100% in impairment charges surrendered the income generating activities. In 2012, impairment charges reached new heights

Figure 43 - Oliver Wyman Loss Forecast for Spain (2012-2014), EUR bn



Source: Oliver Wyman

totalling EUR 116 bn, which imposed a net loss of EUR 73.7 bn for the whole of the deposit taking institutions. Bankia alone posted a EUR 19.2 bn loss, 26% of the total.

Pressured by these figures, Spain requested international aid in 2012. The Memorandum of Understanding (MoU) agreed with the European Commission in July 2012 defined a bailout package that granted EUR 100 bn to capitalize the financial system of Spain. Of that, EUR 41.3 bn were used. As for the conclusion of the program, Spain will bear the principal repayment costs starting on 2022 and ending on 2027. The amount of the international aid program that was used was in line with the stress test results that were conducted as a part of the MoU: Oliver Wyman forecasted a total capital need of EUR 16 to 25 bn in the base scenario and EUR 51 to 62 bn in the adverse scenario.

Legal reforms (Royal Decree Law, August 31 2012) prompted the necessary structural reforms to strengthen the financial system. The State was conferred more powers to intervene in endangered systemic institutions without shareholders or creditors' approval and more burden sharing mechanisms were implemented, with the State having the capability of imposing losses on certain debt holders in intervened institutions.

Regulatory Framework

The global financial crisis put a spotlight on banks' fragile risk management procedures. It served as a wake-up call for regulators to tighten the grip on institutions held to be systemically important for the economy.

The Basel Committee on Banking Supervision decides on rulings that dictate the international standards for the banking sector regulation, comprising capital and liquidity control guidelines, along with the implementation of best practices in risk management and information disclosures. A review of the then incumbent regulation (Basel II) was done in 2010, in good part as a result of the events of 2008. Basel III was born and its rules were set to be implemented in a phased fashion, with full implementation by 2019.

Figure 44 – Basel 3 implementation schedule

	2015	2016	2017	2018	2019
CET 1	4.50%	4.50%	4.50%	4.50%	4.50%
CT 1	5.50%	6%	6%	6%	6%
Total Capital	8%	8%	8%	8%	8%
Cons. Buffer	0%	0.63%	1.25%	1.88%	2.50%
Count. Buffer	[0%;2.5%]	[0%;2.5%]	[0%;2.5%]	[0%;2.5%]	[0%;2.5%]
LCR	60%	70%	80%	90%	100%
NSFR	100%+	100%+	100%+	100%	100%
Leverage	3%*	3%*	3%*	n/a	n/a

Source: Basel Committee on Banking Supervision

Basel III aggregates three types of quantitative controls: risk weighted capital adequacy ratios, liquidity ratios and a general leverage ratio.

Risk weighted capital ratios establish that, at any point in time the institution has to surpass the thresholds of Common Tier 1 capital being above 4.5%, Tier 1 capital above 6% and Total Capital above 8% the risk weighted assets. An additional capital conservation buffer of 2.5% (composed of Common Tier 1 capital) is required if the institution wants to consider the possibility of paying out dividends.

Also, a countercyclical buffer set between 0% and 2.5% (also composed of Core Tier 1 capital) can be imposed on institutions. National authorities have discretionary power on the enforcement of this ratio that should be higher when the economy faces a credit expansion. With the full implementation of both buffers, institutions might face, in an extreme scenario, a minimum Common Tier 1 capital of 9.5% of risk weighted assets.

Liquidity ratios comprise the Liquidity Coverage Ratio, a short term metric used to assess the capacity of the institution to face a liquidity shortage (relates high quality liquid assets to the risk exposure of net cash outflows), which should be higher than 100%. A more structural measure is also object of compliance, the Net Stable Funding Ratio, which requires that the available amount of stable funding of the institution to be higher than the amount of stable funding it needs.

The general leverage ratio was designed to weigh on and off balance sheet items of capital exposure, in a non-risk adjusted basis. The minimum requirement in test up until 2017 is 3%, in 2018 a definitive figure is due to be announced.

Competitive Positioning

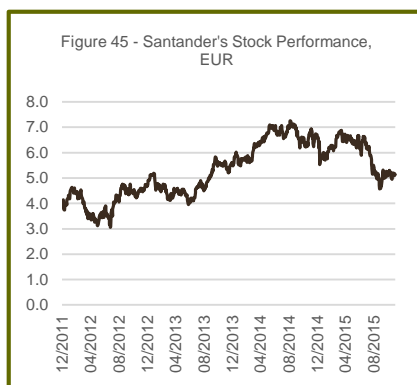
Bankia's competitors are financial institutions that make up for a significant share of the banking sector in Spain. Bankia sets apart from the competitors by being an exclusively Spain oriented bank, and for its State backing.

Santander

Santander is the biggest listed bank in Spain by market capitalization and assets. Unlike Bankia, it has a strong international presence, with only 14% of its profit being attributable to Spain's operations. Its total Loan Portfolio (net) amounts to EUR 734.7 bn with an almost equitable distribution between Commercial Loans and Consumer Loans, representing 58% of its assets and securing a 13.5% market share in Spain. Its NPL ratio in 2014 stood at 5.19%, a decrease from the 5.61% in 2013. Its EUR 1.2⁷ tn Balance Sheet is funded in majority by Deposits (47.9%), short term debt (15.5%) and long term debt (16.9%).

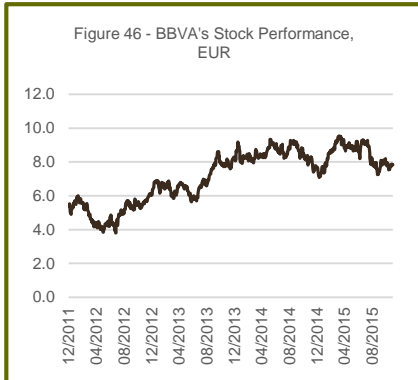
Santander held its ground during the height of the financial crisis in Spain. ROE suffered a big blow in 2012 mas managed to stay in positive territory. Tier 1 capital did not fall below the regulatory requirements.

As for the stock market performance, Santander rewarded its shareholders with an annualized return of 6.14% since the beginning of 2012 until the present date.



Source: Bloomberg

⁷ All of the cited figures are from the Santander, BBVA, CaixaBank and Sabadell's annual filings from 2014.



BBVA

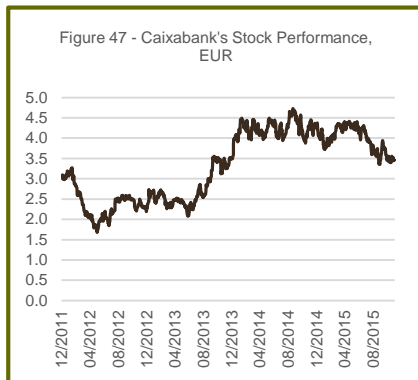
BBVA is a global institution present in 31 countries across all continents but Africa. BBVA's assets totalled EUR 631.9 bn in 2014, composed in its majority by its net loan book (52.4%). It holds a 13.2% market share in loans in Spain . Its asset quality increased in 2014, materialized by a non-performing assets ratio of 5.8% compared with 6.8% for the year of 2013.

