Bankia

EXPLANATORY REPORT BY THE BOARD OF DIRECTORS ON POINT 5 ON THE AGENDA OF THE ORDINARY GENERAL MEETING OF SHAREHOLDERS REGARDING THE DELEGATION TO THE BOARD OF DIRECTORS OF THE AUTHORITY TO ISSUE, ONE OR MORE TIMES, WITHIN A MAXIMUM TERM OF FIVE YEARS, SECURITIES CONVERTIBLE INTO AND/OR EXCHANGEABLE FOR SHARES OF THE COMPANY, AS WELL AS WARRANTS OR OTHER SIMILAR SECURITIES THAT MAY DIRECTLY OR INDIRECTLY ENTITLE THE HOLDER TO SUBSCRIBE FOR OR ACQUIRE SHARES OF THE COMPANY, FOR AN AGGREGATE AMOUNT OF UP TO ONE BILLION FIVE HUNDRED MILLION (1,500,000,000) EUROS; AS WELL AS THE AUTHORITY TO INCREASE THE SHARE CAPITAL IN THE REQUISITE AMOUNT, AND THE AUTHORITY, IF APPLICABLE, TO DISAPPLY PREFERENTIAL SUBSCRIPTION RIGHTS UP TO A MAXIMUM OF 20% OF SHARE CAPITAL, ANNULLING THE DELEGATION OF AUTHORITY CONFERRED AT THE PREVIOUS GENERAL MEETING.

1. PURPOSE OF THE REPORT.

The Board of Directors of Bankia, S.A. (hereinafter, "BANKIA" or the "Company"), at its meeting of 5 March 2018, resolved to submit to the General Meeting of Shareholders under point 5 of the Agenda a proposal regarding (i) the delegation to the Board of Directors of the authority to issue securities convertible into and/or exchangeable for shares of the Company, as well as warrants or other similar securities that may directly or indirectly entitle the holder to subscribe for or acquire shares of the Company, for an aggregate amount of up to one billion five hundred million (1,500,000,000) euros; (ii) the delegation to the Board of Directors of the necessary authority to increase share capital in the amount need for the above purpose; and (iii) the delegation to the Board of Directors of the authority, if applicable, to disapply preferential subscription rights, although in this case the capital increase needed to execute the conversion of the securities would be limited to a maximum amount equal to 20% of the Company's share capital existing at the date of the delegation.

Accordingly, in compliance with articles 286, 297, 401, 417 and 511 of the Consolidated Text of the Spanish Corporations Act approved by Legislative Royal Decree 1/2010 of 2 July 2010 (the "Spanish Corporations Act"), the Board of Directors of BANKIA issues this report for the purpose of explaining the reasons for the above proposal that will be brought before the General Meeting for approval, or otherwise.

2. RATIONALE FOR THE DELEGATION OF AUTHORITY TO THE BOARD OF DIRECTORS TO INCREASE THE COMPANY'S CAPITAL.

In the current global market situation and the present state of the financial sector in Spain, any company, especially one that is publicly traded, needs to be able to make whatever decisions are appropriate or necessary in its particular circumstances in the shortest time possible, while also reducing the costs of those actions.

Issuing debentures that can be converted into and/or exchanged for shares is one of the instruments used by businesses to raise debt capital. These securities have the advantage of offering investors the opportunity to transform their loans to a company into shares of the latter, and thus obtain a potentially higher return than offered by other debt instruments, while allowing the Company to increase its capital. These features mean that the coupon on convertible and/or exchangeable bonds is usually lower than the cost of straight bonds and of bank debt, as the return on the bonds factors in the value of the option they give investors to convert them into shares of the Company.

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As the Board of Directors is the most immediate decision-making body and is responsible for the management and representation of the Company, it needs the flexibility to take whatever measures are appropriate at any given time, as is usual practice in the majority of listed banks, without having to call a General Meeting, considering that, given the legal requirements, calling and holding a General Meeting would entail delay in taking such measures, as well as costs, which could significantly harm the Company's interests.