For the funding structure of the Balance Sheet, counts with deposits amounting to 46.5% of the assets and debt corresponding to 33.2%. The market share of deposits in Spain is 11.3%.

ROE has been showing an ascending trajectory since 2012 when it was 0.9%, in 2014 being 5.6%.

Regarding the performance of BBVA in the stock market, since 2012 to the current date, it yielded an annualized return of 9.61%.

CaixaBank



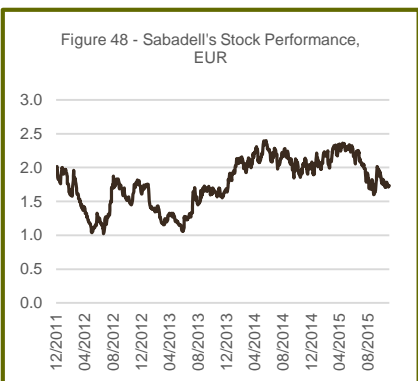
CaixaBank holds the last place in the podium of the biggest Spanish banks by market capitalization and assets. It has an international presence through the equity stakes held in certain international banking institutions. As of 2014 its net loans represented 55.7% of its EUR 338.6 bn balance sheet, which granted a market share of 15.1% in Spain, making CaixaBank the market leader in lending in the country. The exposure of the loan book to the Corporate & SME segment is 28.8% of the total loans. As for the NPL ratio, it is down to 9.7% in 2014 from 11.7% in 2013.

CaixaBank's assets are funded mostly by deposits (52.5%), a segment where it is also market leader in Spain, with a share of 14.4% in 2014. Debt makes up for 13.2% of total assets.

As for profitability, CaixaBank saw its ROE of 2012 barely cross the 0% line at 1%, although in 2014 the ratio improved to 2.7%. The bank was cleared in the EBA's stress testing exercise of 2014.

CaixaBank share offered an annualized return in the period of 2012 to year to date of 3.36%.

Sabadell

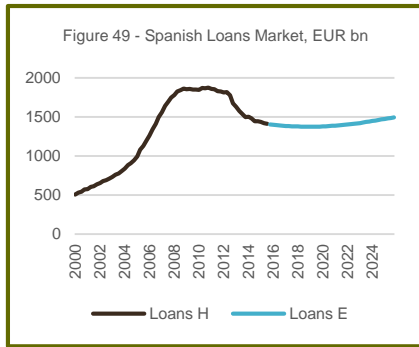


Sabadell is also a major player in the Spanish banking landscape. It is internationally focused, counting with branch networks and equity investments key markets. Out of its EUR 163.3 bn of assets, 67.5% are net loans. The NPL ratio in

Source: Bloomberg

Source: Bloomberg

Source: Bloomberg

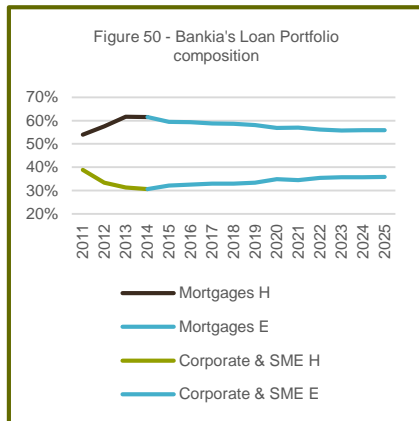


Source: Bank of Spain, Analyst's estimates

2014 stood at 12.2%, a decrease from 13.6% on the previous year. The assets are funded 59.3% by deposits, while debt amounts to 29.9%. From 2013 to 2014 the composition of the deposits changed, with current accounts weighting more than before, and the share of term deposits falling, signalling a cheaper funding structure. That could help explain the fall in interest expense by 26% in this period, and consequent increase of 24.5% in Net Interest Income.

Profitability wise, ROE is up to 3.7% in 2014, from 1.58% in the previous year. In 2014, the Core Tier 1 capital ratio was 11.7%.

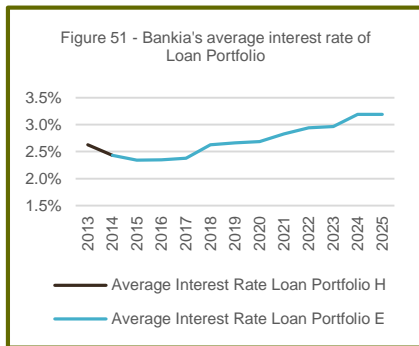
Sabadell's performance in the stock market since 2012 was not what shareholders hoped it to be, posting an annualized return of -3.35%.



Valuation

For the valuation of Bankia, a discounted cash flow to equity model was employed, where the horizon period spans 10 years. For the continuing value, a perpetuity with growth rate was used. It was assumed that Bankia was able to increase or reduce its Equity so as to comply with the regulatory ratios (estimated total capital raising needs of EUR 1.8 bn for the horizon period).

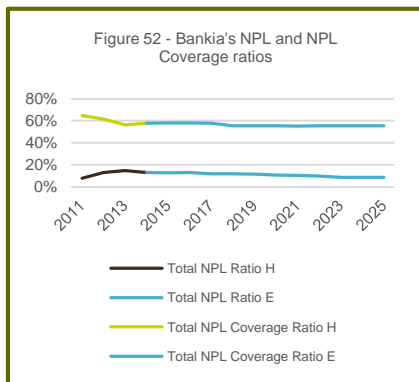
Income



Loan Portfolio

The Loan Portfolio was responsible for over a half of the interest income received by Bankia in 2013 and 2014. It is expected that, with the targeting of Corporate & SME clients that contribute with higher interest rates and with the forecasted low level of sovereign yields, the Loan Portfolio will continue to secure its position as the main source of income of Bankia.

Average interest rates on outstanding loans are expected to start increasing in 3-4 years, as the picking up of credit concession activity is expected to help higher rates on new loans drive the aggregate rates of new and existing loans up. It is forecasted that interest rates will gradually work their way up to the levels before the crisis struck. Bankia's NPL ratios are forecasted to converge to Spain's average values for the whole credit market as a result of the balance sheet cleansing activities taken part as per the influence of the Restructuring Plan.



The loan market in Spain is forecasted to start its recovery in the coming 3-4 years (as recent data from the Bank of Spain still shows decreasing values for the outstanding volumes of loans), helped by the positive outlook for the Spanish economy. Bankia, is expected to comply with its Restructuring Plan, meaning the market shares for the Corporate & SME segment are forecasted to increase at a

Source: Company Data, Analyst's estimates

slow, steady pace, as the task already proved was already proved difficult in the previous years. The difference from the past situation is that Bankia faced a much more depressed Corporate & SME market, whereas now it is expected to encounter a market starting to give signs of a sustained recuperation.

That way, the bank's exposure to the Corporate & SME segment is forecasted to increase as a share of the total portfolio.

Bond Portfolio

The Bond Portfolio holds the second place in the podium of income generating activities for Bankia. Overall interest income for the Bond Portfolio is expected to decline in the upcoming 3-4 years as a consequence of the low yield environment which results in high reinvestment risk, picking up after that, contingent to a forecasted longer run growth on yields. It is assumed that the ALCO Portfolio will maintain its risk profile, being constituted mainly by Spanish sovereign bonds.

On a specific note, the last ESM bond held by Bankia matures at the end of 2015, and the last interest payment is forecasted to be negligible, as it is indexed to Euribor 6M that currently is on negative ground.

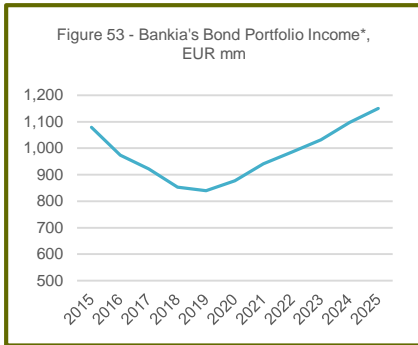
Sareb bonds are also expected to suffer a blow in their contribution to interest generation. The 3 year Sareb bond matures at the end of 2015, and is expected to be renegotiated on similar terms as the other tranches' re-negotiations were held, that is, the spread over the Euribor 3M is forecasted to significantly fall, causing expected lost revenue of EUR 64 mm per year. As past observations on the other tranches tell, the first re-negotiation of the spreads is the toughest one for Bankia. As such, after this update on the spreads of the 3 year bond, spreads then on out are considered to be relatively stable.

As part of the company's disclosures for the interest income, there is a line of hedging transactions that moves in the opposite direction of interest income. It was assumed that these hedging transactions were related to the Bond Portfolio and that the interest yielded from these assets are net of these hedging results.

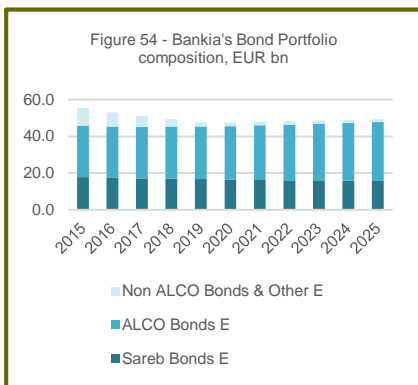
Net Fees

Fees are assumed to be connected to the business level of a given bank. In the case of Bankia, for fee income the business level was estimated through the total amount of gross loans and gross customer deposits, the assets and liabilities that were considered to be fee earning. The fee income was calculated as having the same growth rate as the said balance sheet items.

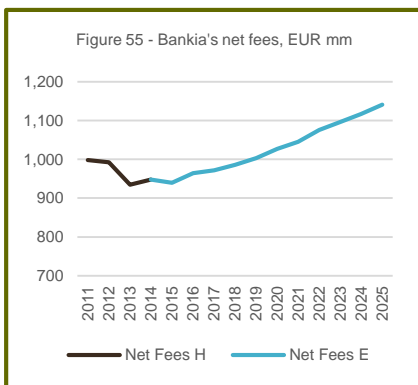
As for the fee expense, the same rationale was followed. The balance sheet items used as a proxy for the payment of fees were the financial assets held for trading.



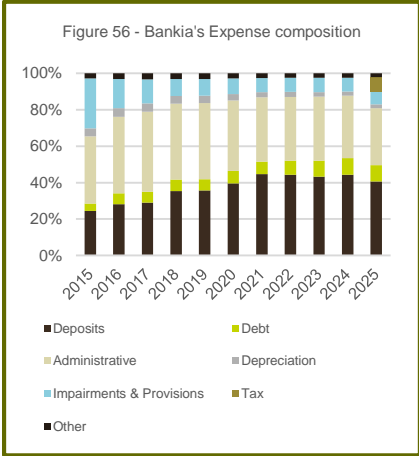
Source: Analyst's estimates
*Net of derivative transactions



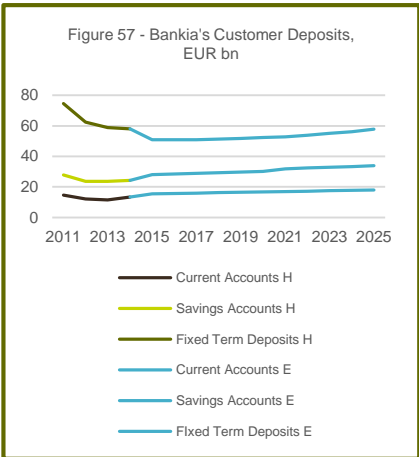
Source: Analyst's estimates



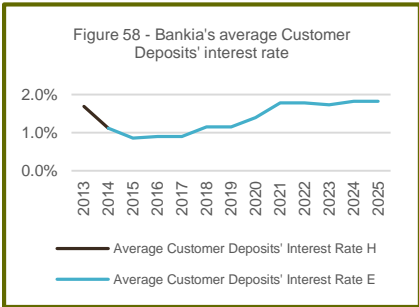
Source: Company Data, Analyst's estimates



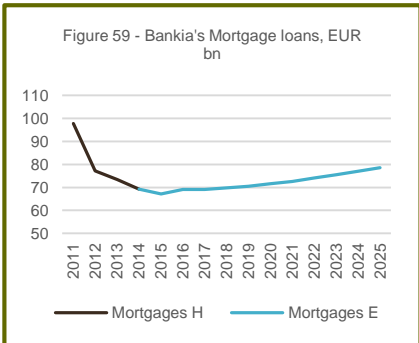
Source: Analyst's estimates



Source: Company Data, Analyst's estimates



Source: Company Data, Analyst's estimates



Source: Company Data, Analyst's estimates

Disposal of Assets

Bankia is following a policy of disinvestment on non-core assets, recognised under “Non-Current Assets Held for Sale”. A specific case is the City National Bank of Florida sold on October 2015 that yielded a net gain of about EUR 117 mm. Other disposable groups were considered to yield the same premium over their net value. The estimated book equity value for these groups is EUR 661.4 mm, suggesting that the room for potential losses or gains is not very relevant in broad valuation terms. As for the case of foreclosed assets that are still being in the process of sale, a small net loss was considered.

These transactions do not pose a significant impact on Bankia’s valuation, since the balance sheet cleansing is already running from 3 years now, meaning that the greatest part of the most problematic assets were already laid off and their losses accounted for.