It is for this reason that the proposal to delegate authority to the Board of Directors to issue securities convertible into or exchangeable for shares of the Company in an amount of not more than one billion five hundred million (1,500,000,000) euros (or the equivalent thereof in another currency) is considered justified. For purposes of calculation of the aforesaid maximum, in the case of warrants the sum of premiums and exercise prices of the warrants of the issues resolved under this delegation will be taken into account. Said amount is judged sufficient to allow the Board of Directors to raise the necessary debt capital, within a maximum period of five years, by issuing securities convertible into or exchangeable for shares of the Company, or other analogous securities that may directly or indirectly give the holder the right to subscribe for or acquire shares of the Company, to meet the Company's needs at any time, while also optimising the Company's capital structure and, where applicable, comply with the new capital adequacy and capital requirements under recent legal reforms.

The Board will have authority, within the margins specified by the General Meeting and always in compliance with applicable laws and regulations regarding this type of issue, to determine the specific terms and conditions of each issue of securities of this type, so that the issues are appropriate to the real circumstances of the Company and the market at any given time, always seeking the Company's best interest. For these purposes, any warrants or other similar securities will be subject to the provisions of the Spanish Corporations Act regarding bonds that are convertible into shares, insofar as they are compatible with the nature of such securities, and specifically to the provisions of article 415 of said Law regarding the prohibition of the conversion of such securities into shares of the issuer when the par value of the securities is lower than the par value of the shares.

The proposal that is the subject of this report also envisages the delegation of authority to the Board of Directors to adopt and execute resolutions to increase share capital, as provided by article 297.1.b) of the Spanish Corporations Act. This grant of authority is justified by the abovementioned need for agility in the adoption of resolutions to issue convertible securities and, where applicable, convert them into shares of the Company, all of the foregoing without prejudice to the reports to be issued in respect of each issue by the Board of Directors and an independent expert other than the Company's statutory auditor and appointed for that purpose by the Mercantile Register, as provided in articles 414 and 511 of the Spanish Corporations Act.

The proposal also envisages the delegation of authority to disapply preferential subscription rights, although in this case the capital increase needed to execute the conversion of the securities would be limited to a maximum amount equal to 20% of the Company's share capital existing at the date of the delegation. This limit will be calculated taking into account any capital increases carried out under point 4 of the Agenda of the same General Meeting and any issues of convertible securities in which preferential subscription rights have been wholly or partly disapplied, as also envisaged in the abovementioned article 511 of the Spanish Corporations Act, in relation to article 417 of said Act, provided the corporate interests so justify. Accordingly, as set forth above, the purpose of this proposal is to enable the Company to raise the necessary debt capital to achieve its objectives, in accordance with its capital needs at any given time, while reducing the time and financial cost involved in adopting the necessary resolutions to a minimum. From all of the foregoing it follows that the proposal that is the subject of this report protects the interests of the Company and supports the achievement of its objectives on optimal terms, without prejudice to the obligation of the Board of Directors to issue a report for each issue, giving reasons, where applicable, for the disapplication of preferential subscription rights, accompanied, as specified above, by a report issued by an independent expert other than the Company's statutory auditor.

The Board of Directors believes there are several reasons that justify the authorisation to disapply preferential subscription rights as a complement to the authorisation to increase the share capital. First, disapplication of preferential subscription rights usually allows the costs associated with the operation to be reduced (including, in particular, the commissions charged by the financial institutions taking part in the issue) when compared to offerings with preferential subscription rights. Second, the authorisation to disapply preferential subscription rights allows the directors to speed up the process notably and provide the quick response that today's financial markets tend to demand, allowing the Company to take advantage of the moments when the market conditions are most favourable. Furthermore, disapplying preferential subscription rights can allow the Company to optimise the financial terms of the operation and, in particular, the issue price of the new shares, by more precisely adjusting it to the expectations of the qualified investors to whom these capital increases are normally addressed, while diminishing the execution risks by narrowing the transaction's exposure to changes in market conditions. Lastly, disapplication of preferential subscription rights mitigates the trading distortions that can affect the Company's shares during the offering period, which is normally shorter than for an offering with preferential subscription rights.

Lastly, for the record, it is noted that the authority granted to the Board of Directors under the proposed resolution that is the subject of this report will supersede and replace the authority granted by the General Meeting of Shareholders of the Company on 24 March 2017. These reports will be made available to the shareholders and communicated to the first General Meeting held after the resolution to increase capital.

Madrid, 5 March 2018.