Expenses

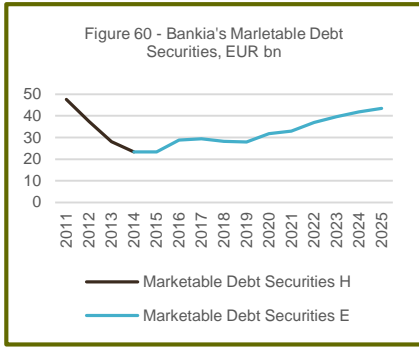
Deposits

Deposits represent the majority of the interest expense of Bankia. Customer Deposits made up for 63.85% of the whole of the deposits in 2014, and cost an average interest rate of 1.12%. This level of interest rate is not expected to subsist in the long term, mainly due to the importance for Bankia in capturing Savings Accounts and Fixed Term Deposits (they amounted for EUR 82.1 bn in funding in 2014, corresponding to 35% of the Asset value). Bankia’s dependence on these funds is expected to play a role against the low interest rate environment and so a conservative increase in these deposits’ segments interest rates is expected, which in turn would lever up the average interest rate of the customer deposits, forecasted to start increasing in the next couple of years.

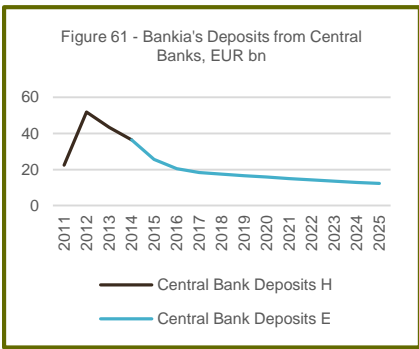
It is considered that the level of the Deposits in the Spanish economy continues to follow its trend since the beginning of the century. Term Deposits, the class that was most affected on the wake of the financial crisis is expected to slowly regain its attractiveness to customers, as the confidence in a bailed out financial system is re-obtained.

Deposits from Central Banks are expected to decrease in the coming years, as Bankia returned to the unsecured debt capital markets in 2014, a step forward on the bank’s independence from central bank emergency funding.

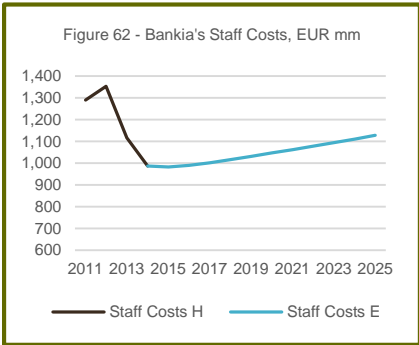
Bankia’s market shares on deposits are not expected to change significantly from the values observed in the past years



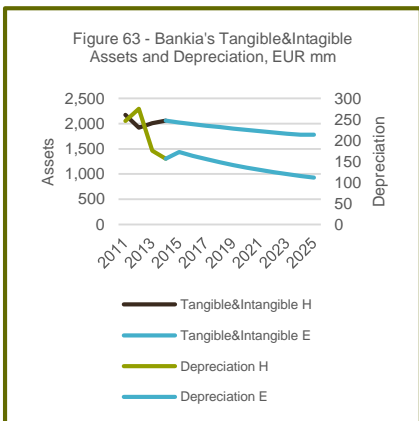
Source: Company Data, Analyst's estimates.



Source: Company Data, Analyst's estimates.



Source: Company Data, Analyst's estimates.



Source: Company Data, Analyst's estimates.

Debt

Bankia currently holds debt funding in the form of senior unsecured bonds, subordinated bonds and mortgage covered bonds.

It is prospected that Bankia is able to cover any funding needs in the future with new issues of senior unsecured bonds or mortgage covered bonds, securities that compose the "Marketable Debt Securities" line in the company's disclosures. Bankia had successful placements of this type of debt in 2014 and 2015. Although the bank's plan is to focus on business lending, Bankia is expected to hold a stable level of mortgage loans, which are expected to perform better (lower NPL ratios), as the Spanish economy is expected to continue its recovery, what levers Bankia's ability to issue mortgage covered bonds.

According to the company's disclosures, a significant amount of the interest expense is compensated by hedging instruments, being this value in 2013 96.85% of the interest expense with debt securities, and in 2014 it actually was higher than the interest expense by 1.24%. As such, the interest rate assumed for the interest expense related to these securities is considered to be net of the hedging activities. As such, as a basis for the forecasted interest rate, it was assumed that these hedging income was related to these debt securities and that the interest expense would be net of such income. A spread over Euribor 6M (the index rate of the ICO bonds that Bankia issued) was used to calculate the rate.

The steep drop in the historical period versus the forecasted recovery is explained by the substitution of Central Bank deposits as a source of funds by this type of debt securities.

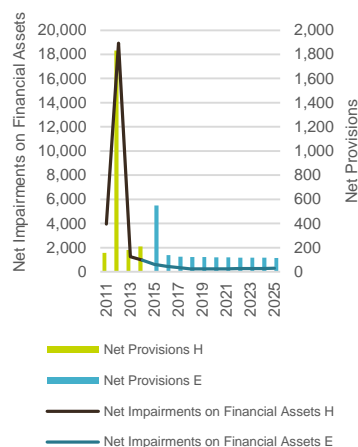
Administrative Expense

Administrative Expenses covers staff costs and other general supporting activities' related costs (as IT, office supplies and advertising). As for staff costs, Bankia in its Restructuring Plan agreed to personnel layoffs that were already accomplished in full by 2014 (which led to a decrease of 28.1% in employees and 27.1% in staff costs). As a consequence, staff costs are assumed to be constant here on out, only to be updated according to inflation. Other administrative costs are also considered to follow the same behaviour of staff costs, growing at the pace of inflation.

Depreciation and Amortization

The Restructuring Plan also envisages the scaling back of Bankia's branch network, with the goal set out being reached by year end 2014, representing a drop

Figure 64 - Net Impairments and Net provisions, EUR mm



Source: Company Data, Analyst's estimates

of 0.62% from 2012 to 2014 in the tangible assets value, even though the number of branches was reduced in 35.64% during the same period. In light of the resilience of the tangible assets' value, it was assumed that Bankia pursues a maintenance capex policy, investing a percentage of the assets' depreciation. The same rule was applied to the modelling of intangible assets.

Impairment Losses & Provisions

Impairment losses on financial assets are expected to decrease substantially as a result of the improvement on credit quality. NPL ratios are forecasted to converge to national levels pre-crisis, especially mortgage lending, which the amount of credit is forecasted to increase due to low rates and house prices that start to give signs of a recovery. The asset disposal program that Bankia has in course is thought to contribute also for a decrease in this type of expense in the years to come.

Tax Expense

For the tax expense, it was assumed that the statutory corporate tax rate would be constant at 30% throughout all periods, as ruled in the Law 27/2014 of 27 November.

As a result of the net losses registered in the years of 2011 and 2012, Bankia accumulated a substantial amount of tax assets in its balance sheet. Only about half of the Balance Sheet value for this assets is considered to be monetized (circa EUR 4 bn). For the purpose of calculating the tax expense, it was considered that these tax assets (the ones that can be monetized) would serve as tax breaks when the bank posts a positive profit before tax, or they would be reinforced if the was to present a net loss in a given period of the analysis.

As these tax assets are a consequence of past credit impairments, the regulatory framework of Basel III demands a deduction from equity in the calculation of the regulatory capital, resulting in the need for more equity injection. This deduction is capped as 10% of the equity value of the bank.

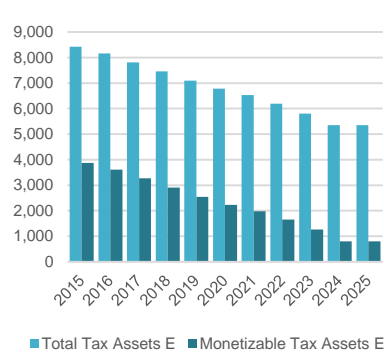
The current expiration period for the usage of tax assets in Spain is 18 years, but Bankia is expected to use its tax assets in the course of the next 10 years.

Cost of Equity

To derive Bankia's cost of equity, the Capital Asset Pricing Model (CAPM) was used, as it is the industry's practice.

With its flotation, Bankia opened its operations to retail and institutional investors willing to partake in the bank's business. These investors are assumed to be able

Figure 65 - Tax Assets evolution, EUR mm



Source: Analyst's estimates

Figure 66 - Parameters for Bankia's Cost of Equity Calculation

Parameter	Value
Risk Free	0.63%
Beta	1.17
Market Risk Premium	5.75%
Cost of Equity	7.36%

Source: Reuters, Aswath Damodaran, Analyst's estimates

Figure 67 – Betas of Bankia's comparable companies*

Comparable	Beta
Santander	1.48
BBVA	1.47
CaixaBank	1.27
Sabadell	1.43

Source: Reuters
 *Calculated using the same method as for Bankia

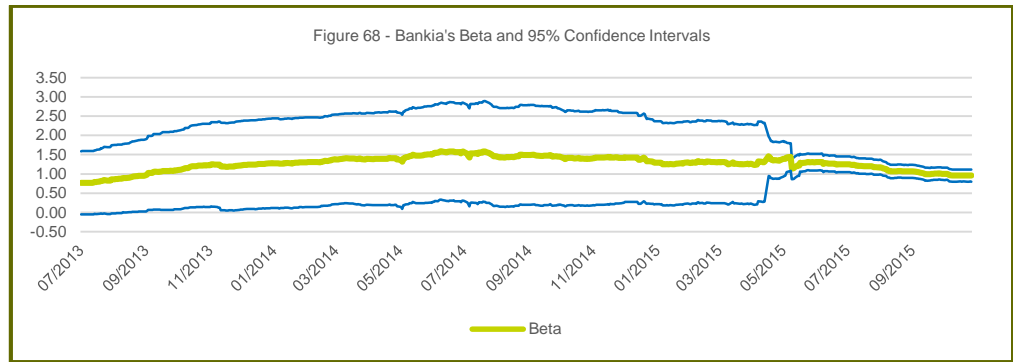
to invest in whichever geographies, sectors and companies as they most find fit, meaning that they hold a substantially diversified portfolio. As such, instead of using benchmark interest rates and indices specific of Spain, broader benchmarks were used. The specificities of Spain, and the banking sector should be reflected in the estimation of the cash flows. As such, the benchmark for the risk free interest rate was considered to be the German 10 year sovereign bond. The proxy for the market portfolio chosen was the EuroStoxx 600.

To better the consistency of the Beta estimate, the calculation of the Betas using a rolling period of 2 years of daily data was employed, enabling the comparison of the evolution of the Betas. A 95% confidence interval for the Betas was also calculated. The graph below shows the results of such analysis.

Figure 69 – Bankia's top 10 Shareholders as of 06/01/2016

Shareholder	Share
FROB	64.10%
Capital World Investors	1.38%
Schroder Investment Management	0.98%
The Vanguard Group	0.74%
Norges Bank Investment Management	0.72%
BlackRock Institutional Trust Company	0.71%
Capital Research Global Investors	0.69%
JPMorgan Asset Management U.K.	0.44%
Santander Asset Management	0.41%
T. Rowe Price International UK	0.28%

Source: Reuters



As it is observable, there are two clear periods in the sample where the Betas display significant differences in their 95% confidence intervals: before and after April 2015. As the latter period has a narrower confidence interval, this statistically means that with a 95% degree of certainty, we are able to provide a clearer estimate of the Beta in this period than in the former. In light of this result, the Beta considered for Bankia was the average value of the Betas from April 2015 until the most recent data point. The resulting value is 1.17.

As for the Market Risk Premium, it was used the value calculated by NYU professor Aswath Damodaran for a mature equity market as of January 2015, as this is the source used by the European Banking Authority (EBA) on their own calculations of cost of equity. The value of the Market Risk Premium considered is then 5.75%.

The resulting Cost of Equity using all of the aforementioned parameters is 7.36%, lower than the EBA calculated average Cost of Equity for a selection of European banks (9.5%).

Results & Sensitivity Analysis

With the aforementioned considerations and assuming that Bankia is to maintain a principal capital ratio of 13% in the long term (principal capital ratio assumed to

be covered by Common Tier 1 Equity, so as to comply with the other regulatory requirements), together with a smooth increase of the Risk Weighted Assets as a percentage of total Assets, to account for the increase in risk in the Loan Portfolio refocusing on Corporate & SME, Bankia's projected share price as of 2016 year end is EUR 0.945, offering an upside of -6.69% related to the current price⁸ of EUR 1.013 This value includes a perpetual growth rate of 1% for the continuation value, figure derived from the CAGR of the aggregate financial institutions' assets in Spain since 2000.

Below, figure 70 demonstrates the variations in the fair value of Bankia, according to investors with different costs of equity and different views on the growth potential of the bank.

Figure 70 - Sensitivity Analysis Table

		Growth Rate						
		0.40%	0.60%	0.80%	1.00%	1.20%	1.40%	1.60%
Cost of Equity	3.76%	1.995	2.102	2.223	2.362	2.523	2.711	2.933
	4.96%	1.426	1.478	1.536	1.598	1.668	1.745	1.832
	6.16%	1.099	1.128	1.160	1.194	1.231	1.271	1.315
	7.36%	0.887	0.905	0.924	0.945	0.967	0.991	1.016
	8.56%	0.739	0.751	0.764	0.777	0.792	0.807	0.823
	9.76%	0.631	0.639	0.648	0.657	0.667	0.677	0.688
	10.96%	0.549	0.555	0.561	0.568	0.575	0.582	0.589

Source: Analyst's estimates

The table shows that the possibility of positive upside for Bankia is reserved to situations where the cost of equity for a bank is unrealistically low (even 7.36% can be considered low if compared with the 9.50% average calculated by the EBA), or if it is considered a growth rate more in line with the projected average GDP growth rate for Spain in the upcoming years (2.25% according to the IMF).

Relative Valuation

Figure 71 – P/E multiples of comparable companies

P/E	Current	2015 E	2016 E
Bankia	12.05	12.13	12.26
Santander	11.04	10.34	9.88
BBVA	14.14	15.21	10.82
CaixaBank	17.37	15.94	11.77
Sabadell	11.92	14.04	10.75
Bankinter	16.89	16.11	13.94
Liberbank	7.89	9.37	11.24
Popular	18.76	22.15	13.13
1st Quartile	11.70	11.68	10.80
Median	13.09	14.63	11.50
3rd Quartile	17.01	15.99	12.48
Average	13.76	14.41	11.72

Source: Bloomberg

To triangulate the valuation result of the Flow to Equity (FTE) method, a comparison between the consensus values for the P/E and P/B multiples of comparable companies for the estimated 2016 year end is conducted. The comparable companies chosen were Santander, BBVA, CaixaBank, Sabadell, Bankinter, Liberbank and Popular, the biggest listed Spanish banks by market capitalization.

On a P/E basis, Bloomberg's consensus estimates (current share price related to the estimated EPS for 2016) place Bankia on the 3rd quartile in 2016, with a multiple of 12.26. This suggests an overvaluation of Bankia in relation with its peers, with a negative outlook on future earnings (current P/E is lower than the estimated 2016 P/E). The bearish outlook for the earnings of Bankia contrasts with the average

⁸Share price as of 06/01/2016

expectation of increasing earnings for the comparable companies in 2016 (average current P/E is higher than average P/E for 2016).

The comparable metric resulting from the FTE valuation is coincidentally also 12.26, what means that the consensus view on Bankia’s 2016 EPS is supported by the FTE model as well.

As for the P/B multiple, Bankia is placed on the fourth quartile, suggesting a clearer overvaluation than the one using P/E. Comparing the P/B multiple estimated for 2016 and the current one there is an implied forecasted increase in the book value of equity per share. In the FTE model, the book value per share in 2016 is considered to decrease from its 2015 estimated value of EUR 1.048 to 1.043 in 2016.

The FTE valuation comparable multiple for this P/B is 0.97, compared with the Bloomberg consensus of 1.02, suggesting that in the FTE valuation, the assumptions of regulatory capital compliance are stronger.

This quick analysis indicates that investors might be overpaying for Bankia in 2016, if its valuation is currently assumed to be correct. However, looking at the multiples using the FTE model’s target price for 2016 (11.44 for P/E and 0.97 for P/B), it is arguable that the multiples are poised to be reviewed in low, given Bankia’s current projected overvaluation, which in the end can counter the effect of overpaying for Bankia’s stock to a certain extent.

Figure 72 – P/B multiples of comparable companies

P/B	Current	2015 E	2016 E
Bankia	1.06	1.07	1.02
Santander	0.83	0.81	0.76
BBVA	1.08	1.00	0.95
CaixaBank	0.79	0.80	0.78
Sabadell	0.75	0.74	0.71
Bankinter	1.63	1.63	1.53
Liberbank	0.59	0.61	0.60
Popular	0.56	0.55	0.54
<hr/>			
1st Quartile	0.71	0.71	0.69
Median	0.81	0.80	0.77
3rd Quartile	1.07	1.02	0.97
Average	0.91	0.90	0.86

Source: Bloomberg

Risk Analysis

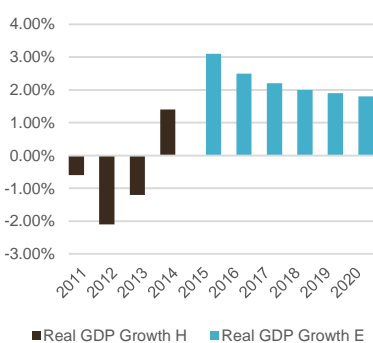
Although the expected path of macroeconomic and other non-controlled variables by Bankia are reflected in the presented valuation, there are considerable risks of deviations from those estimations that have the capability of the resulting target price.

Spanish Economy

The Spanish economy is on a recovery track, and is expected to maintain its growth for the next couple of years, averaging an annual GDP growth of 2.25% from 2015 to 2020 according to the IMF. Albeit the structurally high unemployment rate, some positive changes have been observed in the labour market, through the moderate increase in wages.

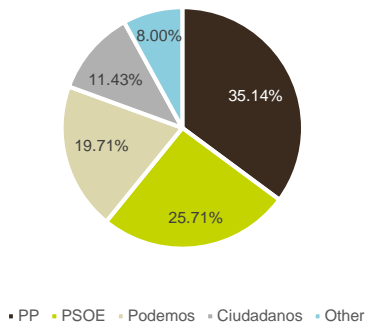
After the peak of the crisis, credit concession is still rather sluggish, even with a more resiliently backed banking sector as a result of the restructuring packages and international assistance to banks.

Figure 73 - Spain Real GDP Growth



Source: IMF

Figure 74 - Spanish Elections Results, % of Parliament Seats



Source: Financial Times

The ECB's program of Quantitative Easing could be a source of disruption in the markets and investors are already speculating about the existence of asset bubbles, mainly on the bond market. If the high liquidity environment ends up creating an uncontrolled boom that is deemed to bust, then the banking sector could be one of the most affected.

The recent election of the 20th of December 2015, where no party managed to secure a majority in the parliament is a major source of instability. The parties are currently in talks for the new government formation, but a rather long path of negotiations is expected. The possibility of early elections is also a scenario to take into account.

Lawsuits

Bankia went public on the 20th of July of 2011, raising EUR 1.23 bn from institutional investors and EUR 1.85 bn from retail investors. One year later it was receiving state aid to face its financial troubles. As of today, Bankia's shareholders who entered the position in the IPO have lost 97.39% of the investment.

As soon as 2012, the disastrous performance of the share in the stock market prompted retail shareholders to file civil complaints against the bank. One of the arguments is that regulatory information disclosures of Bankia and BFA were not reflecting the truth of the bank's financial situation at the time of the equity sale. What was a small profit in the original annual report for 2011 turned out to be a EUR 7 bn loss when the accounts were reviewed. The claims are now in pre-trial phase.

On the 23rd of December 2015, BFA announced a EUR 1 bn provision for the IPO lawsuits (the civil claims amount to around EUR 820 mm as of December 2015, indicating that BFA is being overcautious on the matter). Bankia's share of the provision is EUR 736 mm, of which EUR 312 mm were already provisioned. So, for the accounts of 2015, a further EUR 424 mm was considered as provision expense.

The end result of this situation is not clear at this stage, nor is it clear if Bankia would be required to face the costs by itself alone. However, the maximum before tax loss to Bankia should be around EUR 1.85 bn, what would represent the reimbursement of all the capital contribution of retail investors in the IPO⁹, and what was approved by the FROB as the maximum amount of provisions for this lawsuit. This very unlikely scenario, on which Bankia would support all the cost by

⁹ Assuming that institutional investors are agents that are more capable of risk analysis and should bear the losses of their investment.

itself, would impact the forecasted share price by a decrease from EUR 0.945, to EUR 0.863 (a decrease of 8.69%), if the losses are to be registered in full by 2017.

Sareb

Sareb has the mission of successfully disposing the transferred assets to its balance sheet during its limited lifetime, which is expected to end in November 2027, all the while maintaining a viable business proposition so as to reduce taxpayers' exposure to further state intervention.

While the bonds Sareb issued as the payment for the transferred assets, of which Bankia currently holds an amount of EUR 18 bn, are state guaranteed, the fact that one of Sareb's missions is not to impose costs to taxpayers opens the possibility of losses arising to Bankia, in the case of Sareb not being able to organically face its debt obligations.

As of the end of 2014, the securities issued by Sareb in exchange for the transferred assets amounted to EUR 46 bn, which corresponds to about 90% of the funding for its assets. Sareb only counts with 2 full years of operations, but the results are not reassuring for the prospect of full debt repayment.

It posted a net loss of EUR 260.5 mm in 2013 and in 2014 the earnings were again negative, this time by EUR 584.7mm (boosted by impairments in its already non-performing assets), meaning the operations are not yet yielding the desired outcome. The success of Sareb is contingent to the developments in the real estate market, as the transferred assets are properties in foreclosure and real estate loans. If house prices do not rise substantially in the coming years, the danger of continuing to register impairment losses and net losses on the disposal of assets is expected to materialize and continue to compromise Sareb's business viability.

Sareb managed to conduct a cash repayment of the bonds in 2013 (EUR 1.4 bn) and 2014 (EUR 2.9 bn) that was financed primarily through available cash reserves that were raised in the inception of the institution (EUR 3.8 bn) and with a cash generation of around EUR 1 bn in 2013. Sareb closed 2014 with a cash reserve of EUR 2.9 bn, just about the necessary to keep a debt repayment of EUR 3 bn per year, what would be needed to fully repay these bonds in 15 years, the lifetime of Sareb.

Sareb's cash generating activities did not yet prove to be any good. If the company starts feeling pressure on the cash repayment of these bonds, it might be prompted to fire sale its assets, bringing down prospected gains on what is already expected to impose great difficulty in generating gains. Raising more debt or equity from private investors seems difficult given the financials of the company.

Which means that, losses are expected. The question should be who are to bear the losses: the investors (as Bankia), the Spanish State? The uncertainty involving this matter is extremely high, as it is a problem that is expected to unfold in the upcoming decade. Regardless, it is considered to be the major risk exposure of Bankia.

Appendix

Appendix 1 – Balance Sheet (EUR mm)

	2011	2012	2013	2014	2015 E	2016 F	2017 F	2018 F	2019 F	2020 F	2021 F	2022 F	2023 F	2024 F	2025 F
Assets															
Cash and Balances with Central Banks	6,117	4,570	3,449	2,927	2,591	2,656	2,722	2,804	2,888	2,975	3,064	3,156	3,251	3,348	3,449
Financial Assets Held for Trading	29,062	35,772	22,244	18,606	16,580	15,971	15,512	15,098	14,686	14,785	14,885	15,032	15,183	15,336	15,541
Available for Sale Financial Assets	24,649	39,686	40,704	34,772	28,040	27,838	28,032	28,378	28,728	29,083	29,832	30,357	30,892	31,436	32,154
Loans and Receivables	208,239	144,341	129,918	125,227	121,722	126,454	125,998	127,516	129,828	134,277	135,993	141,027	144,670	147,415	149,980
Credit Institutions	19,629	7,988	9,219	10,967	7,595	8,931	7,368	7,442	7,591	7,781	8,014	8,255	8,502	8,757	8,845
Customer Portfolio	182,609	134,137	119,116	112,691	111,554	115,078	116,307	117,867	120,141	124,505	126,088	130,975	134,460	137,035	139,594
Debt Securities	6,001	2,215	1,584	1,569	2,573	2,445	2,322	2,206	2,096	1,991	1,892	1,797	1,707	1,622	1,541
Held to Maturity Investments	10,251	29,159	26,980	26,661	24,676	22,621	20,566	18,602	16,637	16,407	16,177	16,042	15,907	15,772	15,637
Hedging Derivatives	5,266	6,174	4,260	5,539	4,629	4,796	4,860	4,969	5,148	5,175	5,242	5,324	5,434	5,482	5,597
Non-current assets held for sale	2,063	9,506	12,000	7,563	5,035	3,634	2,080	1,379	1,105	831	557	557	557	557	557
Tangible and intangible assets	2,177	1,920	2,006	2,058	2,020	1,984	1,950	1,917	1,887	1,857	1,829	1,803	1,777	1,752	1,752
Tax Assets	5,653	9,018	8,758	8,548	8,400	8,115	7,766	7,432	7,088	6,792	6,553	6,234	5,862	5,413	5,413
Other Assets	4,890	2,163	1,249	1,748	1,748	1,748	1,748	1,748	1,748	1,748	1,748	1,748	1,748	1,748	1,748
Total Assets	298,367	282,310	251,569	233,649	215,440	215,817	211,234	209,843	209,743	213,930	215,881	221,280	225,280	228,259	231,828
Liabilities & Equity															
Financial Assets Held for Trading	26,815	33,655	20,218	18,124	14,947	14,400	13,989	13,619	13,249	13,344	13,440	13,578	13,719	13,863	14,053
Financial Liabilities at Amortised Cost	255,247	243,723	208,033	193,082	179,911	181,451	178,341	177,213	177,027	180,791	182,143	186,961	190,157	192,808	195,856
Deposits from Central Banks	22,431	51,955	43,406	36,500	25,550	20,440	18,396	17,476	16,602	15,772	14,984	14,234	13,523	12,847	12,204
Deposits from Credit Institutions	22,434	26,081	26,218	23,965	24,923	24,923	25,047	25,172	25,298	24,792	24,297	23,811	23,334	22,868	22,410
Customer Deposits	161,384	110,904	108,543	106,807	103,649	104,389	105,175	106,481	107,837	109,212	111,968	113,963	115,995	118,063	120,730
Marketable Debt Securities	47,607	37,335	28,139	23,350	23,350	29,281	27,324	25,705	24,929	28,673	28,572	32,648	35,019	36,761	38,259
Subordinated Liabilities & Other	1,390	17,449	1,727	2,460	2,439	2,419	2,399	2,379	2,360	2,341	2,322	2,304	2,286	2,269	2,252
Hedging Derivatives	1,961	2,790	1,897	2,490	2,104	2,180	2,209	2,259	2,340	2,352	2,383	2,420	2,470	2,492	2,544
Liabilities Associated with non-current assets held for sale	0	3,401	5,954	3,604	2,162	1,442	360	0	0	0	0	0	0	0	0
Provisions	1,283	2,869	1,706	1,706	2,132	2,217	2,306	2,375	2,447	2,508	2,570	2,635	2,701	2,768	2,837
Other	1,563	1,928	2,401	2,110	2,110	2,110	2,110	2,110	2,110	2,110	2,110	2,110	2,110	2,110	2,110
Total Liabilities	286,870	288,366	240,209	221,115	203,366	203,801	199,315	197,576	197,173	201,104	202,646	207,703	211,157	214,041	217,400
Net Income	-3,031	-19,193	405	771	289	742	907	869	894	768	622	830	967	1,169	848
Other Equity	14,527	13,137	10,955	11,762	11,785	11,274	11,011	11,398	11,677	12,067	12,614	12,747	13,156	13,050	13,579
Total Equity	11,497	-6,056	11,360	12,533	12,073	12,016	11,918	12,267	12,570	12,826	13,236	13,576	14,123	14,218	14,427
Total Liabilities & Equity	298,367	282,310	251,569	233,649	215,440	215,817	211,234	209,843	209,743	213,930	215,881	221,280	225,280	228,259	231,828

Source: Company Data, Analysts estimates

Appendix 2 – Income Statement (EUR mm)

	2011	2012	2013	2014	2015 E	2016 F	2017 F	2018 F	2019 F	2020 F	2021 F	2022 F	2023 F	2024 F	2025 F
Net Interest Income	2,481	3,089	2,425	2,927	2,318	2,229	2,263	2,153	2,212	2,052	1,865	2,101	2,281	2,542	2,599
Net Fees	998	992	935	948	940	964	972	985	1,003	1,027	1,045	1,076	1,096	1,117	1,141
Other Income and Expense (net)	307	-71	122	134	134	134	134	134	136	137	138	139	140	141	142
Gross Income	3,786	4,010	3,482	4,009	3,392	3,327	3,369	3,273	3,351	3,215	3,048	3,315	3,517	3,801	3,882
Administrative Expense	-1,920	-2,017	-1,729	-1,586	-1,578	-1,589	-1,608	-1,632	-1,657	-1,682	-1,707	-1,732	-1,758	-1,785	-1,812
Depreciation & Amortization	-246	-276	-175	-156	-191	-181	-171	-162	-154	-147	-140	-134	-128	-123	-118
Net Provisions	-157	-1,832	-180	-208	-549	-138	-124	-123	-121	-120	-119	-118	-117	-115	-114
Net Impairment Losses on Financial Assets	-3,954	-18,932	-1,249	-950	-614	-460	-349	-236	-240	-249	-252	-262	-269	-274	-279
Net Operating Income	-2,491	-19,047	147	1,108	460	960	1,117	1,121	1,179	1,018	830	1,069	1,245	1,503	1,559
Impairment Losses on Other Assets	-304	-782	-18	-6	-6	-6	-6	-6	-6	-5	-5	-5	-5	-5	-5
Gains on Disposal of Non-Current Assets Held for Sale & Disc. Operations	-1,575	-2,361	2	-190	37	-2	52	-1	-27	-27	-27	0	0	0	0
Profit Before Tax	-4,370	-22,189	131	912	490	952	1,163	1,114	1,146	985	797	1,064	1,240	1,498	1,554
Tax Expense	0	0	0	-226	0	0	0	0	0	0	0	0	0	0	-466
P&L from Discontinued Operations	0	0	117	85	0	0	0	0	0	0	0	0	0	0	0
Net Income (Before Dividends)	-4,370	-22,189	248	771	490	952	1,163	1,114	1,146	985	797	1,064	1,240	1,498	1,088

Source: Company Data, Analyst's estimates

Appendix 3 – Cash Flow to Equity Map (EUR mm)

	2016 F	2017 F	2018 F	2019 F	2020 F	2021 F	2022 F	2023 F	2024 F	2025 F
Net Income (After Dividends)	742	907	869	894	768	622	830	967	1,169	848
(-) Changes in Loans and Receivables	4,733	-457	1,518	2,312	4,449	1,716	5,034	3,643	2,745	2,565
(-) Changes in Other Assets (including Tax Assets)	-4,356	-4,127	-2,909	-2,412	-262	235	365	358	234	1,003
(+) Changes in Tax Assets	-286	-349	-334	-344	-296	-239	-319	-372	-449	0
(+) Changes in Customer Deposits	740	786	1,306	1,357	1,375	2,756	1,995	2,032	2,069	2,667
(+) Changes in Other Deposits	-5,110	-1,919	-795	-748	-1,336	-1,284	-1,235	-1,188	-1,143	-1,100
(+) Changes in Other Liabilities	4,804	-3,352	-2,251	-1,012	3,893	70	4,298	2,610	1,958	1,792
(+) Dividends	209	256	245	252	217	175	234	273	330	239
Cash Flow to Equity	723	912	431	499	434	148	404	321	953	879

Source: Company Data, Analyst's estimates

Appendix 4 – Selected Ratios

	2011	2012	2013	2014	2015 E	2016 F	2017 F	2018 F	2019 F	2020 F	2021 F	2022 F	2023 F	2024 F	2025 F
ROE	-52.59%	-705.52%	15.27%	6.46%	7.45%	7.90%	9.72%	9.21%	9.23%	7.76%	6.12%	7.94%	8.95%	10.57%	7.59%
ROA	-2.03%	-6.61%	0.15%	0.32%	0.41%	0.44%	0.54%	0.53%	0.55%	0.47%	0.37%	0.49%	0.56%	0.66%	0.47%
Cost to Income	57.22%	57.18%	54.71%	43.46%	52.13%	53.19%	52.81%	54.82%	54.03%	56.86%	60.59%	56.30%	53.64%	50.20%	49.71%
Loans to Deposits	100.96%	76.40%	72.92%	74.86%	78.98%	84.44%	84.78%	85.51%	86.70%	89.65%	89.91%	92.78%	94.65%	95.86%	96.55%
NPL Ratio	7.67%	12.91%	14.63%	12.89%	12.75%	12.94%	11.89%	11.90%	11.58%	10.69%	10.23%	9.86%	8.72%	8.72%	8.72%
Total Capital Ratio	8.50%	9.80%	10.80%	13.20%	12.50%	12.50%	12.50%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%	13.00%
P/E				14.70	12.19	11.44	9.26	10.00	10.00	12.04	15.79	12.33	11.10	9.22	13.64
P/B				0.90	0.93	0.91	0.90	0.91	0.91	0.93	0.95	0.97	0.97	0.97	1.03

Source: Company Data, Reuters, Analyst's estimates

Disclosures and Disclaimer

Research Recommendations

Buy	Expected total return (including dividends) of more than 15% over a 12-month period.
Hold	Expected total return (including dividends) between 0% and 15% over a 12-month period.
Sell	Expected negative total return (including dividends) over a 12-month period.

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